

A woman with long braids is posing against a red wall. She is wearing a long-sleeved, high-necked top in purple and red, and a skirt in pink and black. She is also wearing a black belt with gold buckles. The text "RENT THE RUNWAY" is overlaid in white capital letters.

# RENT THE RUNWAY

ANNUAL REPORT 2022





# RENT THE RUNWAY

To our stockholders,

2022 was an important year for Rent the Runway. We completed a multi-year financial transformation, doubling our gross margins since 2019, restructuring our debt and setting the company up to meet our profitability goals. We believe that we are operating as a fundamentally stronger business than we were just one year ago, and that the world around us continues to evolve in support of our value proposition of an unlimited closet that you don't have to own. The market for fashion subscription and rental - which we created - has taken off, and is expected to see significant growth over the next decade. Women today think about building their wardrobe in a way that is starkly different than at the time of our founding in 2009: they are open to secondhand apparel, and they are excited to subscribe to and rent fashion.

What's more, we've built a brand that is synonymous with the category and offer a premium matrix of designers. Our brand assortment includes hundreds of top designers from around the world and our lifetime user base is comprised of millions of young, professional, educated, high-income women - a highly covetable demographic. When I founded RTR over 14 years ago, women had rarely considered the idea of renting clothing and many saw secondhand clothing to be at best, unusual, and at worst, unhygienic. Today, we have a beloved brand that we believe is much larger than our business and bodes well for our future growth. As of the end of fiscal 2022, our unaided awareness as a clothing rental service was 22%, which means that when women in our broad target demographic are asked to name a clothing rental service, more than one-fifth of them say "Rent the Runway."

But it isn't enough just to know our name -- customers have to understand the value we offer, especially in today's environment. We believe we continue to distinguish ourselves via strong strategic positioning as the premier player in fashion rental. We are the only platform to offer rental subscription, a la carte rental, and resale all in one place. We offer compelling value to our customers that enables them to access the variety and aspirational brands they want in their wardrobe -- all in a way that is convenient and aligned with their busy lifestyles. As a result, our subscribers are more geographically diverse than we've ever seen, and they are using us for a wider range of use cases than ever before.

## Key accomplishments in 2022

In addition to continuing to build a recognizable brand name and a compelling offering, 2022 was notable for the decisive actions we took to strengthen our financial foundation and infrastructure. The work that we completed in 2022 has enabled us to shift the majority of our corporate headcount to projects focused on improving customer experience in 2023, signaling a new era for our business. This is the first time we have invested so much behind customer experience, and we believe this will help Rent the Runway continue to grow and reach profitability. I've never felt more confident in our opportunity to thrive and deliver for our customers in the year ahead because of what we've accomplished in 2022:

1. Delivered strong financial results on the top and bottom lines: we achieved our two key priorities for the year that we laid out at the beginning of fiscal 2022, (1) achieve 45 to 50% revenue growth in fiscal year 2022 and (2) show progress on our path to profitability. In fiscal year 2022, we grew annual revenue 46% year-over-year to \$296.4M, which accelerated from 29% revenue growth in fiscal year 2021. Our Q4 2022 and FY 2022 net losses narrowed significantly year-over-year, and we posted three consecutive quarters and our first full year of positive Adjusted EBITDA since IPO.
2. Completed a significant financial transformation of RTR, making the company stronger and demonstrating significant progress on our path to profitability:
  - o Doubled gross margin to 40% compared to 2019, after fulfillment and product costs, by continuing to improve efficiencies of our operation. RTR now has stronger gross margins than many traditional retailers and online peers on a comparable basis.
  - o Right-sized our fixed cost base in September 2022, cutting approximately \$25M in fixed operating expenses versus our Q2 2022 run-rate.
  - o Restructured our debt in January 2023, extending its maturity and substantially reducing cash interest expense by over \$20M during the next two years.
  - o Grew our innovative inventory acquisition strategies, acquiring almost 60% of our product in fiscal year 2022 either on consignment (Share by RTR) or through lower-cost Exclusive Designs, enabling us to offer better inventory at a lower upfront cost per unit.

3. Drove foundational work to improve the customer experience and solidify our tech platform:
  - Unlocked more intuitive ways for customers to find the product they're looking for via a richer search experience. For the first time, we connected our proprietary inventory data system into on-site search & discovery features.
  - Enhanced scale by migrating to the cloud to unlock better resiliency, performance and reliability.
  - Expanded at-home pick-up, aimed at enhancing customer experience and loyalty while also lowering transportation cost. The program covers 60% of our subscriber base.

Our ability to make such important strides despite continued volatility in the macroenvironment gives us confidence that our offering continues to resonate with the consumer. Our path forward is focused on capturing the market we built and continuing to grow our business.

### **What's ahead for 2023**

We're bullish about the opportunity ahead and believe that 2023 will be a year in which we make significant improvements to our customer experience that in turn will drive subscriber loyalty and growth and bring us closer to cash flow profitability.

We are laser focused on adding tangible value to our customer experience quarter over quarter. We started the year by taking a significant first step: permanently changing all of our subscription programs to include an additional item in every shipment, offering 25% more value for the same price. Given the financial efficiencies we've achieved across the business to date, adding an extra item per subscription shipment is expected to have a minimal impact on our gross margins. With this launch, our base programs shifted from 4 items to 5 items per shipment. Customer feedback was positive and we were pleased to achieve a record high active subscriber count of over 141,000 active subscribers as of April 8, 2023.

Beyond this major launch, our strategy is squarely focused on the customer via three key pillars:

1. We are focused on getting our customers the inventory they want when they want it: As the premiere fashion subscription experience, a key aspect of our offering is the physical product we offer. We plan to enhance the availability of items and invest in greater depths of our buys so that more desired styles are in stock when subscribers are browsing and picking for their next shipments.
2. We are committed to offering best-in-class product discovery: We're focused on making it easier and more fun for customers to access inventory by investing in tools, features and algorithms that allow them to take advantage of Rent the Runway's full closet in the cloud. For example, in March, we rolled out a much-asked-for feature that uplevels usability of the site called "Rent the Look," which showcases how to rent the full outfit that's styled on the model, and presents similar items if any item is unavailable to rent right at that moment.
3. We are working to maximize the efficiency and ease-of-use of our experience: This means we are focused on efforts like improving site speed, expanding at-home pickup and launching a personalized subscriber onboarding process.

### **Our path forward**

As the founder of this business who sees Rent the Runway as my life's work, it's my number one goal to create a profitable company and capture what we believe is the huge global opportunity for a closet in the cloud. Thanks to the hard work we've done to improve our financial position, technology infrastructure, operations and inventory acquisition model over the last few years, I've never felt more confident in our ability to deliver -- for our customers, our brand partners and our stockholders.

To our stockholders, employees, brand partners, customers and others in our community, we are grateful for your continued support of our vision. I believe this is only the beginning, and I look forward to bringing you along on our journey for years to come.

Warmly,



Jennifer Y. Hyman  
Co-Founder, CEO and Chair

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 31, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-40958

**RENT THE RUNWAY, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**

**80-0376379**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**10 Jay Street  
Brooklyn, New York 11201**

**11201**

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: **(212) 524-6860**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.001 per share	RENT	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒



Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of July 31, 2022 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$204.3 million.

The registrant had outstanding 63,390,727 shares of Class A common stock and 3,078,421 shares of Class B common stock as of April 7, 2023.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year ended January 31, 2023, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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Unless the context otherwise requires, we use the terms the "Company," "RTR," "Rent the Runway," "we," "us" and "our" in this Annual Report on Form 10-K, or Annual Report, to refer to Rent the Runway, Inc. and, where appropriate, our consolidated subsidiaries.

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### ***Risk Factor Summary***

Investing in our Class A common stock involves numerous risks, including the risks described in Part I, Item 1A. "Risk Factors" in this Annual Report on Form 10-K. You should carefully consider these risks before making an investment. Below are some of these risks, any one of which could materially adversely affect our business, financial condition, results of operations, and prospects.

- We have grown rapidly in recent years and have limited experience at our current scale of operations. If we are unable to manage our growth effectively, our brand, company culture, and financial performance may suffer.
- The global fashion industry is highly competitive and rapidly changing, and we may not be able to compete effectively.
- We rely on consumer discretionary spending and have been, and may in the future be, adversely affected by economic downturns and other macroeconomic conditions or trends.
- Our continued growth depends on our ability to attract new, and retain existing, customers, which may require significant investment in paid marketing channels. If we are unable to cost-effectively grow our customer base, our business, financial condition and results of operations would be harmed.
- If we fail to retain customers, our business, financial condition, and results of operations would be harmed.
- If we are unable to accurately forecast customer demand, manage our products effectively and plan for future expenses, our operating results could be adversely affected.
- We face risks arising from the restructuring of our operations, which could adversely affect our financial condition, results of operations, cash flows, or business reputation.
- We rely heavily on the effective operation of our proprietary technology systems and software, as well as those of our third-party vendors and service providers, for our business to effectively operate and to safeguard confidential information.
- The COVID-19 pandemic has had, and may in the future continue to have, a material adverse impact on our business. Other future pandemics or public health crises may have a similar adverse impact on our business.
- Shipping and logistics are a critical part of our business and our supply chain and any changes or interruptions in shipping or logistics operations could adversely affect our operating results.
- We have identified material weaknesses in our internal control over financial reporting. If we are unable to remediate the material weaknesses in a timely manner, identify additional material weaknesses in the future or otherwise fail to maintain effective internal control over financial reporting, which may result in material misstatements of our consolidated financial statements or cause us to fail to meet our periodic reporting obligations, our ability to comply with applicable laws and regulations and our access to the capital markets to be impaired.
- Our business is subject to a large number of U.S. and non-U.S. laws and regulations, many of which are evolving.
- We are subject to U.S. and certain foreign export and import controls, sanctions, embargoes, anti-corruption laws, and anti-money laundering laws and regulations. Compliance with these legal standards could impair our ability to compete in domestic and international markets, and we could face criminal liability and other serious consequences for violations, which could harm our business.
- Failure to adequately maintain and protect our intellectual property and proprietary rights could harm our brand, devalue our proprietary content, and adversely affect our ability to compete effectively.
- We are subject to rapidly changing and increasingly stringent laws and industry standards relating to data privacy, data security, data protection, and consumer protection. The restrictions and costs imposed by these laws, or our actual or perceived failure to comply with them, could subject us to liabilities that adversely affect our business, operations, and financial performance.
- We face risks associated with brand partners from whom our products are sourced or co-manufactured.
- We rely on third parties for elements of the payment processing infrastructure underlying our business. If these third-party elements become unavailable or unavailable on favorable terms, our business could be adversely affected.

- We depend on search engines, social media platforms, mobile application stores, content-based online advertising and other online sources to attract consumers to and promote our website and our mobile application, which may be affected by third-party interference beyond our control and, as we grow, our customer acquisition costs will continue to rise.
- Any failure by us, our brand partners, or our third-party manufacturers to comply with our vendor code of conduct, product safety, labor, or other laws, or to provide safe factory conditions for their workers, may damage our reputation and brand, and harm our business.
- We face risks associated with our indebtedness and potential need for additional capital, including that financing or refinancing may not be available on acceptable terms or at all.
- The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the listing of our Class A common stock on Nasdaq, including our Co-Founders, and their affiliates, which will limit the ability to influence the outcome of important transactions, including a change of control.
- Our share price may be volatile, and investors may be unable to sell their shares at or above the price they purchased them.

If we are unable to adequately address these and other risks we face, our business may be harmed.

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact contained in this Annual Report may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "aims," "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "forecasts," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. Forward-looking statements contained in this Annual Report include, but are not limited to statements regarding our future results of operations and financial position, industry and business trends, share-based compensation, business strategy and initiatives, sustainability initiatives, business plans, impact from our September 2022 restructuring plan and other cost savings initiatives, product acquisition expectations, our proposed option exchange, impacts from our five-item base subscription offering, market growth and our objectives for future operations.

The forward-looking statements in this Annual Report on Form 10-K are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, the important factors discussed in Part I, Item 1A, "Risk Factors" in this Annual Report for the year ended January 31, 2023. The forward-looking statements in this Annual Report are based upon information available to us as of the date of this Annual Report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report and have filed as exhibits to this Annual Report with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this Annual Report. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Annual Report, whether as a result of any new information, future events or otherwise.

## FISCAL YEAR

In this Annual Report on Form 10-K, references to "fiscal year 2023" refer to the fiscal year ending January 31, 2024, references to "fiscal year 2022" refer to the fiscal year ending January 31, 2023, references to "fiscal year 2021" refer to the fiscal year ended January 31, 2022, references to "fiscal year 2020" refer to the fiscal year ended January 31, 2021 and references to "fiscal year 2019" refer to the fiscal year ended January 31, 2020.

## Part I

### Item 1. Business

#### Overview

Our mission is to power women to feel their best every day.

Since our founding in November 2009, we have built the world's first and largest shared designer closet with tens of thousands of styles by hundreds of brand partners. We give customers access to our "unlimited closet" through our subscription offering ("Subscription") or the ability to rent a-la-carte through our reserve offering ("Reserve"). We also give our subscribers and customers the ability to buy our products through our Resale offering. Our Closet in the Cloud offers a wide assortment of items for every occasion, from evening wear and accessories to ready-to-wear, workwear, denim, casual, maternity, outerwear, blouses, knitwear, loungewear, jewelry, handbags, activewear and ski wear. We have served approximately 3 million lifetime customers across all of our offerings and we had 171,998 total subscribers (active and paused) as of January 31, 2023. We had 126,712 active subscribers as of January 31, 2023 and 141,205 active subscribers as of April 8, 2023. In fiscal year 2022, 86% of our total revenue was generated by subscribers, compared to 84% in fiscal year 2021.

We have created a two-sided discovery engine: customers find new brands they love and brand partners find new customers they need. For customers, we unlock freedom of self-expression through access to our "Unlimited Closet" that has a constantly rotating supply of styles for all occasions, seasons, moods and price points. This leads to deep engagement with our platform as customers discover new brands they love. Brand partners are able to tap into our large, engaged community to discover new customers and get unparalleled data insights. All of this helps them grow their businesses and encourages them to partner more closely with us over time.

When our customers use Rent the Runway, they experience the magic of accessing an "Unlimited Closet" while saving money and time and reducing clothing waste. We deliver significant financial value to customers, with our average subscriber wearing clothes worth more than 20 times what she pays for a monthly RTR Subscription on an annualized basis (more than \$40,000 in designer retail value in fiscal year 2022<sup>1</sup>).

Our tremendous selection is enabled by our designer brand partnerships. We source our products directly from our brand partners that include many of the most renowned and relevant names in the fashion industry. The transformative nature of our customer value proposition means our customers are typically younger and different from other audiences our brands are exposed to. According to our June 2021 Rent the Runway Brand Survey, approximately 91% of our brand partners work with us because we introduce them to new, desirable customers and deepen awareness of their brands. Over the last 13 years, we have fostered strong relationships with our brand partners and have experienced extremely limited voluntary attrition. Our Closet in the Cloud connects our deeply engaged customers and our differentiated brand partners on a powerful platform built around our brand, data, logistics and technology advantages.

- **Brand Partner Advantage.** Our assortment contains thousands of new, current season styles that luxury competitors simultaneously carry - all available for Subscription, Reserve, and/or Resale at much lower prices. We believe our engaged and loyal customer base paired with the data that we offer to our brand partners makes us an essential destination for many of the world's most important brands. In addition, as of June 2021, 67% of our brand partners believe that RTR is an important part of their business's sustainability strategy. As we have grown, our commercial relationships with our brand partners have evolved towards more capital efficient forms of rental product acquisition.
- **Data Advantage.** We capture a vast amount of unique, actionable data on our customers and products. We leverage this data to create benefits for our customers (deep personalization of styles and fit), brand partners (understanding of customer demand patterns and garment lifecycle) and our business (higher subscriber lifetime value and better product return on investment).

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<sup>1</sup> We calculate designer retail values using original retail and/or comparable value prices. An original retail price is the price at which the manufacturer suggested that retailers in the marketplace, including department stores and specialty retailers, sell the item in new condition. A comparable value price is used for our Exclusive Designs and is based on an evaluation of prices for new comparable merchandise sold elsewhere in the marketplace.

- **Technology and Logistics Advantage.** We have developed a proprietary operating system that pairs proprietary software with differentiated infrastructure and hardware. Our expertise in vertically integrated just-in-time reverse logistics and garment science allows us to achieve multi-year monetization on our garments. We have also built a custom front-end platform that supports all of our consumer-facing offerings.

## How It Works

We offer customers three ways to access our closet: monthly subscription or “Subscription”, a-la-carte rentals or “Reserve” and purchasing through our Resale offering.

### **Subscription**

***Pick a Plan.*** When customers subscribe, they select from a menu of entry plans. Beginning in March 2023, we added an extra item to each shipment per plan at no extra cost to our subscribers. Each plan now starts with five items, or “spots,” per shipment, and varies based on how often the subscriber wishes to receive new shipments, each a “swap.” Today, our subscribers onboard into plans that offer one, two, three or four shipments per month for \$94, \$144, \$193 or \$235 per month, respectively.

***Customize.*** Subscribers can customize their plans to adapt to their changing lifestyles, needs and budgets by adding or removing spots for \$27 or \$31 per item per month and shipments for \$39 - \$50 per shipment per month, as they see fit.

***Choose Items.*** After picking a plan, subscribers browse our broad assortment of items to build their first shipment.

***Wear, Repeat.*** When subscribers place an order, we aim to deliver their order within two to three business days of shipping from our fulfillment centers in our reusable garment bags, cleaned and ready to wear.

Subscribers keep items for as long as they would like and may choose to return some or all of their items with each new shipment. When subscribers select the items they want to return on our app, we allow them to immediately start building their next shipment, maximizing their time with items at home. Our subscribers typically visit our app multiple times per week.

Subscribers are asked to give us real-time feedback on the size, fit and quality of the items they rent. The structured data we collect through our “happiness survey” allows us to both improve her experience as well as optimize our garment care and, therefore, our return on investment of the items returned. Once subscribers confirm their new shipment, they can return their items in RTR’s reusable garment bag to the nearest preferred shipping partner location using a prepaid return label. In addition, a majority of our subscribers have the option to return their items via our at-home pickup offering that we introduced in 2021. As of January 31, 2023, our at-home pickup offering served 34 markets and covered 60% of our subscriber base.

### **Reserve**

When customers want to rent items a-la-carte for an upcoming event, they book styles for four or eight days through our Reserve offering. After selecting pieces, they typically select a delivery date one to two days before their event. We provide a free backup size of the customer’s choosing and the option to rent a backup style at a discount. At the end of the four- or eight-day rental period, customers simply return their items in the reusable garment bag using the prepaid shipping label included with their rental. Just like our Subscription offering, we clean and care for items when they are returned.

## Resale

In addition to renting, customers also shop pre-loved styles from our closet at a discount to retail price, up to 90% off of designer retail value (which we calculate using original retail and/or comparable value prices). A Subscription is not required for purchase. Our subscribers also have the option to purchase items they already have at home, opening a spot in their next shipment. Prices for our resale items are typically dynamically calculated by our pricing algorithm, which takes in data on rental history, customer trends, and optimizes for lifetime return on investment on each product.

### Our Customer Value Proposition

Through our platform, we have helped approximately 3 million lifetime customers discover the transformative power of utilizing our Closet in the Cloud across all of our offerings. Our customer base is diverse and spans age, household income distribution and U.S. geography.

Subscribers are customers who access our Closet in the Cloud via our monthly Subscription offering. The portion of our customers who are subscribers accounted for 86% of our revenue in fiscal year 2022. As of January 31, 2023, we had 126,712 Active Subscribers on Rent the Runway and 171,998 total subscribers including paused subscribers, and during fiscal year 2022, we had 128,586 Average Active Subscribers. Many of our subscribers started as customers in Reserve and Resale and we continue to see activation from Reserve and Resale customers into subscribers for many years.

- **Variety and Discovery.** With tens of thousands of styles across hundreds of brands in our Closet in the Cloud, Rent the Runway gives customers the ability to always wear something new to them and inspires customers to expand their fashion tastes without risk of buyer's remorse.
- **Value.** Rent the Runway makes thousands of designer styles accessible through our Subscription offering for a flat monthly price or through our Reserve offering on a per item basis. We deliver significant financial value to customers, with our average subscriber wearing clothes worth more than 20 times what she pays for a monthly RTR Subscription on an annualized basis.
- **Self-Confidence.** According to our March 2023 Subscriber Survey, 83% of our subscribers say RTR makes them the most confident version of themselves at work or in social settings. Because there is no commitment to keep an item rented from RTR, we fuel greater self-expression for our customers.
- **Personalization and Convenience.** We use our rich customer data to create a personalized storefront for customers based on their style preferences, browsing history and past rentals. Our understanding of our customer improves with each interaction, and we use our personalization algorithm to provide personalized size recommendations to each customer at the item level. By showing customers designs they will love and items that are likely to fit, we continue to drive strong loyalty and monetization.
- **Customer Experience and Community.** Our customers are deeply engaged, as evidenced by the 33.1 million customer reviews submitted through January 2023. Our customers use the millions of reviews posted by our community to make smarter choices and feel good about their selections. As our community has grown, Rent the Runway has also benefited from powerful virality and word-of-mouth marketing. 80% of subscribers have shared RTR with at least five people; 43% have shared with over 10 people and 75% of our customers posted themselves wearing Rent the Runway on social media, as indicated by our March 2023 Subscriber Survey.
- **Sustainability.** Renting on the RTR platform results in net environmental savings across water, energy and carbon emissions when compared to purchasing new garments even when accounting for two-way shipping, cleaning and other operations.<sup>2</sup> See "Our ESG (Environmental, Social, and Governance) Impact Strategy" below for additional detail. Our business model aims for customers to substitute purchases with rentals and we have been successful in doing so, as 87% of our subscribers have bought less fast fashion since using RTR<sup>3</sup> and 82% buy fewer clothes than they used to prior to joining RTR<sup>4</sup>.

<sup>2</sup> According to the Life Cycle Assessment Study (the "LCA Study") we commissioned in 2021 with Green Story and SgT, third-party consultants specializing in apparel life cycle assessments.

<sup>3</sup> Per our March 2023 Subscriber Survey.

<sup>4</sup> Per our November 2022 Subscriber Survey.

## Our Unique Brand Partner Approach

We acquire our products through three channels: Wholesale, Share by RTR and Exclusive Designs. The portion of our products sourced through Share by RTR and Exclusive Designs - our more capital-efficient sources - has grown from approximately 26% in fiscal year 2019 to approximately 58% in fiscal year 2022. We procure virtually 100% of our products directly from or in collaboration with brand partners and our business model has been built on shared success with brands. As they deepen their relationship with us, they get access to more data and more customers. Our partnerships with brands have created a significant product and cost advantage. Because we source directly from brands, we can control our assortment and acquire styles in the volumes and sizes we want, we have access to current season items and all of our items are guaranteed authentic without the cost or infrastructure of traditional authentication platforms. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Product Acquisition Strategy."

### **Wholesale**

Wholesale includes products we acquire directly from our brand partners, typically at a discount to wholesale price based on our scale. We have observed that the original retail prices set by the brands are often at a 2.5x mark-up to the wholesale price. As we continue to expand our selection and grow the share of our assortment acquired from a designer, we benefit from greater discounts on product acquisition. Wholesale represented 42% of our product acquisition in fiscal year 2022.

### **Share by RTR**

Through Share by RTR, we acquire items directly from brand partners on consignment, at zero to low upfront cost and revenue share with our brands each time an item is rented. Brands also pay us a logistics expense for each rental. If a piece is in greater demand, it will drive higher revenue, which could result in brands earning more on the item than if it had been sold through Wholesale, generally subject to a maximum cap. Share by RTR aligns incentives between brands and RTR and alleviates product risk as it is largely a pay-for-performance model. Our Share by RTR arrangements with brands target delivering 75% to 100% of comparable Wholesale cost to the brand in the first year; however there is no minimum commitment other than the upfront payment if applicable. Nearly all Share by RTR deals consummated after September 2020 include a cap on total potential payments to the brand partner. Share by RTR represented 27% of our product acquisition in fiscal year 2022. Increases (or decreases) in the proportion of total items acquired via Share by RTR as well as the usage of Share by RTR items will increase (or decrease) variable expenses recorded in the rental product depreciation and revenue share line item on our consolidated statement of operations.

### **Exclusive Designs**

We leverage our data to create highly desirable Exclusive Designs in collaboration with select brand partners, celebrities and influencers that we manufacture through third-party partners to be more durable and at approximately 50% lower cost than Wholesale. We provide a data blueprint to brands and, based on this data, they design new collections for us that carry their brand name.

In fiscal year 2022, we expanded our third-party production capabilities for our Exclusive Designs, which enables us to obtain black tie and evening wear at lower cost, typically two of the most expensive categories we procure, where the relative savings versus Wholesale cost are significant. We believe that this acquisition channel is an important lever as we reduce our purchases of rental product as a percentage of revenue over time.

Our Exclusive Designs collections enable our brand partners to innovate their businesses and enter into new product lines at reduced cost to them. All of the styles are exclusive to rent on RTR for a period of time, after which brands may monetize these exclusive designs through other channels, typically subject to a royalty fee payment to Rent the Runway, which we have not begun to earn to date. Increases (or decreases) in the proportion of total items acquired via Exclusive Designs as well as the usage of Exclusive Designs items may increase (or decrease) variable expenses recorded in the rental product depreciation and revenue share line item on our consolidated statement of operations. We also have a small number of products bearing our trademarks, which are non-exclusive designs produced by third party partners at a significantly lower average cost than Wholesale to strategically fill assortment gaps, or our owned brands. Exclusive Designs accounted for 31% of our product acquisition in fiscal year 2022.



## **Our Marketing Strategy**

Our brand and deeply engaged consumer base have allowed us to acquire customers efficiently. Since our founding, we have spent less than 10% of total revenue on marketing, and our growth has been mostly organic. Over 80% of our customers over the last 13 years have been acquired organically. As we have scaled, we have seen the value of the Rent the Runway brand grow and increasingly become a significant point of differentiation with consumers and brand partners. We continue to have an opportunity to increase brand awareness and as of January 2023, our unaided brand awareness was 22% among U.S. women ages 18 - 45 with a household income of \$50,000 or more, which is an increase of 2% year-over-year compared to fiscal year 2021.

Many of our customers share a love of the Rent the Runway experience and value proposition, which starts conversations both online and offline and leads to word of mouth adoption. Our clothing often becomes a visual billboard and advertisement for our platform. Many women share their Rent the Runway experience on social media and in their personal lives, which helps drive our organic growth and brand awareness. When our customers are wearing RTR and someone compliments them or asks about what they are wearing, 97% of our subscribers share that it's Rent the Runway as opposed to the designer brand name. According to our March 2023 Subscriber Survey, nearly half of our subscribers have posted themselves wearing RTR on their social media over five times. Renting from us is an inherently social behavior: 76% of our subscribers rent along with a friend or colleague.

The majority of our new customers have historically come to Rent the Runway organically, a trend that continued in fiscal year 2022. We plan to continue to drive organic growth by focusing on social-first, mid-funnel strategies. Our current marketing initiatives are focused on re-engaging lapsed customers, retaining existing customers and growing our base of new customers. Additionally, we are focused on investing in the customer experience, including optimization of our funnel and the Subscription experience, as a way to re-engage and retain subscribers. We also view paid marketing as an important way to supplement our growth. In fiscal year 2022, we increased paid marketing spend and we saw an increase in the proportion of new customers attributed to paid channels. Our paid efforts have included both middle-of-the-funnel prospecting and bottom-of-the-funnel direct response campaigns which also benefit from our top-of-the-funnel brand marketing efforts that drive awareness. To date, our primary channels for paid marketing have been focused on social media marketing, influencers and our brand ambassadors, programmatic directed spend and affiliate marketing.

## **Our Data Advantage**

One of our significant differentiators is the vast amount of quality, actionable data that we are able to collect on our customers and our products. We leverage this data to create benefits for our customers, our brand partners and our business.

We capture thousands of unique data points per subscriber per year and over 20 unique data points per item each time it is rented across four channels including website data, post-wear data, operations data and customer data. We also identify and tag approximately 70 detailed attributes per style. By mapping our interactions with our products' inherent attributes, we create a strong feedback loop which allows us to optimize the supply of products in ways we believe that would be difficult for traditional retailers to achieve or replicate. This is one of our biggest competitive advantages.

Our differentiated business model enables us to collect substantially more data than others in our space and we use this data to continuously improve the customer experience. Customers learn that providing data enhances their experience on the platform over time, which enables us to collect even more data from them. This flywheel helps propel the exponential growth of our post-wear, customer and operations data. We use our data to create what we believe are the most relevant assortments and personalized experiences for our customers, which in turn helps to drive loyalty. As we learn more about a customer, our personalized features give us greater ability to direct her towards the items that optimize both customer lifetime value and rental product return on investment for us.

Our data advantage benefits brand partners in numerous ways:

- **Understanding the Garment Life Cycle:** We help partners grow their business through the data we provide. Product longevity data often help our brands increase the life of their garments, which can support their sustainability goals.
- **Understanding Customer Demand:** As our customers wear (or don't wear) and review items, we can assess demand due to our robust attribution of products (approximately 70 attributes) paired with customer interaction data. This data highlights growth opportunities for brands as well as areas for improvement.

Our data also allows us to continually optimize the return on investment on products and customer lifetime value, which are dependent on the following inputs, all of which continuously improve as our business scales.

- **Scientific Product Acquisition:** Our data provides a comprehensive picture of our products by bringing together customer feedback, operations data and inherent product attributes. Our analytics teams utilize this data to optimize the styles we need and the quantity per style.
- **Price Optimization:** Our dynamic pricing algorithm optimizes how our products are consumed across Subscription, Reserve rentals and Resale by taking into account demand signals and the expected useful life and turns of each item. We have the flexibility to optimize prices for revenue, gross margin and product return on investment based on the business needs.
- **Lower Cost Product:** We leverage our data to create highly desirable Exclusive Designs in collaboration with our brand partners, influencers and celebrities that we manufacture to be more durable at significantly lower cost.
- **Longer Product Life:** Our feedback to brands helps us customize for higher longevity of our products - we understand how to clean and care for garments to maximize multi-year monetization and incremental turns per unit.

### **Data Science Capabilities and Algorithms**

Data is the fabric of Rent the Runway and powers our technology, logistics and data science efforts across all parts of our business, from recommender systems to pricing algorithms and forecasting. We have created 40+ data science algorithms that help us continuously achieve better outcomes for the business including in two of our biggest levers: customer lifetime value and product monetization.

Some of our most impactful proprietary algorithms include:

- **Deep 1:1 Personalization:** For each customer and item, we compute several scores that measure the affinity of item and customer through factorization machines and deep learning. We leverage these personalization scores across the business to: rank products on our subscriber personalized storefront and in search results, recommend a specific size within a style on product pages, compute general product relevance at the subscriber level and inform product acquisition, inform sizing of new apparel designs with our brand partners and more.
- **Retention Predictive Model:** We leverage a retention predictive model to understand the relative importance of various drivers of loyalty and long-term value, at the single customer level to understand which interventions have the highest probability of improving customer retention. We regularly leverage this data to experiment with different approaches to retain customers based on this model in a targeted and personalized way.
- **Computer Vision for Products:** For each style in our assortment, we generate an embedding with over 2,000 visual style dimensions using deep learning that capture color, pattern shape, sleeve length, etc. We leverage this data as a feature in our recommender systems, to cluster styles to inform product acquisition and provide product attributes in our product catalog amongst other uses.

### **Our Technology and Logistics Advantage**

We have built a cohesive platform that pairs proprietary and third-party software with differentiated infrastructure and hardware all tailored to the sharing economy of physical goods. Our proprietary software and key integrations with third-parties leverage our vast and unique dataset to optimize key outcomes for RTR.

### **Proprietary and Third-Party Software and Systems**

We have purpose-built technology to support three key areas of our business:

- Customer Facing e-Commerce (including 2-Way e-Commerce)
- Rental Reverse Logistics
- Merchandising & Products Control

#### *Customer Facing e-Commerce (including 2-Way e-commerce)*

We have a 2-way relationship with our customers — in that nearly every item is returned and the customer provides feedback. We have built a custom frontend platform that supports Subscription, Reserve and Resale in one cohesive experience for the customer, which allows us to optimize our product offering for the customer based on her needs.

In fiscal year 2022, we made improvements across our technology stack, including completing our migration to the cloud, to enable greater scale, enhanced resiliency and faster site speed. We are focused on continuing to improve the performance of our website and mobile application, including increasing site speed and reliability to improve the customer experience and keep pace with industry standards.

#### *Rental Reverse Logistics*

We designed our patented technology to support the processes in our fulfillment centers and ensure that we can process orders efficiently and extend the useful life of our products.

- **Garment Science:**
  - **Cleaning Intelligence:** We have over a decade of data and expertise in optimizing the life of a garment by leveraging different cleaning and care methods.
  - **Cleaning Automation:** Automation supports dynamic sorting of items into as many as 23 different cleaning programs.
  - **Garment Care and Restoration:** All units undergo one or more quality audits before being available to rent for the next customer.
- **Intelligent Fulfillment Network:** Our unified booking engine, the “brain” of our distribution capabilities, dynamically manages decisions such as which fulfillment center to ship a unit from or which transportation type to select to reduce cost. We are therefore able to maintain uptime throughout the year, such as during snowstorms or power outages by moving demand to another facility.
- **Optimized Storage:** Garments and accessories are stored in multi-story pick modules that utilize both on-hanger and flat pack storage solutions. All items are stored randomly, maximizing the utilization of cubic storage space. Random storage allows for efficient putaway of garments and dynamically created pick paths that save labor cost.
- **RFID:** We tag each unit and all reusable garment bags with RFID tags, which increases throughput, reduces cost, improves rental product control and enables new forms of automation. Since launching RFID tags in 2021, hundreds of thousands of scans each day are created by these tags in a fraction of a second, replacing manual barcode scans that took much longer.
- **Fulfillment Efficiency:** We have automated various parts of the fulfillment process including picking, order consolidation and packing. Our fulfillment engine dynamically prioritizes customer orders based on promised delivery date, transportation departure schedules and available capacity.
- **Transportation Innovation:** Convenient places to return rentals are an important part of our customer experience. We have invested in an inbound network that allows our customers to return their items via national returns logistics providers and our at-home pickup program.

### ***Merchandising and Product Control***

Our proprietary product catalog system is the backbone of our rental product management. A flexible taxonomy supports myriad types of products which goes well beyond women's fashion, and allows us to ingest and manage items at the SKU level, functionality that does not typically exist in off-the-shelf inventory management systems. This system uses a combination of manual and dynamic image-algorithm-driven attribution to assign product attributes per style, making the ingestion of new styles into the Rent the Runway catalog fast and easy without sacrificing valuable data collection. The catalog serves as the starting point for products at RTR, and drives many areas of the Rent the Runway website and operation including quality control, search, navigation, and filtering. In fiscal year 2022, we completed key foundational work to connect this system into our on-site search and discovery experiences and we are focused on continuing to leverage this system to further improve the customer experience.

While we have built the majority of our circular platform, we strategically leverage third-party software for commodity functionality where our problems are not unique. These include pieces of the customer experience, customer service tools and enterprise resource planning capabilities.

### ***Logistics Infrastructure***

Within our warehouses, we have integrated best-in-class garment care equipment, internally and externally developed software and proprietary cleaning programs to deliver high-end garment processing at massive scale. We have also built large-scale, innovative automation and other processes for garment storage, picking, shipping, receiving and restoration of garments to excellent condition. These processes result in labor and other cost savings, while increasing our total shipment capacity and increasing the total lifetime of products, our biggest asset.

- **Strategic Distribution:** We have two fulfillment centers, in Arlington, Texas and Secaucus, New Jersey totaling 540,000 square feet. We have the capacity to store more than two million garments and accessories on multiple floors across our fulfillment centers. We aim to deliver industry leading fulfillment promises with a goal of delivering orders within two to three business days.
- **Garment Care Hardware:** Our facilities are equipped with a curated set of over 450 pieces of digitally integrated garment care hardware including wet cleaning, dry cleaning and spray cleaning machines; dryers, steam tunnels, pressers, spotting boards, auto-baggers and commercial sewing machines.
- **Processing:** Garments flow through the facility on both rail and belt-driven conveyance guided by RFID tags linked to a massive array of cleaning instructions set by our proprietary operating system. A variety of item types are sorted based on cleaning, storage and repair methods. After discrete processing, they fall back into continuous flow and random storage, which drives labor efficiency and maximizes use of physical space.
- **Proven Scalability:** Our infrastructure is highly scalable and we expect our weekly processing capacity to increase over time. We believe that the process improvements we have made have enabled us to expand our capacity to handle approximately 4x our active subscriber count at the end of fiscal year 2022 in our two current facilities with minimal investment.
- **Transportation Management:** We partner with a variety of national, regional and local last mile service providers in order to close the loop between our fulfillment centers and our customers. We also offer at-home pickup through local couriers across 34 markets, covering 60% of our subscriber base as of January 31, 2023. Our transportation management system allows us to rate shop across these providers and opt into the best shipping method based upon cost and capacity.

### **Our 2023 Strategy**

Our belief is that we can drive future growth by investing in and improving the customer experience. Unlike traditional e-commerce companies, we are an experience-based company that our subscribers engage with multiple times a week. Our goal is to make customers' time spent with Rent the Runway as efficient and delightful as possible and to continue to invest in our customer value proposition.

We are focused on three strategic pillars for growth in 2023:

- Inventory She Wants, When She Wants It: Enhancing the availability of the items on our site and increasing the depth of our buys.
- Best in Class Product Discovery: Prioritizing search and discovery features and tools to make finding that perfect item a more efficient, engaging and fun experience.
- Efficient and Easy-to-Use Experience: Providing additional onboarding support for new subscribers and improving the performance of our website, mobile site and mobile application, including increasing site speed and reliability.

We plan to introduce additional features, tools, and enhancements in support of these strategic pillars throughout fiscal year 2023. For example, beginning in March 2023, in support of our customer experience improvement goals, we changed our Subscription programs by adding an extra item to each shipment per plan at no extra cost to our subscribers. This means that our base Subscription programs offer 25% more value for the same price. We believe that there is strategic value in giving her more items in her Subscription, because we have observed from our data and testing that providing an additional item drives higher loyalty and engagement.

### **Our ESG (Environmental, Social, and Governance) Impact Strategy**

We believe that shared access to fashion has the power to curb the negative environmental and social impacts that stem from excess in the fashion industry. Driving positive impact is core to our business model: allowing our customers to buy less and wear more.

Below are key operational updates we made in fiscal year 2022 as part of our business strategy that we believe help drive Rent the Runway's positive ESG impact:

- We introduced new garment bags, which are made from recycled material and do not require wet cleaning, reducing our water usage. They were designed to be more durable and last longer, which means we expect to manufacture fewer of them and, in turn, believe that we can reduce the carbon footprint associated with their production.
- We expanded our at-home pickup offering, which we believe can reduce the overall carbon emissions associated with our customer returns, as it consolidates the return process.
- We made enhancements to our cleaning processes that result in less wear and tear on our garments and reduce our use of water and cleaning solutions as compared to prior years.

In addition to these operational changes, we have developed an Impact Strategy that is intended to expand and deepen our positive impact while advancing and complementing our business strategy. Below is an update on our progress toward this strategy in fiscal year 2022.

Ambition 1: We will harness the power of our business model to set the standard for sustainable fashion.

Priority	Goal	Notable Progress in Fiscal Year 2022
1. Reduce carbon emissions from our business so that we operate with net zero emissions by 2040.	Displace the need for new production of 500,000 garments by fiscal year end 2026. <sup>5</sup>	<p>We estimate that our business model has displaced the need for new production of 151,523 garments in fiscal year 2022.</p> <p>Our business model is at the center of how we displace new garment production:</p> <ul style="list-style-type: none"> <li>• It encourages customers to rent versus purchasing new, and this results in behavior changes from our customers. 82% of subscribers say they buy fewer clothes than they did prior to joining RTR.</li> <li>• It improves the longevity of our clothing, driving higher clothing utilization, which directly correlates with how we monetize our products.</li> <li>• In order to further increase the longevity of our garments, our team of experts performed an estimated 1.1 million repairs in fiscal year 2022 to keep our garments in rentable condition, which we believe drives higher clothing utilization, and in turn directly correlates to how we monetize our products.<sup>6</sup></li> </ul>
	Power our owned and operated facilities (offices and warehouses) with 100% renewable electricity by fiscal year end 2026.	<p>Our Scope 1 and Scope 2 greenhouse gas emissions were as follows:</p> <ul style="list-style-type: none"> <li>• Scope 1 - 546 tonnes CO<sub>2</sub>e</li> <li>• Scope 2 location - 468 tonnes CO<sub>2</sub>e</li> <li>• Scope 2 market - 502 tonnes CO<sub>2</sub>e</li> </ul> <p>Of our Scope 2 emissions:</p> <ul style="list-style-type: none"> <li>• Total energy consumed was 1,414 MWh</li> <li>• Percentage of grid electricity was 100%</li> <li>• Percentage of renewable energy was 1.82%</li> </ul> <p>While we already source 100% renewable energy for our Ireland office, we continue to assess and monitor options for renewable energy procurement at our U.S. locations to fulfill our goal.<sup>7,8</sup></p>
	Quantify our supply chain emissions (i.e., Scope 3 baseline) by fiscal year end 2024.	<p>We aim to quantify our Scope 3 greenhouse gas emissions baseline by fiscal year end 2024 in line with our goal.</p> <p>We quantify a small portion of our Scope 3 emissions related to transportation for shipments to and from customers. In February 2022, we launched a carbon offset program and are purchasing carbon offsets to compensate for 100% of the estimated carbon emissions created by shipments to and from customers.</p>
	Sustainably source 50% of key materials - cotton and polyester - we use for Exclusive Designs by fiscal year end 2026. <sup>9</sup>	We actively source sustainable cotton and polyester from our Exclusive Designs suppliers and are building processes to accurately calculate the percentage of sustainable materials sourced.

<sup>5</sup> Displacement was calculated by taking the displacement rate for each product category then multiplying by the estimated number of units across all product categories from February 1, 2022 through January 31, 2023. Displacement rates are from our 2021 Life Cycle Assessment and calculated by (Rental Wears – Linear Wears) / Linear Wears, where “Rental Wears” is an estimate of the total amount of wears of RTR garments and “Linear Wears” is an estimate of how many garments would have been bought and worn in the traditional manner (which is not a rental model), had the Rental Wears not taken place.

<sup>6</sup> According to our Member Survey conducted in November 2022, 82% of subscribers say they buy fewer clothes than they did prior to joining RTR.

<sup>7</sup> RTR commissioned an external third party to perform verification procedures with respect to our Scope 1 and Scope 2 emissions and energy metrics for the reporting period. Details and methodology are available at [renttherunway.com/impact](https://renttherunway.com/impact).

<sup>8</sup> Scope 1 emissions include direct emissions from such things as natural gas and refrigerants used at our facilities. Scope 2 emissions include indirect emissions from the generation of purchased energy for our facilities, such as electricity, heating, and cooling.

<sup>9</sup> RTR defines sustainable cotton and polyester as: Cotton - Better Cotton Initiative (BCI), organic and recycled; Polyester - recycled

2. Minimize waste from our business.	Divert 90% of waste from our warehouse operations from landfill by fiscal year end 2026.	<p>Our warehouse operations include general warehouse waste management and product end-of-life management. While we plan to establish a waste baseline for our warehouses in future years so that we can achieve our goal, we continue to drive progress, including:</p> <p><i>General Warehouse Waste Management</i> We continue to partner with a third party, Trex Company, Inc. ("Trex") to recycle the plastic garment covers that protect our clothing in our warehouses. We encourage customers to send the covers back to us to be recycled when they return their items. In fiscal year 2022, we recycled over 215 tons of plastic through our partnership with Trex.</p> <p><i>Product End-of-Life Management</i> RTR continues to practice responsible end-of-life practices and resells, donates, or recycles with approved third-party organizations all products when they are no longer able to cycle through the Closet in the Cloud. In fiscal year 2022, we recycled 83,000 units of clothing and accessories through our partner organizations.</p>
	<p>Eliminate unnecessary plastic in shipments to customers and only utilize reusable, compostable or 100% recyclable content for necessary plastic packaging to customers by fiscal year end 2023. <i>(2023 Update)</i></p> <p>Eliminate unnecessary single use plastic packaging in shipments to customers and only utilize reusable, compostable or 100% recycled content for necessary plastic packaging to customers by fiscal year end 2023. <i>(2022 Original Goal)</i></p>	<p>We aim to fulfill the updated goal by removing plastic hangers in shipments to customers by fiscal year end 2023, pending small changes to our in-bag experience.</p> <p>We plan to update our packaging in 2023 in order to reduce the amount of plastic included in shipments to customers, while preserving a pleasant in-bag experience for our customers. Given these planned changes, we decided to update our original goal. In addition, we continue to recycle plastic garment covers with Trex, as described above.</p>



**Ambition 2: Create a culture and cultivate a community where all people are inspired, empowered and thrive.**

Priority	Goal	Notable Progress in Fiscal Year 2022
1. Ensure our workforce remains diverse and for leadership to reflect the population of individual contributors.	Maintain on average 40% representation of racial and ethnic minorities for the U.S. corporate workforce through fiscal year end 2026. <sup>10</sup>	Our representation of U.S. corporate employees identifying as a racial and ethnic minority was 44% as of January 31, 2023. Additionally, as of January 31, 2023: <ul style="list-style-type: none"> <li>• 44% of our executive team identify as a racial and ethnic minority</li> <li>• 10% of our Board of Directors identify as a racial and ethnic minority</li> </ul>
	Maintain on average 50% representation of individuals identifying as women and non-binary in the U.S. workforce through fiscal year end 2026.	Our representation of U.S. corporate employees identifying as women and non-binary was 75% as of January 31, 2023. Additionally, as of January 31, 2023: <ul style="list-style-type: none"> <li>• 67% of our executive team identify as women or non-binary</li> <li>• 60% of our Board of Directors identify as women or non-binary</li> </ul>
	Double representation of LatinX leadership in the new hire classes at our Secaucus warehouse by fiscal year end 2026.	We continued to take action aimed at improving Black and LatinX representation and belonging across our organization including: <ul style="list-style-type: none"> <li>• Ramped up programming from our Employee Resource Groups (ERGs) since their inception in 2021, and are planning to expand ERGs to our warehouses in 2023.</li> <li>• Introduced our Emerging Leaders Management training program, which includes a focus on fostering belonging within teams.</li> <li>• Launched our Diversity Launchpad internship program.</li> <li>• Evolved RTR's leadership competencies so that they include new themes which highlight diversity, equity and inclusion in the definitions and behavioral indicators of each level.</li> </ul>
	Double representation of Black and LatinX leadership in new hire classes at our Dallas warehouse by fiscal year end 2026.	
2. Use our platform to support and amplify diversity in fashion.	\$6 million cumulative spend with Black designers between fiscal year ended 2022 and fiscal year end 2026. (2023 Update)	We estimate that we spent \$1.76 million with Black designers and a total of \$7.5 million with racial and ethnic minority designers. We estimate that we have invested more than \$4.9 million in rental product purchases to support Black-owned businesses since June 2020. We continue to prioritize identifying new Black designers as well as deepen relationships with our existing Black designers.
	\$10 million cumulative spend with Black designers between fiscal year end 2022 and fiscal year end 2026. (2022 Original Goal)	We estimate that we increased the penetration of racial and ethnic minority designers featured on our platform from 4% of brands in the fall of 2020 to 15% in the fall of 2022.
	Ensure at least 40% representation of racial and ethnic minorities in our marketing materials and imagery by fiscal year end 2026.	We decided to update our original goal due to new efficiencies in the way we acquire rental product. Much of our rental product is purchased via a consignment model, which allows us to lower rental product spend while maintaining or increasing our rental product purchases.
		In fiscal year 2022 we calculated our baseline for this goal and we estimate that we had 21% representation of racial and ethnic minorities in our marketing materials and imagery.
		With the baseline established, our marketing team is focused on building the capabilities necessary to increase this number and achieve our goal over the next four years.

<sup>10</sup> Racial and ethnic minorities refers to American Indian or Alaskan Native, Asian, Black or African American, Hispanic/Latino, Native Hawaiian or other Pacific Islander, Middle Eastern or North African, or two or more races. While we recognize that these racial and ethnic categories do not reflect the complexities of an individual's identity nor do they acknowledge the systemic and historical exclusion of these communities, we use these categories for reporting as required by the U.S. Equal Opportunity Commission.

### **Seasonality**

We experience seasonality in our business. For our Subscription rentals, we typically acquire the highest number of subscribers in March through May and September through November, as these are the times customers naturally think about changing over their wardrobes. We generally see a higher rate of subscribers pause in the summer, and in mid-December through the end of January. In the third and fourth fiscal quarters, our Reserve business historically (prior to COVID-19) benefited from increased wedding and holiday events but this seasonality has varied since the onset of COVID-19. In fiscal year 2022, our active subscriber count increased sequentially in the first and third quarters and decreased sequentially in the second and fourth quarters. The third quarter increase and the fourth quarter decrease are generally consistent with more recent historical seasonality. Our second quarter typically sees a moderate increase in active subscriber count compared to the first quarter, except in fiscal year 2022 which saw a significant increase post-Omicron variant in the first quarter and in light of the adverse impact of the price increase of our Subscription programs in April 2022.

Our seasonality trends have seen effects from COVID-19 and the macro environment generally and may continue to do so in the future. For example, subscriber trends and revenue have been impacted by fewer large-scale holiday and special events compared to pre-COVID-19, especially those typically occurring in the third and fourth quarters.

We also experience seasonality in the timing of expenses and capital outlays. Transportation expense, and therefore fulfillment cost, is typically highest in the fourth fiscal quarter, given higher service levels, such as more costly and expedited shipping, and competition during holidays. Our most significant product capital expenditures typically occur in the first fiscal quarter and the third fiscal quarter, when we acquire product for the upcoming fall and spring seasons, which can increase rental product depreciation and revenue share and impact our gross margins. However, the impact on cash is typically dependent on timing of receipt of product.

For additional information, see the section of Part I, Item 1A, “Risk Factors — Risks Relating To Our Business and Industry — Our business is affected by seasonality.”

### **Competition**

The fashion industry is highly fragmented and competitive. Our competitors include other fashion rental companies and also a range of traditional and online retail and resale fashion companies. Our ability to remain competitive depends on the continued shift from an ownership to an access model. While other competitors may change their business models and endeavor to expand into the rental and resale space, online fashion rental and resale presents unique operational and technical challenges.

We compete primarily on the basis of brand recognition, customer and brand partner experience, product mix and quality, quality of our e-commerce experiences and services, and price. Additionally, we experience competition for consumer discretionary spending from other product and experiential categories. We believe we are able to compete effectively because there are numerous trends in our favor that support the continued growth and success of online fashion rental. For example, key trends include consumers prioritizing access over ownership, consumers increasingly seeking variety and newness, growth in online shopping, an increasingly female workforce, and consumers valuing sustainability as it relates to fashion choices. See the section of Part I, Item 1A titled “Risk Factors — Risks Relating To Our Business and Industry — The global fashion industry is highly competitive and rapidly changing, and we may not be able to compete effectively.”

### **Government Regulation**

We are subject to a wide variety of complex laws and regulations in the United States and other jurisdictions in which we operate. The laws and regulations govern many issues related to our business practices, including those regarding consumer protection, worker classification, wage and hour, sick pay and leaves of absence, anti-discrimination and harassment, whistleblower protections, background checks, privacy, data security, intellectual property, health and safety, environmental, competition, fees and payments, pricing, product liability and disclosures, property damage, communications, employee benefits, taxation, unionization and collective bargaining, contracts, arbitration agreements, class action waivers, terms of service, and accessibility of our mobile app or website.

These laws and regulations are constantly evolving and may be interpreted, applied, created, superseded, or amended in a manner that could harm our business. These changes may occur immediately or develop over time through judicial decisions or as new guidance or interpretations are provided by regulatory and governing bodies, such as federal, state and local administrative agencies. As we expand our business into new markets or introduce new features or offerings into existing markets, regulatory bodies or courts may claim that we are subject to additional requirements, or that we are prohibited from conducting business in certain jurisdictions.

Additionally, because we receive, use, store, transmit, and disclose personal data relating to customers on our platform, we are subject to numerous laws and regulations in the United States and other countries where we do business, as well as industry standards, relating to privacy, data security and data protection, direct marketing, and online advertising. Such laws, regulations, and industry standards include, but are not limited to, Section 5(a) of the Federal Trade Commission Act, the Telephone Consumer Protection Act of 1991 and all regulations promulgated thereunder, the Controlling the Assault of Non-Solicited Pornography And Marketing Act of 2003, the California Consumer Privacy Act of 2018, the California Privacy Rights Act of 2020, the California Online Privacy Protection Act, and the Payment Card Industry ("PCI") Data Security Standard.

See Part I, Item 1A, "Risk Factors — Risks Related to Our Legal and Regulatory Environment" for additional information about the laws and regulations we are subject to and the risks to our business associated with such laws and regulations.

### **Intellectual Property**

Our intellectual property is an important component of our business. We rely on a combination of trademarks, copyrights, patents, trade secrets, license agreements, confidentiality procedures, non-disclosure agreements, employee non-disclosure and invention assignment agreements, and other legal and contractual rights, and policies and procedures, to establish and protect our proprietary rights.

As of January 31, 2023, we had five issued patents in the United States that expire between 2031 and 2038, no allowed patent applications in the United States, and one patent application (including active PCT applications) pending in the United States and globally. While we believe our patents and patent applications in the aggregate enhance our competitive position, no single patent or patent application is material to us as a whole.

We register our brand names and product names, taglines and logos in the United States to the extent we determine appropriate and cost-effective. As of January 31, 2023, we had a total of 26 registered trademarks in the United States and 60 registered trademarks in non-U.S. jurisdictions, as well as certain pending trademark applications. As of January 31, 2023, we had also registered a total of 12 copyrights. We also register domain names for certain websites that we use in our business, such as [www.renttherunway.com](http://www.renttherunway.com), as well as similar variations to protect our brands and marks from cybersquatters.

We control access to and use of our proprietary technology and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers, and partners. It is our practice to enter into confidentiality and invention assignment agreements (or similar agreements) with our employees, consultants, and contractors involved in the development of intellectual property on our behalf. We also enter into confidentiality agreements with other third parties in order to limit access to, and disclosure and use of, our confidential information and proprietary information. We further control the use of our proprietary technology and intellectual property through provisions in our terms of service. We intend to pursue additional actions to establish and protect our intellectual property rights to the extent we believe it would be beneficial and cost effective.

## **Employees and Human Capital Resources**

As of January 31, 2023, we had a total of 880 full-time employees and 135 part-time employees in the United States and Ireland. As of January 31, 2023, our technology team consisted of 182 employees, across engineering, data analytics, IT, product, software quality assurance, user experience and design, including a team of 63 in Galway, Ireland, primarily in engineering and data analytics. None of our employees are represented by a labor union or covered by collective bargaining agreements and we have not experienced any work stoppages.

We strive to make Rent the Runway a diverse, inclusive, and safe workplace, with opportunities for our employees to grow and develop in their careers, supported by competitive compensation and benefits programs. Our culture is underpinned by our Core Values, including that we are all Founders of Rent the Runway, and we all Dream BIG and go after it, adapt and learn from everything we do and debating, honest conversations and collaborating make the company stronger.

See “Our ESG (Environmental, Social and Governance) Impact Strategy” for more information about our values, goals and human capital measures and objectives.

## **Corporate Information**

We were incorporated as Rent the Runway, Inc. in Delaware on March 3, 2009. We completed our initial public offering (“IPO”) in October 2021. For additional information regarding reclassification of our stockholder equity in connection with our IPO, see Note 2 - Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements included in Part II, Item 8. Our Class A common stock trades on The Nasdaq Global Select Market (“Nasdaq”) under the symbol RENT. Our principal executive offices are located at 10 Jay Street, Brooklyn, New York 11201 and our website address is [www.renttherunway.com](http://www.renttherunway.com).

We provide free access to various reports that we file with, or furnish to, the United States Securities and Exchange Commission (the “SEC”) through our website, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports. Our SEC reports can also be accessed through the SEC’s website at [www.sec.gov](http://www.sec.gov). Also available on our website are printable versions of our Code of Conduct, Corporate Governance Guidelines and charters of the standing committees of our board of directors.

Our Code of Conduct applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. A copy of the code is available on our Investor Relations website at [investors.renttherunway.com](http://investors.renttherunway.com) in the “Governance” section. In addition, we intend to post on our website all disclosures that are required by law or by Nasdaq rules concerning any amendments to, or waivers from, any provision of our Code of Conduct.

Information on our website does not constitute part of this Annual Report on Form 10-K or any other report we file or furnish with the SEC.

## Item 1A. RISK FACTORS

*Investing in our Class A common stock involves a high degree of risk. You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Annual Report on Form 10-K, including our consolidated financial statements and related notes appearing elsewhere in this filing, before making an investment decision. The risks described below are not the only ones we face. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition, or results of operations.*

### ***Risks Related to Our Business and Industry***

***We have grown rapidly in recent years and have limited experience at our current scale of operations and our historical growth rates are not necessarily indicative of our future performance. If we are unable to drive future growth or manage our growth effectively, our brand, company culture, and financial performance may suffer.***

We have grown rapidly over the last several years, due in large part to the growth in demand for our Subscription offerings, however, our recent growth rates and financial performance should not necessarily be considered indicative of our future performance. To effectively manage and capitalize on our growth, we must continue to enhance customer experience and attract and retain customers (particularly subscribers), iterate our subscription products, invest in digital consumer innovation, expand our brand awareness and marketing, and upgrade our management information and reverse logistics systems and other processes. Our growth and growth strategies have in the past strained, and could in the future, strain our existing resources, and we could experience ongoing operating difficulties in managing our business across numerous jurisdictions, including difficulties in hiring, training, and managing a diverse and growing employee base. Failure to scale and preserve our company culture as we grow could also harm our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

Our growth strategy is focused on continuing to grow, engage, and retain our subscriber and customer base, expanding our brand partner relationships and product assortment, increasing our advertising and other marketing spending, and continuing to invest in our offerings and technology. The majority of our revenue is generated by our subscribers. Our base subscription plans range in price and customers can customize their subscription monthly by purchasing additional slots and shipments. Our subscriptions renew automatically on a monthly basis and subscribers may disable automatic renewal by canceling or pausing their subscription prior to the next month's bill date. As a result, even though a significant number of subscribers have historically renewed their monthly subscription, there can be no assurance that we will be able to retain a significant portion of subscribers beyond the existing monthly subscription periods. In addition, any limitation or restriction imposed on our ability to bill our subscribers on a recurring basis, whether due to new regulations or otherwise, may significantly lower our subscription retention rate. We also offer our customers the option to rent or buy items via our Reserve offering and Resale offering, respectively. Our subscription plans and offerings do not have demonstrably long track records of success and may not grow as much or as fast as we expect. For example, our active subscriber growth rate slowed year over year as of January 31, 2023. In addition, we presently anticipate our revenue growth rate to slow in fiscal year 2023. If our growth rates continue to decelerate, investors' perception of our business, financial condition and results of operations may be adversely affected.

The fashion industry is rapidly evolving and our business may not develop as we expect. Overall growth of our revenue will depend on a number of factors, including our ability to:

- change traditional consumer buying habits and normalize clothing subscription, rental and resale;
- price our Subscription, Reserve and Resale offerings so that we are able to attract new customers, and retain and expand our relationships with existing customers;
- ensure that we maintain an adequate depth and breadth of available products to meet customer demand and respond swiftly and appropriately to new and changing styles, trends or desired consumer preferences;
- accurately forecast our revenue and plan our fulfillment, operating expenses and capital expenditures;

- provide customers with a high-quality, seamless user experience and order fulfillment, as well as customer service and support that meets their needs;
- acquire customers into varying levels of subscription programs at different price points;
- improve our website and app performance and successfully identify and acquire, partner or invest in products, technologies, or businesses that we believe could complement or expand our business;
- successfully maintain and grow our relationships with existing and new brand partners, including continuing to maintaining and growing our Share by RTR and Exclusive Design offerings;
- avoid disruptions in acquiring and distributing our products and offerings;
- be efficient in our paid marketing;
- maintain and enhance our reputation and the value of our brand;
- hire, integrate and retain talented personnel across all levels of our organization;
- successfully compete with other companies that are currently in, or may in the future enter, the industry or the markets in which we operate, and respond to developments from these competitors such as pricing changes and the introduction of new offerings;
- comply with existing and new laws and regulations applicable to our business;
- successfully expand into new and penetrate existing geographic markets in the United States;
- successfully develop new offerings and innovate and enhance our existing offerings and their features, including in response to new trends, competitive dynamics or the needs of customers and subscribers;
- effectively manage growth of our business, personnel, and operations, including expanding our shipping and distribution network and fulfillment center operations, as well as our logistics footprint and the number of facilities we operate in the future;
- effectively manage our costs related to our business and operations; and
- avoid or manage interruptions in our business from information technology downtime, cybersecurity incidents and other factors that could affect our physical and digital infrastructure.

Because we have a limited history operating our business at its current scale, it is difficult to evaluate our current business and future prospects, including our ability to plan for and model future growth. Our limited operating experience at this scale, combined with the rapidly evolving nature of the market in which we sell our offerings, substantial uncertainty concerning how these markets may develop, and other economic factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. Failure to manage our future growth effectively could have an adverse effect on our business, financial condition, and results of operations.

We also expect to continue to expend substantial financial and other resources to grow our business, and we may fail to allocate our resources in a manner that results in increased revenue growth in our business. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our business, financial condition, and results of operations may be harmed, and we may not achieve or sustain profitability in the future.

***The global fashion industry is highly competitive and rapidly changing, and we may not be able to compete effectively.***

We compete with other fashion rental companies and also with a range of traditional and online retail and resale fashion companies and we expect competition to continue to increase in the future. To be successful, we need to continue to attract and retain customers and brand partners.

We believe our ability to compete effectively depends on many factors within and beyond our control, including:

- our ability to normalize fashion rental and change traditional retail shopping habits and norms;

- how effectively differentiated our offerings, customer experience and value proposition are from those of our competitors;
- how effectively we market and communicate how to use our Subscription, Reserve and Resale offerings and attract and retain customers;
- our ability to expand and maintain an appealing depth and breadth of our products to meet customer demand;
- the price at which we are able to offer our Subscription, Reserve and Resale offerings;
- the amount, diversity, and quality of brands that we or our competitors offer;
- our ability to acquire products on favorable and efficient terms, including our ability to attract new brand partners and retain existing brand partners in our Share by RTR and Exclusive Design programs;
- the speed and cost at which we can deliver products to our customers and the ease with which they can return our products;
- the effectiveness of our customer service;
- further developing our data science capabilities for brand partners;
- the strength of our brand, including maintaining favorable brand recognition and effectively marketing our services and value proposition to customers;
- the success of our reverse-logistics processes in delivering products in good condition to customers; and
- anticipating and successfully responding to changing apparel trends and consumer shopping preferences.

Many competitors or potential competitors have or may have longer operating histories, greater brand recognition, better user experiences, stronger consumer and supplier relationships, less complicated business models, and significantly greater financial, marketing and other resources. In addition, they may be able to innovate and provide products and services faster and with more selection than we can, including as a result of their vertical integrations that better enables them to acquire market share. Certain fashion rental competitors have lower priced subscription offerings than we do and/or offer more items per shipment. In addition, competitors and potential competitors may be willing to price their products and services more aggressively in order to gain market share and be able to manufacture goods on a more cost-effective basis because they are vertically integrated, producing higher volumes, and/or have stronger relationships with manufacturing partners. In addition, brands set pricing for their own new retail items, which can include promotional discounts that may adversely affect the relative value of rental and/or resale items offered by us, and, in turn, our revenue, results of operations and financial condition. Additional competitors are expanding and may continue to expand into the rental and resale space in which we operate and we remain vulnerable to the marketing power and high level of customer recognition of these larger competitors and to the risk that these competitors or other smaller entrants could attract our customer base.

Furthermore, we are revolutionizing the fashion industry by changing the way women get dressed. Although we believe that there are numerous trends in our favor that support the continued growth and success of online fashion rental, changing traditional retail and e-commerce shopping habits is difficult, particularly the shift from an ownership to an access model. Our business model may not achieve acceptance as broadly and within the time frame that we expect by customers and brand partners. In addition, the trends in our favor may evolve and no longer provide compelling support for our business model. If online fashion rental does not achieve broad acceptance by consumers and our brand partners, our growth could be limited and our competitiveness hampered.

Our inability to respond effectively to competitive pressures, improved performance by our competitors, failure to achieve broad acceptance and changes in the fashion retail markets could result in lost market share and have a material adverse effect on our business, financial condition, and results of operations.



***We rely on consumer discretionary spending and have been, and may in the future be, adversely affected by economic downturns and other macroeconomic conditions or trends.***

We are subject to variable industry and global economic conditions and their impact on consumer discretionary spending. Some of the factors that may negatively influence consumer spending include high levels of unemployment; recession; higher consumer debt levels; inflation; reductions in net worth, declines in asset values, and related market uncertainty; home foreclosures and reductions in home values; fluctuating interest rates and credit availability; fluctuating fuel and other energy costs; fluctuating commodity prices; and general uncertainty regarding the overall future political and economic environment. We have experienced many of these factors due to the COVID-19 pandemic and recent volatile macroeconomic environment and have seen negative impacts on customer demand at varying levels as a result.

Furthermore, increases in consumer discretionary spending tend to fluctuate and may decrease, particularly if there is a recession and/or higher inflation leading to increased price sensitivity. Economic conditions in certain regions may also be affected by natural disasters, such as hurricanes, tropical storms, earthquakes, and wildfires; other public health crises; wars, terrorism and political tensions; and other major unforeseen events. Although we believe the value proposition of our offering and business model may be strengthened in an inflationary environment where the cost of purchasing clothing and accessories increases, consumer purchases or rental of discretionary items, including the products that we offer, frequently decline during recessionary periods or periods of economic uncertainty, when disposable income is reduced or when there is a reduction in consumer confidence.

Additionally, adverse economic changes could reduce consumer confidence, and could thereby negatively affect our operating results. In the event of a prolonged economic downturn or acute recession, significant inflation, or increased supply chain shortages, consumer spending habits could be adversely affected, and we could experience lower than expected revenue, net income, and Adjusted EBITDA. In challenging and uncertain economic environments, we cannot predict the degree of uncertainty, whether or when such circumstances may improve or worsen or what impact such circumstances could have on our business. Any of these developments could harm our business, financial condition and results of operations.

***Our continued growth depends on our ability to attract new, and retain existing, customers, which may require significant investment in paid marketing channels. If we are unable to cost-effectively grow our customer base, our business, financial condition and results of operations would be harmed.***

The growth of our business is dependent upon our ability to continue to grow by cost-effectively adding new customers and retaining existing customers. Historically, a substantial portion of new customer acquisition has originated from organic word-of-mouth and other non-paid referrals. In fiscal year 2022, as we have increased paid marketing spend, we have seen an increase in the proportion of new customers attributed to paid channels. Our current marketing initiatives are focused on re-engaging lapsed and paused customers, retaining existing customers and growing our base of new customers. Although we expect to make significant investments in improving the customer experience going forward, these investments may not result in an increase in customer loyalty or higher customer engagement. As a result, our levels of paid and organic growth may continue to fluctuate and/or overall growth may decline.

Paid marketing is a key part of our growth strategy and we have increased our spending and plan to continue to increase spending and run marketing campaigns to acquire additional subscribers and customers, all of which could impact our customer acquisition costs and overall profitability. We also utilize promotional pricing to attract customers and subscribers who may have heightened price sensitivity and not be willing to pay full price for our offering when the promotion period expires. We may incur marketing expenses significantly in advance of the time we anticipate recognized revenue associated with such expenses. In addition, our paid marketing may not effectively reach potential customers or be cost-effective, changes in regulations or third-party interference could limit the ability of search engines and social media platforms for marketing, potential customers may decide not to rent through our platform or the spend of new customers may not yield the intended return on investment, any of which could negatively affect our results of operations.

In addition, customer preferences may change and customers may not rent through our platform as frequently or spend as much with us. We strive to drive conversion of new subscribers from current and former customers; however, if their behavior changes or they are not satisfied with our offering for any reason, our ability to grow subscribers may be impacted. If we are not able to continue to expand our customer base through cost-effective methods, we may not meet our revenue and profitability goals and our revenue may grow slower than expected or decline, and investors may lose confidence in our business. Relatedly, an inability to attract and retain customers could harm our ability to attract and retain brand partners, who may decide to partner with alternative platforms.

***If we fail to retain customers, our business, financial condition, and results of operations would be harmed.***

A high proportion of our revenue comes from longer-tenured subscribers. A decrease in the number of customers, their tenures with us, and/or a reduction in the amount customers spend on our offerings could negatively affect our operating results.

Our number of customers and the amounts they spend on our offerings may decline materially or fluctuate as a result of many factors, including, among other things:

- the quality, consumer appeal, price, and reliability of our offerings;
- dissatisfaction with changes we make to our offerings and products;
- the perceived value of our offerings, especially in response to price increases and changes in the macroeconomic environment;
- our ability to quality control the products delivered to our customers and their fit;
- ensuring on-time delivery of orders;
- the ease with which customers can find items they are looking for, including the effectiveness of our search and discovery tools and rental product availability;
- the performance of our website and mobile app, including site speed and reliability;
- a negative customer service experience;
- intense competition in the fashion industry;
- negative publicity that impacts our brand and reputation;
- changes in consumer preferences regarding the use of pre-loved apparel;
- lack of market acceptance of our business model;
- the unpredictable nature of the continued impact of the COVID-19 pandemic or a future outbreak of disease or similar public health concern;
- the failure (or perceived failure) to meet customer expectations regarding our environmental, social and governance ("ESG"), initiatives; and
- changes in efficiency of our historic or current customer acquisition methods.

If existing customers no longer find our offerings and products appealing, appropriately priced or easy to use, or if we are unable to provide high-quality support to customers to help them resolve issues in a timely and acceptable manner, they may stop using our offerings, negative publicity may be generated and word-of-mouth and other referrals may be hampered. For example, in April 2022 we announced a price increase for our subscription plans. Based on performance and additional data in the third and fourth quarters of fiscal year 2022, we believe that the April price increase was a significant negative contributor to subscriber pause and retention levels, and to a lesser extent, subscriber acquisition, in the second quarter of fiscal year 2022, in addition to seasonality and other potential macroeconomic factors. We saw improvement in these trends in the second half of fiscal year 2022; however, these improvements may not be sustained. If our customers no longer perceive our subscription plans as appropriately priced and cancel or pause their subscriptions, our business and financial results could be harmed. We are focused on investing in our customer and delivering even more value to her, including by adding an extra item to each shipment beginning in the first quarter of fiscal year 2023, and emphasizing the value proposition of our offering in our marketing materials; however these or other initiatives to retain customers may not be successful and may require additional costs or lead to unanticipated consequences. Even if our existing customers continue to find our offerings and products appealing and our customer service satisfactory, they may decide to downgrade to a less frequent, lower cost subscription and/or rent fewer items due to price sensitivity and/or changing demand or other reasons. If customers downgrade their subscriptions or make fewer or lower priced rentals, our financial results could be negatively affected.

***We have a history of losses, and we may be unable to achieve or sustain profitability.***

We had a net loss of \$(138.7) million and \$(211.8) million for the years ended January 31, 2023 and 2022, respectively, and have in the past had net losses. As of January 31, 2023, we had an accumulated deficit of \$(939.9) million. Because we have a short operating history at scale, it is difficult for us to predict our future operating results. We will need to generate and sustain increased revenue and manage our costs to achieve profitability. Even if we do, we may not be able to sustain or increase our profitability.

Our ability to generate profit depends on our ability to grow customers and revenue and drive operational efficiencies in our business to generate better margins. In fiscal year 2022, we took significant steps to reduce our operating costs, improve our margins, and make progress towards profitability, which is an important financial goal for us over time. Nevertheless, our efforts may be unsuccessful and we may continue to generate net losses in order to:

- acquire rental product, which impacts rental product depreciation and revenue share expenses;
- fulfill customer orders and provide customer service;
- increase the engagement, enhance retention and improve the experience, of customers;
- drive customer acquisition and brand awareness through marketing and promotional initiatives;
- invest in technology, including to enhance our website and mobile offerings and functionality;
- attract, motivate and retain our employees;
- develop new offerings;
- generally support a larger customer base; and
- invest in our operations, including our logistics fulfillment, capacity and footprint, and other capital expenditures to support the growth in our business.

We may discover unanticipated operating costs or that these initiatives are more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these expenses or realize the operating efficiencies and profitability we anticipate. We also expect to face greater compliance costs over time associated with the increased scope of our business and being a public company. If we are not able to adequately increase revenue or manage operating costs or due to other factors outside of our control, we may continue to incur net losses and not be able to achieve or sustain profitability in the near term or at all. If we are unable to achieve or sustain profitability, the value of our business and the trading price of our Class A common stock may be negatively impacted.

***If we fail to anticipate and respond successfully to new and changing fashion trends and consumer preferences, our business could be harmed.***

Our success is, in large part, dependent upon our ability to identify fashion trends, predict and gauge the tastes of our customers, and provide availability of items and a service that satisfies customer demand in a timely manner. However, lead times for many of our purchasing and design decisions may make it difficult for us to respond rapidly to new or changing apparel trends or customer acceptance of products chosen by us. We generally enter into contracts with our designer brand partners in advance of anticipated rentals and typically before apparel trends are confirmed by customer rentals.

We have not always predicted our customers' preferences and acceptance levels of our products with accuracy. For example, during the second quarter of fiscal year 2022, there was higher than expected usage of high formality apparel, which may have constrained the availability of these items and our ability to meet demand. In addition, external events may disrupt or change customer preferences and behaviors in ways we are not able to anticipate. We have observed that our customers live, work, socialize and travel differently than they did prior to the COVID-19 pandemic and this influences what they wear.

Additionally, our success is dependent on the ability of our brand partners to anticipate, identify and respond to the latest fashion trends and consumer demands and to translate such trends and demands into product options in a timely manner. The failure of our brand partners to anticipate, identify or respond swiftly and appropriately to new and changing styles, trends or desired consumer preferences, to accurately anticipate and forecast demand for certain product offerings or to provide relevant and timely product offerings to rent on our platform may lead to lower demand for our offerings, which could have a material adverse effect on our business and financial condition.

Further, although we use our data and business insights to predict our customers' preferences and gauge demand for our products, there is no guarantee that our data and business insights will accurately anticipate demand. To the extent we misjudge the market for the service we offer or fail to execute on trends and deliver attractive products to customers, we may not attract and retain customers effectively and our operating results will be adversely affected.

***Shipping and logistics are a critical part of our business and our supply chain and any changes or interruptions in shipping or logistics operations could adversely affect our operating results.***

We currently rely on several third-party national and regional shipping vendors for our outbound and inbound logistics. A substantial portion of our shipments to and from customers are currently conducted through a single vendor; however, we continue to focus on optimizing our provider network based on customer experience and cost and we cannot predict how changes and transitions may impact our costs and our customer sentiment and satisfaction.

Additionally, our business relies on the successful management of reverse logistics needed to ingest, clean, and restock returned items quickly and efficiently in order to offer them for rental or resale to other customers. If we are not able to maintain appropriate staffing levels or negotiate acceptable pricing and other terms with third-party vendors or they experience performance problems or other difficulties, our operating results and customers' experience could be negatively impacted.

Our ability to receive inbound products efficiently and ship products to and from customers may be negatively affected by many events outside of our control including, inclement weather, public health crises such as the COVID-19 pandemic, governmental regulations, labor disputes and other factors. We are also subject to risks of damage or loss during delivery by our shipping vendors. If our customers do not receive their orders in good condition or on time, they could become dissatisfied and cease using our services, which would adversely affect our business and operating results. Our shipping vendors have faced and may continue to face increased volumes which, in turn, has caused and could in the future cause a decrease in their service levels, including shipping delays, or result in an increase of their prices. We have recently experienced increased shipping costs, and these costs may continue to increase in the future. Increases in shipping costs or other significant shipping difficulties or disruptions or any failure by our brand partners or third-party carriers to deliver high-quality products to us or to our customers, as applicable, in a timely manner or to otherwise adequately serve our customers could damage our reputation and brand and may substantially harm our business.

In addition to offering the ability to return products by dropping off items with third-party shipping vendors, we now offer at-home pickup for customers located in 34 markets to return their orders as of January 31, 2023. We believe at-home pickup is more convenient for many customers and is more cost-effective for us. Although we have had positive customer feedback and adoption to date, at-home pickup is a new offering and may not be successful over the long-term. In the event that we do not successfully and cost-effectively manage at-home pickup logistics, it will make it more difficult for us to satisfy our customers and efficiently manage shipping costs, which will negatively affect our brand, financial condition and results of operations.

***If we are unable to accurately forecast customer demand, acquire and manage our products effectively and plan for future expenses, our operating results could be adversely affected.***

We are vulnerable to demand and pricing shifts and to suboptimal selection and timing of product purchases. We obtain substantially all of our products directly from hundreds of brand partners through three key ways: 1) Wholesale, 2) Share by RTR, and 3) Exclusive Designs. For our business to be successful and have sufficient product to meet consumer demand, our brand and manufacturing partners must be willing and able to provide us with products in specific quantities and styles of sufficient quality, in compliance with regulatory requirements, at acceptable costs and on a timely basis. We typically do not enter into long-term contracts with our brand and manufacturing partners and, as such, we operate without significant contractual assurances of continued supply, pricing or access to products. Although we believe we have had limited voluntary attrition of brand partners to date, a brand partner could choose to no longer work with us or provide less favorable terms for a variety of reasons, including current market and supply chain conditions. In addition, some of our brand partners may not have the capacity to supply us with sufficient products to keep pace with our growth plans, especially if we plan to demand significantly greater amounts of products. In such cases, our ability to pursue our growth strategy will depend in part upon our ability to expand capacity with existing brand partners or develop new brand partner relationships.

We have been focused on expanding our relationships with brand partners and continuing to work to increase the proportion of our products procured under Exclusive Designs arrangements, which reduces our purchases of rental product. For our Exclusive Designs, RTR generally sources the materials and relies upon third-party manufacturing partners to produce products. For Wholesale and Share by RTR items, entering into contracts in advance of a particular season requires brand partners to agree to incur costs related to sourcing and manufacturing products before we have paid for them, which requires the brand partners to continue to trust us. If we were viewed as less financially viable, we may receive less favorable terms and conditions from our brand partners, including requiring upfront payments or other demonstrations of credit. The cash flow benefits we currently experience from our brand partners' willingness to revenue share could be adversely affected if revenue share terms change or if brand partners no longer wish to revenue share due to (1) lack of trust in us, (2) lack of revenue earned in comparison to the projections we provided, or (3) their inability to continue to spread their earnings out over the time period that the products are earning revenue on our website, among other reasons. For our Exclusive Design arrangements, we must continue to increase the number of brand partners with whom we work, design an assortment of styles that meet customer demand, maintain and enhance our third-party manufacturing capabilities and partners and ensure the products manufactured meets brand partners', customers' and our quality standards. Our ability to obtain a sufficient selection or volume of products on a timely basis at competitive prices could suffer as a result of any deterioration or change in our partner relationships or events that adversely affect them and, in turn, could have a material adverse effect on our business.

We also procure and manufacture products outside of the United States. Global sourcing and foreign trade involve numerous factors and uncertainties beyond our control including increased shipping costs, limitations in factory capacity, the imposition of additional import or trade restrictions, including legal or economic restrictions on overseas brand partners' or manufacturers' ability to produce and deliver products, increased custom duties and tariffs, unforeseen delays in customs, more restrictive quotas, loss of a most favored nation trading status, currency exchange rates, transportation delays, foreign government regulations, political instability and economic uncertainties in the countries from which we or our brand partners source our products. Future extended disruptions in travel may limit our ability to source products in-person, which may lead to suboptimal products and harm our business. For the next several quarters, we anticipate facing, and having to address challenges relating to, economic uncertainty and trends that may also impact our business operations, including transportation efficiencies. Additionally, oil supply disruptions related to Russia's invasion of Ukraine have led and could continue to lead to increased fuel and shipping prices. Further, certain trade restrictions related to the Xinjiang region of China that impose a ban on virtually all imports from that region could affect the sourcing and availability of raw materials, such as cotton, used in the manufacturing of certain products and lead to our products and materials and those of our brand and/or manufacturing partners being held for inspection by the United States Customs & Border Patrol and delayed or rejected for entry, which could adversely impact the customer experience and our business. In addition, negative press or consumer sentiment about internationally sourced products may lead to reduced demand for our products. These and other issues affecting our international brand partners, manufacturers or internationally sourced products could have a material adverse effect on our business, financial condition, and results of operations.

We also rely on our merchandising team to order styles that our customers will rent and we rely on our data science to inform the levels of and which products we purchase, including when to reorder items that are renting well and when to sell or write-off items that are not renting well. If our teams do not predict customer demand and tastes well or if our algorithms do not help us reorder the right products or write off the right products timely, we may not effectively manage our products and our operating results could be adversely affected.

Furthermore, we must execute our cleaning and repair protocols and reverse logistics operations efficiently and at a significant scale to maximize the utilization of units and reduce the number of units purchased, the failure of which may adversely affect our operating results. We cannot control products while they are out of our possession or prevent all damage while in our fulfillment centers, during shipping, or while with customers, third-party suppliers or partners. We may incur additional expenses and our reputation could be harmed if customers and potential customers believe that our products are not of high quality or may be damaged.

***If we fail to maintain and enhance our brand, our ability to attract and retain customers will be impaired and our business, financial condition, and results of operations may suffer.***

Maintaining and enhancing our appeal and reputation as a stylish, revolutionary and trusted brand is critical to attracting and retaining customers and brand partners. The successful promotion of our brand and awareness of our offerings and products depends on a number of factors, including our marketing efforts, ability to continue to develop our offerings and products, the quality and appeal of our products, and ability to successfully differentiate our offerings from competitive offerings. We expect to invest substantial resources to promote and maintain our brand, but there is no guarantee that our brand development strategies will enhance the recognition of our brand or lead to increased customer acquisition and sales. The strength of our brand depends largely on our ability to provide a compelling customer value proposition for our rental and resale offerings and continued customer engagement and word of mouth organic marketing. Our efforts to improve our customer experience may not be successful. In addition, brand promotion activities may not yield increased revenue, and even if they do, the increased revenue may not offset the expenses we incur in promoting and maintaining our brand and reputation.

Furthermore, whether accurate or not, negative publicity about our business, operations, or employees, and customer complaints could harm our reputation, customer trust and referrals of our services, brand partner confidence, employee morale and culture, and our ability to recruit new employees effectively. In addition, negative publicity related to our brand partners, influencers and other vendors that we have partnered with may damage our reputation, even if the publicity is not directly related to us. Negative commentary concerning us or our brand partners may also be posted on social media platforms at any time and may have an adverse impact on our brand, reputation and business. The harm of negative publicity, particularly on social media platforms, may be immediate, without affording us an opportunity for redress or correction.

If we fail to maintain, protect, and enhance our brand successfully or to maintain and grow loyalty among customers, or if we incur substantial expenses in unsuccessful attempts to maintain, protect, and enhance our brand, we may fail to attract or increase the engagement of customers, and our business, financial condition, and operating results may suffer.

***If we are not able to improve our website and mobile app performance, keep pace with technological changes, enhance our current offerings, and develop new offerings to respond to the changing needs of partners and customers, our business, financial performance, and growth may be harmed.***

Our industry is characterized by rapidly changing technology, new service and product introductions, and changing customer demands and preferences, and we are not able to predict the effect of these changes on our business. For example, we are currently focused on improving the performance of our website and mobile application for our customers, including increasing site speed and reliability; however, our efforts may be unsuccessful. The technologies that we currently use to support our business platform may become inadequate or obsolete, and the cost of incorporating new technologies into our offerings and services may be substantial. Any failure by us to adequately integrate technological developments in our approach to data management could harm our ability to leverage data, including customer data, collected through our technology and our systems, which could have a negative effect on our business. If we are unable to adequately utilize our data in support of our operations due to technical or other limitations, our ability to drive leverage in operational efficiencies and to attract new customers and retain existing customers could be impaired. In addition, if we are unable to successfully leverage new technology to automate and otherwise drive efficiencies in our operations, our business, results of operations and financial condition could be harmed.

Our partners and customers may not be satisfied with our technological or other platform enhancements or new offerings or may perceive that these offerings do not respond to their needs or create value for them. Our customers may also be dissatisfied with the product mix we currently offer or will offer in the future.

Additionally, as we invest in and experiment with new offerings or changes to our platform, our partners and customers may find these changes to be disruptive and may perceive them negatively. For example, in 2021, we phased out our “unlimited swaps” subscription plan and shifted to our current subscription plans with different price points based on usage. In addition, our at-home pickup offering offers customers in certain markets a new way to return their items without going to a physical drop off location. In March 2023, we changed our subscription programs to provide customers with one additional item per shipment at no extra charge, which is intended to provide more value to our customers and increase retention. These new plans and offerings do not have demonstrably long track records of success for us and could result in higher fulfillment costs and lower gross margins, higher product spend, and/or other unforeseen impacts on the business. In addition, developing new offerings and services is complex, and the timetable for their public launch is difficult to predict and may vary from our historical experience. As a result, the introduction of new offerings may occur after anticipated release dates, or they may be introduced as pilot programs, which may not be continued for various reasons. In addition, new offerings may not be successful due to defects or errors, negative publicity, or our failure to market them effectively. New offerings may not drive revenue growth, customer acquisition or retention, may require substantial investment and planning, and may bring us more directly into competition with companies that are better established or have greater resources than we do. If we do not continue to cost-effectively develop new offerings that satisfy our brand partners and customers, then our competitive position and growth prospects may be harmed. In addition, changes to subscription plans or new offerings may have lower margins than we anticipate or than existing offerings, and our revenue from new offerings may not be enough to offset the cost of developing and maintaining them, which could adversely affect our business, financial performance, and growth.



***We rely heavily on the effective operation of our proprietary technology systems and software, as well as those of our third-party vendors and service providers, for our business to effectively operate and to safeguard confidential information.***

We rely heavily on the Internet, in-house proprietary technology, third-party software and infrastructure, and customized off-the-shelf technology solutions across our business (collectively, our "IT Systems"). Our ability to effectively manage all areas of our business, particularly our product management and fulfillment operations, depends significantly on the reliability and capacity of these systems. We are critically dependent on the integrity, connectivity, security and consistent operations of our IT Systems, which are highly dependent on coordination of our internal business, operations, product and engineering teams. For example, in September 2019, we experienced a software outage at our Secaucus, New Jersey facility, during which we were unable to fulfill thousands of Reserve and Subscription orders on a timely basis and made the decision to stop taking new orders until the issue was adequately resolved. We also experienced significant negative customer reviews and negative press as a result of the outage, which we believe damaged our customer relationships, reputation and brand. The outage also resulted in substantial financial losses and increased costs largely due to: lost revenues, customer refunds, credits, promotions and/or related payments, and incremental labor and shipping costs. Our insurance policy covered a substantial portion of these losses but not all of them. While we have taken remediation measures in response to the outage, similar outages or other disruptions may occur in the future, which could harm our ability to meet customer expectations, fulfill orders, manage our products, and achieve our objectives for operating efficiencies and profitability.

The technology underlying our platform is highly interconnected and complex and may contain undetected errors or vulnerabilities. Due to the interconnected nature of the software underlying our platform, updates to parts of our code, third-party code, and application programming interfaces, on which we rely and that maintain the functionality of our systems, could have an unintended impact on other sections of our code, which may result in errors or vulnerabilities to our platform that negatively impact the customer experience and functionality of our offerings. In some cases, such as our mobile application, errors may only be correctable through updates distributed through slower, third-party mechanisms, such as app stores, and may need to comply with third-party policies and procedures to be made available, which may add additional delays due to app review and customer delay in updating their mobile apps. In addition, our systems are increasingly reliant on machine learning systems, which are complex and may have errors or inadequacies that are not easily detectable. These systems may inadvertently reduce the efficiency of our systems, or may cause unintentional or unexpected outputs that are incorrect, do not match our business goals, do not comply with our policies, or otherwise are inconsistent with our brand, guiding principles and mission. Any errors or vulnerabilities discovered in our code could also result in damage to our reputation, loss of our customers, unauthorized disclosure of personal and confidential information, loss of revenue or liability for damages, any of which could adversely affect our growth prospects and our business.

***Any significant technology disruption or failure, cyberattack or data security incident could adversely affect our business, financial condition and operations.***

Our ability to effectively manage our business, particularly our product management, order and fulfillment operations, depends significantly on the reliability and capacity of the Internet and our IT Systems. We also collect, process and store sensitive and confidential information, including our proprietary business information and information regarding our customers, employees, suppliers and business partners, including personally identifiable information. The secure processing, maintenance and transmission of this information is critical to our operations. Our IT Systems and those of our service providers and business partners may be subject to damage or interruption from cyber attacks, power outages or damages, telecommunications problems, data corruption, software errors, network failures, acts of war or terrorist attacks, fire, flood and natural disasters. Our existing safety systems, data backup, access protection, user management and information technology emergency planning may not be sufficient to identify, detect, prevent, or recover from data corruption or loss or long-term network or operational outages. In addition, we may have to upgrade our existing IT Systems or choose to incorporate new technology systems from time to time in order for such systems to support the increasing needs of our expanding business. Costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could disrupt or reduce the efficiency of our operations.

Despite various security measures that have been implemented, our IT Systems and those of our third-party service providers and business partners are vulnerable to security incidents, attacks by hackers, acts of vandalism, malware, social engineering, denial or degradation of service attacks, computer viruses, software bugs or vulnerabilities, supply chain attacks, phishing attacks, ransomware attacks, misplaced or lost data, human errors, malicious insiders or other similar events. If unauthorized parties gain access to our IT Systems or information, or those of our third-party service providers or business partners, they may be able to steal, publish, sell, delete, use inappropriately or modify private and sensitive information including credit card information and personally identifiable information or proprietary business information, any or all of which could harm our business, financial condition and results of operations. Ransomware attacks, including those from organized criminal threat actors, nation-states and nation-state supported actors, are becoming increasingly prevalent and can lead to significant interruptions, delays, or outages in our operations, loss of data, loss of income, significant extra expenses to restore data or systems, reputational loss and the diversion of funds. To alleviate the financial, operational and reputational impact of a ransomware attack it may be necessary to make extortion payments, but we may be unable to do so if applicable laws or governmental pressure prohibit or prevent such payments. In addition, employees may intentionally or inadvertently cause data or security incidents that result in unauthorized release of personal or confidential information. Because the techniques used to circumvent security systems change frequently, are becoming increasingly sophisticated, are designed to evade detection and remove forensic evidence, are often not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to timely or effectively anticipate, detect or recover from cyberattacks or security incidents in the future.

Certain of the aforementioned types of cyberattacks and security incidents have occurred in the past, and may occur in the future, resulting in unauthorized, unlawful, or inappropriate access to, inability to access, disclosure of, or loss of sensitive, proprietary and confidential information. For example, although no sensitive information was affected, our platform has been the subject of phishing attempts, credential stuffing attacks (i.e., email addresses and passwords involved in security incidents reported by other companies have been used to attempt to gain unauthorized access to our platform) and brute force attacks (i.e., attempts to try different username and password credentials to gain access to our platform). In addition, company-issued laptops or other devices have been, and may in the future be, lost, stolen, or infected with malware. The security measures we employ to prevent, detect, and mitigate potential harm to our users from the theft of or misuse of user credentials on our network may not be effective in every instance.

We rely on a number of third-party providers of products and services to operate our critical internal and external operations, such as the processing of confidential and personally identifiable information. Examples of third parties include, but are not limited to, our shipping partners, human resources information system, payment processor, and various IT Systems providers. These service providers may not have adequate security measures and could experience a security incident that compromises the confidentiality, integrity, or availability of the IT Systems they operate for us or the information they process on our behalf and may not be able to contain or recover from such incidents or to notify us in a timely manner. Moreover, we or our third-party service providers may be more vulnerable to such attacks in remote or hybrid work environments, which have increased in response to the COVID-19 pandemic. Any cyberattack, security incident, or material disruption or slowdown affecting our IT Systems or those of our third-party service providers or business partners, could have a material adverse effect on our business, financial condition, and results of operations.

While we maintain cyber insurance that may help provide coverage for these types of events, we cannot provide assurances that our insurance will be adequate to cover costs and liabilities related to these incidents. Any such incident, attack, virus or other event could result in costly investigations and litigation exceeding applicable insurance coverage or contractual rights available to us, in particular because certain data privacy laws, including the California Consumer Privacy Act (the "CCPA"), grant individuals a private right of action arising from certain data security incidents, civil or criminal penalties, operational changes or other response measures, loss of consumer confidence in our security measures, and negative publicity that could adversely affect our business, financial condition, and results of operations.

***Our e-commerce business faces distinct risks, such as fulfillment of orders, and our failure to successfully manage these risks could have a negative impact on our profitability.***

As an e-commerce business, we encounter risks and difficulties frequently experienced by businesses with significant internet operations. The successful operation of our business as well as our ability to provide a positive customer experience that will generate Subscription, Reserve rental and Resale orders depend on efficient and uninterrupted e-commerce order-taking and fulfillment operations. If we are unable to allow real-time and accurate visibility to product availability when customers are ready to order, quickly and efficiently fulfill our customers' orders using the fulfillment and payment methods they demand, provide a convenient and consistent experience for our customers regardless of the ultimate channel or effectively manage our online sales, our ability to compete and our results of operations could be adversely affected. We have two fulfillment centers in Arlington, Texas and Secaucus, New Jersey that we depend on for our fulfillment operations. We currently lease these facilities. We cannot guarantee that we will be able to renew or negotiate new leases on terms acceptable to us or at all. If we are unable to secure such leases, or if we can only secure such leases on economic terms that are less than optimal for us, it may materially adversely impact our results of operations.

Risks associated with our e-commerce business include:

- our ability to provide a delightful and effective search and discovery experience for our customers;
- our failure to successfully execute planned enhancements to our website and mobile application performance to improve site speed and reliability in order to keep pace with industry standards and meet customer expectations;
- uncertainties associated with our website and mobile application, including changes in required technology interfaces, website downtime and other technical failures, anticipated or unanticipated costs and technical issues, our ability to upgrade systems software successfully, inadequate system capacity, computer viruses, human error, and/or security incidents;
- disruptions in internet service or power outages;
- reliance on third parties for computer hardware and software, as well as delivery of products to our customers;
- rapid technology changes;
- credit or debit card fraud and other payment processing related issues;
- changes in applicable federal, state and international regulations;
- legal claims related to our e-commerce operations and fulfillment, including liability for online content;
- cybersecurity, consumer privacy and consumer protection concerns and regulation; and
- natural disasters or adverse weather conditions.

Our online offerings also expose us to broader applicability of regulations, as well as additional regulations, such as the rules relating to registration of internet sellers, certain anti-money laundering, trade sanction, anti-corruption, anti-bribery and international trade laws. Problems in any of these areas could result in a reduction in sales, increased costs, sanctions or penalties and damage to our reputation and brands.

In addition, we must keep up to date with competitive technology trends, including the use of new or improved technology, checkout and payment options, creative user interfaces, virtual and augmented reality and other e-commerce marketing tools such as paid search and mobile applications, among others, which may increase our costs and which may not increase sales or attract customers. Our competitors, some of whom have greater resources than we do, may also be able to benefit from changes in e-commerce technologies or adapt better than us, which could harm our competitive position.

***Our quarterly and annual results of operations may fluctuate, which may make it difficult to predict our future performance.***

Our results of operations could vary significantly from quarter to quarter and year to year because of a variety of factors, many of which are outside of our control. Even if our revenue increases, our revenue growth rates may decline in the future as a result of a variety of factors, including macroeconomic factors, increased competition, and the maturation of our business. As a result, comparing our results of operations on a period-to-period basis or our revenue growth rate for any prior period may not be meaningful. In addition to other risk factors discussed in this section, factors that may contribute to the variability of our quarterly and annual results include:

- our success in attracting and retaining customers and subscribers;
- maintaining successful relationships with brand partners and our ability to acquire products at acceptable prices and offer a compelling mix of products that are available for subscription, a-la-carte rental or purchase at any given time;
- the amount and timing of our fulfillment costs, operating expenses and capital expenditures;
- the timing and success of product launches, including pricing changes, new services and features we may introduce;
- the success of our marketing and promotional efforts;
- adverse economic and market conditions and other adverse global events that negatively impact commerce and consumer behavior and that could lead to inflationary pressures and supply chain disruptions;
- disruptions or defects in our software or operations, such as privacy or data security incidents, outages, or other incidents that impact the availability, reliability, or performance of our business;
- the impact of competitive developments and our response to those developments;
- our ability to manage our business and future growth;
- our ability to recruit and retain employees including fulfillment center labor to process, itemize, list, pack and ship our products; and
- changes to financial accounting standards and the interpretation of those standards, which may affect the way we recognize and report our financial results.

The impact of one or more of the foregoing and other factors may cause our results of operations to vary significantly. As such, period-over-period comparisons of our results of operations may not be meaningful and should not be relied upon as an indication of future performance. Fluctuations in our operating results and key metrics may cause our results to fall below our financial guidance or other projections, or the expectations of analysts or investors, which could cause the price of our Class A common stock to decline.

Fluctuations in our results could also cause a number of other problems. For example, analysts or investors might change their models for valuing our Class A common stock, we could experience liquidity issues, our ability to retain or attract key personnel may diminish, and other unanticipated issues may arise. We believe that our operating results and key metrics may vary in the future and that period-to-period comparisons of our operating results may not be meaningful. For example, our overall historical growth rate and the impacts of the COVID-19 pandemic may have overshadowed the effect of seasonal variations on our historical operating results. These seasonal effects may become more pronounced over time, which could also cause our operating results and key metrics to fluctuate.

***We face risks arising from the restructuring of our operations, which could adversely affect our financial condition, results of operations, cash flows, or business reputation.***

In September 2022, we announced a restructuring plan that is intended to reduce costs, streamline our organizational structure and drive operational efficiencies. This plan presents significant risks that could have a material adverse effect on our operations, financial condition, results of operations, cash flow, or business reputation. Such risks include:

- the failure to achieve targeted cost savings and efficiency and profitability goals;
- a decrease in employee morale, a negative impact to our corporate culture, and heightened regrettable attrition, including by critical employees, each of which we've observed to some extent and are focused on addressing;
- an increase in employment claims;
- actual or perceived disruption of service or reduction in service standards to customers; and
- the failure to meet our operational standards, needs, or goals due to fewer employees, including potential single points of failure, or due to reduced or reallocated resources generally.

***Environmental, social and governance matters may impact our business and reputation.***

There has been increased focus, including by consumers, investors, employees and other stakeholders, as well as by governmental and non-governmental organizations, on environmental, social and governance matters generally and with regard to the fashion industry specifically. We expect that an increased focus on ESG considerations will affect some aspects of our operations.

Any failure by us to meet our Impact Strategy goals or a loss of confidence on the part of customers, investors, employees, brand partners, and other stakeholders as it relates to our ESG initiatives could negatively impact our brand, the demand for our offerings, our financial condition, results of operations and prospects. These impacts could be difficult and costly to overcome, even if such concerns were based on inaccurate or misleading information. In addition, achieving our Impact Strategy goals may result in increased costs in our supply chain, fulfillment, and/or corporate business operations, and could deviate from our initial estimates and have a material adverse effect on our business and financial condition. Furthermore, if our competitors' corporate responsibility performance is perceived to be greater than ours, we may lose potential or current customers, we may be unable to recruit and retain employees effectively, and potential or current investors may elect to invest with our competitors instead.

Voluntary or required standards and research regarding environmental, social, and governance initiatives could change and become more onerous for both for us and our third-party suppliers and vendors to meet successfully. Evolving data and research could undermine or refute our current claims and beliefs that we have made in reliance on current research, which could also result in costs, a decrease in revenue, and negative market perception that could have a material adverse effect on our business and financial condition. Alternatively, if we are unable to satisfy such new criteria, investors may conclude that our policies or actions with respect to corporate responsibility are inadequate. We risk damage to our brand and reputation in the event that our corporate responsibility procedures or standards do not meet the standards set by various constituencies.

A variety of organizations measure the performance of companies on such ESG topics, and the results of these assessments are widely publicized. In addition, investment in funds that specialize in companies that perform well in such assessments are increasingly popular, and major institutional investors have publicly emphasized the importance of such ESG measures to their investment decisions. Topics taken into account in such assessments include, among others, the company's efforts and impacts on climate change and human rights, ethics and compliance with law and the role of the Company's board of directors in supervising ESG issues. Unfavorable ESG ratings could lead to negative investor sentiment toward us and/or our industry, which could have a negative impact on our access to and costs of capital. In light of investors' and other stakeholders' increased focus on ESG matters, there can be no certainty that we will manage such issues successfully, or that we will successfully meet our stakeholders' or society's ESG expectations or achieve our ESG goals and financial goals.

***We rely on the experience and expertise of our Co-Founder and Chief Executive Officer, senior management team, key technical and strategic employees and hourly personnel.***

We believe that our success and future growth depend largely upon the continued services of our senior management team, including our Co-Founder, Chief Executive Officer and Chair, Jennifer Y. Hyman. From time to time, there may be changes in our executive management team resulting from the hiring or departure of these executives. Our executive officers are employed on an at-will basis, which means they may terminate their employment with us at any time. The loss of one or more of our executive officers, or the failure by our executive team to effectively work with our employees and lead our company, could harm our business. We do not maintain key man life insurance with respect to any member of management or other employee.

In addition, our future success will depend upon our ability to attract and retain employees, particularly for key roles, such as engineering and technology (including data science and analytics), brand, marketing, buying and planning, and logistics, as well as hourly fulfillment workers and customer service agents. Such efforts have required, and are expected to continue to require significant time, expense, and attention as there is intense competition for such individuals, particularly in New York City, Galway, New Jersey and Texas, and new hires require significant training and time before they achieve full productivity. We may be unable to maintain competitive wage and salary levels, which are likely to increase further due to inflation and potential minimum wage increases, which could increase attrition and make recruiting more difficult. Alternatively, we may be required to increase current compensation levels to attract and retain employees, which could negatively impact our profitability goals. In addition, prospective and existing employees often consider the value of the equity awards they may receive in connection with their employment and our stock price has declined significantly since our 2021 IPO. If the perceived value of our equity awards is inadequate or experiences significant volatility, it may adversely affect our ability to recruit and retain key employees. In April 2023, we announced a proposed option exchange designed to incentivize and retain employees, directors and other service providers by providing the ability to exchange outstanding stock options for RSUs. This option exchange may not be approved by stockholders or we may change our plans, and it may cause us to incur significant and unexpected costs. In addition, the option exchange may not have the intended incentivization and retention benefits. Additionally, our September 2022 restructuring plan has made and in the future may continue to make it more difficult to attract and retain employees for key roles.

Our corporate employees primarily worked remotely from March 2020 to April 2022. Since then, we have reopened our offices and moved to a hybrid working model for New York City and Galway, in which employees were asked to be in the office two days per week in 2022 and three days per week starting in March 2023. If the hybrid model is not aligned with our employees' preferences, it may adversely affect our ability to recruit and retain employees. In addition, the hybrid model may negatively impact our company culture, collaboration and productivity.

We have experienced in the past, and may in the future experience, voluntary attrition at significant rates for various reasons, including challenging labor market conditions such as rising wages, and a decreased level of workforce participation. If we are unable to attract and retain qualified employees in a timely fashion, particularly for the key roles described above, our ability to achieve our strategic objectives will be adversely impacted, and our business and future growth prospects will be harmed.

***We believe that our company culture has contributed to our success and if we cannot maintain this culture as we grow, our business could be harmed.***

We believe that our company culture has been critical to our success. Our company culture stands for being entrepreneurial, passionate, kind and positive. Our ability to continue to cultivate and maintain this culture is essential to our growth and continued success. We face a number of challenges that may affect our ability to sustain our corporate culture, including:

- our September 2022 restructuring plan, which negatively impacted morale for some employees and our efforts to boost morale may not be successful;
- failure to identify, attract, reward, and retain employees who share and further our culture, values, and mission;
- the increasing size, complexity and geographic diversity of our workforce, and our ability to promote a uniform and consistent culture across all our offices and employees;

- the employee and market perception of our ESG efforts, which may impact employee morale and recruiting efforts;
- competitive pressures to move in directions that may divert us from our mission, vision, and values;
- our hybrid working model for corporate employees in New York City and Galway and the remote working model for customer service employees;
- the continued challenges of a rapidly-evolving industry; and
- the increasing need to develop expertise in new areas of business that affect us.

In particular, Diversity, Equity and Inclusion is a strategic imperative for us. We are focused on driving inclusiveness, innovation and stronger business results by attracting a diverse talent pool and continuing to foster an inclusive work environment for all our employees. Although we have adopted policies to promote compliance with laws and regulations as well as to foster a respectful workplace for all employees, our employees may fail to abide by these policies. In addition to damaging our reputation, actual or alleged misconduct could tarnish our culture and reputation, result in negative publicity, affect the confidence of our stockholders, regulators and other parties and could have a material adverse effect on our business, financial condition and operating results.

***Material changes in the pricing practices of our brand and manufacturing partners and/or the costs of raw materials could negatively impact our profitability.***

Our brand and manufacturing partners may increase their pricing if raw materials, labor, or other costs become more expensive or subject to other pricing pressures. The inputs used to manufacture products are subject to availability constraints and price volatility. In addition, our brand partners may pass the increase in sourcing costs to us through price increases, thereby impacting our margins. For example, if our manufacturing partners increase their costs, our Exclusive Designs may not be as cost-effective to produce, which could negatively impact our ability to meet our financial goals. The fabrics used in our products are made of raw materials including petroleum-based products and cotton. Significant price fluctuations or shortages in petroleum, cotton, or other raw materials could significantly increase our cost of revenue and the cost associated with procuring products via Exclusive Designs. Moreover, in the event of a significant disruption in the supply of the fabrics or raw materials used in the manufacture of the products we offer, such as due to restrictions on Xinjiang cotton, we and/or our partners might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. For example, disruptions in the supply chain as a result of the COVID-19 pandemic and the current inflationary environment increased raw material costs, impacting pricing of our products, and caused shipping delays for certain of our products.

***Our business is affected by seasonality.***

Our business is subject to seasonal fluctuations. For our Subscription rentals, we typically acquire the highest number of subscribers in March through May and September through November, as these are the times customers naturally think about changing over their wardrobes. We generally see a higher rate of subscribers pause in the summer, and in mid-December through the end of January. In the third and fourth fiscal quarters, our Reserve business historically (prior to COVID-19) benefited from increased wedding and holiday events but this seasonality has varied since the onset of COVID-19. Adverse events, such as higher unemployment, inflation, deteriorating economic conditions, or fewer large-scale holiday and special events, can deter consumers from shopping and renting. Any significant decrease in customers or revenue during periods of high seasonal acquisition could have a disproportionately large impact on our operating results and financial condition for that year. Any factors that harm our operating results during these periods, including disruptions in our brand partners' supply chains or unfavorable economic conditions could have a disproportionate effect on our results of operations for our entire fiscal year.

We also experience seasonality in the timing of expenses and capital outlays. In anticipation of increased rental activity during seasonal peaks, we typically incur significant expenses, such as rental product capital expenditures. We may also incur expenses for additional marketing and/or additional staffing in our customer support operations. In addition, we typically experience an increase in our shipping costs during peak seasons, such as around the holidays. In the future, our seasonal subscriber or revenue patterns may become more pronounced or may change, may strain our personnel and operational activities, and may cause a shortfall in revenue as compared with expenses in a given period, which could substantially harm our business, financial condition and results of operations.

Furthermore, our rapid growth in recent years may obscure the extent to which seasonality trends have affected our business and may continue to affect our business, and the effects of the COVID-19 pandemic may have altered our historical seasonality trends. Accordingly, yearly or quarterly comparisons of our operating results may not be useful and our results in any particular period will not necessarily be indicative of the results to be expected for any future period. Seasonality in our business can also be affected by introductions of new or enhanced products and offerings, including the costs associated with such introductions.

***We may require additional capital to support the growth of our business and satisfy our debt obligations, and this capital might not be available on acceptable terms, if at all.***

We have funded our operations since inception primarily through equity and debt financings and revenue generated from our offerings. Our goal is to be a profitable company; however, we cannot be certain when or if our operations will generate sufficient cash to fully fund our ongoing operations or the growth of our business. We also intend to continue to make investments to develop and grow our business. For example, in the future, we may need additional funding to satisfy our debt obligations, to obtain rental products, for marketing, and for headcount or other operating expenses and capital expenditures, to develop new features or enhance our offerings, to improve our operating infrastructure, and/or to acquire complementary businesses and technologies. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to support our business growth, and respond to business challenges could be significantly impaired, and our business may be adversely affected. Additionally, in recent months, there has been volatility in and disruptions to the global economy, including the equity and debt financial markets. Such weakness and volatility in capital markets and the economy in general could limit our access to capital markets and increase our costs of borrowing.

If we incur additional debt, the debt holders would have rights senior to holders of common stock to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in the future will depend on numerous considerations, including factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future issuances of debt or equity securities. As a result, our stockholders bear the risk of future issuances of debt or equity securities reducing the value of our common stock and diluting their interests.

We maintain the majority of our cash and cash equivalents in accounts with major U.S. and international financial institutions, and our deposits at these institutions exceed insured limits. Market conditions can impact the viability of these institutions. In the event of failure of any of the financial institutions where we maintain our cash and cash equivalents, there can be no assurance that we would be able to access uninsured funds in a timely manner or at all. Any inability to access or delay in accessing these funds could adversely affect our business and financial position.



***Our level of indebtedness could have a material adverse effect on our ability to generate sufficient cash to fulfill our obligations under such indebtedness, to react to changes in our business and to incur additional indebtedness to fund future needs.***

As of January 31, 2023, we had \$272.5 million aggregate principal amount of borrowings under a credit facility with Double Helix Pte Ltd. as administrative agent for Temasek Holdings (as currently in effect, the "2022 Amended Temasek Facility"). The 2022 Amended Temasek Facility matures in October 2026. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our current or future debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. We cannot provide assurance that our business will be able to generate sufficient levels of cash or that future borrowings or other financings will be available to us in an amount sufficient to enable us to service our indebtedness and fund our other liquidity needs. These financing risks, in addition to potential rising interest rates and changes in market conditions, if realized, could negatively impact our business, financial condition and results of operations. See "Note 8 —Long-Term Debt" in the Notes to Consolidated Financial Statements for more information on our indebtedness.

***Our 2022 Amended Temasek Facility contains financial covenants and other restrictions on our actions that may limit our operational flexibility or otherwise adversely affect our business, financial condition and results of operations.***

The terms of our 2022 Amended Temasek Facility include a number of covenants that limit our ability to (subject to negotiated exceptions), among other things, incur additional indebtedness, incur liens on assets, enter into agreements related to mergers and acquisitions, dispose of assets or pay dividends and make distributions. Additionally, the 2022 Amended Temasek Facility includes a minimum liquidity maintenance covenant of \$50.0 million. The terms of our 2022 Amended Temasek Facility may restrict our current and future operations and could adversely affect our ability to finance our future operations or capital needs. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategy and compete against companies which are not subject to such restrictions.

A failure by us to comply with the covenants specified in the 2022 Amended Temasek Facility could result in an event of default under the agreement, which would give the lender the right to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. If the debt under the Credit Agreement were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could adversely affect our business, financial condition and results of operations.

***We have identified material weaknesses in our internal control over financial reporting. If we are unable to remediate the material weaknesses in a timely manner, identify additional material weaknesses in the future or otherwise fail to maintain effective internal control over financial reporting, which may result in material misstatements of our consolidated financial statements or cause us to fail to meet our periodic reporting obligations, our ability to comply with applicable laws and regulations and our access to the capital markets to be impaired.***

In connection with the preparation of our consolidated financial statements as of January 31, 2021, we identified material weaknesses in our internal control over financial reporting, as described below. As of January 31, 2023, these material weaknesses were still in the process of being remediated. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We did not maintain sufficient evidence of the operation of controls to achieve complete, accurate and timely financial accounting, reporting and disclosures nor were monitoring controls evidenced at a sufficient level to provide the appropriate level of oversight of activities related to our internal control over financial reporting. This material weakness contributed to the following additional material weaknesses:

We did not design and maintain effective controls to ensure (i) the appropriate segregation of duties in the operation of manual controls and (ii) journal entries were reviewed at the appropriate level of precision.

We did not design and maintain effective controls over information technology ("IT") general controls for information systems and applications that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain (i) program change management controls to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately, (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to our financial applications, programs and data to appropriate personnel, (iii) computer operations controls to ensure that critical batch jobs are monitored and data backups are authorized and monitored and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements.

These IT control deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected.

The material weaknesses described above did not result in a misstatement to our annual or interim consolidated financial statements. However, each of these material weaknesses could result in a misstatement of substantially all account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

We continue to implement measures to remediate the identified material weaknesses. The measures include (i) formalizing the Company's framework and policies with respect to maintaining evidence in the operation of control procedures, (ii) improving our control framework to include the appropriate segregation of duties and controls over the preparation and review of journal entries, and (iii) designing and implementing IT general controls for systems and applications impacting internal control over financial reporting.

We have performed extensive work with personnel responsible for the design and operating effectiveness of internal control over financial reporting in our efforts to ensure that appropriate evidence is maintained. We are continuing to implement comprehensive access control protocols for our enterprise resource planning environment in order to implement restrictions on user and privileged access to certain applications, establishing additional controls over segregation of duties and the preparation and review of journal entries, implementing controls to review the activities for those users who have privileged access and program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately.

The implementation of these remediation efforts is in progress, may require additional expenditures to implement, and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, and as a result, the timing of when we will be able to fully remediate the material weaknesses is uncertain. We can give no assurance that our efforts will remediate these material weaknesses in our internal control over financial reporting, or that additional material weaknesses will not be identified in the future. If the steps we take do not remediate the material weaknesses in a timely manner, or if we fail to implement and maintain effective internal control over financial reporting, there could be errors in our annual or interim consolidated financial statements that could result in a restatement of our financial statements, and could cause us to fail to meet our reporting obligations, any of which could diminish investor confidence in us and cause a decline in the price of our Class A common stock.

Additionally, ineffective internal control over financial reporting could expose us to an increased risk of financial reporting fraud and the misappropriation of assets and subject us to potential delisting from the stock exchange on which we list or to other regulatory investigations and civil or criminal sanctions. If we are unable to remediate the material weakness in a timely manner, or if additional material weaknesses exist or are discovered in the future, and we are unable to remediate any such material weakness, our reputation, results of operations and financial condition could suffer.

***The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the listing standards of Nasdaq, and other applicable securities rules and regulations. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems, and resources. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could harm our business, financial condition, and results of operations. Furthermore, several members of our management team do not have prior experience in running a public company. We have hired additional employees and engaged consultants to assist us in complying with these requirements; however we may invest additional resources in our compliance efforts, including hiring more employees or engaging outside consultants, which may increase our operating expenses. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

In addition, being a public company that is subject to these rules and regulations has made it more expensive for us to obtain director and officer liability insurance. In the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These rules and regulations may also make it more difficult for us to attract and retain qualified members of our board of directors, particularly members who can serve on our audit committee and compensation committee, and qualified executive officers.

***As a result of being a public company, we are obligated to develop and maintain proper and effective internal control over financial reporting, and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our Class A common stock.***

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act ("Section 404"), to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting in our first annual report required to be filed with the SEC following the date we are no longer an "emerging growth company." Our compliance with Section 404 will require that we incur substantial expenses and expend significant management efforts.

In addition to the material weaknesses in internal control over financial reporting identified in connection with the audit of our financial statements as of and for the fiscal year 2020, subsequent testing by us or our independent registered public accounting firm may reveal additional deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. During the evaluation and testing process of our internal controls, if we identify additional material weaknesses in our internal control over financial reporting, we will be unable to certify that our internal control over financial reporting is effective. We cannot provide assurance that there will not be additional material weaknesses in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, or if we or our independent registered public accounting firm determines we have additional material weaknesses in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

***We are an “emerging growth company,” and we cannot be certain if the reduced reporting and disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”), and we may take advantage of certain exemptions from reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including:

- the auditor attestation requirements of Section 404;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and
- exemptions from the requirements of holding a non-binding advisory stockholder vote on executive compensation and non-binding advisory stockholder vote to approve any golden parachute payments not previously approved.

Pursuant to Section 107 of the JOBS Act, as an emerging growth company, we have elected to use the extended transition period for complying with new or revised accounting standards until those standards would otherwise apply to private companies. As a result, our consolidated financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make our Class A common stock less attractive to investors. In addition, if we cease to be an emerging growth company, we will no longer be able to use the extended transition period for complying with new or revised accounting standards.

We will remain an emerging growth company until the earliest of:

- the last day of the fiscal year following the fifth anniversary of our IPO;
- the last day of the first fiscal year in which our annual gross revenue is \$1.235 billion or more;
- the date on which we have, during the previous rolling three-year period, issued more than \$1 billion in non-convertible debt securities; and
- the date we qualify as a “large accelerated filer,” with at least \$700 million of equity securities held by non-affiliates.

***The COVID-19 pandemic has had, and may in the future continue to have, a material adverse impact on our business. Other future pandemics or public health crises may have a similar adverse impact on our business.***

The COVID-19 pandemic materially adversely affected our operating and financial results during fiscal year 2020 due to the occurrence of the following events or circumstances, among others:

- the global shelter-in-place restrictions significantly reduced our number of Active Subscribers and engagement with all of our offerings because of the decrease in special events, social gatherings and interactions outside the home;
- a significant number of subscribers paused or canceled their subscriptions or downgraded to lower-priced plans, and we experienced significant decreased demand for our Reserve offering and customers canceled their existing orders for special events;
- subscribers engaged less, which impacted the success of our organic marketing and reduced the volume of our data and business insights;
- disruptions of the operations of our brand partners and delays in shipment and delivery of our products;
- pausing all of our paid marketing spend and eliminating or significantly reducing investments in growth initiatives;
- carrying more products relative to customer demand, negatively impacting gross margins;
- performance-based revenue share payments to brands were decreased due to lower total revenue, impacting our brand partner relationships and value proposition;

- implementing temporary salary cuts, employee layoffs and furloughs, and pausing recruiting efforts, which negatively impacted employee morale and resulted in an increase in regrettable employee attrition; and
- the closure of our brick-and-mortar retail stores, which was perceived negatively by some customers.

In fiscal years 2021 and 2022, our operating and financial results continued to be impacted by the COVID-19 pandemic, including the Omicron variant.

The effects of the COVID-19 pandemic, including the identification and spread of new variants of the virus, may continue to have a negative impact on our business operations and long-term financial results of operations due to the occurrence of the following events or circumstances, among others:

- the difficulty in accurately predicting the timing of potential new variants and/or the pace of our business recovery, particularly changes in demand, subscriber levels and pause activity, and Reserve and Resale orders, leading to potentially over-spending and lower profitability if demand and engagement are not as expected;
- our inability to meet increased demand and provide an optimal customer experience as a result of difficulty in hiring additional employees, particularly in our fulfillment, operations and customer experience functions;
- continuing supply chain disruptions and/or disruptions in the operations of our brand partners, which could impact our ability to acquire an adequate depth and breadth of products at favorable prices in a timely manner to match demand; and
- possible resurgences of the COVID-19 pandemic that lead to new or additional shelter-in-place orders, travel advisories, and/or reduced social activities and events, which may dampen future demand for our products and offering.

Future pandemics or public health crises may have similar adverse effects on our business. Although we anticipate that our operating results in future fiscal years will begin to reflect a more normal operating environment, the current economic and public health climate has created a high degree of uncertainty and there is no assurance that our scale, number of customers and revenue will return to or surpass pre-pandemic levels for a sustained period of time. As such, we continue to closely monitor this global health crisis and will continue to reassess our strategy and operational structure on a regular, ongoing basis as the situation evolves. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more details on the impact of the COVID-19 pandemic.

***Strategic investments, partnerships, alliances, or acquisitions could be difficult to identify, pose integration challenges, divert the attention of management, disrupt our business, dilute stockholder value, and adversely affect our business, financial condition, and results of operations.***

Our success depends, in part, on our ability to expand our services and grow our business in response to changing technologies, customer demands, and competitive pressures. We may choose to expand our services and grow our business by entering into partnerships or alliances with third parties rather than through internal development or through the acquisition of complementary businesses and technologies. The identification of suitable alliance partners or acquisition candidates can be difficult, time-consuming, and costly, and we may not be able to successfully complete identified transactions. In addition, if we pursue and complete an acquisition, we may not be able to successfully integrate the acquired business. The risks we face in connection with partnerships and acquisitions include:

- a partnership or acquisition may disrupt our ongoing business, divert resources, increase our expenses, and distract our management;
- an acquisition may negatively affect our financial results because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by stockholders and third parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;

- we may encounter difficulties or unforeseen expenditures in integrating the business, offerings, technologies, personnel, or operations of any company that we partner with or acquire; and
- if we incur debt or issue a significant amount of equity securities to fund such joint venture or acquisition, such debt may subject us to material restrictions on our ability to conduct our business, as well as financial maintenance covenants and such equity securities may cause dilution for our existing stockholders and earning per share may decrease.

The occurrence of any of these foregoing risks could adversely affect our business, financial condition, and results of operations and expose us to unknown risks or liabilities.

***Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.***

GAAP is subject to interpretation by the Financial Accounting Standards Board (the “FASB”), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. The accounting for our business is complicated, particularly in the area of revenue recognition, and is subject to change based on the evolution of our business model, interpretations of relevant accounting principles, enforcement of existing or new regulations, and changes in SEC or other agency policies, rules, regulations, and interpretations of accounting regulations. Changes to our business model and accounting methods, principles, or interpretations could result in changes to our financial statements, including changes in revenue and expenses in any period, or in certain categories of revenue and expenses moving to different periods, may result in materially different financial results, and may require that we change how we process, analyze, and report financial information and our financial reporting controls.

***If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes appearing elsewhere in this Annual Report. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.” The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses. Significant estimates and judgments include the useful life and salvage value of rental product, incremental borrowing rate to determine lease liabilities and right-of-use assets, and the valuation of share-based compensation and warrants. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

***The estimates of market opportunity and forecasts of market growth included in our public disclosures may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, our business could fail to grow at similar rates, or at all.***

The estimates of market opportunity and forecasts of market growth included in our public disclosures may prove to be inaccurate. Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate, including as a result of any of the risks described in this Annual Report.

The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of addressable customers and subscribers covered by our market opportunity estimates will become a customer or subscriber or generate any particular level of revenues for us. In addition, our ability to expand in any of our target markets depends on a number of factors, including the cost, performance and perceived value associated with our products and offerings. Even if the markets in which we compete meet the size estimates and growth forecasted in our public disclosures, our business could fail to grow at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, the forecasts of market growth included in our public disclosures should not be taken as indicative of our future growth.

***Expansion of our operations internationally requires management attention and resources, involves additional risks, and may be unsuccessful.***

We do not currently offer our products and services internationally. In the event we decide to expand our geographic market internationally, we will need to adapt to different local cultures, standards, laws, and policies. The business model we employ may not appeal as strongly to customers in international markets. Our entry into new markets will also require us to become familiar with different trends and customer preferences in such markets. In addition, consumer shopping behavior may continue to evolve and we may need to adapt our service to such changes.

Furthermore, to succeed with customers in international locations, we will need to locate fulfillment centers in foreign markets, hire local employees and source products appealing to local preferences, and we will have to invest in these facilities, employees and products before proving we can successfully run foreign operations. We may not be successful in expanding into additional international markets or in generating revenue from foreign operations for a variety of reasons, including:

- lower acceptance of our offerings and the concept of renting apparel and accessories and the need to localize our products offerings;
- competition from local incumbents that understand the local market and may operate more effectively;
- regulatory requirements, taxes, trade laws, trade sanctions and economic embargoes, tariffs, export quotas, custom duties, or other trade restrictions, or any unexpected changes thereto; and
- risks resulting from changes in currency exchange rates.

If we invest substantial time and resources to establish and expand our operations internationally and are unable to do so successfully and in a timely manner, our operating results would suffer.

***Risks Related to Our Legal and Regulatory Environment***

***Our business is subject to a large number of U.S. and non-U.S. laws and regulations, many of which are evolving.***

We are subject to numerous evolving laws and regulations in the United States and around the world, including those relating to consumer protection, environmental protection, intellectual property, consumer product safety, privacy and information security, taxation, and immigration, labor, and other employment law matters, such as workplace safety, particularly in our fulfillment centers, and wage and hour regulations. There has been a recent focus on automatically renewing Subscription offerings. For example, California's Automatic Renewal Law, and the federal Restore Online Shoppers' Confidence Act (the "ROSCA"), require companies to adhere to enhanced disclosure and cancellation requirements when entering into automatically renewing contracts with subscription customers. Regulators and private plaintiffs have brought enforcement and litigation actions against companies, challenging automatic renewal and subscription programs.

We strive to comply with all applicable laws; however, despite our efforts, we may not have fully complied in the past and may not in the future. If we fail to comply with existing or future laws or regulations, or if these laws or regulations are violated by our brand partners, suppliers or vendors, we may be subject to criminal and civil liabilities, fines, or sanctions and, while incurring substantial legal fees and costs and reputational harm. In addition, compliance and remediation efforts can be costly.

***We are subject to U.S. and certain foreign export and import controls, sanctions, embargoes, anti-corruption laws, and anti-money laundering laws and regulations. Compliance with these legal standards could impair our ability to compete in domestic and international markets, and we could face criminal liability and other serious consequences for violations, which could harm our business.***

We are subject to export control laws and regulations (including the U.S. Export Administration Regulations), U.S. Customs and import regulations, various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control, the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA"), as amended, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, and other state and national anti-bribery and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption laws are interpreted broadly and generally prohibit companies and their employees, agents, contractors, and other partners from authorizing, promising, offering, or providing, directly or indirectly, corrupt payments of anything of value to recipients in the public or private sector to obtain or retain business or an improper business advantage. As a public company, we also are subject to the FCPA's accounting provisions, which require us to make and keep complete and accurate books and records, and to maintain a system of adequate internal accounting controls. We have brand partners, suppliers, and vendors operating outside the United States and may engage other third parties to sell our products and services or to obtain necessary permits, licenses, patent registrations, and other regulatory approvals outside the United States. We can be held liable for the corrupt or other illegal activities of our employees, agents, contractors, and other partners, even if we do not explicitly authorize such activities. Although we have policies and controls in place to promote compliance with these laws and regulations, there are no assurances that these policies and controls will always prevent illegal or improper acts by employees, agents, third parties, or business partners. Violations of the laws and regulations described above may result in substantial civil and criminal fines and penalties, imprisonment, the loss of export or import privileges, debarment, tax reassessments, breach of contract and fraud litigation, reputational harm, investigation costs, and other consequences, any of which could have a material adverse effect on our business, financial condition, and results of operations.

***From time to time, we may be subject to legal proceedings, regulatory disputes, and government inquiries that could cause us to incur significant expenses, divert our management's attention, and materially harm our business, financial condition, and operating results.***

From time to time, we may be subject to claims, lawsuits, government investigations, and other proceedings involving products liability, competition and antitrust, intellectual property, privacy, consumer protection, securities, tax, labor and employment, commercial disputes, environmental regulations, and other matters that could adversely affect our business operations and financial condition. For example, on November 14, 2022, a purported stockholder of the Company filed a putative class action lawsuit in the Eastern District of New York against the Company, certain of its officers and directors, and the underwriters of its IPO, entitled *Rajat Sharma v. Rent the Runway, Inc., et al.* The complaint alleges that we violated Sections 11 and 15 of the Securities Act of 1933, as amended, by making allegedly materially misleading statements, and by omitting material facts necessary to make the statements made therein not misleading. The lawsuit seeks, among other things, compensatory damages, attorneys' fees and costs and such other relief as deemed just and proper by the court.

In addition, in recent years, we have seen a rise in the number and potential significance of these disputes and inquiries and evolving areas of focus for regulators and private plaintiffs. For example, there has been an increase in consumer class action lawsuits relating to subscription products. Litigation and regulatory proceedings may be protracted and expensive, and the results are difficult to predict. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages and include claims for injunctive relief. Additionally, our litigation costs could be significant. Adverse outcomes with respect to litigation or any of these legal proceedings may result in significant settlement costs or judgments, penalties and fines, or require us to modify our products and offerings, all of which could negatively affect our revenue growth. The results of litigation, investigations, claims, and regulatory proceedings cannot be predicted with certainty, and determining reserves for pending litigation and other legal and regulatory matters requires significant judgment. There can be no assurance that our expectations will prove correct, and even if these matters are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, financial condition, and results of operations.



In addition, as a public company, our business and financial condition are more visible than as a private company, which may result in an increased risk of threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business, financial condition, and results of operations would be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, would divert the resources of our management and harm our business, financial condition, and results of operations.

***Failure to adequately obtain, maintain, protect and enforce our intellectual property and proprietary rights could harm our brand, devalue our proprietary content, and adversely affect our ability to compete effectively.***

Our success depends in part on our ability to obtain, maintain, protect, and enforce our intellectual property rights, including those in our proprietary technologies, know-how, and brand. To protect our rights to our intellectual property, we rely on a combination of trademark, copyright patent, and trade secret laws, domain name registrations, confidentiality agreements, and other contractual arrangements with our employees, affiliates, customers, strategic partners, vendors, and others. However, the protective steps we have taken and plan to take may be inadequate to deter infringement, misappropriation or other violations of our intellectual property or proprietary rights and we may be unable to broadly enforce all of our intellectual property rights. Failure to adequately protect our intellectual property could harm our brand, devalue our proprietary technology and content, and adversely affect our ability to compete effectively.

If we fail to protect our intellectual property rights adequately, our competitors may gain access to our intellectual property and proprietary technology and develop and commercialize substantially identical offerings or technologies. We may not timely or successfully register our trademarks in all jurisdictions, which could enable third parties to use our brand name and create potential roadblocks to any expansion of the business outside of the U.S. The copyright registrations we have obtained for our website may not adequately protect all material contained on our website, and these registrations do not cover any material that is not part of our website. The patent prosecution process is expensive and time-consuming. We may not be able to prepare, file and prosecute all necessary or desirable patent applications at a commercially reasonable cost or in a timely manner or in all jurisdictions, creating an opportunity for third parties to patent the same technology while preventing us from continuing to use it. It is also possible that we may fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Moreover, depending on the terms of any future in-licenses to which we may become a party, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology in-licensed from third parties. Any patents, trademarks, copyrights, or other intellectual property rights that we have or may obtain may be challenged or circumvented by others or invalidated or held unenforceable through administrative proceedings, or litigation. There can be no assurance that our patent applications will result in issued patents, or that any such patents will be of sufficient scope to adequately protect our proprietary technology or provide us with any meaningful competitive advantage. Moreover, failure to comply with applicable procedural, documentary, maintenance, renewal, fee payment and other similar requirements with the United States Patent and Trademark Office or other similar governmental agencies or administrative bodies could result in abandonment or lapse of the affected intellectual property rights. Further, the laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights in those countries may be inadequate. Accordingly, despite our efforts to obtain and protect our intellectual property, it may be possible for unauthorized third parties to copy our offerings and capabilities and use information that we regard as proprietary to create offerings that compete with ours.

We generally enter into confidentiality and invention assignment agreements with our employees and consultants, as well as agreements with other third parties, including suppliers and other partners, that contain confidentiality obligations and assignment provisions. However, we cannot guarantee that we have entered into such agreements with each party that has developed intellectual property for us or that may have had access to our proprietary information and technology, know-how, and trade secrets. Moreover, no assurance can be given that these agreements will be effective in controlling access to our proprietary information or preventing the unauthorized distribution, use, misappropriation, reverse engineering, or disclosure of our proprietary intellectual property and other proprietary rights, information, technology, know-how, and trade secrets. These agreements may be breached, and we may not have adequate remedies for any such breach. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed, possibly leaving us without an adequate remedy to make us whole.

We may be required to spend significant financial and managerial resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management. In the alternative, the failure to enforce our intellectual property rights could result in the impairment or loss of portions of our intellectual property rights. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights, and if such defenses, counterclaims, or countersuits are successful, it could result in the loss, impairment or narrowing of valuable intellectual property rights. In patent litigation in the United States, counterclaims alleging invalidity and/or unenforceability are common, and there are numerous grounds upon which a third party can assert invalidity or unenforceability of a patent. In an infringement proceeding, a court may decide that the patent claims we are asserting are invalid and/or unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patent claims do not cover the technology in question. Third parties may also raise similar claims before administrative bodies in the United States or abroad, even outside the context of litigation. Such mechanisms include re-examination, post grant review, inter partes review and equivalent proceedings in foreign jurisdictions (for example, opposition proceedings). Such proceedings could result in revocation of our patents, or could result in narrowing the scope of the patent claims so that they no longer cover our technology. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we, our patent counsel, and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we may lose some, and perhaps all, of the patent protection on our technology. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly, could put our patent applications at risk of not issuing, and could have a material adverse impact on our business by making the technology at issue freely available for others to use. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our offerings and capabilities, impair the functionality of our offerings and capabilities, delay or prevent introductions of new offerings, result in our substituting inferior or more costly technologies into our offerings, allow our competitors to gain momentum or overtake us, or injure our brand and reputation. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our Class A common stock.

***We may incur costs to defend against, face liability or be vulnerable to intellectual property infringement, misappropriation, and other claims and allegations brought against us by others, which could result in substantial damages and diversion of management's efforts and attention.***

Third parties may assert claims against us alleging that we infringe upon, misappropriate, dilute or otherwise violate their intellectual property rights, particularly as we expand our business. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims. These claims, regardless of their merit, could be expensive and time consuming to defend and could divert management resources. We cannot predict the outcome of lawsuits or administrative proceedings, and we cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition or results of operations. These claims are resolved against us, they could result in significant monetary liability, or prevent us from renting or selling some of our products or using some of our technology. In addition, a finding of liability or other resolution of claims may require us to change our business model, redesign or rebrand our products, replace portions of our technology platform, license rights from third parties, cease using certain brand names or other intellectual property rights altogether, or make substantial payments for royalty or license fees, legal fees, disgorgement of profits, corrective advertising, settlement payments or other costs or damages. Further, licenses may not be available to us on reasonable terms, if at all. Any of these events could harm our business and cause our results of operations, liquidity and financial condition to suffer.

***Our use of third-party open-source software could adversely affect our ability to offer our products and offerings and subjects us to possible litigation.***

We use third-party open-source software in connection with the development and deployment of our software applications and will likely use third-party open-source software in the future. Some open-source licenses require that source code that is developed using open-source software be made available to the public at no cost and that any modifications or derivative works to certain open-source software continue to be licensed under open-source licenses, which in some circumstances could include valuable proprietary code. In some circumstances this could require valuable proprietary code to be made available as open-source software, and may also prohibit charging fees to licensees. While we employ practices designed to monitor our compliance with the licenses of open-source software and try to ensure that we do not use any of the open-source software in a manner that would require us to disclose our proprietary source code or preclude us from charging fees, we cannot guarantee that we will be successful. We cannot guarantee that all open-source software is reviewed prior to use in our platform, or that our developers have not incorporated (and will not in the future incorporate) open-source software into our products and offerings without our knowledge. Furthermore, there are an increasing number of open-source software license types, almost none of which have been tested in a court of law, resulting in a dearth of guidance regarding the proper legal interpretation of such licenses. As a result, there is a risk that open-source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market or provide our products and offerings. If we were to receive a claim of non-compliance with the terms of any of our open-source licenses, we may be required purchase a costly license, to publicly release certain portions of our proprietary source code, limit or prohibit our use of some or all of our software, or expend substantial time and resources to re-engineer some or all of our software. We could also be precluded from charging fees for third-party use of our proprietary code.

In addition, the use of third-party open-source software typically carries greater technical and legal risks than the use of third-party commercial software because open-source licensors generally do not provide support, warranties or controls on the functionality or origin of the software. To the extent that our platform depends upon the successful operation of open-source software, any undetected errors or defects could prevent the deployment or impair the functionality of our systems and injure our reputation. Use of open-source software may also present additional security risks because the public availability of such software may make it easier for hackers and other third parties to compromise our platform. Any of the foregoing could be harmful to our business, financial condition, or results of operations and could help our competitors develop offerings that are similar to or better than ours.

***We are subject to rapidly changing and increasingly stringent laws and industry standards relating to data privacy, data security, data protection, and consumer protection. The restrictions and costs imposed by these laws, or our actual or perceived failure to comply with them, could subject us to liabilities that adversely affect our business, operations, and financial performance.***

We collect, process, store, and use a wide variety of data from current and prospective customers, including personal information, such as home addresses, credit card numbers (through our payment processor) and geolocation. These activities are regulated by a variety of federal, state, local, and foreign data privacy, data security, data protection and consumer protection laws and regulations, as well as industry standards and guidelines, which have become increasingly stringent in recent years. We have in the past and may continue to be subject to allegations that we have violated one or more of these laws.

U.S. data privacy and data security laws are complex and changing rapidly, with the frequent imposition of new and changing requirements across our business. Many U.S. states have enacted laws regulating the online collection, use, and disclosure of personal information and are requiring that companies implement reasonable data security measures. Laws in all U.S. states and territories also require businesses to notify affected individuals, governmental entities, and/or credit reporting agencies of certain security incidents affecting personal information.

Further, the CCPA took effect on January 1, 2020. The CCPA gives California residents expanded rights related to their personal information, including the right to access and delete their personal information, and receive detailed information about how their personal information is used and shared. The CCPA also created restrictions on “sales” of personal information that allow California residents to opt-out of certain sharing of their personal information and may restrict the use of cookies and similar technologies for advertising purposes, and could cause us to incur additional CCPA compliance costs or create adverse effects as a result of its restrictions. The CCPA provides for civil penalties for violations, and creates a private right of action for data security incidents that is expected to increase data security-related litigation. Additionally, the California Privacy Rights Act (the “CPRA”) largely took effect on January 1, 2023. The CPRA restricts the use of cross-context behavioral advertising techniques on which our products and offerings may rely on in the future; expands requirements on businesses that “sell” personal information under the CCPA to businesses like ours that “share” it; requires all businesses with any California employees to limit uses of employee data; establish restrictions on the retention of personal information; expands the types of data security incidents subject to the private right of action; and establishes the California Privacy Protection Agency to implement and enforce the new law, as well as impose administrative fines. We expect to continue to invest in compliance initiatives and potentially implement business process changes to support our compliance efforts. Similar laws have been proposed in other states and at the federal level, reflecting a trend toward more stringent privacy legislation in the United States. For example, in March 2021, Virginia enacted the Virginia Consumer Data Protection Act (the “CDPA”), a comprehensive privacy statute that shares similarities with the CCPA, CPRA, and legislation proposed in other states. Some observers have noted that the CCPA, CPRA, and CDPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. The enactment of such laws could have potentially conflicting requirements that would make compliance challenging resulting in further uncertainty and requiring us to incur additional costs and expenses in an effort to comply.

In addition, the Telephone Consumer Protection Act (the “TCPA”), imposes significant restrictions on the ability to make telephone calls or send text messages to mobile telephone numbers without the prior consent of the person being contacted. We use text messages frequently to communicate with our customers. Efforts to comply with the TCPA do not prevent third-party claims that we have violated the TCPA from being brought, and such claims could be costly to litigate, and if successful, expose us to substantial statutory damages. The Controlling the Assault of Non-Solicited Pornography and Marketing Act (the “CAN-SPAM”), imposes specific restrictions and requirements on our efforts to send marketing materials via email, including notice obligations that must be included in our marketing emails and the ability for recipients to unsubscribe from such emails. The Federal Trade Commission enforces CAN-SPAM, and our efforts to comply with CAN-SPAM may not prevent claims that we have violated the law, which could be costly to resolve, and if successful, expose us to substantial penalties and potential injunctive relief.

We are also subject to the European Union General Data Protection Regulation (the "GDPR"), due to certain of our employees being based in Ireland. The GDPR, which is wide-ranging in scope and applies extraterritorially, imposes several requirements relating to the processing of personal data. The GDPR also imposes strict rules on the transfer of personal data out of the EU, including to the U.S. In addition, GDPR compliance requirements are constantly and rapidly evolving. For example, in July 2020, the Court of Justice of the European Union invalidated the EU-U.S. Privacy Shield data transfer mechanism, and other data transfer mechanisms such as the Standard Contractual Clauses, have also faced challenges in European courts, potentially limiting how organizations can lawfully transfer personal data from EEA to the U.S. Notably, the GDPR imposes large penalties for noncompliance, including the potential for fines of up to €20 million or 4% of the annual global revenues of the noncompliant entity, whichever is greater.

In addition, privacy advocates and industry groups have regularly proposed, and may propose in the future, self-regulatory standards by which we are legally or contractually bound. If we fail to comply with these contractual obligations or standards, we may face substantial liability or fines. Consumer resistance to the collection and sharing of the data used to deliver targeted advertising, increased visibility of consent or "do not track" mechanisms as a result of industry regulatory or legal developments, the adoption by consumers of browser settings or "ad-blocking" software, and the development and deployment of new technologies could materially impact our ability to collect data or reduce our ability to deliver relevant promotions or media, which could materially impair the results of our operations. In addition, the U.S. Federal Trade Commission and U.S. State Attorneys General, and international regulators, are increasingly active in investigating and bringing enforcement actions against companies on claims related to notice, transparency, choice and processing of personal information in the context of sales and marketing and advertising activities.

Further, we are subject to the PCI Data Security Standard, which is a multifaceted security standard that is designed to protect credit card account data as mandated by payment card industry entities. We rely on vendors to handle PCI matters for us and to ensure PCI compliance. Despite our compliance efforts, we may become subject to claims that we have violated the PCI Data Security Standard, based on past, present, and future business practices, which could have an adverse impact on our business and reputation, and be costly for us to defend.

We may not be successful in achieving compliance with the rapidly evolving privacy, data security, and data protection requirements discussed above, as well as other data privacy, security and consumer protection frameworks that currently, or may in the future, apply to us, despite our efforts to comply. All of these frameworks are constantly evolving and are not always consistent with each other, leading to uncertainty in interpretation. Any actual or perceived non-compliance could result in litigation and proceedings against us by governmental entities, customers or others, fines and civil or criminal penalties, limited ability or inability to operate our business, offer services, or market our business in certain jurisdictions, negative publicity and harm to our brand and reputation, and reduced overall demand for our products and offerings. Such occurrences could adversely affect our business, financial condition, and results of operations. Our insurance policies may not be adequate to compensate us for the potential losses arising from any such disruptions in or failure or security intrusion of our systems or third-party systems where information important to our business operations is stored. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, our insurance policies may not cover any or all claims made against us and could have high deductibles, and defending a suit, regardless of its merit, could be costly and divert management attention.

***We could incur significant liabilities related to, and significant costs in complying with, environmental, health and safety laws and regulations.***

Our operations are subject to a variety of federal, state, local and foreign laws and regulations relating to permitting requirements, health, safety and the protection of the environment. These environmental, health and safety laws and regulations include those relating to, among other things, the generation, storage, handling, use and transportation of hazardous and non-hazardous materials; the emission and discharge of hazardous and non-hazardous materials into the environment; the health and safety of our employees; and the maintenance of our facilities and operations. Our compliance efforts are expected to require ongoing investments and may be costly to maintain.

Despite our efforts, we may become subject to claims that we have violated such laws and regulations based on past, present, and future practices, which could have an adverse impact on our business and reputation, and be costly for us to defend. Failure to comply with such laws and regulations, which tend to become more stringent over time, can result in significant fines, penalties, costs, liabilities or restrictions on operations, injunctive relief, civil or criminal sanctions, and could expose us to costs of investigation or remediation, as well as tort claims for property damage or personal injury, and could negatively affect our business, financial condition or results of operations.

We manage our waste materials as non-hazardous waste, but we cannot guarantee that our supply chain or the products we use will not contain hazardous materials or result in the generation of hazardous waste. Further, liability for the improper release or disposal of waste, even if non-hazardous, can be joint and several and significant and there can be no assurance that we will not have to expend material amounts to remediate the consequences of the generation or disposal of waste in the future, particularly with respect to our dry cleaning operations. Further, we may be responsible as a lessee operator for the costs of investigation, removal or remediation of hazardous or non-hazardous substances or waste located on or in or emanating from our leased properties, as well as any property damage. There can be no assurance that our future operations, properties, uses or conditions will not result in the imposition of liability upon us under environmental laws or other regulations, or expose us to third-party actions such as tort suits.

Furthermore, we rely on third-party suppliers to provide chemicals, cleaning supplies, and handling instructions that comply with applicable health, safety and environmental regulations, and to support other compliance initiatives from time to time. A failure of such suppliers to provide adequate advice, abide by applicable regulations, or the terms of our contractual relationships may subject us to material liabilities.

***Our ability to utilize our net operating loss carryforwards and certain other tax attributes to offset taxable income or taxes may be limited.***

As of January 31, 2023, we had federal net operating loss carryforwards of \$596.0 million, \$152.0 million of which will expire at various times through 2038. Furthermore, we had stated net operating loss carryforwards of \$33.0 million, which will expire at various times through 2041. Portions of these net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities. Under the legislation enacted in 2017, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), U.S. federal net operating losses incurred in taxable years beginning after December 31, 2017, may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. In addition, for state income tax purposes, there may be periods during which the use of net operating loss carryforwards is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, if a corporation undergoes an "ownership change," (very generally defined as a greater than 50% change, by value, in the corporation's equity ownership by certain shareholders or groups of shareholders over a rolling three-year period), the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income or taxes may be limited. In 2021, we completed a Section 382 analysis covering the period beginning in March 2009 and ending in March 2021. From the study, we concluded we experienced an ownership change in 2010 (but not since then) and \$1.3 million of net operating losses ("NOLs") were subject to the limitation. However, all of those NOLs were available by the year ended January 31, 2017. We may have experienced and may experience in the future additional ownership changes as a result of shifts in our stock ownership, some of which may be outside of our control. Any ownership change may result in the imposition of additional limitations on our ability to utilize our NOLs existing at the time of the ownership change. Future regulatory changes could also limit our ability to utilize our NOLs. To the extent we are not able to offset future taxable income with our NOLs, our cash flows may be adversely affected. We have recorded a full valuation allowance against our U.S. deferred tax assets, which includes net operating loss carryforwards.

***Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations.***

We are subject to income and other taxes in the United States on a federal and state basis, as well as subject to taxation in Ireland. Our effective tax rate or tax liability could be adversely affected due to several factors, including:

- changes in the relative amounts of income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changes in the United States or foreign tax laws, tax treaties, and regulations or the interpretation of them;
- changes to our assessment about our ability to realize our deferred tax assets that are based on estimates of our future results, the prudence and feasibility of possible tax planning strategies, and the economic and political environments in which we do business;
- the outcome of current and future tax audits, examinations, or administrative appeals; and
- limitations or adverse findings regarding our ability to do business in some jurisdictions.

In the event any tax audit or other proceeding is determined adversely to us, the resulting liabilities (including any penalties and interest) may have an adverse effect on our cash flows. If we expand the scale of our international business activities, any changes in the United States or foreign taxation of such activities may increase our worldwide effective tax rate and harm our business, financial condition, and results of operations. In particular, new income or other tax laws or regulations could be enacted at any time, which could adversely affect our business operations and financial performance. Further, existing tax laws and regulations could be interpreted, modified, or applied adversely to us. For example, the recent Inflation Reduction Act enacted, among other changes, a 15% corporate minimum tax on certain United States corporations and a 1% excise tax on certain stock redemptions by United States corporations. To the extent that such changes or any future changes have a negative impact on us, our suppliers or our customers, these changes may materially and adversely impact our business, financial condition, results of operations and cash flows.

***Risks Related to Our Dependence on Third Parties***

***We face risks associated with brand and manufacturing partners from whom our products are sourced or co-manufactured.***

We obtain substantially all of our products directly from hundreds of brand partners through Wholesale, Share by RTR, and Exclusive Designs arrangements with designer and/or manufacturing partners. The benefits we currently experience from these relationships could be adversely affected if they:

- discontinue selling products to us or manufacturing our Exclusive Designs;
- enter into arrangements with competitors that could impair our ability to source their products, including by giving our competitors exclusivity arrangements or limiting our access to certain products;
- raise the prices they charge us;
- are not satisfied with the value proposition we offer them;
- do not view our brand favorably;
- change pricing terms to require us to pay a significant portion of the cost of items on delivery or upfront;
- experience negative publicity or reputational issues;
- do not follow our vendor code of conduct and/or violate legal and regulatory requirements;
- experience supply chain disruptions that cause lead times to be lengthened or missed entirely; or
- fail to execute on the design we have provided for co-manufactured products.

Events that adversely impact our brand and manufacturing partners could impair our ability to obtain adequate and timely products. We also source and manufacture products outside of the United States and we and many of our brand partners use manufacturers in the same geographic regions. As a result we may be subject to magnified impact from such events including, among others, difficulties or problems associated with our partners' business, the financial instability and labor problems of partners, product quality and safety issues, natural or man-made disasters, inclement weather conditions, war, acts of terrorism and other political instability, economic conditions, imposition of additional import or trade restrictions, including legal or economic restrictions on overseas partners' ability to produce and deliver products, increased custom duties and tariffs, unforeseen delays in customs clearance of goods, more restrictive quotas, loss of a most favored nation trading status, currency exchange rates, transportation delays, port of entry issues, the availability of their raw materials and increased production costs.

Our brand partners and manufacturers may be forced to reduce their production, shut down their operations or file for bankruptcy. Our ability to obtain products may also depend on our brand partners' ability to obtain financing, including through factoring companies and other entities, which may also assess our creditworthiness and procurement ability. To the extent our brand partners are unable to secure sufficient credit, they may not be able to produce merchandise, which would impact our ability to purchase merchandise from them. The occurrence of one or more of these events could impact our ability to acquire products, which may result in a less appealing assortment of styles for our customers and reduced availability of the styles we are able to obtain. Similarly, the occurrence of a contagious disease or illness could cause delays or increase costs in the manufacture of certain products. For example, the COVID-19 pandemic caused delays in some shipments from our brand partners.

***We rely on third parties for elements of the payment processing infrastructure underlying our business. If these third-party elements become unavailable or unavailable on favorable terms, our business could be adversely affected.***

We rely on third parties, including for our payment processing infrastructure, to accept payments from customers and in connection with our banking partners, to remit payments to suppliers. These third parties may refuse to renew our agreements with them on commercially reasonable terms or at all. Furthermore, we rely on a single payment processor, which may increase our risks of being unable to process payments and deliver our products in a timely and cost-effective manner. In the event of interruption, we may not be able to develop alternate or secondary processing without incurring material additional costs and substantial delays. If these companies become unwilling or unable to provide these services to us on acceptable terms or at all, our business may be disrupted. For certain payment methods, including credit and debit cards, we generally pay interchange fees and other processing and gateway fees, and such fees result in significant costs. In addition, online payment providers are under continued pressure to pay increased fees to banks to process funds, and there is no assurance that such online payment providers will not pass any increased costs on to us. If these fees increase over time, our operating costs will increase, which could adversely affect our business, financial condition, and results of operations.

Outages or other failures of the payment processing infrastructure underlying our business could harm our business and cause customers to lose trust in our payment operations and cause them to discontinue use of our products and services. If the quality or convenience of our payment processing infrastructure declines or does not keep pace with industry standards, the attractiveness of our business to customers could be adversely affected. For example, we plan to enhance our payment operations in the future; however, our efforts may be unsuccessful or delayed for various reasons and may fail to meet customer expectations. If we are forced to migrate to other third-party payment service providers for any reason, the transition would require significant time and management resources, and may not be available on acceptable terms or as effective, efficient, or well-received by our customers.



***Our business relies on third-party cloud infrastructures, and any disruption of, or interference with, our use of cloud infrastructures could adversely affect our business, financial condition or results of operations.***

In 2022, we migrated a substantial portion of our primary production environment, core architecture, and data centers to a new third-party cloud provider, which provides a distributed computing infrastructure as a service platform for business operations. We use another third-party cloud provider for other portions of our business. Our third-party cloud providers provide the cloud computing infrastructure we use to host our website and mobile application, serve our customers and support our operations and many of the internal tools we use to operate our business. Our website, mobile application and internal tools use computing, storage, data transfer and other functions and services provided by our third-party cloud providers. We do not have control over the operations of the facilities of our third-party cloud providers. In addition, our third-party cloud providers' facilities may be vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cybersecurity attacks, terrorist attacks, power losses, telecommunications failures and other events beyond our control. In the event that any third-party provider's systems or service abilities are hindered by any of the events discussed above, particularly in a region where our website is mainly hosted, our ability to operate our business may be impaired. A decision to close their facilities without adequate notice or other unanticipated problems or disruptions could result in lengthy interruptions to our business. Further, our agreements with our third-party cloud providers do not provide us with an adequate remedy for every scenario that could negatively affect our business. All of the aforementioned risks may be exacerbated if our business continuity and disaster recovery plans prove to be inadequate.

Additionally, data stored with our third-party cloud providers may experience threats or attacks from computer malware, ransomware, viruses, social engineering (including phishing attacks), denial of service or other attacks, employee theft or misuse and general hacking. Any of these security incidents could result in unauthorized access to, damage to, disablement or encryption of, use or misuse of, disclosure of, modification of, destruction of, or loss of our data or our customers' data or disrupt our ability to provide our products and offerings, including due to any failure by us to properly configure our cloud environment. Our business' continuing and uninterrupted performance is critical to our success. Customers may become dissatisfied by any system failure that interrupts our ability to provide our merchandise and offerings to them. We may not be able to easily switch our third-party cloud operations to another cloud or other data center provider if there are disruptions or interference with cloud services and, even if we do switch our operations, other cloud and data center providers are subject to the same risks. Sustained or repeated system failures would reduce the attractiveness of our products and offerings, thereby reducing revenue. Moreover, negative publicity arising from these types of disruptions could damage our brand and reputation and may adversely impact our business.

Our third-party cloud providers do not have an obligation to renew their agreements with us on terms acceptable to us. Although alternative data center providers could host our business on a substantially similar basis to our current third-party cloud providers, transitioning our cloud infrastructure to alternative providers could potentially be disruptive, and we could incur significant one-time costs. If we are unable to renew our agreement for our cloud services on commercially acceptable terms, our agreements with our third-party cloud providers are prematurely terminated, or we add additional infrastructure providers, we may experience costs or downtime in connection with the transfer to, or the addition of, new data center providers. If our third-party cloud providers or other infrastructure providers increase the costs of their services, our business, financial condition or results of operations could be materially and adversely affected.

***We depend on search engines, social media platforms, mobile application stores, content-based online advertising and other online sources to attract consumers to and promote our website and our mobile application, which may be affected by third-party interference beyond our control and, as we grow, our customer acquisition costs will continue to rise.***

Our success depends on our ability to attract consumers to our website and mobile application and convert them into customers in a cost-effective manner. We depend, in large part, on search engines, social media platforms, mobile application stores, content-based online advertising and other online sources for traffic to our website and mobile application.

With respect to search engines, we are included in search results for both paid search listings, where we purchase specific search terms resulting in inclusion of our advertisements, and free search listings, which depend on algorithms used by search engines. For paid search listings, if one or more of the search engines or other online sources on which we rely for purchased listings modifies or terminates its relationship with us, our expenses could rise, we could lose consumers who access our advertisements and traffic to our website could decrease, any of which could have a material adverse effect on our business, financial condition, and results of operations. For free search listings, if search engines on which we rely for algorithmic listings modify their algorithms, our websites may appear less prominently or not at all in search results, which could result in reduced traffic to our websites.

Our ability to maintain and increase the number of consumers directed to our products from digital platforms is not entirely within our control. Search engines, social media platforms and other online sources often revise their algorithms and introduce new advertising products. If one or more of the search engines or other online sources on which we rely for traffic to our website and our mobile application were to modify its general methodology for how it displays our advertisements or keyword search results, resulting in fewer consumers clicking through to our website and our mobile application, our business and operating results are likely to suffer. For example, Apple recently moved to "opt-in" privacy models for mobile applications using its operating system such as ours, requiring consumers to voluntarily choose to receive targeted ads, which may reduce the efficacy of our marketing tracking. In addition, if our online display advertisements are no longer effective or are not able to reach certain customers due to their use of ad-blocking software, our business and operating results could suffer. Furthermore, changes in customer acceptance or usage of our online sources for traffic could adversely impact the effectiveness of our advertising.

Additionally, changes in regulations could limit the ability of search engines and social media platforms, including, but not limited to, Google and Facebook, to collect data from users and engage in targeted advertising, making them less effective in disseminating our advertisements to our target customers. For example, the proposed Designing Accounting Safeguards to Help Broaden Oversight and Regulations on Data (DASHBOARD) Act would mandate annual disclosure to the SEC of the type and "aggregate value" of user data used by harvesting companies, such as, but not limited to, Facebook, Google and Amazon, including how revenue is generated by user data and what measures are taken to protect the data. If the costs of advertising on search engines and social media platforms increase, we may incur additional marketing expenses or be required to allocate a larger portion of our marketing spend to other channels and our business and operating results could be adversely affected.

Furthermore, because many of our customers access our products through our mobile application, we depend on the Apple App Store to distribute our mobile application. Apple has broad discretion to change its respective terms and conditions, including those relating to the amount of (and requirement to pay) certain fees associated with our use of the Apple App Store, to interpret its respective terms and conditions in ways that may limit, eliminate or otherwise interfere with our ability to distribute our mobile application through its stores, the features we provide and the manner in which we market in-application products. We cannot provide assurance that Apple will not limit, eliminate or otherwise interfere with the distribution of our mobile application, the features we provide and the manner in which we market our mobile application. To the extent it does so, our business, financial condition, and results of operations could be adversely affected.

As existing social media platforms continue to rapidly evolve and new platforms develop, we must continue to maintain a presence on these platforms and establish presences on new or emerging social media platforms. If we are unable to cost-effectively use social media platforms as marketing tools or if the social media platforms we use change their policies or algorithms, we may not be able to fully optimize such platforms, and our ability to maintain and acquire consumers and our financial condition may suffer. Furthermore, as laws and regulations and public opinion rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees, our network of social media influencers, our sponsors or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices or otherwise could subject us to regulatory investigations, class action lawsuits, liability, fines or other penalties and have an adverse effect on our business, financial condition, results of operations and prospects.

***Any failure by us, our brand partners, or our third-party manufacturers to comply with our vendor code of conduct, product safety, labor, or other laws, or to provide safe factory conditions for their workers, may damage our reputation and brand, and harm our business.***

Our standard vendor terms and conditions, vendor code of conduct, and other policies require our brand and manufacturing partners to comply with applicable laws and certain business standards, however, we often have limited visibility into their supply chains, practices, and level of compliance. The failure of these partners to comply with our vendor code of conduct or applicable laws and regulations could damage our reputation, lead to negative press and/or customer sentiment, or result in costly litigation against us.

The products we rent or sell to our customers is subject to regulation by the Federal Consumer Product Safety Commission, the Federal Trade Commission, and similar state and international regulatory authorities. As a result, such products could in the future be subject to mandatory recalls and other remedial actions. Product safety, labeling, and licensing concerns may also result in us voluntarily removing selected products from our assortment. Such recalls or voluntary removal of products can result in, among other things, lost revenue, diverted resources, potential harm to our reputation, and increased customer service costs and legal expenses, which could have a material adverse effect on our operating results.

It is possible that some of the products we rent or sell may expose us to product liability claims and litigation or regulatory action relating to personal injury. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms or at all. In addition, our partners may not have sufficient resources or insurance to satisfy their indemnity and defense obligations to us in connection with product liability claims or regulatory actions.

***We may incur significant losses from fraud.***

We have in the past incurred and may in the future incur losses from various types of fraud, including claims that a customer did not authorize a purchase, customers who have closed bank accounts or have insufficient funds to satisfy payments, customers who use stolen credit cards to make purchases, customers who fraudulently rented multiple products at once and customers who have failed to return rentals. In addition to the direct costs of such losses, if the fraud is related to credit card transactions and becomes excessive, it could result in us paying higher fees or losing the right to accept credit cards for payment. In addition, under current credit card practices, we are typically liable for fraudulent credit card transactions. We have implemented fraud prevention measures, such as detection tools to identify irregular or high risk customer order patterns, to reduce the risk of fraud. However, our failure to adequately prevent fraudulent transactions could damage our reputation, result in litigation or regulatory action, and lead to expenses that could substantially impact our operating results.

***If our insurance coverage is insufficient for the needs of our business or our insurance providers are unable to meet their obligations, we may not be able to mitigate the risks facing our business.***

We procure third-party insurance policies to cover various operations-related risks including employment practices liability, workers' compensation, property and business interruptions, cybersecurity and data security incidents, crime, directors' and officers' liability, and general business liabilities. We cannot guarantee that we will continue to receive adequate insurance coverage on favorable terms. Insurance providers may discontinue their coverage or significantly increase the cost of coverage, and we cannot guarantee that we would be able to secure replacement coverage on reasonable terms or at all. In addition, if our insurance carriers change the terms of our policies in a manner not favorable to us, our insurance costs could increase. Further, if the insurance coverage we maintain is not adequate to cover losses that occur, or if we are required to purchase additional insurance for other aspects of our business, we could be liable for significant additional costs. Additionally, if any of our insurance providers becomes insolvent, it would be unable to pay any operations-related claims that we make.

Insurance providers have also raised premiums and deductibles for many businesses, including ours, and may do so in the future. As a result, our insurance and claims expense could increase, or we may decide to raise our deductibles or self-insured retentions when our policies are renewed or replaced. Our business, financial condition, and results of operations could be adversely affected if the cost per claim, premiums, the severity of claims, or the number of claims significantly exceeds our historical experience and coverage limits; we experience a claim in excess of our coverage limits; our insurance providers fail to pay on our insurance claims; we experience a claim for which coverage is not provided; or the number of claims under our deductibles or self-insured retentions differs from historical averages.

#### ***Risks Related to Ownership of Our Class A Common Stock***

***The dual class structure of our common stock and stockholders' agreement among us and certain stockholders has the effect of concentrating voting control with those stockholders who held our capital stock prior to the listing of our Class A common stock on Nasdaq, including our Co-Founders, and their affiliates, which will limit an investor's ability to influence the outcome of important transactions, including a change of control.***

Our Class B common stock has 20 votes per share, and our Class A common stock has one vote per share. Because of the twenty-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively could continue to control a significant percentage of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval until the date of automatic conversion described below, when all outstanding shares of Class B common stock and Class A common stock will convert automatically into shares of a single class of common stock. In addition, we and certain stockholders, including our CEO and Co-Founder Jennifer Y. Hyman, entered into a stockholders' agreement in connection with our IPO with respect to the election of directors. This concentrated control may limit or preclude an investor's ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that investors may believe are in their best interests.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. In addition, each share of Class B common stock will convert automatically into one share of Class A common stock upon the date that is the earlier of (i) the transfer of such share to a person that is not in the same Permitted Ownership Group (as defined in the Amended Charter) as such Permitted Class B Holder (as defined in the Amended Charter), (ii) November 1, 2028, or (iii) with respect to any shares held by any person in our Co-Founder's Permitted Ownership Group, (A) such time as a Co-Founder is removed or resigns from the Board of Directors, or otherwise ceases to serve as a director on the Board of Directors, (B) such time as a Co-Founder ceases to be either an employee, officer or consultant, or (C) the date that is 12 months after the death or disability of a Co-Founder.

***Our share price may be volatile, and our investors may be unable to sell shares at or above the price they paid for them.***

The market price of our Class A common stock has declined significantly since our IPO, has been volatile and is likely to continue to be volatile and could be subject to wide fluctuations in response to the risk factors described in this Annual Report, and others within or beyond our control, including:

- actual or anticipated fluctuations in our revenue or other operating metrics;
- our actual or anticipated operating performance and the operating performance of our competitors;
- changes in the financial projections we provide to the public or our failure to meet these projections;
- the perceived adequacy of our ESG efforts;
- positive or negative publicity;

- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet the estimates or the expectations of investors;
- any major change in our board of directors, management, or key personnel;
- the economy as a whole and market conditions in our industry;
- rumors and market speculation involving us or other companies in our industry;
- announcements by us or our competitors of significant innovations, new products, services, features, integrations, or capabilities, acquisitions, strategic investments, partnerships, joint ventures, or capital commitments;
- the legal and regulatory landscape and changes in the application of existing laws or adoption of new laws that impact our business, including changes in e-commerce and tax laws;
- legal and regulatory claims, litigation, or pre-litigation disputes and other proceedings;
- the pace of the COVID-19 pandemic recovery and its impact on our business or the fashion industry and sharing economy generally;
- sales or expected sales of our Class A common stock by us, our officers, directors, principal stockholders, and employees;
- if securities or industry analysts publish research about our business, or if they publish unfavorable research; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

Our investors may not realize any return on their investment in us and may lose some or all of their investment. In addition, stock markets, and the trading of e-commerce companies' and technology companies' stocks in particular, have experienced significant price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner often unrelated to the operating performance of those companies. These fluctuations may be even more pronounced in the trading market for our Class A common stock shortly following the listing of our Class A common stock on Nasdaq as a result of the supply and demand forces described above. It is common for stockholders to institute securities class action litigation following periods of stock volatility. We are currently subject to securities litigation which could divert resources and the attention of management from our business, and materially adversely affect our business, financial condition and results of operations, and we could be subject to additional securities litigation in the future.

***Company insiders have the ability to control or significantly influence all matters submitted to stockholders for approval.***

Our executive officers, directors, and stockholders party to our stockholders' agreement entered into in connection with our IPO, in the aggregate, beneficially own over 50% of our outstanding common stock as of January 31, 2023. This concentration of ownership may have the effect of delaying, deferring, or preventing a change in control, impeding a merger, consolidation, takeover, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would benefit other stockholders.

***Our management has broad discretion in the use of our cash resources and may not use them effectively.***

Our management has broad discretion in the application of our cash resources, which may include working capital, to fund growth and for other general corporate purposes. We may also use a portion of our cash resources to acquire or make investments in businesses, products, offerings, and technologies. We may also spend or invest these proceeds in a way with which our stockholders disagree. The failure by our management to apply these funds effectively could adversely affect our ability to pursue our growth strategies and expand our business. Pending their use, we may invest these funds in a way that does not produce income or that loses value.

***We cannot predict the effect our dual class structure may have on the trading price of our Class A common stock.***

We cannot predict whether our dual class structure will result in a lower or more volatile trading price of our Class A common stock, in adverse publicity, or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indices. Under such announced policies, the dual class structure of our common stock makes us ineligible for inclusion in certain indices and, as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track those indices may not invest in our Class A common stock. These policies are relatively new and it is unclear what effect, if any, they will have on the valuations of publicly-traded companies excluded from such indices, but it is possible that they may depress valuations, as compared to similar companies that are included. Because of the dual class structure of our common stock, we are currently not eligible for inclusion in certain indices, and we cannot provide assurance that other stock indices will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indices, exclusion from certain stock indices would likely preclude investment by many of these funds and would make our Class A common stock less attractive to other investors. As a result, the trading price of our Class A common stock could be adversely affected.

***Our business and financial performance may differ from any projections that we disclose or any information that may be attributed to us by third parties.***

From time to time, we may provide guidance regarding our projected business and/or financial performance. However, any such projections involve risks, assumptions, and uncertainties, and our actual results could differ materially from such projections. Factors that could cause or contribute to such differences include, but are not limited to, those identified in these Risk Factors, some or all of which are not predictable or within our control. Other unknown or unpredictable factors also could adversely impact our performance, and we undertake no obligation to update or revise any projections, whether as a result of new information, future events, or otherwise. In addition, various news sources, bloggers, and other publishers often make statements regarding our historical or projected business or financial performance, and you should not rely on any such information even if it is attributed directly or indirectly to us.

***Future sales of our common stock in the public market could cause our share price to fall.***

The sale of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of shares of our Class A common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

In the future, we may sell additional Class A common stock, other series of common stock, convertible securities, or other equity securities, including preferred securities, in one or more transactions at prices and in a manner we determine from time to time. We also expect to issue Class A common stock to employees, consultants, and directors pursuant to our equity incentive plans. If we sell Class A common stock, other series of common stock, convertible securities, or other equity securities in subsequent transactions, or Class A common stock or Class B common stock is issued pursuant to equity incentive plans, investors may be materially diluted. New investors in subsequent transactions could gain rights, preferences, and privileges senior to those of holders of our Class A common stock.

In addition, we may issue our capital stock or securities convertible into our capital stock from time to time in connection with a financing, acquisition, investments, or otherwise. Additional issuances of our stock will result in dilution to existing holders of our stock. Also, to the extent outstanding stock options to purchase our stock are exercised or restricted stock units ("RSUs") settle, there will be further dilution. The amount of dilution could be substantial depending upon the size of the issuance or exercise. Any such issuances could result in substantial dilution to our existing stockholders and cause the trading price of our Class A common stock to decline.

These factors could also make it more difficult for us to raise additional funds through future offerings of our shares of Class A common stock or other securities.

***Certain provisions in our corporate charter documents and under Delaware law may prevent or hinder attempts by our stockholders to change our management or to acquire a controlling interest in us, and the trading price of our Class A common stock may be lower as a result.***

There are provisions in our Amended Charter and Amended Bylaws that may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control were considered favorable by our stockholders. These anti-takeover provisions include:

- authorization of the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- provide for a dual class common stock structure in which holders of our Class B common stock, which has 20 votes per share, have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our Class B and Class A common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- a classified board of directors so that not all members of our board of directors are elected at one time;
- a requirement that our directors may only be removed for cause;
- the ability of our directors to fill all board vacancies, subject to the rights granted pursuant to the stockholders' agreement;
- a prohibition on stockholder actions by written consent, thereby requiring that all stockholder actions be taken at a meeting of our stockholders;
- advance notice procedures for stockholder director nominees and annual meeting matters (other than the parties to our stockholders' agreement for nominations made pursuant to the terms of the stockholders' agreement);
- an inability of our stockholders to call special meetings of stockholders;
- the ability of our directors to amend our Amended Bylaws without stockholder consent;
- the requirement of a super-majority to amend some provisions in our Amended Charter and Amended Bylaws; and
- a prohibition on cumulative voting for directors.

Although we have opted out of Section 203 of the General Corporation Law of the State of Delaware (the “DGCL”), our Amended Charter contains provisions that are similar to Section 203. Specifically, our Amended Charter provides that, subject to certain exceptions, we will not be able to engage in a “business combination” with any “interested stockholder” for three years following the date that the person became an interested stockholder, unless certain requirements are met. A “business combination” includes, among other things, a merger or consolidation involving us and the “interested stockholder” or the sale of more than 10% of our assets or to an interested stockholder. In general, an “interested stockholder” is any entity or person beneficially owning 15% or more of our outstanding voting stock and any affiliates or associates of such entity or person.

Any provision in our Amended Charter, Amended Bylaws, or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our Class A common stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

***Our Amended Charter designates the Court of Chancery of the State of Delaware and the federal district courts of the United States of America as the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.***

Our Amended Charter provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising under the Delaware General Corporation Law, our Amended Charter, or our Amended Bylaws (as either may be amended or restated), and any action asserting a claim against us that is governed by the internal affairs doctrine or as to which the Delaware General Corporation Law confers exclusive jurisdiction on the Court of Chancery of the State of Delaware. This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our Amended Charter further provides that the federal district courts of the United States of America are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our Amended Charter. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

These exclusive forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find either exclusive-forum provision in our Amended Charter to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could seriously harm our business.

***Our Amended Charter provides that the doctrine of "corporate opportunity" does not apply with respect to any directors (or their affiliates) who are not our employees.***

Our Amended Charter provides that the doctrine of "corporate opportunity" does not apply with respect to any director (or their respective affiliates) who is not employed by us or our subsidiaries. The doctrine of corporate opportunity generally provides that a corporate fiduciary may not develop an opportunity using corporate resources or information obtained in their corporate capacity for their personal advantage, acquire an interest adverse to that of the corporation or acquire property that is reasonably incident to the present or prospective business of the corporation or in which the corporation has a present or expectancy interest, unless that opportunity is first presented to the corporation and the corporation chooses not to pursue that opportunity. The doctrine of corporate opportunity is intended to preclude officers, directors or other fiduciaries from personally benefiting from opportunities that belong to the corporation. Pursuant to our Amended Charter, to the extent permitted by Delaware law, we renounce any present or expectancy interest that we have in, or right to be offered an opportunity to participate in, specified business opportunities that are from time to time presented to our directors, or their respective affiliates (other than those who are employed by us or our subsidiaries). Any directors, or their respective affiliates, other than those directors, or affiliates who are employed by us or our subsidiaries, have no duty to communicate or present corporate opportunities to us, and have the right to either hold any corporate opportunity for their (and their affiliates') own account and benefit or to recommend, assign or otherwise transfer such corporate opportunity to persons other than us, including to any directors, or their respective affiliates (other than those who are employed by us or our subsidiaries). Notwithstanding the foregoing, pursuant to our Amended Charter, we do not renounce our present or expectancy interest in any business opportunity that is expressly offered to a director, executive officer or employee of us or our subsidiaries, solely in his/her capacity as a director, executive officer or employee.



**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our corporate headquarters is located in Brooklyn, New York, which consists of approximately 47,000 square feet of space under a lease that expires in November 2032. We also lease a corporate space and photo studio in New York, New York and lease and operate fulfillment centers in Secaucus, New Jersey and Arlington, Texas totaling approximately 540,000 square feet, under leases that expire in August 2024 and May 2030, respectively. We also lease a corporate space in Galway, Ireland.

We believe our facilities are suitable for our current needs. We intend to expand our facilities or add new facilities as we grow and believe that suitable additional or alternative space will be available as needed to accommodate such growth.

**Item 3. Legal Proceedings**

The information contained in “Note 16 — Commitments and Contingencies” in the Notes to the Consolidated Financial Statements is incorporated by reference into this Item.

**Item 4. Mine Safety Disclosures**

Not applicable.

## Part II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

#### Market Information

Our Class A common stock is listed on the Nasdaq Global Select Market under the symbol "RENT."

#### Holders of Record

As of April 7, 2023, there were approximately 177 stockholders of record of our Class A common stock and seven stockholders of record of our Class B common stock. The number of stockholders of record is based upon the actual number of holders registered on this date and does not include holders of common stock in "street name" by brokers or other entities on behalf of stockholders.

#### Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all future earnings and do not anticipate declaring or paying any dividends in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors, subject to compliance with applicable law and contractual restrictions in the agreements governing our current and future indebtedness, and will depend on a number of then-existing factors, including our business prospects, results of operations, financial condition, cash requirements and availability and other factors that our board of directors may deem relevant.

#### Recent Sales of Unregistered Securities

Other than sales previously reported in the Company's Current Report on Form 8-K filed with the SEC on January 31, 2023, the Company did not sell any unregistered securities during the period covered by this report.

#### Use of Proceeds from our IPO

The offer and sale of the shares in the IPO was registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-260027), which was declared effective by the SEC on October 26, 2021.

There has been no material change in the expected use of the net proceeds from our IPO, as described in our final prospectus filed with the SEC on October 27, 2021 pursuant to Rule 424(b) under the Securities Act of 1933.

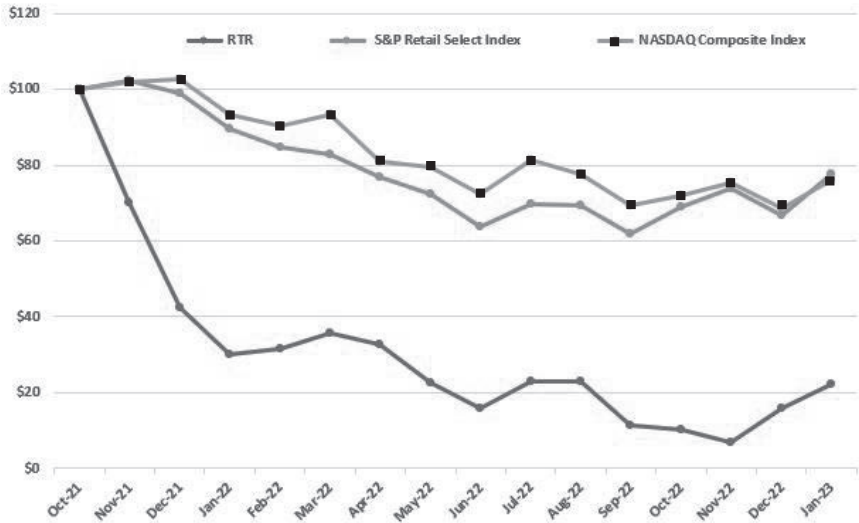
#### Issuer Purchases of Equity Securities

None.

#### Performance Graph

*The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing, or otherwise subject to the liabilities under the Securities Act or Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.*

The following graph shows a comparison from October 27, 2021 (the date our common stock commenced trading on Nasdaq), through January 31, 2023, of the cumulative total returns for our common stock, the Nasdaq Composite Index and the S&P Retail Select Index. The graph assumes \$100 was invested at the market close on October 27, 2021 in our Class A common stock, the Nasdaq Composite Index, and the S&P Retail Select Index, respectively. Such returns are based on historical results and are not intended to suggest future performance. The Nasdaq Composite Index and S&P Retail Select Index assume reinvestment of any dividends. The performance shown in the graph below is not intended to forecast or be indicative of future stock price performance.



Item 6. [Reserved]

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The following discussion focuses on fiscal years 2022 and 2021 financial condition and results of operations and year-to-year comparisons between fiscal years 2022 and 2021. Discussion of fiscal year 2020 financial condition and results of operations and year-to-year comparisons between fiscal years 2021 and 2020 are included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022.*

*In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those described in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Part I, Item 1A, "Risk Factors".*

### Overview

We give customers ongoing access to our "unlimited closet" — with tens of thousands of styles by hundreds of designer brands — through our Subscription offering or the ability to rent a-la-carte through our Reserve offering. We also give our subscribers and customers the ability to buy our products through our Resale offering, which offers customers pre-loved styles from our closet at a discount to retail price, up to 90% off of designer retail value. These offerings allow us to engage and serve our subscribers and customers across diverse use cases from everyday life to special occasions. We have served approximately 3 million lifetime customers across all of our offerings and we had 171,998 ending total subscribers<sup>11</sup> (active and paused) as of January 31, 2023. We had 126,712 active subscribers as of January 31, 2023 and 141,205 active subscribers as of April 8, 2023. The majority of our revenue is highly recurring and is generated by our subscribers. For the years ended January 31, 2023 and 2022, respectively, 86% and 84% of our total revenue (including Reserve and Resale revenue) was generated by subscribers while they were active or paused.

The variety, breadth and quantity of products we carry is important to our business, and we strategically manage the capital efficient acquisition of a high volume of items every year. We have successfully disproved the myth that fashion apparel items and accessories only last one season as we are able to rent or "turn" our products multiple times over many years. We price our items at a fraction of their retail or comparable value, creating an attractive price and value proposition for our subscribers and customers.

We source virtually all of our products, which includes apparel and accessories, directly from designer brands. Prior to 2018, we purchased nearly all of our products from our brand partners typically at a discount to wholesale cost, which we refer to as "Wholesale" items. In late 2018, we began to procure products through Share by RTR and Exclusive Designs. See "—Our Product Acquisition Strategy" below for a description of the three ways in which we procure products.

On October 29, 2021, we closed our initial public offering ("IPO"), in which we issued and sold 17,000,000 shares at the public offering price of \$21.00 per share. We received net proceeds of \$327.3 million after deducting underwriting discounts and commissions and offering expenses.

Concurrent with our IPO, we paid down our senior secured term loan with Ares Corporate Opportunities Fund V, L.P. of \$80.7 million in full and \$60.0 million of our subordinated, junior lien term loan with Double Helix Pte Ltd. as administrative agent for Temasek Holdings (the "Temasek Facility"), resulting in a total debt repayment of \$140.7 million. We also refinanced the remaining Temasek Facility concurrent with the IPO.

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<sup>11</sup> Ending total subscribers represents the number of subscribers with an active or paused membership as of the last day of the period and excludes subscribers who had an active or paused subscription during the period, but ended their subscription prior to the last day of the fiscal period.

## Recent Developments

**5 Item Plan.** Beginning in March 2023, we permanently added an extra item to every shipment of our rental subscription programs to deliver greater value to subscribers. We expect this program change to improve retention and acquisition rates and increase fulfillment and product depreciation and revenue share expenses with minimal impact on gross margin in fiscal year 2023.

**Debt Restructuring.** On January 31, 2023, we completed an amendment to our Temasek Facility ("2022 Amended Temasek Facility"). The 2022 Amended Temasek Facility extended the maturity date of our credit facility from October 2024 to October 2026, reduced cash interest payments by over \$20 million in the next two fiscal years while the total interest rate remains unchanged during this period, with subsequent increases thereafter. In connection with the 2022 Amended Temasek Facility, we also granted warrants to Temasek to purchase two million shares of Class A Common Stock at an exercise price of \$5.00 per share and made other clarifications and updates. See Note 8, "Long-Term Debt" in the Notes to the Consolidated Financial Statements for more details.

**Corporate Restructuring Plan.** On September 12, 2022, we announced a restructuring plan to reduce costs, streamline our organizational structure and drive operational efficiencies. The plan primarily included total workforce reductions of approximately 24% of corporate employees (primarily a reduction in force, with some open role closures/reduced backfills), reorganizing certain functions and reallocating resources to continue to focus on customer experience and growth initiatives.

Restructuring charges of \$2.4 million for severance and related costs were recognized during the year ended January 31, 2023 and are reflected in Restructuring charges on our Consolidated Statements of Operations. We recorded asset impairment charges of \$5.3 million during the year ended January 31, 2023 related to discontinuing two warehouse operations projects during the third and fourth quarters of fiscal year 2022 in connection with the restructuring plan, of which \$4.9 million related to the write-off of fixed assets and \$0.4 million related to accrued expenses. The charge is reflected in Loss on asset impairment related to restructuring on our Consolidated Statements of Operations. We may incur additional restructuring charges in the future.

We expect the restructuring plan to generate total annual operating expense savings of approximately \$25 million (relative to the second quarter of fiscal year 2022 run rate) in fiscal year 2023. Approximately \$17 million of the total annualized savings reflect the portion related to personnel expenses, which was substantially completed by the end of the fourth quarter of fiscal year 2022, and we expect approximately \$8 million of technology and general and administrative expense savings to be realized in fiscal year 2023.

See Note 4, "Restructuring and Related Charges" in the Notes to the Consolidated Financial Statements for more details on these charges.

**Option Exchange.** In April 2023, we announced a proposed option exchange designed to incentivize and retain employees, directors and other service providers by providing the ability to exchange outstanding stock options for RSUs. This option exchange may not be approved by stockholders. The option exchange is expected to result in minimal incremental stock-based compensation expense over the anticipated life of the replacement RSUs, in addition to certain administrative expenses in fiscal year 2023. In addition, the option exchange may not have the intended incentivization and retention benefits.

## Additional Key Fiscal Fourth Quarter, Fiscal Year 2022 and Recent Business Highlights:

- In March 2023, rolled out "Rent the Look", a highly requested feature that showcases how to rent full outfits styled on-model and presents similar items if a particular item is not available to rent right now.
- In February 2023, executed this year's first major technology launch to deliver best-in-class product discovery, completing the integration of our new product catalog, EPIC, into our new search service. As a result, we believe richer and fresher product attributes are yielding better search results.

- In fiscal 2022, completed migration to the cloud to unlock better resiliency, site performance and reliability, increased developer velocity, and the ability to scale more efficiently with subscriber growth.
- Q4 2022 saw continued strong subscriber engagement, with 28% of subscribers adding one or more paid additional items into their subscription program.
- Expanded at-home pickup to 34 markets covering 60% of our subscriber base. In addition, 29% of at-home pickups in Q4 2022 were “live-swap” (where the delivery and return happen simultaneously), leading to consolidation-based transportation cost savings. Subscriber adoption of at-home pickup within eligible zip codes was 37% during the last fiscal week of Q4 2022.
- Achieved our product acquisition goal of 60% non-wholesale in fiscal 2022, excluding the opportunistic pull-forward of product spend from fiscal 2023 into fiscal 2022. Inclusive of all product spend for the year, non-wholesale represented 58% in fiscal 2022.
- In March 2023, launched 360, full-funnel “Era of Extra” marketing campaign to announce the launch of RTR’s new subscription plans, which included collaboration with social media creators, video content to members from our CEO, full site and app takeover, a multi-touch email campaign, full coverage on paid social and search, plus activation with the RTR ambassador community.
- In March 2023, executed continued integration of Rent the Runway’s brand into pop culture with notable inclusion in Netflix’s *Next in Fashion* hosted by Gigi Hadid and Tan France. Winner Nigel Xavier’s collection -- which appears exclusively on RTR -- features upcycled garments, including pre-loved items from RTR.

**Key Operating and Financial Results.** We have achieved the following operating and financial results for the years ended January 31, 2023 and 2022, respectively:

- Revenue was \$296.4 million and \$203.3 million, respectively, representing 45.8% growth year-over-year;
- 126,712 and 115,240 ending Active Subscribers<sup>12</sup> (excluding paused subscribers), respectively, representing 10% growth year-over-year;
- 128,586 and 93,371 Average Active Subscribers<sup>13</sup>, respectively, representing 38% growth year-over-year;
- 171,998 and 159,544 ending Total Subscribers (including paused subscribers), respectively, representing 8% growth year-over-year;
- Gross Profit was \$120.0 million and \$69.7 million, respectively, representing a gross margin of 40.5% and 34.3%, respectively;
- Net Loss was \$(138.7) million and \$(211.8) million, respectively. Net Loss as a percentage of revenue was (46.8)%, and (104.2)%, respectively. In the year ended January 31, 2023, Net Loss included \$7.7 million of restructuring and related charges;
- Adjusted EBITDA was \$6.7 million and \$(19.2) million, respectively, representing an Adjusted EBITDA margin of 2.3% and (9.4)%, respectively;
- Net cash used in operating activities plus net cash used in investing activities was \$(92.0) million and \$(64.8) million, respectively;
- Net cash used in operating activities plus net cash used in investing activities as a percentage of revenue was (31.0)% and (31.9)%, respectively; and
- Cash and Cash Equivalents was \$154.5 million and \$247.6 million, respectively.

<sup>12</sup> Active Subscribers is defined as ending total subscribers as of period end, excluding paused subscribers.

<sup>13</sup> Average Active Subscribers represents the mean of the beginning of quarter and end of quarter Active Subscribers for a quarterly period; and for other periods, represents the mean of the Average Active Subscribers of every quarter within that period.

## Our Product Acquisition Strategy

We acquire and monetize products in three ways: Wholesale, Share by RTR and Exclusive Designs. These three product acquisition methods are strategic levers to manage our capital efficiency, profitability and product risk. Our Exclusive Designs channel uses data insights to acquire items at a lower cost, which are designed to generate higher profitability over time. Share by RTR meaningfully reduces our purchases of rental product and de-risks our investment since we pay brands primarily based on item performance. Our Share by RTR arrangements with brands target delivering 75% to 100% of comparable Wholesale cost to the brand in the first year; however there is no minimum commitment other than the upfront payment if applicable. Nearly all Share by RTR deals consummated after September 2020 include a cap on total potential payments to the brand partner.

The chart below summarizes the percentage of new items acquired via each method. In total, approximately 58% of new items were acquired through the more capital-efficient channels in fiscal year 2022, approximately 55% in fiscal year 2021 and approximately 54% in fiscal year 2020. Both our purchasing power and the diversification into Share by RTR and Exclusive Designs have led to a decrease in rental product capital expenditures (or Purchases of Rental Product as presented in the Consolidated Statement of Cash Flows) as a percentage of revenue over time. We plan to further decrease the percentage of units acquired through Wholesale and increase the percentage of units acquired through our more capital-efficient channels, Exclusive Designs and Share by RTR over time.

	Description	Consolidated Statement of Operations	Consolidated Balance Sheets	Consolidated Statement of Cash Flows	Percent of Items Acquired in FY 2022 / 2021 / 2020
<b>WHOLESALE</b>	Items are acquired directly from brands partners, typically at a discount to wholesale price	Cost is recognized through straight-line depreciation, with a three-year useful life and 20% salvage value, in the "Rental Product Depreciation and Revenue Share" line <sup>(1)</sup>	Total cost is capitalized as "Rental Products" in long-term assets	Total cost is recognized as a capital expenditure ("Purchases of Rental Product") at time of acquisition	42% / 45% / 46%
<b>SHARE BY RTR <sup>(2)</sup></b>	Items are acquired directly from brand partners on consignment, at zero to low upfront cost, with performance-based revenue share payments to our brand partners over time	Upfront and performance-based revenue share payments are expensed as incurred in the "Rental Product Depreciation and Revenue Share" line	Items are not capitalized on the balance sheet as we do not own them	Upfront revenue share payments flow through Net Income as incurred	27% / 33% / 36%

<b>EXCLUSIVE DESIGNS</b> <sup>(2)(3)</sup>	<p>Items are designed using our data in collaboration with our brand partners</p> <p>We manufacture through third-party partners and pay the brand partner an upfront fee and minimal revenue share payments</p>	<p>Upfront and performance-based revenue share payments are expensed as incurred in the "Rental Product Depreciation and Revenue Share" line</p> <p>Manufacturing cost is recognized through straight-line depreciation, with a three-year useful life and 20% salvage value, in the "Rental Product Depreciation and Revenue Share" line <sup>(1)</sup></p>	<p>Manufacturing cost is capitalized as "Rental Products" in long-term assets</p>	<p>Upfront and revenue share payments flow through Net Income as incurred</p> <p>Manufacturing cost is recognized as a capital expenditure ("Purchases of Rental Product") at time of acquisition</p>	<p>31% / 22% / 18%</p>
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For additional details, refer to the section titled "Business - Our Unique Brand Partner Approach."

<sup>(1)</sup> The cost of accessory items, which made up less than 10% of the gross book value of rental product as of January 31, 2023, is recognized through straight-line depreciation with two-year useful life and 30% salvage value.

<sup>(2)</sup> For both Share by RTR and Exclusive Designs, the Company shares a percentage of revenue less a logistics fee with the brand. This revenue includes (i) revenue attributable to each item in connection with one-time reserve rentals; (ii) revenue attributable to each item from Subscription (this is based on the number of days at home during a subscription period); and (iii) revenue attributable to each item in connection with Resale of such items, less any liquidation costs. Both the percentage of revenue, and the logistics fees, can vary depending on the brand partner. Most Share by RTR items earn revenue until a cap has been reached, at which point, title generally passes from the brand to the Company.

<sup>(3)</sup> Also includes a small number of products bearing our trademarks, which are non-Exclusive Designs produced by third-party partners, or our owned brands. These products are purchased at a significantly lower average cost than Wholesale.

For additional details about our business model and our product acquisition strategy, see Part I, Item 1, "Business".

### Key Factors Affecting Our Performance

We believe that our performance and future success depend on a variety of factors that present significant opportunities for our business, but also present risks and challenges that could adversely impact our growth and profitability.

#### Subscribers and Customers

**Ability to Attract and Retain Subscribers and Customers and Our Attractive Cohort Trends.** We believe that we have a significant market opportunity to increase our base of subscribers and customers, and our long-term growth depends in large part on our continued ability to acquire and retain subscribers and customers.

We provide a flexible offering that allows our subscribers to customize their subscription as their everyday life changes, choosing to pause and reactivate their membership as needed. We have also historically seen that many subscribers who cancel their subscription will return and resubscribe when membership again makes sense for their everyday life. Our strategies in fiscal year 2023 are focused on investing in and improving the customer experience to drive growth. In particular, we believe that improving retention in the first 90 days of a subscription, which is when the majority of subscriber churn typically occurs, can increase loyalty and subscriber growth.



We partly assess the health of our business by analyzing the performance of our historical customer cohorts over time. We place customers in cohorts based on the fiscal year in which they first transacted with RTR. A significant portion of our total revenue in each fiscal year is generated from customers acquired in previous years. For example, over one-third of our revenue in fiscal year 2022 was generated by customers who placed their first order with us in fiscal year 2017 or prior.

We also assess the productivity of our historical customer cohorts by measuring the revenue and profit we generate from all new customers over their lifetime ("LTV") against customer acquisition costs ("CAC"). We define LTV as cumulative total revenue generated across all of our product offerings (which includes Subscription and Reserve Rental Revenue and Other Revenue) by current or previous subscribers or customers, minus fulfillment expenses, rental product depreciation and revenue share expenses, credit card fees and customer service personnel and related expenses incurred to generate such revenue divided by the number of new customers acquired during that period. Any LTV generated by a customer is assigned to the original cohort year that the customer first joined. We define CAC as total marketing expense, excluding marketing personnel and related costs incurred in a fiscal year divided by the number of new customers acquired in that period. We acquire customers efficiently as evidenced by over 80% of our lifetime customers having joined organically.

As seen in the table below, our LTV to CAC ratio has remained relatively consistent for our fiscal year 2018 through fiscal year 2022 customer cohorts, with the exception of our fiscal year 2020 cohort which was impacted by the COVID-19 pandemic. The fiscal year 2021 cohort, which benefited from strong loyalty post-recovery from the pandemic, exhibited an LTV to CAC ratio of 0.7x in its first six months and 1.3x in its first twelve months, implying that we recovered our customer acquisition cost between six months and twelve months for this cohort. Our fiscal year 2022 cohort thus far is exhibiting an LTV to CAC ratio of 0.6x in its first six months. We anticipate that the recent change in our subscription programs and our efforts to improve customer experience in fiscal year 2023 will benefit the retention and lifetime value of our customer cohorts. Cohorts have continued to grow over time as our most loyal customers continued to spend with us, as demonstrated by the strength in the FY 2018 cohort.

	Cumulative LTV / CAC				
	6M	12M	24M	36M	48M
FY 2018	0.9x	1.2x	1.3x	1.5x	2.2x
FY 2019	0.3x	0.4x	0.6x	1.3x	
FY 2020	(0.4x)	0.2x	1.4x		
FY 2021	0.7x	1.3x			
FY 2022	0.6x				

### Brands and Products

**Ability to Acquire and Monetize Products Efficiently.** Our ability to deliver an elevated experience for our subscribers and customers that keeps them loyal to RTR depends on us having the right assortment. Due to our deep partnerships with brands, flexibility in our buying timelines and ability to react to advantageous retail purchasing environments, we can acquire products directly from brands in multiple cost effective ways. Additionally, during the third quarter of fiscal year 2022, we launched a pilot to sell our brand new Exclusive Design products wholesale to a third-party retailer, which we believe highlights the potential of the RTR platform and our data and consumer appeal. Our expertise in reverse logistics and garment restoration also provides us with the ability to monetize our products effectively over their useful life. Diversifying our product acquisition away from 100% Wholesale has driven higher overall product return on investment and reduced the capital needs of the business. In fiscal year 2022, approximately 58% of new items were acquired through our more capital efficient non-Wholesale channels, compared to 55% in fiscal year 2021 and 54% in fiscal year 2020. We plan to further increase the percentage of units acquired through Exclusive Designs and Share by RTR in fiscal year 2023. We continuously evaluate our product acquisition mix to maximize our strategic priorities.

Purchases of rental product includes the cost of wholesale products acquired in the period and other ancillary costs such as freight, where applicable. Many factors impact the purchases of rental product including our acquisition mix strategy, the proportion of subscribers to total customers, timing of when those subscribers are acquired, the formality of styles, brand assortment, opportunities in the market and timing of when the rental product is received and paid for. Purchases of rental product as a percentage of revenue in fiscal year 2022 was 21% as compared to 15% in fiscal year 2021 and 35% in fiscal year 2020. We anticipate this percentage to stay relatively consistent with the fiscal year 2022 percentage in the near term. Due to seasonality factors, we track our progress on purchases of rental product as a percentage of revenue on a full year basis, as quarterly costs are not necessarily reflective of full year trends.

**Ability to Achieve Leverage in our Cost Structure.** Improving operational efficiency of our platform is imperative to increasing profitability. We expect certain of our operating costs to increase as order volume increases and as we make investments to grow subscribers and revenue and to enhance the customer experience. In September 2022, we announced a restructuring plan to reduce costs, streamline our organizational structure and drive long-term operational efficiencies, primarily in headcount, related expenses, and in technology and general and administrative expenses, which we expect to reduce operating expenses by approximately \$25 million in fiscal year 2023 compared to the annualized run rate for the second quarter of fiscal year 2022. Though we anticipate quarterly fluctuations in operating leverage, with these reductions we expect our fixed costs to decrease as a percentage of total revenue in fiscal year 2023, and over time we anticipate that our operating costs will grow more slowly than our total revenue on an annual basis.

We use technology and customer data to drive efficiency across products, fulfillment expenses and operating costs. Our data has allowed us to build a differentiated and proprietary rental reverse logistics platform with a vertically integrated cleaning and restoration process. We have invested in technology and automation in order to drive operating leverage and higher margins as we grow and scale our business.

Over time, we have improved our margins, profitability and cash flow, and we believe we will continue to benefit from economies of scale. We are focused on driving additional efficiencies in our operating expenses and growing profitability to also cover rental product depreciation, in addition to fulfillment, revenue share and operating expenses.

We use Adjusted EBITDA to assess our operating performance and the operating leverage of our business prior to capital expenditures. We also measure the cash consumption of the business including capital expenditures by assessing net cash used in operating activities and net cash used in investing activities on a combined basis. The 2022 Amended Temasek Facility reduces our cash interest payments over the next two fiscal years which we expect to improve our overall liquidity.

### Seasonality

We experience seasonality in our business, which has been impacted and may in the future change due to the effects of the COVID-19 pandemic and the macro environment. For our Subscription rentals, we typically acquire the highest number of subscribers in March through May and September through November, as these are the times customers naturally think about changing over their wardrobes. We generally see a higher rate of subscribers pause in the summer, and in mid-December through the end of January. In the third and fourth fiscal quarters, our Reserve business historically (prior to COVID-19) benefited from increased wedding and holiday events but this seasonality has varied since the onset of COVID-19. In fiscal year 2022, our active subscriber count increased sequentially in the first and third quarters and decreased sequentially in the second and fourth quarters. The third quarter increase and the fourth quarter decrease are generally consistent with more recent historical seasonality. Our second quarter typically sees a moderate increase in active subscriber count compared to the first quarter (except in fiscal year 2021 which saw a significant increase post-Omicron variant), however the second quarter active subscriber count of fiscal year 2022 was further impacted by the price increase of our Subscription programs in April 2022.

Our seasonality trends have seen effects from COVID-19 and the macro environment generally and may continue to do so in the future. For example, subscriber trends and revenue have been impacted by fewer large-scale holiday and special events compared to pre-COVID-19, especially those typically occurring in the third and fourth quarters.

We also experience seasonality in the timing of expenses and capital outlays. Transportation expense, and therefore fulfillment cost, is typically highest in the fourth fiscal quarter, given higher service levels, such as more costly and expedited shipping, and competition during holidays. Our most significant product capital expenditures typically occur in the first fiscal quarter and the third fiscal quarter, when we acquire product for the upcoming fall and spring seasons. However, the impact on cash is typically dependent on timing of receipt of product.

For additional information, see the section of Part I, Item 1A, “Risk Factors — Risks Relating To Our Business and Industry — Our business is affected by seasonality.”

#### **Impact of Macro and Consumer Environment on Our Business**

There remains significant uncertainty in the current macroeconomic and consumer environment, driven by inflationary pressures, potential risk of recession, ongoing industry-wide supply chain issues, instability in the financial system, the war in Ukraine and the COVID-19 pandemic. These factors have impacted, and are expected to continue to impact, consumer discretionary spending and purchasing behavior, price sensitivity, wage rates, transportation costs, and other costs associated with our business.

The COVID-19 pandemic materially adversely affected our fiscal year 2020 and 2021 operating and financial results. In addition, we believe that our customers live, work, socialize and travel differently than they did prior to the COVID-19 pandemic and this influences what they wear. We continue to learn how these types of changes in customer behavior may impact our business and demand, particularly in a challenging macro environment. We believe that Active Subscriber levels have been impacted by seasonal changes in consumer behavior and macro factors, such as higher levels of remote work and evolving demand for work wear, inflationary pressures and sensitivity to increased pricing, or other factors, particularly in the second quarter of fiscal year 2022, and may continue to be impacted by these factors in the future. In addition, based on performance and additional data in the third and fourth quarters of fiscal year 2022, we believe that the April price increase was a significant negative contributor to subscriber pause and retention levels and, to a lesser extent, subscriber acquisition in the second quarter of fiscal year 2022. In the third quarter of fiscal year 2022, our subscriber acquisition, pause and retention levels improved relative to the second quarter of fiscal year 2022; however, we experienced a seasonal decline in Active Subscribers in the fourth quarter of fiscal year 2022, consistent with seasonality trends.

We continue to take actions to adjust to the changing business environment and related inflationary pressure. For example, in light of potential pricing sensitivity in the current macro-economic environment, we are focused on investing in our customer and delivering even more value to her and emphasizing the value proposition of our offering in our marketing materials. In addition, we increased wage rates throughout fiscal year 2022 to attract and retain talent at our fulfillment centers and we expect to continue to be impacted by rising labor costs in fiscal year 2023. We also expect transportation costs to continue to increase in fiscal year 2023, and therefore are focused on continuing to diversify our transportation network to mitigate these rising costs and service delays. Examples of these mitigation efforts include optimizing carrier mix such as through increasing volumes with regional and last-mile carriers and consolidating shipments through our at-home pickup service in certain markets and improving contractual terms. Although we continue to face a challenging environment, we plan to invest in our customers, manage our staffing and further diversify our transportation network in order to drive growth and efficiencies in our business.

The full extent to which the macro environment will directly or indirectly impact our business, results of operations, growth rates, and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted. Given the uncertainty, we cannot estimate the financial impact of the macro environment and COVID-19 pandemic on our future results of operations, cash flows, or financial condition. For additional details, see Part I, Item 1A, “Risk Factors” of this Annual Report on Form 10-K.

## Key Business and Financial Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key business and financial metrics to help us evaluate our business, identify trends affecting our business, formulate business plans, and make strategic decisions. The calculation of the key business and financial metrics discussed below may differ from similarly titled metrics used by other companies, securities analysts or investors, limiting the usefulness of those measures for comparative purposes. These key business and financial metrics are not meant to be considered as indicators of our financial performance in isolation from or as a substitute for our financial information prepared in accordance with GAAP and should be considered in conjunction with other metrics and components of our results of operations, such as each of the other key business and financial metrics, and our revenue and net loss.

	Years Ended January 31,		
	2023	2022	2021
Active Subscribers	126,712	115,240	54,797
Average Active Subscribers	128,586	93,371	66,711
Gross Profit	\$ 120.0	\$ 69.7	\$ 15.5
Adjusted EBITDA (1)	\$ 6.7	\$ (19.2)	\$ (20.3)

(1) Adjusted EBITDA is a non-GAAP financial measure; for a reconciliation to the most directly comparable GAAP financial measure, net loss, and why we consider Adjusted EBITDA to be a useful metric, see “—Non-GAAP Financial Metrics” below.

**Active Subscribers:** Active Subscribers represents the number of subscribers with an active membership as of the last day of any given period and excludes paused subscribers. As of January 31, 2023, we had 126,712 Active Subscribers, up 10% year-over-year. Our active subscriber count growth rate slowed year over year as the second, third and fourth quarters of fiscal year 2022 saw a lower ending Active Subscriber count compared with the end of the first quarter of fiscal year 2022. We believe Active Subscriber levels were likely impacted by seasonality, macro environment factors and the reaction to our April 2022 price increase, as discussed above in the Key Factors Affecting Our Performance in Seasonality and Impact of Macro and Consumer Environment on Our Business.

**Average Active Subscribers:** Average Active Subscribers represents the mean of the beginning of quarter and end of quarter Active Subscribers for a quarterly period; and for other periods, represents the mean of the Average Active Subscribers of every quarter within that period. As of January 31, 2023, we had 128,586 Average Active Subscribers, up from 93,371 as of January 31, 2022 or a 38% increase year-over-year. Average Active Subscribers align to revenue levels in the period, while Active Subscribers are measured as of a specific day.

**Gross Profit and Gross Margin:** We define Gross Profit as total revenue less costs related to activities to fulfill customer orders and rental product acquisition costs, presented as fulfillment and rental product depreciation and revenue share, respectively, on the consolidated statement of operations. We depreciate owned apparel assets over three years and owned accessory assets over two years net of 20% and 30% salvage values, respectively, and recognize the depreciation on a straight-line basis and remaining cost of items when sold or retired on our consolidated statement of operations. Rental product depreciation expense is time-based and reflects all rental product items we own. We use Gross Profit and Gross Profit as a percentage of revenue, or Gross Margin, to measure the continued efficiency of our business after the cost of our products and fulfillment costs are included. Gross Profit was \$120.0 million for the year ended January 31, 2023 compared to \$69.7 million for the year ended January 31, 2022 representing Gross Margins of 40.5% and 34.3%, respectively. The significant increase in Gross Profit and Gross Margin for the year ended January 31, 2023 was driven by higher revenue per shipment than prior year due to both the price increase and higher add-on activity, lower shipments per average subscriber, and lower rental product depreciation as a percentage of total revenue than in the prior period. These benefits more than offset higher fulfillment costs which are primarily driven by increases in fulfillment related transportation costs for the year ended January 31, 2023 and a larger number of shipments for the year ended January 31, 2023. Rental product depreciation decreased due to the lower proportion of Wholesale items relative to prior year. We anticipate that our Gross Margin may be lower in fiscal year 2023 compared to fiscal year 2022 due to the March 2023 launch of extra items in our subscription plans and due to the anticipated decrease in our Reserve business. We will seek to continue to drive fulfillment and operational efficiency gains over time and strategically evolve our mix of product acquisition to offset cost increases and/or higher units processed per shipment.

**Adjusted EBITDA and Adjusted EBITDA Margin:** We define Adjusted EBITDA as net loss, adjusted to exclude interest expense, rental product depreciation, other depreciation and amortization, share-based compensation expense, write-off of liquidated rental product assets, certain non-recurring or one-time costs (see below footnotes to the reconciliation table), restructuring charges, loss on asset impairment related to restructuring, income taxes, warrant liability revaluation gains / losses, debt extinguishment gains / losses, other income and expense, and other gains / losses. We define Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of total revenue, net for a period. Adjusted EBITDA was \$6.7 million for the year ended January 31, 2023 compared to \$(19.2) million for the year ended January 31, 2022, representing margins of 2.3% and (9.4)%, respectively. Adjusted EBITDA Margin significantly improved for the year ended January 31, 2023 due to the improvement in Gross Profit and Gross Margin and improved operating leverage across technology, marketing and general and administrative expenses even with additional strategic investments. In the third quarter of fiscal year 2022, we launched a two-pronged pilot with Amazon to (1) sell our brand new Exclusive Design products wholesale and (2) launch a new liquidation partnership, which together contributed \$5.1 million to Adjusted EBITDA in fiscal year 2022.

We have the opportunity to improve Adjusted EBITDA and offset cost increases and/or higher units processed per shipment as we increase revenue and drive fulfillment and operational efficiency gains and operating expense leverage. In particular, we expect our restructuring plan to significantly reduce fixed costs and improve operating expense leverage in fiscal year 2023 compared to fiscal year 2022.

## **Components of Results of Operations**

### **Total Revenue, Net**

Our total revenue, net consists of Subscription and Reserve rental revenue and Other revenue. Total revenue is presented net of promotional discounts, credits and refunds and taxes. In fiscal year 2022, our revenue growth rate benefited from COVID recovery and the April 2022 price increase compared to fiscal year 2021. While we anticipate our total revenue and our Active Subscriber growth rate to increase in fiscal year 2023, we anticipate our total revenue growth rate to decelerate due to an anticipated lower growth rate of Average Active Subscribers in fiscal year 2023 relative to fiscal year 2022 and in part due to an anticipated decrease in Reserve revenue.

**Subscription and Reserve Rental Revenue.** We generate Subscription and Reserve rental revenue from subscription and Reserve rental fees. We recognize subscription fees ratably over the subscription period, commencing on the date the subscriber enrolls in a subscription program. These fees are collected upon enrollment and any revenue from an unrecognized portion of the subscription period is deferred to the following fiscal period. We announced a price increase in April 2022 for our subscription plans, which has since increased revenue per subscriber. We recognize Reserve fees over the rental period, which starts on the date of delivery of the product to the customer. Reserve orders can be placed up to four months prior to the rental start date and the customer's payment form is charged upon order confirmation. We defer recognizing the rental fees and any related promotions for Reserve rentals until the date of delivery, and then recognize those fees evenly over the four- or eight-day rental period.

**Other Revenue.** We generate Other revenue primarily from the sale of products while they are in rental condition. We offer the ability for subscribers and customers to purchase products at a discount to retail price. Payment for the sale of products occurs upon order confirmation while the associated revenue is recognized either at the time the sold product is delivered or when purchased, if the item is already at home with the customer. From time to time, Other revenue may include revenue generated from pilots and other growth initiatives which may cause quarterly fluctuations in the Other revenue line. For example, Other revenue as a percentage of Total revenue was lower in the fourth quarter than the third quarter of fiscal year 2022 due to the pilot to sell brand new Exclusive Design products wholesale to a third party retailer in the third quarter of fiscal year 2022.

#### **Costs and Expenses**

**Fulfillment.** Fulfillment expenses consist of all costs to receive, process and fulfill customer orders. This primarily includes shipping costs to/from customers and personnel and related costs, which include salaries and bonuses, and employee benefit costs. Personnel and related costs are related to processing inbound and outbound customer orders, cleaning, restoring and repairing items received from customers, tracking and managing items within our fulfillment center network and ingesting new items received from brands. Fulfillment expenses also include costs of packing materials, cleaning supplies, and other fulfillment-related expenses. We expect fulfillment costs to increase as order volume increases. In fiscal years 2021 and 2022 costs to ship orders increased due to increasing prices in the transportation market. Fulfillment expense may fluctuate due to various factors including commercial terms and market trends. Fulfillment expense may also increase due to competitive pressures in the labor market which could lead to continued higher wage rates. We increased warehouse wage rates during fiscal years 2021 and 2022 and expect to continue to be impacted by rising wage rates in the future. For fiscal year 2023, we anticipate our fulfillment expense may increase as a percentage of revenue compared to fiscal year 2022 due to the March 2023 launch of extra items in our subscription plans and due to the anticipated decrease in our Reserve business. We expect to continue to invest in automation and other process improvements to support and drive efficiencies in our operations. To the extent we are successful in becoming more efficient in fulfilling orders, and at a magnitude that is able to offset increasing shipping costs, wage rates and cleaning/packing supply price increases, we would expect these expenses to decrease as a percentage of total revenue over the longer term.

**Technology.** Technology expenses consist of personnel and related costs for employees engaged in software development and engineering, quality assurance, product, customer experience, data science, analytics and information technology-related efforts, net of personnel costs associated with capitalized software. Technology expenses also include professional services, third-party hosting expenses, website monitoring costs, and software and license fees. We expect these expenses to decrease in dollars and as a percentage of total revenue as a result of our cost reduction plan. Over the medium to long term, these expenses may increase as we continue to improve the customer and subscriber experience and invest in our technology stack and infrastructure to support overall growth in our business. While these expenses may vary from period to period as a percentage of total revenue, we expect them to decrease as a percentage of total revenue over the longer term.

**Marketing.** Marketing expenses include online and mobile marketing, search engine optimization and email costs, marketing personnel and related costs, agency fees, brand marketing, printed collateral, consumer research, and other related costs. We expect marketing expenses to increase as we intend to increase marketing spend to drive the growth of our business and increase our brand awareness. The trend and timing of our marketing expenses will depend in part on the timing of marketing campaigns.

**General and Administrative.** General and administrative (“G&A”) expenses consist of all other personnel and related costs for customer service, finance, tax, legal, human resources, fashion and photography and fixed operations costs. General and administrative expenses also includes occupancy costs (including warehouse-related), professional services, credit card fees, general corporate and warehouse expenses, other administrative costs, and gains and losses associated with asset disposals and operating lease terminations. In the short term, we expect these expenses to decrease significantly in dollars and as a percentage of total revenue as a result of our restructuring plan while over the medium to long term, we expect these expenses to increase as we grow our infrastructure to support the overall growth of the business. Rent expense and other facilities-related costs may increase in the future due to inflation or to support overall business growth and fulfillment efficiencies. While these expenses may vary from period to period as a percentage of total revenue, we expect them to decrease as a percentage of total revenue over the longer term.

**Rental Product Depreciation and Revenue Share.** Rental product depreciation and revenue share expenses consist of depreciation and write-offs of rental products, and payments under revenue share arrangements with brand partners. We depreciate the cost, less an estimated salvage value, of our owned products (Wholesale and Exclusive Designs items), over the estimated useful lives of these items and, if applicable, accelerate depreciation of the items when they are no longer in rental condition. We recognize the cost of items acquired under Share by RTR, as incurred, through upfront payments and performance-based revenue share payments. We expect rental product depreciation and revenue share expenses to increase in absolute dollars as we continue to support subscriber and customer growth. The amount and proportion of rental product depreciation and revenue share will vary from period to period based on how and when we acquire items as well as the mix of our rental product base.

**Other Depreciation and Amortization.** Other depreciation and amortization expenses consist of depreciation and amortization amounts for fixed assets, intangible assets including capitalized software, and financing right-of-use assets.

**Restructuring Charges.** Restructuring charges consist of severance and related costs associated with the September 2022 restructuring plan.

**Loss on Asset Impairment Related to Restructuring.** Loss on asset impairment related to restructuring consists of asset impairment charges related to discontinuing warehouse operations projects in connection with the September 2022 restructuring plan.

**Interest Income / (Expense).** Interest income / (expense) consists primarily of accrued paid-in-kind interest, cash and cash equivalents interest and debt issuance cost amortization associated with our 2022 Amended Temasek Facility going forward.

**Gain / (Loss) on Warrant Liability Revaluation, Net.** Gain / (loss) on warrant liability revaluation is associated with revaluing liability classified warrants to the respective fair value at period end or prior to conversion. As of January 31, 2023, all outstanding warrants are equity classified and therefore do not require remeasurement going forward.

**Gain / (Loss) on Debt Extinguishment, Net.** Gain / (loss) on debt extinguishment is associated with debt extinguishment including the write off of the unamortized debt issuance costs. These are primarily non-cash and are associated with debt payment transactions which are non-recurring.

**Other Income / (Expense).** Other income / (expense) consists primarily of proceeds from previous insurance claims and proceeds from monetizing tax credits associated with growth.

**Income Tax Benefit / (Expense).** Income taxes consist primarily of state minimum taxes and Irish refundable tax credits. We have established a valuation allowance for our U.S. federal and state deferred tax assets, including net operating losses. We expect to maintain this valuation allowance until it becomes more likely than not that the benefit of our federal and state deferred tax assets will be realized by way of expected future taxable income in the United States.

## Results of Operations

The results of operations presented below should be reviewed in conjunction with the consolidated financial statements and notes included elsewhere in this Annual Report on Form 10-K. The following tables set forth our results of operations for the periods presented:

	Years Ended January 31,		
	2023	2022	2021
	(in millions)		
Revenue:			
Subscription and Reserve rental revenue	\$ 268.6	\$ 185.8	\$ 135.9
Other revenue	27.8	17.5	21.6
Total revenue, net	296.4	203.3	157.5
Costs and expenses:			
Fulfillment	92.2	61.9	53.0
Technology	55.4	45.3	37.7
Marketing	35.1	26.5	8.1
General and administrative	109.0	104.4	77.2
Rental product depreciation and revenue share	84.2	71.7	89.0
Other depreciation and amortization	16.4	19.4	23.0
Restructuring charges	2.4	—	—
Loss on asset impairment related to restructuring	5.3	—	—
Total costs and expenses	400.0	329.2	288.0
Operating loss	(103.6)	(125.9)	(130.5)
Interest income / (expense), net	(36.8)	(53.0)	(46.6)
Gain / (loss) on warrant liability revaluation, net	—	(24.9)	0.4
Gain / (loss) on debt extinguishment, net	—	(12.2)	(0.6)
Other income / (expense), net	1.5	3.9	6.2
Net loss before income tax benefit / (expense)	(138.9)	(212.1)	(171.1)
Income tax benefit / (expense)	0.2	0.3	—
Net loss	\$ (138.7)	\$ (211.8)	\$ (171.1)

### Comparison of the years ended January 31, 2023 and 2022

**Total Revenue, Net.** Total revenue, net was \$296.4 million for the year ended January 31, 2023, an increase of \$93.1 million, or 45.8%, compared to \$203.3 million for the year ended January 31, 2022. This increase was primarily driven by the increase in overall demand due to COVID recovery, including an increase in Active and Average Active Subscribers and an increase in revenue per subscriber, partly due to the April 2022 subscription price increase, compared to fiscal year 2021.

**Subscription and Reserve Rental Revenue.** Subscription and Reserve rental revenue was \$268.6 million for the year ended January 31, 2023, an increase of \$82.8 million, or 44.6%, compared to \$185.8 million for the year ended January 31, 2022. This increase was primarily driven by an increase in Average Active Subscribers year-over-year and an increase in revenue per subscriber which partly resulted from the price increase announced in April 2022.

**Other Revenue.** Other revenue was \$27.8 million for the year ended January 31, 2023, an increase of \$10.3 million, or 58.9%, compared to \$17.5 million for the year ended January 31, 2022. This increase was primarily driven by an increase in active subscribers which resulted in increased purchases of resale items. Other revenue represented 9.4% of total revenue, up from 8.6% in the same period of fiscal year 2021, primarily due to increased purchases of resale items by our subscribers during fiscal year 2022 and also due to \$2.3 million of revenue recognized from a pilot to sell our brand new Exclusive Design products wholesale to a third party retailer.



**Costs and Expenses.** Total costs and expenses were \$400.0 million for the year ended January 31, 2023, an increase of \$70.8 million, or 21.5%, compared to \$329.2 million for the year ended January 31, 2022. This increase was primarily driven by an increase in fulfillment, technology, paid marketing and G&A expenses to support our growth, public company costs and charges related to the September 2022 restructuring plan. These increases were partially offset by cost savings from the September 2022 restructuring plan which reduced costs for the fourth quarter and part of the third quarter of fiscal year 2022. Fiscal year 2021 also included costs incurred for one-time IPO-related RSU vesting events and one-time costs associated with public company readiness.

**Fulfillment.** Fulfillment expenses were \$92.2 million for the year ended January 31, 2023, an increase of \$30.3 million, or 48.9%, representing 31.1% of revenue, compared to \$61.9 million for the year ended January 31, 2022, representing 30.4% of revenue. The increase in fulfillment dollars and as a percentage of revenue was primarily driven by an increase in shipments associated with higher revenue and an increase in transportation costs and wage rates, partially offset by fulfillment process improvements.

**Technology.** Technology expenses were \$55.4 million for the year ended January 31, 2023, an increase of \$10.1 million, or 22.3%, compared to \$45.3 million for the year ended January 31, 2022. This increase was primarily driven by an increase in strategic investments and personnel costs to support future growth initiatives, including back-end infrastructure and cloud investments that provide scaling and efficiency benefits and support our work to provide an enhanced search, fit and discovery experience for the consumer. Technology expenses were 18.7% of revenue for the year ended January 31, 2023 compared to 22.3% last year as we saw increased operating leverage with higher revenue. Technology related share-based compensation expense was \$5.9 million for the year ended January 31, 2023 and was \$4.2 million for the same period last year.

**Marketing.** Marketing expenses were \$35.1 million for the year ended January 31, 2023, an increase of \$8.6 million, or 32.5%, compared to \$26.5 million for the year ended January 31, 2022. This increase was driven by increased marketing initiatives as compared to last year when we reduced paid and brand marketing spend during the first and second quarters of fiscal year 2021 related to the COVID-19 pandemic. Marketing expenses unrelated to personnel costs were \$30.7 million in the year ended January 31, 2023 and 10.3% of revenue, compared to \$20.6 million last year and 10.1% of total revenue.

**General and Administrative.** General and administrative ("G&A") expenses were \$109.0 million for the year ended January 31, 2023, an increase of \$4.6 million, or 4.4%, compared to \$104.4 million for the year ended January 31, 2022. This increase was primarily driven by the increase in personnel costs required to support our growth as a public company as well as other costs associated with revenue growth. These increases were partially offset by cost savings from the September 2022 restructuring plan recognized in the third and fourth quarters of fiscal year 2022. The prior year period also included costs incurred for one-time IPO-related RSU vesting events and one-time costs associated with public company readiness. In addition, we recognized proceeds from a new liquidation partnership with Amazon which positively impacted G&A expenses by \$2.3 million in the third and fourth quarters of fiscal year 2022. G&A expenses as a percentage of revenue were 36.8%, compared to 51.4% last year as we saw increased operating leverage with higher revenue and a lower cost base post-restructuring. G&A related share-based compensation expense was \$19.0 million for the year ended January 31, 2023 and was \$21.4 million for the prior year. We generally expect these expenses to decrease in fiscal year 2023, compared with fiscal year 2022, as a result of the aforementioned restructuring; however, share-based compensation expense is expected to increase incrementally in fiscal year 2023.

**Rental Product Depreciation and Revenue Share.** Rental product depreciation and revenue share was \$84.2 million for the year ended January 31, 2023, an increase of \$12.5 million, or 17.4%, compared to \$71.7 million for the year ended January 31, 2022. The increase is primarily a result of an increase in revenue share payments due to a higher proportion of Share by RTR items rented. Rental product depreciation and revenue share was 28.4% of revenue in the year ended January 31, 2023, down from 35.3% in the prior year primarily due to rental product depreciation decreasing as a percentage of revenue as costs were absorbed over a larger revenue base.

**Other Depreciation and Amortization.** Other depreciation and amortization was \$16.4 million for the year ended January 31, 2023, a decrease of \$(3.0) million, or (15.5)%, compared to \$19.4 million for the year ended January 31, 2022. This decrease was primarily driven by lower depreciation associated with leasehold improvements.

**Restructuring Charges.** Restructuring charges were \$2.4 million for the year ended January 31, 2023 for severance and related costs in connection with the September 2022 restructuring plan.

**Loss on Asset Impairment Related to Restructuring.** Loss on asset impairment related to restructuring was \$5.3 million for the year ended January 31, 2023 and consists of asset impairment charges related to discontinuing two warehouse operations projects in connection with the September 2022 restructuring plan.

**Interest Income / (Expense), Net.** Interest expense, net was \$(36.8) million for the year ended January 31, 2023, a decrease in expense of \$16.2 million, or (30.6)%, compared to \$(53.0) million for the year ended January 31, 2022. This decrease was driven by the accrued payment-in-kind interest related to the additional Ares debt entered in October 2020 that was paid down in full in October 2021 and also due to higher interest income in fiscal year 2022. Of the \$(36.8) million total interest expense in the year ended January 31, 2023, \$14.3 million was the accrual of paid-in kind ("PIK") interest, \$18.2 million was cash, financing lease interest and other interest and \$4.3 million was debt discount amortization, compared to \$38.8 million of PIK interest, \$8.3 million of cash, financing lease interest and other interest and \$5.9 million of debt discount amortization in the year ended January 31, 2022.

**Gain / (Loss) on Warrant Liability Revaluation, Net.** Gain / (loss) on warrant liability revaluation, net was \$(24.9) million for the year ended January 31, 2022. As of January 31, 2022, all of the Company's outstanding warrants are equity-classified and, as such, did not require fair value remeasurement during the period.

**Gain / (Loss) on Debt Extinguishment, Net.** Gain / (loss) on debt extinguishment, net was \$(12.2) million for the year ended January 31, 2022. The costs were associated with the fees and unamortized debt issuance costs related to the Ares debt paydown upon the IPO. These charges were primarily non-cash and are associated with debt paydown transactions which are non-recurring.

**Other Income / (Expense), Net.** Other income / (expense), net was \$1.5 million for the year ended January 31, 2023, a decrease of \$(2.4) million, compared to \$3.9 million for the year ended January 31, 2022. This decrease was primarily driven by \$4.0 million of insurance claim proceeds, which were settled during the year ended January 31, 2022.

#### **Non-GAAP Financial Metrics**

In addition to our results determined in accordance with GAAP, we believe the following non-GAAP financial metrics are useful in evaluating our performance. These non-GAAP financial metrics are not meant to be considered as indicators of our financial performance in isolation from, or as a substitute, for our financial information prepared in accordance with GAAP and should be read only in conjunction with financial information presented on a GAAP basis. There are limitations to the use of the non-GAAP financial metrics presented in this Annual Report. For example, our non-GAAP financial metrics may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate non-GAAP financial metrics differently than we do, limiting the usefulness of those measures for comparative purposes.

The reconciliation of the below non-GAAP financial metrics to the most directly comparable GAAP financial measure is presented below. We encourage reviewing the reconciliation in conjunction with the presentation of the non-GAAP financial metrics for each of the periods presented. In future periods, we may exclude similar items, may incur income and expenses similar to these excluded items, and may include other expenses, costs and non-recurring items.

**Adjusted EBITDA and Adjusted EBITDA Margin.** Adjusted EBITDA and Adjusted EBITDA Margin are key performance measures used by management to assess our operating performance and the operating leverage of our business prior to capital expenditures. Our Adjusted EBITDA margins have improved from (9.4)% in the year ended January 31, 2022 to 2.3% in the year ended January 31, 2023. The pilot to sell brand new Exclusive Design products wholesale to a third party retailer and launch of a new liquidation partnership together contributed \$5.1 million to Adjusted EBITDA in the year ended January 31, 2023.

The following table presents a reconciliation of net loss, the most comparable GAAP financial measure, to Adjusted EBITDA for the periods presented:

	Years Ended January 31,		
	2023	2022	2021
	(in millions)		
Net loss	\$ (138.7)	\$ (211.8)	\$ (171.1)
Interest (income) / expense, net (1)	36.8	53.0	46.6
Rental product depreciation	52.9	50.3	69.9
Other depreciation and amortization (2)	16.4	19.4	23.0
Share-based compensation (3)	25.4	26.6	8.2
Write-off of liquidated assets (4)	5.8	4.8	3.3
Non-recurring adjustments (5)	1.3	5.3	4.2
Non-ordinary course legal fees (6)	0.1	—	—
Restructuring charges (7)	2.4	—	—
Loss on asset impairment related to restructuring (8)	5.3	—	—
Income tax (benefit) / expense	(0.2)	(0.3)	—
(Gain) / loss on warrant liability revaluation, net (9)	—	24.9	(0.4)
(Gain) / loss on debt extinguishment, net (10)	—	12.2	0.6
Other (income) / expense, net (11)	(1.5)	(3.9)	(6.2)
Other (gains) / losses (12)	0.7	0.3	1.6
Adjusted EBITDA	\$ 6.7	\$ (19.2)	\$ (20.3)
Adjusted EBITDA Margin (13)	2.3 %	(9.4)%	(12.9)%

<sup>(1)</sup> Includes debt discount amortization of \$4.3 million in the year ended January 31, 2023, \$5.9 million in the year ended January 31, 2022, and \$5.0 million in the year ended January 31, 2021.

<sup>(2)</sup> Reflects non-rental product depreciation and capitalized software amortization.

<sup>(3)</sup> Reflects the non-cash expense for share-based compensation. The year ended January 31, 2022 includes \$14.4 million of costs incurred for one-time IPO-related RSU vesting events.

<sup>(4)</sup> Reflects the write-off of the remaining book value of liquidated rental product that had previously been held for sale.

<sup>(5)</sup> Non-recurring adjustments for the year ended January 31, 2023 includes \$1.3 million of costs related to public company SOX readiness and for the year ended January 31, 2022 includes \$5.2 million of costs primarily associated with public readiness preparation.

<sup>(6)</sup> Non-ordinary course legal fees for the year ended January 31, 2023 includes \$0.1 million of costs related to a class action lawsuit.

<sup>(7)</sup> Reflects restructuring charges for severance and related costs in connection with the September 2022 restructuring plan.

<sup>(8)</sup> Reflects the asset impairment charges related to discontinuing warehouse operations projects in connection with the September 2022 restructuring plan.

<sup>(9)</sup> Reflects the expense associated with revaluing prior liability classified lender warrants to the respective fair value at period end, or prior to conversion. As of January 31, 2023, all outstanding warrants are equity classified and therefore do not require remeasurement going forward.

<sup>(10)</sup> Includes debt extinguishment costs related to debt paydown in the periods presented.

<sup>(11)</sup> Primarily includes \$1.4 million of monetized tax credits for the year ended January 31, 2023 and \$4.0 million of insurance claim proceeds for the year ended January 31, 2022.

<sup>(12)</sup> Includes costs associated with the write-off of non-rental product asset disposals, operating lease termination and foreign exchange (see "Note 5 - Leases – Lessee Accounting" in the Notes to the Consolidated Financial Statements).

<sup>(13)</sup> Adjusted EBITDA Margin calculated as Adjusted EBITDA as a percentage of revenue.

## Liquidity and Capital Resources

Since our founding, we have financed our operations primarily from net proceeds from the sale of redeemable preferred stock, common stock and debt financings. As of January 31, 2023, we had cash and cash equivalents of \$154.5 million and restricted cash of \$9.1 million (\$3.1 million current and \$6.0 million noncurrent), and an accumulated deficit of \$(939.9) million.

On October 29, 2021, we closed our IPO, in which we issued and sold 17,000,000 shares at a public offering price of \$21.00 per share. We received net proceeds of \$327.3 million after deducting underwriting discounts and commissions and offering expenses.

Concurrent with our IPO, we paid down our senior secured term loan of \$80.7 million (including accrued interest) with Ares Corporate Opportunities Fund V, L.P. (the "Ares Facility") in full and \$60.0 million of our Temasek Facility and refinanced the remaining Temasek Facility, resulting in a total debt repayment of \$140.7 million. In January 2023, the Company entered into the 2022 Amended Temasek Facility. The 2022 Amended Temasek Facility extended the maturity date from October 2024 to October 2026, reduced cash interest payments by over \$20 million in cash in the next two fiscal years while the total interest rate remains unchanged during this period, with subsequent increases thereafter. In connection with the 2022 Amended Temasek Facility, we also granted warrants to purchase two million shares of Class A Common Stock at an exercise price of \$5.00 per share, along with other clarifications and updates. Our total indebtedness as of January 31, 2023 was \$272.5 million. For a description of the terms of our current and prior credit agreements, see "Note 8 – Long-Term Debt" in the Notes to the Consolidated Financial Statements.

We expect that operating losses and negative cash flows from operations could continue in the foreseeable future as we continue to acquire products and increase other investments in our business. We believe our existing cash and cash equivalents, and cash generated from our operations, will be sufficient to sustain our business operations, to satisfy our debt service obligations and to comply with our amended debt covenants for at least the next twelve months from the date of this Annual Report. In September 2022, the Company announced a restructuring plan to reduce costs, streamline its organizational structure and drive operational efficiencies, which is expected to generate annual operating expense savings of approximately \$25 million (relative to the second quarter of fiscal year 2022 run rate) in fiscal 2023.

Our future capital requirements will depend on many factors, including, but not limited to, growth in the number of customers and Active Subscribers and the timing of investments in technology and personnel to support the overall growth of our business. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements and service our debt obligations, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. There can be no assurances that we will be able to raise additional capital which could negatively affect our liquidity in the future. In the event that additional financing is required from outside sources, we may not be able to negotiate terms acceptable to us or at all. If we are unable to raise additional capital when required, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, results of operations, financial condition, and cash flows would be adversely affected.

## Cash Flows

The following table summarizes our cash flows for the periods presented:

	Years Ended January 31,		
	2023	2022	2021
	(in millions)		
Net cash (used in) provided by operating activities	\$ (47.7)	\$ (42.3)	\$ (42.8)
Net cash (used in) provided by investing activities	(44.3)	(22.5)	(58.4)
Net cash (used in) provided by financing activities	(4.0)	215.2	168.5
Net (decrease) increase in cash and cash equivalents and restricted cash	(96.0)	150.4	67.3
Cash and cash equivalents and restricted cash at beginning of period	259.6	109.2	41.9
Cash and cash equivalents and restricted cash at end of period	\$ 163.6	\$ 259.6	\$ 109.2

We also measure the cash consumption of the business including capital expenditures, by assessing net cash used in operating activities and net cash used in investing activities on a combined basis, which was \$(92.0) million for the year ended January 31, 2023 and \$(64.8) million for the year ended January 31, 2022. The cash consumption of the business was higher in fiscal year 2022 compared with the same period of fiscal year 2021 primarily due to higher investments in rental product spend and growth initiatives and overall growth of the business compared to the prior year. We also opportunistically pulled forward spend of rental product from fiscal year 2023 to take advantage of attractive pricing in the current environment, which we intend to continue to do from time to time. The sum of net cash used in operating activities and net cash used in investing activities, as a percentage of revenue, was (31.0)% for the year ended January 31, 2023 and (31.9)% for the year ended January 31, 2022.

**Net cash (used in) provided by operating activities.** For the year ended January 31, 2023, net cash used in operating activities was \$(47.7) million, which consisted of a net loss of \$(138.7) million, partially offset by non-cash charges of \$116.1 million, reclassification of the proceeds from the sale of rental product of \$17.9 million and a net change of \$(7.2) million in our operating assets and liabilities. The non-cash charges were primarily comprised of \$50.2 million of rental product depreciation and write-off expenses, \$14.3 million of payment-in-kind interest, \$25.4 million of share-based compensation, \$4.3 million of debt discount amortization, \$17.0 million of other fixed and intangible asset depreciation and the loss on the surrender of fixed asset write-offs related to the partial termination of the lease of the corporate headquarters (see "Note 5 - Leases – Lessee Accounting" in the Notes to the Consolidated Financial Statements) and \$5.3 million consisting of asset impairment charges related to discontinuing warehouse operations projects in connection with the September 2022 restructuring plan, of which \$0.4 million is included in accrued expenses related to the asset impairment (see the Supplemental Cash Flow Information in Part II, Item 8. "Financial Statements and Supplementary Data").

For the year ended January 31, 2022, net cash used in operating activities was \$(42.3) million, which consisted of a net loss of \$(211.8) million, partially offset by non-cash charges of \$171.3 million, reclassification of the proceeds from the sale of rental product of \$12.9 million and a net change of \$11.1 million in our operating assets and liabilities. The non-cash charges were primarily comprised of \$49.7 million of rental product depreciation and write-off expenses, \$38.8 million of payment-in-kind interest, \$24.9 million loss on remeasurement of warrant liability, \$26.6 million of share-based compensation, \$5.9 million of debt discount amortization, \$12.2 million loss on debt extinguishment (primarily non-cash), \$19.5 million of other fixed and intangible asset depreciation and amortization, and \$(6.3) million of previously accrued PIK interest was settled in the period in connection with the Ares debt extinguishment.

**Net cash (used in) provided by investing activities.** For the year ended January 31, 2023, net cash used in investing activities was \$(44.3) million, primarily consisting of \$(62.1) million of purchases of rental product incurred in the period and \$(8.9) million of purchases of fixed and intangible assets. The investment in rental product does not include an additional \$5.4 million of cost for units received in the current period but not yet paid for, but does include \$(6.5) million of cost for units paid for in the current period but received in the prior period (see the Supplemental Cash Flow Information in Part II, Item 8. "Financial Statements and Supplementary Data"). The investment in rental product was to support our growth in customer demand. The majority of the investment in fixed and intangible assets was related to investments in automation assets, additional processing machinery and equipment for our Secaucus and Arlington warehouses. The cash used in investing activities was partially offset by \$17.9 million of proceeds from the sale of owned rental product and \$8.8 million of proceeds from the liquidation of rental product.

For the year ended January 31, 2022, net cash used in investing activities was \$(22.5) million, primarily consisting of \$(30.8) million of purchases of rental product and \$(10.3) million of purchases of fixed and intangible assets. The investment in rental product did not include the additional \$6.5 million of cost for units received in the current period but not yet paid for but did include \$(3.6) million of cost for units paid for in the current period but received in the prior period (see Supplemental Cash Flow Information in Part II, Item 8. "Financial Statements and Supplementary Data"). The investment in rental product was to support growth in customer demand as a result of the COVID-19 recovery. The majority of the investment in fixed and intangible assets was related to investments in automation assets, additional processing machinery and equipment for the Secaucus and Arlington warehouses, reusable bags and capitalized technology labor. The cash used in investing activities was partially offset by \$12.9 million of proceeds from sales of owned rental products and \$5.7 million of proceeds from the liquidation of rental product.

**Net cash provided by (used in) financing activities.** During the year ended January 31, 2023, net cash used in financing activities was \$(4.0) million, consisting of other financing payments.

During the year ended January 31, 2022, net cash provided by financing activities was \$215.2 million, consisting primarily of \$327.3 million from the sale of Class A common stock in our IPO which is net of underwriting discounts of \$(24.1) million and deferred equity issuance costs of \$(5.6) million, \$21.2 million from the issuance of redeemable preferred stock, \$3.3 million from the exercise of options and \$3.1 million of net proceeds from short term financing agreements and other financing payments. The cash from financing activities was partially offset by \$(139.7) million in debt payments including deferred financing costs and extinguishment costs.

#### **Contractual Obligations and Commitments**

In October 2021, we paid down outstanding principal and accrued interest of our Ares Facility in full and a portion of our then-current Temasek facility and entered into the Amended Temasek Facility. In January 2023, we entered into the 2022 Amended Temasek Facility, which extended the maturity date and reduced cash interest payments over the next two years. As of January 31, 2023, we had approximately \$272.5 million of total debt outstanding, none of which is payable within the next 12 months. See "Note 8 — Long-Term Debt" in the Notes to the Consolidated Financial Statements for more information.

See "Note 5 — Leases — Lessee Accounting" in the Notes to the Consolidated Financial Statements for our minimum fixed lease obligations under existing lease agreements as of January 31, 2023.

## Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates using assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods, as well as related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities and the amount of revenue and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and any such differences may be material. We believe that the accounting estimates discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

### **Rental Product**

We consider rental product to be a long-term productive asset and, as such, classify it as a noncurrent asset on the consolidated balance sheets. Rental product is stated at cost, less accumulated depreciation. We depreciate rental product, less salvage value, over the useful lives of the assets using the straight-line method. Depreciation on rental products is an estimate based on the following assumptions:

- Useful life: our projection of the period over which we can monetize our rental products through our Subscription or Reserve rental offerings
- Salvage value: our projection of the proceeds that can be expected to be generated from rental product once it is no longer considered rentable, expressed as a percentage of the acquisition cost

The useful life is determined based on historical trends and an assessment of any future changes. The salvage value considers the historical trends and projected liquidation proceeds for the assets. A change in the assumption used for useful life or salvage value would either increase or decrease accumulated depreciation and depreciation expense reflected on our consolidated balance sheets within rental product, net and on our consolidated statements of operations within rental product depreciation and revenue share, respectively. Our historical results continue to support the use of these assumptions.

### **Right-of-Use Assets and Lease Liabilities**

Right-of-use ("ROU") assets and lease liabilities are measured and recognized at the lease commencement date or lease modification date based on the present value of fixed lease payments over the expected lease term. Because the majority of our leases do not include an implicit discount rate, we use an estimated incremental borrowing rate ("IBR"), to determine the present value of future minimum lease payments. The sensitivity of the estimate is due to the judgement used in the determination of the synthetic credit rating and the development of the related benchmark yield curves.

### **Share-Based Compensation**

We measure share-based compensation expense for all equity classified awards based on the estimated fair value of the awards on the date of grant. The fair value of stock options is recognized as compensation expense on a straight-line basis over the requisite service period of the award. We estimate grant date fair value of stock options using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including the following:

- **Fair value of common stock.** Following the closing of our IPO, the fair market value of our common stock is based on the closing price as reported on the date of grant on the Nasdaq Stock Market, on which the Company's stock is traded. Prior to the close of our IPO, because our common stock was not yet publicly traded, we were required to estimate the fair value of its common stock. The fair value of the shares of common stock underlying the stock options was historically determined by a third-party valuation firm and approved by our board of directors. The fair value of our common stock was determined by considering a number of objective and subjective factors, including: the valuation of comparable companies, sales of preferred stock to unrelated third parties, our operating and financial performance, the lack of liquidity of common stock and general and industry specific economic outlook, among other factors.

- **Expected volatility.** As a result of the lack of historical and implied volatility data of our common stock, the expected stock price volatility has been estimated based on the historical volatilities of a specified group of companies in our industry for a period equal to the expected life of the option. We selected companies with comparable characteristics, including enterprise value, risk profiles, and position within the industry, and with historical share price information sufficient to meet the expected term of the stock options. The historical volatility data has been computed using the daily closing prices for the selected companies.
- **Expected term.** The expected term of stock options represents the weighted-average period the stock options are expected to remain outstanding and is estimated under the simplified method using the vesting and contractual terms.
- **Risk-free interest rate.** The expected risk-free rate assumption is based on the U.S. Treasury instruments whose term is consistent with the expected term of the stock options.
- **Expected dividend yield.** The expected dividend assumption is based on our history and expectation of dividend. We have not paid dividends and do not expect to do so in the foreseeable future.

Upon grant of awards, we also estimate an amount of forfeitures that will occur prior to vesting. We estimate forfeitures based on the dynamic forfeiture model based on our historical forfeitures of stock options adjusted to reflect future changes in facts and circumstances, if any.

#### **Warrants**

Warrants held prior to the IPO which did not meet the criteria for equity treatment were recorded as liabilities. Accordingly, we classified the warrants as liabilities at their fair value and adjusted the warrants to fair value at each previous reporting period. The liabilities were subject to re-measurement at each balance sheet date until exercised, and any change in fair value was recognized in our consolidated statements of operations. The warrants were valued using the Black-Scholes option pricing model. The assumptions used in preparing the model include estimates such as fair value of the underlying shares, expected volatility, expected term, risk-free interest rate and expected dividend yield. The valuation model used unobservable market share price input on a recurring basis, and therefore the liability was classified as Level 3. As of January 31, 2023 and January 31, 2022, the Company had no outstanding warrants classified as liabilities.

#### **Recent Accounting Pronouncements**

See "Note 2 — Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements for a description of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted.

#### **JOBS Act**

We currently qualify as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Accordingly, we are provided the option to adopt new or revised accounting guidance either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We have elected to adopt new or revised accounting guidance within the same time period as private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period. Accordingly, our utilization of these transition periods may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the transition periods afforded under the JOBS Act.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position because of adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure resulting from potential changes in inflation.



**Interest Rate Risk**

As of January 31, 2023, we had cash and cash equivalents of \$154.5 million and \$272.5 million of debt outstanding under the Temasek Facility. Cash and cash equivalents consist primarily of cash held in financial institutions within the United States and Ireland and cash in transit from third-party credit card providers. Borrowings under the Temasek Facility bear interest at fixed rates. We have minimal exposure to market risk relating to changes in interest rates as they can affect the amount of interest income we earn on our cash. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. As of January 31, 2023, a hypothetical 10% change in interest rates would not have resulted in a material impact on our consolidated financial statements.

**Foreign Currency Risk**

Our net revenue is denominated in U.S. dollars and a portion of our operating expenses are incurred outside the United States, denominated in foreign currencies. Accordingly, our results of operations are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our consolidated statements of operations. As the impact of foreign currency exchange rates has not been material to our historical results of operations, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency becomes more significant. As of January 31, 2023, a hypothetical 10% change in the relative value of the U.S. dollar to other currencies would not have had a material effect on our results of operations.

**Inflation Risk**

In recent months, inflation has continued to increase significantly in the United States and overseas resulting in rising transportation, wages, rental product and other costs. For a discussion of recent wage increases and transportation costs related, in part, to inflationary pressures, see "Impact of Macro and Consumer Environment on Our Business" in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." If our costs become subject to significant inflationary pressures, we may not be able to fully offset such higher costs with increased revenue. Our inability or failure to do so could harm our business, financial condition, and results of operations.

**Item 8. Financial Statements and Supplementary Data**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Rent the Runway, Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Rent the Runway, Inc. and its subsidiary (the "Company") as of January 31, 2023 and 2022, and the related consolidated statements of operations, of changes in redeemable preferred stock and stockholders' equity (deficit) and of cash flows for each of the three years in the period ended January 31, 2023, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
April 13, 2023

We have served as the Company's auditor since 2020.

**RENT THE RUNWAY, INC.**  
**Consolidated Balance Sheets**

(In millions, except share and per share amounts)

	January 31, 2023	January 31, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 154.5	\$ 247.6
Restricted cash, current	3.1	5.4
Prepaid expenses and other current assets	14.5	11.7
Total current assets	172.1	264.7
Restricted cash	6.0	6.6
Rental product, net	78.7	76.3
Fixed assets, net	44.7	57.2
Intangible assets, net	4.1	6.4
Operating lease right-of-use assets	26.7	31.5
Other assets	3.9	4.8
Total assets	\$ 336.2	\$ 447.5
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 12.4	\$ 15.9
Accrued expenses and other current liabilities	24.4	30.0
Deferred revenue	12.0	10.4
Customer credit liabilities	6.8	6.9
Operating lease liabilities	4.4	5.6
Total current liabilities	60.0	68.8
Long-term debt, net	272.5	260.8
Operating lease liabilities	38.3	46.4
Other liabilities	0.7	0.4
Total liabilities	371.5	376.4
Commitments and Contingencies (Note 16)		
Stockholders' equity (deficit)		
Class A common stock, \$0.001 par value; 300,000,000 shares authorized as of January 31, 2023 and 2022; 61,956,536 and 60,104,058 shares issued and outstanding as of January 31, 2023 and 2022, respectively	0.1	0.1
Class B common stock, \$0.001 par value; 50,000,000 shares authorized as of January 31, 2023 and 2022; 3,066,251 and 2,932,739 shares issued and outstanding as of January 31, 2023 and 2022, respectively	—	—
Preferred stock, \$0.001 par value; 10,000,000 shares authorized as of January 31, 2023 and 2022; 0 shares issued and outstanding as of January 31, 2023 and 2022	—	—
Additional paid-in capital	904.5	872.2
Accumulated deficit	(939.9)	(801.2)
Total stockholders' equity (deficit)	(35.3)	71.1
Total liabilities and stockholders' equity (deficit)	\$ 336.2	\$ 447.5

The accompanying notes are an integral part of these consolidated financial statements.

**RENT THE RUNWAY, INC.**  
**Consolidated Statements of Operations**

(In millions, except share and per share amounts)

	Year Ended January 31,		
	2023	2022	2021
Revenue:			
Subscription and Reserve rental revenue	\$ 268.6	\$ 185.8	\$ 135.9
Other revenue	27.8	17.5	21.6
Total revenue, net	296.4	203.3	157.5
Costs and expenses:			
Fulfillment	92.2	61.9	53.0
Technology	55.4	45.3	37.7
Marketing	35.1	26.5	8.1
General and administrative	109.0	104.4	77.2
Rental product depreciation and revenue share	84.2	71.7	89.0
Other depreciation and amortization	16.4	19.4	23.0
Restructuring charges	2.4	—	—
Loss on asset impairment related to restructuring	5.3	—	—
Total costs and expenses	400.0	329.2	288.0
Operating loss	(103.6)	(125.9)	(130.5)
Interest income / (expense), net	(36.8)	(53.0)	(46.6)
Gain / (loss) on warrant liability revaluation, net	—	(24.9)	0.4
Gain / (loss) on debt extinguishment, net	—	(12.2)	(0.6)
Other income / (expense), net	1.5	3.9	6.2
Net loss before income tax benefit / (expense)	(138.9)	(212.1)	(171.1)
Income tax benefit / (expense)	0.2	0.3	—
Net loss	\$ (138.7)	\$ (211.8)	\$ (171.1)
Net loss per share attributable to common stockholders, basic and diluted	\$ (2.16)	\$ (8.51)	\$ (15.36)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	64,254,930	24,874,061	11,138,851

The accompanying notes are an integral part of these consolidated financial statements.

**RENT THE RUNWAY, INC.**
**Consolidated Statements of Changes in Redeemable Preferred Stock and Stockholders' Equity (Deficit)**
*(In millions, except share amounts)*

	Redeemable Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balances as of January 31, 2020	26,992,271	\$ 330.5	10,371,636	\$ —	\$ 54.0	\$ (418.3)	\$ (364.3)
Issuance of redeemable preferred stock	4,145,650	57.6	—	—	—	—	—
Stock issued under stock incentive plan	—	—	84,885	—	0.5	—	0.5
Share-based compensation expense	—	—	—	—	8.2	—	8.2
Net loss	—	—	—	—	—	(171.1)	(171.1)
Balances as of January 31, 2021	31,137,921	388.1	10,456,521	—	62.7	(589.4)	(526.7)
Issuance of redeemable preferred stock	1,437,541	21.2	—	—	—	—	—
Conversion of redeemable preferred stock	(32,575,462)	(409.3)	32,575,462	0.1	409.2	—	409.3
Stock issued under stock incentive plan	—	—	583,439	—	3.3	—	3.3
Stock issued as part of IPO, net of offering costs	—	—	17,000,000	—	327.3	—	327.3
Issuance of warrants	—	—	—	—	6.4	—	6.4
Exercise of warrants	—	—	2,421,375	—	35.5	—	35.5
Reclassification of warrants	—	—	—	—	1.2	—	1.2
Share-based compensation expense	—	—	—	—	26.6	—	26.6
Net loss	—	—	—	—	—	(211.8)	(211.8)
Balances as of January 31, 2022	—	—	63,036,797	0.1	872.2	(801.2)	71.1
Stock issued under stock incentive plan	—	—	1,985,990	—	—	—	—
Issuance of warrants	—	—	—	—	6.9	—	6.9
Share-based compensation expense	—	—	—	—	25.4	—	25.4
Net loss	—	—	—	—	—	(138.7)	(138.7)
Balances as of January 31, 2023	—	\$ —	65,022,787	\$ 0.1	\$ 904.5	\$ (939.9)	\$ (35.3)

The accompanying notes are an integral part of these consolidated financial statements.

**RENT THE RUNWAY, INC.**  
**Consolidated Statements of Cash Flows**

(In millions)

	Year Ended January 31,		
	2023	2022	2021
<b>OPERATING ACTIVITIES</b>			
Net loss	\$ (138.7)	\$ (211.8)	\$ (171.1)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Rental product depreciation and write-offs	46.2	45.6	55.9
Write-off of rental product sold	6.7	4.7	14.0
Other depreciation and amortization	16.4	19.5	24.1
(Gain) / loss from lease termination and write-off of fixed and intangible assets	0.6	—	—
Loss on asset impairment related to restructuring	4.9	—	—
Proceeds from rental product sold	(17.9)	(12.9)	(17.9)
(Gain) / loss from liquidation of rental product	(2.7)	(0.6)	0.9
Accrual of paid-in-kind interest	14.3	38.8	36.9
Settlement of paid-in-kind interest	—	(6.3)	—
Amortization of debt discount	4.3	5.9	5.0
Loss on debt extinguishment	—	12.2	0.6
Share-based compensation expense	25.4	26.6	8.2
Remeasurement of warrant liability	—	24.9	(0.4)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(2.8)	(7.0)	0.3
Operating lease right-of-use assets	2.0	3.4	(0.4)
Other assets	0.9	(3.0)	1.8
Accounts payable, accrued expenses and other current liabilities	(3.9)	18.4	(4.5)
Deferred revenue and customer credit liabilities	1.5	4.7	(7.3)
Operating lease liabilities	(4.6)	(6.2)	11.4
Other liabilities	(0.3)	0.8	(0.3)
Net cash (used in) provided by operating activities	(47.7)	(42.3)	(42.8)
<b>INVESTING ACTIVITIES</b>			
Purchases of rental product	(62.1)	(30.8)	(54.9)
Proceeds from liquidation of rental product	8.8	5.7	2.4
Proceeds from sale of rental product	17.9	12.9	17.9
Purchases of fixed and intangible assets	(8.9)	(10.3)	(23.8)
Net cash (used in) provided by investing activities	(44.3)	(22.5)	(58.4)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of common stock upon IPO, net of offering costs	—	327.3	—
Proceeds from issuance of redeemable preferred stock	—	21.2	60.4
Proceeds from exercise of stock options under stock incentive plan	—	3.3	0.5
Proceeds from line of credit	—	—	15.0
Principal repayments on line of credit	—	—	(59.0)
Proceeds from long-term debt	—	—	155.0
Principal repayments on long-term debt	—	(135.0)	—
Debt extinguishment costs	—	(4.7)	—
Proceeds from short-term financing agreements	—	5.0	—
Other financing payments	(4.0)	(1.9)	(3.4)
Net cash (used in) provided by financing activities	(4.0)	215.2	168.5
Net (decrease) increase in cash and cash equivalents and restricted cash	(96.0)	150.4	67.3
Cash and cash equivalents and restricted cash at beginning of period	259.6	109.2	41.9
Cash and cash equivalents and restricted cash at end of period	\$ 163.6	\$ 259.6	\$ 109.2

The accompanying notes are an integral part of these consolidated financial statements.

**RENT THE RUNWAY, INC.**  
**Consolidated Statements of Cash Flows**

(in millions)

	Year Ended January 31,		
	2023	2022	2021
<b>Reconciliation of Cash and Cash Equivalents and Restricted Cash to the Consolidated Balance Sheets:</b>			
Cash and cash equivalents	\$ 154.5	\$ 247.6	\$ 95.3
Restricted cash, current	3.1	5.4	3.4
Restricted cash, noncurrent	6.0	6.6	10.5
Total cash and cash equivalents and restricted cash	<u>\$ 163.6</u>	<u>\$ 259.6</u>	<u>\$ 109.2</u>
<b>Supplemental Cash Flow Information:</b>			
Cash payments (receipts) for:			
Interest paid on loans	\$ 19.8	\$ 10.2	\$ 3.7
Interest paid on financing leases	0.1	0.1	—
Fixed operating lease payments (reimbursements), net	13.5	15.8	2.6
Fixed assets and intangibles received in the prior period	0.8	0.5	2.1
Rental product received in the prior period	6.5	3.6	3.7
Non-cash financing and investing activities:			
Financing lease right-of-use asset amortization	\$ 0.5	\$ 0.3	\$ 0.2
ROU assets obtained in exchange for lease liabilities	1.2	0.9	0.1
Purchases of fixed assets and intangibles not yet settled	0.1	0.8	0.5
Purchases of rental product not yet settled	5.4	6.5	3.6
Reconciliation of loss on asset impairment:			
Accrued expense related to the loss on asset impairment	\$ 0.4	\$ —	\$ —

The accompanying notes are an integral part of these consolidated financial statements.



*(Dollars in millions, except share and per share amounts)*

**1. Business**

**Description of Business**

Rent the Runway, Inc.'s (the "Company") mission is to power women to feel their best every day. Launched in November 2009, the Company has built the world's first and largest shared designer closet with tens of thousands of styles by hundreds of brand partners. The Company gives customers access to its "unlimited closet" through its subscription offering ("Subscription") or the ability to rent a-la-carte through its reserve offering ("Reserve"). The Company's corporate headquarters is located in Brooklyn, New York and the operational facilities are located in Secaucus, New Jersey, and Arlington, Texas. Its wholly-owned subsidiary, Rent the Runway Limited (the "Subsidiary"), is located in Galway, Ireland, and is focused on software development and support activities.

All revenue is currently generated in the United States. Substantially all revenue is derived from rental subscription fees and a-la-carte rental fees, with a portion derived from the sale of apparel and accessories and other fees.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The consolidated financial statements include the accounts of the Company and its subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. The Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Certain amounts in the financial statements have been reclassified to conform to the current presentation.

**Fiscal Year**

The Company operates on a fiscal calendar ending January 31. All references to fiscal year 2020 reflect the results of the 12-month period ending January 31, 2021. All references to fiscal year 2021 reflect the results of the 12-month period ending January 31, 2022. All references to fiscal year 2022 reflect the results of the 12-month period ending January 31, 2023. All references to fiscal year 2023 reflect the results of the 12-month period ending January 31, 2024.

**Segment Information**

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing performance. The Company's Chief Executive Officer is the Company's CODM. The Company has one operating and reportable segment as the CODM reviews financial information on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. All revenue is attributed to customers based in the United States and substantially all the Company's long-lived assets are located in the United States.

**Initial Public Offering**

On October 27, 2021, the Company completed its initial public offering ("IPO") and the Company's Class A common stock began public trading on the Nasdaq Stock Market LLC under the symbol "RENT". In connection with the IPO, the Company issued and sold 17,000,000 shares of its Class A common stock at a public offering price of \$21.00 per share. The Company received proceeds of \$327.3 million from the IPO which are net of underwriting discounts of \$24.1 million and offering costs paid by the Company of \$5.6 million. Offering costs, including legal, accounting, printing and other costs directly related to the IPO have been recorded in Additional paid-in capital against the proceeds from the IPO on the Company's consolidated balance sheet.

*(Dollars in millions, except share and per share amounts)*

At the closing of the IPO, the Company's then outstanding redeemable preferred stock converted into 32,575,462 shares of the Company's Class A common stock. The carrying value of the redeemable preferred stock of \$409.3 million was reclassified to common stock and additional paid-in-capital.

In connection with the effectiveness of the Company's IPO registration statement on Form S-1 (the "registration statement"), the Company recognized \$14.4 million in share-based compensation expense for (i) certain restricted stock units ("RSUs") that contain both service-based and liquidity-based vesting conditions that were satisfied upon the effectiveness of the registration statement and (ii) the fully vested portion of certain RSU awards that were granted upon the effectiveness of the IPO.

In connection with the IPO, the Company adopted an amended and restated certificate of incorporation (the "amended charter") and adopted amended and restated bylaws (the "amended bylaws"). The amended charter authorized capital stock consisting of:

- 300,000,000 shares of Class A common stock, par value \$0.001 per share;
- 50,000,000 shares of Class B common stock, par value \$0.001 per share; and
- 10,000,000 shares of preferred stock, par value \$0.001 per share.

Holders of Class A common stock are entitled to one vote per share, and the holders of Class B common stock are entitled to twenty votes per share. Immediately after the effectiveness of the amended charter, 2,932,739 shares of Class A common stock held by the Company's co-founders were exchanged for an equivalent number of shares of Class B common stock. In addition, the terms of certain outstanding equity awards held by the Company's co-founders were modified to provide that such awards are exercisable or settle into shares of Class B common stock.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience, market conditions, and on various other assumptions that are believed to be reasonable. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful life and salvage value of rental product, incremental borrowing rate ("IBR") to determine lease liabilities, and the valuation of share-based compensation and warrants.

As of January 31, 2023, the effects of the macroeconomic environment on the Company's business, results of operations, and financial condition continue to evolve. As a result, many of the Company's estimates and assumptions required increased judgment and carry a higher degree of variability and volatility. As additional information becomes available, the Company's estimates may change materially in future periods.

#### **Concentrations of Credit Risks**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash investments with high credit quality financial institutions. The Company believes no significant credit risk exists with respect to these financial instruments.

No single customer accounted for more than 5% of the Company's revenue during the years ended January 31, 2023, 2022, and 2021.

(Dollars in millions, except share and per share amounts)

**Fair Value Measurements and Financial Instruments**

Fair value accounting is applied for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis, at least annually. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity, associated with the inputs to the valuation of these assets or liabilities, are as follows:

- Level 1: Observable inputs, such as quoted prices in active markets for identical assets and liabilities.
- Level 2: Inputs other than the quoted prices in active markets that are observable either directly or indirectly.
- Level 3: Unobservable inputs, in which there is little or no market data which require the Company to develop its own assumptions.

Observable inputs are based on market data obtained from independent sources. Unobservable inputs reflect the Company's assessment of the assumptions market participants would use to value certain financial instruments. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The categorization of financial instruments within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**Cash, Cash Equivalents and Restricted Cash**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include funds in transit from banks for customer credit card transactions that settle in less than seven days. These funds totaled \$3.4 million and \$3.5 million as of January 31, 2023 and 2022, respectively.

As of January 31, 2023 and 2022, the Company had \$9.1 million and \$12.0 million, respectively, of current and noncurrent restricted cash that consisted primarily of letters of credit pledged as security deposits for the headquarters and operational facilities leases.

**Rental Product, Net**

The Company considers rental product to be a long-term productive asset and, as such, classifies it as a noncurrent asset on the consolidated balance sheets.

Rental product is stated at cost, less accumulated depreciation. The Company depreciates rental product, less an estimated salvage value, over the estimated useful lives of the assets using the straight-line method. The useful life is determined based on historical trends and an assessment of any future changes. The salvage value considers the historical trends and projected liquidation proceeds for the assets. The estimated useful lives and salvage values are described below:

	Useful Life	Salvage Value
Apparel	3 years	20 %
Accessories	2 years	30 %

(Dollars in millions, except share and per share amounts)

In accordance with its policy, the Company reviews the estimated useful lives and salvage values of rental product on an ongoing basis.

The Company offers its customers an opportunity to purchase items prior to the end of their useful life. In such instances, the Company considers the disposal of rental product to be a sale and, as such, records the proceeds as other revenue and the net book value of the items at the time of sale as rental product depreciation in the consolidated statements of operations within rental product depreciation and revenue share. Write-offs for losses on lost, damaged, and unreturned apparel and accessories are also recorded within rental product depreciation and revenue share.

Once it is no longer considered rentable, rental product in a sellable condition is classified as held for sale and written down to salvage value. The value of rental product held for sale as of January 31, 2023 and 2022 was \$3.0 million and \$2.1 million, respectively. The accelerated depreciation related to rental product held for sale was \$6.9 million, \$3.9 million and \$7.7 million for the years ended January 31, 2023, 2022, and 2021, respectively. The accelerated depreciation is presented on the consolidated statements of operations within rental product depreciation and revenue share.

When rental product is liquidated, the Company records the gain or loss calculated as proceeds, net of the remaining salvage value and costs to sell, within general and administrative expenses on the consolidated statement of operations. The gain or loss from the liquidation of rental product is included as an adjustment to reconcile net loss to net cash used by operating activities in the consolidated statements of cash flows.

The purchases of rental product as well as the proceeds from the sale and liquidation of rental product are classified as cash flows from investing activities on the consolidated statements of cash flows because the predominant activity of the rental product purchased is to generate rental revenue and such classification is consistent with the classification of long-term asset activity. Proceeds from the liquidation of rental product, net of costs to sell, were \$8.8 million, \$5.7 million and \$2.4 million for the years ended January 31, 2023, 2022 and 2021, respectively. Proceeds from the sale of rental product were \$17.9 million, \$12.9 million and \$17.9 million for the years ended January 31, 2023, 2022, and 2021, respectively.

The Company mitigates residual value risk of its rental product primarily by utilizing specific cleaning, repair and restoration methods relying on its years of process know-how to maintain the condition of the rental product over its useful life, and by employing various in-house and third-party liquidation strategies to maximize liquidation value and overall return on rental product. The Company also utilizes its own-developed technology in combination with its customer service department to recover rental items from delinquent customers.

#### Revenue Recognition

Subscription and a-la-carte rental fees ("Subscription and Reserve rental revenue") are recognized in accordance with Accounting Standard Update ("ASU") 2016-02, *Leases, Topic 842* ("ASC 842"). Other revenue, primarily related to the sale of rental product, is recognized under ASU 2014-09, *Revenue from Contracts with Customers, Topic 606* ("ASC 606") at the date of delivery of the product to the customer. Other revenue represented 9%, 9%, and 14% of total revenue for the years ended January 31, 2023, 2022 and 2021, respectively.

Revenue is presented net of promotional discounts, customer credits and refunds. Promotional discounts are recognized in accordance with either ASC 842 or ASC 606, based on the guidance applied to the rental fees or product sales to which the promotional discounts are related. Revenue is presented net of taxes that are collected from customers and remitted to governmental authorities.

*(Dollars in millions, except share and per share amounts)*

The Company recognizes a liability at the time a customer credit or a gift card is issued, and revenue is recognized upon redemption of the credit or gift card. The Company's customer credit liability is presented on the consolidated balance sheets. During the year ended January 31, 2023, \$1.9 million of credits included in the customer credit liability as of January 31, 2022 were redeemed. Customer credits and gift cards do not have expiration dates. Over time, a portion of these instruments is not redeemed. The Company recognizes breakage income related to these instruments based on the redemption pattern method. The Company continues to maintain the full liability for the unredeemed portion of the credits and gift cards when the Company has any legal obligation to remit such credits to government authorities in relevant jurisdictions.

#### Subscription and Reserve Rental Revenue

Subscription fees are recognized ratably over the subscription period, commencing on the date the subscriber enrolls in the rental program. The fees are collected upon enrollment. The subscription automatically renews on a monthly basis until cancelled or paused by the customer. Subscribers can pause or cancel their subscriptions at any time.

The Company recognizes fees for a-la-carte rentals ratably over the rental period, which starts with the date of delivery of rental product to the customer. A-la-carte rental orders can be placed up to four months prior to the rental start date and the customer's payment form is charged upon order confirmation. The Company defers recognizing the fees and any related promotions for a-la-carte rentals until the date of delivery, and then recognizes those fees ratably over the four- or eight-day rental period.

The Company accrues for credits and refunds issued subsequent to the balance sheet date that relate to rentals prior to the balance sheet date. These amounts were not material as of January 31, 2023 and 2022.

For lessors, ASC 842 provides a practical expedient to elect not to evaluate whether certain sales taxes and other similar taxes imposed by a governmental authority on a specific lease revenue-producing transaction are the primary obligation of the lessor as owner of the underlying leased asset. This practical expedient was applied by the Company and it excludes these taxes from the measurement of lease revenue and the associated expense.

#### Other Revenue

Other revenue consists primarily of revenue from the sale of rental product. The Company recognizes revenue from the sale of rental product in accordance with ASC 606. Sale of rental product occurs when a customer purchases rental product at a discounted price, calculated as a percentage of retail value. Payment is due upon order confirmation and there is no financing component. The single performance obligation associated with rental product sales is generally satisfied upon delivery of the rental product to the customer. The Company does not have any material contractual assets or liabilities with respect to other revenue as of January 31, 2023 and 2022.

From time to time, Other revenue may include revenue generated from pilots and other growth initiatives which may cause quarterly fluctuations in the Other revenue line.

#### **Lease - Lessee Accounting**

Refer to the Subscription and Reserve Rental Revenue section above for the Company's accounting policy related to lessor accounting.

*(Dollars in millions, except share and per share amounts)*

The Company determines whether a contract is or contains a lease at contract inception. Right-of-use ("ROU") assets and lease liabilities are measured and recognized at the lease commencement date based on the present value of lease payments over the expected lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its IBR as of the effective date or the commencement date of the lease, whichever is later, to determine the present value of lease payments. The Company considers its credit risk, term of the lease, total lease payments and adjusts for the impacts of collateral, as necessary, when calculating its IBR.

Lease payments are based on fixed amounts explicit in the lease agreements. Certain real estate leases include payments at variable amounts based on operating expenses of the lessor, such as common area charges, real estate taxes and insurance. Most equipment leases include variable sales tax payments based on state sales tax rates. Additionally, the Company procures a portion of its rental product from brand partners under revenue share arrangements, which are considered variable lease payments. See Note 5 - Leases – Lessee Accounting for additional details.

For lessees, the guidance provides a practical expedient, by class of underlying asset, to elect a combined single lease component presentation. This practical expedient was applied by the Company as a lessee to all asset classes.

With respect to ROU assets, operating lease ROU assets are presented as a separate line item on the Company's consolidated balance sheets, while finance lease ROU assets are included in fixed assets on the consolidated balance sheets. With respect to lease liabilities, operating lease liabilities are presented as separate line items, while finance lease liabilities are included in other current liabilities and other long-term liabilities on the consolidated balance sheets, based on the remaining term of the underlying lease agreements. The Company does not recognize ROU assets or lease liabilities for short-term leases (i.e., those with a term of twelve months or less) and recognizes the related lease expense on a straight-line basis over the lease term, as applicable.

#### **Fixed and Intangible Assets, Net**

Fixed and intangible assets are stated at cost less accumulated depreciation and amortization.

Depreciation and amortization of fixed and intangible assets is calculated on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of fixed and intangible assets are described below:

	Lesser of estimated useful life or lease term
Leasehold improvements	
Machinery and equipment	5 to 6 years
Furniture and fixtures	5 years
Computer hardware	3 years
Reusable packaging	1.5 years
Capitalized third-party software	3 years
Capitalized internally developed software	2 years

The Company capitalizes third-party and internally developed software costs in connection with its proprietary systems and its enterprise resource planning system that are incurred during the application development stage. Costs related to preliminary project activities and post implementation operating activities are expensed as incurred.

*(Dollars in millions, except share and per share amounts)*

### **Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist primarily of accounts receivable, net, interest receivable, prepaid insurance, prepaid technology expenses and prepaid taxes.

Accounts receivable, net consists primarily of amounts due from third party liquidation and Exclusive Design wholesale partners that do not bear interest. The Company records an allowance for doubtful accounts taking into consideration historical losses adjusted for current market conditions, the financial condition of the customer, the amount of receivables in dispute, and the current receivables aging and payment patterns. Accounts receivable, net was \$4.0 million and \$1.1 million as of January 31, 2023 and 2022, respectively. The allowance for doubtful accounts was immaterial as of January 31, 2023 and 2022. As of January 31, 2023, one third party partner represented the majority of the Company's accounts receivable balance.

### **Other Assets**

Other assets consist primarily of capitalized implementation costs incurred in cloud computing arrangements and deposits for periods that exceed one year from the balance sheet date.

### **Expenses**

#### **Fulfillment**

Fulfillment expenses consist of fulfillment costs to receive, process and fulfill customer orders, including fulfillment labor payroll and related costs, third-party shipping expenses, cost of packaging materials, cleaning expenses, and other fulfillment related costs.

#### **Technology**

Technology expenses consist of technology payroll and related costs, professional services, and third-party software and license fees.

#### **Marketing**

Marketing expenses include online and mobile marketing, search engine optimization and email costs, marketing payroll and related expenses, agency fees, printed collateral, consumer research, and other related costs. Advertising costs amounted to \$30.7 million, \$20.6 million, and \$4.2 million for the years ended January 31, 2023, 2022, and 2021, respectively. Costs associated with advertising campaigns are expensed when the advertising first appears in the media, and other advertising costs are expensed as incurred.

#### **General and Administrative**

General and administrative expenses are comprised of all other employee payroll and related expenses, including customer service costs, occupancy costs (including warehouse-related), professional services, credit card fees, general warehouse and corporate expenses, and other administrative costs.

#### **Rental Product Depreciation and Revenue Share**

Rental product depreciation and revenue share expenses are comprised of depreciation and write-offs of rental product, and payments under revenue share arrangements with brand partners.

#### **Other Depreciation and Amortization**

Other depreciation and amortization expenses are comprised of depreciation and amortization amounts for fixed assets, intangible assets, and financing right-of-use assets.

*(Dollars in millions, except share and per share amounts)*

The classification of expenses varies across industries. Accordingly, the Company's categories of expenses may not be comparable to those of other companies.

#### **Share-Based Compensation**

The Company recognizes all employee share-based compensation as an expense in the consolidated financial statements. Equity classified awards are measured at the grant date fair value of the award. The Company estimates grant date fair value of stock options using the Black-Scholes option pricing model. The fair value of stock options is recognized as compensation expense on a straight-line basis over the requisite service period of the award. Determining the fair value of options at the grant date requires judgment, including the expected term that stock options will be outstanding prior to exercise, the associated volatility, and the expected dividend yield. The fair value of common stock post-IPO is based on the closing price of the common stock on the date of grant as reported on the Nasdaq Stock Market. Upon grant of awards, the Company also estimates an amount of forfeitures that will occur prior to vesting.

The Company has granted two types of RSUs. Prior to the effectiveness of the Company's IPO, the Company granted RSUs which vest only upon satisfaction of both time-based service and liquidity-based conditions. The Company records share-based compensation expense for such RSUs on an accelerated attribution method over the requisite service period and only once the liquidity-based condition is satisfied. The liquidity-based vesting condition was satisfied upon the effectiveness of the Company's IPO. Share-based compensation related to any remaining time-based service for these RSUs after the liquidity-based event is recorded over the remaining requisite service period. Post IPO, the Company has granted RSUs which vest upon satisfaction of a single time-based service condition. The Company records share-based compensation expense for these RSUs on a straight-line basis over the requisite service period. See Note 14 - Share-based Compensation Plans for a description of the accounting for share-based awards.

#### **Income Taxes**

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. The Company implemented the effects of the Tax Act and its impact was not material to the consolidated financial statements.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Financial Accounting Standards Board ("FASB") Staff Q&A Topic No. 5, Accounting for Global Intangible Low-Taxed Income ("GILTI"), states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or provide for the tax expense related to GILTI resulting from those items in the year the tax is incurred. The Company has elected to recognize the resulting tax on GILTI as a period expense in the period the tax is incurred.



*(Dollars in millions, except share and per share amounts)*

#### **Long-Lived Asset Impairment**

Long-lived assets, such as rental product, fixed assets, intangible assets, and right-of-use lease assets, are reviewed for impairment triggers when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares the undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined using various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as necessary.

The Company recorded asset impairment charges of \$5.3 million, of which \$4.9 million related to the write-off of fixed assets and \$0.4 million related to accrued expenses, during the year ended January 31, 2023, related to discontinuing two warehouse operations projects in the third and fourth quarters of fiscal year 2022 in connection with the September 2022 restructuring plan as described in Note 4, Restructuring and Related Charges. No impairment losses were recognized during the years ended January 31, 2022 and 2021 except for the write-off of apparel and accessories in the normal course of business (see Rental Product disclosure).

#### **Net Loss per Share Attributable to Common Stockholders**

The Company computes net loss per share attributable to common stockholders under the two-class method required for multiple classes of common stock and participating securities. Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period.

Diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive securities outstanding for the period. For purposes of this calculation, redeemable preferred stock, stock options to purchase common stock, warrants to purchase common and redeemable preferred stock, and RSUs are considered potentially dilutive securities but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive.

The shares of common stock associated with the equity-classified common stock warrants with an exercise price of \$0.01 were considered outstanding for the purposes of computing basic and diluted net loss per share attributable to common stockholders because the shares could be issued for little or no consideration, were fully vested, and were exercisable after the original issuance date.

#### **Commitments and Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

#### **Insurance Proceeds**

During the year ended January 31, 2022, the Company recorded insurance recoveries of \$4.0 million related to a network issue during the year ended January 31, 2020. The amount is recorded in other income / (expense), net in the consolidated statements of operations.

(Dollars in millions, except share and per share amounts)

### Foreign Currency

The functional currency of the Subsidiary is U.S. dollar, which is the functional currency of the Company. The local currency of the Subsidiary is Euro. Monetary assets and liabilities of the Subsidiary are remeasured at the rate of exchange in effect on the balance sheet date; income and expenses are remeasured at the average exchange rates throughout the year. The related remeasurement adjustments are included in general and administrative expenses in the consolidated statements of operations.

### Recently Issued and Adopted Accounting Pronouncements

#### Recently Adopted Accounting Pronouncements

##### *Income Taxes*

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The new guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and also improves the consistency in application of other areas by clarifying and amending existing guidance. This standard is effective for annual reporting periods beginning after December 15, 2021, and interim periods within those years, and early adoption is permitted. Certain amendments of this standard may be adopted on a retrospective basis, modified retrospective basis or prospective basis. The Company adopted this standard on February 1, 2022 on a prospective basis, and the adoption of this standard did not have a material impact on the consolidated financial statements.

#### Recently Issued Accounting Pronouncements

##### *Debt - Debt with Conversion and Other Options and Derivatives and Hedging*

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. The new guidance reduces complexity and improves comparability of financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. This standard is effective for annual reporting periods beginning after December 15, 2023, and interim periods within those years, and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

##### *Financial Instruments – Credit Losses*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. This guidance also requires new disclosures for financial assets measured at amortized cost, loans, and available-for-sale debt securities. This standard is effective for annual reporting periods beginning after December 15, 2022, and interim periods within those years, and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

*(Dollars in millions, except share and per share amounts)*

**3. Liquidity**

The Company has incurred a net loss from operations since inception and has historically relied upon debt and equity financing to fund its operations. The Company experienced revenue and subscriber growth in fiscal year 2022. However, we believe that macroeconomic factors, including sensitivity to increased pricing impacted active subscriber levels in fiscal year 2022.

In September 2022, the Company announced a restructuring plan that is now expected to generate annual operating expense savings of approximately \$25 million (relative to the second quarter of fiscal year 2022 run rate) in fiscal year 2023. Actual savings may differ from these estimates.

While the Company experienced revenue growth in fiscal years 2021 and 2022, to the extent that the Company is further impacted by macroeconomic trends, the Company has established plans to preserve existing cash liquidity, which includes additional reductions to labor, operating expenses, and/or capital expenditures.

As of January 31, 2023, the Company held cash and cash equivalents of \$154.5 million. The Company believes that it will have sufficient liquidity from cash on-hand and future operations to sustain its business operations, to satisfy its debt service obligations and to comply with its debt covenants for at least the next twelve months from the date these financial statements are issued. Refer to Note 8 - Long-Term Debt for details of the amendment to refinance the Temasek debt facility in January 2023.

**4. Restructuring and Related Charges**

On September 12, 2022, the Company announced a restructuring plan to reduce costs, streamline its organizational structure and drive operational efficiencies. The plan primarily included total workforce reductions of approximately 24% of corporate employees (primarily a reduction in force, with some open role closures/reduced backfills), reorganizing certain functions and reallocating resources to continue to focus on customer experience and growth initiatives.

Restructuring charges of \$2.4 million for severance and related costs were recognized during the year ended January 31, 2023 and are reflected in Restructuring charges on the Company's Consolidated Statements of Operations. Accrued restructuring charges as of January 31, 2023 were immaterial.

The Company recorded asset impairment charges of \$5.3 million, of which \$4.9 million related to the write-off of fixed assets and \$0.4 million related to accrued expenses, during the year ended January 31, 2023, related to discontinuing two warehouse operations projects during the third and fourth quarters of fiscal year 2022 in connection with the September 2022 restructuring plan. The charge is reflected in Loss on asset impairment related to restructuring on the Company's Consolidated Statements of Operations.

**5. Leases - Lessee Accounting**

As a lessee, the Company has operating real estate leases for its operational facilities, retail locations and corporate headquarters. The Company has operating and finance leases for its computers and equipment. Additionally, the Company procures a portion of its rental product from brand partners under revenue share arrangements, which are considered operating leases. All revenue share payments are recognized as variable lease costs and recorded in rental product depreciation and revenue share in the consolidated statements of operations.

(Dollars in millions, except share and per share amounts)

The Company's real estate and equipment lease terms generally range from less than one year to 14 years and certain agreements include renewal options. To the extent that the Company is reasonably certain to exercise a lease renewal option, the assumption is included in the calculation of ROU assets and lease liabilities. During the year ended January 31, 2021, the Company signed an amendment to extend the lease term of its operational facilities in Secaucus, New Jersey, which resulted in an adjustment of \$5.1 million to the related ROU assets and lease liabilities, as a result of lease modification accounting. No renewal options were included in the ROU assets and lease liabilities on the consolidated balance sheets as of January 31, 2023 and 2022.

During the year ended January 31, 2021, the Company decided it would no longer fully utilize the space within three of its real estate leases and obtained subleases for those leased facilities. The subleases do not relieve the Company of its primary lease obligations. The sublessor agreements are considered operating leases, maintaining the historical classification of the underlying lease. The Company does not recognize any underlying assets for the subleases as a lessor of operating lease. The net amount received from the subleases is recorded within general and administrative expenses.

During the year ended January 31, 2023, the Company amended the operating lease for its corporate headquarters in Brooklyn, NY, the terms of which terminated one floor of the leased space. The partial lease termination of the corporate headquarters leased space resulted in a reduction of \$10.6 million in the Company's future minimum fixed lease obligations as of the lease modification date. The Company treated the partial lease termination amendment as a lease modification as of the effective date which resulted in an adjustment of \$3.7 million and \$1.4 million to the related lease liabilities and right-of-use assets, respectively. The Company recorded a gain on the partial termination of \$1.8 million and a loss on surrender of the related fixed assets, primarily leasehold improvements, of \$1.9 million, both of which are recorded on the consolidated statements of operations within general and administrative expenses.

As of January 31, 2023 and 2022, the weighted-average remaining lease term for operating leases was 8.38 years and 8.93 years, respectively, and the weighted-average discount rate was 16.26% and 16.82%, respectively. As of January 31, 2023 and 2022, the weighted-average remaining lease term for financing leases was 2.18 years and 2.25 years, respectively, and weighted-average discount rate was 16.41% and 11.77%, respectively.

The following table summarizes the components of lease costs incurred by the Company during the years ended January 31, 2023, 2022 and 2021:

	January 31,					
	2023		2022		2021	
Operating lease costs	\$	11.3	\$	12.9	\$	13.1
Short-term lease costs		—		0.1		2.4
Total fixed lease costs		11.3		13.0		15.5
Variable lease costs		30.7		22.7		19.8
Total lease costs		42.0		35.7		35.3
Sublease income		(3.2)		(4.0)		(1.8)
Total lease costs, net	\$	38.8	\$	31.7	\$	33.5

(Dollars in millions, except share and per share amounts)

The following table summarizes the Company's minimum fixed lease obligations under existing agreements as a lessee, excluding variable payments and short-term lease payments, as of January 31, 2023:

	Operating	Financing
Fiscal year:		
2023	\$ 10.9	\$ 0.6
2024	9.5	0.5
2025	8.2	0.2
2026	8.1	—
2027	7.9	—
Thereafter	34.7	—
Total minimum lease payments	79.3	1.3
Imputed interest	(36.6)	(0.2)
Lease liabilities as of January 31, 2023	\$ 42.7	\$ 1.1

#### 6. Rental Product, Net

Rental product, net consisted of the following:

	January 31, 2023	January 31, 2022
Apparel	\$ 156.7	\$ 164.4
Accessories	5.9	6.8
	162.6	171.2
Less accumulated depreciation	(83.9)	(94.9)
Rental product, net	\$ 78.7	\$ 76.3

Depreciation and write-offs related to rental product, including write-offs of rental products sold, was \$52.9 million, \$50.3 million, and \$69.9 million for the years ended January 31, 2023, 2022, and 2021, respectively.

(Dollars in millions, except share and per share amounts)

**7. Fixed and Intangible Assets, Net**

Fixed and intangible assets, net consisted of the following:

	January 31, 2023	January 31, 2022
Leasehold improvements	\$ 53.8	\$ 55.4
Machinery and equipment	45.9	48.3
Reusable packaging	3.5	6.0
Computer hardware	4.5	5.1
Furniture and fixtures	3.9	4.3
Financing lease ROU assets	2.2	1.4
	113.8	120.5
Less accumulated depreciation	(69.1)	(63.3)
Fixed assets, net	\$ 44.7	\$ 57.2
Software assets	\$ 20.9	\$ 23.2
Less accumulated amortization	(16.8)	(16.8)
Intangible assets, net	\$ 4.1	\$ 6.4

Depreciation related to fixed assets was \$12.7 million, \$14.8 million, and \$18.4 million for the years ended January 31, 2023, 2022, and 2021, respectively. Amortization of intangible assets was \$3.7 million, \$4.7 million, and \$5.7 million for the years ended January 31, 2023, 2022, and 2021, respectively. See Note 5 — Leases – Lessee Accounting for further details related to the finance lease ROU assets included in fixed assets on the consolidated balance sheets.

As of January 31, 2023, expected amortization of intangible assets (excluding software projects not yet deployed) is as follows:

Fiscal year:	
2023	\$ 2.0
2024	0.6
2025	—
Thereafter	—
Total future amortization	\$ 2.6

(Dollars in millions, except share and per share amounts)

## 8. Long-Term Debt

### Summary

The following table summarizes the Company's line of credit and long-term debt outstanding as of January 31, 2023 and 2022:

	January 31, 2023	January 31, 2022
Temasek Facility principal outstanding	\$ 271.6	\$ 271.6
Add: payment-in-kind interest	17.8	3.5
Less: unamortized debt discount	(16.9)	(14.3)
Temasek Facility, net	272.5	260.8
Less: current portion of long-term debt	—	—
Total noncurrent line of credit and long-term debt	\$ 272.5	\$ 260.8

### Bank of America Line of Credit

In April 2019, the Company entered into a Credit Agreement with Bank of America and an asset-backed revolving credit facility (the "Line of Credit") was put in place with Bank of America as agent and a lender, and Barclays Bank PLC and Goldman Sachs Bank USA as additional lenders.

In October 2020, the Company entered into a new secured term loan senior credit agreement with Ares Corporate Opportunities Fund V, L.P. (the "Ares Facility" described below) and repaid all outstanding principal on the Line of Credit, and terminated the credit commitments. During the year ended January 31, 2021, the Company recognized a \$0.6 million loss on debt extinguishment related to this transaction. There were no outstanding balances as of January 31, 2023 and 2022.

### Temasek Facility

In July 2018, the Company entered into a subordinated, junior lien term loan agreement with Double Helix Pte Ltd. as administrative agent for Temasek Holdings (the "Temasek Facility"). The Company drew \$100.0 million under the Temasek Facility at closing with the ability to draw an additional \$100.0 million in multiple drawings at any time prior to July 23, 2020 (the "Initial Temasek Commitments") based on meeting certain performance and financial tests at each draw.

In November 2019, the Company drew an additional \$50.0 million of the Initial Temasek Commitments and amended the Temasek Facility to include an additional \$30.0 million of committed availability (the "Subsequent Temasek Commitments"). In March 2020, the Company drew the remaining \$50.0 million of the Initial Temasek Commitments and the \$30.0 million of the Subsequent Temasek Commitments.

Prior to the termination of the Ares Facility (defined below), the Temasek Facility was both lien-subordinated and payment-subordinated to the Ares Facility (described below) pursuant to a Subordination Agreement entered into in October 2020 that functions as both a secured lender intercreditor agreement and a subordination agreement (for payment subordination); the Ares Facility was senior debt, and the Temasek facility was subordinated debt with respect to the Ares Facility.

The Initial Temasek Commitments had an interest rate of 15% per annum that accrued as noncash interest. The Subsequent Temasek Commitments had a cash interest rate of 13% per annum, payable quarterly. The Temasek Facility required mandatory prepayment upon certain defined triggering events as well as optional prepayments, but such mandatory prepayments were not required to be made while the Ares Facility was outstanding.

*(Dollars in millions, except share and per share amounts)*

In October 2021, the Company used proceeds from the IPO to pay down the Subsequent Temasek Commitments of \$30.0 million outstanding principal and interest in full. Concurrently, the Company entered into an amendment to the Temasek Facility (the "2021 Temasek Facility Amendment"). The Temasek Facility as amended by the 2021 Temasek Facility Amendment is referred to as the "2021 Amended Temasek Facility". This transaction was accounted for as a debt modification. The terms of the 2021 Temasek Facility Amendment provide for, among other things, (i) an extension of the maturity to October 2024, (ii) an outstanding principal under the 2021 Amended Temasek Facility of \$271.6 million (with no additional debt proceeds having been funded and after giving effect to the repayment described below), and (iii) an amended interest rate of 12% with up to 5% payable in kind. On the effective date of the 2021 Temasek Facility Amendment, the Company paid down an additional \$30.0 million of the outstanding principal of the 2021 Amended Temasek Facility, for a total of \$60.0 million principal paydown on the Temasek Facility and 2021 Amended Temasek Facility.

The effective interest rate for the Temasek Facility for the period from the date of issuance through the date of the 2021 Temasek Facility Amendment was 15.95%. The debt discount associated with the Initial Temasek Commitments was fully accreted when the Company entered into the 2021 Temasek Facility Amendment.

In October 2021, in connection with the 2021 Amended Temasek Facility, the Company recorded a debt discount of \$15.3 million, of which \$0.2 million related to lender fees, \$5.3 million related to the allocation of proceeds to warrants issued in relation to the 2021 Amended Temasek Facility, \$1.0 million related to the extension of the term of warrants issued in relation to the Temasek Facility, and \$8.8 million related to fees incurred to amend the 2021 Amended Temasek Facility. These amounts are being accreted to the principal amount of the 2021 Amended Temasek Facility through the recognition of noncash interest expense.

In January 2023, the Company entered into an amendment to the 2021 Amended Temasek Facility ("2022 Temasek Facility Amendment"). The 2021 Amended Temasek Facility as further amended by the 2022 Temasek Facility Amendment is referred to as the "2022 Amended Temasek Facility". This transaction was accounted for as a debt modification. The terms of the amendment provide for, (i) an extension of the maturity to October 2026, (ii) a reduction of the cash portion of the interest rate to 2% per year through July 2024, increasing to 5% thereafter for the duration of the 2022 Amended Temasek Facility, and (iii) a 1% increase in the total interest rate in February 2024 from 12% to 13% and annual rate increases of 1% thereafter for the duration of the 2022 Amended Temasek Facility. In connection with the 2022 Temasek Facility Amendment, the Company granted a warrant to purchase up to 2 million shares of the Company's Class A common stock at an exercise price of \$5.00 per share. The warrant will expire on January 31, 2030. The effective interest rate for the 2021 Amended Temasek Facility for the period from the date of issuance through the date of the 2022 Amended Temasek Facility was 14.29%. The effective interest rate for the 2022 Amended Temasek Facility as of January 31, 2023 was 15.15%.

In January 2023, in connection with the 2022 Amended Temasek Facility, the Company recorded a debt discount of \$6.9 million related to the allocation of proceeds to warrants issued. These amounts are being accreted to the principal amount of the 2022 Amended Temasek Facility through the recognition of noncash interest expense.

The 2022 Amended Temasek Facility did not change the covenants under the 2021 Amended Temasek Facility, which require the Company to comply with specified nonfinancial covenants including, but not limited to, restrictions on the incurrence of debt, payment of dividends, making of investments, sale of assets, mergers and acquisitions, modifications of certain agreements and its fiscal year, and granting of liens. Additionally, the 2022 Amended Temasek Facility includes a minimum liquidity maintenance covenant of \$50.0 million. The 2022 Amended Temasek Facility also contains various events of default, the occurrence of which could result in the acceleration of obligations for the Company.



*(Dollars in millions, except share and per share amounts)*

The Company determined that all of the embedded features of the Temasek Facility, 2021 Amended Temasek Facility, and 2022 Amended Temasek Facility were clearly and closely related to the debt host and did not require bifurcation as a derivative liability, or the fair value of the feature was immaterial to the Company's consolidated financial statements.

#### **Ares Facility**

In October 2020, the Company entered into a senior secured term loan (the "Ares Facility") with Alter Domus (US) LLC as administrative agent for Ares Corporate Opportunities Fund V, L.P. ("Ares"). The Company received gross proceeds equal to \$75.0 million (the "Ares Original Principal"). In conjunction with the incurrence of the Ares Facility, the Company received proceeds from Ares of \$25.0 million for the issuance of 1,695,955 shares of Series G redeemable preferred stock. The total transaction resulted in the receipt of \$100.0 million in exchange for the Ares Facility, Series G redeemable preferred stock and issuance of common stock warrants (the "Ares Financing Transaction").

The Ares Facility had an interest rate of 8% per annum accrued as noncash interest. The Ares Facility required quarterly principal payments of 0.25% of the original principal amount. The remaining principal balance would have become due in 2023. The Ares Facility required an exit payment of \$1.5 million which was to be paid once the Ares Facility matured or the Ares Original Principal was paid in full.

The Ares Facility was secured by a first priority lien over substantially all assets of the Company. The Ares Facility required the Company to comply with substantially the same specified nonfinancial covenants as the Temasek Facility, including but not limited to, restrictions on the incurrence of debt, making of investments, the payment of dividends, sale of assets, mergers and acquisitions, modifications of certain agreements and its fiscal year, and granting of liens. The Ares Facility also required the Company to meet specified financial covenants that were measured based on predefined consolidated EBITDA thresholds. The Ares Facility required mandatory prepayment upon defined triggering events and permitted optional prepayments, and certain of the mandatory prepayment triggering items were subject to a prepayment premium. The Ares Facility contained various events of default, the occurrence of which could result in the acceleration of obligations under the Ares Facility.

The effective interest rate for the period from the date of issuance through the date of repayment was 13.35%.

The Company determined that all of the embedded features of the Ares Facility were either clearly and closely related to the debt host and did not require bifurcation as a derivative liability, or the fair value of the feature was immaterial to the Company's consolidated financial statements.

In October 2021, the Company paid down the Ares Facility outstanding principal and accrued interest in full and terminated the Ares Facility. The Company recognized a \$12.2 million loss on debt extinguishment related to this transaction. There were no outstanding balances as of January 31, 2023 and 2022.

#### **Covenants**

The Company was in compliance with all applicable financial and nonfinancial covenants as of January 31, 2023.

(Dollars in millions, except share and per share amounts)

## 9. Income Taxes

The Company's net loss before income tax benefit / (expense) from income taxes includes the following components:

	Year Ended January 31,		
	2023	2022	2021
Domestic	\$ (139.5)	\$ (212.6)	\$ (171.4)
Foreign	0.6	0.5	0.3
Net loss before income tax benefit / (expense)	<u>\$ (138.9)</u>	<u>\$ (212.1)</u>	<u>\$ (171.1)</u>

Total income taxes allocated to operations are as follows:

	Year Ended January 31,		
	2023	2022	2021
Current provision:			
Federal	\$ —	\$ —	\$ —
State and local	—	—	—
Foreign	—	—	—
Total current provision	<u>—</u>	<u>—</u>	<u>—</u>
Deferred provision:			
Federal	—	—	—
State and local	—	—	—
Foreign	0.2	0.3	—
Total deferred provision	<u>0.2</u>	<u>0.3</u>	<u>—</u>
Total income tax benefit / (expense)	<u>\$ 0.2</u>	<u>\$ 0.3</u>	<u>\$ —</u>

(Dollars in millions, except share and per share amounts)

The significant components of the Company's net deferred tax assets (liabilities) are as follows:

	Year Ended January 31,	
	2023	2022
Deferred tax assets:		
Federal and state net operating loss carryforwards	\$ 158.1	\$ 149.7
Customer credit liabilities	1.9	1.9
Interest limitation	50.0	40.5
Capitalized R&D expenses	10.1	—
Tax credits	5.7	4.2
Share-based compensation	2.4	3.3
Operating lease liabilities	11.8	14.4
Other	0.7	0.4
Total deferred tax assets	240.7	214.4
Deferred tax liabilities:		
Fixed assets	(0.1)	(4.2)
Operating lease right-of-use assets	(7.6)	(8.9)
Total deferred tax liabilities	(7.7)	(13.1)
Net deferred tax assets before valuation allowance	233.0	201.3
Less valuation allowance	(232.4)	(201.0)
Net deferred tax assets	\$ 0.6	\$ 0.3

Provisions enacted in the Tax Reform Act in December 2017 related to the capitalization of research and experimental expenditures became effective on January 1, 2022. These provisions require us to capitalize research and experimental expenditures and amortize them for tax purposes over five or fifteen years, depending on where the research is conducted. The capitalized expenses do not significantly impact our effective tax rate.

As of January 31, 2023 and 2022, the Company maintained a valuation allowance against all of its U.S. deferred tax assets since, in the judgment of management, the realization of these assets was not considered more likely than not. The net change in the total valuation allowance for the years ended January 31, 2023 and 2022 was an increase of \$31.4 million and \$42.0 million, respectively. The Company's deferred tax assets are included in other assets on the consolidated balance sheets.

As of January 31, 2023, the Company had federal net operating loss tax carryforwards of approximately \$596.0 million. Approximately \$152.0 million of the net operating loss carryforwards will expire at various times through 2038, while \$444.0 million will not expire.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its net operating losses ("NOLs") to offset future taxable income. The Company has determined that as of March 2021, it had undergone one ownership change on February 16, 2010, and its NOLs arising before that date are subject to Section 382 limitations. These limitations will not materially limit the use of such NOLs to offset the Company's future taxable income. Any ownership change occurring after March 2021 may result in the imposition of additional limitations on the Company's ability to utilize NOLs existing at the time of the ownership change.

(Dollars in millions, except share and per share amounts)

The benefit for income taxes differs from the amount computed by applying the statutory U.S. Federal income tax rate to pretax loss because of the effect of the following items:

	Year Ended January 31,		
	2023	2022	2021
Compute "expected" tax benefit	21.00 %	21.00 %	21.00 %
State income taxes, net of federal benefit	(0.01)%	(0.01)%	(0.01)%
Valuation of warrants	— %	(2.47)%	— %
Nondeductible transaction costs	— %	(0.44)%	— %
Nondeductible compensation	(1.95)%	(1.17)%	— %
Share-based compensation	(0.48)%	(0.35)%	(0.38)%
Current year change in valuation allowance	(19.34)%	(16.90)%	(21.55)%
Other	1.00 %	0.48 %	0.94 %
Income tax benefit (expense)	0.22 %	0.14 %	— %

The Company has not recognized deferred tax liabilities for outside basis differences (including undistributed earnings) relating to the Company's foreign subsidiary because such amounts have been indefinitely reinvested. The Company has determined that it is impracticable to estimate the unrecorded deferred tax liability associated with the foreign subsidiary for which the Company is asserting indefinite reinvestment.

The following table summarizes the unrecognized tax benefit activity for the periods indicated:

	Year Ended January 31,		
	2023	2022	2021
Balance as of the beginning of the period	\$ 0.7	\$ 0.6	\$ —
Additions based on tax positions related to the current year	0.2	0.1	0.2
Additions for tax positions of prior years	—	—	0.4
Reductions for tax positions of prior years	—	—	—
Lapse of statute of limitations	—	—	—
Settlements	—	—	—
Balance as of the end of the period	\$ 0.9	\$ 0.7	\$ 0.6

The amount of unrecognized tax benefits included on the consolidated balance sheets as of January 31, 2023 and 2022 are \$0.9 million and \$0.7 million, respectively.

The total amount of unrecognized benefits relating to the Company's tax position is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. The outcomes and timing of such events are highly uncertain and a reasonable estimate of the range of gross unrecognized tax benefits, excluding interest and penalties, that could potentially be reduced during the next 12 months cannot be made at this time.

*(Dollars in millions, except share and per share amounts)*

The Company is subject to United States federal and state taxation, as well as subject to taxation in Ireland. The Company may be subject to examination by the Internal Revenue Service ("IRS") and as of January 31, 2023, tax year 2019 and years filed thereafter remain open to examination. These examinations may result in proposed adjustments to the Company's income tax liability or tax attributes with respect to years under examination as well as subsequent periods.

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by the Company. In addition, tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income and deductions, and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. Any adjustments as a result of any examination may result in additional taxes or penalties against the Company. If the ultimate result of these audits differs from original or adjusted estimates, they could have a material impact on the Company's tax provision.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted and signed into law. Among other things, the CARES Act has modified the Internal Revenue Code of 1986, as amended, including, but not limited to: (1) modifications to the business interest deduction limitation for tax years 2021 and 2020; (2) a technical correction of the recovery period of qualified improvement property from 39 to 15 years; and (3) a repeal of the 80% taxable income limitation on the deduction of NOLs for tax years beginning before January 1, 2021 as well as a five-year carryback period allowed for NOLs generated in tax years beginning after December 31, 2017 and before January 1, 2021.

Under ASC 740, the effects of new legislation must be recognized in the period of enactment. Therefore, the effects of the CARES Act was accounted for in the year ended January 31, 2021. The Company evaluated the provisions of the CARES Act and determined that there is no material impact for the year ended January 31, 2021.

On August 16, 2022, Congress passed the Inflation Reduction Act of 2022. The key tax provisions applicable to the Company are a 15% corporate minimum tax on book income and a 1% excise tax on stock repurchases effective January 1, 2023. We do not expect these tax law changes to have a material impact on the Companies consolidated financial position; however, we will continue to evaluate their impact as further information becomes available.

(Dollars in millions, except share and per share amounts)

# 10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	January 31, 2023	January 31, 2022
Accrued operating and general expenses	\$ 6.0	\$ 8.6
Revenue share payable	5.3	6.7
Accrued interest	5.1	5.0
Accrued payroll related expenses	4.7	4.0
Short-term financing	—	3.5
Sales and other taxes	2.7	1.6
Gift card liability	0.6	0.6
Accrued expenses and other current liabilities	<u>\$ 24.4</u>	<u>\$ 30.0</u>

# 11. Fair Value Measurements

The Company follows the guidance in ASC 820 for its financial assets and liabilities that are remeasured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually.

As of January 31, 2023 and 2022, the carrying amounts of the Company's cash and cash equivalents, current and noncurrent restricted cash, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities approximated their estimated fair value due to their relatively short maturities.

The Company's long-term debt is reported at carrying value on the consolidated balance sheet. Refer to Note 8 - Long-Term Debt. The Company estimates the fair value of its long-term debt based on recently reported market transactions for similar financial instruments by companies with similar credit ratings and, as such, are classified as Level 2 within the fair value hierarchy. As of January 31, 2023, the estimated fair value of the Company's long-term debt approximates its carrying value.

The Company's warrant liabilities were reported at fair value on the Company's consolidated balance sheet. The warrant liabilities were valued using a Black-Scholes option pricing model. The assumptions used in preparing the model include estimates such as volatility, contractual terms, dividend yield, expiration dates and risk-free interest rates. Prior to the Company's IPO, this valuation model used unobservable market share price input on a recurring basis, and therefore was considered a Level 3 liability.

The following table presents a roll forward of the fair value of the Level 3 liabilities for the year ended January 31, 2022:

	Warrant Liability
Balance as of January 31, 2021	\$ 11.8
Issuance of common stock warrants	0.5
Changes in estimated fair value	24.4
Exercise of warrants	(35.5)
Reclassification to equity-classified warrants	(1.2)
Balance as of January 31, 2022	<u>\$ —</u>

(Dollars in millions, except share and per share amounts)

The Company issued a warrant for 40,828 shares of common stock with a fair value at issuance of \$0.5 million, included in the gain / (loss) on warrant liability revaluation, net on the consolidated statement of operations for the year ended January 31, 2022.

The warrants for 1,651,701 and 40,828 shares of common stock, respectively, were automatically exercised and converted to an aggregate of 1,691,723 shares of Class A common stock through cashless exercise upon completion of the Company's IPO. These warrants were adjusted to a fair value of \$35.5 million immediately prior to exercise.

The warrants for an aggregate of 88,037 shares of Series D redeemable preferred stock were converted to warrants for shares of Class A common stock as of the effective date of the IPO. These warrants were reclassified to stockholders' equity as of the effective date of the IPO, as the redemption provision from the shares underlying these warrants was eliminated. These warrants were adjusted to fair value of \$1.2 million immediately prior to reclassification.

There were no outstanding liability-classified warrants as of January 31, 2023 and 2022.

## 12. Redeemable Preferred Stock

During the year ended January 31, 2021, the Company sold 4,145,650 shares of Series G redeemable preferred stock in exchange for \$57.6 million. During the year ended January 31, 2022, the Company sold an additional 1,437,541 shares of Series G redeemable preferred stock in exchange for \$21.2 million. Upon consummation of the IPO, the Company accreted the carrying value of \$409.3 million of the redeemable preferred stock to the liquidation value of \$414.9 million and the Company's 32,575,462 outstanding shares of redeemable preferred stock were converted into 32,575,462 shares of the Company's Class A common stock. The accretion to liquidation value did not have a net impact on the Company's additional paid-in capital. There was no outstanding redeemable preferred stock as of January 31, 2023 and 2022.

### **Redemption**

The redeemable preferred stock was redeemable upon a liquidation event, such as voluntary or involuntary liquidation, dissolution, or winding up of the Company, which is outside of the Company's control. Accordingly, these shares were considered contingently redeemable and were classified outside of stockholders' deficit as mezzanine equity on the consolidated balance sheets. The Company accreted the carrying values of the redeemable preferred stock to their liquidation values upon the Company's IPO.

## 13. Stockholders' Equity

### **Common Stock**

Holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to twenty votes per share, as well as dividends if and when declared by the Board of Directors and, upon liquidation, dissolution, winding up or other liquidation event of the Company, all assets available for distribution to common stockholders. There are no redemption provisions with respect to common stock.

### **Preferred Stock**

Upon the IPO, the Company authorized 10,000,000 shares of preferred stock, with a par value of \$0.001 per share. No shares were issued or outstanding as of January 31, 2023.

(Dollars in millions, except share and per share amounts)

### Warrants

As of January 31, 2023 and 2022, the Company had the following outstanding warrants:

Outstanding Warrants	January 31, 2023				
	Date Issued	Number of Shares	Class of Shares	Exercise Price	Fair Value at Issuance
<b>Equity classified:</b>					
TriplePoint	Nov-16	82,891	Common	\$ 7.54	\$ 0.3
TriplePoint	Jun-17	18,236	Common	7.54	0.1
TriplePoint	Sep-17	14,920	Common	7.54	0.1
TriplePoint	Jan-18	16,578	Common	7.54	0.1
TriplePoint	Apr-18	16,578	Common	7.54	0.1
TriplePoint	Nov-15	35,215	Common	17.04	0.2
TriplePoint	Jun-16	28,172	Common	17.04	0.2
TriplePoint	Sep-16	24,650	Common	17.04	0.1
Double Helix (Temasek)	Oct-21	394,343	Common	21.00	5.3
Double Helix (Temasek)	Jan-23	2,000,000	Common	5.00	6.9
		<u>2,631,583</u>			<u>\$ 13.4</u>

The warrant for 730,000 shares of common stock issued to Double Helix (Temasek) in July 2018 with an exercise price of \$27.40 per share expired unexercised during the year ended January 31, 2023.

See Note 8 - Long-Term Debt for details of the warrants issued to Temasek in January 2023.

Outstanding Warrants	January 31, 2022				
	Date Issued	Number of Shares	Class of Shares	Exercise Price	Fair Value at Issuance
<b>Equity classified:</b>					
TriplePoint	Nov-16	82,891	Common	\$ 7.54	\$ 0.3
TriplePoint	Jun-17	18,236	Common	7.54	0.1
TriplePoint	Sep-17	14,920	Common	7.54	0.1
TriplePoint	Jan-18	16,578	Common	7.54	0.1
TriplePoint	Apr-18	16,578	Common	7.54	0.1
TriplePoint	Nov-15	35,215	Common	17.04	0.2
TriplePoint	Jun-16	28,172	Common	17.04	0.2
TriplePoint	Sep-16	24,650	Common	17.04	0.1
Double Helix (Temasek)	Jul-18	730,000	Common	27.40	1.3
Double Helix (Temasek)	Oct-21	394,343	Common	21.00	5.3
		<u>1,361,583</u>			<u>\$ 7.8</u>

There were no outstanding liability-classified warrants as of January 31, 2023 and 2022.

The fair value was estimated using the Black-Scholes option pricing model. The fair value is subjective and is affected by changes in inputs to the valuation model including the fair value per share of the underlying stock, the expected term of each warrant, volatility of the Company's stock and peer company stock, and risk-free rates based on U.S. Treasury yield curves.



(Dollars in millions, except share and per share amounts)

The Company issued preferred and common stock warrants in conjunction with the issuance of long-term debt. The preferred stock warrants were accounted for as liabilities primarily because the shares underlying the warrants contained contingent redemption features outside the control of the Company. The liability classified warrants were subject to remeasurement at each balance sheet date. With each such re-measurement, the liability classified warrants were adjusted to current fair value recognized as a gain or loss in the consolidated statements of operations. The Company reassessed the classification of the warrants at each balance sheet date. If the classification changed as a result of events during the period, the warrants were reclassified as of the date of the event that caused the reclassification.

As of January 31, 2023 and 2022, all outstanding warrants were equity-classified and recorded as additional paid-in capital. Equity-classified contracts are not subsequently remeasured unless reclassification is required from equity to liability classification.

#### 14. Share-based Compensation Plans

##### 2009 Stock Incentive Plan and 2019 Stock Incentive Plan

In 2009, the Company adopted its stock incentive plan (the "2009 Plan") to grant equity to employees and service providers. In 2019, the Company adopted a new stock incentive plan (the "2019 Plan") which replaced the 2009 Plan. The Company has granted RSUs and stock options, each of which is settleable in shares. Options are generally granted for a 10-year term, and generally vest and become fully exercisable over four years of service. RSU awards have both service-based and liquidity-based vesting conditions. The liquidity-based vesting condition was satisfied in connection with the effectiveness of the Company's IPO. The service-based requirement of RSUs was typically satisfied over four years. While no shares are available for future issuance under the 2009 Plan or the 2019 Plan, they continue to govern outstanding equity awards granted thereunder. Outstanding awards granted under the 2009 Plan and 2019 Plan are exercisable for or settled in shares of Class A common stock, or, if approved by the board of directors, shares of Class B common stock.

##### Amended and Restated 2021 Incentive Award Plan

The Company's Amended and Restated 2021 Incentive Award Plan (the "2021 Plan") was adopted by its board of directors and approved by stockholders in October 2021 and became effective upon the effective date of the IPO. The 2021 Plan replaced the 2019 Plan, and no further grants will be made under the 2019 Plan. The terms of equity awards granted under the 2021 Plan in the year ended January 31, 2022 were generally consistent with those granted under the 2019 Plan, as described above. RSUs granted under the 2021 Plan in the year ended January 31, 2022 generally vest over four years and do not have liquidity-based vesting conditions. RSUs granted under the 2021 Plan during the year ended January 31, 2023 have a shorter vesting period of one to two years. As of January 31, 2023, there were 7,224,952 shares of Class A common stock available for issuance under the 2021 Plan. There will not be any further equity grants of Class B common stock.

(Dollars in millions, except share and per share amounts)

The grant date fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The option pricing model considers several variables and assumptions in estimating the fair value of share-based awards. Because the Company's shares are only recently publicly traded and there is a lack of historical company-specific data available, expected term is estimated under the simplified method using the vesting and contractual terms, and expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant. The weighted-average assumptions for grants made during the periods presented, were as follows:

	Year Ended January 31,	
	2022	2021
Valuation assumptions:		
Expected dividend yield	— %	— %
Expected volatility	68.26 %	63.91 %
Expected term (in years)	6.00	4.89
Risk-free interest rate	1.02 %	0.34 %

### Stock Options

Stock option activity during the period indicated is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Balances as of January 31, 2022	9,470,170	\$ 7.33	7.17	\$ 2.1
Granted	—	—		
Exercised	(13,100)	2.84		
Forfeited	(1,396,423)	7.40		
Balances as of January 31, 2023	8,060,647	\$ 7.33	6.37	\$ 0.4
Exercisable as of January 31, 2023	5,831,046	\$ 7.16	5.76	\$ 0.4

There were no stock options granted during the year ended January 31, 2023. The total intrinsic value of stock options exercised for the year ended January 31, 2023 was nominal.

As of January 31, 2023, there was \$8.4 million of unrecognized compensation cost related to stock options granted that is expected to be recognized over a weighted average period of 2.2 years.

The Company currently uses authorized and unissued shares to satisfy the exercise of stock option awards.

(Dollars in millions, except share and per share amounts)

On October 26, 2020, the Company's Board approved a one-time stock option repricing, which repriced certain outstanding stock options held by then current employees and directors with an option exercise price of \$12.43 and above. There were 2,565,149 outstanding eligible stock options that were amended to reduce such exercise price to \$7.01 per share, the current fair market value of the Company's common stock on the date of the approval of the repricing. Except for the modified exercise price, all other terms and conditions of each of the eligible stock options remained in full force and effect. The repricing was recorded as a stock option modification whereby the incremental fair value of each option was determined using the Black-Scholes option pricing model at the date of the modification, and \$1.2 million was recognized related to vested options as incremental compensation expense during the year ended January 31, 2021. The Company is recognizing the remaining \$1.1 million of incremental compensation costs on a straight-line basis over the remaining requisite service period.

### RSUs

RSUs activity during the period indicated is as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value per Share
Unvested and outstanding as of January 31, 2022	2,428,574	\$ 11.32
Granted	6,693,775	4.83
Vested/Released	(1,972,890)	9.45
Forfeited	(1,173,338)	6.40
Unvested and outstanding as of January 31, 2023	5,976,121	\$ 5.64

As of January 31, 2023, there was \$14.7 million of unrecognized compensation cost related to RSUs granted that is expected to be recognized over a weighted average period of 1.5 years.

During the year ended January 31, 2022, the Company recognized \$14.4 million of compensation cost upon effectiveness of the Company's IPO, related to (i) certain RSUs that contain both service-based and liquidity-based vesting conditions satisfied upon the effectiveness of the registration statement and (ii) the fully vested portion of certain RSU awards that were granted upon the effectiveness of the IPO.

### Share-Based Compensation Summary

The classification of share-based compensation for the years ended January 31, 2023, 2022 and 2021, respectively, presented within each line item of the consolidated statements of operations is as follows:

	Year Ended January 31,		
	2023	2022	2021
Technology	\$ 5.9	\$ 4.2	\$ 2.0
Marketing	0.5	1.0	0.4
General and administrative	19.0	21.4	5.8
Total share-based compensation	\$ 25.4	\$ 26.6	\$ 8.2

(Dollars in millions, except share and per share amounts)

# 15. Net Loss per Share Attributable to Common Stockholders

The Company computes net loss per share attributable to common stockholders under the two-class method required for multiple classes of common stock and participating securities. The rights of the Class A common stock and Class B common stock are substantially identical, other than voting rights. Accordingly, the net loss per share attributable to common stockholders will be the same for Class A and Class B common stock on an individual or combined basis.

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders:

	Year Ended January 31,		
	2023	2022	2021
<b>Numerator:</b>			
Net loss attributable to common stockholders	\$ (138.7)	\$ (211.8)	\$ (171.1)
<b>Denominator:</b>			
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	64,254,930	24,874,061	11,138,851
Net loss per share attributable to common stockholders, basic and diluted	\$ (2.16)	\$ (8.51)	\$ (15.36)

The following potentially dilutive outstanding securities based on amounts outstanding at each period end were excluded from the computation of diluted loss per share attributable to common stockholders because including them would have been anti-dilutive:

	Year Ended January 31,		
	2023	2022	2021
Redeemable preferred stock	—	—	31,137,921
Stock options	8,060,647	9,470,170	6,060,107
Common stock warrants	2,631,583	1,361,583	2,530,904
Preferred stock warrants	—	—	164,664
RSUs	5,976,121	2,428,574	—
Total	16,668,351	13,260,327	39,893,596

As of January 31, 2021, RSUs to be settled in 1,509,601 shares of common stock were excluded from the table above because they were subject to liquidity-based vesting conditions that were not satisfied.

# 16. Commitments and Contingencies

The Company had restricted cash balances for cash collateralized standby letters of credit as of January 31, 2023 and 2022 of \$9.1 million and \$12.0 million, primarily to satisfy security deposit requirements on its leases.

(Dollars in millions, except share and per share amounts)

#### **Legal Proceedings**

From time to time in the normal course of business, various claims and litigation have been asserted or commenced against the Company. Due to uncertainties inherent in litigation and other claims, the Company can give no assurance that it will prevail in any such matters, which could subject the Company to significant liability for damages. Any claims or litigation could have an adverse effect on the Company's results of operations, cash flows, or business and financial condition in the period the claims or litigation are resolved. Accruals for loss contingencies are recorded when a loss is probable, and the amount of such loss can be reasonably estimated.

On November 14, 2022, a purported stockholder of the Company filed a putative class action lawsuit in the Eastern District of New York against the Company, certain of its officers and directors, and the underwriters of its IPO, entitled *Rajat Sharma v. Rent the Runway, Inc., et al.* 22-cv-6935. The complaint alleges that the defendants violated Sections 11 and 15 of the Securities Act of 1933, as amended, by making allegedly materially misleading statements, and by omitting material facts necessary to make the statements made therein not misleading concerning, *inter alia*, the Company's growth at the time of the IPO. The lawsuit seeks, among other things, compensatory damages, an award of attorneys' fees and costs and such other relief as deemed just and proper by the court. The Company intends to vigorously defend against these claims. The Company believes it has meritorious defenses to the claims of the plaintiff and members of the class and any liability for the alleged claims is not currently probable and the potential loss or range of loss is not reasonably estimable.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on our evaluation, our principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as such term is defined in Rule(s) 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of January 31, 2023 because of the material weaknesses in our internal control over financial reporting described below.

Notwithstanding the below identified material weaknesses, management believes the consolidated financial statements as included in Part II, Item 8 of this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial condition, results of operations and cash flows as of and for the periods presented in accordance with generally accepted accounting principles in the United States.

#### **Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an assessment of the effectiveness of our internal control over financial reporting as of January 31, 2023, based on the framework and criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of January 31, 2023, our internal control over financial reporting was not effective due to the existence of material weaknesses described below.

In connection with the audit of our financial statements as of and for the year ended January 31, 2021, we identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We did not maintain sufficient evidence of the operation of controls to achieve complete, accurate and timely financial accounting, reporting and disclosures nor were monitoring controls evidenced at a sufficient level to provide the appropriate level of oversight of activities related to our internal control over financial reporting. This material weakness contributed to the following additional material weaknesses:

We did not design and maintain effective controls to ensure (i) the appropriate segregation of duties in the operation of manual controls and (ii) journal entries were reviewed at the appropriate level of precision.

We did not design and maintain effective controls over information technology ("IT") general controls for information systems and applications that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain (i) program change management controls to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately, (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to our financial applications, programs and data to appropriate personnel, (iii) computer operations controls to ensure that critical batch jobs are monitored and data backups are authorized and monitored and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements.

These IT control deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected.

These material weaknesses did not result in a misstatement to our annual or interim consolidated financial statements. However, each of these material weaknesses could result in a misstatement of substantially all account balances or disclosures that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting pursuant to the JOBS Act because the Company is an "emerging growth company" as defined in Rule 12b-2 under the Exchange Act.

#### **Remediation Efforts to Address Material Weaknesses**

We continue to implement measures to remediate the identified material weaknesses. The measures include (i) formalizing the Company's framework and policies with respect to maintaining evidence in the operation of control procedures, (ii) improving our control framework to include the appropriate segregation of duties and controls over the preparation and review of journal entries, and (iii) designing and implementing IT general controls for systems and applications impacting internal control over financial reporting.

We have performed extensive work with personnel responsible for the design and operating effectiveness of internal control over financial reporting in our efforts to ensure that appropriate evidence is maintained. We are continuing to implement comprehensive access control protocols for our enterprise resource planning environment in order to implement restrictions on user and privileged access to certain applications, establishing additional controls over segregation of duties and the preparation and review of journal entries, implementing controls to review the activities for those users who have privileged access and program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately.

The implementation of these remediation efforts is in progress, may require additional expenditures to implement, and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, and as a result, the timing of when we will be able to fully remediate the material weaknesses is uncertain. We may also conclude that additional measures may be required to remediate the material weaknesses in our internal control over financial reporting, which may necessitate additional implementation and evaluation time. We will continue to assess the effectiveness of our internal control over financial reporting and take steps to remediate the known material weaknesses expeditiously.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended January 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Item 9B. Other Information**

On April 7, 2023, the Company's Board of Directors elected Emil Michael to serve as a Class III director, effective May 1, 2023 (the "Effective Date"). Mr. Michael was also appointed to serve as a member of the Company's Nominating and ESG Committee, effective on the Effective Date. Mr. Michael will receive an annual cash retainer of \$40,000 and an award of 29,516 restricted stock units ("RSUs") to be granted immediately following the Company's 2023 annual meeting of stockholders. The RSU award will vest as of the earlier of (i) the first anniversary of the date of grant or (ii) immediately before the next annual meeting of stockholders following the date of RSU grant, subject to Mr. Michael's continued service through such vesting date. The Company expects to enter into the Company's standard form of indemnification agreement with Mr. Michael.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.



### **Part III**

#### **Item 10. Directors, Executive Officers, and Corporate Governance**

The information required by this item is incorporated by reference from our Proxy Statement for the 2023 Annual Meeting of Stockholders ("Proxy Statement") to be filed with the SEC within 120 days of the year ended January 31, 2023.

#### **Item 11. Executive Compensation**

The information required by this item is incorporated by reference from our Proxy Statement.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information required by this item is incorporated by reference from our Proxy Statement.

#### **Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required by this item is incorporated by reference from our Proxy Statement.

#### **Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated by reference from our Proxy Statement.

### **Part IV**

## Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this Annual Report on Form 10-K:

### 1. Financial Statements

Our consolidated financial statements are listed in the "Financial Statements and Supplementary Data" under Part II, Item 8, of this Annual Report on Form 10-K.

### 2. Financial Statement Schedules

All financial statement schedules have been omitted because they are not required or are not applicable, or the required information is shown in our consolidated financial statements or the notes thereto.

### 3. Exhibits

Exhibit Number	Description of Exhibit	Incorporated by Reference				Filed / Furnished Herewith
		Form	File No.	Exhibit	Filing date	
3.1	Amended & Restated Certificate of Incorporation	8-K	001-40958	3.1	10/29/2021	
3.2	Amended & Restated Bylaws	8-K	001-40958	3.2	10/29/2021	
4.1	Specimen Class A common stock certificate	S-1	333-260027	4.1	10/04/2021	
4.2	Eighth Amended and Restated Investors' Rights Agreement (the "IRA") by and among the Company and certain of its stockholders, dated April 30, 2020, as amended by that amendment No. 1 to the IRA, dated October 26, 2020 and that amendment No. 2 to the IRA, dated April 30, 2021	S-1	333-260027	4.2	10/04/2021	
4.3	Description of Capital Stock	10-K	001-40958	4.3	04/14/2022	
10.1+	2009 Stock Incentive Plan	S-1/A	333-260027	10.2	10/18/2021	
10.2+	Form of Incentive Stock Option Agreement (2009 Plan)	S-1/A	333-260027	10.3	10/18/2021	
10.3+	Form of Nonstatutory Stock Option Agreement (2009 Plan)	S-1/A	333-260027	10.4	10/18/2021	
10.4+	2019 Stock Incentive Plan	S-1/A	333-260027	10.5	10/18/2021	
10.5+	Form of Incentive Stock Option Agreement (2019 Plan)	S-1/A	333-260027	10.6	10/18/2021	
10.6+	Form of Nonstatutory Stock Option Agreement (2019 Plan)	S-1/A	333-260027	10.7	10/18/2021	
10.7+	Form of Restricted Stock Unit Agreement (2019 Plan)	S-1/A	333-260027	10.8	10/18/2021	
10.8+	Amended and Restated 2021 Incentive Award Plan	S-1/A	333-260027	10.9	10/18/2021	
10.9+	Form of Stock Option Agreement (2021 Plan)	S-1/A	333-260027	10.10	10/18/2021	
10.10+	Form of Restricted Stock Unit Agreement (2021 Plan)	S-1/A	333-260027	10.11	10/18/2021	

10.11+	Form of Restricted Stock Unit Agreement (2021 Plan) (Mandatory Sell-to-Cover Election)	S-1/A	333-260027	10.12	10/18/2021
10.12+	Form of Indemnification Agreement between the Company and each of its directors and executive officers	S-1/A	333-260027	10.1	10/18/2021
10.13+	Non-Employee Director Compensation Program	S-1/A	333-260027	10.13	10/18/2021
10.14+	2021 Employee Stock Purchase Plan	S-1/A	333-260027	10.14	10/22/2021
10.15+	Executive Severance Plan	S-1/A	333-260027	10.19	10/18/2021
10.16+	Amended and Restated Executive Severance Plan	10-Q	001-40958	10.9	12/10/2021
10.17+	Amended and Restated Employment Agreement, by and between the Company and Jennifer Y. Hyman, dated October 5, 2021	S-1/A	333-260027	10.15	10/18/2021
10.18	Amendment to Amended and Restated Employment Agreement by and between the Company and Jennifer Y. Hyman	10-Q	001-40958	10.1	6/10/2022
10.19+	Offer Letter, by and between the Company and Scarlett O'Sullivan, dated September 4, 2015.	S-1/A	333-260027	10.16	10/18/2021
10.20+	Offer Letter, by and between the Company and Anushka Salinas, dated January 20, 2017.	S-1/A	333-260027	10.17	10/18/2021
10.21+	Offer Letter, by and between the Company and Brian Donato, dated January 17, 2017	S-1/A	333-260027	10.18	10/18/2021
10.22†	Seventh Amendment to the Credit Agreement dated as of July 23, 2018, dated as of October 18, 2021 (as previously amended on December 21, 2018, April 24, 2019, November 26, 2019, June 2, 2020, August 18, 2020, and October 26, 2020), and as may be further amended, restated, supplemented or otherwise modified in accordance with the terms thereof, by and among the Company, the lenders from time to time party thereto and Double Helix Pte Ltd, as administrative agent.	S-1/A	333-260027	10.20	10/18/2021
10.23	Stockholders Agreement, dated October 29, 2021, by and among the Company, Jennifer Y. Hyman, entities affiliated with Bain Capital Ventures and entities affiliated with Highland Capital Partners and certain related parties	8-K	001-40958	10.1	10/29/2021
10.24†	Lease, dated as of July 7, 2014 as amended by that certain Lease Modification Agreement, dated April 28, 2020, each by and between Hartz Metro Leasehold I LLC and the Company.	S-1	333-260027	10.21	10/04/2021
10.25†	Lease, dated as of February 7, 2017 as amended by that certain Lease Modification Agreement, dated April 28, 2020, each by and between Hartz Metro Leasehold I LLC and the Company.	S-1	333-260027	10.22	10/04/2021
10.26†	Industrial Lease, dated March 31, 2018, as amended by that certain First Amendment to Industrial Lease, dated August 31, 2020, by and between TRPF COOPER I-20 LLC and the Company.	S-1/A	333-260027	10.23	10/18/2021
10.27†	Lease, dated as of April 1, 2019, as amended by that certain First Amendment of Lease, dated December 10, 2020, by and between 10 Jay Master Tenant LLC and the Company.	S-1/A	333-260027	10.24	10/18/2021

10.28†	Partial Termination and Second Amendment of Lease, dated February 16, 2022, by and between 10 Jay Master Tenant LLC and the Company.	10-K	001-40958	10.27	4/14/2022	
10.29	Eighth Amendment to the Credit Agreement dated as of August 15, 2022 (as previously amended on July 23, 2018, December 21, 2018, April 24, 2019, November 26, 2019, June 2, 2020, August 18, 2020, October 26, 2020, and October 18, 2021), and as may be further amended, restated, supplemented or otherwise modified in accordance with the terms thereof, by and among the Company, the lenders from time to time party thereto and Double Helix Pte Ltd. as administrative agent	10-Q	001-40958	10.1	9/13/2022	
10.3	Ninth Amendment to the Credit Agreement, dated as of January 31, 2023, by and among the Company, the lenders from time to time party thereto and Double Helix Pte Ltd., as administrative agent.					*
21.1	List of subsidiaries					*
23.1	Consent of PricewaterhouseCoopers, LLP, Independent Registered Public Accounting Firm					*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)					*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350					**
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

\* Filed herewith

\*\* Furnished herewith

+ Indicates management contract or compensatory plan

† Certain portions of this exhibit (indicated by “[\*\*\*]”) have been omitted pursuant to Regulation S-K, Item (601)(b)(10) because the omitted information (i) is not material and (ii) is treated as confidential by the Company

**Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

### RENT THE RUNWAY, INC.

Date: April 13, 2023

By: /s/ Jennifer Y. Hyman  
Jennifer Y. Hyman  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Jennifer Y. Hyman</u> Jennifer Y. Hyman	Chief Executive Officer and Director ( <i>Principal Executive Officer</i> )	April 13, 2023
<u>/s/ Scarlett O'Sullivan</u> Scarlett O'Sullivan	Chief Financial Officer ( <i>Principal Financial Officer and Principal Accounting Officer</i> )	April 13, 2023
<u>/s/ Tim Bixby</u> Tim Bixby	Director	April 13, 2023
<u>/s/ Jennifer Fleiss</u> Jennifer Fleiss	Director	April 13, 2023
<u>/s/ Scott Friend</u> Scott Friend	Director	April 13, 2023
<u>/s/ Melanie Harris</u> Melanie Harris	Director	April 13, 2023
<u>/s/ Beth Kaplan</u> Beth Kaplan	Director	April 13, 2023
<u>/s/ Dan Nova</u> Dan Nova	Director	April 13, 2023
<u>/s/ Gwyneth Paltrow</u> Gwyneth Paltrow	Director	April 13, 2023
<u>/s/ Carley Roney</u> Carley Roney	Director	April 13, 2023
<u>/s/ Mike Roth</u> Mike Roth	Director	April 13, 2023

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**RENT THE RUNWAY, INC.**  
**CORPORATE INFORMATION**

**BOARD OF DIRECTORS**

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Jennifer Y. Hyman  
Co-Founder, Chief Executive Officer and Chair

Scott Friend  
Lead Independent Director  
Partner, Bain Capital Ventures

Tim Bixby  
Director  
Chief Financial Officer, Lemonade, Inc.

Jennifer Fleiss  
Co-Founder and Director  
Venture Partner, Volition Capital

Melanie Harris  
Director  
Vice President & General Manager,  
Jordan Brand, Nike, Inc.

Beth Kaplan  
Director  
Managing Member, Axcel Partners, LLC

Emil Michael  
Director  
Chief Executive Officer and Chair, M8  
Enterprises LLC

Dan Nova  
Director  
General Partner, Highland Capital  
Partners

Gwyneth Paltrow  
Director  
Founder and Chief Executive Officer,  
Goop, Inc.

Carley Roney  
Director  
Co-Founder and former Chief Creative  
Officer, XO Group

Mike Roth  
Director  
Former Vice President of Global  
Customer Fulfillment Operations &  
Transportation, Amazon.com, Inc.

**EXECUTIVE OFFICERS**

---

Jennifer Y. Hyman  
Co-Founder, Chief Executive Officer  
and Chair

Sid Thacker  
Chief Financial Officer

Anushka Salinas  
President and Chief Operating  
Officer

Andrea Alexander  
Chief People Officer

Brian Donato  
Chief Revenue Officer

Drew Rau  
SVP, Supply Chain & Inventory

Cara Schembri  
General Counsel and Secretary

Larry Steinberg  
Chief Technology Officer

Sarah Tam  
Chief Merchant Officer

**STOCK EXCHANGE**

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Rent the Runway, Inc. stock is listed for trading on NASDAQ under the ticker symbol "RENT".

**TRANSFER AGENT**

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Registered stockholder records are maintained by our transfer agent: American Stock Transfer & Trust Company, LLC  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219  
US Toll-Free: 1-800-937-5449  
or 1-781-921-8124  
Web: [www.asatfinancial.com](http://www.asatfinancial.com)  
Email: [help@astfinancial.com](mailto:help@astfinancial.com)

**Investor Relations**

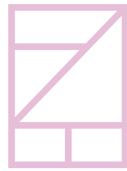
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Information about Rent the Runway, press releases, and other investor information is available on our website [investors.renttherunway.com](http://investors.renttherunway.com). Stockholder inquiries can be sent to [investors@renttherunway.com](mailto:investors@renttherunway.com).

**Corporate Headquarters**

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Rent the Runway, Inc.  
10 Jay Street  
Brooklyn, NY 11201  
[Renttherunway.com](http://Renttherunway.com)



RENT THE RUNWAY