

To Our Valued Shareholders

Fiscal 2020 was an unprecedented year as we navigated the impact of the Covid-19 pandemic. It was a year of both resilience and perseverance. Like many retailers, we took critical and necessary actions to ensure the health and safety of our employees, customers, and communities, as well as the financial health of our company. We did not merely survive 2020, but we positioned ourselves to **THRIVE** by:

- launching impactful product and marketing partnerships with Marie Kondo and The Home Edit,
- delivering compelling product offerings through our private label products,
- growing our POP! loyalty program to approximately **10 million members**,
- opening a highly anticipated store in Richmond, Virginia, and
- delivering three consecutive quarters of record setting sales resulting in the **highest annual profitability in company history**.

It takes a **fighting spirit** to deliver these kinds of results in the face of adversity, and it is this resiliency and the rich company culture that attracted me to The Container Store. It is clear our people are the lifeblood of this great company and our most valued asset.

For the year, *despite* the impact of Covid-19 and resulting store closures, we delivered **sales of \$990.1 million and adjusted EPS of \$1.24**, compared to sales of \$916.0 million and adjusted EPS of \$0.30 in fiscal 2019. Fiscal 2020 includes approximately \$17.7 million of incremental sales and \$0.07 of incremental adjusted EPS related to the 53rd week¹.

I want to congratulate my predecessor, Melissa Reiff, for how she strategically navigated fiscal 2020 and the success the team achieved under her leadership. I am incredibly grateful to her and the team for providing such a strong foundation for me to build upon.

Since joining the company in February, I have spent much of my time with teams across our organization, and I have worked closely with them to understand our core strengths and where the opportunities lie. This company has built a unique position as the authority on storage and organization, and our teams are energized and excited by the recent momentum we have experienced. We are moving forward and executing our strategic priorities to make **The Container Store the best version of itself**.

There is a 20 billion-dollar total addressable market opportunity for storage and organization, of which The Container Store owns just 5% percent.

Today, we are underpenetrated in many of these categories, like garage for example. We have just a small percent of the garage market share, but are confident we can grow it to be more in line with our pantry and kitchen market share penetration, which could result in generating significant additional sales for our business. This is one of the reasons we created a dedicated garage section in all our stores to showcase what we have to offer.

Another growth opportunity is with our custom closets business. We do an incredible job selling spaces under \$2,000, driven by elfa® Classic and elfa® Décor; however, we see significant growth opportunity in selling premium spaces above \$2,000, driven by Avera and Laren.

These are just two examples of where we can gain meaningful growth by simply focusing our attention and efforts on the opportunities that exist at hand.

Our ambition is to DOUBLE our sales over the coming years, and we believe we can achieve this by **increasing the share of wallet** from our current customers and by **attracting new customers** through our three strategic priorities of:

1. deepening our relationship with our customers,
2. expanding our reach and
3. strengthening our capabilities to help fund our ambition.

Starting with **strategic priority number one**. We aim to **deepen our relationship with existing customers** by winning through product, providing an air of excitement in our stores, developing branding that evokes emotion and by enhancing our loyalty program.

Through product, we will continue to curate new and exclusive collections in key departments like kitchen, garage, office, and closet. We will increase our private label offerings, which not only delivers on quality and value to our customers, but also produces favorable gross margins for us.

¹ Adjusted EPS is a non-GAAP financial measure. Please see page 47 of our Annual Report on Form 10-K included herein for a reconciliation of adjusted EPS to GAAP EPS, the most directly comparable GAAP measure.

Through our stores, we are creating memorable customer experiences. We have recently added store hosts, or greeters, to help customers as they enter the store. This was funded by reducing non-selling work and reinvesting that payroll back onto the selling floor.

Through our branding, we will champion the benefits of living an organized life. You will see more “before and after” and “real-life” transformations of spaces on our website, emails and in-store visuals, looking to inspire and motivate our customers to **transform their way of living through the POWER of ORGANIZATION.**

Lastly, we will enhance our loyalty program so it rewards engagement. As I mentioned, we have 10 million members in our POP! loyalty program and we have tremendous opportunity to drive their repeat visits and share of spend with us.

With respect to our **second strategic priority**, we aim to **expand our reach to new customers** by bolstering custom closets and in-home solutions, accelerating e-commerce, developing our store network, and fostering new collaborations.

Custom closets is the ultimate way to differentiate us from our competition. We aim to bolster custom closet sales by converting a sizable number of general merchandise customers to custom closet customers through our very versatile and exclusive elfa® Start-A-Stack. We believe that once customers fall in love with elfa®, as I have, they will quickly see **the endless possibilities of elfa®** and will want to own their very own elfa® Custom Closet Solution.

Regarding e-commerce, we aim to drive growth by enhancing our site experience, reducing cart abandonment and developing a better mobile experience. We will also improve fulfillment transparency, both pre- and post-purchase, through our new partnership with Narvar. Additionally, we are excited to offer same-day delivery through our new partnership with Instacart, which is now available at more than 90 locations. And to provide customers further flexibility, we are offering a “buy now pay later” option in-store and online with Afterpay.

We also know there is a tremendous amount of white space within our store network, which we will address over time. In fiscal 2020, we opened a store in Richmond, Virginia and it outperformed expectations. We are delighted with the customer response we’re seeing, and we intend to capitalize on that by opening more, albeit smaller stores. In fiscal 2022, we are thrilled about our plans to open our very first 12,000 square foot store in Colorado Springs, which we anticipate will yield high productivity. Additionally, to access new markets and new customers, we are exploring a possible shop-within-shop concept and a hub-and-spoke model.

Finally, we have seen first-hand the positive impact strategic marketing partnerships like The Home Edit and Marie Kondo can have on our business. We will continue to nurture these established relationships as we cultivate new ones, like the culinary partnerships we are launching to support our kitchen category.

Moving onto our **final strategic priority**. We are working diligently to **strengthen our capabilities** by improving our operations, being an employer of choice, focusing on environmental, social and governance (ESG) initiatives and enhancing the organization.

Through process re-engineering and leveraging technology, we expect to improve operations and capture efficiencies to fund our strategic priorities.

By fostering an environment that is diverse, inclusive, and equitable, we aspire to be an employer of choice. This effort will be supported by the recent hiring of our new head of Diversity, Equity, and Inclusion.

I am also **PROUD** to share that the power used by all our stores, distribution centers and corporate office will now be offset by our recent investment in **100% renewable energy**. Additionally, we will perform a materiality assessment in fiscal 2021 which will be spearheaded by our newly hired Head of ESG.

In an effort to enhance our organization and streamline our operating structure, we have made new additions to our executive leadership team and are thrilled with our ability to attract great talent.

In closing, we believe our path to over \$2 billion in sales is within reach and we aim to achieve it through our three strategic priorities. It is a solution that works together, just like our general merchandise, custom closets and in-home organization services do for our customers every day.

We are running fast and well on our way to **making The Container Store the best version of itself**. We look forward to realizing our **ambition of doubling our sales** and in helping customers **transform their lives through the power of organization.**

Thank you for your continued support and belief in our great company.



Satish Malhotra, CEO and President of The Container Store