GRANAHAN INVESTMENT MANAGEMENT INC

Lovesac (LOVE)

SDG Universe: SDG 3: Good Health & Well-being, SDG 8: Decent Work & Economic Growth, SDG 9: Industry, Innovation, & Infrastructure, SDG 12: Responsible Consumption & Production, SDG 13: Climate Action
GICS Sector: Consumer Discretionary
Employees: 750+
Regions: The Lovesac Company is headquartered in Samford, Connecticut, US. 189 retail locations and showrooms are located across 184 cities in 43 of the 50 United States, with California and Texas accommodating 20% of all Lovesac locations in addition to a reputable East Coast presence.

OVERVIEW Lovesac operates as a furniture retailer. The Company specializes in a patented modular furniture system called 'Sactionals' which consist of combinable seats and side pieces, repeat customers are key to revenue growth as custom-fit covers and associated accessories are sold. Lovesac also produces "sacs," a bag seat filled with a proprietary foam mixture

National provider of innovative, sustainability-driven furniture products inspiring consumers and the workforce by formulating meaningful relationships.

- Founded in by CEO, Shawn Nelson in 1995.
- Target employee development and associate engagement as main in-house objective
- Strategic ESG framework built on three pillars of impact (Love, Earth, and Purpose) in which clear targets have been set and adaptive, comprehensive strategies for each pillar are developed

E / Developed strategies to achieve zero emissions & zero waste across all Lovesac operations, productions, and value chain affairs

- Commitment to the Earth: Company takes general measures to prevent the emission of substances harmful to human health and the environment from Lovesac products during their use phase such as black lists and/or phase-out plans for certain chemicals (e.g. urea-formaldehyde), design guidelines to prefer materials that are less likely to dissipate hazardous emissions, and adherence to relevant standards
- The Company conducts on-site audits to check environmental compliance of key suppliers. Detailed information on e.g. frequency, notification topics covered, and types of personnel interviewed are all available to the public.
- Well above industry average in grading related to procedures to ensure compliance with the environmental supplier standard (A-) per ISS.
- The Company offers maintainable, rearrangeable, upgradable, and waste-less products by way of sustainable inputs as nearly 1000 plastic bottles are utilized in the production of Lovesac's standard

MEASURES & MILESTONES

55.5% net sales growth in FY2022 ($498.2 million)

Named **America's Fastest Growing Furniture Retailer** by Furniture Today

36.6% net sales growth from 2022 to 2023

21.9% Total Comp Sales Growth

#67 in Furniture Today's 2018 list of Top 100 U.S. Furniture Stores

Repeat Customers accounted for **41.6%** of Transactions in FY2022

87.6% of revenues from 'Sactionals'

sectional configuration. Their 'Designed for Life' product and service innovation model generates a system of repeat customers (42%)
- Goal in place to repurpose 1 billion plastic bottles by 2040 through established partnership with Repreve™

S / Lovesac is committed to an inclusive, diverse, and equal social structure in which the well-being of consumers, suppliers, and associates are the main determinants of decisions within the company. US operations imply relatively high standards on health and safety, which Lovesac has embraced and improved upon since the COVID-19 outbreak. Company aims to create value and lasting relationships amongst consumers, associates, and management through a commitment to ESG responsibility and accountability, which is fundamental to how the business is operated. The entire business philosophy is anchored in creating 'designed for life' sustainable products while managing a circular business model (CEO, Shawn Nelson).

- Prohibiting grounds of discrimination: Prohibits and/or does not tolerate discrimination against any uncontrollable personal characteristics e.g. age, disability, ethnic origin, family status, race, religion, gender, sexual orientation, social origin, etc. These non-discrimination principles cover all aspects of employment.
- ISS research indicates that Lovesac has implemented a formal health and safety policy, programs to achieve health and safety targets, training and awareness-raising to avoid health and safety conflicts, a data compilation system, and an emergency response system in efforts to manage any impediments.
- Suppliers are expected to abide by and comply with Lovesac's Supplier Code of Conduct outlining laws regulating business practices including, without limitation, wages, hours, and working conditions of the people who produce the products we sell, the import and export of products and raw materials, the impact of company manufacturing, storage and disposal processes on the environment, and the ethical and fair treatment of workers and individuals in Lovesac's supply chain.
- Small-footprint retail locations in high-end malls create an environment where consumers can see, touch, and understand the products, enhancing and solidifying relationships among consumers, associates, and directors
- Implementation of comprehensive measures to promote equal opportunities and diversity including clear assignment of responsibilities, strategic targets, action plans and/or programs, trainings, grievance procedures, and audits/evaluations.
- Safety First: All Lovesac associates are encouraged to report illegal or unethical behavior, and concerns to their direct supervisor, Lovesac's Chief Financial Officer, General Counsel, the Chair of the Nominating and Governance Committee, and/or Chair of the Audit Committee, or the company's third-party reporting hotline, EthicsPoint™. The availability of these channels for reporting are intended to empower Associates to speak-up about concerns and make ethical choices every day
- Implementation of a health and safety management system

G / Lovesac's Corporate Governance Guidelines establish a set of principles to assist the Board and its Committees in performing their responsibilities to the Company and its stockholders. Commitments to Board diversity are explicitly stated in Corporate Governance Guidelines. The Board is to receive regularly scheduled updates from management regarding significant ESG framework developments and progress on the targets from each of the three pillars.

- Independent directors: 57.14%
- Female directors: 25%
- Women make up 34% of management positions
- 50% of the executive management team is female

- Key policies: Code of Business Conduct and Ethics, Corporate Governance Guidelines, Insider Trading Policy, Audit Committee Charter, Compensation Committee Charter, and the Nominating and Governance Committee Charter
- ESG Leadership Team formed in FY23 to oversee the progress of programs leading to company ESG KPI targets. Project plans and roadmaps are all reviewed by the ESG Committee (comprised of leadership team members meeting regularly to oversee target evolution).

CASE STUDY

Lovesac's Partnership with Corra and Listrak (2014)

- Selling lounge furniture online is a challenge on its own. Between high shipping costs and an inability to touch and feel the product, customers tend to prefer to purchase this type of product in-store
- Lovesac maintains a fair bit of content on its site to provide customers with all the info they'd need to make a purchase decision. Unfortunately their content wasn't always intuitive to navigate. Corra would need to completely redesign the taxonomy to avoid overwhelming users with content
- Listrak launched a comprehensive email marketing campaign to increase traffic and a Shopping Cart Abandonment campaign to encourage indecisive shoppers to finish checking out
- Multimedia landing pages were developed to visually convey product details, improving customer understanding and engagement.
- Lovesac saw a 40% increase in Q4 online sales and a 36% increase in Q4 conversions, YoY.
- The email marketing campaign alone accounted for 20% of online revenue, with Shopping Cart Abandonment customers bringing in 37% of email revenue

FUTURE ROADMAP Lovesac is in the early stages of implementing its new operational design framework, called Circle to Consumer (CTC). CTC is explained as a model delivering high-value products and services to consumers, and leveraging looped, localized, and long-term strategies to build lifetime relationships with increased value for Lovesac customers and other stakeholders.



RATING STATUS Lovesac's ESG rating has improved to an 'A' from the 'BBB' rating given in March 2022 via MSCI.

Per MSCI: "**L**ovesac leads most home market peers on corporate governance. Its majority independent board and independent audit committee may bolster oversight of management and financial reporting. As it operates solely in the US, its products are subject to strict US TSCA chemical regulations; this exposes Lovesac to related regulatory risks. In 2022, it disclosed a vendor Code of Conduct requiring supplier compliance to principles such as workforce safety and prohibition of child labor, driving the upgrade."

BLOOMBERG

S&P Global ESG Rank: 39 *0-100, 100 is better*	ISS Quality Score: 7 *1-10, 1 is better*
Sustainalytics Risk Score: 0 *0-100, 0 is better*	CDP Climate Score: N/A *1-8, 8 is better*
Bloomberg ESG Disclosure: 46.19 *0-100, 100 is better*	MSCI Rating: A *AAA is better*

SOURCES: Public Filings, Company Website & Materials, Bloomberg, ISS, MSCI,

Lovesac Case Study: Corra Inc. and Lisrak Inc.