

sleep  number®

2020 CORPORATE RESPONSIBILITY AND SUSTAINABILITY REPORT





A LETTER FROM SHELLY IBACH

To Our Stakeholders,

Sleep is the center of our well-being. It renews us daily, is essential for good health and the prevention of disease, helps us focus and enhances our relationships with one another. Quality sleep has the unique power to move society forward and improve lives. Every team member at Sleep Number is dedicated to our mission of improving lives by individualizing sleep experiences, and this is why we're passionate about creating a world that's healthier, kinder, more compassionate and more connected.

For more than three decades, our mission has been fundamental to our culture. This 2020 Corporate Responsibility and Sustainability Report represents our first comprehensive communication to share information about our social, environmental and governance practices and policies. We are proud of the accomplishments highlighted in this report and we are dedicated to making a positive impact on customers, communities, team members, shareholders ... and the world we all share.

We have awakened society to the importance of sleep, and with our revolutionary Sleep Number 360® smart beds, we're providing a solution to effortlessly achieve proven quality sleep. Our pioneering innovations and investments have improved more than 12 million lives and delivered superior financial performance and shareholder value creation.

As a purpose driven company in the health and wellness space, we have a responsibility to define the future by taking on significant challenges like sleep deprivation. With one in three

adults suffering from a lack of adequate sleep, the Centers for Disease Control has declared sleep disorders a public health epidemic. This year, we are advancing our 360® smart beds with temperature-balancing layers and proprietary comfort technologies. We provide continuous and meaningful benefits through our SleepIQ® technology upgrades. In 2020, this includes monthly wellness reports, sleep circadian analysis and heart rate variability measurement – all designed to help consumers improve their well-being through deeper, more restful sleep.

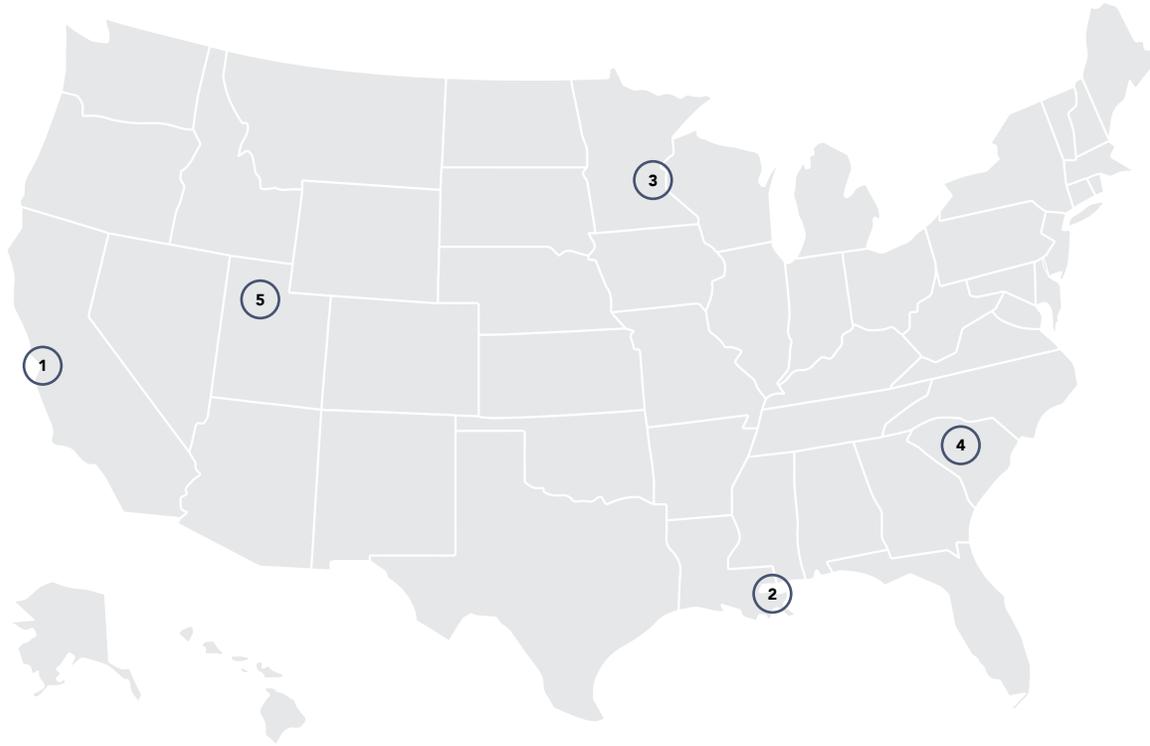
Sleep Number is on a journey, driven to make a difference in the world through better sleep and wellness. This requires innovation leadership and continuous improvement across our enterprise. Our board of directors and management team recognize that the opportunities and challenges we face as a company and society will continue to evolve. We believe that corporate responsibility and sustainability are an enterprise-wide commitment, informed by and integrated into our business strategy. Together, we are invested in creating and implementing solutions that improve lives and change the world around us for the better.

Sleep well, dream big,

CHIEF EXECUTIVE OFFICER, SLEEP NUMBER

Sleep Number® setting 40

Average SleepIQ® score: 82



WHERE WE OPERATE

AL 11 Stores	LA 8 Stores	OH 21 Stores
AK 1 Store	Customer Service Center (2)	OK 5 Stores
AZ 10 Stores	ME 2 Stores	OR 7 Stores
AR 5 Stores	MD 15 Stores	PA 22 Stores
CA 72 Stores	MA 12 Stores	RI 1 Store
SleepIQ Labs (1)	MI 19 Stores	SC 10 Stores
CO 14 Stores	MN 16 Stores	Manufacturing Facility (4)
CT 6 Stores	Corporate Headquarters (3)	SD 2 Stores
DE 2 Stores	MS 6 Stores	TN 15 Stores
FL 43 Stores	MO 12 Stores	TX 54 Stores
GA 21 Stores	MT 4 Stores	UT 6 Stores
HI 1 Store	NE 5 Stores	Manufacturing Facility (5)
ID 3 Stores	NV 5 Stores	VT 1 Store
IL 24 Stores	NH 4 Stores	VA 18 Stores
IN 11 Stores	NJ 14 Stores	WA 15 Stores
IA 8 Stores	NM 3 Stores	WV 4 Stores
KS 8 Stores	NY 20 Stores	WI 11 Stores
KY 8 Stores	NC 21 Stores	WY 2 Stores
	ND 3 Stores	

CONTENTS

HOW WE LIVE OUR VALUES

- 5** Mission, Vision and Values
- 7** Commitment to Ethical Business Practices and Legal Compliance
- 9** Human Rights Policy
- 11** Conflict Minerals Policy

HOW WE WORK WITH EACH OTHER

- 13** Team Member Demographics
- 16** Talent Planning
- 17** Diversity and Inclusion
- 20** Team Member Engagement
- 23** Training and Professional Development
- 26** Team Member Health and Safety

HOW WE WORK WITH OTHERS

- 29** Shareholder
- 30** Community
- 35** Suppliers and Other Stakeholders

HOW WE PROTECT OUR BRAND AND THE ENVIRONMENT

- 36** Enterprise Environmental Policy
- 37** Product Quality and Safety
- 40** Innovation Awards and Recognition
- 41** Supply Chain Evolution
- 42** Waste and Toxicity
- 44** Energy Efficiency and Climate Impact

HOW WE LIVE OUR VALUES



COURAGE
to embrace challenge.

MISSION

To improve lives by individualizing sleep experiences.

VISION

To become one of the world's most beloved brands by delivering an unparalleled sleep experience.



OUR VALUES

PASSION for making a difference and changing lives:

- We go above and beyond because we care.
- We love representing our brand with our customers and our communities.
- We are the champions of sleep at the center of a healthy mind, body and soul.

INTEGRITY to always do the right thing:

- We treat others with kindness and respect.
- We are honest, fair and sincere.
- We live our code of ethics every day.

INNOVATION to find a better way:

- We live and breathe innovation.
- We leave nothing to chance.
- We see innovation everywhere and ours will help shape the future.

COURAGE to embrace challenge:

- We take risks, learn and adapt.
- We are confident and take action.
- We are resilient, persistent and fearless in our pursuit of excellence.

TEAMWORK that celebrates individuality and the joy of working together:

- We are unstoppable when we work together.
- We laugh and learn and trust each other.
- We are all individuals, but together ... we are Sleep Number.



COMMITMENT TO ETHICAL BUSINESS PRACTICES AND LEGAL COMPLIANCE

Laws and regulations touch all aspects of our business – from how we make, market and sell our products to how we disclose our financial results, from how we treat one another to how we do business with third parties. Sleep Number requires strict adherence to the letter and the spirit of all laws applicable to the conduct of our business.

We are also committed to the highest standards of ethical business practices throughout our company. Our company values, team member training, company policies and culture underscore our expectations for integrity and provide clear guidelines for business decisions and behavior.

We have a Code of Business Conduct, provided to all team members, which instructs and requires that our team members comply with applicable laws, engage in ethical and safe conduct in our work environment, avoid conflicts of interest, conduct our business with integrity and high ethical standards, and safeguard our company's assets. All team members are required to annually acknowledge their commitment to this Code. A copy of the Code of Business Conduct is included in the investor relations section of our website at WWW.SLEEPNUMBER.COM/SN/EN/INVESTOR-RELATIONS. On a quarterly basis, company management reports team member Code of Conduct

exceptions to the Audit Committee of our board of directors, demonstrating our accountability and governance practices.

We also train our team members on our equal employment opportunity, non-harassment and standards of conduct policies to foster a culture of diversity, inclusion, dignity and respect, and ensure adherence to our high standards of integrity. Our annual Code of Business Conduct training addresses the company's expectations regarding a wide range of conduct, including anti-bribery and anti-corruption. Our Code of Business Conduct directs team members who observe or suspect unethical or



illegal behavior to report it to their management, Human Resources or our Chief Legal and Risk Officer. The company also offers a Business Abuse Hotline for team members. The hotline is operated by an independent third-party service to ensure confidentiality and 24-hour accessibility. On a quarterly basis, senior management shares reported concerns with the Audit Committee of our board of directors.

In 2019 we introduced specific training – including how to identify and refuse bribery or “agent” payments – in key departments, including Direct Materials and Bedding, where team members regularly interact with foreign entities and officials, increasing their vulnerability to Foreign Corrupt Practices Act (FCPA) issues. As part of a larger strategy to bolster our compliance and prevention efforts related to bribery and corruption, we have begun to conduct this training annually.

Sleep Number expects a high standard of integrity and sound ethical judgment from our business partners as well. To ensure all of our suppliers are aware of their responsibilities, we provide our Code of Conduct for

Business Partners to all active suppliers. This Code articulates Sleep Number expectations and describes our rights to monitor and enforce supplier compliance. The Code of Conduct contains provisions that address business partner responsibilities related to: Human Rights, including fair treatment, nondiscrimination, underage and involuntary labor and trafficking, freedom to associate, and compensation; Health and Safety, including training, injury prevention and workplace environment; Environmental Issues, including hazardous substances, conflict minerals, waste disposal and recycling; and Legal and Ethical Practices. We ask our suppliers to agree, in writing, to the terms and conditions of our Code of Conduct. In addition, the contractual terms that are applicable to the vast majority of Sleep Number suppliers include language that requires suppliers to represent and warrant “that it will, at all times, comply with the Code of Conduct for Business Partners as may be amended from time to time.” Our Code of Conduct for Business Partners is publicly available at WWW.SLEEPNUMBER.COM/VENDOR.

HUMAN RIGHTS

At Sleep Number, our values of passion, integrity, innovation, courage and teamwork are our compass and guide our decisions. We expect all Sleep Number team members, and our business partners, to act with the highest ethical standards and treat others with respect every single day and to conduct business in accordance with standards set forth in our Code of Conduct for Business Partners, Team Member Code of Business Conduct, Team Member Handbook and the principles detailed below. These principles provide guidance to ensure that our business practices and processes support our commitment to human rights, and that our team members and business partners understand their role in – and responsibility for – upholding human rights and equality in the workplace. No Sleep Number team member or business partner should ever be complicit in human rights abuses or ethical violations of any kind.

Our commitment to human rights, which is overseen by the Sleep Number board of directors and senior leadership team, include the following principles:

CHILD LABOR RESTRICTIONS

Sleep Number prohibits child labor in all forms. When employing persons under the age of 18, managers must comply with all Sleep Number-established and legally required limitations on minimum hiring age, work hours and tasks performed by these team members and ensure that any work performed does not interfere with the team member's health, safety, mental or physical development, education or morals. We maintain data on the age of all team members for auditing and reporting purposes.

EQUAL AND NONDISCRIMINATORY PRACTICES

We believe that attracting, employing and retaining a diverse team, including people from all backgrounds, ethnicities, genders, lifestyles and belief systems – and maintaining an environment that is welcoming and respectful of this diversity – is foundational to our mission, business strategy and financial performance. We are committed to providing a work environment free from all forms of unlawful harassment and discrimination. At Sleep Number, we recruit, hire, compensate and promote team members based on qualifications and performance. We do not tolerate any conduct that creates an intimidating, offensive or hostile work environment.

HUMAN TRAFFICKING, SLAVERY AND FORCED LABOR

We do not employ involuntary labor of any kind and will not knowingly conduct business with any partner who does. Involuntary labor includes prison, indentured or bonded labor or labor obtained through human trafficking or slavery. We are partnering with suppliers to monitor their performance where appropriate and working to ensure that our supply chain includes no child, forced, trafficked or slave labor.

WAGES AND WORKING HOURS

We adhere to all applicable wage laws and regulations. All workers must be paid at least the legal minimum wage. In addition, workers must be compensated for overtime hours at a rate legally required by local laws and must exceed regular hourly compensation.

RIGHT TO FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

We recognize and respect the right of all team members to freedom of association and the right to join unions or other work-related associations as well as the right to bargain collectively, as permitted by, and within the limits of, local laws. All team members should be able to assert their right to freedom of association and their right to remain independent without fear of retaliation or termination.

HEALTHY AND SAFE WORKPLACE

As a purpose driven company in health and wellness, the safety and well-being of our team members is paramount. We strive to provide and maintain a safe work environment for all our team members and partners by establishing, communicating and encouraging adherence to company-based safety procedures and by complying with all federal, state and local laws regarding safety in the workplace. We address and remediate identified accident, injury or health risks, and believe that safety is everyone's responsibility at Sleep Number.

We take violations of these principles seriously. Team members should report, in accordance with the process described in our Code of Business Conduct, any behavior or conduct by a Sleep Number team member or business partner that they observe or suspect is a potential violation of our human rights policy or principles.

Sleep Number reserves the right to amend this policy at any time. Nothing in this policy says or implies that a contract exists between the company and its team members or that compliance with these principles is a guarantee of continued employment with Sleep Number.

CONFLICT MINERALS

In 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), including Section 1502, which is commonly referred to as the Conflict Minerals rule and which took effect on January 1, 2013. The law requires publicly traded companies who use gold, tantalum, tin, and tungsten minerals (known as 3TG) in products manufactured or contracted to be manufactured by such companies to report annually to the Securities and Exchange Commission whether the 3TG used in their products originates from the Democratic Republic of the Congo (DRC) or a neighboring country, where armed groups exploit the mining and trade of 3TG to help finance conflict in the region.

Consistent with our Human Rights policy, we fully support the aims of Section 1502 of the Dodd-Frank Act.

As described in our Conflict Minerals Rule Policy, Sleep Number does not directly source 3TG from mines, smelters or refiners. As a result, we have clearly communicated our expectations to suppliers who provide materials to Sleep Number that may contain 3TG. We rely on them to:

- Source their materials from ethically and socially responsible sub-tier suppliers and to apply a nationally or internationally recognized due diligence framework within their supply chains to determine the origin of the 3TG they use.
- Annually certify whether the materials they provide to Sleep Number contain conflict minerals, and if so,
- Provide written documentation of their due diligence efforts and the source of each mineral.

To comply with our Dodd-Frank Act annual reporting requirement, Sleep Number conducts a reasonable country of origin inquiry to determine if any 3TG necessary to the functionality and production of Sleep Number products may have originated in the DRC or neighboring countries. We survey all active suppliers about the presence of 3TG in their materials, carefully review their responses and follow up to obtain additional information or clarification about the content and origin of their materials as necessary.



HOW WE WORK WITH EACH OTHER

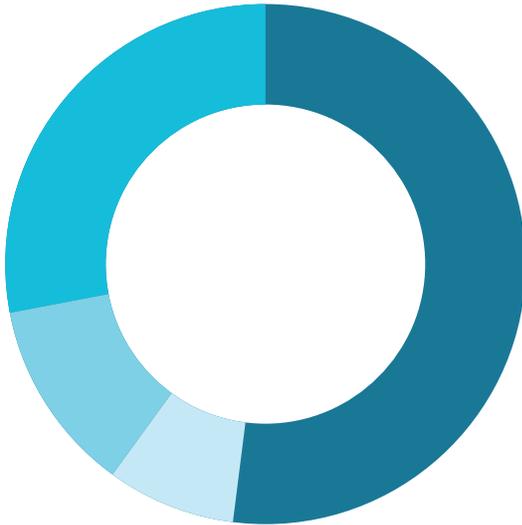
Making the world a better place through proven quality sleep is core to who we are at Sleep Number. Our board of directors, management, and more than 4,400 Sleep Number team members are dedicated to the company’s mission and values of passion, integrity, innovation, courage and teamwork.

As evidenced by our top-15 ranking in the Russell 3000 Index for Gender Diverse Boards, Sleep Number values diverse perspectives in all areas of our company. We have a female CEO, gender parity on our board of directors, and a diverse senior leadership team and team member population – in gender, race and ethnicity, and age.

	BOARD	SR. LEADERSHIP	SR. LEADERSHIP, JULY 2020
TOTAL MEMBERS	10	9	9
FEMALE	5	4	3
AFRICAN AMERICAN	1	0	1
ASIAN AMERICAN	0	1	1
LATINX	1	1	1

TEAM MEMBER DEMOGRAPHICS

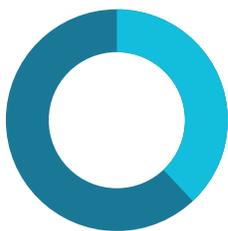
2019 TEAM MEMBER % BY AREA



Sleep Number is a vertically integrated company – with team members across a range of functional areas, including manufacturing, retail, customer service and management/administrative.

- RETAIL SALES/SUPPORT, 52%
- MANUFACTURING/LOGISTICS, 28%
- MANAGEMENT/ADMINISTRATIVE, 12%
- CUSTOMER SERVICE, 8%

GENDER



62% MALE

2,843 Team Members

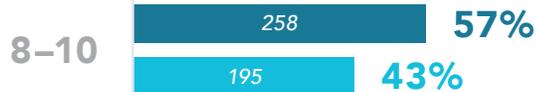
38% FEMALE

1,763 Team Members

JOB GRADE, LOWEST TO HIGHEST SENIORITY



87%
of Team Members



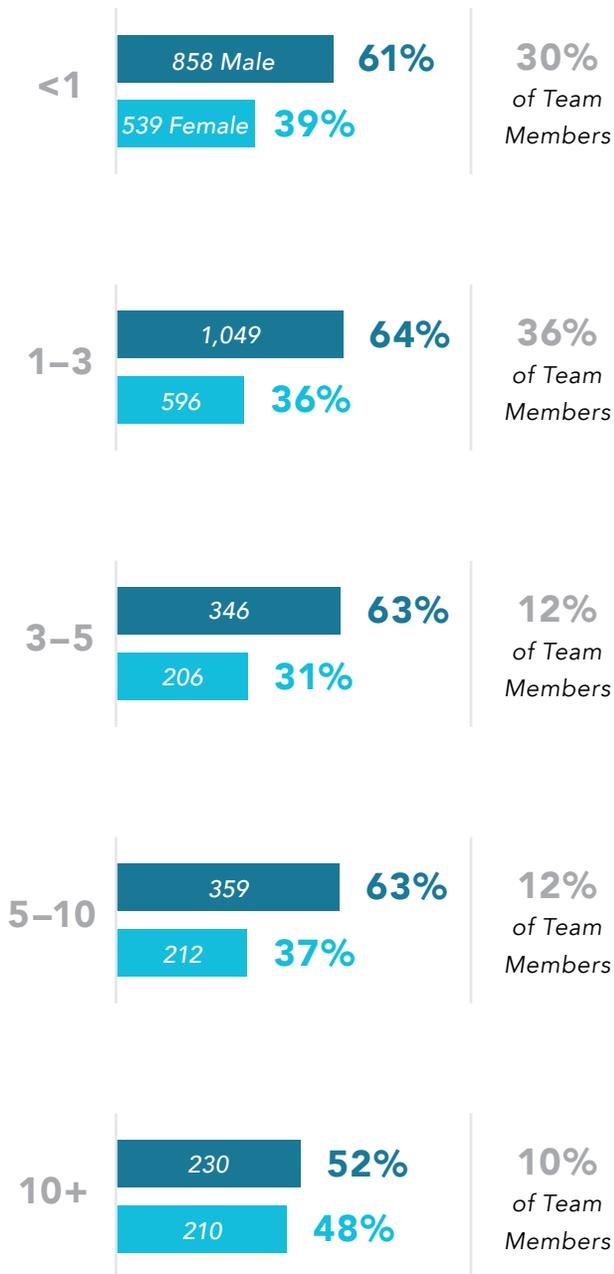
10%
of Team Members



3%
of Team Members

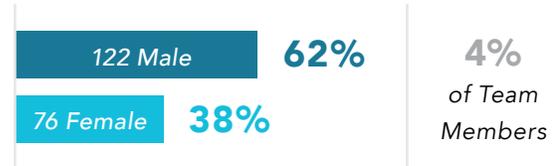
TEAM MEMBER DEMOGRAPHICS

TENURE IN YEARS

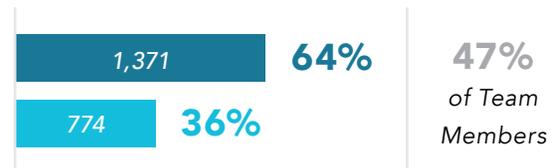


GENERATIONAL

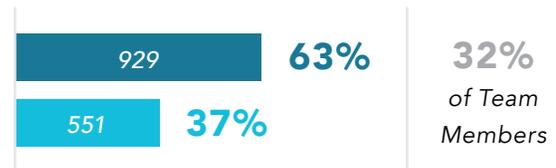
GENERATION Z (1997+)



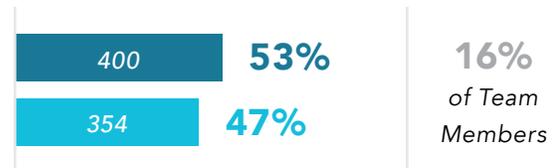
GENERATION Y (1981-1996)



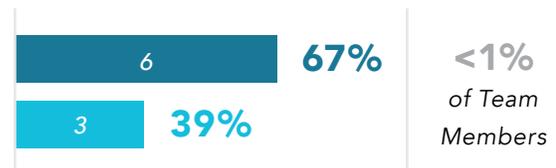
GENERATION X (1965-1980)



BABY BOOMERS (1946-1964)

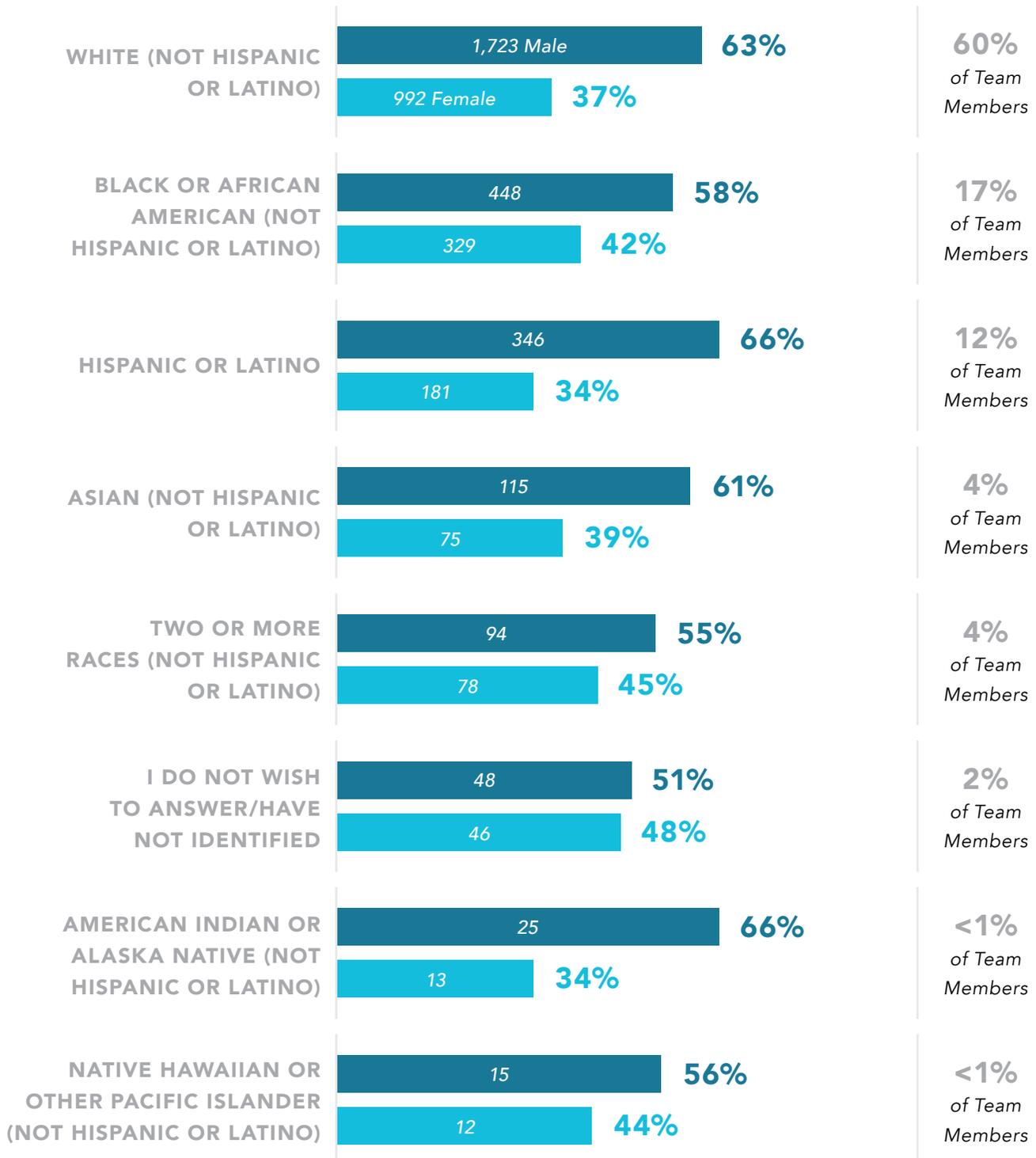


TRADITIONALISTS (1928-1945)



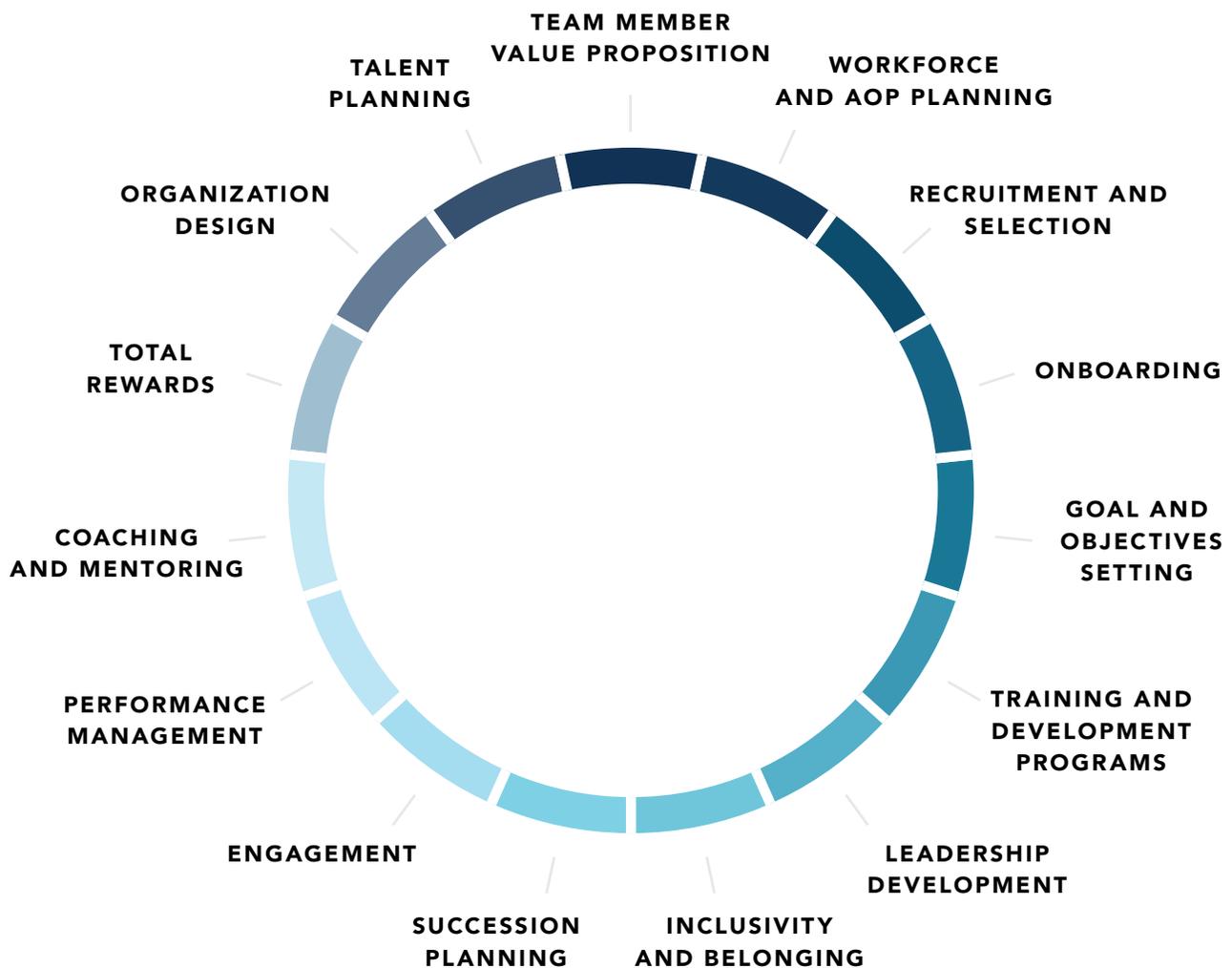
TEAM MEMBER DEMOGRAPHICS

RACE AND ETHNICITY



TALENT365

While elements of the talent planning life cycle at Sleep Number are discrete, we take a holistic view to planning and execution – encompassing the entire range of activities that are important to attract, motivate, develop, reward and retain a talented and diverse team, as illustrated in our Talent365 model below. Our approach deliberately creates and sustains a work environment that allows Sleep Number team members to realize their full potential while fulfilling our company’s mission. In sections of this report that follow, we provide additional detail about our **TEAM MEMBER ENGAGEMENT** and expansive team member **TRAINING AND PROFESSIONAL DEVELOPMENT** programs.





DIVERSITY AND INCLUSION

We are committed to creating a work environment where team members are treated fairly and with respect. In 2019, we formalized our commitment in the following statement and proudly shared it with every Sleep Number team member:

At Sleep Number, we embrace individuality in each other, in our own lives and in our customers' lives. Individuality makes us better, stronger and smarter, and together, gives us collective power. It fuels our imagination, innovation and connects us to our vision of becoming one of the world's most beloved brands by individualizing sleep experiences.

We value each other's individual unique talents, perspectives and experiences and we recognize the potential in each team member.

This philosophy applies to the way we engage with one another internally and the respect we have for our customers, communities and business partners. Diversity and inclusion are also integral to our strategy. We strongly believe that each person's sleep experience must be individualized to achieve quality sleep. Sleep is at the center of well-being and improves performance in every aspect of life. Our pulse of individuality fuels our mission of improving

lives by individualizing sleep experiences.

Our Salt Lake City plant, awarded the 2018 Utah Manufacturers Association Manufacturer of the Year award, is a shining example of how individuality makes Sleep Number better. Twenty-nine countries are represented by plant team members, and 21 languages are spoken, in this high-performing manufacturing center.



DIVERSITY, EQUITY AND INCLUSION STRATEGY

While Sleep Number has a long-held commitment to diversity, equity and inclusion (DEI), we initiated a new, more deliberate strategy in 2018 to strengthen our unique culture. Specifically, we are focused on deepening awareness of DEI opportunities, advancing our commitment throughout our organization and driving accountability.

While we will invest in each of these areas concurrently over time and expect objectives within each focus area to evolve as our organization and culture continue to mature, our primary focus in 2020 is on deepening awareness. We are working to develop a better understanding of our team members through surveys and focus groups and meaningful programming that enhances inclusion. Our efforts will include both formal training and informal social and educational experiences. At the same time, we will enhance the tools, partnerships and communications that support our diversity, equity and inclusion commitment, and we will increase reporting and analytics to measure our progress.

In addition to developing and broadly sharing our individuality statement, we have taken or are taking the following actions to advance diversity, inclusivity and belonging at Sleep Number:

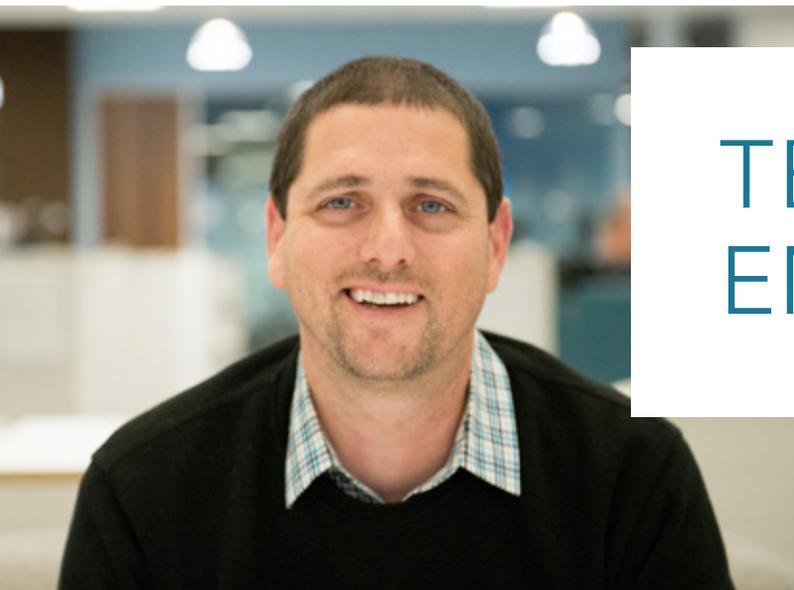
“It doesn’t matter who you are, Sleep Number allows you to be the best you possible ... most of my success comes when I am 100% authentic. I love working for a company that allows me to express myself unapologetically.”

**CRAIG LARTER, SUPERVISOR
CUSTOMER RELATIONSHIP CENTER
SLEEP NUMBER® SETTING 35**

“This company has allowed me to raise three beautiful children while pursuing my career. I’ve watched not only myself and those around me grow, but this amazing company as well.”

SHAUNA MORRIS
DISTRICT MANAGER
SLEEP NUMBER® SETTING 55

- We delivered conscious inclusion training to our full board of directors, our senior team and every operating leader. In 2020 we are adding conscious inclusion training to every learning path for every leader at Sleep Number, and many functional leaders are providing training for their entire teams.
 - We launched a well-being and self-identification survey in 2020 so we truly know how our team members identify and how they want to be appreciated as individuals, allowing us to understand intersectionality at Sleep Number.
 - We are committed to ensuring appropriate gender representation in our senior management and workforce – and have committed to achieving gender balance in our retail stores by 2025.
 - We added an inclusion and belonging index to our engagement survey and tied it to sales performance. We have found there is a significant performance lift when teams have a higher sense of belonging. In 2020 we are providing all managers a toolkit to assess their teams’ belonging index and lead in inclusive ways. We will continue to include this measurement in our annual 2020 survey to measure progress and momentum.
- As part of our overall DEI strategy at Sleep Number, we support organically-formed, self-managed team member business groups, comprised of team members with a shared identity or interest, as well as those who consider themselves allies or want to learn more. We have developed a toolkit as a resource for emerging, newly formed and fully developed groups. Examples include a headquarters Women In Leadership group that was initially piloted in 2017, and a Women In Leadership group for our retail leaders and a headquarters Parent’s group (both men and women), both of which were formed in 2019.



TEAM MEMBER ENGAGEMENT



As a purpose driven company, we've created a special culture that attracts and retains people who want to make a difference. Our team members want to feel fulfilled in their support of our mission to improve lives through individualizing sleep experiences, and we know that team member engagement and well-being enhances their performance. As evidenced by our annual engagement survey process, team member feedback directly influences company decisions and actions. We internally crowd-sourced our company values several years ago to ensure we were integrating authentic team member perspectives, and in early 2020, we invited our team members to share their views about well-being and individuality in a self-identification survey. Input gathered will be integrated into our enterprise vision for well-being and diversity, equity and inclusion. With well-being at the center of a strong culture and core to appreciating individuality, it is important we gain a holistic understanding of what matters most to our team members and who they really are.

For 15 consecutive years, we have conducted an annual companywide team member engagement survey. We also actively monitor Glassdoor ratings, which have improved over the last several years.

- We partner with a leading survey/ analytics provider. Our survey design is based on its proprietary 12 rules of engagement and considers the reciprocal nature of engagement – that you get what you give.
 - Participation in our annual engagement survey is best in class. Our high participation rates signal that our team members feel like their voices matter.
 - Overall, our results on Engagement, Intensity to Commit and Performance Intensity are very positive, well above the national benchmark and consistent over the past three years.
 - We are transparent about the results of our survey, sharing them with all team members and our board of directors.
 - We examine results at the enterprise level – and segment the data across a range of cross-sections, including level in the organization, department, gender, generations and racial diversity – to understand team member feedback.
 - We host working sessions at various levels of the organization – including senior management, operating team, and department – to review results, identify opportunities for improvement and develop action plans to address them. Leaders have access to data specific to their areas so they can individualize their action plans. The tools available to our leaders are simple, intuitive and widely used.
-

We believe that the strength and consistency of our survey results validate and reinforce the importance of our unique and special culture and the deep commitment by Sleep Number team members to make a difference and feel purpose and meaning in their work.

2017-2019 TEAM MEMBER ENGAGEMENT SURVEY RESULTS

Our Sleep Number scores – for engagement, commitment intensity and performance intensity – have exceeded the national benchmarks for these metrics over the past three years, and we remain focused on continuous improvement through transparency and action.



Sleep Number 2019 n=3754; Sleep Number 2018 n=3614; Sleep Number 2017 n=3392; Benchmark n=1182
Best-in-Class scores one standard deviation above the benchmark mean.



TRAINING AND PROFESSIONAL DEVELOPMENT

Our more than 4,400 Sleep Number team members are at the heart of our culture and the disciplined execution of our consumer innovation strategy. Attracting, motivating and retaining the right talent is critical to our success, and providing ample professional development opportunities and a superior work environment throughout the entire employment experience at Sleep Number is critical to their growth, satisfaction and engagement. We demonstrate this commitment through our belief in the power of our mission and the importance of creating a learning culture. We support our learning culture by:

- Providing our team members with training and development when and how they need it.
- Building training that is both competency and experience based to drive productivity.
- Investing in our team members' desire for professional growth, providing cutting-edge tools and learning experiences that empower them.

Our approach begins with a robust onboarding process that is tailored to the new team member's level and function (e.g. consumer-facing, corporate, manufacturing). Each hiring

manager uses a comprehensive checklist to help prepare for the new team member's first day, first week, first month and first 60-90 days in their new role. The process includes administrative tasks (such as ensuring the new team member has access to critical technology and tools on Day 1), actions that help the new team member feel welcome and included by the new team, training opportunities and establishment of communication and coaching routines. Our process includes check-ins and formal assessment at 7 days, 30 days and 90 days to ensure that we are aware of each team member's early on-

boarding experience and that we are able to course-correct, if needed, to increase their engagement and ultimately their retention.

To educate and immerse new headquarters team members in our business, we encourage them to participate in three key experiences:

- A store visit to understand our selling approach.
- A field services ride-along to observe our in-home interactions with customers.
- A Customer Relationship Center listening session to broaden awareness of the nature and scope of customer inquiries.

We also host quarterly education sessions for new headquarters team members during their first year of employment to introduce them to other functions and departments across the organization.

Once we hire and onboard new talent, we apply a 70/20/10 learning philosophy. We believe that the responsibility for professional development is shared by each team member, their manager and Sleep Number – with 70 percent of learning on-the-job, 20 percent happening through people leaders, peers and others, and only 10 percent as the result of formal training or development. In support of this philosophy, we employ a multi-level learning strategy that

provides deep functional and technical training paths and customized training programs for different areas of the company – to support role effectiveness, product knowledge and productivity. For example, for our customer-facing roles, training topics include sales, customer service, product, field service, and personal development. Within manufacturing, we offer individualized “how to” work instructions that are designed by engineers with personalized training delivered by peer coaches.

“I’ve always had a rather shy and reserved personality ... this amazing company has helped me to grow, find myself as a leader and take a giant step closer into my future career.”

**TYREE LEWIS, TEAM LEAD
CUSTOMER RELATIONSHIP CENTER
SLEEP NUMBER® SETTING 55**

We believe everyone is a leader, not just those with responsibility for others, so we offer:

- True Principles of Leadership on demand, including Leadership 101, available across the enterprise.
- Cultivate, our program for senior managers to accelerate their effectiveness and increase their readiness for broader roles, especially director.
- THRIVE, our program for new operating team leaders, either newly promoted directors or external hires at or above director level.
- In 2020, we plan to add two new programs: Elevate, a more comprehensive program for frontline leaders, and Accelerate, a program for multi-store leaders.

In addition, we recently implemented an enterprise learning management system (LMS) with a variety of content, available to every team member, that is intuitive and easy to use, dynamic, mobile-accessible, and enables us to track training and better manage institutional knowledge. In addition to specific functional content to enhance competencies and perfor-

mance, topics in our library include legal and ethical compliance training, and personal brand and leadership development training. We continue to expand our online training offerings – with plans to add considerable content in 2020 related to strengthening coaching capabilities for leaders.

INTERN PROGRAM

We are cultivating a diverse pipeline of talent through our college relations strategy, of which our intern program is a signature component. Since 2017, our internship program has more than doubled. Our 2019 intern class was 31% racially diverse, and 40% female. Thirty-two percent of interns were converted into full-time talent, an 8 percentage point increase over 2018.

TEAM MEMBER CORRECTIVE ACTION AND TURNOVER

While Sleep Number invests significant time and energy in hiring, onboarding and training team mem-

bers to thrive and grow at our company, we experience team member turnover as part of our normal course of business. Sometimes a team member who has been a strong performer elects to leave the company and sometimes we must terminate a team member – either as a result of failure to improve performance over time in keeping with a corrective action plan or immediately due to an egregious violation of company policy. For team members who depart voluntarily for personal or professional reasons, we conduct an exit interview to ensure we learn from their experience and take action to reduce unwanted turnover in the future. For team members who have been involuntarily terminated, we offer the opportunity to appeal their termination through our turnover appeal process by providing additional information that was not considered at the time of the termination.

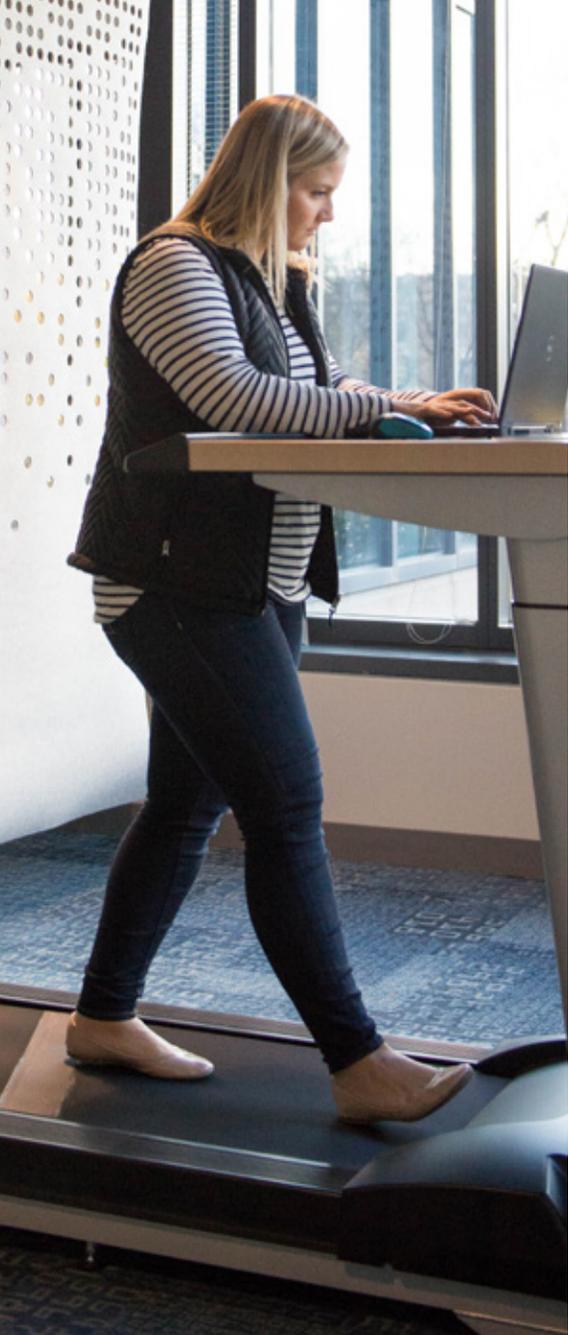
Our team members also have an avenue to share their opinion through a confidential hotline in the event they are not comfortable sharing their concerns with their manager and/or Human Resources.



TEAM MEMBER HEALTH AND SAFETY

At Sleep Number, we're constantly striving to create a workplace culture of innovation and individualization – a culture where unique talents, perspectives and experiences are valued. One way we demonstrate our appreciation for Sleep Number team members is through our emphasis on maintaining a safe and healthy work environment that contributes to their well-being. To underscore our commitment:

- We are working to crowdsource an understanding of what well-being means to our team members, how effective our programs are and what is missing.
- We provide appropriate equipment, safeguards, personal protection, training, and administrative support to protect team member safety and health.
- We invest in ergonomic workstations throughout our headquarters and have staff trained in assessing individual workstation setups for proper ergonomics, including automatic standing desks and ergonomic chairs.
- Sleep Number team members are trained to work safely and are empowered to drive actions that ensure we maintain a safety-first culture and are in compliance with all safety rules and standards. Our A Workplace Accident and Injury Reduction Program Policy (AWAIR) creates clear expectations for how each Sleep Number team member contributes to a safe and healthy workplace.
- We offer team member discounts on Sleep Number® beds and other products to help ensure our entire team receives the benefit of life-changing sleep for their overall well-being.
- We offer a comprehensive array of benefits, including family support benefits and a health hotline for team members and their families.
- We collect and analyze workplace injury and accident information across all our locations and take appropriate steps to reduce incident rates, number of workers' compensation claims and lost work days. Over the past five years, our workers' compensation claims as a percent of total team member headcount has improved by more than 20%, with the largest improvement in our retail operations. In 2019, our incident, claim and lost workday volume meaningfully improved, reflecting specific



actions we have taken in our retail and home delivery business units. Our manufacturing plants continue to deliver best-in-class safety performance.

WORKERS' COMPENSATION CLAIMS AS % OF HEADCOUNT

YEAR	%
2014	4.8
2015	3.5
2016	4.3
2017	4.1
2018	4.8
2019	3.8

Sleep Number has recently received the following awards for safety and operational excellence:

- Our Irmo, South Carolina, facility received the 2019 South Carolina OSHA and Department of Labor, Licensing and Regulations Safety Achievement Award. The award recognized the Irmo site for achieving 1 million work hours without a lost workday injury or illness.
- In recognition of safety performance at our Salt Lake City, Utah, facility, the Sleep Number team was honored with the 2019 Utah Manufacturing Alliance Workplace Safety Award. This award recognizes our efforts to increase team member engage

ment using the hazard recognition program and achievement of low recordable and lost workday incident rates.

- Sleep Number was awarded the Supply Chains to be Admired Award by independent organization Supply Chain Insights. Sleep Number was recognized for transforming its supply chain over the last three years and delivering unprecedented levels of speed and flexibility throughout the supply chain network.

UNION PHILOSOPHY

We believe sound leadership and effective team member engagement are integral to the success of our company and the welfare of our team members. Sleep Number is dedicated to a spirit of teamwork and respect that delivers a superior experience for our customers, partners and team members. We also believe in open and effective two-way communication and direct interaction between team members and their managers as a cornerstone of our respectful and satisfying work environment.

Sleep Number is a union-free company – and we prefer to remain that way. Our non-union status has allowed us to engage directly with our team members as individuals without the intervention of a third party. While team members have a right to join a union, they also have an equal right not to join and belong to a union. At Sleep Number, we are committed to treating team members with respect and preserving their rights.

CORPORATE GOVERNANCE AND EXECUTIVE COMPENSATION

Sleep Number has for many years maintained exemplary corporate governance principles, which are publicly available at IR.SLEEPNUMBER.COM/CORPORATE-GOVERNANCE/HIGHLIGHTS. Among the strengths of our corporate governance profile are:

- Our commitment to long-term shareholder value creation.
- Our independent and highly diverse board of directors.
- Our strong track record of pay for performance alignment.

As we disclosed in our Compensation Discussion and Analysis of the 2019 Proxy Statement – and will disclose again in our 2020 Proxy Statement, our Annual Incentive Plan (Plan), which covers our executive officers as well as our non-commissioned team members, is based only on the company's financial performance, with 100% weighting on Adjusted EBITDA. Non-financial performance is not considered in determining awards under the Plan.

LEADERSHIP AWARDS AND RECOGNITION

In 2019, Sleep Number executives were recognized for their leadership, reinforcing the company's commitment to innovation and diversity:

- Melissa Barra named 50 Most Powerful Latinas, *Forbes*
- David Callen named 2019 CFO of the Year, *Minneapolis/St. Paul Business Journal*
- Shelly Ibach named Executive of the Year, *Minneapolis/St. Paul Business Journal*
- Shelly Ibach named EY Entrepreneur of the Year – Heartland Region
- Shelly Ibach named EY Entrepreneur of the Year – National Finalist
- Shelly Ibach given Distinguished Alumni Award in Economic Leadership, Albert Lea Education Foundation
- Honor Roll for MN Census of Women in Corporate Leadership



HOW WE WORK WITH OTHERS



At Sleep Number, sustainability is about balancing our economic success with environmental stewardship and social progress that benefits all of our stakeholders. Sustainability considerations include the way we design and manufacture our products, the products and services we offer our customers, the manner in which we engage with our suppliers and business partners, the dialogue we have with – and returns we generate for – our investors, how we support the communities where we operate, and the programs and opportunities we create to ensure the well-being of our team members.

SHAREHOLDER ENGAGEMENT

Our board of directors and management team maintain a deep commitment to strong corporate governance. Engagement with, and accountability to, our shareholders are cornerstones of this commitment. Accordingly, we maintain an active shareholder engagement program that facilitates channels of communication and aims to foster relationships with our shareholders to drive sustainable, long-term growth and shareholder value. As part

of our engagement program, members of our management team meet with shareholders, in-person or by phone, to discuss strategy, governance, pay for performance orientation, and other matters of shareholder interest. Specific outreach meetings with major shareholders of the company include participation by one or more members of our board of directors.

COMMUNITY ENGAGEMENT

At Sleep Number, quality sleep is our passion. Every day, we educate customers on the importance of sleep and its vital connection to overall health and well-being, inspiring them to make sleep a priority in their lives. This passion extends to our commitment to make a positive impact in the communities in which we operate.

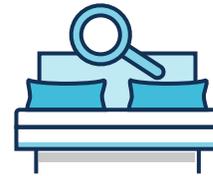
Because excellent sleep is essential to a healthier and happier society, we are committed to helping future generations achieve quality sleep. In 2018, we announced a social impact commitment to help 1 million young people achieve life-changing sleep through our products and sleep expertise by 2025. In 2019, we impacted the lives of nearly half a million youth through advocacy, education and product donations, and contributed \$760,000 to help children in housing transitions, to support underprivileged youth, to help children in military families get quality sleep and to benefit students who need sleep to support their overall health and wellness.

We have established strong partnerships to accomplish our objectives with leading organizations, including GENYOUth, Alliance for a Healthier Generation, Good360, Blue Star Families and Bridging.

GENYOUth, an organization whose programming reaches 38 million students annually in 73,000 U.S. schools, is devoted to helping students live healthfully and raise their academic achievement.

- We partnered with GENYOUth to conduct a sleep survey of more than 2,100 students to learn about adolescent and teenage sleep habits, and we convened health, education, business and youth leaders in Washington, D.C., to discuss the survey results and insights and collaborate on solutions.
- We launched the “Super Sleep Contest,” inviting teens and young adults from GENYOUth partner schools throughout the country to submit a video describing how quality sleep would impact their lives. In conjunction with the 2020 Super Bowl LIV festivities and “NFL 100” celebration, we selected the top 100 videos

OUR PILLARS



RESEARCH & DATA SHARING

Advance the field of youth sleep and well-being by sharing research and data, in partnership with leading academic institutions and researchers.



TRAINING & ADVOCACY

Promote sleep education, training and advocacy for youth leading to improved well-being and academic outcomes.



PRODUCT DONATIONS

Donate products to nonprofits focused on promoting better quality sleep to youth and their families.



and donated a Sleep Number 360® smart bed to each winning student. Additionally, we sent each winning student and respective teacher sleep curriculum materials that enable the student to educate and empower others in his or her school to get quality sleep.

- We participated in Fuel Up to Play 60 Summit, a national youth leadership gathering in Cleveland, Ohio, where students heard from our sleep experts about why quality sleep matters and learned how to adjust their nightly sleep habits to perform their best every day.

Alliance for a Healthier Generation has reached 28 million kids over the last 15 years and is expanding their focus to include sleep – in addition to nutrition and physical activity – in its holistic approach to kids’ health. We built, launched and promoted on social media an online resource center – *Sleep Smarter. Perform Better.* – to inform educators, parents and program administrators and give them the sleep research, insights and practical tools to help hundreds of thousands of children improve their sleep.

Good360 is a nonprofit that has, for 35 years, worked to provide hope and dignity to children and families who, due to circumstances beyond their control, such as a natural disaster, severe illness or loss of job, have encountered life-changing difficulties.

- In 2017, Hurricane Harvey affected tens of thousands of families living near the Gulf of Mexico. After connecting with Good360, Sleep Number committed \$1 million to provide mattresses to families impacted by the disaster.
- In 2019, thousands of sleep kits were distributed to children and families in the areas affected by Hurricane Dorian, providing new bedding just when it was needed.

We are committed to improving the well-being of youth through better sleep. Our objective is to ensure that kids and their families understand the benefits of quality sleep and have the tools to achieve it.

CASH AND IN-KIND DONATIONS

In 2019, Sleep Number donated more than \$360,000 in cash and nearly \$400,000 of product to nonprofit organizations, including organizations that support youth and military families.

For the past five years, Sleep Number has supported Blue Star Families (BSF), a national nonprofit organization dedicated to strengthening America's military families through community building. In 2019, we donated \$125,000, of which \$100,000 was in cash and \$25,000 was in product. The donations were made through two events: "Good Night, Mil Kid" in May 2019 and "Thank You, Military" in November 2019. In May, Sleep Number and BSF teamed up for a special giveaway to help provide quality sleep for youth in need. This initiative also provided Sleep Number team members an opportunity to engage with a meaningful cause. Military families were encouraged to enter the "Good Night, Mil Kid" contest. Promoted through the BSF e-newsletter and social media, parents could enter daily for a chance to win dream kits for their children. The dream kits consisted

of a Sleep Number® sheet set, blanket, pillow, mattress pad and a special ZZZBear, which was designed to comfort military children during separations from their loved ones. Kits were lovingly assembled by hundreds of Sleep Number team members at the company's corporate headquarters in Minneapolis. Entries were submitted from across the country, and children in 25 states received kits.

In November, Sleep Number presented a \$100,000 gift to BSF at the Dallas Cowboys "Salute to Service" game. The cash gift was intended to bring awareness to the issues faced by military children and provide ongoing programs to improve the lives of service members and their families through quality sleep. Additionally, as part of the "Thank You, Military" campaign, Sleep Number worked with NFL players in three cities – Dallas, Kansas City and Minneapolis – to surprise deserving military families with Sleep Number 360 smart beds for the parents and SleepIQ Kids® beds for their children.

In addition, Sleep Number donated \$23,000 in cash and \$32,000 in product, including 100 dream kits and two beds, to My Very Own Bed, a non-

profit organization based in the Twin Cities that provides new beds and linens to children ages 2-17 in families who have recently moved into stable housing. The funds were raised through our biennial team member sale.

Through Good360, one of our community partners, we also donated product valued at \$215,000 to victims of Hurricane Dorian.

In 2019, Sleep Number donated more than 500 dream kits. We also donated more than 15 beds to various youth-related causes and Dream Foundation, which fulfills wishes for terminally ill adults.

NFL RELATIONSHIP

Through our integrated marketing campaigns, storytelling and social media, we are communicating the vital role that life-changing sleep plays in overall wellness. We are amplifying our purpose driven brand through groundbreaking partnerships with the NFL, the NFL Players Association and the Professional Football Athletic Trainers Society. Now in our third year of a five-year commitment with the NFL, more than 2,000 NFL players have Sleep Number beds.

MAYO CLINIC COLLABORATION TO ADVANCE SLEEP SCIENCE AND CARDIOVASCULAR MEDICINE

Through a groundbreaking agreement announced in 2020, Sleep Number is providing a combined total of up to \$10 million to Mayo Clinic through:

- An endowment to further sleep science research with an emphasis on cardiovascular medicine.
- A dedicated research and development fund that will improve health care quality and clinical outcomes with potential life-changing benefits.

Mayo Clinic and Sleep Number are establishing a joint advisory group comprised of Mayo Clinic physicians – including Virend Somers, M.D., Ph.D., director of the Cardiovascular Facility and the Sleep Facility within Mayo Clinic’s Center for Clinical and Translational Science – and researchers, and Sleep Number leadership, including Chief Product Officer Annie Bloomquist. Together, the advisory group will lead initiatives to research, discover, identify and develop solutions that will impact sleep and overall well-being.

TEAM MEMBER GRANTS AND VOLUNTEERISM

We encourage and support team members who choose to get involved in their communities through volunteerism, product donations and board participation grants.

Team members who participate on the board of directors of a qualified nonprofit are eligible to apply for a grant that benefits the organization. Grants are offered for general operating support, events and sponsorships. A grant up to \$1,500 can be made to the organization. Team members may submit requests for more than one organization, but the total grant amount will not exceed \$1,500 for each team member per calendar year. Grant amount is based on size and impact of nonprofit and grant request/proposal.

MILITARY SPOUSE EMPLOYMENT PARTNERSHIP

Sleep Number is proud to be a member of the Department of Defense Military Spouse Employment Partnership (MSEP). MSEP connects military spouses with partner employers, like Sleep Number, who have committed to recruit, hire, promote and retain military spouses.



EXTERNAL ENGAGEMENT

IN DIVERSITY, EQUITY AND INCLUSION

In our home state of Minnesota, we are actively engaged with organizations and initiatives focused on attracting, engaging and retaining people of color.

Sleep Number has had a consistent presence at the semi-annual People of Color Career Fair since its inception in 2017. This one-day hiring event connects hundreds of diverse job seekers with leading employers who are serious about increasing their diversity and inclusion efforts to attract and retain top talent to the region.

We actively participate in GREATER MSP, the Minneapolis Saint Paul Economic Development Partnership through its Make. It. MSP. and BE MSP talent initiatives. Stories like **THIS ONE**, by Sleep Number Vice President, IT Business Solutions Shailesh Bhor, drive interest in Minneapolis as a place to build a tech career – and Sleep Number as an employer of choice.

Sleep Number also participates in The Forum on Workplace Inclusion's annual conference, engaging with others seeking to gain ideas and insights and grow their skills in diversity, equity and inclusion.



POLITICAL CONTRIBUTIONS

Sleep Number does not use corporate funds for contributions to political campaigns. However, we may indirectly engage in lobbying activities through payments to firms or organizations whose activities include lobbying or policy advocacy and through contributions to tax-exempt groups, including trade associations.

SUPPLIER RELATIONSHIPS

We have for many years maintained a Code of Conduct for Business Partners that is applicable to all of our suppliers and addresses a full range of relevant topics, including labor and human rights, health and safety, environmental issues, ethics, and compliance with related laws, rules and regulations. All suppliers are required to acknowledge their commitment to this Code. Sleep Number provides team members and management who have direct responsibility for supply chain management with training on matters

within the scope of the Code. Sleep Number monitors suppliers' compliance with our standards and the Code through both formal audits and informal visits. Our Code of Conduct for Business Partners is publicly available on our website at WWW.SLEEPNUMBER.COM/VENDOR.

As part of our supply chain evolution, we have reduced the transportation time and environmental impact of our manufacturing by, among other tactics, co-locating our suppliers within – or close to – our plant facilities. In addition, this co-location enabled us to leverage our Sleep Number safety expertise and train one of our key business partners on safety best practices.

In 2019, we introduced a Supplier Development Program which is a structured initiative designed to drive continuous systemic improvement in our supply chain. In 2020, we plan to host our first supplier conference to strengthen our supplier relationships and elevate performance.

HOW WE PROTECT

OUR BRAND AND THE ENVIRONMENT

As a purpose driven company, Sleep Number embraces the responsibility we have to move society forward and ensure a sustainable future for all. We are committed to understanding – and being a good steward of – the environmental impact of our manufacturing, supply chain and retail operations and our products throughout their life cycles. While we have incorporated practices and policies into our business for years, we recognize that we have an opportunity – and responsibility – to elevate our commitment and prioritize initiatives that align with our values, benefit the environment and contribute to our financial results. We are committed to reducing our impact and engaging constructively with industry peers, supply chain partners and external stakeholders to help accelerate the transition to a low-carbon economy. We are identifying opportunities in our operations to reduce non-renewable energy use,

increase water, energy and fuel-consumption efficiency, and support communities most heavily impacted by climate change, including extreme weather events.

In early 2020 we formalized our commitment with the following Enterprise Environmental Policy:

At Sleep Number, we seek to make a positive impact in society by improving lives through better quality sleep. As a purpose driven and efficiency-oriented team, we see innovation everywhere and believe that we can help shape the future for the better. Throughout our company, we look for – and implement – initiatives to reduce our impact on the environment and embrace our responsibility to our customers, shareholders and communities by adhering to the following principles:

- We will employ management systems and procedures designed

to minimize the generation of waste, enable recycling and reuse of materials, and effectively manage our fuel consumption and energy use.

- We will continually seek opportunities to improve our environmental, operational and financial performance by establishing objectives and targets, measuring progress, and reporting our results. By the end of fiscal 2020, we will establish 2025 goals for areas such as packaging, fuel consumption and waste.
- We will communicate our commitment to responsible environmental stewardship by promoting environmental responsibility among our team members – providing the necessary support to enable them to implement this policy – and by informing suppliers of our environmental policy and encouraging them to adopt effective environmental management practices.

PRODUCT QUALITY AND SAFETY

At Sleep Number, our mission is to improve lives by individualizing sleep experiences. Sleep Number is committed to advancing sleep science, tackling big challenges like sleep deprivation, and contributing to our customers' – and society's – well-being. We have awakened the consumer to the importance of sleep, and with our 360® smart beds that use longitudinal biometric data, algorithms and artificial intelligence, we've provided a solution that effortlessly delivers proven quality sleep. Unlike the "one-size-fits-all" solution offered by other mattress brands, the 360 smart bed offers individualized comfort that is adjustable on each side of the bed. Our proprietary DualAir™ technology features two independent air chambers and allows couples to adjust firmness to their individual preference at the touch of a button. Each sleeper can set their ideal firmness, support and pressure-relieving comfort – their Sleep Number® setting – for deep, restful sleep.

From our research and analysis of more than 25 million sleep sessions,

we know that sleepers who routinely use their 360 smart bed features, including SleepIQ® technology, can improve quality sleep by nearly 100 hours per year, contributing to enhanced productivity and better health. Through our longitudinal data, revolutionary innovations and strategic collaborations, we are making quality sleep the new badge of honor for society.

Sleep Number is committed to producing and delivering top quality products to our customers. Our beds come with a warranty that is considerably longer than industry average, and our quality is evident through our life-long relationships and exclusive direct-to-consumer distribution. We recognize that suppliers are instrumental in achieving our quality goals. We currently work with fewer than 100 direct suppliers. In 2019 we developed a Supplier Quality Manual (SQM) which defines minimum quality requirements, processes and systems for doing business with Sleep Number, and we are currently sharing the SQM with our suppliers to create alignment, ensure superior product quality and demonstrate our commitment to creating a collaborative

relationship based on open communication and mutual trust. Our supplier scorecard, created for each key supplier, evaluates their quality and delivery performance – measured by defective parts per million and percent on-time delivery – relative to specific goals. The assessment, which is shared with each Sleep Number supplier on a monthly or quarterly basis, informs our purchasing decisions and whether the supplier remains in our qualified supplier base.

As a vertically integrated business, we manufacture Sleep Number® bed components at our production facilities in Irmo, South Carolina, and Salt Lake City, Utah. Our final mattress assembly and our distribution of mattresses and bases occurs at our Assembly Distribution Centers in Utah, Maryland, South Carolina, and California (May 2020). We have additional distribution centers in Florida, Texas, Minnesota, Illinois, and Ohio. Our electrical Firmness Control™ systems also are assembled in our Utah plant.



ECO-FRIENDLY BEDDING

In addition to Sleep Number beds with SleepIQ technology, Sleep Number also offers a selection of pillows and bedding collections designed to enhance individualized comfort. Seventy percent of our bedding collection products hold the coveted STANDARD 100 by OEKO-TEX® certification. STANDARD 100 by OEKO-TEX® is one of the world's best-known labels for textiles tested for harmful substances, certifying that every component of the article, i.e. every thread, button and other accessories, has been tested for harmful substances and that the article therefore is harmless in human ecological terms. Some of

our bedding collection products also hold MADE IN GREEN by OEKO-TEX® which means that the textiles are tested for harmful substances and also guarantees that the product has been manufactured using sustainable processes under environmentally friendly and socially responsible working conditions. Each certification stands for customer confidence and high product safety.

At year-end 2019, approximately 70% of our bedding assortment was OEKO-TEX certified, and we estimate that our OEKO-TEX certified offerings will grow to approximately 80% of our bedding assortment in 2020.



70%
of Bedding Assortment
OEKO-TEX Certified



80%
of Bedding Assortment
OEKO-TEX Certified
(Estimated)

Also in 2020, Sleep Number intends to formalize our existing commitment related to prioritizing sustainable bedding products. Our new internal policy will make clear our intent to choose the sustainable bedding product option if such an option for a product in our assortment is available and relevant.

Sleep Number has also embraced eco-friendly considerations in other areas of our bedding assortment:

- In 2016, we made the decision to transition from vinyl packaging to a breathable, re-usable bag.

- All of the comforters and pillows in our assortment comply with the Responsible Down Standard (RDS). The RDS aims to ensure that down and feathers come from animals that have not been subjected to unnecessary harm and incentivize practices that respect the humane treatment of ducks and geese.
- To minimize shipping, Sleep Number offers a variety of stocked product in stores so customers can carry them home. In 2017, our percent of carry out was 73%; in 2018, we improved to 79% and in 2019, we achieved 84% carry out.

PRODUCT SAFETY

All Sleep Number 360 smart beds and bases are tested and comply with federal fire retardancy regulations and the electronic control systems are listed to the UL standard. Specific children's products are tested and certified to Consumer Product Safety Improvement Act regulations for children four and older.

We partner with multiple foam manufacturers to supply foam for our proprietary mattress designs and pillows. Each of these manufacturers is **CERTIPUR-US CERTIFIED**. CertiPUR-US certification provides confidence that the flexible polyurethane foam inside our products has been analyzed by an independent and accredited lab and meets CertiPUR-US standards for content, emissions and durability.

The CertiPUR-US accreditation also certifies that the foam we use is made without:

- Ozone depleters
- PBDEs, TDCPP or TCEP ("Tris") flame retardants
- Mercury, lead or other heavy metals
- Formaldehyde
- Phthalates regulated by the Consumer Product Safety Commission (CPSC)

CertiPUR-US foams are also low volatile organic compound (VOC) emissions for indoor air quality (less than 0.5 parts per million).



INNOVATION AWARDS AND RECOGNITION

Sleep Number has been recognized for quality and sleep innovation for many years. In just the past three years, Sleep Number has been honored with the following awards and rankings, as well as others not listed here:

2018

- Experience Design & Technology Gold Award for CES booth, *Event Marketer*
- Business Manufacturing Honoree for Product Innovation of the Year, *Minneapolis/St. Paul Business Journal*
- Large Business of the Year for our Customer Relationship Center in New Orleans, Jefferson Parish Chamber of Commerce
- Loyalty360 Gold Award for Best in Class for Program Strategy
- Loyalty360 Silver Award for Loyalty and Advocacy
- Loyalty360 Silver Award for Customer Analytics & Data
- Loyalty360 Top-10 Award for InnerCircleSM Rewards program

2019

- Retail Design Institute International Design Awards
- "Tekne Award" Finalist
- Best of Innovation – MIT: Bristlecone Pulse Conference
- InnerCircleSM Rewards wins Loyalty360 Best in Class Awards
- Experience Design & Technology Silver Award for 2019 Super Bowl LIII, *Event Marketer*

2020

- CES Best of Innovation Award for Climate360™ smart bed
- CES Innovation Honoree for Climate360™ smart bed, Health & Wellness Category and Tech for a Better World Category
- CES Innovation Honoree for 360® smart bed, Smart Home Category, Health & Wellness Category and Tech for a Better World Category
- CES Editors' Choice Award, *USA Today*
- Best of CES, *Popular Mechanics*
- Best of CES 2020 Award, *GearBrain*
- Best of CES, *House Beautiful*
- Best of CES 2020, *Techaeris*
- "Six Must Have Products for the Home from CES 2020", *Forbes*
- All Sleep Number 360 smart beds have earned the Good Housekeeping Seal



SUPPLY CHAIN EVOLUTION

In 2015, Sleep Number implemented new enterprise resource planning (ERP) systems to integrate our supply chain and business applications. This new management software was the first step in our multi-year journey to build a regional supply chain with digital tools that improve our manufacturing and distribution processes, increase our factory productivity and – most importantly – enhance customer experience from order through delivery.

Since 2016, we have invested in a new distribution network of assembly and delivery centers complemented

with a mobile inventory visibility application, which, together, provide a more efficient movement of goods throughout the material supply and fulfillment process. We expect to have six individual regions established and operational in 2021 – with more cost-effective and environmentally friendly processes, including reduced waste, fuel consumption and freight costs as we eliminate or re-use packaging and minimize transportation through load consolidation.

In recognition of the innovations and improvements that we have made to our supply chain during the past

several years, Sleep Number was honored with the following awards in 2019:

- Supply Chains to Admire™ award, by Supply Chain Insights for transforming our supply chain and delivering unprecedented levels of speed and flexibility throughout our supply chain network.
- Customer Excellence Award for Innovation by Bristlecone Labs for Supply Chain Innovation Outcomes that include: Improved Inventory Control, Improved Reliability, Structural Lower Cost, Enhanced Employee Experience and Enhanced Customer Experience.

WASTE AND TOXICITY

Together with our suppliers, Sleep Number is working to reduce waste in our supply chain and create a more sustainable distribution system. As part of our supply chain evolution, we are working to reduce the transportation time, fuel consumption, packaging materials, facility square footage, and environmental impact of our manufacturing by co-locating our partners close to our plant facilities. We also have waste reduction programs at our more than 600 retail stores, our manufacturing plants and corporate offices to reduce landfill waste and convert waste stream expense into revenue-generating recycling opportunities.

To further advance our knowledge and sustainability efforts, our Senior Director of Comfort Engineering serves on the board of the Sleep Products Safety Council (SPSC) and is actively engaged in industry efforts to recycle finished mattresses through our membership in the International Sleep Products Association (ISPA). In support of the industry’s commitment to environmental stewardship, ISPA developed the Mattress Recycling Council (MRC), a nonprofit organization which has created a statewide mattress recycling

program, called Bye Bye Mattress, for states that have enacted mattress recycling laws.

Sleep Number also participates in programs to break down and recycle packaging and other materials used in our Sleep Number mattresses, bases and electronic controls, and we operate bailers in each of our manufacturing and distribution facilities that are dedicated to three streams of waste: corrugate, plastics and textiles.

Because foam is a key component of Sleep Number mattress constructions and our pillows, our initial sustainability efforts have focused on ensuring that we properly handle its

manufacturing and disposal. Along with our three CertiPUR-US certified suppliers, we work to reduce waste from our foam manufacturing operations. One of our foam suppliers is currently utilizing 100% of our scrap as recycled rebond, a flexible polyurethane foam with a near-infinite number of applications due to its characteristics of compressibility, cushioning and energy absorption. This innovative supplier also recycles excess foam waste – beyond what can be used in rebond – as part of an exclusive relationship with a well-known sneaker brand.

In 2019, we recycled the following volumes of materials, preventing their placement in landfills:

MATERIAL RECYCLED	POUNDS
ELECTRONICS	42,833
HIGH-DENSITY PLASTICS	236,247
FILM PLASTICS/SHRINK-WRAP	301,542
CORRUGATED CARDBOARD	810,110
POLYURETHANE FOAM	2,274,574

PACKAGING

Since we began delivering pre-assembled beds to customers' homes in 2017, Sleep Number has reduced the number of boxes in our network by 20%, resulting in 820,000 square feet of corrugate waste being avoided. In addition, during the past three years, Sleep Number team members have identified opportunities and implemented programs to reduce or re-use our packaging.

- In 2018, with the help of a packaging engineer, we eliminated approximately 15,000 mattress boxes as we transitioned to a double bag process.
- Though we are unable to quantify the volume of poly waste eliminated, in 2017 and 2018, we converted from a poly RSO envelope to a paper envelope which can be recycled.
- Similarly, from 2017 to 2018, we generated approximately \$75,000 in savings from repurposing cardboard boxes, which reduced our recycling volume.
- During the same timeframe, we realized that we were purchasing specific poly bags from one supplier while disposing of similar bags from a different supplier. We were able to re-use some of the bags that were previously discarded, reducing poly waste and generating approximately \$21,000 in savings.
- We also determined that we could re-use cardboard inserts from obsolete products that were being discarded, eliminating the need to recycle and producing a small financial benefit.



As part of our supply chain evolution, we have increased our use of reusable plastic pallets and are reducing our use of less durable wood pallets. We currently use reusable pallets or no pallet in 31% of our markets, which is resulting in annual savings of 1 million pounds of wood. By the end of 2021, we expect 65% of our markets will either have no pallets or reusable pallets, resulting in 2.6 million pounds of wood saved per year.

STORE ENVIRONMENT

Beginning in 2016, all new and re-modeled Sleep Number stores are constructed with carpet made from 53% to 61% recycled content, which is 100% recyclable. At year-end 2019, more than 31% of our stores have this carpet in place, resulting in more than 633,000 square feet of recyclable flooring. In addition, we use:

- Mohawk Denim Zip It carpet tiles, which have the highest sustainable rating in the industry and are Red List material free. Because the carpet tiles are installed without adhesives, they eliminate harmful volatile organic compounds (VOCs).
- Secoya planks, which are not Red List material free because they contain vinyl; however, Secoya is FloorScore certified and meets indoor air quality standards.

Our stores and waste reduction efforts have also benefitted from our conversion from halogen lamps to LED lighting during the past six years. Since 2014, nearly two-thirds of our Sleep Number stores (64%) have been built with, or renovated to include, LED lighting, which means we have avoided replacing or throwing away approximately 486,000 light bulbs, a significant reduction in waste.

ENERGY EFFICIENCY AND CLIMATE IMPACT

In addition to reducing waste, our transition to LED lighting in our stores has also significantly improved our energy efficiency and costs. In 394 stores, we have dramatically reduced our need to replace bulbs – from four times per year to only one time every two years or more.

In our manufacturing plants, we are also taking actions to reduce energy usage, and we continue to explore opportunities for reduced energy usage in other areas of our operations.

In both our Salt Lake City, Utah, and Irmo, South Carolina, manufacturing plants, we implemented a wireless, centrally managed, Heating, Ventilation and Air Conditioning (HVAC) climate-control system that regulates temperature based on our hours of operation, and we installed a white roof on our Irmo facility to reflect light, reduce heat buildup and decrease our energy usage. Combined, these actions reduced our kilowatt hours in 2019, compared to 2018, by 2%. We expect to install LED lighting throughout these two manufacturing plants by the end of 2020, which will likely result in additional benefit.

We have also taken steps to reduce our fuel consumption. In 2019:

- We replaced nearly 20% of our diesel home delivery vehicles with non-diesel transit vans which get better fuel mileage.
- We implemented a new schedule routing system to optimize miles per delivery stop.

Combined, these actions are reducing our annual fuel consumption by more than 15%. In addition, our disciplined focus on full home delivery truck loads and optimal stops per route are ensuring increased fuel efficiency.

Finally, in the fall of 2018, we moved our headquarters from a suburban Twin Cities building to a new location in downtown Minneapolis. Our new headquarters is intentionally designed to provide more open and collaborative spaces and less individual office space. Our building design, investment in technology and “work for your day” philosophy enable team members to easily work remotely, reducing our impact related to commuting. In addition, by offering a reimbursement benefit, we encourage our 900 headquarters team members to use mass transportation, including light rail or bus, to reduce fuel consumption and the impact of their work commutes on emissions.

ABOUT THIS REPORT

This 2020 Sleep Number Corporate Responsibility and Sustainability Report represents our first comprehensive effort to share information about our social, environmental and governance practices, programs and policies with our stakeholders. It was published in March 2020 and reflects our activities and initiatives for our fiscal year ending December 28, 2019, as well as certain subsequent events and initiatives that occurred after the end of fiscal year 2019 and prior to publication. It includes forward-looking statements about our business plans, initiatives and objectives. These business plans, initiatives and objectives may change based on subsequent developments.

FORWARD-LOOKING STATEMENTS

The discussion in this Annual Report contains certain forward-looking statements that relate to future plans, events, financial results or performance. You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “predict,” “intend,” “potential,” “continue” or the negative of these or similar terms. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, among others:

- Current and future general and industry economic trends and consumer confidence.
- Risks inherent in outbreaks of pandemics or contagious diseases.
- The effectiveness of our marketing messages.
- The efficiency of our advertising and promotional efforts.
- Our ability to execute our company-controlled distribution strategy.
- Our ability to achieve and maintain acceptable levels of product and service quality, and acceptable product return and warranty claims rates.
- Our ability to continue to improve and expand our product line, and consumer acceptance of our products, product quality, innovation and brand image.
- Industry competition, the emergence of additional competitive products and the adequacy of our intellectual property rights to protect our products and brand from competitive or infringing activities.
- Claims that our products, processes, advertising, or trademarks infringe the intellectual property rights of others.
- Availability of attractive and cost-effective consumer credit options.
- Our manufacturing processes with minimal levels of inventory, which may leave us vulnerable to shortages in supply.
- Our dependence on significant



- suppliers and third parties and our ability to maintain relationships with key suppliers or third parties, including several sole-source suppliers or providers of services.
- Rising commodity costs and other inflationary pressures.
 - Risks inherent in global sourcing activities, including tariffs, outbreaks of pandemics or contagious diseases, strikes and the potential for shortages in supply.
 - Risks of disruption in the operation

of any of our main manufacturing facilities or assembly facilities.

- Increasing government regulation;
- Pending or unforeseen litigation and the potential for adverse publicity associated with litigation.
- The adequacy of our and third-party information systems to meet the evolving needs of our business and existing and evolving risks and regulatory standards applicable to data privacy and security.
- The costs and potential disruptions

to our business related to upgrading our information systems.

- The vulnerability of our and third-party information systems to attacks by hackers or other cyber threats that could compromise the security of our systems, result in a data breach or disrupt our business.
- Our ability to attract, retain and motivate qualified management, executive and other key team members, including qualified retail sales professionals and managers.

STAKEHOLDER FEEDBACK

We welcome your feedback on this report. For more information or to provide comments, please contact Investor Relations at:

763-551-7498

OR INVESTORRELATIONS@SLEEPNUMBER.COM