

The Container Store®

Investor Presentation

NYSE: TCS

June 2021



Forward Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this presentation that do not relate to matters of historical fact should be considered forward-looking statements, including statements regarding our future opportunities; our goals, strategies, priorities and initiatives; market opportunities; sales trends and momentum; and our anticipated financial performance. These forward-looking statements are based on management's current expectations. These statements are neither promises nor guarantees, but 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 following: the COVID-19 pandemic and the associated impact on our business, results of operations and financial condition; our ability to continue to lease space on favorable terms; costs and risks relating to new store openings; quarterly and seasonal fluctuations in our operating results; cost increases that are beyond our control; our inability to protect our brand; our failure or inability to protect our intellectual property rights; overall decline in the health of the economy, consumer spending, and the housing market; our inability to source and market new products to meet consumer preferences; failure to successfully anticipate consumer preferences and demand; competition from other stores and internet-based competition; vendors may sell similar or identical products to our competitors; our and our vendors' vulnerability to natural disasters and other unexpected events; disruptions at our Elfa manufacturing facilities; deterioration or change in vendor relationships or events that adversely affect our vendors or their ability to obtain financing for their operations, including COVID-19; product recalls and/or product liability, as well as changes in product safety and other consumer protection laws; risks relating to operating two distribution centers; our dependence on foreign imports for our merchandise; our reliance upon independent third party transportation providers; our inability to effectively manage our online sales; effects of a security breach or cyber-attack of our website or information technology systems, including relating to our use of third-party web service providers; damage to, or interruptions in, our information systems as a result of external factors, working from home arrangements, staffing shortages and difficulties in updating our existing software or developing or implementing new software; our indebtedness may restrict our current and future operations, and we may not be able to refinance our debt on favorable terms, or at all; fluctuations in currency exchange rates; our inability to maintain sufficient levels of cash flow to meet growth expectations; our fixed lease obligations; disruptions in the global financial markets leading to difficulty in borrowing sufficient amounts of capital to finance the carrying costs of inventory to pay for capital expenditures and operating costs; changes to global markets and inability to predict future interest expenses; our reliance on key executive management; our inability to find, train and retain key personnel; labor relations difficulties; increases in health care costs and labor costs; violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery and anti-kickback laws; impairment charges and effects of changes in estimates or projections used to assess the fair value of our assets; effects of tax reform and other tax fluctuations; and significant fluctuations in the price of our common stock; substantial future sales of our common stock, or the perception that such sales may occur, which could depress the price of our common stock; risks related to being a public company; our performance meeting guidance provided to the public; anti-takeover provisions in our governing documents, which could delay or prevent a change in control; and our failure to establish and maintain effective internal controls.

These and other important factors discussed under the caption "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, (the "SEC") on June 3, 2021 and our other reports filed with the SEC could cause actual results to differ materially from those indicated by the forward-looking statements made in this presentation. Any such forward-looking statements represent management's estimates as of the date of this presentation. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this presentation.

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Company Overview



WHAT WE STAND FOR

The Container Store believes in putting its **customers first** which is supported by an incredible and diverse selection of products and solutions and by trusted and knowledgeable specialists.

The Container Store®

FOUNDATION PRINCIPLES

The Container Store has seven **Foundation Principles™** — simple business philosophies that enable teams to do the right thing.



94

STORE LOCATIONS
IN 33 STATES and D.C.



10M+

POP! REWARDS MEMBERS

76% POP! MEMBER
SALES CONTRIBUTION



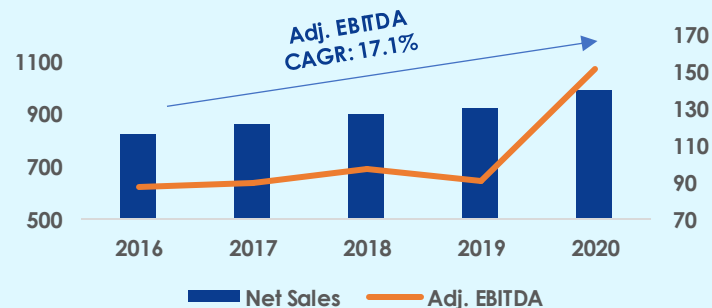
5,100

EMPLOYEES

1,800 TCS full-time
2,850 TCS part-time
450 Elfa

\$990.1M

FY 2020 NET SALES



*Elfa, the Company's wholly-owned subsidiary, designs and manufactures elfa branded products — exclusive to The Container Store in the U.S. The elfa product lines represent 69% of custom closets sales and 34% of consolidated sales.

Executive Leadership Team

The Container Store boasts specialty expertise across all areas of the business, with new key hires that will help **double** sales.



Satish Malhotra

- Chief Executive Officer of TCS
- Joined TCS in 2021
- 21 Years with Sephora
- Favorite TCS Product: elfa® Start-A-Stack



Anders Rothstein

- Chief Executive Officer of Elfa
- Joined Elfa in 2018
- 6 Years with Lammhults Design
- Favorite TCS Product: elfa®



Jeff Miller

- Chief Financial Officer
- Joined TCS in 2013
- 10 Years with FedEx Office
- Favorite TCS Product: Weathertight Totes



John Gehre

- Chief Merchandising Officer
- Joined TCS in 2018
- 11 Years with H-E-B
- Favorite TCS Product: Drop-Front Shoe Box



Melissa Collins

- Chief Marketing Officer
- Joined TCS in 1997
- 24 Years with TCS
- Favorite TCS Product: The Everything Drawer Organizer



Dhriti Saha

- Chief Information Officer
- Joined TCS in 2021
- 8 Years with Target & Oracle
- Favorite TCS Product: Lotus Bamboo Storage Bench



Eva Gordon

- Executive Vice President of Stores & Services
- Joined TCS in 2006
- 10 Years with Harolds
- Favorite TCS Product: elfa® Utility Garage & Planting Solution



John Marazio

- Executive Vice President of Human Resources
- Joined TCS in 2020
- 31 Years with Neiman Marcus
- Favorite TCS Product: Cereal Dispenser



Gretchen Ganc

- Executive Vice President of Strategy & Analytics
- Joined TCS in 2017
- 8 Years with JCPenney
- Favorite TCS Product: 2-Bike Donatello Gravity Stand

A woman with blonde hair is sitting on a wooden floor, smiling and looking down at a young child. The child is wearing a white shirt with a rainbow design and colorful striped socks. They are in a pantry or kitchen area with white shelves in the background. The shelves are filled with various food items, including jars of jam, boxes of cereal, and bags of snacks. The text "The Container Store exists to transform lives through the power of organization." is overlaid on the image in white, bold, sans-serif font. The word "transform" is underlined, and "power of organization" is underlined.

The Container Store exists
to transform lives through
the power of organization.

The Benefits Of An Organized Life

1

Boosts Energy & Motivation

Decluttering items around you can boost physical and mental energy. Just 10 minutes of tidying your space can help you work more efficiently and energetically the rest of the day.

2

Reduces Stress & Anxiety

Disorganization is stressful for the brain. Those who describe their homes as “cluttered” are more likely to be depressed and fatigued, according to a study in *Personality and Social Psychology Bulletin*.

3

Increases Sense of Wellbeing

A study by Princeton University researchers discovered that clutter and mess is linked to negative emotions like confusion, tension and irritability, while an organized home tends to produce more positive emotions like calmness and a sense of well-being.

4

Improves Relationships

A disorganized life can add tension and conflict to relationships. A messy house can also prevent you from inviting friends and family over, due to potential shame and embarrassment about your space, creating a boundary that might prevent you from letting others in.

It's No Surprise Loyal Customers Love The Container Store

Products

“ **Innovative, well designed, stylish and high-quality products** that solve organizational challenges and make home tasks more enjoyable!

“ Your products are amazing and **such high quality that they have withstood the test of time** in my home!

Customer Service

“ The service is always impeccable, everybody is ready and willing to help, and **I feel like I'm coming in to talk to friends!**

“ Employees are responsive to the needs of the customer. **They know their products so well** that they can offer a variety of ways to solve your organizational needs.

Store Environment

“ The store layout allows clients to visualize how many parts of their life can be maintained more efficiently. I am in LOVE with the ideas, products and **superior shopping experience The Container Store affords me.**

Happy Place

“ The Container Store is **my happy place**. Just walking in lowers my blood pressure and raises my smile.

“ **Walking into The Container Store is like walking into Disneyland.** I feel like a kid shopping and browsing. The staff are always so helpful, kind and have the best ideas for my DIY projects.

Source: POP! STAR Survey

We Are A Purpose Led Organization

- We are a **purpose led** organization focused on transforming the lives of our customers
- Pride ourselves on our **Seven Foundation Principles**, standards to which we hold ourselves accountable
- **Highly motivated** employees who are obsessed with our products and customers
- A **diverse**, inclusive workplace that reflects the communities we serve
- Provide **extensive training** to employees, especially during their first year of employment
- Full-time voluntary turnover of approximately 20% over the past two years

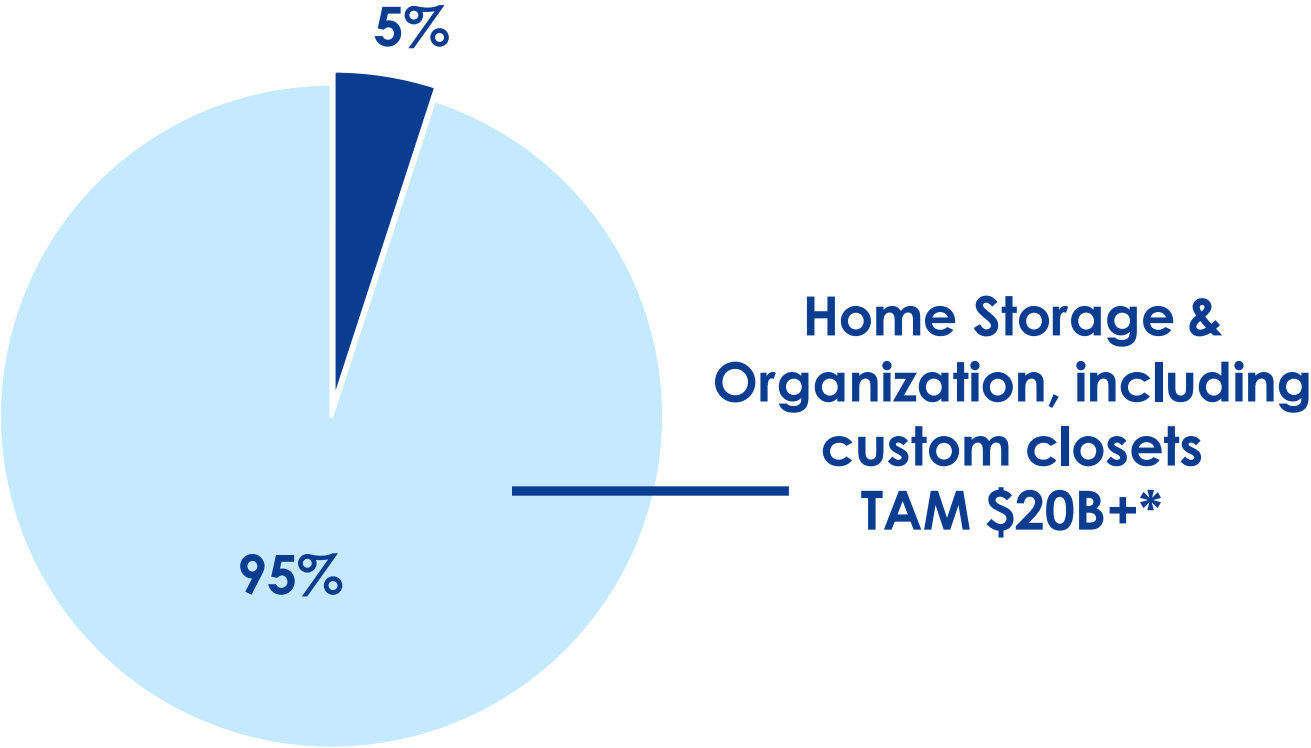


Strategic Priorities



Attractive Industry With Market Share Opportunity

Despite The Container Store's leadership position and differentiator as one of the only specialty retailers focused on storage and organization solutions, and custom closets, The Container Store has just ~5% of the \$20B+ home storage and organization total addressable market (TAM).



Custom Closets for Every Size, Style and Budget



elfa® CLASSIC

Elfa is the original custom closet system. Exclusively ours, this wall-hanging system is incredibly strong and customizable – allowing you to easily move shelves and drawers. It's ideal for closets, pantries, offices, craft rooms and garages.



elfa® DÉCOR

Exclusively ours, Elfa Décor combines the strength and flexibility of Elfa Classic with the beauty of wood and deluxe options. Take your custom closet to the next level with real wood shelves, drawers and trim in a variety of finishes.

Premium Spaces



avera™

Introducing the evolution of the custom closet. Exclusively ours, Avera's innovative design delivers the built-in look at an incredible price. Features include full-extension Drawers that open at a touch, Back Panels that complete the look and optional LED lighting.



laren™

For unparalleled custom built-in luxury, look no further than Laren. Formerly TCS Closets and exclusive to us, Laren offers extraordinary 1"-thick construction, a variety of exclusive finishes and options like glass-front Doors and LED Lighting.

We Aim to Get There With Three Strategic Priorities



**1.
Deepening
Our Relationship
With Customers**



**2.
Expanding
Our Reach**



**3.
Strengthening
Our Capabilities**

Strategic Priority 1: Deepening Our Relationship With Customers

- 1 Winning with Product**
 - Continue to develop exclusive private label product lines
 - Curate more sustainable SKUs
- 2 Providing an Air of Excitement**
 - Increase in-store customer engagement to improve conversion and average ticket
- 3 Developing Branding that Evokes Emotion**
 - Refine branding to showcase the benefits of organization and how it can transform customer lives
- 4 Enhancing the Loyalty Program**
 - Transform POP! Program to reward loyalty and engagement, and increase visits and spend



What We've Accomplished Through May 2021




Deepening Our Relationship With Customers

- **Expansion of sustainable SKUs** to 10% of product assortment
- Announced **partnership with Narvar** to improve fulfillment transparency
- **Added hosts** in all stores at peak times
- In-store **net promoter score** (NPS) introduced through Medallia partnership
- Enhanced product pages and store graphics to feature **more user generated content** (UGC)
- Introduction of in-store **play zones** and **demonstrations**



"These have made my life so much easier. **My only regret is not doing it sooner!**"

- MGL2, NEW YORK



Looking for step-by-step help from the experts? Visit our Projects & Inspiration.

Container *Stories*

Strategic Priority 2: Expanding Our Reach

1

Bolstering Custom Closets & Home Solutions

- Attract new customers through end-to-end value proposition comprised of general merchandise, custom spaces and in-home organizing
- Drive share in premium spaces

2

Accelerating E-Commerce

- Enhance and optimize site and mobile experience
- Expand payment options
- Improve shipping and delivery options

3

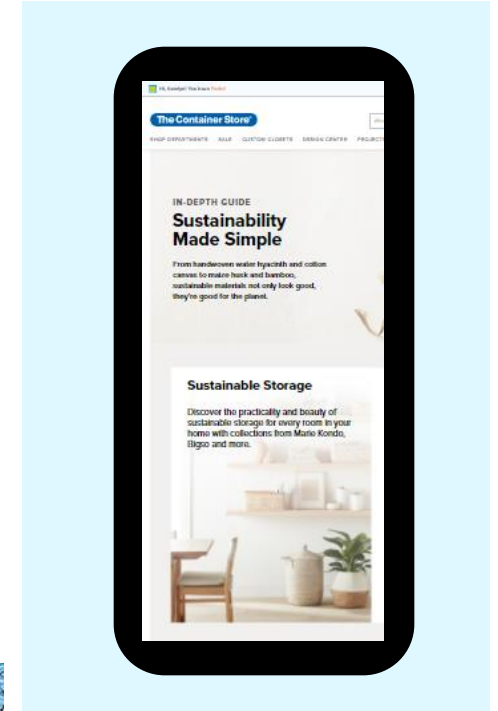
Developing Our Store Network

- Increase store footprint through smaller store formats
- Explore shop-in-shop concept

4

Fostering New Collaborations

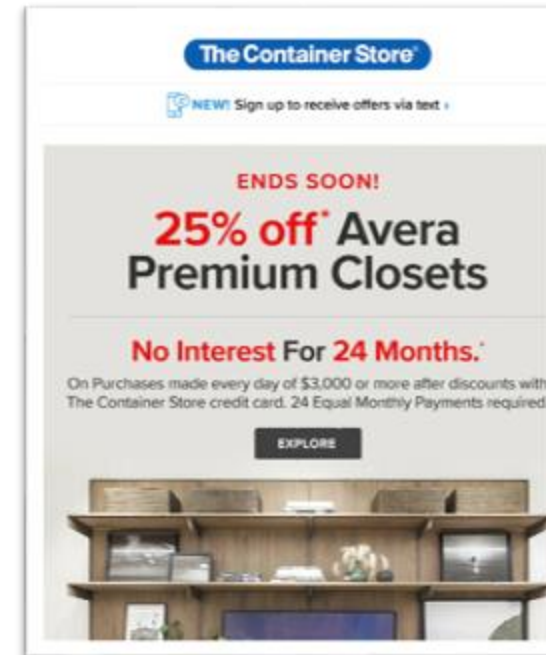
- Nurture new strategic marketing and product relationships for continued relevancy and category credibility



What We've Accomplished Through May 2021

Expanding Our Reach

- Announced expanded payment options with a new strategic **partnership with Afterpay**
- Improved delivery time with same-day deliveries powered by **Instacart**
- Launched stand-alone sale for **Avera** premium closets
- Opened a **new store in Annapolis**, Maryland
- Remerchandised **elfa® Starter Sets** and Grab & Go in-store
- Launched **tastemaker influencer program** to provide credibility for our kitchen category



Strategic Priority 3: Strengthening Our Capabilities

1

Improving Operations

- Capturing operational efficiencies to fund strategic priorities

2

Being An Employer of Choice

- Emphasizing diversity, equity and inclusion

3

Focusing on Environmental, Social and Governance (ESG)

- Focusing on the impact we have on people and the planet

4

Enhancing the Organization

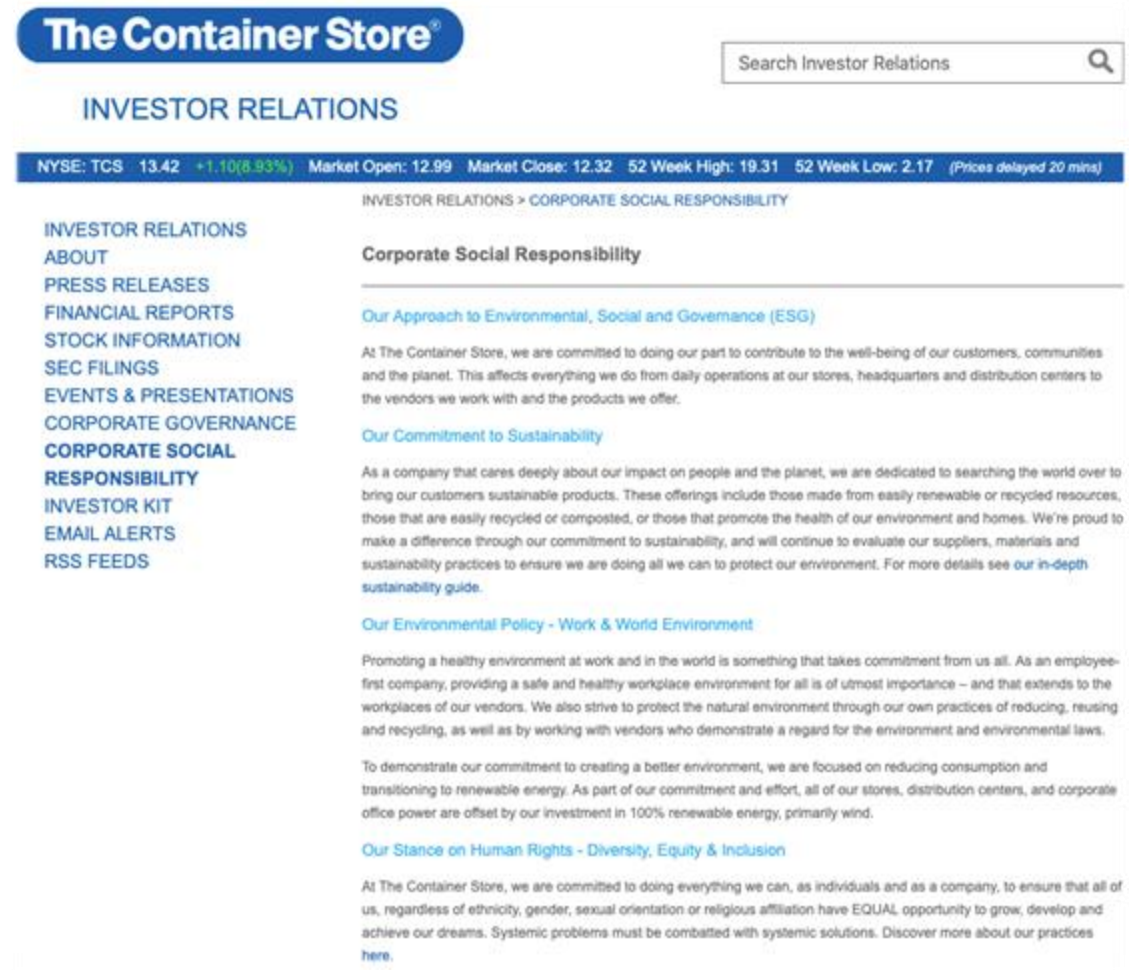
- Five key hires to help drive the business forward



What We've Accomplished Through May 2021

Strengthening Our Capabilities

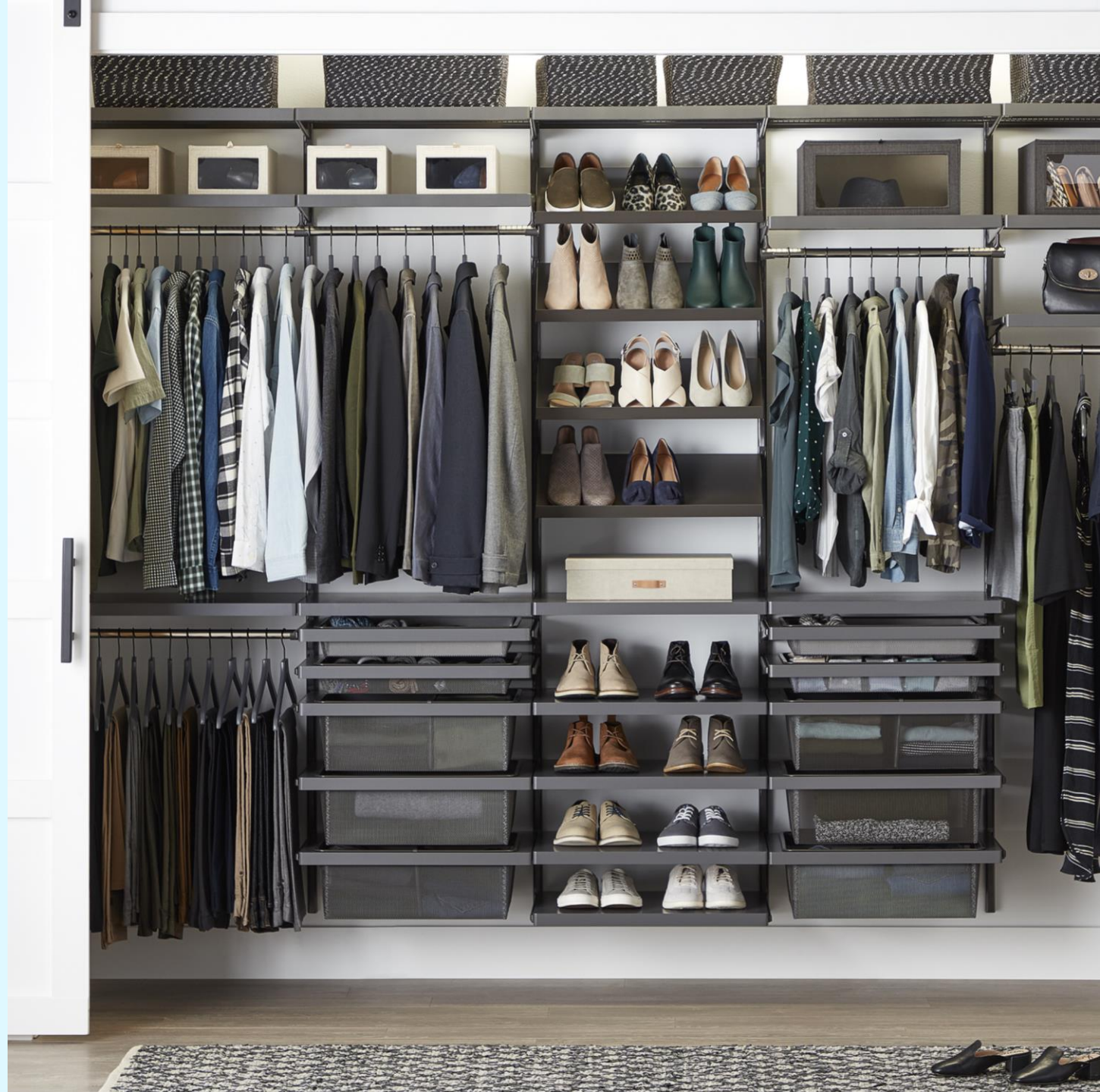
- Conducted a study to identify **store operational efficiencies**
- Announced **five key hires**
- Added Corporate Social Responsibility page on our Investor Relations site
- **Invested in 100% renewable energy** to offset power consumed by all stores, DCs, and corporate office



The screenshot displays the 'The Container Store' Investor Relations website. At the top, the company logo is in a blue pill-shaped button. Below it, the 'INVESTOR RELATIONS' header is centered. A search bar on the right contains the text 'Search Investor Relations'. A blue navigation bar provides stock market data: 'NYSE: TCS 13.42 +1.10(8.93%) Market Open: 12.99 Market Close: 12.32 52 Week High: 19.31 52 Week Low: 2.17 (Prices delayed 20 mins)'. A left-hand menu lists various investor resources, with 'CORPORATE SOCIAL RESPONSIBILITY' highlighted in blue. The main content area is titled 'Corporate Social Responsibility' and includes sections for 'Our Approach to Environmental, Social and Governance (ESG)', 'Our Commitment to Sustainability', 'Our Environmental Policy - Work & World Environment', and 'Our Stance on Human Rights - Diversity, Equity & Inclusion'. Each section contains a brief paragraph of text.

Our Strategic Plan

A Solution That Works Together!



Financial Update & Outlook

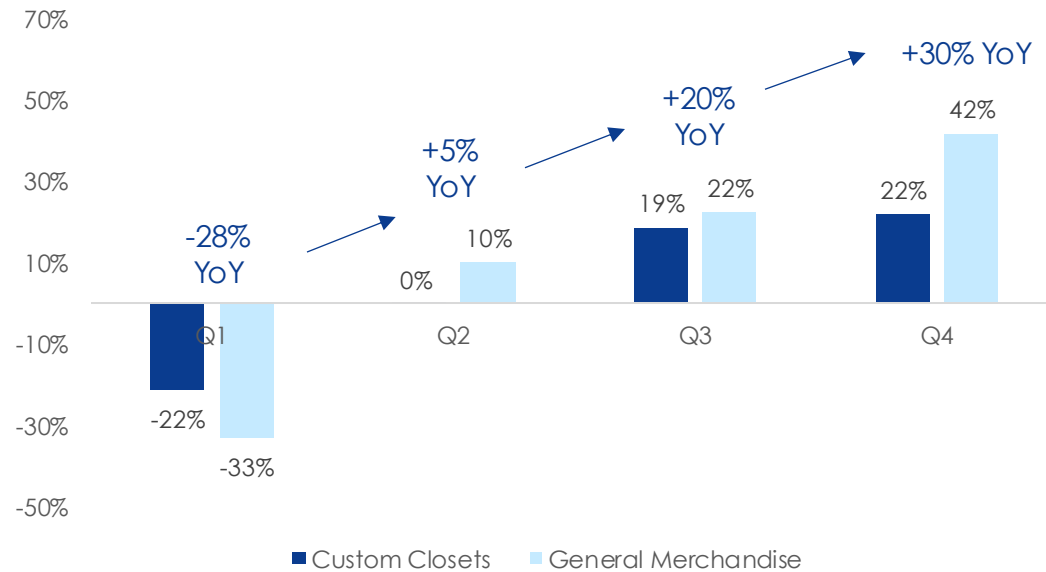


Record Q4 & Fiscal 2020

Strong Consolidated Sales growth for three consecutive Quarters

- FY20¹: \$990.1 Million²/Increased 8.1% from FY19

TCS Fiscal 2020 Net Sales Growth by Category



¹ FY20 year end as of April 3, 2021.

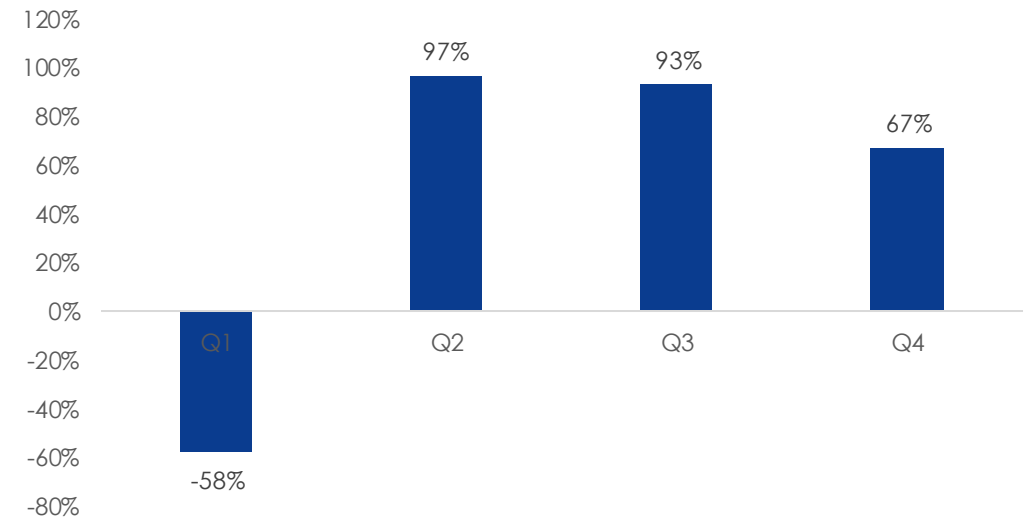
² FY20 consolidated sales are inclusive of a 53rd week totaling \$17.7 million.

³ See Slides 31 and 33 for a reconciliation of GAAP Net Income to Adjusted EBITDA.

Significant increase in Adjusted EBITDA³

- FY20: \$150.5 million/Increased 65.8% from FY19

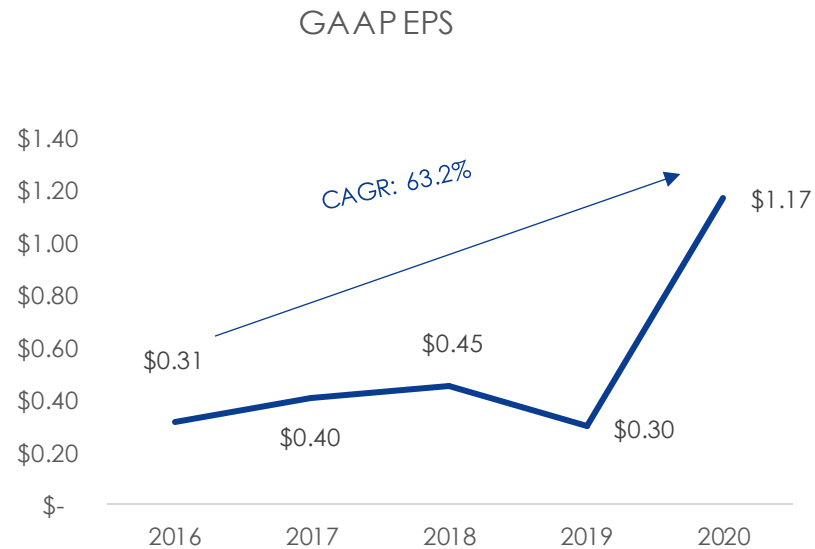
TCS Fiscal 2020 Adjusted EBITDA Growth



Record Q4 & Fiscal 2020

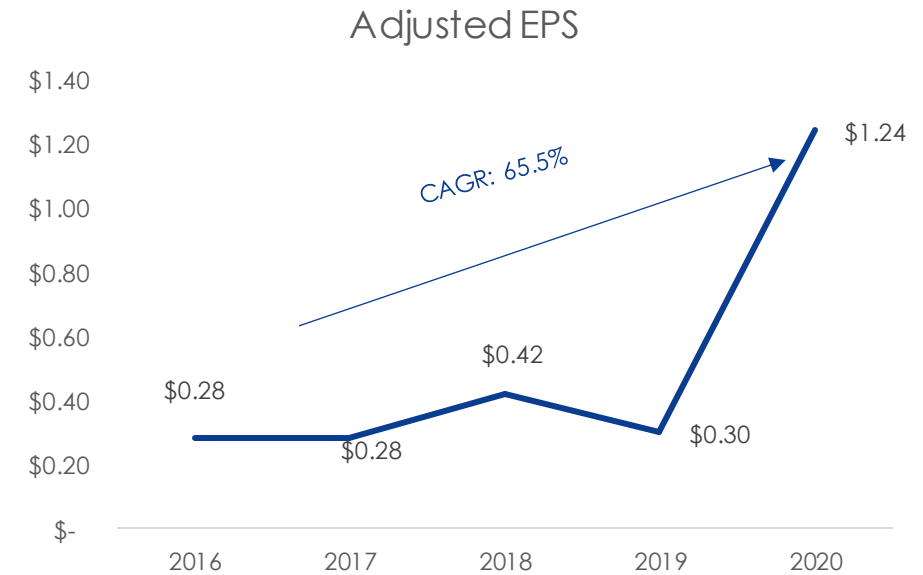
GAAP Diluted EPS

- Q4: \$0.69
- FY20²: \$1.17



Adjusted Diluted EPS¹

- Q4: \$0.71
- FY20: \$1.24



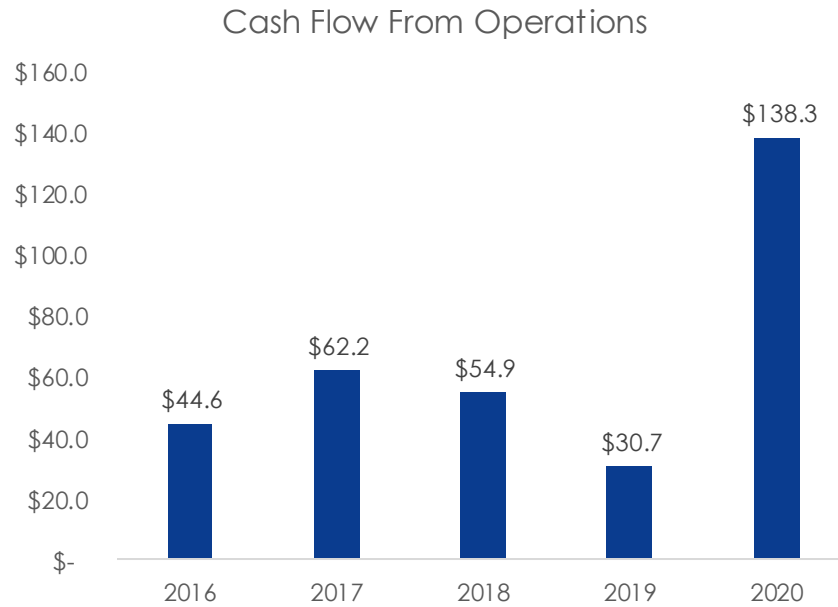
¹ Q4 and FY20 Adjusted EPS are inclusive of a 53rd week contributing \$0.07 of incremental EPS; See Slide 35 for a reconciliation of GAAP EPS to Non-GAAP EPS.

² FY20 year end as of April 3, 2021.

Record Q4 & Fiscal 2020

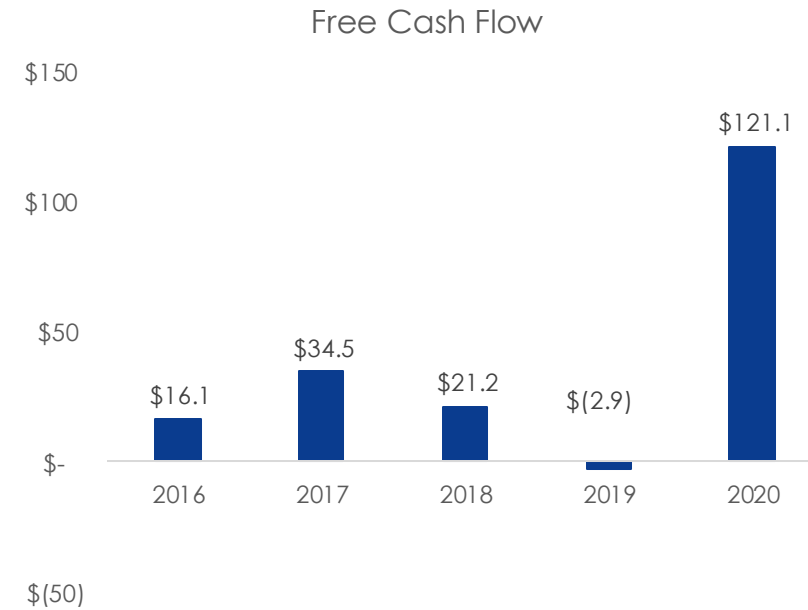
Cash Flow from Operations

- FY20¹: \$138.3 million



Free Cash Flow²

- FY20: \$121.1 million; leverage ratio of less than 1x



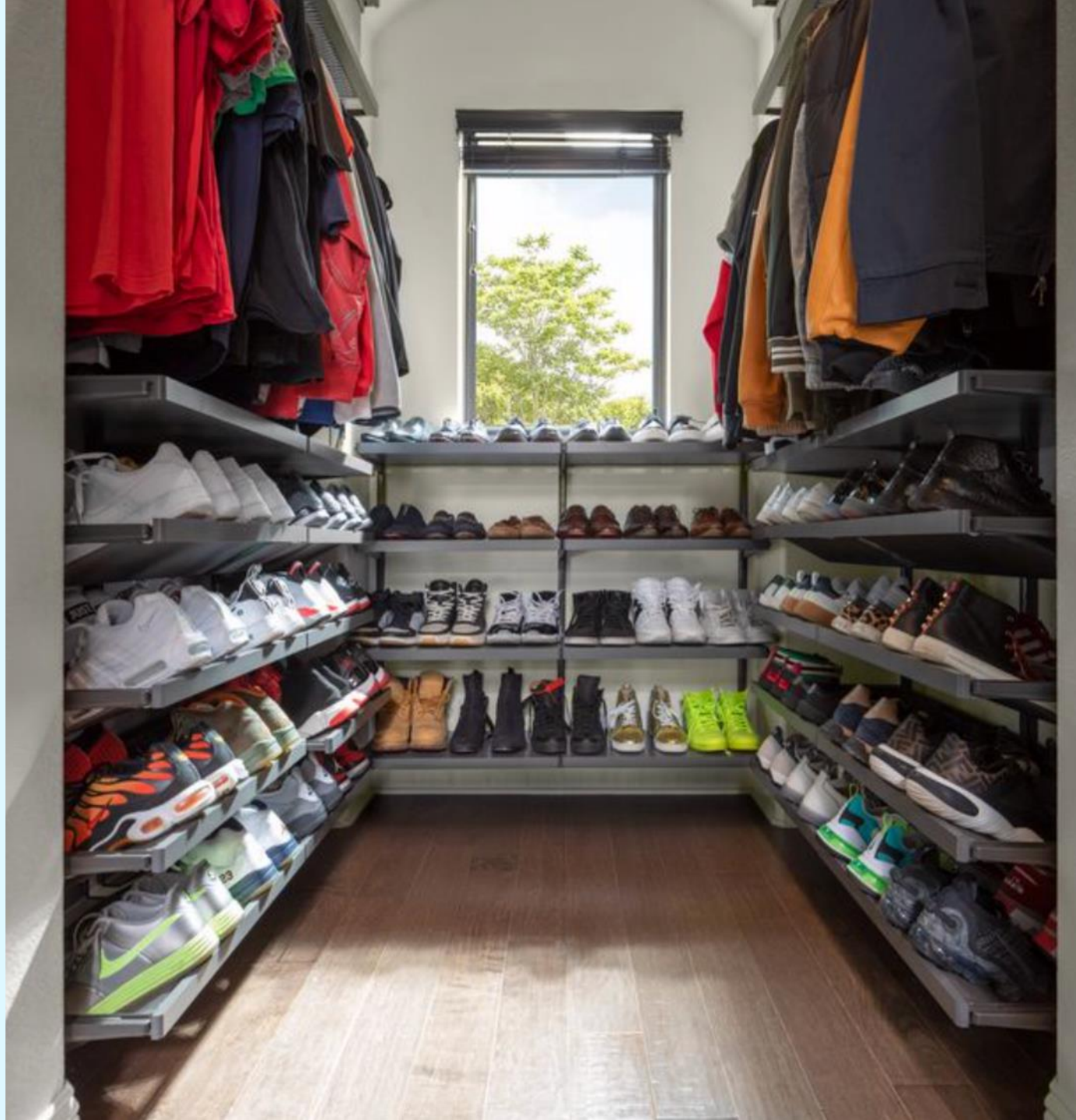
¹ FY20 year end as of April 3, 2021.

² See Slide 37 for a reconciliation of Operating Cash Flow to Free Cash Flow.

Q1 Fiscal 2021 Guidance as of May 18, 2021

- Consolidated revenue increase approximately 50%
- Consolidated EPS of approximately \$0.08, or \$0.09 on an adjusted basis
- Full fiscal year 2021 guidance not provided at this time

**We will make
The Container
Store the BEST
version of itself.**



Appendix

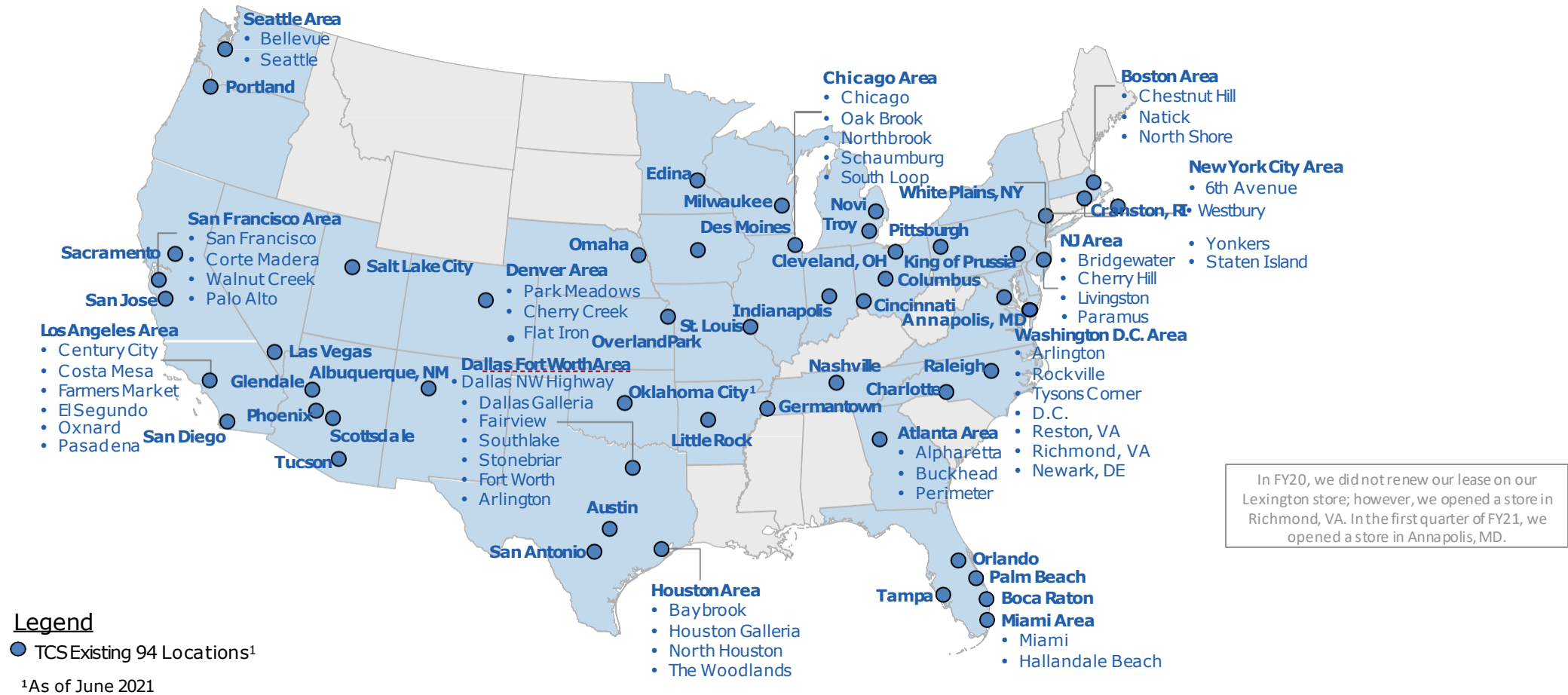


Our General Merchandise Assortment

- Over 11,000 products sold in-store and online
- 10% of current product assortment is sustainable and growing weekly
- Expanding collection of private label products
- Exclusive product collaborations with The Home Edit and Marie Kondo



The Container Store's Geographic Footprint



Annual Adjusted EBITDA Reconciliation

Below is a reconciliation of the GAAP financial measure of net income to the non-GAAP financial measures of EBITDA and Adjusted EBITDA:

	FY20	FY19	FY18	FY17	FY16
Net income	\$ 58,283	\$ 14,487	\$ 21,680	\$ 19,428	\$ 14,953
Depreciation and amortization	34,731	38,638	36,305	37,922	37,124
Interest expense, net	17,268	21,541	27,275	25,013	16,687
Provision (benefit) for income taxes	22,560	6,715	281	(12,723)	9,402
EBITDA	132,842	81,381	85,541	69,640	78,166
Pre-opening costs (a)	1,026	8,237	2,103	5,293	6,852
Non-cash lease expense (b)	4,147	(2,169)	(1,327)	(1,915)	(1,365)
Stock-based compensation (c)	7,823	3,110	2,846	2,026	1,989
Management transition costs (d)	1,200	-	-	-	-
Loss on extinguishment of debt (e)	893	-	2,082	2,369	-
Foreign exchange losses (gains) (f)	200	(167)	60	(596)	(342)
Optimization Plan implementation charges (g)	-	-	4,864	11,479	-
Elfa France closure (h)	-	402	-	-	-
Elfa manufacturing facility closure (i)	-	-	-	803	-
Employee retention credit (j)	(1,028)	-	-	-	-
COVID-19 costs (k)	2,266	-	-	-	-
Severance and other costs (credits) (l)	1,154	(23)	178	504	1,259
Adjusted EBITDA	\$ 150,523	\$ 90,771	\$ 96,347	\$ 89,603	\$ 86,559

NOTE: Please see respective footnotes on Slide 32.

Annual Adjusted EBITDA Reconciliation Footnotes:

- a) Non-capital expenditures associated with opening new stores and relocating stores, and net costs associated with opening the second distribution center, including marketing expenses, travel and relocation costs, and training costs. We adjust for these costs to facilitate comparisons of our performance from period to period.
- b) Reflects the extent to which our annual GAAP operating lease expense has been above or below our cash operating lease payments. The amount varies depending on the average age of our lease portfolio (weighted for size), as our GAAP operating lease expense on younger leases typically exceeds our cash operating lease payments, while our GAAP operating lease expense on older leases is typically less than our cash operating lease payments. Non-cash lease expense increased in fiscal 2020 due to renegotiated terms with landlords due to COVID-19 that resulted in deferral of \$11,900 of certain cash lease payments, of which approximately \$4,700 remains deferred as of April 3, 2021, and the modification of certain lease terms for a substantial portion of our leased properties. In fiscal 2019, lease expenses associated with the opening of the second distribution center were excluded from Non-cash lease expense and included in Pre-opening costs.
- c) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on volume and vesting timing of awards. We adjust for these charges to facilitate comparisons from period to period.
- d) Costs related to the transition of key executives including signing bonus and relocation expenses recorded as selling, general and administrative expenses, which we do not consider in our evaluation of ongoing performance.
- e) Loss recorded as a result of the amendments made to the Senior Secured Term Loan Facility in August 2017, September 2018 and December 2020, which we do not consider in our evaluation of our ongoing operations.
- f) Realized foreign exchange transactional gains/losses our management does not consider in our evaluation of our ongoing operations.
- g) Charges incurred to implement our four-part optimization plan to drive improved sales and profitability ("Optimization Plan"), which include certain consulting costs recorded in selling, general and administrative expenses, cash severance payments associated with the elimination of certain full-time positions at the TCS segment recorded in other expenses, and cash severance payments associated with organizational realignment at the Elfa segment recorded in other expenses, which we do not consider in our evaluation of ongoing performance.
- h) Charges related to the closure of Elfa France operations in the second quarter of fiscal 2019, which we do not consider in our evaluation of ongoing performance.
- i) Charges related to the closure of an Elfa manufacturing facility in Lahti, Finland in December 2017, recorded in other expenses, which we do not consider in our evaluation of our ongoing performance.
- j) Employee retention credit related to the CARES Act recorded in the third quarter of fiscal 2020 as selling, general and administrative expense, which we do not consider in our evaluation of ongoing performance.
- k) Includes incremental costs attributable to the COVID-19 pandemic, which consist of hazard pay for distribution center employees in the first quarter of fiscal 2020 and sanitization costs in fiscal 2020, all of which are recorded as selling, general and administrative expenses, which we do not consider in our evaluation of ongoing performance.
- l) Severance and other credits/costs include amounts our management does not consider in our evaluation of our ongoing operations. The fiscal 2020 amounts include costs primarily incurred in the first and second quarters of fiscal 2020 associated with the reduction in workforce as a result of the COVID-19 pandemic and the related temporary store closures in fiscal 2020.

Quarterly Adjusted EBITDA Reconciliation

Below is a reconciliation of the GAAP financial measure of net income (loss) to the non-GAAP financial measures of EBITDA and Adjusted EBITDA:

	Q4		Q3		Q2		Q1	
	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19
Net income (loss)	\$ 35,084	\$12,528	\$19,669	\$2,412	\$20,200	\$3,646	(\$16,670)	(\$4,099)
Depreciation and amortization	8,461	10,501	8,498	9,689	8,823	8,742	8,949	9,706
Interest expense, net	3,728	5,296	4,099	5,134	4,491	5,402	4,950	5,709
Provision (benefit) for income taxes	12,204	5,287	8,181	1,886	9,073	1,337	(6,898)	(1,795)
EBITDA	59,477	33,612	40,447	19,121	42,587	19,127	(9,669)	9,521
Pre-opening costs (a)	915	2,249	95	2,482	7	2,331	9	477
Non-cash lease expense (b)	(4,164)	(637)	(1,762)	(355)	(1,065)	(415)	11,138	(64)
Stock-based compensation (c)	2,837	535	2,177	799	1,977	965	832	811
Management transition costs (d)	-	-	1,200	-	-	-	-	-
Loss on extinguishment of debt (e)	-	-	893	-	-	-	-	-
Foreign exchange (gains) losses (f)	(2)	(69)	73	(37)	8	14	121	(75)
Elfa France closure (g)	-	-	-	(1)	-	403	-	-
Employee retention credit (h)	-	-	(1,028)	-	-	-	-	-
COVID-19 costs (i)	403	-	367	-	273	-	1,223	-
Severance and other costs (credits) (j)	66	5	(17)	(2)	296	1	809	(27)
Adjusted EBITDA	\$ 59,532	\$ 35,695	\$ 42,445	\$ 22,007	\$ 44,083	\$ 22,426	\$ 4,463	\$ 10,643

NOTE: Please see respective footnotes on Slide 34.

Quarterly Adjusted EBITDA Reconciliation Footnotes:

- a) Non-capital expenditures associated with opening new stores and relocating stores, and net costs associated with opening the second distribution center, including marketing expenses, travel and relocation costs, and training costs. We adjust for these costs to facilitate comparisons of our performance from period to period.
- b) Reflects the extent to which our annual GAAP operating lease expense has been above or below our cash operating lease payments. The amount varies depending on the average age of our lease portfolio (weighted for size), as our GAAP operating lease expense on younger leases typically exceeds our cash operating lease payments, while our GAAP operating lease expense on older leases is typically less than our cash operating lease payments. Non-cash lease expense increased in fiscal 2020 due to renegotiated terms with landlords due to COVID-19 that resulted in deferral of \$11,900 of certain cash lease payments, of which approximately \$4,700 remains deferred as of April 3, 2021, and the modification of certain lease terms for a substantial portion of our leased properties. In fiscal 2019, lease expenses associated with the opening of the second distribution center were excluded from Non-cash lease expense and included in Pre-opening costs.
- c) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on volume and vesting timing of awards. We adjust for these charges to facilitate comparisons from period to period.
- d) Costs related to the transition of key executives including signing bonus and relocation expenses recorded as selling, general and administrative expenses, which we do not consider in our evaluation of ongoing performance.
- e) Loss recorded as a result of the Seventh Amendment made to the Senior Secured Term Loan Facility in December 2020, which we do not consider in our evaluation of our ongoing operations.
- f) Realized foreign exchange transactional gains/losses our management does not consider in our evaluation of our ongoing operations.
- g) Charges related to the closure of Elfa France operations in the second quarter of fiscal 2019, which we do not consider in our evaluation of ongoing performance.
- h) Employee retention credit related to the CARES Act recorded in the third quarter of fiscal 2020 as selling, general and administrative expense, which we do not consider in our evaluation of ongoing performance.
- i) Includes incremental costs attributable to the COVID-19 pandemic, which consist of hazard pay for distribution center employees in the first quarter of fiscal 2020 and sanitization costs in fiscal 2020, all of which are recorded as selling, general and administrative expenses, which we do not consider in our evaluation of ongoing performance.
- j) Severance and other credits/costs include amounts our management does not consider in our evaluation of our ongoing operations. The fiscal 2020 amounts include costs primarily incurred in the first and second quarters of fiscal 2020 associated with the reduction in workforce as a result of the COVID-19 pandemic and the related temporary store closures in fiscal 2020.

Adjusted EPS Reconciliation

Below is a reconciliation of the GAAP financial measures of net income and net income per common share - diluted to the non-GAAP financial measures of adjusted net income and adjusted net income per common share - diluted:

	Q4 FY20	FY20	FY19	FY18	FY17	FY16	Outlook Q1 FY21
Numerator:							
Net income	\$ 35,084	\$ 58,283	\$ 14,487	\$ 21,680	\$ 19,428	\$14,953	\$ 4,000
Gain on disposal of real estate (a)	-	-	-	(374)	-	-	-
Management transition costs (b)	-	1,200	-	-	-	(2,852)	150
Elfa manufacturing facility closure (c)	-	-	-	-	803	-	-
Loss on extinguishment of debt (d)	-	893	-	2,082	2,369	-	-
Elfa France closure (e)	-	-	402	-	-	-	-
Optimization Plan implementation charges (f)	-	-	-	4,864	11,479	-	-
Employee retention credit (g)	-	(1,028)	-	-	-	-	-
COVID-19 costs (h)	403	2,266	-	-	-	-	550
Severance (i)	23	1,111	-	-	-	-	-
Taxes (j)	168	(935)	(112)	(7,820)	(20,485)	1,292	(200)
Adjusted net income	\$ 35,678	\$ 61,790	\$ 14,777	\$ 20,432	\$ 13,594	13,393	\$ 4,500
Denominator:							
Weighted average common shares – diluted	50,537,033	49,712,637	48,964,564	48,400,407	48,147,725	48,016,010	51,000,000
Net income per common share – diluted	\$ 0.69	\$ 1.17	\$ 0.30	\$ 0.45	\$ 0.40	\$ 0.31	\$ 0.08
Adjusted net income per common share – diluted	\$ 0.71	\$ 1.24	\$ 0.30	\$ 0.42	\$ 0.28	\$ 0.28	\$ 0.09

NOTE: Please see respective footnotes on Slide 36.

Adjusted EPS Reconciliation Footnotes:

- a) Gain recorded as a result of the sale of a building in Lahti, Finland in fiscal 2018, recorded in gain on disposal of assets, which we do not consider in our evaluation of ongoing performance.
- b) Costs related to the transition of key executives including signing bonus and relocation expenses recorded as selling, general and administrative expenses in fiscal 2020, and certain management transition costs incurred and benefits realized, including the impact of amended and restated employment agreements entered into with key executives during fiscal 2016, which resulted in the reversal of accrued deferred compensation associated with the original employment agreements, net of costs incurred to execute the agreements, partially offset by cash severance payments, which we do not consider in our evaluation of ongoing performance.
- c) Charges related to the closure of an Elfa manufacturing facility in Lahti, Finland in fiscal 2017, recorded in other expenses, which we do not consider in our evaluation of our ongoing performance.
- d) Loss recorded as a result of amendments made to the Senior Secured Term Loan Facility in December 2020, September 2018 and August 2017, which we do not consider in our evaluation of our ongoing performance.
- e) Charges related to the closure of Elfa France operations in the second quarter of fiscal 2019, which we do not consider in our evaluation of ongoing performance.
- f) Charges incurred to implement our Optimization Plan, which include certain consulting costs recorded in selling, general and administrative expenses, cash severance payments associated with the elimination of certain full-time positions at the TCS segment recorded in other expenses, and cash severance payments associated with organizational realignment at the Elfa segment recorded in other expenses, which we do not consider in our evaluation of ongoing performance.
- g) Employee retention credit related to the CARES Act recorded in the third quarter of fiscal 2020 as selling, general and administrative expense which we do not consider in our evaluation of ongoing performance.
- h) Includes incremental costs attributable to the COVID-19 pandemic, which consist of hazard pay for distribution center employees in the first quarter of fiscal 2020 and sanitization costs in fiscal 2020, all of which are recorded as selling, general and administrative expenses which we do not consider in our evaluation of ongoing performance.
- i) Includes costs primarily incurred in the first and second quarters of fiscal 2020 associated with the reduction in workforce as a result of the COVID-19 pandemic and the related temporary store closures in fiscal 2020, which we do not consider in our evaluation of ongoing performance.
- j) Tax impact of adjustments to net income that are considered to be unusual or infrequent tax items, all of which we do not consider in our evaluation of ongoing performance.

Free Cash Flow Reconciliation

The table below reconciles the non-GAAP financial measure of free cash flow with the most directly comparable GAAP financial measure of net cash provided by operating activities.

	FY20	FY19	FY18	FY17	FY16
Net cash provided by operating activities	\$ 138,287	\$ 30,748	\$ 54,896	\$ 62,176	\$ 44,639
Less: Additions to property and equipment	(17,176)	(33,619)	(33,670)	(27,646)	(28,515)
Free cash flow	\$ 121,111	\$ (2,871)	\$ 21,226	\$ 34,530	\$ 16,124