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Holistic Vision: Warby Parker's D2C Story

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Abstract
This equity research report on Warby Parker Inc (WRBY) provides a comprehensive analysis of the company's market positioning, growth prospects and financial outlook. Divided into two sections, this single report contributes to a detailed assessment of WRBY's financial forecasts, revenue drivers and strategic initiatives.

The report looks at WRBY's revenue drivers, highlighting the impact of holistic vision care initiatives, sustainable pricing adjustments and strategies to expand market share. Through a careful examination of historical trends and market dynamics, the company's potential growth opportunities are highlighted, particularly its transformation into a holistic vision care provider and its strategy to capitalise on changing consumer preferences.

Key components include a forecast of WRBY's financial performance, analysing the development of average order value (AOV), active customer growth and sales forecasts for various product categories. In addition, the development of gross margin, selling, general and administrative (SG&A) expenses, net working capital, fixed assets, profitability margins and the company's capital structure are analysed and forecasted.

In line with this in-depth analysis, the report recommends WRBY investors to hold the stock and forecasts a price target of $13.45 and an expected annualised return of 8.01% to the current stock price of $12.45. The report recognises the company's growth potential, but also highlights areas of concern, such as the challenge of meeting long-term gross margin targets and the need for improvements in SG&A.

Ultimately, this report provides investors with a comprehensive assessment of WRBY's financial outlook, growth prospects and associated risks, providing valuable insight for informed investment decisions.

Keywords: Warby Parker, D2C, Product Expansion, Holistic Care

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This report is part of the Warby Parker Equity Research Report (annexed), developed by Sebastian Fritz Wustrow and Marie Antonia Klingsporn and should be read has an integral part of it.

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Introduction

As part of our equity research report on Warby Parker Inc (WRBY), this document is a joint report, annexed in this individual report, comprising two distinct but related sections. Together they aim to provide investors with a comprehensive assessment and insight into the company's prospects.

The joint report, which contains both individual contributions, offers a multi-layered analysis. One part, described here, deals with a comprehensive overview of the global and North American retail landscape for optical products. This includes an in-depth examination of the industry, highlighting market dynamics, total addressable market estimates, the competitive landscape and key growth drivers. At the same time, an investment thesis is presented that focuses on WRBY's development potential and market positioning. An integral part of this section of the report are the forecasts that determine the financial outlook for WRBY. These forecasts include a detailed analysis of revenue drivers, including the expected impact of holistic vision care initiatives, sustained pricing adjustments and market share expansion strategies. Each of these elements contributes significantly to the overarching narrative of WRBY's expected growth and financial performance.

My partner's contribution focuses on a detailed examination of WRBY's history, its financial performance over the last four years and a thorough valuation analysis. This includes valuation methodologies, risk assessments and an examination of ESG factors. The joint work synthesises these individual components into a unified perspective without introducing additional information beyond our respective contributions.

In line with our collective analysis, we have issued a HOLD recommendation for WRBY investors. This recommendation is based on a consensus price target of $13.45 and forecasts an expected annual return of 8.01% from the current share price of $12.45 (closing price on 19/12/2023). Our assessment recognises WRBY's growth potential, particularly through its strategic shift to holistic eye care offerings, increasing product prices and targeted market expansion strategies.

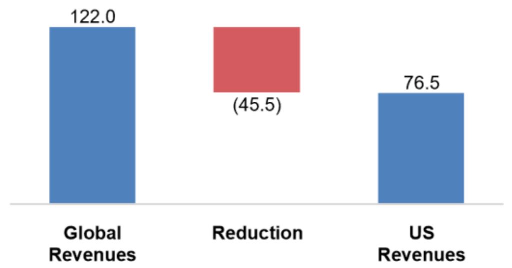
Our main objective with our joint report is to provide investors with a solid valuation framework and guidance for sound investment decisions on WRBY shares.

Industry Overview

Total Addressable Market

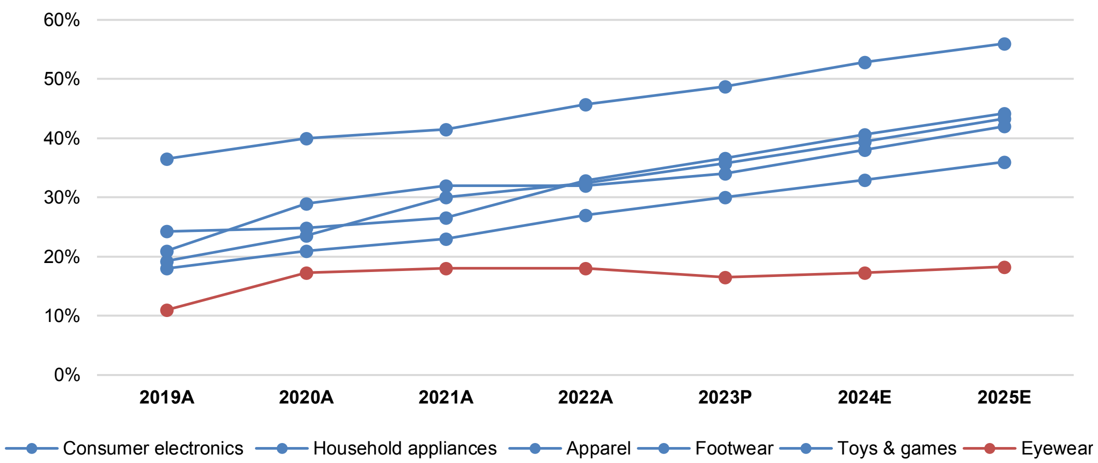
WRBY's total addressable market encompasses the US optical retail industry, which reached a total size of $76.48 bn in 2022[1], inclusive of revenues from relevant market players. Between 2019 and 2022, the industry experienced a compound annual growth rate of 7.33%. This market is segmented by various eyewear products, comprising prescription and over-the-counter glasses, sunglasses, contact lenses, and eye exams and services. In 2022, the split within the US optical retail industry was 57% for eyewear products, 23% for contact lenses, and 20% for eye exams and services.

Figure 3: Warby Parker - Total adressable Market
in USDbn



The eyewear market predominantly favors traditional retail sales channels, yet during the COVID-19 pandemic, the share of e-commerce sales surged from 11% in 2019 to 17.3% in 2020. Although in 2022, the sales channel split remained consistent at 18% for e-commerce sales. A few years ago, pure offline opticians encountered competition from exclusively online stores. However, recent market studies indicate that neither the strictly offline nor the purely online model is poised for long-term success. It's anticipated that a multichannel platform is crucial for future growth. Major industry players have responded to this trend by enhancing their online presence for former offline retailers, while former online-only stores have begun collaborating with offline opticians or establishing their physical stores.

Figure 4: Level of online penetration
for selected categories

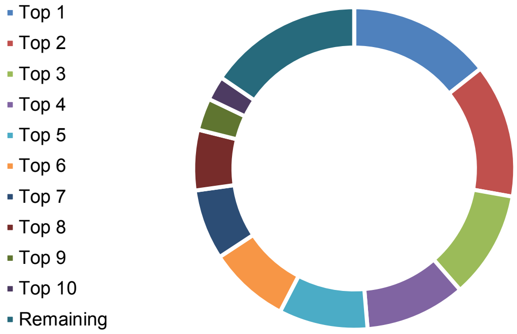


Market Concentration

[1] The Vision Council: Market Insights 2022 Report

The US optical retail sector is significantly concentrated among top players, with the top 10 and top 50 companies contributing 20.4% and 24.3% of total revenues in 2022, respectively. Despite this dynamic, the market remains fragmented, hosting numerous independently owned single-unit practices. Private equity firms actively consolidate practices, leveraging economies of scale to introduce new dynamics and competition.

Figure 5: Top 50 Optical Retailer by Revenue
2022



Although smaller optical stores thrive by selling glasses at higher prices and leveraging purchasing associations for reduced costs, larger retailers benefit from economies of scale, posing a competitive advantage through lower fixed costs per unit. This trend drives market concentration, witnessed through recent mergers and acquisitions. The 2018 Essilor and Luxottica merger created the industry's largest firm, amassing €17.4bn in 2018 revenues, commanding 18% of the global eyewear industry by value. This figure is notably lower than for most other categories in the consumer space. With the industry poised for further omnichannel expansion, consolidation is expected to persist. Smaller opticians may struggle to match the online infrastructure of major retailers. This landscape foresees strategic M&A activities and heightened private equity engagement. The optical retail sector, in our view, presents a fertile ground for private equity investors pursuing a buy-and-build strategy.

Competitive Landscape

We see EssilorLuxottica (ESL) and National Vision (7NV) as WRBY's main competitors. Both have a strong presence in the North American optical retail market and operate several independent brands ranking among the top 10 optical retailers in the US.

ESL stands as a global eyewear powerhouse, with a comprehensive vertical integration spanning the design, manufacturing, and distribution of eyewear products. Born from the strategic merger of Essilor and Luxottica in 2018, this union capitalized on Essilor's expertise in pioneering lenses and Luxottica's renowned portfolio of premium eyewear brands like Ray-Ban and Persol, along with notable D2C brands such as Pearle Vision, LensCrafters, and Sunglass Hut. The 2019 merger with Grand Vision significantly impacted the eyewear market, expanding ESL distribution network. With 3,834 stores in North America, the company recorded revenues of EUR 24.5 billion in 2022, wielding a substantial presence not only in North America but also in Europe. ESL is positioned in the higher price segment in both the American and the European market and is known for its quality and premium offerings.

7NV, a key player in North America, has a distinct position in the lower-priced segment of the eyewear market. With a strong presence across North America, the company operates through five retail brands: AC Lens, Americas Best, Eyeglass World, Vision Center, and Vista Optical. In

2011, 7NV acquired its long-time partner, AC Lens, bolstering its e-commerce platform and expanding its digital footprint. The company primarily focuses on retail operations, sourcing its products through third-party suppliers. Despite a smaller store count of 1,354 in North America, 7NV strategically targets the lower-priced segment, catering to customers seeking affordable yet quality eyewear solutions.

Investment Thesis

Favorable Market Dynamics: WRBY operates in the North American optical retail market, benefiting from multiple growth drivers within this segment. As the global population continues to expand, the need for vision correction also rises. This demographic shift signals an escalating demand for optical products, aligning with industry forecasts projecting a robust 5.6% CAGR from 2022 to 2026. A surge in younger individuals requiring visual aid, primarily attributed to the increasing prevalence of myopia due to heightened digital screen exposure and reduced outdoor time, contributes significantly to this trend. The rising occurrence of myopia among the younger population directly correlates with the amplified demand for corrective eyewear, including prescription glasses and contact lenses, creating a substantial link between healthcare needs and the eyewear market.[2]

Moreover, consumer behavior in the optical retail sector has undergone significant evolution. Individualization and differentiation have emerged as driving factors, with customers seeking eyewear tailored to their specific needs and lifestyles. This shift towards personalization coincides with the perception of eyewear not only as a medical necessity but also as a lifestyle accessory, including for fashion purposes. Additionally, the industry has witnessed evolving pricing dynamics, marked by increased price transparency and heightened consumer price sensitivity. The proliferation of online information and e-commerce platforms has empowered consumers to compare prices and make informed decisions. This shift towards transparent pricing encourages customers to explore options within their budget, significantly contributing to market expansion.

Figure 13: US Eyewear Market
in USD bn

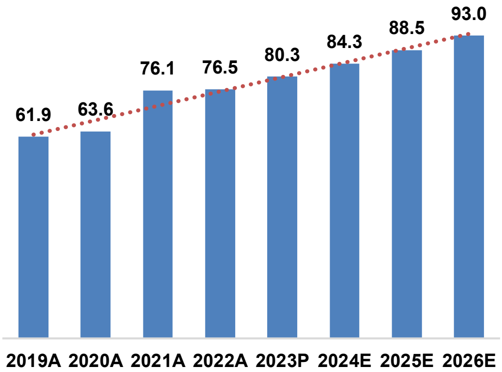
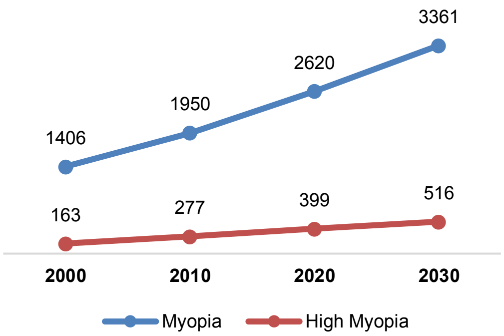


Figure 14: # of people worldwide with (High) Myopia
in millions



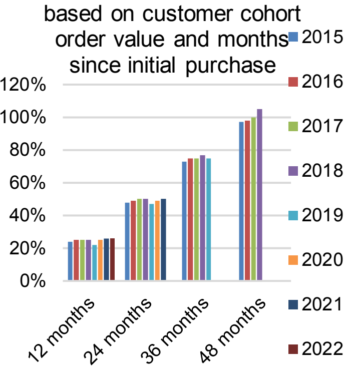
Furthermore, the consistent replacement cycle plays a pivotal role in the optical retail industry. The predictable nature of customer behavior results in a substantial volume of recurring revenue for the sector. The purchasing cycle of vision correction devices is closely linked to the frequency of eye exams. With optometrists recommending annual eye exams as a preventive measure and for vision correction needs identification, over 111 million eye exams were

[2] WHO: Number of people worldwide with Myopia and High Myopia 2000 to 2030

conducted in the United States in 2020[3]. Additionally, optical consumers typically replace eyeglasses every two to three years, while contact lens customers order new lenses every six to 12 months. This predictability underscores the recurring nature of these purchase behaviors, contributing to the industry's stability and growth potential. In conclusion, these favorable market dynamics, spanning growing addressable markets, evolving consumer preferences, and the consistent replacement cycle, underscore the optical retail industry's potential for sustained growth. Projections indicate that the US optical retail industry will reach $90.5 billion by 2026, reflecting a robust compound annual growth of 5.6%.

Leading Market Position

Figure 15: Sales retention rate by customer cohort
based on customer cohort order value and months since initial purchase



Ranked among the top 10 optical retailers in terms of revenues[4] WRBY holds a strong market position, allowing it to compete effectively against established multinational players. Within this cohort, WRBY stands among the top performers in 5-year revenue growth and boasts the highest revenue per retail unit. The company has carved a unique niche in the optical retail space by strategically targeting a digitally native and predominantly younger demographic; majority of its customers are under the age of 40, as indicated by the CEO. With the maturation of these digitally native customer segments, an increasing portion of the population will require eyewear products, aligning directly with WRBY's strengths in cultivating and expanding its digital customer base. Moreover, a comprehensive customer cohort analysis (Figure 16) underscores the company's ability to retain customers, a crucial component for sustained growth.

Exhibit 1: Top 10 US optical retailer by Revenue

Company	Revenues in $m	5Y CAGR	Retail units	Revenue per retail unit
Vision Source	2,675	0.30%	2994	0.89
Luxottica retail*	2,500	0.10%	2173	1.15
National Vision Holdings	2,005	12.60%	1354	1.48
Walmart*	1,880	0.20%	3422	0.55
Fyi Doctors	1,665	41.60%	700	2.38
Costco Optical	1,515	7.90%	555	2.73
Capital Vision Services	1,314	21.90%	852	1.54
Visionworks of America	1,130	4.40%	745	1.52
WRBY	598	19.40%	200	2.99
Keplr Vision	455	n/a	284	1.60
TAM 2022 in $bn	76.48			

	Revenues in $m	% of TAM
Top 5 Retailer	10,725	14.02%
Top 10 Retailer	15,737	20.58%
Top 15 Retailer	17,033	22.27%
Top 50 Retailer	18,616	24.34%

Innovative Business Model: WRBY's D2C business model stands out amidst the traditional landscape of eyewear retailers. The company has forged a distinct path in an industry marked by high costs, limited brand recognition, and lackluster shopping experiences. Its digital-native approach is perfectly aligned with a burgeoning consumer demographic—those embracing digital platforms and experiences.

WRBY draws on first-mover advantage in the digital space

Leveraging its digital foundation, WRBY fosters direct connections with its clientele. The company's dedication to soliciting and integrating customer feedback enables continual adaptation to evolving preferences, strengthening its identity as a customer-focused brand. Moreover, WRBY's strategic fusion of both online and offline retail channels, encapsulated in its omnichannel approach, lies at the core of its success. While the eyewear industry has been

[3] Review of Optometric Business: By the Numbers: How Many ODs Are Actually Practicing Medical Eyecare?
[4] Vision Monday: VMs 2023 Top 50 US Optical Retailer

slow to embrace online sales, WRBY's seamless interconnection of these channels solidifies its competitive edge.

Leverage digital-native customer base

A pivotal aspect of WRBY's investment potential lies in its readiness to cater to the future demand for prescription eyeglasses. As digital-native demographics mature, an increasing portion of the population will necessitate these eyewear products. This demographic transition plays directly to WRBY's strengths as it nurtures and expands its digital customer base. In essence, WRBY's strategy has enabled its position in an industry often resistant to change. The company's foresight and adaptability differentiates it as a forward-thinking company in the eyewear market, offering substantial growth prospects. Positioned for the aging of digital-native cohorts in the foreseeable future, as seen in the % of prescription eyeglass wearers by age group[5], WRBY remains poised to sustain its significance amidst the evolving market landscape.

Financial Forecasts

Revenue Driver

- Holistic Vision Care

We expect WRBY to undergo a strategic transformation to become a holistic vision care company, aiming to offer a comprehensive range of eye care services, including eyeglasses (incl. progressive lenses), eye exams, contact lenses, and sunglasses. Currently, WRBY is underpenetrated in the categories of contact lenses, and eye exams and vision tests compared with the US Industry average. Customers engaging in holistic vision care display an AOV 1.4 times higher at the initial purchase and 2.2 times higher 12 months after the initial transaction than glasses-only customers. This underscores the financial benefits of being a holistic vision care company and emphasizes creating more robust and lasting customer connections. WRBY targets three areas to drive average order value per customer: contact lenses, eye exams and progressive lenses.

Figure 16: Cumulative AOV per customer
2021 customer cohort by product/services purchased

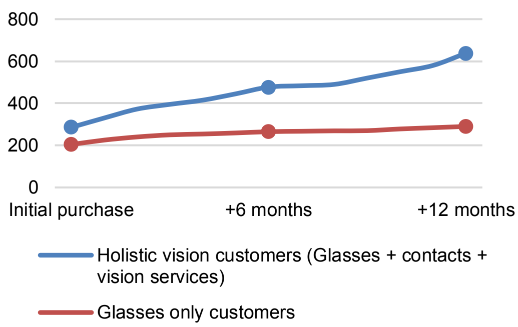
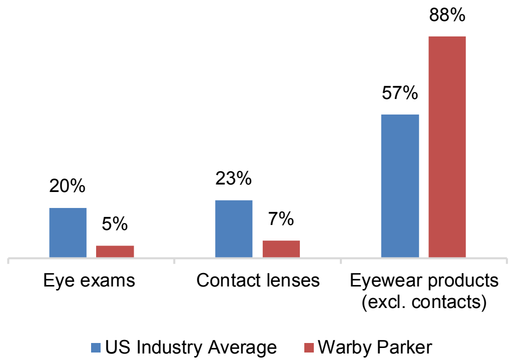


Figure 17: Revenue split by Product
Q3 2023



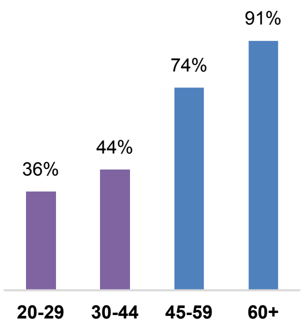
Contact Lenses – in comparison to traditional eyewear, contact lenses have more frequent purchasing cycles (according to company estimates, customers buy contact lenses every 6-to-12 months versus 2-to-3 years for traditional eyewear). However, contact lenses have a lower value per purchase in total dollar amount but also in the gross margin, which is only around 47%[6] and substantially lower than the gross margin of 65% for eyeglasses and not in line with

[5] ZVA: Augenoptik in Zahlen (2023)
[6] A&A Optical: How to maximize your gross profit by strategically pricing your optical products

management targets of a gross margin in the mid-50 to 60% range. WRBY sells its own brand of contact lenses, 'Scout', since 2019 as well as third party brands and in Q3 2023, these sales made up a fraction of 6.9% of total company sales. Compared to an industry average of 23%, we see potential for WRBY to ramp up contact sales in the future with only the pressure on gross margin limiting the further expansion.

Eye Exams – while also being a low-margin stream of revenues with an estimated gross margin of only 35%[7] and thereby significantly below the current gross margin and the management target, eye exams are also a supporting factor in evolving into a holistic vision care company. 80% of all eyewear purchases are made following an eye exam in the same store. Currently, only 5.0% of revenues are generated with eye exams and vision tests, a 150-basis point discount compared to the industry average and signalling significant potential for WRBY. The company is actively trying to increase exam capacity in retail locations with a target of one doctor per store. By the end of 2022, 75% of the retail locations had eye exam capacity. We see capacity as a main factor hindering growth in this segment, which has a positive effect on margins but could limit flow-through to retail.

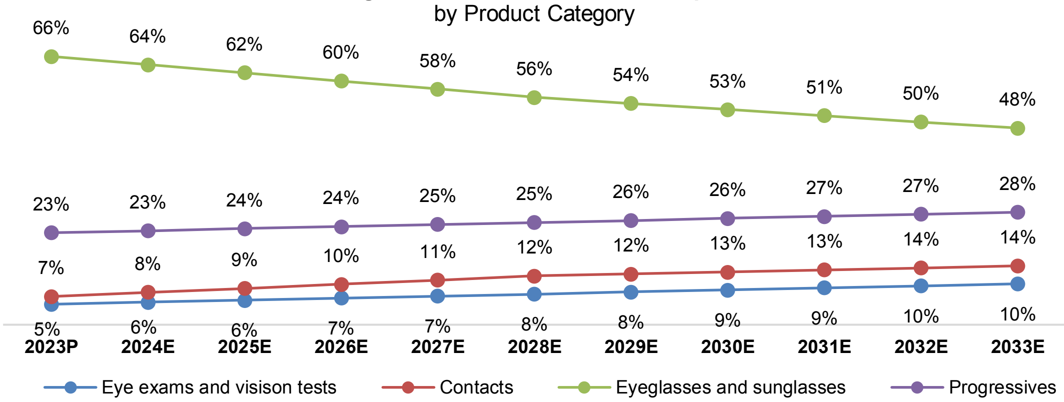
Figure 18: % prescription eyeglass wearers
by age group



Progressive Lenses – with an entry price of $295, progressive lenses have a significant mark-up compared to the companies' single vision offering of $95. Further, progressive lenses are more attractive when looking at the gross margin, around 75%.[8] Progressive lenses are required by a medical condition called presbyopia, a condition that usually becomes noticeable in the early to mid-40s.[9] Since WRBY currently targets a relatively young customer base, with a majority of customers being under 40, we see some potential to increase the revenue share of currently only 22.5% to the industry average of 40-45% as this current customer group ages. We anticipate a shift in customer needs as the current demographic ages and the need for progressive lenses increases (Figure 18). Also, by introducing more targeted marketing campaigns and increasing retail space, penetration to an older demographic can be achieved.

WRBY looks to build more holistic customers with age and product mix more reflective of the industry and fuelling topline growth by pushing AOV and increase customer loyalty and retention. Since management has not provided an indication when a certain product mix is supposed to be achieved, we rely heavily on assumptions and industry data for forecasting the future product mix. Eye exams are heavily reliant on exam capacity which we see as a limitation for this product line.

Figure 19: Forecasted Revenue split
by Product Category



[7] Management & Business Academy for Eye Care Professionals: Assessing Optometric Practice Performance
[8] Management & Business Academy for Eye Care Professionals: Assessing Optometric Practice Performance
[9] Mayo Foundation: Presbyopia – Symptoms and Causes

- Sustainable Price Increases

WRBY's pricing strategy positions the company on the value side of the eyewear industry and customers turn to WRBY for affordable yet stylish eyewear offerings. The company's bundle of frames and single-vision glasses start at $95 and go up to $195. Among peers that also have an online presence, WRBY's prices are in the middle of these offerings. But comparing the prices to the average price for eyeglasses in the US, the company is positioned at the lower end of the price spectrum. Including retail prices, average prices for frames and for single-vision lenses are $230 and $107 respectively.[10]

Exhibit 2: Pricing overview[11]

	AC Lens	Eyeglass World	Optical	Walmart VisionCenter	America's Best	Visionworks	Warby Parker	FYidoctors	Pearle Vision	LensCrafters	Avg. Retail Prices
Single-vision Glasses	40	40	72	73	80	94	95	129	149	279	337
Eye Exam	n/a	79	81	64	50	74	85	118	50-200	150	194
Group	Vision	Vision	Vision	Vision	Vision				EssilorLuxottica	EssilorLuxottica	

Raising prices across new collections while maintaining an attractive lower-end offering poses another opportunity for the company to sustainably increase topline growth over time. The company already frequently introduces new collections to their existing product lines that offer special features or designs to customers. The introduction of higher-priced options is expected to increase AOV without negatively impacting total demand.

- Gain Market Share

We believe that WRBY can not only benefit from an increase in addressable market, but also actively gain market share. Increasing the active customer base beyond market growth is vital to not be outperformed by competitors and secure a leading market position. Competition between established players is strong in the North American market putting pressure on prices and the need for effective cost management. This has posed challenges for smaller, less professionalized optical practices that struggle to compete with larger players in terms of pricing and manufacturing costs. WRBY's approach capitalizes on these circumstances, positioning the company to gain market share by offering quality, affordable eyewear solutions.

Low brand awareness offers significant growth potential

In summary, WRBY's low brand awareness, as reflected in its 15% unaided brand recognition within the market, is a pivotal aspect that presents a substantial opportunity for future growth. The company's understanding of the direct correlation between marketing efforts and active customer growth serves as a guiding principle for its strategic planning. Leveraging this insight, WRBY can pave the way for higher brand recognition, engage new customers, and strengthen its bond with existing ones, ensuring its continued ascent within the eyewear industry. Hence, we see an opportunity to gain market share from smaller optometrists by leveraging the consolidation trend in the market and effectively grow the active customer base.

Increasing brand awareness marks potential for acquiring new customers and growing market share. This underdeveloped brand awareness represents an untapped reservoir of potential customers that WRBY can attract through strategic marketing efforts. This inherent opportunity for topline growth hinges on raising the company's visibility among prospective customers. The

[10] Valu-U Vision: How much are Eyeglasses without insurance?
[11] Price for entry-level glasses as of company websites

path to achieving this involves investing in robust marketing strategies aimed at enhancing unaided brand awareness, which can serve as the catalyst for attracting new customers.

Revenue Forecast

Over the past four years, WRBY has maintained a robust compound annual growth rate (CAGR) of 17.31% in total sales (2019-2022). With an exception in 2021, most topline growth is associated to growth in AOV. We anticipate that WRBY will continue to demonstrate strong growth in the near and distant future. This growth can be attributed to two primary factors: expanding its active customer base and increasing the AOV by the aforementioned value creation drivers.

AOV – The AOV has experienced a constant increase and an annual growth of around 8% from 2019 to Q3 2023, reaching $284.0 in Q3 2023. WRBY is focused on building more holistic customer relationships through a broader demographic and product reach. Customers who spend across categories tend to have higher lifetime value, with an average spend 1.5 times higher than single-category customers on the first purchase and 2.2 times higher spend over the next 12 months. Average revenue per customer has grown at an annualized rate of 8% since 2019, aided by a shift into progressives, higher frequency purchasing through new products and exam extensions, and pricing. We expect all of these factors to continue supporting customer spend, with continued high-single-digit percent AOV growth. Going forward, the average AOV growth rate of the past four years was used in the forecast, decreasing by 1% per annum until reaching growth rate of 5.27% in 2028 (around the industry growth rate) and utilized for future growth up until 2033.
Active customer growth – WRBY has recently increased its customer base and experienced accelerated customer growth in 2021 due to the pandemic. Since then, customer growth has normalized in 2022, with active customers totalling 2,280k, representing an absolute increase of 80k from 2021. To maintain a robust revenue growth path, active customer growth is crucial for WRBY. During the Goldman Sachs Consumer Conference, CEO Neil Blumenthal explained how extension in marketing efforts directly affects their new customer growth. This explains the volatility behind the growth in active customers since marketing expenses were exceptionally high in 2021. Furthermore, this provides a basis for forecasting the growth in active customers as a function of marketing expenses. On average, the active customer base grew in relation to 0.2% of marketing expenses, which is reduced to account for the diminishing marginal utility of these expenses. In the medium and long term, active customer growth is expected to normalize in the mid-single-digit range.

Figure 20: Average Order Value Development

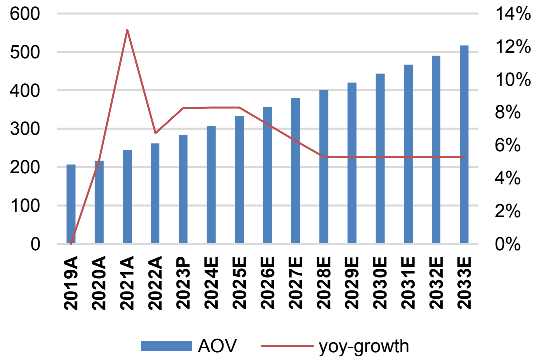
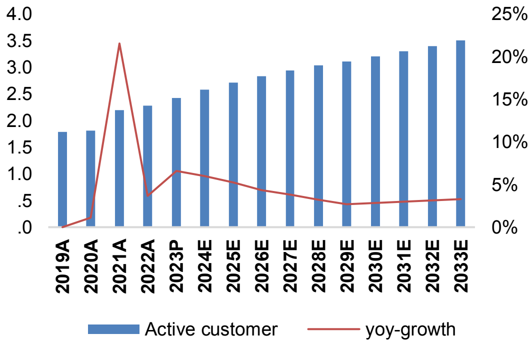


Figure 21: Active Customer Development
in thousands



WRBY's revenues are growing consistently over the forecast period and stabilized around 8%. The market share growth aligns with management's target of gaining a market share of 1.3%; however, more in the long term and not as projected in the medium term. In order to conduct a sanity check for the revenue projections, we conducted a top-down approach and a bottom-up analysis split into retail and e-commerce. These projections yield roughly the same revenues, however less conservative in the near-term.

Exhibit 3: Revenue Growth Decomposition

	2020A	2021A	2022A	2023P	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue growth	6.28%	37.36%	10.60%	12.30%	17.93%	13.98%	11.95%	10.32%	8.66%	8.08%	8.23%	8.39%	8.55%	8.73%
Active Customer growth	1.12%	21.55%	3.64%	6.59%	6.00%	5.27%	4.36%	3.81%	3.22%	2.67%	2.81%	2.96%	3.12%	3.28%
AOV growth	5.10%	8.98%	8.22%	8.26%	8.27%	8.27%	7.27%	6.27%	5.27%	5.27%	5.27%	5.27%	5.27%	5.27%
Revenue growth from Active Customer growth	18.71	65.18	36.62	46.36	43.98%	40.84%	39.17%	39.24%	39.14%	34.78%	35.96%	37.15%	38.36%	39.58%
Revenue growth from AOV growth	81.29	34.82	63.38	53.64	56.02%	59.16%	60.83%	60.76%	60.86%	65.22%	64.04%	62.85%	61.64%	60.42%
US Market Size (in USDbn)	63.57	76.09	76.48	80.30	84.32	88.53	92.96	97.61	102.49	107.62	112.99	118.65	124.58	130.81
Market Share	0.62%	0.71%	0.78%	0.84%	0.94%	1.02%	1.09%	1.14%	1.18%	1.22%	1.25%	1.29%	1.34%	1.39%

Gross Margin

The Cost of Goods Sold (COGS) for WRBY encompasses a comprehensive array of expenses incurred in the process of acquiring, assembling, and selling its eyewear products. Reviewing the historical trend of WRBY's COGS, it's evident that the company has maintained an average gross margin of 58.2% between 2019 and 2022. Management aims for a long-term gross margin ranging from the mid-50s to 60%. In 2022, a significant factor causing a 170-basis point degradation in gross margin was the shift towards lower-margin categories, specifically contacts and exams. Both these categories yield margins considerably lower than those of eyeglasses, impacting the overall margin. This shift poses a substantial challenge to future gross margins as these categories are still in early stages of growth.

Recognizing that product mix significantly influences gross margin, the information on product expansion and mix shift allows us to project WRBY's gross margin trajectory. Consequently, monitoring the penetration rates of these smaller segments becomes crucial in understanding the structural gross margins for the next two years. However, it's important to note a limitation of this analysis: it does not account for potential cost savings in manufacturing or sourcing (e.g. economies of scale, efficiency gains), which could positively impact gross margins in the long term.

Figure 22: Historic Gross Profit
in USDm

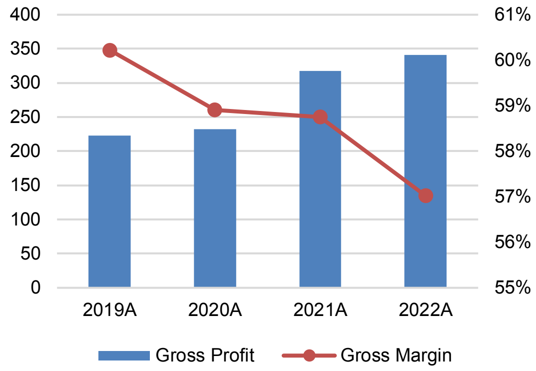
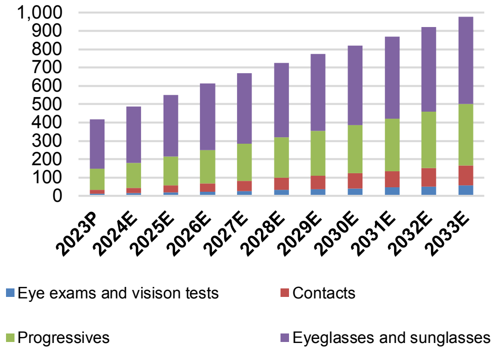


Figure 23: Gross Profit Development
by product category in USDm



The forecasted gross margin for the upcoming period ranges between 60% and 62%, declining gradually due to the dilutive effect caused by the change in product mix. This projection places WRBY's gross margin development on the lower spectrum compared to industry competitors, who average around 65%. As such, our assumptions lean towards conservatism.

Exhibit 4: Gross Margin Development by Product Category

	2023P	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Gross Profit	415,677	488,616	555,134	619,473	681,189	737,773	795,710	859,370	929,458	1,006,780	1,092,267
Gross Margin	*61.88%*	*61.68%*	*61.48%*	*61.28%*	*61.08%*	*60.88%*	*60.75%*	*60.62%*	*60.49%*	*60.36%*	*60.23%*
Eye exams	2.83%	3.12%	3.42%	3.71%	4.01%	4.31%	4.61%	4.91%	5.21%	5.51%	5.81%
Contacts	5.24%	6.02%	6.80%	7.59%	8.39%	9.19%	9.59%	10.00%	10.41%	10.82%	11.24%
Eyeglasses	64.66%	62.89%	61.12%	59.32%	57.52%	55.71%	54.32%	52.93%	51.53%	50.12%	48.71%
Progressives	27.27%	27.97%	28.67%	29.37%	30.08%	30.80%	31.48%	32.17%	32.85%	33.55%	34.24%
Sum	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Selling, General, and Administrative

WRBY's Selling, General, and Administrative (SG&A) expenses encompass a wide range of costs integral to operating the business efficiently. These costs include labor-related expenses such as salaries, benefits, bonuses, and stock-based compensation (SBC). Additionally, SG&A encompasses marketing expenditures, information technology, credit card processing fees, donations linked to the "Buy a Pair, Give a Pair" program, facilities, legal services, and other administrative costs.

A key element within SG&A is marketing expenses, which notably surged in 2020 and 2021, primarily to bolster the online business amidst pandemic-related retail challenges. Reducing elevated marketing spend during 2022 resulted in approximately $10 million in savings in late 2022, equalling an annualized reduction in expenses as a percentage of revenues of 3.2%. This strategic choice, correlating with the return of traffic to retail channels, anticipates supporting operating leverage. Although the reduced marketing spend in late 2022 impacted e-commerce revenues temporarily, extending into the first half of 2023, revenues are expected to recover in second half of 2023. Anticipating a normalization in 2023, management aims to align marketing expenses with industry averages at approximately 7% of revenue in the near future, recognizing the importance of sustained marketing investment for driving active customer growth. We anticipate marketing expenses to gradually reduce by 100 basis points p.a. and hit the target of 7% by 2028.

Another noteworthy component of SG&A is SBC, representing a significant portion of WRBY's overall expenses. Management has expressed the intention to reduce SBC to a range of 2-4% of revenues by 2024. However, we consider this target to be too optimistic, given the uncertainties around WRBY's profitability within that timeframe. A normalization to around 3% has been modeled in the long run.

In the category of "Other SG&A," WRBY is expected to rationalize corporate costs, resulting in a significant margin improvement going forward. This aligns with the company's efforts to reduce costs by around $40 million in total, translating into a margin benefit of roughly 652 basis points in 2024 accounting for cost cuts in the first half of 2023, despite potential gross margin pressure.

Furthermore, WRBY has increased its adj. EBITDA margin with a starting point of 6.9% from the latter half of 2022. This comes after reporting larger margin declines earlier in the year, attributed to factors such as gross margin pressure from mix shift (including higher contact lens sales and productivity, and faster growth in certain operating costs within SG&A). In response, the company took measures to cut expenses, including a reduction of about 15% of its corporate headcount in August 2022.

Moving forward, a concerted effort is to bring total SG&A down to around 44%, aligning WRBY with its direct competitors. This reduction will be achieved through a combination of factors, including cuts in SBC, marketing expenses, and overall professionalization of the business by reducing other SG&A costs as this reduction is crucial for future profitability, since gross margin will remain under strong pressure due to further changes to the product mix.

Figure 24: Historic SG&A
by expense category in USDm

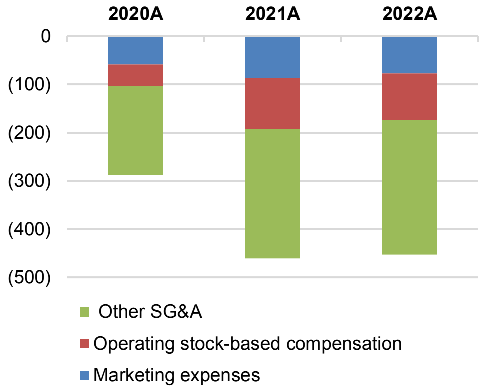
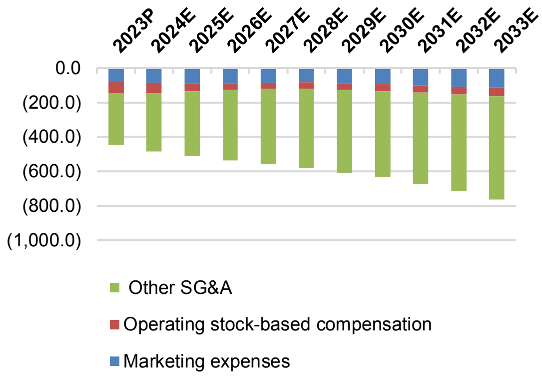


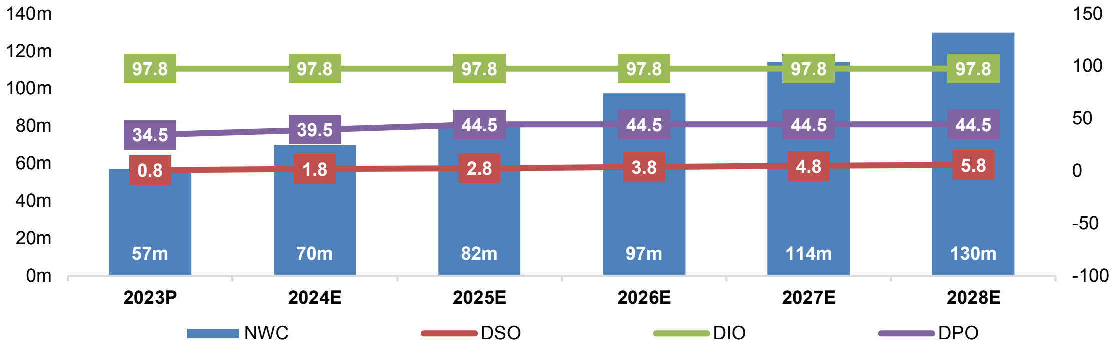
Figure 25: SG&A Development
by expense category in USDm



Net Working Capital

WRBY is currently displaying very positive cash management in terms of the CCC and its components. The minimized payment and cash flow risk compared to comparables is expected to maintain, yet slightly increase DSO to 5.8 days in 2028 and 10 in 2033. While still outperforming its peer groups in this measure, we view this as a more conservative collection period. We believe WRBY will increase DPO from historic average of 66.1 days and 2022 number of 29.5 to 44.5 days by 2025 while DIO will remain at historic level of 97.8 days. Throughout the forecast period, WRBY's cash conversion cycle is estimated to range from 56 to 64, aligning consistently with comparables. Other components of NWC were forecasted using historic percentages of revenues of SG&A, considering the inherent nature of the items.

Figure 26: Net Working Capital Development



Fixed Assets

Retail stores are and remain the main driver of PPE

Capital expenditures primarily encompass the augmentation of Property, Plant, and Equipment (PPE) across several categories, including leasehold improvements, furniture & fixtures, and ongoing construction for new retail units, computers & equipment, and capitalized software. Our forecast methodology includes estimating retail-related PPE based on the average retail PPE per store and projecting the number of stores. According to management projections, the company anticipates adding approximately 30-40 new stores annually until reaching a target of 800 retail units. Expectations for computer and equipment PPE involve a projected growth rate of 10%. Additionally, capitalized software is anticipated to expand proportionally to revenue, with 2022 percentage of revenue of 3.16% going forward. The summation of these elements constitutes the net PPE. D&A are derived from historical percentages of PPE averaged over the past four years, enabling the calculation of D&A expenses as well as the actual PPE.

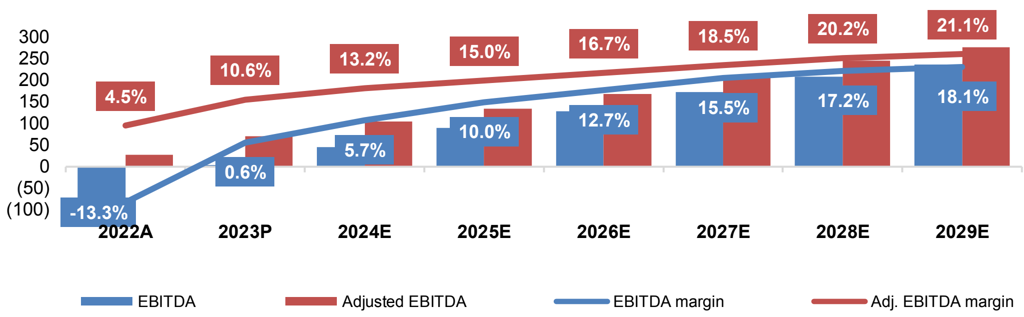
Profitability

EBITDA: Adding back D&A expenses that are included in the companies COGS and SG&A, we derive at the EBITDA. Over time, WRBY aims to generate EBITDA margins of around 18%, driving 2-3% margin improvement once breaking even in 2023. We expect a 10% margin in 2025 and the long-term margin of around 18% in 2029 which we expect to remain at that level in perpetuity.

Adj. EBITDA: We believe that excluding SBC provides a more meaningful picture of operating performance since it poses a significant non-cash expense.[12] The decrease in SBC over time similarly reduces the non-GAAP adjustments and brings adj. EBITDA closer to EBITDA. We project 2-3% margin improvements p.a. and a long-term adj. EBITDA margin of 21% reached in 2029.

[12] As regularly done in practice: (1) PWC: Stock-based compensation Report; (2) SEC: Explanation of non-GAAP financial measures

Figure 27: (Adj.) EBITDA Development
in USDm

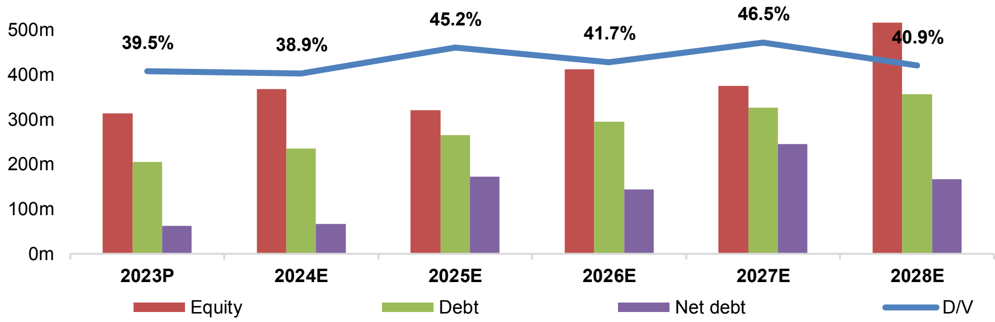


Capital Structure

The company's present capital structure reveals a D/V ratio of 37.91% (based on book values), aligning with WRBY's peer group. This suggests a relatively elevated leverage, particularly when considering the company's current level of profitability. However, upon examining the market value D/V ratio, WRBY showcases a significantly lower ratio of only 10.4%. This disparity primarily arises from the accumulated deficit impacting the book value of total shareholders' equity, thereby inflating the D/V ratio.

In 2022, the company's debt primarily consisted of lease liabilities, categorized as debt for valuation purposes in our analysis. This will persist as the primary component of the company's debt in the foreseeable future. The forecasted lease liability amount directly correlates with the number of stores, leveraging historical data on lease liabilities per store and the distribution between current and noncurrent lease liabilities.[13] Looking ahead, the company intends to maintain a D/V ratio between 39 and 57% until reaching its target capital structure of around 42%.

Figure 29: Capital Structure Development
in USDm



[13] Lease interest of 4% from 2022 Annual Report used for future interest payments

Appendix

Joint Report

MASTER IN FINANCE

WRBY INC.

COMPANY REPORT

VISION CARE

20 DECEMBER 2023

STUDENT: MARIE ANTONIA KLINGSPORN

54542@novasbe.pt

HOLISTIC VISION: WARBY PARKER'S D2C STORY

Investment Highlights

- We issue a **HOLD recommendation** for the investors of Warby Parker Inc. (WRBY), given a **price target of $13.45** and an expected **annual return of 8.01%.**

- WRBY operates in a **fragmented market** with growth opportunities stemming from stable and **increasing demand** as well as changing consumer preferences. There is **consolidation potential** since **smaller chains face an increasing level of pressure** to compete with **large corporations**.

- Becoming a **holistic vision care provider** presents a **significant opportunity** for WRBY. Expanding sales of **contact lenses, eye exams** and **progressives**, where WRBY's revenue share currently **trails the US optical market**, can substantially increase **revenue per customer** and **market share.**

- However, we see several risks with one of the most influential one being to miss **long-term gross margin targets**. Those are set at 55-60% by management but pressured by the **shift into lower-margin products**. When looking at SG&A, we see **room for improvements**, for which the path has already been laid out in 2022 and is **critical in achieving profitability**.

Company description

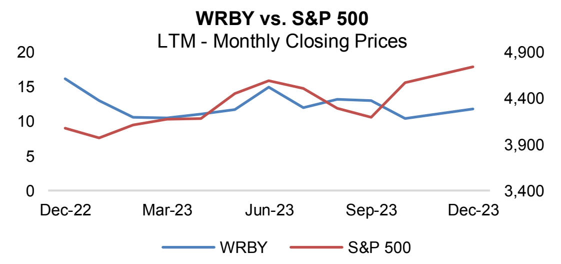
WRBY, founded in 2010, is a renowned eyewear brand celebrated for its commitment to affordability and style. By focusing on vertical integration to make eyewear more accessible, the company has become a success story. At present, it operates 217 physical stores across the United States and Canada, providing quality eyewear to a broad customer base.

Recommendation:	**HOLD**
Price Target FY24:	**13.45 $**
Price (as of 20-Dec-23)	**12.45 $**

Yahoo!Finance

52-week range (€)	9.50-17.88
Market Cap (€bn)	1.465
Outstanding Shares (m)	117.100

Source: CapIQ



Source: CapIQ

(Values in $ millions)	2022	2023E	2024F
Revenues	598.1	671.7	792.1
EBITDA	(79.3)	4.0	45.3
SG&A	(452.3)	(449.1)	(486)
Net Loss	(110.4)	(40.5)	(4.4)
Non-GAAP adj.	106.5	67.2	59.4
Adj. EBITDA	27.2	71.1	104.8

Source: CapIQ, Analyst Estimation

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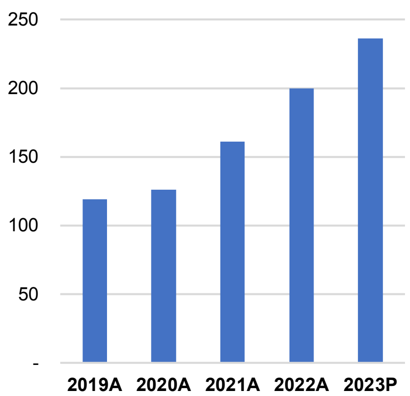
Overview

Company overview

The self-proclaimed "pioneer of the direct-to-consumer (D2C) model", WRBY, is a multichannel lifestyle company that offers vision tests and eye exams in addition to prescription eyeglasses, sunglasses, and contact lenses. As a vertically integrated player, WRBY sells eyeglasses that it manufactures under its own brand and operates own optical and fulfilment laboratories in addition to relationships with third-party businesses for production and laboratory work. The company positions itself on the value-side of optical retail, with eyeglasses starting at $95 for a frame with single-vision lenses. The company frequently offers new collections (historically 20 new collections each year) sometimes in corporation with celebrities, for example the current collection in collaboration with Emma Chamberlain. The company employs a total of 3,032 employees and owns two in-house optical laboratories, and two offices in the United States.

Figure 2: # of Stores



The company offers its goods via its website, mobile application, and as of 1st November 2023 operates 223 physical storefronts, with a majority of stores in the US, and just 5 physical stores in Canada. Physical storefronts have an average size of 1,621 sqm and the number has grown significantly in the past underlined by the launch of 13 stores in Q2 2023, putting WRBY on track to open 40 new stores throughout 2023. As of FY 2022, the company generated around 60% of its revenues within the retail channel and 40% with the e-commerce channel. During 2020, this split was reversed due to a sharp decline in retail revenues of 35% while e-commerce revenues increased by 83% and remained relatively stable thereafter. Although WRBY's eyewear products account for approximately 94% of its revenue in Q2 2023, the company has been concentrating more on its holistic vision care offering. With FY 2022 revenues of $598m, WRBY is among the top 10 optical retailer in the US[1] In addition to glasses, WRBY provides eye exams and vision tests in an effort to increase customer retention rates, raise average revenue per client, and expand its total addressable market.

Company history

In 2010, Neil Blumenthal, Andrew Hunt, Dave Gilboa, and Jeffrey Raider founded WRBY. All founders attended the University of Pennsylvania's Wharton School together as students. The company was established in an effort to use vertical integration to lower the cost of glasses for consumers. Presently, Dave

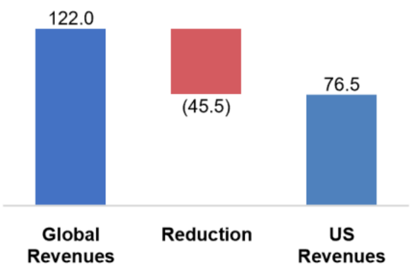
[1] Vision Monday: VM's 2023 Top 50 U.S. Optical Retailers

Gilboa and Neil Blumenthal share the role of co-CEO, and all four founders are members of the board of directors.

Industry overview

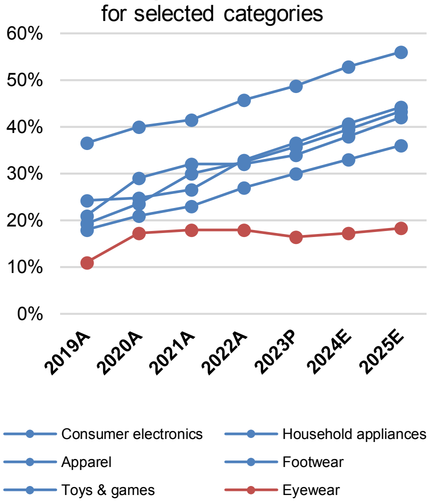
▪ Adressable Market

Figure 3: Warby Parker - Total adressable Market
in USDbn



WRBY's total addressable market encompasses the US optical retail industry, which reached a total size of $76.48 bn in 2022[2], inclusive of revenues from relevant market players. Between 2019 and 2022, the industry experienced a compound annual growth rate of 7.33%. This market is segmented by various eyewear products, comprising prescription and over-the-counter glasses, sunglasses, contact lenses, and eye exams and services. In 2022, the split within the US optical retail industry was 57% for eyewear products, 23% for contact lenses, and 20% for eye exams and services.

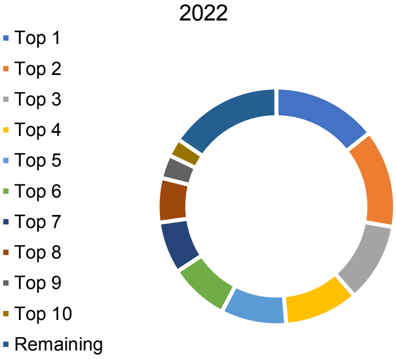
Figure 4: Level of online penetration
for selected categories



The eyewear market predominantly favors traditional retail sales channels, yet during the COVID-19 pandemic, the share of e-commerce sales surged from 11% in 2019 to 17.3% in 2020. Although in 2022, the sales channel split remained consistent at 18% for e-commerce sales. A few years ago, pure offline opticians encountered competition from exclusively online stores. However, recent market studies indicate that neither the strictly offline nor the purely online model is poised for long-term success. It's anticipated that a multichannel platform is crucial for future growth. Major industry players have responded to this trend by enhancing their online presence for former offline retailers, while former online-only stores have begun collaborating with offline opticians or establishing their physical stores.

▪ Market concentration

Figure 5: Top 50 Optical Retailer by Revenue
2022



The US optical retail sector is significantly concentrated among top players, with the top 10 and top 50 companies contributing 20.4% and 24.3% of total revenues in 2022, respectively. Despite this dynamic, the market remains fragmented, hosting numerous independently owned single-unit practices. Private equity firms actively consolidate practices, leveraging economies of scale to introduce new dynamics and competition.

Although smaller optical stores thrive by selling glasses at higher prices and leveraging purchasing associations for reduced costs, larger retailers benefit from economies of scale, posing a competitive advantage through lower fixed costs per unit. This trend drives market concentration, witnessed through recent

[2] The Vision Council: Market Insights 2022 Report

mergers and acquisitions. The 2018 Essilor and Luxottica merger created the industry's largest firm, amassing €17.4bn in 2018 revenues, commanding 18% of the global eyewear industry by value. This figure is notably lower than for most other categories in the consumer space. With the industry poised for further omnichannel expansion, consolidation is expected to persist. Smaller opticians may struggle to match the online infrastructure of major retailers. This landscape foresees strategic M&A activities and heightened private equity engagement. The optical retail sector, in our view, presents a fertile ground for private equity investors pursuing a buy-and-build strategy.

- Competitive Landscape

We see EssilorLuxottica (ESL) and National Vision (7NV) as WRBY's main competitors. Both have a strong presence in the North American optical retail market and operate several independent brands ranking among the top 10 optical retailers in the US.

ESL stands as a global eyewear powerhouse, with a comprehensive vertical integration spanning the design, manufacturing, and distribution of eyewear products. Born from the strategic merger of Essilor and Luxottica in 2018, this union capitalized on Essilor's expertise in pioneering lenses and Luxottica's renowned portfolio of premium eyewear brands like Ray-Ban and Persol, along with notable D2C brands such as Pearle Vision, LensCrafters, and Sunglass Hut. The 2019 merger with Grand Vision significantly impacted the eyewear market, expanding ESL distribution network. With 3,834 stores in North America, the company recorded revenues of EUR 24.5 billion in 2022, wielding a substantial presence not only in North America but also in Europe. ESL is positioned in the higher price segment in both the American and the European market and is known for its quality and premium offerings.

7NV, a key player in North America, has a distinct position in the lower-priced segment of the eyewear market. With a strong presence across North America, the company operates through five retail brands: AC Lens, Americas Best, Eyeglass World, Vision Center, and Vista Optical. In 2011, 7NV acquired its long-time partner, AC Lens, bolstering its e-commerce platform and expanding its digital footprint. The company primarily focuses on retail operations, sourcing its products through third-party suppliers. Despite a smaller store count of 1,354 in North America, 7NV strategically targets the lower-priced segment, catering to customers seeking affordable yet quality eyewear solutions.

Financial Analysis

Figure 6: Total Revenue
in USDm

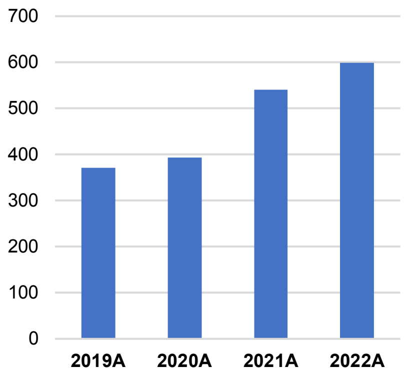
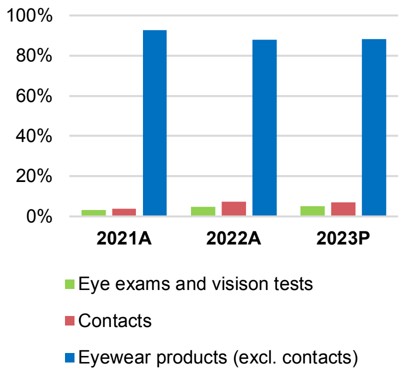


Figure 7: Revenue Split
by product category in %



Revenue: WRBY increased revenues from $393.7 million in 2020 to $598.1 million in 2022, representing a Compound Annual Growth Rate (CAGR) of 23.3%. This growth was on the one hand due to a 25% increase in sales volume, driven by a rise in active customers. On the other hand, the Average Order Value (AOV) grew by about 21% from 2020 to 2022. The majority of WRBY's revenue, accounting for 88% of total sales in the past two years, came from its diverse range of eyewear products. Eye- and sunglasses comprised approximately 66% of total sales in 2022, while progressives accounted for around 23%. Beyond product sales, WRBY expanded its services to include essential eye health offerings, like eye exams and vision tests, contributing to about 5% of its revenues during that period. The sale of contact lenses also played a role, comprising 7% of the company's sales. Both of these products show a slightly increasing tendency in % of revenue, highlighting WRBY's commitment to a broader focus on eye health, not just eyewear.

Sales Channel: WRBY reaches its customers through 223 retail stores[3] and e-commerce channels, including its website and mobile apps. In FY 2022, the company made 60.9% of its sales via the retail channel and 39.1% through its e-commerce channel, representing a decline of 210 basis points compared to 2020 and 70 basis points from 2021, referring to the percentage of total sales through e-commerce channels. Pandemic-related shifts in consumer behavior drove the surge in e-commerce revenues during 2020. WRBY sustained year-over-year revenue growth of 6.3% from 2020 to 2021 and a further 37.69% from 2021 to 2022, partly during the coronavirus crisis. In 2020, WRBY faced considerable challenges, notably a 35% drop in retail revenue due to pandemic-induced restrictions. However, in contrast, the company's online revenue increased by 5% during this period. This scenario demonstrates WRBY's resilience and the advantages of their omnichannel approach, enabling customers to shop seamlessly online and offline. In 2022, the company's revenue distribution returned to its pre-pandemic state, achieving a balanced split with retail contributing 61% and e-commerce 39% which is more than competitors distribute online. This stems from WRBY's digital-native approach in a traditionally offline retail-oriented industry.

Net Working Capital (NWC): has fluctuated heavily from 2019-2022, even being negative in 2020, however, in 2021 and 2022 the NWC recovered to positive

[3] ScrapeHero: Number of Warby Parker stores in the United States in 2023

Figure 8: 2022 Cash Management
Comparison

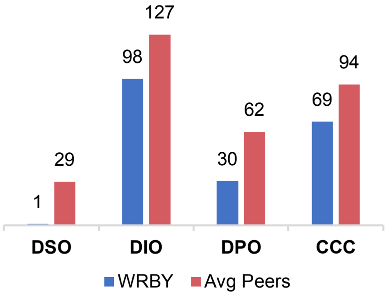


Figure 9: Net Working Capital
in USDm

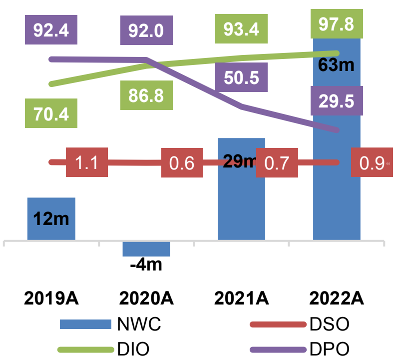


Figure 10: SG&A Expenses
in USDm

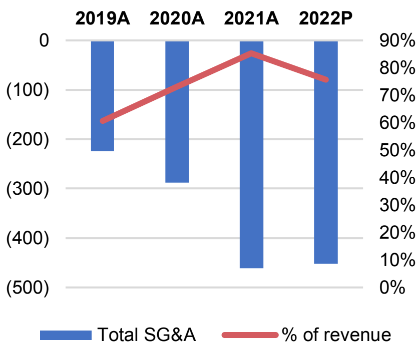
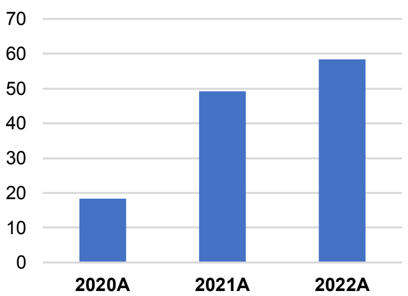


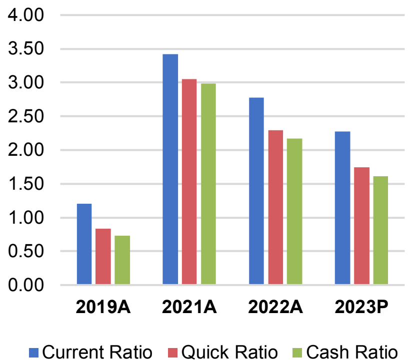
Figure 11: CapEx
in USDm



levels. WRBY's NWC mainly consists of operating cash, inventory, prepaid expenses, payables, and deferred revenue. WRBY's negative NWC in 2020 can primarily be attributed to increases in deferred revenue and accrued expenses influenced by supply chain disruptions during COVID. The company's Cash Conversion Cycle (CCC) displays the typical characteristics of retailers with high Days Inventory outstanding (DIO), very low Days Sales outstanding (DSO) and medium Days Payables outstanding (DPO). With an average collection period of 0.8 days, WRBY has minimized payment and cash flow risk compared to peers. Furthermore, WRBY sells its inventory quicker than competitors, having a lower DIO. Nevertheless, there is still room for improvement as WRBY's DPO decreased heavily from 92 days in 2020 to 29,5 in 2022, which is below competitors, meaning WRBY must pay its suppliers quicker. However, WRBY outperforms its competitors when looking at the overall CCC, showcasing operational efficiency and robust short-term liquidity. Yet, the above described reduction in DPO has led to an increasing CCC in the last 3 years, posing a risk to WRBY's superior CCC compared to peers. It's crucial for WRBY to address this change to maintain their leading position.

Profitability: Examining WRBY's profitability, its gross margin has been relatively stable from 2019-2022 at an average of 58.7%, aligning with industry competitors, however a slow negative tendency can be observed due to shifts in WRBY's product mix to lower-margin products such as contact lenses. Post-2019, a slight margin decline was observed, attributable to rising raw material costs and supply chain disruptions following the COVID crisis. However, WRBY's profitability has significantly been impacted by high Selling, General, and Administrative (SG&A) expenses, which accounted for nearly 76% of revenues in 2022. This percentage is notably higher than that of competitors, who average in the mid-40s percentage region, suggesting potential inefficiencies in cost management. On a positive note, WRBY reduced its marketing expenses from 16% of revenue in 2021 to 12.86% in 2022. The company's operating efficiency improvements are evident in the growth of its adj. EBITDA, climbing from $7.7 million in 2020 to $27.2 million in 2022 with a stable margin of around 5%, with an exception in 2020 influenced by COVID. This increase indicates better operational performance and sets the stage for ongoing growth. Despite these improvements, WRBY reported a net loss over the past three years of $110.4 million in 2022, primarily due to the substantial SG&A expenses. These losses and capital expenditures, primarily for purchasing Property Plant and Equipment (PPE), are critical drivers of the company's negative cash flow in 2021 and 2022. However, it's notable that WRBY's negative cash flows have decreased from 2019 to 2022, with 2020 being an outlier due to significant preferred stock issuance. The investments in PPE are integral to the company's expansion strategy, and their impact on cash flow is expected to diminish over the long term. However, it is inevitable if WRBY wants to become one of the leading retail companies in the US. Despite current financial challenges, this strategic focus underscores WRBY's commitment to growth and expansion.

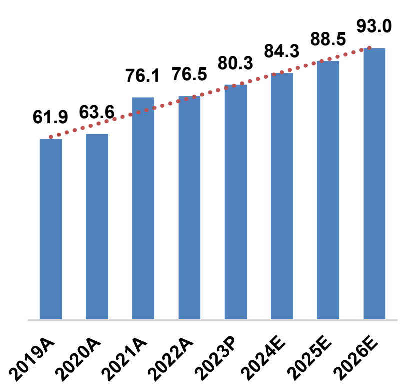
Figure 12: Short-term Liquidity



In 2022, WRBY's capital structure comprised approximately 38% debt and 62% equity. The debt portion is primarily composed of lease liabilities, with a significant portion being non-current, in line with modern accounting standards (IFRS and GAAP) that recognize the debt-like nature of such liabilities. On the equity side, a substantial amount of additional paid-in capital accounts for the majority, although this is offset by an accumulated deficit that has increased over the last few years due to WRBY's consistent negative net income. Furthermore, WRBY's financial stability originates in its liquidity and solvency positions. With a current ratio of 2.27, a quick ratio of 1.74, and a cash ratio of 1.61 in 2022, the company showcases robust short-term liquidity, indicating its ability to meet obligations. Additionally, the healthy Debt-to-equity ratio of 0.61 and Debt-to-value ratio of 0.31 in 2022 indicate that WRBY is a solvent company. The appealing liquidity and solvency positions of WRBY hold significant importance for investors, particularly given the ongoing net losses. These strong liquidity and solvency positions act as a safeguard, reducing the company's risk and serving as a protective factor against bankruptcy.

Investment Thesis

Figure 13: US Eyewear Market
in USD bn



Favorable Market Dynamics: WRBY operates in the North American optical retail market, benefiting from multiple growth drivers within this segment. As the global population continues to expand, the need for vision correction also rises. This demographic shift signals an escalating demand for optical products, aligning with industry forecasts projecting a robust 5.6% CAGR from 2022 to 2026. A surge in younger individuals requiring visual aid, primarily attributed to the increasing prevalence of myopia due to heightened digital screen exposure and reduced outdoor time, contributes significantly to this trend. The rising occurrence of myopia among the younger population directly correlates with the amplified demand for corrective eyewear, including prescription glasses and contact lenses, creating a substantial link between healthcare needs and the eyewear market.[4]

[4] WHO: Number of people worldwide with Myopia and High Myopia 2000 to 2030

Figure 14: # of people worldwide with (High) Myopia
in millions

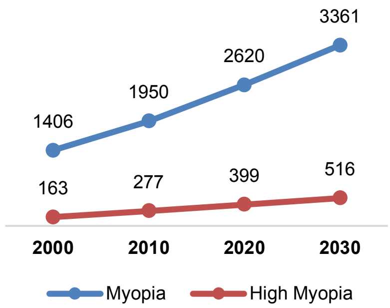
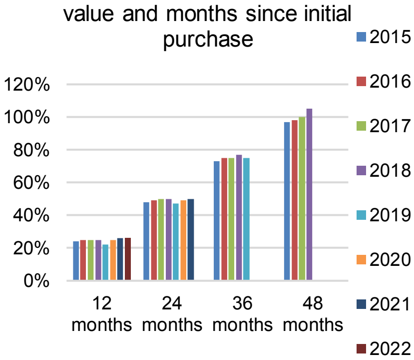


Figure 15: Sales retention rate by customer cohort
based on customer cohort order value and months since initial purchase



Moreover, consumer behavior in the optical retail sector has undergone significant evolution. Individualization and differentiation have emerged as driving factors, with customers seeking eyewear tailored to their specific needs and lifestyles. This shift towards personalization coincides with the perception of eyewear not only as a medical necessity but also as a lifestyle accessory, including for fashion purposes. Additionally, the industry has witnessed evolving pricing dynamics, marked by increased price transparency and heightened consumer price sensitivity. The proliferation of online information and e-commerce platforms has empowered consumers to compare prices and make informed decisions. This shift towards transparent pricing encourages customers to explore options within their budget, significantly contributing to market expansion.

Furthermore, the consistent replacement cycle plays a pivotal role in the optical retail industry. The predictable nature of customer behavior results in a substantial volume of recurring revenue for the sector. The purchasing cycle of vision correction devices is closely linked to the frequency of eye exams. With optometrists recommending annual eye exams as a preventive measure and for vision correction needs identification, over 111 million eye exams were conducted in the United States in 2020[5]. Additionally, optical consumers typically replace eyeglasses every two to three years, while contact lens customers order new lenses every six to 12 months. This predictability underscores the recurring nature of these purchase behaviors, contributing to the industry's stability and growth potential. In conclusion, these favorable market dynamics, spanning growing addressable markets, evolving consumer preferences, and the consistent replacement cycle, underscore the optical retail industry's potential for sustained growth. Projections indicate that the US optical retail industry will reach $90.5 billion by 2026, reflecting a robust compound annual growth of 5.6%.

Leading Market Position

Ranked among the top 10 optical retailers in terms of revenues[6] WRBY holds a strong market position, allowing it to compete effectively against established multinational players. Within this cohort, WRBY stands among the top performers in 5-year revenue growth and boasts the highest revenue per retail unit. The company has carved a unique niche in the optical retail space by strategically targeting a digitally native and predominantly younger demographic; majority of its customers are under the age of 40, as indicated by the CEO. With the

[5] Review of Optometric Business: By the Numbers: How Many ODs Are Actually Practicing Medical Eyecare?
[6] Vision Monday: VMs 2023 Top 50 US Optical Retailer

maturation of these digitally native customer segments, an increasing portion of the population will require eyewear products, aligning directly with WRBY's strengths in cultivating and expanding its digital customer base. Moreover, a comprehensive customer cohort analysis (Figure 16) underscores the company's ability to retain customers, a crucial component for sustained growth.

Exhibit 1: Top 10 US optical retailer by Revenue

Company	Revenues in $m	5Y CAGR	Retail units	Revenue per retail unit
Vision Source	2,675	0.30%	2994	0.89
Luxottica retail*	2,500	0.10%	2173	1.15
National Vision Holdings	2,005	12.60%	1354	1.48
Walmart*	1,880	0.20%	3422	0.55
Fyi Doctors	1,665	41.60%	700	2.38
Costco Optical	1,515	7.90%	555	2.73
Capital Vision Services	1,314	21.90%	852	1.54
Visionworks of America	1,130	4.40%	745	1.52
WRBY	598	19.40%	200	2.99
Keplr Vision	455	n/a	284	1.60
TAM 2022 in $bn	76.48			

	Revenues in $m	% of TAM
Top 5 Retailer	10,725	14.02%
Top 10 Retailer	15,737	20.58%
Top 15 Retailer	17,033	22.27%
Top 50 Retailer	18,616	24.34%

Innovative Business Model: WRBY's D2C business model stands out amidst the traditional landscape of eyewear retailers. The company has forged a distinct path in an industry marked by high costs, limited brand recognition, and lackluster shopping experiences. Its digital-native approach is perfectly aligned with a burgeoning consumer demographic—those embracing digital platforms and experiences.

Leveraging its digital foundation, WRBY fosters direct connections with its clientele. The company's dedication to soliciting and integrating customer feedback enables continual adaptation to evolving preferences, strengthening its identity as a customer-focused brand. Moreover, WRBY's strategic fusion of both online and offline retail channels, encapsulated in its omnichannel approach, lies at the core of its success. While the eyewear industry has been slow to embrace online sales, WRBY's seamless interconnection of these channels solidifies its competitive edge.

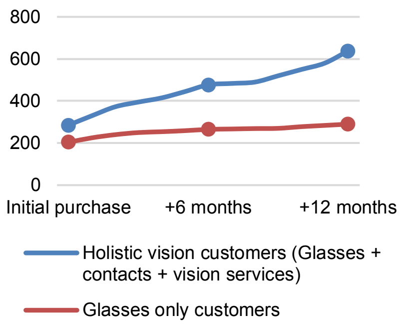
A pivotal aspect of WRBY's investment potential lies in its readiness to cater to the future demand for prescription eyeglasses. As digital-native demographics mature, an increasing portion of the population will necessitate these eyewear products. This demographic transition plays directly to WRBY's strengths as it nurtures and expands its digital customer base. In essence, WRBY's strategy has enabled its position in an industry often resistant to change. The company's foresight and adaptability differentiates it as a forward-thinking company in the eyewear market, offering substantial growth prospects. Positioned for the aging of digital-native cohorts in the foreseeable future, as seen in the % of prescription eyeglass wearers by age group[7], WRBY remains poised to sustain its significance amidst the evolving market landscape.

Financial Forecasts

Revenue Driver

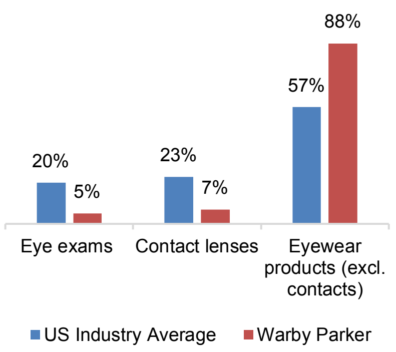
- ### Holistic Vision Care

Figure 16: Cumulative AOV per customer
2021 customer cohort by product/services purchased



We expect WRBY to undergo a strategic transformation to become a holistic vision care company, aiming to offer a comprehensive range of eye care services, including eyeglasses (incl. progressive lenses), eye exams, contact lenses, and sunglasses. Currently, WRBY is underpenetrated in the categories of contact lenses, and eye exams and vision tests compared with the US Industry average. Customers engaging in holistic vision care display an AOV 1.4 times higher at the initial purchase and 2.2 times higher 12 months after the initial transaction than glasses-only customers. This underscores the financial benefits of being a holistic vision care company and emphasizes creating more robust and lasting customer connections. WRBY targets three areas to drive average order value per customer: contact lenses, eye exams and progressive lenses.

Figure 17: Revenue split by Product
Q3 2023



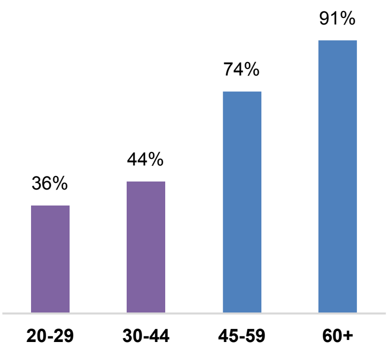
Contact Lenses – in comparison to traditional eyewear, contact lenses have more frequent purchasing cycles (according to company estimates, customers buy contact lenses every 6-to-12 months versus 2-to-3 years for traditional eyewear). However, contact lenses have a lower value per purchase in total dollar amount but also in the gross margin, which is only around 47%[8] and substantially lower than the gross margin of 65% for eyeglasses and not in line with management targets of a gross margin in the mid-50 to 60% range. WRBY sells its own brand of contact lenses, 'Scout', since 2019 as well as third party brands and in Q3 2023, these sales made up a fraction of 6.9% of total company sales. Compared to an industry average of 23%, we see potential for WRBY to ramp up contact sales in the future with only the pressure on gross margin limiting the further expansion.

Eye Exams – while also being a low-margin stream of revenues with an estimated gross margin of only 35%[9] and thereby significantly below the current

[7] ZVA: Augenoptik in Zahlen (2023)
[8] A&A Optical: How to maximize your gross profit by strategically pricing your optical products
[9] Management & Business Academy for Eye Care Professionals: Assessing Optometric Practice Performance

gross margin and the management target, eye exams are also a supporting factor in evolving into a holistic vision care company. 80% of all eyewear purchases are made following an eye exam in the same store. Currently, only 5.0% of revenues are generated with eye exams and vision tests, a 150-basis point discount compared to the industry average and signalling significant potential for WRBY. The company is actively trying to increase exam capacity in retail locations with a target of one doctor per store. By the end of 2022, 75% of the retail locations had eye exam capacity. We see capacity as a main factor hindering growth in this segment, which has a positive effect on margins but could limit flow-through to retail.

Figure 18: % prescription eyeglass wearers
by age group

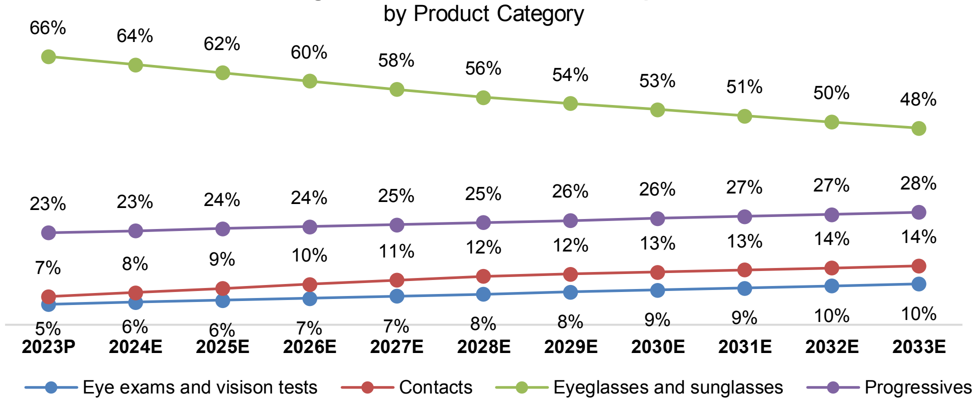


Progressive Lenses – with an entry price of $295, progressive lenses have a significant mark-up compared to the companies' single vision offering of $95. Further, progressive lenses are more attractive when looking at the gross margin, around 75%.[10] Progressive lenses are required by a medical condition called presbyopia, a condition that usually becomes noticeable in the early to mid-40s[11]. Since WRBY currently targets a relatively young customer base, with a majority of customers being under 40, we see some potential to increase the revenue share of currently only 22.5% to the industry average of 40-45% as this current customer group ages. We anticipate a shift in customer needs as the current demographic ages and the need for progressive lenses increases (Figure 18). Also, by introducing more targeted marketing campaigns and increasing retail space, penetration to an older demographic can be achieved.

WRBY looks to build more holistic customers with age and product mix more reflective of the industry and fuelling topline growth by pushing AOV and increase customer loyalty and retention. Since management has not provided an indication when a certain product mix is supposed to be achieved, we rely heavily on assumptions and industry data for forecasting the future product mix. Eye exams are heavily reliant on exam capacity which we see as a limitation for this product line.

[10] Management & Business Academy for Eye Care Professionals: Assessing Optometric Practice Performance
[11] Mayo Foundation: Presbyopia – Symptoms and Causes

Figure 19: Forecasted Revenue split
by Product Category



- ### Sustainable Price Increases

WRBY's pricing strategy positions the company on the value side of the eyewear industry and customers turn to WRBY for affordable yet stylish eyewear offerings. The company's bundle of frames and single-vision glasses start at $95 and go up to $195. Among peers that also have an online presence, WRBY's prices are in the middle of these offerings. But comparing the prices to the average price for eyeglasses in the US, the company is positioned at the lower end of the price spectrum. Including retail prices, average prices for frames and for single-vision lenses are $230 and $107 respectively[12].

Exhibit 2: Pricing overview[13]

	AC Lens	Eyeglass World	Optical	Walmart VisionCenter	America's Best	Visionworks	Warby Parker	FYidoctors	Pearle Vision	LensCrafters	Avg. Retail Prices
Single-vision Glasses	40	40	72	73	80	94	95	129	149	279	337
Eye Exam	n/a	79	81	64	50	74	85	118	50-200	150	194
Group	Vision	Vision	Vision	Vision	Vision				EssilorLuxottica	EssilorLuxottica	

Raising prices across new collections while maintaining an attractive lower-end offering poses another opportunity for the company to sustainably increase topline growth over time. The company already frequently introduces new collections to their existing product lines that offer special features or designs to customers. The introduction of higher-priced options is expected to increase AOV without negatively impacting total demand.

- ### Gain Market Share

[12] Valu-U Vision: How much are Eyeglasses without insurance?
[13] Price for entry-level glasses as of company websites

We believe that WRBY can not only benefit from an increase in addressable market, but also actively gain market share. Increasing the active customer base beyond market growth is vital to not be outperformed by competitors and secure a leading market position. Competition between established players is strong in the North American market putting pressure on prices and the need for effective cost management. This has posed challenges for smaller, less professionalized optical practices that struggle to compete with larger players in terms of pricing and manufacturing costs. WRBY's approach capitalizes on these circumstances, positioning the company to gain market share by offering quality, affordable eyewear solutions.

Low brand awareness offers significant growth potential

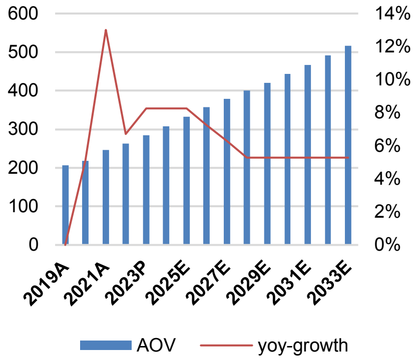
In summary, WRBY's low brand awareness, as reflected in its 15% unaided brand recognition within the market, is a pivotal aspect that presents a substantial opportunity for future growth. The company's understanding of the direct correlation between marketing efforts and active customer growth serves as a guiding principle for its strategic planning. Leveraging this insight, WRBY can pave the way for higher brand recognition, engage new customers, and strengthen its bond with existing ones, ensuring its continued ascent within the eyewear industry. Hence, we see an opportunity to gain market share from smaller optometrists by leveraging the consolidation trend in the market and effectively grow the active customer base.

Increasing brand awareness marks potential for acquiring new customers and growing market share. This underdeveloped brand awareness represents an untapped reservoir of potential customers that WRBY can attract through strategic marketing efforts. This inherent opportunity for topline growth hinges on raising the company's visibility among prospective customers. The path to achieving this involves investing in robust marketing strategies aimed at enhancing unaided brand awareness, which can serve as the catalyst for attracting new customers.

Revenue Forecast

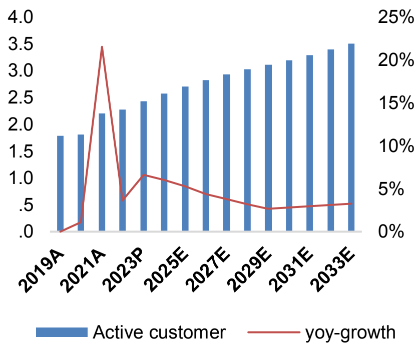
Over the past four years, WRBY has maintained a robust compound annual growth rate (CAGR) of 17.31% in total sales (2019-2022). With an exception in 2021, most topline growth is associated to growth in AOV. We anticipate that WRBY will continue to demonstrate strong growth in the near and distant future. This growth can be attributed to two primary factors: expanding its active customer base and increasing the AOV by the aforementioned value creation drivers.

Figure 20: Average Order Value Development



AOV – The AOV has experienced a constant increase and an annual growth of around 8% from 2019 to Q3 2023, reaching $284.0 in Q3 2023. WRBY is focused on building more holistic customer relationships through a broader demographic and product reach. Customers who spend across categories tend to have higher lifetime value, with an average spend 1.5 times higher than single-category customers on the first purchase and 2.2 times higher spend over the next 12 months. Average revenue per customer has grown at an annualized rate of 8% since 2019, aided by a shift into progressives, higher frequency purchasing through new products and exam extensions, and pricing. We expect all of these factors to continue supporting customer spend, with continued high-single-digit percent AOV growth. Going forward, the average AOV growth rate of the past four years was used in the forecast, decreasing by 1% per annum until reaching growth rate of 5.27% in 2028 (around the industry growth rate) and utilized for future growth up until 2033.

Figure 21: Active Customer Development
in thousands



Active customer growth – WRBY has recently increased its customer base and experienced accelerated customer growth in 2021 due to the pandemic. Since then, customer growth has normalized in 2022, with active customers totalling 2,280k, representing an absolute increase of 80k from 2021. To maintain a robust revenue growth path, active customer growth is crucial for WRBY. During the Goldman Sachs Consumer Conference, CEO Neil Blumenthal explained how extension in marketing efforts directly affects their new customer growth. This explains the volatility behind the growth in active customers since marketing expenses were exceptionally high in 2021. Furthermore, this provides a basis for forecasting the growth in active customers as a function of marketing expenses. On average, the active customer base grew in relation to 0.2% of marketing expenses, which is reduced to account for the diminishing marginal utility of these expenses. In the medium and long term, active customer growth is expected to normalize in the mid-single-digit range.

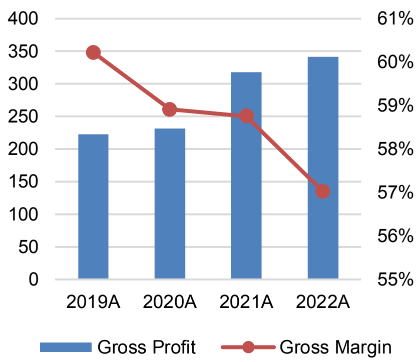
WRBY's revenues are growing consistently over the forecast period and stabilized around 8%. The market share growth aligns with management's target of gaining a market share of 1.3%; however, more in the long term and not as projected in the medium term. In order to conduct a sanity check for the revenue projections, we conducted a top-down approach and a bottom-up analysis split into retail and e-commerce. These projections yield roughly the same revenues, however less conservative in the near-term.

Exhibit 3: Revenue Growth Decomposition

	2020A	2021A	2022A	2023P	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue growth	6.28%	37.36%	10.60%	12.30%	17.93%	13.98%	11.95%	10.32%	8.66%	8.08%	8.23%	8.39%	8.55%	8.73%
Active Customer growth	1.12%	21.55%	3.64%	6.59%	6.00%	5.27%	4.36%	3.81%	3.22%	2.67%	2.81%	2.96%	3.12%	3.28%
AOV growth	5.10%	8.98%	8.22%	8.26%	8.27%	8.27%	7.27%	6.27%	5.27%	5.27%	5.27%	5.27%	5.27%	5.27%
Revenue growth from Active Customer growth	18.71	65.18	36.62	46.36	43.98%	40.84%	39.17%	39.24%	39.14%	34.78%	35.96%	37.15%	38.36%	39.58%
Revenue growth from AOV growth	81.29	34.82	63.38	53.64	56.02%	59.16%	60.83%	60.76%	60.86%	65.22%	64.04%	62.85%	61.64%	60.42%
US Market Size (in USDbn)	63.57	76.09	76.48	80.30	84.32	88.53	92.96	97.61	102.49	107.62	112.99	118.65	124.58	130.81
Market Share	0.62%	0.71%	0.78%	0.84%	0.94%	1.02%	1.09%	1.14%	1.18%	1.22%	1.25%	1.29%	1.34%	1.39%

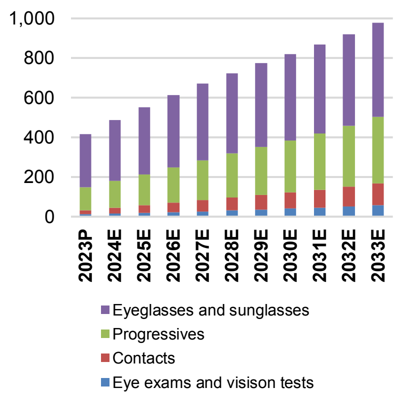
Gross Margin

Figure 22: Historic Gross Profit
in USDm



The Cost of Goods Sold (COGS) for WRBY encompasses a comprehensive array of expenses incurred in the process of acquiring, assembling, and selling its eyewear products. Reviewing the historical trend of WRBY's COGS, it's evident that the company has maintained an average gross margin of 58.2% between 2019 and 2022. Management aims for a long-term gross margin ranging from the mid-50s to 60%. In 2022, a significant factor causing a 170-basis point degradation in gross margin was the shift towards lower-margin categories, specifically contacts and exams. Both these categories yield margins considerably lower than those of eyeglasses, impacting the overall margin. This shift poses a substantial challenge to future gross margins as these categories are still in early stages of growth.

Figure 23: Gross Profit Development
by product category in USDm



Recognizing that product mix significantly influences gross margin, the information on product expansion and mix shift allows us to project WRBY's gross margin trajectory. Consequently, monitoring the penetration rates of these smaller segments becomes crucial in understanding the structural gross margins for the next two years. However, it's important to note a limitation of this analysis: it does not account for potential cost savings in manufacturing or sourcing (e.g. economies of scale, efficiency gains), which could positively impact gross margins in the long term.

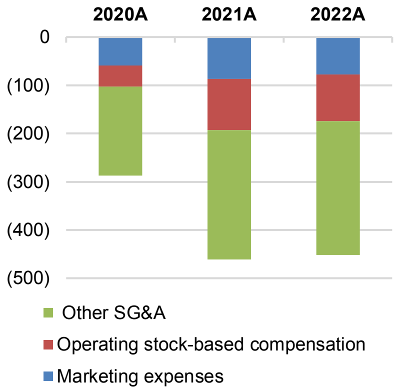
The forecasted gross margin for the upcoming period ranges between 60% and 62%, declining gradually due to the dilutive effect caused by the change in product mix. This projection places WRBY's gross margin development on the lower spectrum compared to industry competitors, who average around 65%. As such, our assumptions lean towards conservatism.

Exhibit 4: Gross Margin Development by Product Category

	2023P	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Gross Profit	415,677	488,616	555,134	619,473	681,189	737,773	795,710	859,370	929,458	1,006,780	1,092,267
Gross Margin	*61.88%*	*61.68%*	*61.48%*	*61.28%*	*61.08%*	*60.88%*	*60.75%*	*60.62%*	*60.49%*	*60.36%*	*60.23%*
Eye exams	2.83%	3.12%	3.42%	3.71%	4.01%	4.31%	4.61%	4.91%	5.21%	5.51%	5.81%
Contacts	5.24%	6.02%	6.80%	7.59%	8.39%	9.19%	9.59%	10.00%	10.41%	10.82%	11.24%
Eyeglasses	64.66%	62.89%	61.12%	59.32%	57.52%	55.71%	54.32%	52.93%	51.53%	50.12%	48.71%
Progressives	27.27%	27.97%	28.67%	29.37%	30.08%	30.80%	31.48%	32.17%	32.85%	33.55%	34.24%
Sum	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Selling, General, and Administrative

Figure 24: Historic SG&A
by expense category in USDm



WRBY's Selling, General, and Administrative (SG&A) expenses encompass a wide range of costs integral to operating the business efficiently. These costs include labor-related expenses such as salaries, benefits, bonuses, and stock-based compensation (SBC). Additionally, SG&A encompasses marketing expenditures, information technology, credit card processing fees, donations linked to the “Buy a Pair, Give a Pair” program, facilities, legal services, and other administrative costs.

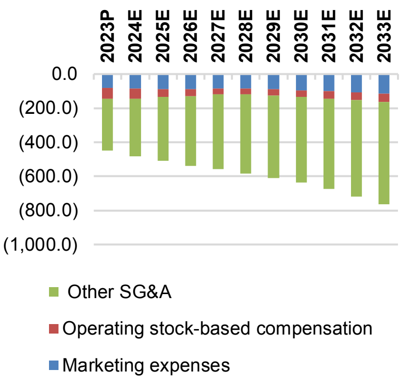
A key element within SG&A is marketing expenses, which notably surged in 2020 and 2021, primarily to bolster the online business amidst pandemic-related retail challenges. Reducing elevated marketing spend during 2022 resulted in approximately $10 million in savings in late 2022, equalling an annualized reduction in expenses as a percentage of revenues of 3.2%. This strategic choice, correlating with the return of traffic to retail channels, anticipates supporting operating leverage. Although the reduced marketing spend in late 2022 impacted e-commerce revenues temporarily, extending into the first half of 2023, revenues are expected to recover in second half of 2023. Anticipating a normalization in 2023, management aims to align marketing expenses with industry averages at approximately 7% of revenue in the near future, recognizing the importance of sustained marketing investment for driving active customer growth. We anticipate marketing expenses to gradually reduce by 100 basis points p.a. and hit the target of 7% by 2028.

Another noteworthy component of SG&A is SBC, representing a significant portion of WRBY's overall expenses. Management has expressed the intention to reduce SBC to a range of 2-4% of revenues by 2024. However, we consider this target to be too optimistic, given the uncertainties around WRBY's profitability within that timeframe. A normalization to around 3% has been modeled in the long run.

In the category of "Other SG&A," WRBY is expected to rationalize corporate costs, resulting in a significant margin improvement going forward. This aligns with the company's efforts to reduce costs by around $40 million in total, translating into a margin benefit of roughly 652 basis points in 2024 accounting for cost cuts in the first half of 2023, despite potential gross margin pressure.

Furthermore, WRBY has increased its adj. EBITDA margin with a starting point of 6.9% from the latter half of 2022. This comes after reporting larger margin declines earlier in the year, attributed to factors such as gross margin pressure from mix shift (including higher contact lens sales and productivity, and faster growth in certain operating costs within SG&A). In response, the company took measures to cut expenses, including a reduction of about 15% of its corporate headcount in August 2022.

Figure 25: SG&A Development
by expense category in USDm

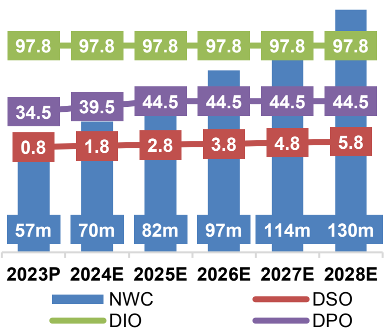


Moving forward, a concerted effort is to bring total SG&A down to around 44%, aligning WRBY with its direct competitors. This reduction will be achieved through a combination of factors, including cuts in SBC, marketing expenses, and overall professionalization of the business by reducing other SG&A costs as this reduction is crucial for future profitability, since gross margin will remain under strong pressure due to further changes to the product mix.

Net Working Capital

WRBY is currently displaying very positive cash management in terms of the CCC and its components. The minimized payment and cash flow risk compared to comparables is expected to maintain, yet slightly increase DSO to 5.8 days in 2028 and 10 in 2033. While still outperforming its peer groups in this measure, we view this as a more conservative collection period. We believe WRBY will increase DPO from historic average of 66.1 days and 2022 number of 29.5 to 44.5 days by 2025 while DIO will remain at historic level of 97.8 days. Throughout the forecast period, WRBY's cash conversion cycle is estimated to range from 56 to 64, aligning consistently with comparables. Other components of NWC were forecasted using historic percentages of revenues of SG&A, considering the inherent nature of the items.

Figure 26: Net Working Capital Development

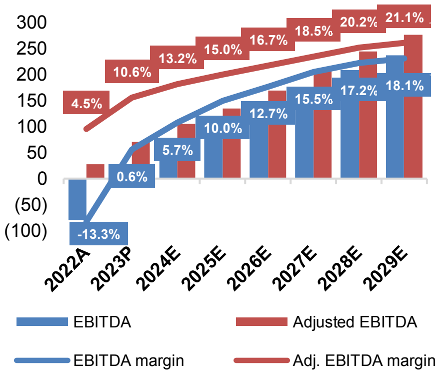


Fixed Assets

Capital expenditures primarily encompass the augmentation of Property, Plant, and Equipment (PPE) across several categories, including leasehold improvements, furniture & fixtures, and ongoing construction for new retail units, computers & equipment, and capitalized software. Our forecast methodology includes estimating retail-related PPE based on the average retail PPE per store and projecting the number of stores. According to management projections, the company anticipates adding approximately 30-40 new stores annually until reaching a target of 800 retail units. Expectations for computer and equipment PPE involve a projected growth rate of 10%. Additionally, capitalized software is anticipated to expand proportionally to revenue, with 2022 percentage of revenue of 3.16% going forward. The summation of these elements constitutes the net PPE. D&A are derived from historical percentages of PPE averaged over the past four years, enabling the calculation of D&A expenses as well as the actual PPE.

Profitability

Figure 27: (Adj.) EBITDA Development
in USDm

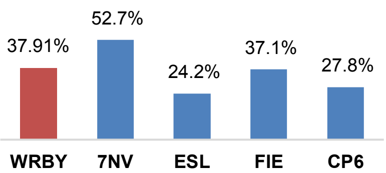


EBITDA: Adding back D&A expenses that are included in the companies COGS and SG&A, we derive at the EBITDA. Over time, WRBY aims to generate EBITDA margins of around 18%, driving 2-3% margin improvement once breaking even in 2023. We expect a 10% margin in 2025 and the long-term margin of around 18% in 2029 which we expect to remain at that level in perpetuity.

Adj. EBITDA: We believe that excluding SBC provides a more meaningful picture of operating performance since it poses a significant non-cash expense.[14] The decrease in SBC over time similarly reduces the non-GAAP adjustments and brings adj. EBITDA closer to EBITDA. We project 2-3% margin improvements p.a. and a long-term adj. EBITDA margin of 21% reached in 2029.

Capital Structure

Figure 28: 2022 D/V Ratio
Comparison



The company's present capital structure reveals a D/V ratio of 37.91% (based on book values), aligning with WRBY's peer group. This suggests a relatively elevated leverage, particularly when considering the company's current level of profitability. However, upon examining the market value D/V ratio, WRBY showcases a significantly lower ratio of only 10.4%. This disparity primarily arises from the accumulated deficit impacting the book value of total shareholders' equity, thereby inflating the D/V ratio.

In 2022, the company's debt primarily consisted of lease liabilities, categorized as debt for valuation purposes in our analysis. This will persist as the primary component of the company's debt in the foreseeable future. The forecasted lease

[14] As regularly done in practice: (1) PWC: Stock-based compensation Report; (2) SEC: Explanation of non-GAAP financial measures

Figure 29: Capital Structure Development
in USDm

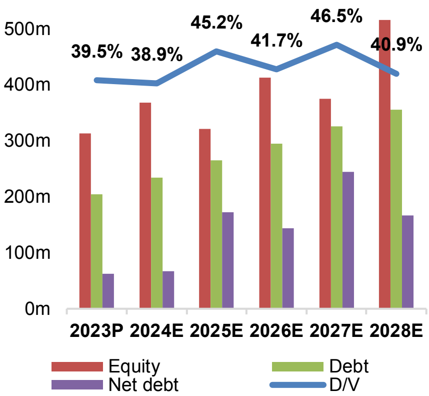


Exhibit 5: Scenario Analysis	
Best case	16%
Base Case	68%
Worst Case	16%

liability amount directly correlates with the number of stores, leveraging historical data on lease liabilities per store and the distribution between current and noncurrent lease liabilities.[15] Looking ahead, the company intends to maintain a D/V ratio between 39 and 57% until reaching its target capital structure of around 42%.

Valuation

Our valuation is primarily based on the Discounted Cash Flow (DCF) methodology, incorporating the Perpetual growth, Exit multiple, Adjusted Present Value (APV), and Free Cash Flow to Equity (FCFE) methods. Additionally, a detailed Comparable Company (CCA) and Comparable Transaction analysis (CTA) was performed. The analysis covers a forecast period from 2024 to 2033, offering a forward-looking perspective on the company's growth prospects and evolving market conditions.

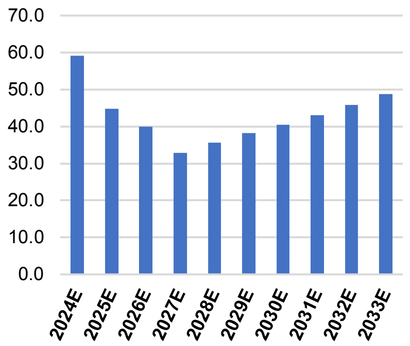
DCF methodology

Scenario Analysis: To determine our CF forecast, we have utilized a scenario analysis based on the standard normal distribution. This statistical model assumes a bell-shaped curve around an expected value, with values closer to the center being more likely to occur. Within this distribution, we have assigned specific probabilities to different scenarios. The base scenario, representing what we perceive as the most likely outcome, was assigned a probability of 68.27%. Additionally, we've assigned probabilities of 15.87% to both the best and worst-case scenarios situated at the distribution's tails. These probabilities imply that these extreme outcomes, representing about 16% of potential scenarios each, are less likely but crucial to consider due to their impact. This statistical approach signifies that values are distributed along the curve, with the majority—about 68.27%—falling within one standard deviation around the mean in a standard normal distribution. This range provides a comprehensive understanding of potential variations and outcomes within our analysis, encompassing the impacts of various macro, industry-specific, and company-specific events on critical value drivers such as AOV, active customer base, COGS, and capex. Our free cash flow (FCF) estimation is based on this scenario analysis, we first calculated each line item up to the free cash flow for each scenario. We then multiplied these figures by the scenario probabilities which we previously explained, resulting in our final cash flow figures. This methodical process was consistently applied

[15] Lease interest of 4% from 2022 Annual Report used for future interest payments

across every line item involved in the FCF calculation, ensuring a robust approach to our free cash flow estimation.

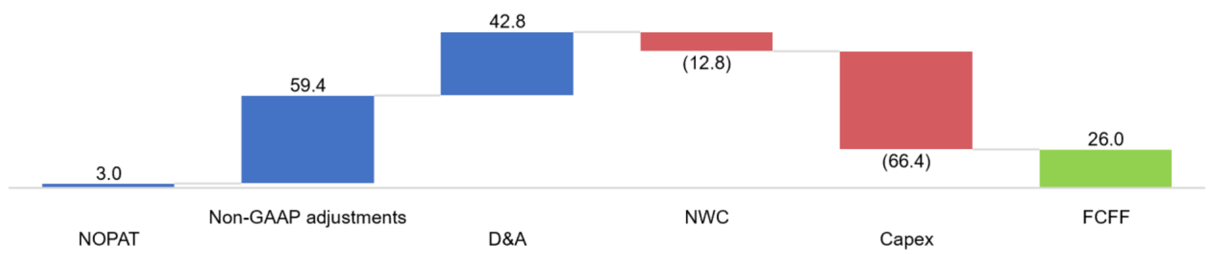
Figure 30: Non-GAAP adjustments
in USDm



PPE growth is inevitable to WRBY's growth strategy.

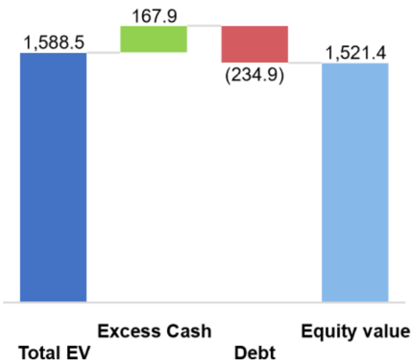
Cash Flow calculation: To further derive the FCFF, we subtracted income tax from EBIT to compute NOPAT. Notably, we applied the US statutory tax rate rather than WRBY's effective tax rate. The rate was influenced by the company's negative Earnings Before Tax (EBT) in the years leading up to our forecast period, making it inadequate for future projections. We adjusted for Non-GAAP adjustments, specifically operating SBC since these are non-cash-effective expenses. We projected those as a % of revenue, as explained in the forecast chapter. Further, we added back D&A expenses, as they are also non-cash charges, which we forecasted as a stable ratio to PPE. Afterwards, we subtracted the change in NWC, calculated by the difference between current assets and current liabilities. The final layer of our cash flow analysis focused on Capital Expenditures, estimated by adding annual changes in PPE adjusted for D&A. We calculated the retail-related PPE in proportion to the number of stores, using the average PPE per store in 2023 as a benchmark. Additionally, we factored in Computers and Equipment into our PPE calculation, anticipating a 10% annual growth corresponding with the increase in Full-Time Employees (FTEs) driven by WRBY's expansion strategy. We added capitalized software into our calculations to arrive at the final net PPE value for each year. The sum of these components formed our PPE estimation, which is crucial to understanding the company's capital utilization in the coming years and computing WRBY's capex.

Figure 31: Cash Flow Derivation 2024E
in USDm



Cash flow-based methods: In our valuation of WRBY, we utilized multiple methodologies for an in-depth analysis. We discounted each year's Cash Flow using the WACC for the perpetual growth method and summed these values. A terminal growth rate of 3.15% was applied, mirroring our expectation that, despite its high-growth status, WRBY's expansion will eventually converge with the average GDP growth of the last 75 years. We consider sustained outperformance of the market growth rate in the long term as unlikely. This method resulted in a final stock price of $12.99. Furthermore, the exit multiple method was applied by multiplying WRBY's 2033 EBITDA by the median EBITDA multiple from our precedent transaction analysis of 13.0x. Once again, the discounted Cash Flows of the previous years were summed up and included which resulted in a higher stock price valuation of $18.33. Additionally, we applied the APV approach. Similar to the perpetual growth method but with crucial distinctions, the Cash Flows were discounted using the unlevered cost of capital and the APV incorporates the interest tax shield. This resulted in a stock price of $12.95. The closeness in results between the APV and perpetual growth methods is expected and increases confidence in the projections. To determine the final share price for each of these three methods, we transitioned from enterprise value to equity value by subtracting net debt, which was calculated by deducting excess cash from total debt.[16] The resulting equity value was then divided by the total number of outstanding shares.

Figure 32: Derivation of Terminal Value
Perpetual Growth method in USDm



Finally, we applied the FCFE method. In this approach, we calculated the FCFE by subtracting interest payments from the FCFF, to compute the cash flows to equity holders. Additionally, we accounted for the net change in debt (net borrowings), as this represents an increase in cash available to shareholders. These modified cash flows were then discounted using the cost of equity rather than WACC, since these cash flows reflect only the risk for equity holders. Summing these values provided us with the company's equity value, which yielded a stock price of $9.03 divided by the number of outstanding shares. The relatively lower stock price in this method stems from the higher cost of equity even though the FCFE is greater than the FCFF.

Weighted average cost of capital (WACC)

To accurately determine the value of WRBY, we calculated the discount rate, primarily based on the company's cost of equity and cost of debt. Given the significant impact of the WACC on the valuation outcome, we provide a detailed explanation of our thoughts and assumptions in the following section. For the following calculations, we used the target capital structure of 42.01% D/V and 57.99% E/V as described above.

- Cost of equity

We computed WRBY's cost of equity employing the Capital Asset Pricing Model (CAPM), which yielded a rate of 15.91%. This relatively high rate stems from WRBY's high levered Beta (2.08), indicative of the market's view of a higher risk linked to the company, influenced by its current volatility in return compared to the market. We employed the 10-year Treasury yield for the risk-free rate, which

[16] Including all interest-bearing debt and debt-like items

stood at 4.26%; for the market risk premium, the risk-free rate was subtracted from the 10-year average S&P 500 return of 9.87% leading to an excess return of 5.61%. To determine the levered beta, consistent with the target capital structure, we adjusted the unlevered beta accordingly, resulting in a levered beta of 2.08 This was estimated using WRBY's equity beta which was calculated by regressing WRBY's daily stock returns against the daily returns of the S&P 500. To ensure the accuracy of this calculation, both the covariance and slope methods were applied. Subsequently, this beta was unlevered using WRBY's capital structure as of the valuation date in December 2024, resulting in an unlevered beta. The final step involved relevering this beta using the target capital structure set for December 2033, leading us to WRBY's levered beta.

- Cost of Debt

Exhibit 6: WACC Components

D/EV	0,42
E/EV	0,58
Cost of Debt	6,26%
Cost of Equity	15,91%
Tax rate	21,00%
WACC	**11,31%**

To determine WRBY's cost of debt, we utilized its credit rating of BBB+, obtained from Refinitive. Following Damodaran's approach for determining credit spreads[17], we associated a 2% spread with the estimated credit rating. This spread was added to the risk-free rate, resulting in a cost of debt of 6.3%.

Combining the Cost of Equity (15.91%), the Cost of Debt (6.3%), and the target capital structure with its respective weights and accounting for tax effects, we derived a WACC of 11.31%. This is a key determinant in our valuation model for WRBY, serving as a tool to assess its intrinsic value and make investment decisions.

Sensitivity Analysis

Exhibit 7: Sensitivity Analysis (WACC and g)

25th Percentile	$10,90
Average	**$13,52**
75th Percentile	$15,78
Minimum	$9,42
Maximum	$20,07

To ensure our valuation's robustness against market fluctuations, we conducted a sensitivity analysis on key factors of our valuation. In our analysis of WRBY's share price sensitivity, we focused on the impact of changes in the WACC and terminal growth rate, using intervals of ±0.7% for WACC and ±0.2% for the growth rate. Employing these adjustments, to our perpetual growth DCF method produced a median share price of $13.52, with a lower quartile at $10.90 and an upper quartile at $15.78. This range underscores the robustness of our valuation, with its average closely aligning with our target price of $13.45. The wider variation towards the higher end in our sensitivity analysis implies that WRBY's valuation is particularly sensitive to favorable economic shifts, suggesting a significant potential for stock value appreciation in optimistic market scenarios.

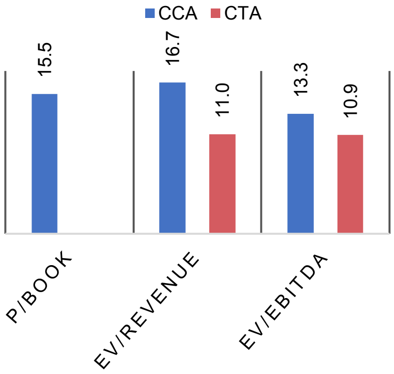
[17] NYU Stern: Aswath Damodaran Credit spread

This tendency is reflected in our levered Beta estimation of 2.25, which hints at increased upside potential in thriving market conditions.

CCA and CTA

In our comprehensive CCA, we selected companies within the vision care industry that offer diverse or singular eyecare products. Our selection process involved multiple iterations to ensure alignment with company characteristics, including financial performance, product offerings and strategic considerations. In our analysis, we focused specifically on companies within the vision care industry, excluding several retail comparables operating in different sectors, such as Nordstrom, Walmart, and Five Below. This decision was driven by the abundance of directly relevant comparables in the vision care sector, allowing for a more focused and industry-specific analysis. We considered geographic factors in our selection but did not use them as a basis for exclusion. Consequently, ESL and Fielmann (FIE) were included, as their strategic approaches closely align with WRBY's, and their current market positions represent targets WRBY aspires to achieve. Additionally, these companies were part of a more detailed closest comparable analysis. We also included 7NV in our analysis, recognizing its status as one of the fastest-growing optical retail companies in the US. Its inclusion was further justified by financial parallels with WRBY, including a nearly identical market capitalization, making it a particularly relevant comparator in our analysis.

FIGURE 33: SHARE PRICES
CCA AND CTA



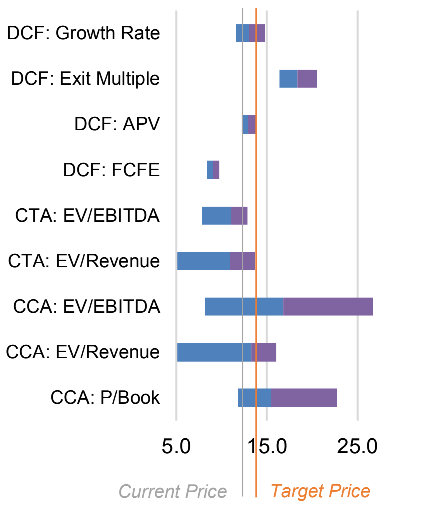
To ensure a reliable and equitable comparable analysis, we applied the mean EV/EBITDA multiple of 15.5x from the chosen comparable group to WRBY's adj. EBITDA. This approach yielded a share price of $13.26. Another valuation metric employed was the Price-to-Book Value (Forward P/BookValue). In this regard, WRBY traded at 2.4 times, aligning with the median valuation of our comparable companies. This multiple calculation yielded a stock price of $14.2, which is slightly higher than the one obtained using the EV/EBITDA multiple. Additionally, our analysis incorporated the forward EV/Revenue multiple. WRBY's valuation was observed to be slightly below the median of comparable companies, registering at 2.3 versus the median of 2.6. Using the EV/Revenue multiple analysis, the resulting stock price is $16.7. As of June 30, 2023, WRBY is trading at an approximate valuation of 18 times forward EV/EBITDA, a metric representing a 13% premium compared to other companies operating in the vision industry.

Exhibit 9: Comparables Valuation Analysis	P/Book LTM	EV/Revenue 24E	EV/EBITDA 24E
National Vision Holdings, Inc.	3,8x	1,8x	18,8x
Kits Eyecare Ltd.	3,2x	1,8x	NM
Paris Miki Holdings Inc.	0,7x	n.a.	n.a.
JINS HOLDINGS Inc.	3,4x	1,0x	8,7x
Visionaryholdings Co., Ltd.	1,7x	3,2x	n.a.
Fielmann AG	4,1x	1,9x	9,2x
Alcon	2,0x	4,0x	16,0x
Cooper Company	2,0x	4,7x	17,7x
EssilorLuxottica SA	2,4x	3,5x	15,0x
25th Percentile	1,9x	1,8x	9,1x
Median	**2,4x**	**2,6x**	**15,5x**
75th Percentile	3,6x	3,9x	18,0x

Further insights were derived through the examination of precedent transactions. We selected these transactions based on their relevance to the industry, the deal value, and the geographic positioning of the acquired companies. However, we faced a limitation in the availability of suitable transaction data influencing our selection process. This approach yielded significantly lower valuation multiples, with EV/EBITDA averaging 13 times and EV/Revenue at 1.7 times. Applying those multiple to WRBY left us with a share price of $11 and $10.91, respectively. One explanation for the higher results from CCA compared to CTA is that the CCA data is more recent and that markets were thriving again after the COVID-19 downturn.

Football Field

Football Field Analysis



Our valuation includes the DCF, CCA, and CTA methods, each weighted, based on its relevance and suitability, to derive our target price.

Within our DCF analysis, we employed four distinct methods, assigning weights to each based on their appropriateness for valuing WRBY. Notably, we attributed 45% of the DCF price to the perpetual growth method, considering the stability of the vision care industry and its complementary product offering, which is unaffected by seasonality. Due to these reasons, aligning the perpetual growth rate with GDP growth appeared to be a realistic assumption.

Conversely, we allocated a lower weight of 15% to the Exit Multiple approach. Our rationale for this decision stemmed from the market-determined nature of the Exit Multiple, which is more reflective of market conditions. If these factors are perceived as positive, like in the vision care industry, the exit multiple approach anticipates a relatively higher implied growth rate, based on our exit multiple, than our terminal growth rate[18]. This led to our view that the result of this method is more optimistic.

[18] Wall Street Prep. Terminal Value

The APV method received a 25% weight, mirroring the rationale of the perpetual growth method. The similarity between the calculated share prices from the perpetual growth and APV methods proved the soundness of our assumptions.

Exhibit 10: CF methods

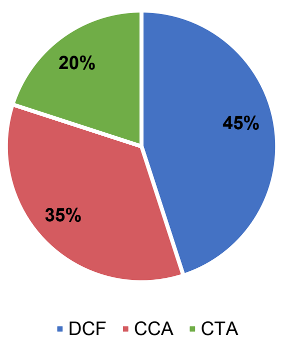
Perpetual growth	$	12,99
Exit Multiple	$	18,33
APV	$	12,95
FCFE	$	9,03

The FCFE approach was assigned a 15% weight. This conservative estimation was influenced by the high cost of equity reflecting the perceived risk of WRBY's stock and an assumed terminal growth rate consistent with other methods. Given that FCFE is exclusive to equity holders, its growth rates could be higher than the one we determined as equity holders require a higher return. This is due to the leverage effect, as equity holders get paid after debt holders, they demand a higher return because of the added risk cause by taking on leverage[19]. Moreover, the increased cost of equity, including WRBY's high Beta, reflects the higher risk assigned by investors to the company, which we anticipate to improve in the future as cash flows stabilize. These considerations led us to characterize the FCFE method as more cautious.

The cumulative weightings of the cash flow-based methods resulted in a share price of $13.13 for WRBY. Our strategy balanced conservative and optimistic elements with neutral methodologies, enhancing the robustness of our DCF valuation. Further, we mitigated the impact of unstable cash flows by weighing diverse scenarios. Consequently, we ascribed a 45% weight to the cash flow-based methods in our overall target price calculation.

Additionally, we allocated a 35% weight to the CCA ($15.15) method due to the excellent availability of relevant data from the vision care industry. This weight reflects the presence of several companies within our comparison set that share a similar strategy with WRBY. We chose not to assign weights to the different multiples used in our analysis, as our selection of these multiples was already guided by their suitability. Our rationale for the designated weight centers around the quality and accessibility of the data.

Figure 34: Weights by method
for target price



In our valuation approach, we allocated a 20% weight to the CTA method ($10.95). Compared to the other methods, this relatively lower weighting is based on limited data availability and the increased M&A activity of large incumbents pressuring acquisition prices by using its market power. Specifically, the inclusion of transactions from the COVID-19 downturn period was necessary, putting pressure on multiples and, consequently, leading to a more conservative valuation.

[19] NYU Stern. Growth in FCFE versus growth in FCFF

Assigning the weights to each method and multiplying it by the calculated share price led to a target share price of $13.45.

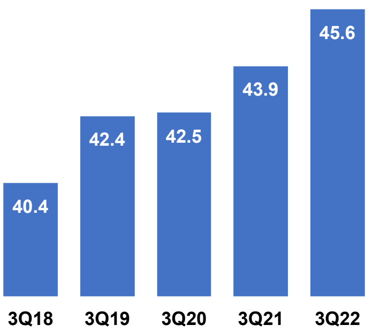
Key risks

Regulatory environment

WRBY faces several risks and challenges, with one of them being the ability to face the significant challenge of adhering to the complex regulatory landscape of the healthcare industry. The sector faces rigorous and ever-changing regulations related to privacy, data security and data protection, which can incur high costs, potentially affecting business operations and financial performance. Additionally, regulatory constraints could impact pricing strategies, putting pressure on gross margins. WRBY's contracts with vision plans, included in Medicare Advantage health plans[20], subject the company to various federal and state healthcare laws, such as anti-kickback and false claims statutes. These add complexity to reimbursements by third-party payers and even to self-pay patients.

Moreover, as the FDA regulates eyeglasses and contact lenses as medical devices, WRBY must adhere to the Federal Food, Drug, and Cosmetic Act requirements[21]. This means that WRBY must follow strict rules in how they manufacture, package, and label their products, which puts them under the supervision of the FDA.

Figure 35: Fully insured vision plans
Covered lives in mio.



Third-party payers

Besides those regulatory pressures, WRBY's future success increasingly depends on third-party payers, such as insurance companies, covering patients costs of eyecare products. WRBY's operational success becomes closely tied to its ability to cultivate and maintain strong relationships with these payers as these companies become more important[22]. Building these relationships is crucial and aims to enable the company's inclusion in the networks of these third-party payers. By integrating WRBY's products into the coverage schemes offered by insurance companies, WRBY can enhance accessibility for customers with vision insurance. This integration is crucial because there's a trend where consumers are more inclined to spend on healthcare products when the costs are borne by someone else, a phenomenon known as moral hazard.

Advancements in the eyecare industry

[20] Federal health insurance program
[21] The Business Research Company. Vision Care Devices And Equipment Market Definition And Segments
[22] Mark Farrah Associates. Highly-Concentrated Vision Insurance Market Increasing

Innovation threatens the traditional vision care approach.

Another threat is posed by the development of new healthcare practices in the eyecare industry, such as LASIK (a therapy using laser to correct people's vision)[23], presenting a significant challenge to WRBY's operational model. These advancements offer alternative solutions to vision correction and therefore could diminish the demand for WRBY's traditional eyewear products. As these technologies improve and become more cost-effective, consumers might favor these methods over conventional eyecare. This development could adversely impact WRBY's market share. WRBY needs to strategically adapt to navigate this evolving landscape, possibly by embracing new eyewear technologies.

Business Model Risks

Additionally, WRBY's move to become a holistic vision company, involves offering some higher-priced products, affecting its price-sensitive customer base. This could pressure the company's revenues, making it harder to become profitable. The company's ability to maintain and enhance its brand is critical for WRBY to maintain its customer base while changing the product mix.

The reduction in the availability of ophthalmologists[24], influenced by rising wages and demand, increases the complexity of maintaining enough doctors. Factors such as increased post-pandemic retirements, stagnation among new graduates, and a preference for flexible work schedules are causing a shortage of optometrists. This trend could adversely affect WRBY's operations, although the company has not reported difficulties in recruiting or retaining these professionals yet.

Supply Chain Risks

WRBY faces several risks in its supply, manufacturing, and fulfillment processes. The company's dependence on a few suppliers for product sourcing creates vulnerability to disruptions. Besides that, WRBY faces increased material costs, putting pressure on gross margins, particularly affecting lower-priced products. Moreover, supply chain challenges and rising costs can lead to fulfillment issues, further complicating the operational landscape.

Exhibit 11: Risk factors at one glance

Description	Type of risk	Probability	Impact	Mitigation?
Regulatory environment: Healthcare industry is subject to strict laws and regulations also with regards to pricing.	Regulatory	High	Low	Difficult
Reliance on third-party payers: Future succes heavily relies on third-party payers covering WRBY's products.	Strategic	High	High	Easy

[23] Mayo Clinic: LASIK eye surgery
[24] Review of Optometry. Ophthalmology Workforce Expected to Decline 12% by 2035

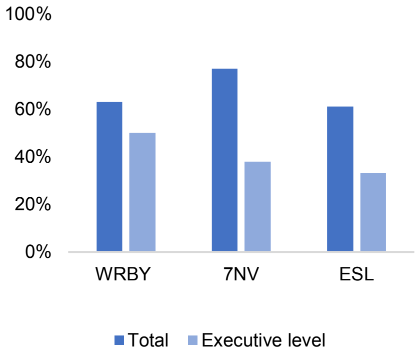
Technological advancement: The development of new or improved technologies provides a substitution option to traditional vision care offerings.	Operational (technological)	Low in near future, increases over time	High	Difficult
Threats to product offering expansion: Pressure on margins due to product shift affecting price-sensitive customers and limited availabilty of Ophthalmologists.	Operational	Medium	Low	Difficult
Supply Chain disruptions: Dependence on small number of suppliers for products which increases the probability of disruptions. Increase in material cost pressures margins.	Operational	Medium	Low	Easy
Increase in Material costs: Increase in material cost could threaten WRBY's market share and pressure margins.	Macroeconomic	High	Medium	Difficult

ESG Analysis

Social Impact

WRBY wants to demonstrate that a business can scale successfully while serving as a model in the ESG space for sustainable and socially responsible business practices. WRBY is a certified B Corp, an honor distributed by a specialized third party to companies leading the global movement toward a more sustainable economy.

Figure 36: Women workforce in %
Total vs Executive level



WRBY demonstrates its focus on employee well-being by promoting its 'Mental Health Matters' initiative. Regarding workforce composition, WRBY's dedication to diversity extends to its leadership structure. WRBY has significantly more women in executive positions, in relative terms, compared to its closest competitors, 7NV[25] and ESL[26], even though they have a similar or even larger relative number of women in their total Workforce. However, there is still room for improvement; one can identify an apparent underrepresentation of BIPOC in executive positions. Nevertheless, the company is aware of the situation and aims to change it by the end of 2024.

Governance

WRBY adheres to the New York Stock Exchange rules in its governance structure, stating that a board must comprise a majority of independent directors. The board comprises nine members, including six men, three women, and three BIPOC individuals. It operates through three committees: Audit, Compensation, and Nominating and Corporate Governance, each fulfilling roles as declared in the company's bylaws and committee charters. However, the founders of WRBY collectively hold about 7% of the company's Class A shares and the two CEOs hold almost 96% of Class B shares, with Class B shares having ten times the

25 National Vision. National Vision Sustainability Report 2022
26 Essilor Luxottica. Essilor Luxottica Sustainability Report 2022

voting power of Class A shares. As a result, the Co-CEOs jointly possess approximately 64% of the voting rights. This situation, while currently common as many companies have recently gone public and retained the control of their founders, notably restricts the rights and influence of other shareholders.

Exhibit 12: Ownership structure

Name	Role	Class A	Class B
Neil Blumenthal	Co-Founder and Co-CEO	400.106	9.062.683
David Gilboa	Co-Founder and Co-CEO	235	9.405.630
Andrew Hunt	Co-Founder	1.867.557	-
Jeffrey Raider	Co-Founder	4.152.461	-
Total Founder Ownership		6.420.359	18.468.313
Total Shares Outstanding		96.282.522	19.318.298
Voting rights per share		1	10
Founder voting rights			191.103.489
Total Voting Rights			289.465.502
Founder % voting rights			**66,02%**
Co-CEO % voting rights			**63,94%**

Environmental

In 2022, WRBY demonstrated a strong commitment to environmental sustainability, successfully achieving carbon neutrality across its operations (Scope 1 and 2) which is not the case for competitors such as ESL[27] or 7NV[28]. This was bolstered by their active engagement in carbon offset projects, including investments in renewable energy endeavors in both the US and India. All projects undertaken by WRBY undergo rigorous review and validation by established standards such as the Gold Standard. Despite total carbon emissions of 49,160 tons CO2, it's noteworthy that over 90% of these emissions are from Scope 3 sources – operations owned or controlled by other entities in WRBY's value chain. WRBY offsets 48% of its total emissions. Beyond their direct operations, WRBY also ensures responsible practices in their supply chain. They require all subcontractors and factories to adhere to their Vendor Code of Conduct, reinforcing their commitment to ethical and sustainable business practices.

WRBY prioritizes sustainable packaging by choosing sustainable materials, e.g. by reducing their contacts packaging material by 80% compared to conventional industry standards, demonstrating a strong commitment to eco-friendly practices. Most of their products are made from renewable cellulose acetate, a plant-based plastic. Furthermore, despite an increase in product sales from 2021 to 2022, WRBY successfully reduced the total amount of packaging used[29].

[27] Essilor Luxottica. Essilor Luxottica Sustainability Report 2022
[28] National Vision. National Vision Sustainability Report 2022
[29] Eco-Stylist. How Sustainable is Warby Parker?

Appendix

Financial Statements

Income Statement

	2019A	2020A	2021A	2022A	2023P	2024E	2025E	2026E
in USDk								
Total Revenue	**370,463.0**	**393,719.0**	**540,798.0**	**598,112.0**	**671,703.7**	**792,127.5**	**902,891.5**	**1,010,823.6**
% growth	*n.a.*	*6.3%*	*37.4%*	*10.6%*	*12.3%*	*17.9%*	*14.0%*	*12.0%*
COGS	(147,355.0)	(161,784.0)	(223,049.0)	(257,050.0)	(256,026.6)	(303,511.6)	(347,757.7)	(391,350.4)
% of revenue	*39.78%*	*41.09%*	*41.24%*	*42.98%*	*38.12%*	*38.32%*	*38.52%*	*38.72%*
Gross Profit	**223,108.0**	**231,935.0**	**317,749.0**	**341,062.0**	**415,677.1**	**488,615.9**	**555,133.8**	**619,473.1**
% margin	*60.2%*	*58.9%*	*58.8%*	*57.0%*	*61.9%*	*61.7%*	*61.5%*	*61.3%*
Marketing expenses	-	(58,500.0)	(87,000.0)	(76,900.0)	(79,644.7)	(86,002.3)	(88,999.1)	(89,529.9)
% of revenue	*n.a.*	*14.86%*	*16.09%*	*12.86%*	*11.86%*	*10.86%*	*9.86%*	*8.86%*
Operating stock-based compensation	-	(44,912.0)	(106,151.0)	(97,152.0)	(67,170.4)	(59,409.6)	(45,144.6)	(40,432.9)
% of revenue	*n.a.*	*11.41%*	*19.63%*	*16.24%*	*10.00%*	*7.50%*	*5.00%*	*4.00%*
Other SG&A	-	(184,155.0)	(268,259.0)	(278,213.0)	(302,266.7)	(340,614.8)	(379,214.4)	(414,437.7)
% of revenue	*n.a.*	*46.77%*	*49.60%*	*46.52%*	*45.00%*	*43.00%*	*42.00%*	*41.00%*
Total SG&A	(224,771.0)	(287,567.0)	(461,410.0)	(452,265.0)	(449,081.8)	(486,026.6)	(513,358.1)	(544,400.5)
% of revenue	*60.67%*	*73.04%*	*85.32%*	*75.62%*	*66.86%*	*61.36%*	*56.86%*	*53.86%*
EBIT	**(1,663.0)**	**(55,632.0)**	**(143,661.0)**	**(111,203.0)**	**(33,404.7)**	**2,589.3**	**41,775.7**	**75,072.6**
% margin	*-0.4%*	*-14.1%*	*-26.6%*	*-18.6%*	*-5.0%*	*0.3%*	*4.6%*	*7.4%*
Interest and Other (loss) Income, Net	1,939.0	(97.0)	(347.0)	1,307.0	(7,119.3)	(8,175.1)	(9,230.9)	(10,286.7)
% of debt					(7,119.3)	(8,175.1)	(9,230.9)	(10,286.7)
EBT	*0.74%*	*-0.02%*	*n.a.*	*0.75%*	*-3.48%*	*-3.48%*	*-3.48%*	*-3.48%*
Provisions for Income Tax	**276.0**	**(55,729.0)**	**(144,008.0)**	**(109,896.0)**	**(40,523.9)**	**(5,585.8)**	**32,544.8**	**64,785.9**
% of revenue	(276.0)	(190.0)	(263.0)	(497.0)	33.7	1,173.0	(6,834.4)	(13,605.0)
Net income/loss	*-0.07%*	*-0.05%*	*-0.05%*	*-0.08%*	*-0.08%*	*-21.00%*	*-21.00%*	*-21.00%*
Net income margin	**-**	**(55,919.0)**	**(144,271.0)**	**(110,393.0)**	**(40,490.3)**	**(4,412.8)**	**25,710.4**	**51,180.8**

Income Statement (contd.)

	2027E	2028E	2029E	2030E	2031E	2032E	2033E
in USDk							
Total Revenue	**1,115,168.1**	**1,211,768.5**	**1,309,725.1**	**1,417,541.7**	**1,536,445.9**	**1,667,847.9**	**1,813,372.1**
% growth	*10.3%*	*8.7%*	*8.1%*	*8.2%*	*8.4%*	*8.6%*	*8.7%*
COGS	(433,978.8)	(473,995.4)	(514,014.7)	(558,171.2)	(606,988.3)	(661,068.2)	(721,105.6)
% of revenue	*38.92%*	*39.12%*	*39.25%*	*39.38%*	*39.51%*	*39.64%*	*39.77%*
Gross Profit	**681,189.3**	**737,773.2**	**795,710.4**	**859,370.5**	**929,457.6**	**1,006,779.7**	**1,092,266.6**
% margin	*61.1%*	*60.9%*	*60.8%*	*60.6%*	*60.5%*	*60.4%*	*60.2%*
Marketing expenses	(87,620.1)	(84,823.8)	(91,680.8)	(99,227.9)	(107,551.2)	(116,749.4)	(126,936.0)
% of revenue	*7.86%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*
Operating stock-based compensation	(33,455.0)	(36,353.1)	(39,291.8)	(42,526.3)	(46,093.4)	(50,035.4)	(54,401.2)
% of revenue	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*
Other SG&A	(446,067.2)	(472,589.7)	(497,695.5)	(524,490.4)	(568,485.0)	(617,103.7)	(670,947.7)
% of revenue	*40.00%*	*39.00%*	*38.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*
Total SG&A	(567,142.4)	(593,766.6)	(628,668.0)	(666,244.6)	(722,129.6)	(783,888.5)	(852,284.9)
% of revenue	*50.86%*	*49.00%*	*48.00%*	*47.00%*	*47.00%*	*47.00%*	*47.00%*
EBIT	**114,046.9**	**144,006.6**	**167,042.3**	**193,125.9**	**207,328.0**	**222,891.2**	**239,981.7**
% margin	*10.2%*	*11.9%*	*12.8%*	*13.6%*	*13.5%*	*13.4%*	*13.2%*
Interest and Other (loss) Income, Net	(11,342.6)	(12,398.4)	(13,454.2)	(14,510.0)	(15,565.9)	(16,621.7)	(17,677.5)
% of debt	(11,342.6)	(12,398.4)	(13,454.2)	(14,510.0)	(15,565.9)	(16,621.7)	(17,677.5)
EBT	*-3.48%*	*-3.48%*	*-3.48%*	*-3.48%*	*-3.48%*	*-3.48%*	*-3.48%*
Provisions for Income Tax	**102,704.3**	**131,608.2**	**153,588.1**	**178,615.8**	**191,762.1**	**206,269.5**	**222,304.2**
% of revenue	(21,567.9)	(27,637.7)	(32,253.5)	(37,509.3)	(40,270.1)	(43,316.6)	(46,683.9)
Net income/loss	*-21.00%*	*-21.00%*	*-21.00%*	*-21.00%*	*-21.00%*	*-21.00%*	*-21.00%*
Net income margin	**81,136.4**	**103,970.5**	**121,334.6**	**141,106.5**	**151,492.1**	**162,952.9**	**175,620.3**

Balance Sheet

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
in USDk								
Cash and Cash Equivalents	55,424.0	314,085.0	256,416.0	208,585.0	236,130.5	278,793.2	219,152.1	293,557.2
Operating Cash	51,864.8	55,120.7	75,711.7	83,735.7	94,038.5	110,897.8	126,404.8	141,515.3
Excess Cash	3,559.2	258,964.3	180,704.3	124,849.3	142,092.0	167,895.4	92,747.3	152,041.9
Accounts Receivable, Net	1,118.0	601.0	992.0	1,435.0	1,474.0	3,908.5	6,928.7	10,526.4
Inventory	28,437.0	38,468.0	57,095.0	68,848.0	68,573.9	81,292.2	93,143.0	104,818.9
Prepaid Expenses and Other Current Assets	6,705.0	6,779.0	13,477.0	15,700.0	18,101.5	20,068.9	21,683.4	23,386.0
Total Current Assets	**91,684.0**	**359,933.0**	**327,980.0**	**294,568.0**	**324,280.0**	**384,062.9**	**340,907.3**	**432,288.4**
Right of Use Lease Assets	-	-	-	127,014.0	149,876.5	172,104.0	194,331.4	216,558.9
Property and Equipment, net	83,890.0	84,534.0	112,195.0	138,628.0	163,847.1	187,497.3	211,176.4	235,040.9
Other Assets	282.0	284.0	471.0	8,497.0	-	-	-	-
Total Non-current Assets	**84,172.0**	**84,818.0**	**112,666.0**	**274,139.0**	**313,723.6**	**359,601.3**	**405,507.8**	**451,599.8**
Total Assets	**175,856.0**	**444,751.0**	**440,646.0**	**568,707.0**	**638,003.6**	**743,664.1**	**746,415.1**	**883,888.2**
Accounts Payable	37,306.0	40,788.0	30,890.0	20,791.0	24,215.4	32,864.3	42,419.1	47,736.5
Accrued Expenses	16,354.0	34,270.0	60,840.0	58,222.0	56,848.2	61,525.0	64,984.8	68,914.4
Current Lease Liabilities	-	-	-	22,546.0	26,604.3	30,549.8	34,495.4	38,440.9
Deferred Revenue	19,249.0	26,550.0	22,073.0	25,628.0	34,098.5	40,211.7	45,834.6	51,313.7
Other Current Liabilities	2,958.0	3,722.0	4,301.0	2,370.0	4,929.2	5,812.9	6,625.8	7,417.8
Total Current Liabilities	**75,867.0**	**105,330.0**	**118,104.0**	**129,557.0**	**146,695.7**	**170,963.9**	**194,359.7**	**213,823.4**
Non Current Lease Liabilities	-	-	-	150,832.0	177,981.8	204,377.4	230,773.0	257,168.6
Preferred Stock Convertible	262,849.0	506,510.0	-	-	-	-	-	-
Other Noncurrent Liabilities	756.0	3,011.0	-	1,672.0	-	-	-	-
Deferred Rent	25,837.0	27,997.0	36,544.0	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-
Total Non-current Liabilitites	**289,442.0**	**537,518.0**	**36,544.0**	**152,504.0**	**177,981.8**	**204,377.4**	**230,773.0**	**257,168.6**
Total Liabilties	**365,309.0**	**642,848.0**	**154,648.0**	**282,061.0**	**324,677.5**	**375,341.2**	**425,132.7**	**470,992.0**
Common Stock - Par Value	5.0	5.0	11.0	12.0	12.0	12.0	12.0	12.0
Additional Paid in Capital	79,991.0	127,179.0	779,212.0	890,915.0	890,915.0	890,915.0	890,915.0	890,915.0
Accumulated Deficit	(269,471.0)	(325,390.0)	(493,241.0)	(603,634.0)	(576,953.9)	(521,957.1)	(568,997.6)	(477,383.8)
Accumulated Other Comprehensive Income	22.0	109.0	16.0	(647.0)	(647.0)	(647.0)	(647.0)	(647.0)
Total Shareholders Equity	**(189,453.0)**	**(198,097.0)**	**285,998.0**	**286,646.0**	**313,326.1**	**368,322.9**	**321,282.4**	**412,896.2**
Total Liabilities & Shareholders Equity	**175,856.0**	**444,751.0**	**440,646.0**	**568,707.0**	**638,003.6**	**743,664.1**	**746,415.1**	**883,888.2**

Balance Sheet (contd.)

in USDk	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Cash and Cash Equivalents	237,310.4	358,615.1	311,226.3	346,809.0	376,054.7	406,881.6	444,897.7
Operating Cash	156,123.5	169,647.6	183,361.5	198,455.8	215,102.4	233,498.7	253,872.1
Excess Cash	81,186.9	188,967.5	127,864.8	148,353.2	160,952.3	173,382.9	191,025.6
Accounts Receivable, Net	14,668.2	19,258.8	24,403.9	30,296.5	37,047.2	44,785.0	49,681.4
Inventory	116,236.4	126,954.4	137,673.2	149,500.0	162,575.1	177,059.8	193,140.2
Prepaid Expenses and Other Current Assets	24,818.7	26,308.6	28,051.1	29,944.5	32,456.3	35,232.0	38,306.1
Total Current Assets	**393,033.8**	**531,136.9**	**501,354.4**	**556,550.0**	**608,133.3**	**663,958.5**	**726,025.4**
Right of Use Lease Assets	238,786.3	261,013.8	283,241.2	305,468.7	327,696.1	349,923.6	372,151.0
Property and Equipment, net	259,100.0	283,298.4	307,844.5	332,938.0	358,638.4	385,012.2	412,134.3
Other Assets	-	-	-	-	-	-	-
Total Non-current Assets	**497,886.4**	**544,312.2**	**591,085.7**	**638,406.7**	**686,334.5**	**734,935.8**	**784,285.4**
Total Assets	**890,920.2**	**1,075,449.1**	**1,092,440.2**	**1,194,956.7**	**1,294,467.8**	**1,398,894.3**	**1,510,310.8**
Accounts Payable	52,936.3	57,817.5	62,699.0	68,085.2	74,039.8	80,636.4	87,959.7
Accrued Expenses	71,793.3	75,163.6	79,581.7	84,338.4	91,412.7	99,230.7	107,888.8
Current Lease Liabilities	42,386.5	46,332.0	50,277.6	54,223.1	58,168.7	62,114.2	66,059.8
Deferred Revenue	56,610.7	61,514.5	66,487.2	71,960.4	77,996.5	84,667.0	92,054.5
Other Current Liabilities	8,183.5	8,892.4	9,611.3	10,402.5	11,275.0	12,239.3	13,307.2
Total Current Liabilities	**231,910.2**	**249,720.0**	**268,656.7**	**289,009.6**	**312,892.8**	**338,887.7**	**367,270.0**
Non Current Lease Liabilities	283,564.2	309,959.8	336,355.4	362,751.0	389,146.6	415,542.2	441,937.8
Preferred Stock Convertible	-	-	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-	-	-
Deferred Rent	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-
Total Non-current Liabilitites	**283,564.2**	**309,959.8**	**336,355.4**	**362,751.0**	**389,146.6**	**415,542.2**	**441,937.8**
Total Liabilties	**515,474.4**	**559,679.8**	**605,012.1**	**651,760.6**	**702,039.4**	**754,429.8**	**809,207.8**
Common Stock - Par Value	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Additional Paid in Capital	890,915.0	890,915.0	890,915.0	890,915.0	890,915.0	890,915.0	890,915.0
Accumulated Deficit	(514,834.2)	(374,510.7)	(402,851.9)	(347,083.9)	(297,851.6)	(245,815.5)	(189,177.0)
Accumulated Other Comprehensive Income	(647.0)	(647.0)	(647.0)	(647.0)	(647.0)	(647.0)	(647.0)
Total Shareholders Equity	**375,445.8**	**515,769.3**	**487,428.1**	**543,196.1**	**592,428.4**	**644,464.5**	**701,103.0**
Total Liabilities & Shareholders Equity	**890,920.2**	**1,075,449.1**	**1,092,440.2**	**1,194,956.7**	**1,294,467.8**	**1,398,894.3**	**1,510,310.8**

Cash Flow Statement

	2020A	2021A	2022A	2023P	2024E	2025E	2026E
in USDk							
Operating activities							
Net Income	(55,919.0)	(144,271.0)	(110,393.0)	(40,490.3)	(4,412.8)	25,710.4	51,180.8
Depreciation and Amortization	17,763.0	21,551.0	31,864.0	37,362.6	42,755.7	48,155.3	53,597.2
Stock based Compensation	44,912.0	106,151.0	97,152.0	67,170.4	59,409.6	45,144.6	40,432.9
	(55,919.0)	(144,271.0)	(110,393.0)	(40,490.3)	(4,412.8)	25,710.4	51,180.8
Working Capital							
Accounts Receivable, Net	517.0	(391.0)	(443.0)	(39.0)	(2,434.5)	(3,020.2)	(3,597.6)
Inventory	(10,031.0)	(18,627.0)	(11,753.0)	274.1	(12,718.3)	(11,850.8)	(11,675.8)
Prepaid Expense and Other Assets	(74.0)	(6,698.0)	(2,223.0)	(2,401.5)	(1,967.4)	(1,614.5)	(1,702.6)
Accounts Payable	3,482.0	(9,898.0)	(10,099.0)	3,424.4	8,648.9	9,554.8	5,317.4
Deferred Revenue	7,301.0	(4,477.0)	3,555.0	8,470.5	6,113.2	5,622.8	5,479.1
Accrued Expenses	17,916.0	26,570.0	(2,618.0)	(1,373.8)	4,676.8	3,459.8	3,929.6
Other Current Liabilities	764.0	579.0	(1,931.0)	2,559.2	883.7	812.8	792.0
Deferred rents	2,160.0	8,547.0	-	-	-	-	-
Other Operating activities	517.0	(391.0)	(443.0)	(39.0)	(2,434.5)	(3,020.2)	(3,597.6)
Right-of-use Lease Assets and Current and Non-current Lease Liabilities	-	-	46,364.0	8,345.5	8,113.7	8,113.7	8,113.7
Right of use Lease Assets	-	-	(127,014.0)	(22,862.5)	(22,227.5)	(22,227.5)	(22,227.5)
Right of use Current and Noncurrent Lease Liabilities	-	-	173,378.0	31,208.0	30,341.2	30,341.2	30,341.2
Cash Flow from Operating Activities	**28,791.0**	**(20,964.0)**	**39,475.0**	**83,302.3**	**109,068.6**	**130,088.7**	**151,866.8**
Investing Activities							
Purchase of Property and Equipment	(18,407.0)	(49,212.0)	(58,297.0)	(62,581.8)	(66,405.9)	(71,834.4)	(77,461.7)
Cash Flow from Investing Activities	**(18,407.0)**	**(49,212.0)**	**(58,297.0)**	**(62,581.8)**	**(66,405.9)**	**(71,834.4)**	**(77,461.7)**
Financing Activities							
Loans	-	-	-	-	-	-	-
Other Assets	(2.0)	(187.0)	(8,026.0)	8,497.0	-	-	-
Other Noncurrent Liabilities	245,916.0	(3,011.0)	1,672.0	(1,672.0)	-	-	-
Dividends	-	-	-	-	-	(117,895.4)	-
Cash Flow from Financing Activities	**245,914.0**	**(3,198.0)**	**(6,354.0)**	**6,825.0**	**-**	**(117,895.4)**	**-**
Cash Flow	**256,298.0**	**(73,374.0)**	**(25,176.0)**	**27,545.5**	**42,662.7**	**(59,641.1)**	**74,405.0**

Cash Flow Statement (contd.)

	2027E	2028E	2029E	2030E	2031E	2032E	2033E
in USDk							
Operating activities							
Net Income	81,136.4	103,970.5	121,334.6	141,106.5	151,492.1	162,952.9	175,620.3
Depreciation and Amortization	59,083.5	64,601.6	70,198.9	75,921.1	81,781.6	87,795.7	93,980.5
Stock based Compensation	33,455.0	36,353.1	39,291.8	42,526.3	46,093.4	50,035.4	54,401.2
Working Capital							
Accounts Receivable, Net	(4,141.9)	(4,590.5)	(5,145.1)	(5,892.6)	(6,750.7)	(7,737.8)	(4,896.4)
Inventory	(11,417.5)	(10,718.0)	(10,718.7)	(11,826.8)	(13,075.1)	(14,484.7)	(16,080.3)
Prepaid Expense and Other Assets	(1,432.8)	(1,489.8)	(1,742.6)	(1,893.4)	(2,511.8)	(2,775.8)	(3,074.1)
Accounts Payable	5,199.8	4,881.2	4,881.5	5,386.2	5,954.7	6,596.6	7,323.3
Deferred Revenue	5,297.0	4,903.8	4,972.7	5,473.2	6,036.1	6,670.5	7,387.4
Accrued Expenses	2,878.8	3,370.3	4,418.1	4,756.7	7,074.4	7,817.9	8,658.1
Other Current Liabilities	765.7	708.9	718.8	791.2	872.6	964.3	1,067.9
Deferred rents	-	-	-	-	-	-	-
Other Operating activities							
Right-of-use Lease Assets and Current and Non-current Lease Liabilities	8,113.7	8,113.7	8,113.7	8,113.7	8,113.7	8,113.7	8,113.7
Right of use Lease Assets	(22,227.5)	(22,227.5)	(22,227.5)	(22,227.5)	(22,227.5)	(22,227.5)	(22,227.5)
Right of use Current and Noncurrent Lease Liabilities	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2
Cash Flow from Operating Activities	**178,937.8**	**210,104.6**	**236,323.7**	**264,462.0**	**285,080.8**	**305,948.8**	**332,501.6**
Investing Activities							
Purchase of Property and Equipment	(83,142.6)	(88,799.9)	(94,745.0)	(101,014.5)	(107,482.0)	(114,169.6)	(121,102.6)
Cash Flow from Investing Activities	**(83,142.6)**	**(88,799.9)**	**(94,745.0)**	**(101,014.5)**	**(107,482.0)**	**(114,169.6)**	**(121,102.6)**
Financing Activities							
Loans	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-	-	-
Dividends	(152,041.9)	-	(188,967.5)	(127,864.8)	(148,353.2)	(160,952.3)	(173,382.9)
Cash Flow from Financing Activities	**(152,041.9)**	**-**	**(188,967.5)**	**(127,864.8)**	**(148,353.2)**	**(160,952.3)**	**(173,382.9)**
Cash Flow	**(56,246.7)**	**121,304.7**	**(47,388.9)**	**35,582.7**	**29,245.7**	**30,826.9**	**38,016.1**

FCF Calculations

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
in USDk										
Revenue	**793,022.6**	**903,911.7**	**1,011,965.8**	**1,116,428.2**	**1,213,137.8**	**1,311,205.1**	**1,419,143.5**	**1,538,182.1**	**1,669,732.5**	**1,815,421.2**
COGS	(303,174.5)	(347,371.5)	(390,915.8)	(433,496.8)	(473,469.0)	(513,443.9)	(556,223.0)	(604,869.7)	(658,760.9)	(718,588.7)
Gross Profit	**489,848.1**	**556,540.3**	**621,049.9**	**682,931.3**	**739,668.8**	**797,761.2**	**862,920.5**	**933,312.3**	**1,010,971.7**	**1,096,832.5**
SG&A	(486,026.6)	(513,358.1)	(544,400.5)	(567,142.4)	(593,766.6)	(628,668.0)	(666,244.6)	(722,129.6)	(783,888.5)	(852,284.9)
EBIT	**3,821.4**	**43,182.1**	**76,649.4**	**115,788.9**	**145,902.2**	**169,093.1**	**196,675.9**	**211,182.7**	**227,083.2**	**244,547.6**
Income Tax	(802.5)	(9,068.2)	(16,096.4)	(24,315.7)	(30,639.5)	(35,509.6)	(41,301.9)	(44,348.4)	(47,687.5)	(51,355.0)
Tax rate	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
NOPAT	**3,019**	**34,113.9**	**60,553.1**	**91,473.3**	**115,262.8**	**133,583.6**	**155,373.9**	**166,834.4**	**179,395.7**	**193,192.6**
Non-GAAP adjustments	59,410	45,144.6	40,432.9	33,455.0	36,353.1	39,291.8	42,526.3	46,093.4	50,035.4	54,401.2
D&A	42,756	48,155.3	53,597.2	59,083.5	64,601.6	70,198.9	75,921.1	81,781.6	87,795.7	93,980.5
NWC	(12,773)	(11,729.4)	(15,776.4)	(16,693.4)	(15,749.3)	(15,610.3)	(17,508.6)	(18,174.0)	(20,381.0)	(18,919.5)
Capex	(66,406)	(71,834.4)	(77,461.7)	(83,142.6)	(88,799.9)	(94,745.0)	(101,014.5)	(107,482.0)	(114,169.6)	(121,102.6)
FCFF	**26,005**	**43,850.0**	**61,345.1**	**84,175.8**	**111,668.1**	**132,718.9**	**155,298.1**	**169,053.4**	**182,676.3**	**201,552.2**
Interest x (1-T)	(6,458.3)	(7,292.4)	(8,126.5)	(8,960.6)	(9,794.7)	(10,628.8)	(11,462.9)	(12,297.0)	(13,131.1)	(13,965.2)
Net borrowing	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2	30,341.2
FCFE	**49,888.0**	**66,898.7**	**83,559.8**	**105,556.3**	**132,214.6**	**152,431.2**	**174,176.3**	**187,097.5**	**199,886.3**	**217,928.1**

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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