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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from to

Commission File Number 001-38654

QVC, Inc.

(Exact name of Registrant as specified in its charter)

State of Delaware 23-2414041

(State or other jurisdiction of (I.R.S. Employer Identification

incorporation or organization) Number)
1200 Wilson Drive
West Chester, Pennsylvania 19380
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(484) 701-1000**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
6.375% Senior Secured Notes due 2067	QVCD	New York Stock Exchange
6.250% Senior Secured Notes due 2068	QVCC	New York Stock Exchange

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐ Emerging growth company ☐

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

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

None of the voting stock of the registrant is held by a non-affiliate of the registrant. There is no publicly traded market for any class of voting stock of the registrant. There is one holder of record of our equity, Qurate Retail Group, Inc., an indirect wholly-owned subsidiary of Qurate Retail, Inc.

QVC, Inc.
2021 QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements

QVC, Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in millions, except share amounts)		March 31, 2021	December 31, 2020
Assets			
Current assets:			
Cash and cash equivalents	$	638	682
Restricted cash		8	8
Accounts receivable, less allowance for credit losses of $103 at March 31, 2021 and $124 at December 31, 2020		1,211	1,602
Inventories		1,171	1,119
Prepaid expenses and other current assets		306	293
Total current assets		3,334	3,704
Property and equipment, net of accumulated depreciation of $1,392 at March 31, 2021 and $1,544 at December 31, 2020		1,106	1,178
Operating lease right-of-use assets (note 6)		215	221
Television distribution rights, net (note 2)		142	63
Goodwill (note 3)		5,997	6,034
Other intangible assets, net (note 3)		3,441	3,454
Note receivable - related party (note 1)		1,825	1,825
Other noncurrent assets		71	79
Total assets	$	16,131	16,558
Liabilities and equity			
Current liabilities:			
Current portion of debt and finance lease obligations (note 5)	$	458	410
Accounts payable-trade		965	1,127
Accrued liabilities (note 4)		1,043	1,302
Total current liabilities		2,466	2,839
Long-term portion of debt and finance lease obligations (note 5)		4,545	4,549
Deferred income taxes (note 8)		714	711
Other long-term liabilities		313	324
Total liabilities		8,038	8,423
Commitments and contingencies (note 9)			
Equity:			
QVC, Inc. stockholder's equity:			
Common stock, $0.01 par value, 1 authorized share		—	—
Additional paid-in capital		10,740	10,741
Accumulated deficit		(2,677)	(2,722)
Accumulated other comprehensive loss		(95)	(17)
Total QVC, Inc. stockholder's equity		7,968	8,002
Noncontrolling interest		125	133
Total equity		8,093	8,135
Total liabilities and equity	$	16,131	16,558

QVC, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

(in millions)		Three months ended March 31, 2021	2020
Net revenue	$	2,710	2,427
Operating costs and expenses:			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)		1,758	1,584
Operating		186	177
Selling, general and administrative, including stock-based compensation		283	282
Depreciation		40	43
Amortization		62	71
		2,329	2,157
Operating income		381	270
Other (expense) income:			
Equity in losses of investee		—	(1)
Gains (losses) on financial instruments		1	(4)
Interest expense, net		(63)	(65)
Foreign currency (loss) gain		(2)	1
Other income		6	—
		(58)	(69)
Income before income taxes		323	201
Income tax expense		(85)	(60)
Net income		238	141
Less net income attributable to the noncontrolling interest		(16)	(12)
Net income attributable to QVC, Inc. stockholder	$	222	129

QVC, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

		Three months ended March 31,	
(in millions)		**2021**	**2020**
Net income	$	238	141
Foreign currency translation adjustments, net of tax		(73)	(22)
Comprehensive loss attributable to debt credit risk adjustments		(13)	—
Total comprehensive income		152	119
Comprehensive income attributable to noncontrolling interest		(8)	(13)
Comprehensive income attributable to QVC, Inc. stockholder	$	144	106

QVC, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)		Three months ended March 31, 2021	2020
Operating activities:			
Net income	$	238	141
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in losses of investee		—	1
Deferred income taxes		3	2
Foreign currency loss (gain)		2	(1)
Depreciation		40	43
Amortization		62	71
Change in fair value of financial instruments and noncash interest		(1)	6
Stock-based compensation		9	6
Change in other long-term liabilities		(1)	(4)
Other income		(6)	—
Other non-cash charges, net		10	7
Change in operating assets and liabilities			
Decrease in accounts receivable		378	403
Increase in inventories		(60)	(4)
Decrease in prepaid expenses and other current assets		29	50
Decrease in accounts payable-trade		(151)	(198)
Decrease in accrued liabilities and other		(305)	(213)
Net cash provided by operating activities		247	310
Investing activities:			
Capital expenditures		(41)	(39)
Expenditures for television distribution rights		(56)	(1)
Changes in other noncurrent assets		(1)	3
Proceeds from sale of fixed assets		40	—
Net cash used in investing activities		(58)	(37)
Financing activities:			
Principal payments of debt and finance lease obligations		(143)	(872)
Principal borrowings of debt from senior secured credit facility		135	112
Proceeds from issuance of senior secured notes		—	575
Payment of debt origination fees		—	(8)
Dividends paid to Qurate Retail, Inc.		(177)	(122)
Dividends paid to noncontrolling interest		(16)	(15)
Withholding taxes on net share settlements of stock-based compensation		(15)	(1)
Net cash used in financing activities		(216)	(331)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash		(17)	(6)
Net decrease in cash, cash equivalents and restricted cash		(44)	(64)
Cash, cash equivalents and restricted cash, beginning of period		690	569
Cash, cash equivalents and restricted cash, end of period	$	646	505

QVC, Inc.

Condensed Consolidated Statements of Equity

(unaudited)

(in millions, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
Balance, December 31, 2019	1	$ —	9,208	(2,390)	(144)	130	6,804
Net income	—	—	—	129	—	12	141
Foreign currency translation adjustments, net of tax	—	—	—	—	(23)	1	(22)
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(122)	—	(15)	(137)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	—	2	—	—	2
Withholding taxes on net share settlements of stock-based compensation	—	—	(1)	—	—	—	(1)
Stock-based compensation	—	—	6	—	—	—	6
Balance, March 31, 2020	1	$ —	9,213	(2,381)	(167)	128	6,793

(in millions, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
Balance, December 31, 2020	1	$ —	10,741	(2,722)	(17)	133	8,135
Net income	—	—	—	222	—	16	238
Foreign currency translation adjustments, net of tax	—	—	—	—	(65)	(8)	(73)
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(177)	—	(16)	(193)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	5	—	—	—	5
Withholding taxes on net share settlements of stock-based compensation	—	—	(15)	—	—	—	(15)
Stock-based compensation	—	—	9	—	—	—	9
Debt credit risk adjustment	—	—	—	—	(13)	—	(13)
Balance, March 31, 2021	1	$ —	10,740	(2,677)	(95)	125	8,093

QVC, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

(1) Basis of Presentation

QVC, Inc. and its consolidated subsidiaries (unless otherwise indicated or required by the context, the terms "we," "our," "us," the "Company" and "QVC" refer to QVC, Inc. and its consolidated subsidiaries) is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications.

In the United States ("U.S."), QVC's televised shopping programs, including live and recorded content, are distributed across multiple channels nationally on a full-time basis, including QVC, QVC2, QVC3, HSN and HSN2. The Company's U.S. programming is also available on QVC.com and HSN.com, QVC's "U.S. websites"; virtual multichannel video programming distributors (including Hulu + Live TV, AT&T TV, and YouTube TV); applications via streaming video; Facebook Live, Roku, Apple TV, and Amazon Fire; mobile applications; social pages and over-the-air broadcasters.

QVC's digital platforms enable consumers to purchase goods offered on our televised programming, along with a wide assortment of products that are available only on our U.S. websites. QVC.com, HSN.com and our other digital platforms (including our mobile applications, social pages and others) are natural extensions of our business model, allowing customers to engage in our shopping experience wherever they are, with live or on-demand content customized to the device they are using. In addition to offering video content, our U.S. websites allow shoppers to browse, research, compare and perform targeted searches for products, read customer reviews, control the order-entry process and conveniently access their account.

Internationally, QVC's televised shopping programs, including live and recorded content, are distributed to households outside of the U.S., primarily in Germany, Austria, Japan, the United Kingdom ("U.K."), the Republic of Ireland and Italy. In some of the countries where QVC operates, QVC's televised shopping programs are distributed across multiple QVC channels: QVC Style and QVC2 in Germany and QVC Beauty, QVC Extra and QVC Style in the U.K. Similar to the U.S., our international businesses also engage customers via websites, mobile applications, and social pages. QVC's international business employs product sourcing teams who select products tailored to the interests of each local market.

The Company's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui & Co., LTD ("Mitsui"). QVC-Japan is owned 60% by the Company and 40% by Mitsui. The Company and Mitsui share in all profits and losses based on their respective ownership interests. During the three months ended March 31, 2021 and 2020, QVC-Japan paid dividends to Mitsui of $16 million and $15 million, respectively.

The Company also has a joint venture with CNR Media Group, formerly known as China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"). The Company owns a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS"). CNRS operates a retail business in China through a shopping television channel with an associated website. This joint venture is accounted for as an equity method investment recorded as equity in income (losses) of investee in the condensed consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Qurate Retail, Inc. ("Qurate Retail") (Nasdaq: QRTEA, QRTEB and QRTEP), which owns interests in a broad range of digital commerce businesses, including Qurate Retail's other wholly-owned subsidiary Zulily, LLC ("Zulily"), as well as other minority investments. QVC is part of the Qurate Retail Group, formerly QVC Group, a portfolio of brands including QVC, Zulily and Cornerstone Brands, Inc. ("CBI").

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement that provides for a $2.95 billion revolving credit facility as explained further in note 5. The Fourth Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or Zulily. Under the terms of the Fourth Amended and Restated Credit Agreement, QVC and Zulily are jointly and severally liable for all amounts borrowed on the $400 million tranche. In accordance with the accounting guidance for obligations resulting from joint and several liability arrangements, QVC will record a liability for amounts it has borrowed under the credit facility plus any additional amount it expects to repay on behalf of Zulily. As of March 31, 2021, there was $75 million borrowed by Zulily on the $400 million tranche of the Fourth Amended and Restated Credit Agreement, none of which the Company expects to repay on behalf of Zulily.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

During each of the three months ended March 31, 2021 and 2020, QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives and business advisory services. QVC allocated expenses of $2 million to Zulily for each of the three months ended March 31, 2021 and 2020. Zulily allocated expenses of $2 million and $3 million to QVC for the three months ended March 31, 2021 and 2020, respectively.

In September 2020, QVC and Zulily executed a Master Promissory Note ("Promissory Note") whereby Zulily may borrow up to $100 million at a variable interest rate equal to the LIBOR rate plus an applicable margin rate. The Promissory Note matures in September 2030. There were no borrowings on the Promissory Note as of March 31, 2021 and December 31, 2020.

During each of the three months ended March 31, 2021 and 2020, QVC and CBI engaged in multiple transactions relating to personnel and business advisory services. QVC allocated expenses of $5 million and $6 million to CBI for the three months ended March 31, 2021 and 2020, respectively. CBI allocated expenses of $1 million to QVC for each of the three months ended March 31, 2021 and 2020.

In December 2019, a new coronavirus disease ("COVID-19"') pandemic was reported to have surfaced in Wuhan, China and has subsequently spread across the globe, including all of the countries in which QVC operates. As a result of the spread of COVID-19, certain local governmental agencies have imposed travel restrictions, local quarantines or stay at home restrictions to contain the spread, which has caused a significant disruption to most sectors of the economy.

Management is not presently aware of any events or circumstances arising from the COVID-19 pandemic that would require the Company to update the estimates, judgments or revise the carrying value of our assets or liabilities. Management's estimates may change, however, as new events occur and additional information is obtained, and any such changes will be recognized in the consolidated financial statements. Actual results could differ from estimates, and any such differences may be material to our financial statements.

On December 30, 2020, the Company and Liberty Interactive LLC ("LIC") completed an internal realignment of the Company's global finance structure that resulted in a common control transaction with Qurate Retail. As part of the common control transaction, LIC issued a promissory note (“LIC Note”) to the Company with an initial face amount of $1.8 billion, a stated interest rate of 0.48% and a maturity of December 29, 2029. Interest on the LIC Note is to be paid annually beginning on December 29, 2021. QVC recorded $2 million of related party interest income for the three months ended March 31, 2021 included in interest expense, net in the consolidated statement of operations.

The condensed consolidated financial statements include the accounts of QVC, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions were eliminated in consolidation.

The accompanying (a) condensed consolidated balance sheet as of December 31, 2020, which has been derived from audited financial statements, and (b) the interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in QVC's Annual Report on Form 10-K for the year ended December 31, 2020.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates include, but are not limited to, sales returns, uncollectible receivables, inventory obsolescence, internally-developed software, valuation of acquired intangible assets and goodwill and income taxes.

(2) Television Distribution Rights, Net

Television distribution rights consisted of the following:

(in millions)		March 31, 2021	December 31, 2020
Television distribution rights	$	821	814
Less accumulated amortization		(679)	(751)
Television distribution rights, net	$	142	63

The Company recorded amortization expense of $25 million and $34 million for the three months ended March 31, 2021 and 2020, respectively, related to television distribution rights.

As of March 31, 2021, related amortization expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2021	$	67
2022		72
2023		3
2024		—
2025		—

(3) Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill by operating segment for the three months ended March 31, 2021 were as follows:

(in millions)		QxH	QVC-International	Total
Balance as of December 31, 2020	$	5,112	922	6,034
Exchange rate fluctuations		—	(37)	(37)
Balance as of March 31, 2021	$	5,112	885	5,997

Other intangible assets consisted of the following:

		March 31, 2021			December 31, 2020		
(in millions)		Gross cost	Accumulated amortization	Other intangible assets, net	Gross cost	Accumulated amortization	Other intangible assets, net
Purchased and internally developed software	$	953	(664)	289	952	(663)	289
Affiliate and customer relationships		2,837	(2,568)	269	2,845	(2,564)	281
Debt origination fees		10	(5)	5	10	(4)	6
Trademarks (indefinite life)		2,878	—	2,878	2,878	—	2,878
	$	6,678	(3,237)	3,441	6,685	(3,231)	3,454

The Company recorded amortization expense of $37 million for each of the three months ended March 31, 2021 and 2020 related to other intangible assets.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

As of March 31, 2021, the related amortization and interest expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2021	$ 133
2022	151
2023	115
2024	70
2025	47

(4) Accrued Liabilities

Accrued liabilities consisted of the following:

(in millions)	March 31, 2021	December 31, 2020
Accounts payable non-trade	$ 288	408
Allowance for sales returns	191	267
Accrued compensation and benefits	146	214
Other	418	413
	$ 1,043	1,302

(5) Long-Term Debt and Finance Lease Obligations

Long-term debt and finance lease obligations consisted of the following:

(in millions)	March 31, 2021	December 31, 2020
3.5% Exchangeable Senior Debentures due 2031	$ 441	393
4.375% Senior Secured Notes due 2023, net of original issue discount	750	750
4.85% Senior Secured Notes due 2024, net of original issue discount	600	600
4.45% Senior Secured Notes due 2025, net of original issue discount	599	599
4.75% Senior Secured Notes due 2027	575	575
4.375% Senior Secured Notes due 2028	500	500
5.45% Senior Secured Notes due 2034, net of original issue discount	399	399
5.95% Senior Secured Notes due 2043, net of original issue discount	300	300
6.375% Senior Secured Notes due 2067	225	225
6.25% Senior Secured Notes due 2068	500	500
Finance lease obligations (note 6)	161	168
Less debt issuance costs, net	(47)	(50)
Total debt and finance lease obligations	5,003	4,959
Less current portion	(458)	(410)
Long-term portion of debt and finance lease obligations	$ 4,545	4,549

Exchangeable Senior Debentures

The Company has elected to account for its Motorola Solutions, Inc. 3.5% Senior Exchangeable Debentures Due 2031 (the “MSI Exchangeables”) using the fair value option. Accordingly, changes in the fair value of these instruments are recognized as gains (losses) on financial instruments in the statements of operations and in other comprehensive income as it relates to instrument specific credit risk on the consolidated statements of comprehensive income. The Company has classified for financial reporting purposes the MSI Exchangeables as a current liability as the MSI Exchangeables are exchangeable at the option of the holder at any time.

Senior Secured Notes

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority to the senior secured credit facility. The interest on QVC's senior secured notes is payable semi-annually with the exception of the 6.375% Senior Secured Notes due 2067 (the "2067 Notes") and the6.25% Senior Secured Notes due 2068 (the "2068 Notes"), which is payable quarterly.

Senior Secured Credit Facility

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement with Zulily as borrowers (collectively, the “Borrowers”) which is a multi-currency facility that provides for a $2.95 billion revolving credit facility with a $450 million sub-limit for standby letters of credit and $1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans. The Fourth Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by the Company or Zulily with a $50 million sub-limit for standby letters of credit. The remaining $2.55 billion and any incremental loans may be borrowed only by the Company. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.75% depending on the Borrowers’ combined ratio of Consolidated Total Debt to Consolidated EBITDA (the “Combined Consolidated Leverage Ratio”). Borrowings that are London Interbank Offered Rate ("LIBOR") loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin that varies between 1.25% and 1.75% depending on the Borrowers’ Combined Consolidated Leverage Ratio. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed availability; provided that, if Zulily ceases to be controlled by Qurate Retail, all of its loans must be repaid and its letters of credit cash collateralized. The facility matures on December 31, 2023. Payment of loans may be accelerated following certain customary events of default.

QVC had $2.85 billion available under the terms of the Fourth Amended and Restated Credit Agreement as of March 31, 2021, including the portion available under the $400 million tranche that Zulily may also borrow on.

The payment and performance of the Borrowers’ obligations under the Fourth Amended and Restated Credit Agreement are guaranteed by each of QVC’s Material Domestic Subsidiaries (as defined in the Fourth Amended and Restated Credit Agreement). Further, the borrowings under the Fourth Amended and Restated Credit Agreement are secured, *pari passu* with QVC’s existing notes, by a pledge of all of QVC’s equity interests. In addition, the payment and performance of the Borrowers’ obligations with respect to the $400 million tranche available to both QVC and Zulily are also guaranteed by Zulily and secured by a pledge of all of Zulily’s equity interests.

The Fourth Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including certain restrictions on the Company and Zulily and each of their respective restricted subsidiaries (subject to certain exceptions) with respect to, among other things: incurring additional indebtedness; creating liens on property or assets; making certain loans or investments; selling or disposing of assets; paying certain dividends and other restricted payments; dissolving, consolidating or merging; entering into certain transactions with affiliates; entering into sale or leaseback transactions; restricting subsidiary distributions; and limiting the Company’s consolidated leverage ratio and the Borrowers’ Combined Consolidated Leverage Ratio.

Interest Rate Swap Arrangements

In July 2019, the Company entered into a three-year interest swap arrangement with a notional amount of $125 million. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP and the fair value of the swap instrument was in a net liability position of $2 million and $3 million as of March 31, 2021 and December 31, 2020, respectively, which was included in other long-term liabilities.

Changes in the fair value of the swaps are reflected in gains (losses) on financial instruments in the condensed consolidated statements of operations.

Other Debt Related Information

QVC was in compliance with all of its debt covenants as of March 31, 2021.

The weighted average interest rate applicable to all of the outstanding debt (excluding finance leases) prior to amortization of bond discounts and related debt issuance costs was 4.9% as of March 31, 2021.

(6) Leases

The Company has finance lease agreements with transponder and transmitter network suppliers for the right to transmit its signals in the U.S. and Germany. The Company is also party to a finance lease agreement for data processing hardware and a warehouse.

QVC also leases data processing equipment, facilities, office space and land. These leases are classified as operating leases. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future lease payments using our incremental borrowing rate. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Our leases have remaining lease terms of less than 1 year to 14 years, some of which may include the option to extend or terminate the leases.

The components of lease cost for the three months ended March 31, 2021 and 2020, were as follows:

		Three months ended March 31,	
(in millions)		2021	2020
Finance lease cost			
Depreciation of leased assets	$	5	5
Interest on lease liabilities		2	2
Total finance lease cost		7	7
Operating lease cost		10	10
Total lease cost	$	17	17

The remaining weighted-average lease term and the weighted-average discount rate were as follows:

	March 31, 2021
Weighted-average remaining lease term (years):	
Finance leases	8.4
Operating leases	10.9
Weighted-average discount rate:	
Finance leases	5.2 %
Operating leases	6.0 %

Supplemental balance sheet information related to leases was as follows:

(in millions)		March 31, 2021	December 31, 2020
Operating Leases:			
Operating lease right-of-use assets	$	215	221
Accrued liabilities	$	24	25
Other long-term liabilities		190	195
Total operating lease liabilities	$	214	220
Finance Leases:			
Property and equipment	$	272	278
Accumulated depreciation		(141)	(141)
Property and equipment, net	$	131	137
Current portion of debt and finance lease obligations	$	17	18
Long-term portion of debt and finance lease obligations		144	150
Total finance lease liabilities	$	161	168

Supplemental cash flow information related to leases was as follows:

	Three months ended March 31,	
(in millions)	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 10	14
Operating cash flows from finance leases	2	2
Financing cash flows from finance leases	4	5
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	1	3

Future payments under noncancelable operating leases and finance leases with initial terms of one year or more as ofMarch 31, 2021 consisted of the following:

(in millions)	Finance leases	Operating leases	Total leases
Remainder of 2021	$ 18	27	45
2022	26	33	59
2023	25	27	52
2024	23	24	47
2025	21	21	42
Thereafter	89	168	257
Total lease payments	202	300	502
Less: imputed interest	(41)	(86)	(127)
Total lease liabilities	$ 161	214	375

(7) Revenue

Disaggregated revenue by segment and product category consisted of the following:

	Three months ended March 31, 2021			Three months ended March 31, 2020		
(in millions)	QxH	QVC-International	Total	QxH	QVC-International	Total
Home	$ 775	324	1,099	681	257	938
Beauty	286	164	450	288	145	433
Apparel	290	126	416	299	101	400
Accessories	238	66	304	212	58	270
Electronics	201	33	234	174	22	196
Jewelry	98	60	158	98	49	147
Other revenue	48	1	49	40	3	43
Total net revenue	$ 1,936	774	2,710	1,792	635	2,427

Consumer Product Revenue and Other Revenue

QVC's revenue includes sales of consumer products in the following categories; home, beauty, apparel, accessories, electronics and jewelry, which are primarily sold through live merchandise-focused televised shopping programs and via our websites and other interactive media.

Other revenue consists primarily of income generated from our U.S. Private Label Credit Card ("PLCC") in which a large consumer financial services company provides revolving credit directly to QVC's customers for the sole purpose of purchasing merchandise or services with a PLCC. In return, the Company receives a portion of the net economics of the credit card program.

Revenue Recognition

Revenue is recognized when obligations with our customers are satisfied; generally this occurs at the time of shipment to our customers consistent with when control of the shipped product passes. The recognized revenue reflects the consideration we expect to receive in exchange for transferring goods, net of allowances for returns.

The Company generally recognizes revenue related to the PLCC program over time as the PLCC is used by QVC's customers.

Sales, value add, use and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

The Company elected to treat shipping and handling activities that occur after the customer obtains control of the goods as a fulfillment cost and not as a promised good or service. Accordingly, the Company accrues the related shipping costs and recognizes revenue upon delivery of the goods to the shipping carrier. In electing this accounting policy, all shipping and handling activities will be treated as fulfillment costs.

The Company generally extends payment terms with its customers of one year or less and does not consider the time value of money when recognizing revenue.

Significant Judgments

Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available. The Company has determined that it is generally the principal in vendor arrangements as the Company can establish control over the goods prior to shipment. Accordingly, the Company records revenue for these arrangements on a gross basis.

(8) Income Taxes

The Company calculates its interim income tax provision by applying its best estimate of the annual expected effective tax rate to its ordinary year-to-date income or loss. The tax or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on the prior quarters is included in the tax expense for the current quarter.

For the three months ended March 31, 2021 and 2020, the Company recorded a tax provision of $85 million and $60 million, respectively, which represented an effective tax rate of 26.3% and 29.9%, respectively. The 2021 rate differs from the U.S. federal income tax rate of 21% due primarily to state and foreign tax expenses. The 2021 effective tax rate has decreased from the prior year for the three months ended March 31, 2021 primarily due to a valuation allowance established in the prior year for excess U.S. foreign tax credits, and reductions in other permanent items.

The Company participates in a consolidated federal return filing with Qurate Retail. As of March 31, 2021, the Company's tax years through 2016 are closed for federal income tax purposes, and the Internal Revenue Service ("IRS") has completed its examination of the Company's 2017 and 2018 tax years. The Company's 2019, 2020 and 2021 tax years are being examined currently as part of the Qurate Retail consolidated return under the IRS's Compliance Assurance Process program. The Company, or one of its subsidiaries, files income tax returns in various states and foreign jurisdictions. As of March 31, 2021, the Company was under examination in the state of Pennsylvania, New York City, and in the U.K.

The Company is a party to a Tax Liability Allocation and Indemnification Agreement (the “Tax Agreement”) with Qurate Retail. The Tax Agreement establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of the Company with Qurate Retail for income tax purposes. Generally, the Tax Agreement provides that the Company will pay Qurate Retail an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Qurate Retail, with exceptions for the treatment and timing of certain items, including but not limited to deferred intercompany transactions, credits, and net operating and capital losses. To the extent that the separate company tax expense is different from the payment terms of the Tax Agreement, the difference is recorded as either a dividend or capital contribution.

The amounts of the tax-related payable due to Qurate Retail as of March 31, 2021 and December 31, 2020 were $87 million and $47 million, respectively, and were included in accrued liabilities in the accompanying condensed consolidated balance sheets.

(9) Commitments and Contingencies

The Company has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible the Company may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that the amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Network and information systems, including the Internet and telecommunication systems, third party delivery services and other technologies are critical to QVC's business activities. Substantially all of QVC's customer orders, fulfillment and delivery services are dependent upon the use of network and information systems, including the use of third party telecommunication and delivery service providers. If information systems including the Internet or telecommunication services are disrupted, or if the third party delivery services experience a disruption in their transportation delivery services, the Company could face a significant disruption in fulfilling QVC's customer orders and shipment of QVC's products. The Company has active disaster recovery programs in place to help mitigate risks associated with these critical business activities.

(10) Financial Instruments and Fair Value Measurements

For assets and liabilities required to be reported or disclosed at fair value, U.S. GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The Company's assets and liabilities measured or disclosed at fair value were as follows:

	Fair value measurements at March 31, 2021 using			
(in millions)	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Current assets:				
Cash equivalents	$ 217	217	—	—
Current liabilities:				
Debt (note 5)	441	—	441	—
Long-term liabilities:				
Debt (note 5)	4,610	730	3,880	—
Interest rate swap arrangements (note 5)	2	—	2	—

		Fair value measurements at December 31, 2020 using		
(in millions)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Cash equivalents	$ 240	240	—	—
Current liabilities:				
Debt (note 5)	393	—	393	—
Long-term liabilities:				
Debt (note 5)	4,705	743	3,962	—
Interest rate swap arrangements (note 5)	3	—	3	—

The 2067 Notes (ticker: QVCD) and the 2068 Notes (ticker: QVCC) are considered Level 1 fair value instruments as reported in the foregoing tables as they are traded on the New York Stock Exchange, which the Company considers to be an "active market," as defined by U.S. GAAP. The remainder of the Company's Level 2 financial liabilities are debt instruments with quoted market prices that are not considered to be traded on "active markets." Accordingly, these financial instruments are reported in the foregoing tables as Level 2 fair value instruments.

(11) Information about QVC's Operating Segments

The Company evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as net revenue, Adjusted OIBDA (defined below), gross margin, average sales price per unit, number of units shipped and revenue. For segment reporting purposes, the Company defines Adjusted OIBDA, as net revenue less cost of goods sold, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). The Company believes this measure is an important indicator of the operational strength and performance of its segments by identifying those items that are not directly a reflection of each segment's performance or indicative of ongoing business trends. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking among the Company's businesses and identify strategies to improve performance. This measure of performance excludes depreciation, amortization, stock-based compensation and impairment loss (if any) that are included in the measurement of operating income pursuant to U.S. GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with U.S. GAAP.

QVC's chief operating decision maker ("CODM") is QVC's Chief Executive Officer. QVC's CODM has ultimate responsibility for enterprise decisions. QVC's CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise. The segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. QVC's CODM relies on internal management reporting that analyzes enterprise results and segment results to the Adjusted OIBDA level.

For the three months ended March 31, 2021 and 2020, QVC identified QxH and QVC-International as its two reportable segments. Both operating segments are retailers of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised-shopping programs as well as via the Internet and mobile applications in certain markets.

Performance measures

	Three months ended March 31,			
	2021		2020	
(in millions)	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA
QxH	$ 1,936	349	1,792	293
QVC-International	774	143	635	97
Consolidated QVC	$ 2,710	492	2,427	390

Other information

	Three months ended March 31,			
	2021		2020	
(in millions)	Depreciation	Amortization	Depreciation	Amortization
QxH	$ 26	59	29	68
QVC-International	14	3	14	3
Consolidated QVC	$ 40	62	43	71

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

		March 31, 2021		
(in millions)		**Total assets**	**Capital expenditures**	**Property and equipment, net**
QxH	$	13,891	36	728
QVC-International		2,240	5	378
Consolidated QVC	$	16,131	41	1,106

The following table provides a reconciliation of Adjusted OIBDA to operating income and income before income taxes:

		Three months ended March 31,	
(in millions)		**2021**	**2020**
Adjusted OIBDA	$	492	390
Stock-based compensation		(9)	(6)
Depreciation and amortization		(102)	(114)
Operating income		381	270
Equity in losses of investee		—	(1)
Gains (losses) on financial instruments		1	(4)
Interest expense, net		(63)	(65)
Foreign currency (loss) gain		(2)	1
Other income		6	—
Income before income taxes	$	323	201

(12) Other Comprehensive Income

The change in the component of accumulated other comprehensive loss, net of taxes ("AOCL"), is summarized as follows:

(in millions)		Comprehensive earnings attributable to debt credit risk adjustments	Foreign currency translation adjustments	AOCL
Balance at January 1, 2021	$	16	(33)	(17)
Other comprehensive income attributable to QVC, Inc. stockholder		(13)	(65)	(78)
Balance at March 31, 2021		3	(98)	(95)
Balance at January 1, 2020	$	—	(144)	(144)
Other comprehensive loss attributable to QVC, Inc. stockholder		—	(23)	(23)
Balance at March 31, 2020		—	(167)	(167)

The component of other comprehensive income is reflected in QVC's condensed consolidated statements of comprehensive income, net of taxes. The following table summarizes the tax effects related to the component of other comprehensive loss:

(in millions)		Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Three months ended March 31, 2021				
Foreign currency translation adjustments	$	(72)	(1)	(73)
Debt credit risk adjustment		(13)	—	(13)
Other comprehensive income		(85)	(1)	(86)
Three months ended March 31, 2020				
Foreign currency translation adjustments	$	(23)	1	(22)
Other comprehensive loss		(23)	1	(22)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; the novel coronavirus ("COVID-19"); capital expenditures; revenue growth; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; repayment of debt; and the anticipated impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- the impact of the COVID-19 pandemic and local, state and federal governmental responses to COVID-19 on the economy, our customers, our vendors and our businesses generally;
- customer demand for our products and services and our ability to attract new customers and retain existing customers by anticipating customer demand and adapting to changes in demand;
- competitor responses to our products and services;
- increased digital TV penetration and the impact on channel positioning of our programs;
- the levels of online traffic on our websites and our ability to convert visitors into consumers or contributors;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our future financial performance, including availability, terms and deployment of capital;
- our ability to effectively manage our installment sales plans and revolving credit card programs;
- the cost and ability of shipping companies, manufacturers, suppliers, digital marketing channels and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- the impact of the seasonality of our business;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- changes in the nature of key strategic relationships with partners, distributors, suppliers and vendors;
- domestic and international economic and business conditions and industry trends;
- changes in tariffs, trade policy and trade relations and the United Kingdom's ("U.K.") exit from the European Union (“Brexit”);
- changes in trade policy and trade relations with China;
- consumer spending levels, including the availability and amount of individual consumer debt;
- the effects of our debt obligations;
- advertising spending levels;
- system interruption and the lack of integration and redundancy in the system and infrastructures of our business;
- changes in distribution and viewing of television programming, including the expanded deployment of video on demand technologies and Internet Protocol television and their impact on home shopping programming;

- failure to protect the security of personal information, subjecting us to potentially costly government enforcement actions and/or private litigation and reputational damage;
- the regulatory and competitive environment of the industries in which we operate;
- threatened terrorist attacks, political unrest in international markets and ongoing military action around the world;
- fluctuations in foreign currency exchange rates;
- natural disasters, public health crises (including COVID-19), political crises, and other catastrophic events or other events outside of our control; and
- Qurate Retail, Inc.'s ("Qurate Retail") dependence on our cash flow for servicing its debt and for other purposes.

For additional risk factors, please see Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 10-K"). These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report on Form 10-Q, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto and the 2020 10-K.

Overview

QVC, Inc. and its consolidated subsidiaries (unless otherwise indicated or required by the context, the terms "we," "our," "QVC" or the "Company" refer to QVC, Inc. and its consolidated subsidiaries) is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications.

In the United States ("U.S."), our televised shopping programs, including live and recorded content, are distributed across multiple channels nationally on a full-time basis, including QVC, QVC2, QVC3, HSN and HSN2. Our U.S. programming is also available on QVC.com and HSN.com, our "U.S. websites"; virtual multichannel video programming distributors (including Hulu + Live TV, AT&T TV, and YouTube TV); applications via streaming video; Facebook Live, Roku, Apple TV, and Amazon Fire; mobile applications; social pages and over-the-air broadcasters.

QVC's digital platforms enable consumers to purchase goods offered on our televised programming, along with a wide assortment of products that are available only on U.S. websites. QVC.com, HSN.com and our other digital platforms (including our mobile applications, social pages and others) are natural extensions of our business model, allowing customers to engage in our shopping experience wherever they are, with live or on-demand content customized to the device they are using. In addition to offering video content, our U.S. websites allow shoppers to browse, research, compare and perform targeted searches for products, read customer reviews, control the order-entry process and conveniently access their account.

Internationally, QVC's televised shopping programs, including live and recorded content, are distributed to households outside of the U.S., primarily in Germany, Austria, Japan, the U.K., the Republic of Ireland and Italy. In some of the countries where QVC operates, QVC's televised shopping programs are distributed across multiple QVC channels: QVC Style and QVC2 in Germany and QVC Beauty, QVC Extra and QVC Style in the U.K. Similar to the U.S., our international businesses also engage customers via websites, mobile applications, and social pages. Our international business employs product sourcing teams who select products tailored to the interests of each local market.

The Company's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui & Co., LTD ("Mitsui"). QVC-Japan is owned 60% by the Company and 40% by Mitsui. The Company and Mitsui share in all profits and losses based on their respective ownership interests. During the three months ended March 31, 2021 and 2020, QVC-Japan paid dividends to Mitsui of $16 million and $15 million, respectively.

The Company is an indirect wholly-owned subsidiary of Qurate Retail (Nasdaq: QRTEA, QRTEB and QRTEP), which owns interests in a broad range of digital commerce businesses, including Qurate Retail's other wholly-owned subsidiary Zulily, LLC ("Zulily"), as well as other minority investments. QVC is part of the Qurate Retail Group, formerly QVC Group, a portfolio of brands including QVC, Zulily and Cornerstone Brands, Inc. ("CBI").

QVC has two reportable segments: QxH and QVC-International. These segments reflect the way the Company evaluates its business performance and manages its operations.

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement that provides for a $2.95 billion revolving credit facility as explained further in note 5. The Fourth Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or Zulily. Under the terms of the Fourth Amended and Restated Credit Agreement, QVC and Zulily are jointly and severally liable for all amounts borrowed on the $400 million tranche. In accordance with the accounting guidance for obligations resulting from joint and several liability arrangements, QVC will record a liability for amounts it has borrowed under the credit facility plus any additional amount it expects to repay on behalf of Zulily. As of March 31, 2021, there was $75 million borrowed by Zulily on the $400 million tranche of the Fourth Amended and Restated Credit Agreement, none of which the Company expects to repay on behalf of Zulily.

During each of the three months ended March 31, 2021 and 2020, QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives and business advisory services. QVC allocated expenses of $2 million to Zulily for each of the three months ended March 31, 2021 and 2020, respectively. Zulily allocated expenses of $2 million and $3 million to QVC for the three months ended March 31, 2021 and 2020, respectively.

In September 2020, QVC and Zulily executed a Master Promissory Note ("Promissory Note") whereby Zulily may borrow up to $100 million at a variable interest rate equal to the LIBOR rate plus an applicable margin rate. The Promissory Note matures in September 2030. As of March 31, 2021, there were no borrowings on the Promissory Note.

During each of the three months ended March 31, 2021 and 2020, QVC and CBI engaged in multiple transactions relating to personnel and business advisory services. QVC allocated expenses of $5 million and $6 million to CBI for the three months ended March 31, 2021 and 2020, respectively. CBI allocated expenses of $1 million to QVC for each of the three months ended March 31, 2021 and 2020.

Strategies and challenges of business units

The goal of QVC is to extend its leadership in video commerce, e-commerce, mobile commerce and social commerce by continuing to create the world's most engaging shopping experiences, combining the best of retail, media, and social, highly differentiated from traditional brick-and-mortar stores or transactional e-commerce. QVC provides customers with curated collections of unique products, made personal and relevant by the power of storytelling. We curate experiences, conversations and communities for millions of highly discerning shoppers, and we also curate large audiences, across our many platforms, for our thousands of brand partners.

QVC intends to employ several strategies to achieve these objectives. Among these strategies are to (i) Curate special products at compelling values; (ii) Extend video reach and relevance; (iii) Reimagine daily digital discovery; (iv) Expand and engage our passionate community; and (v) Deliver joyful customer service. In addition, we are exploring opportunities to evolve the International operating model to pursue growth opportunities in a more leveraged way across markets.

QVC's future net revenue growth will primarily depend on sales growth from e-commerce, mobile platforms, and applications via streaming video, additions of new customers from households already receiving QVC's televised programming and increased spending from existing customers. QVC's future net revenue may also be affected by (i) the willingness of cable television and direct-to-home satellite system operators to continue carrying QVC's programming service; (ii) QVC's ability to maintain favorable channel positioning, which may become more difficult due to governmental action or from distributors converting analog customers to digital; (iii) changes in television viewing habits because of video-on-demand technologies and Internet video services; (iv) QVC's ability to source new and compelling products; and (v) general economic conditions.

The current economic uncertainty in various regions of the world in which our subsidiaries and affiliates operate could adversely affect demand for our products and services since a substantial portion of our revenue is derived from discretionary spending by individuals, which typically declines during times of economic instability. Global financial markets have recently experienced disruptions, including increased volatility and diminished liquidity and credit availability. If economic and financial market conditions in the U.S. or other key markets, including Japan and Europe, continue to be uncertain, our customers may respond by suspending, delaying or reducing their discretionary spending. A suspension, delay or reduction in discretionary spending could adversely affect revenue. Accordingly, our ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments decline. Such weak economic conditions may also inhibit our expansion into new European and other markets. We currently are unable to predict the extent of any of these potential adverse effects.

The Brexit process and negotiations have created political and economic uncertainty, particularly in the U.K. and the E.U., and this uncertainty may last for years. On June 23, 2016, the U.K. held a referendum in which voters approved, on an advisory basis, an exit from the E.U. The U.K. formally left the E.U. on January 31, 2020. This has resulted in a transition period that ran until December 31, 2020. On January 1, 2021, the U.K. left the E.U. Customs Union and Single Market, as well as all E.U. policies and international agreements. On December 24, 2020, the European Commission reached a trade agreement with the U.K. on the terms of its future cooperation with the E.U. (the "Trade Agreement"). The Trade Agreement offers U.K. and E.U. companies preferential access to each other's markets, ensuring imported goods that satisfy applicable point of origin rules (that is, that U.K. or E.U. goods are wholly produced or significantly worked in the U.K. or E.U., as applicable) will be free of tariffs and quotas; however, economic relations between the U.K. and the E.U. will now be on more restrictive terms than existed previously. For example, packages sent to and from the U.K., will need to satisfy new customs requirements and obtain applicable transit documents which may result in delays exporting items to customers outside of the U.K. and delays importing products into the U.K. that are shipped to us by our vendors. The Trade Agreement did not have a material impact to our business; however, we cannot predict the impact that any future agreements on economic relations between the U.K. and the E.U. will have on our businesses and our customers, and it is possible that new terms may adversely affect our operations and financial results.

There is uncertainty as to the actions that may be taken under a new Biden Administration with respect to U.S. trade policy with China. The imposition of any new U.S. tariffs on Chinese imports or the taking of other actions against China in the future, and any responses by China, could impair our ability to meet customer demand and could result in lost sales or an increase in our cost of merchandise, which would have a material adverse impact on our business and results of operations.

In December 2019, the COVID-19 pandemic was reported to have surfaced in Wuhan, China and has subsequently spread across the globe, including all of the countries in which QVC operates. As a result of the spread of the virus, certain local governmental agencies have imposed travel restrictions and imposed local quarantines or stay at home restrictions to contain the spread, which has caused a significant disruption to most sectors of the economy. In response to these stay at home restrictions, QVC has mandated that non-essential employees work from home and has reduced the number of employees who are allowed on its production set and has implemented increased cleaning protocols, social distancing measures and temperature screenings for those employees who enter into certain facilities. In some cases, the move to a work from home arrangement for our non-essential employees will be permanent, which has resulted in the reduction of office space. We have also mandated that all essential employees who do not feel comfortable coming to work will not be required to do so. As a result of these resource constraints, QVC included fewer hours of live programming on some of its secondary channels and has experienced some delays in shipping at certain fulfillment centers. In certain markets, QVC temporarily increased the wages and salaries for those employees deemed essential who do not have the ability to work from home, including production and fulfillment center employees. The inability to control the spread of COVID-19, or the expansion or extension of these stay at home restrictions could negatively impact our results in the future.

The stay at home restrictions imposed in response to COVID-19 required many traditional brick and mortar retailers to temporarily close their stores, but allowed distance retailers, including QVC, to continue operating. As a result, beginning at the end of March 2020, we observed an increase in new customers and an increase in demand for certain categories, such as home. However, QVC may not be able to retain these new customers after the pandemic subsides and any increases in demand in our product categories during the pandemic may be temporary.

As a result, for the three months ended March 31, 2020, management had increased the amounts of certain estimated reserves including, but not limited to, uncollectible receivables in anticipation of higher defaults by customers billed through our installment payment option, inventory obsolescence due to decreased demand for certain categories, such as apparel, and sales returns due to our extended return policy. There were no remaining estimated reserves as of December 31, 2020 and March 31, 2021 as a direct result of COVID-19.

In addition, there are several potential adverse impacts of COVID-19 that could cause a material negative impact to the Company's financial results, including its capital and liquidity. These include governmental restrictions on QVC's ability to continue to operate under stay at home restrictions and produce content; reduced demand for products we sell; decreases in the disposable income of existing and potential new customers; the impacts of any recession and other uncertainties with respect to the continuity of government stimulus programs implemented in response to COVID-19; increased currency volatility resulting in adverse currency rate fluctuations; higher unemployment; labor shortages; and an adverse impact to our supply chain and shipping disruptions for both the products we import and purchase domestically and the products we sell, including essential products experiencing higher demand, due to factory closures, labor shortages and other resource constraints. While the impact is currently uncertain, the inability to control the spread of COVID-19 could cause any one of these adverse impacts, or combination of adverse impacts, to have a material impact on our financial results.

Results of Operations

QVC's operating results were as follows:

	Three months ended March 31,	
(in millions)	**2021**	**2020**
Net revenue	$ 2,710	2,427
Operating costs and expenses:		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,758	1,584
Operating	186	177
Selling, general and administrative, excluding stock-based compensation	274	276
Adjusted OIBDA (defined below)	492	390
Stock-based compensation	9	6
Depreciation	40	43
Amortization	62	71
Operating income	381	270
Other (expense) income:		
Equity in losses of investee	—	(1)
Gains (losses) on financial instruments	1	(4)
Interest expense, net	(63)	(65)
Foreign currency (loss) gain	(2)	1
Other income	6	—
	(58)	(69)
Income before income taxes	323	201
Income tax expense	(85)	(60)
Net income	238	141
Less net income attributable to the noncontrolling interest	(16)	(12)
Net income attributable to QVC, Inc. stockholder	$ 222	129

Net revenue

Net revenue by segment was as follows:

		Three months ended March 31,	
(in millions)		**2021**	**2020**
QxH	$	1,936	1,792
QVC-International		774	635
Consolidated QVC	$	2,710	2,427

QVC's consolidated net revenue increased 11.7% for the three months ended March 31, 2021, as compared to the corresponding period in the prior year. The three month increase in net revenue is primarily due to an 8.1% increase in units shipped, a $27 million decrease in estimated product returns primarily driven by QxH, a $9 million increase in shipping and handling revenue and $47 million in favorable foreign exchange rates, which was partially offset by a 0.8% decline in average selling price per unit ("ASP"), primarily driven by QxH.

During the three months ended March 31, 2021 and 2020, the changes in revenue and expenses were affected by changes in the exchange rates for the U.K. Pound Sterling, the Euro and the Japanese Yen. In the event the U.S. Dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively affected.

In discussing our operating results, the term currency exchange rates refers to the currency exchange rates we use to convert the operating results for all countries where the functional currency is not the U.S. Dollar. We calculate the effect of changes in currency exchange rates as the difference between current period activity translated using the prior period's currency exchange rates. Throughout our discussion, we refer to the results of this calculation as the impact of currency exchange rate fluctuations. When we refer to "constant currency operating results", this means operating results without the impact of the currency exchange rate fluctuations. The disclosure of constant currency amounts or results permits investors to understand better QVC’s underlying performance without the effects of currency exchange rate fluctuations.

The percentage change in net revenue for each of QVC's segments in U.S. Dollars and in constant currency was as follows:

	Three months ended March 31, 2021		
	U.S. Dollars	**Foreign Currency Exchange Impact**	**Constant Currency**
QxH	8.0 %	— %	8.0 %
QVC-International	21.9 %	7.4 %	14.5 %

QxH net revenue growth for the three months ended March 31, 2021 was primarily due to a 7.9% increase in units shipped, a $30 million decrease in estimated product returns and a $6 million increase in shipping and handling revenue, which was partially offset by a 2.5% decline in ASP. For the three months ended March 31, 2021, QxH experienced shipped sales growth in home, accessories and electronics. The decrease in estimated product returns was primarily driven by a shift in product mix to lower return rate categories, partially offset by an increase in sales volume.

QVC-International net revenue growth in constant currency for the three months ended March 31, 2021 was primarily due to an 8.4% increase in units shipped, driven by increases in units shipped across all markets, and a 3.7% increase in ASP, driven by ASP increases across all markets. For the three months ended March 31, 2021, QVC-International experienced shipped sales growth in constant currency across all product categories.

Cost of goods sold (excluding depreciation and amortization)

QVC's cost of goods sold as a percentage of net revenue was 64.9% and 65.3% for the three months ended March 31, 2021 and 2020, respectively. The decrease in cost of goods sold as a percentage of revenue for the three months ended March 31, 2021 is primarily due to favorable estimated product returns at QxH and strategic promotional and pricing initiatives, which decreased product costs as a percentage of net revenue across all markets. These decreases were partially offset by increased freight primarily at QxH and higher obsolescence charges across all markets.

Operating expenses

QVC's operating expenses are principally comprised of commissions, order processing and customer service expenses, credit card processing fees and telecommunications expenses. Operating expenses increased $9 million or 5% for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020. For the three months ended March 31, 2021, the increase was primarily due to a $4 million increase in customer service expenses, primarily at QxH, and a $3 million increase due to unfavorable exchange rates.

Selling, general and administrative expenses (excluding stock-based compensation)

QVC's selling, general, and administrative expenses (excluding stock-based compensation) include personnel, information technology, provision for doubtful accounts, production costs, and marketing and advertising expenses. Such expenses decreased $2 million, and as a percentage of net revenue, decreased from 11.4% to 10.1% for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020.

For the three months ended March 31, 2021, the decrease was primarily due to a $25 million decrease in estimated credit losses primarily at QxH and to a lesser extent, the U.K., and a $2 million decrease in travel expenses across all markets. These decreases were partially offset by an $18 million increase in online marketing primarily at QxH, a $3 million increase in personnel costs and $5 million in unfavorable exchange rates. The decrease to estimated credit losses was due to a decrease in the number of installment counts offered to and taken by customers, an increase to our reserve as a result of COVID-19 for three months ended March 31, 2020, favorable adjustments based on actual collections and enhanced risk screening. The decrease in travel expenses was primarily due to less travel as a result of COVID-19. The increase in personnel costs is primarily due to an increase to our estimated incentive pay across all markets except QxH.

Stock-based compensation

Stock-based compensation includes compensation related to options and restricted stock units granted to certain officers and employees. QVC recorded $9 million and $6 million of stock-based compensation expense for the three months ended March 31, 2021 and 2020, respectively. The increase in stock compensation expense for the three months ended March 31, 2021 is primarily related to certain officers not reaching performance targets for restricted stock units for the three months ended March 31, 2020.

Depreciation and amortization

Depreciation and amortization consisted of the following:

	Three months ended March 31,	
(in millions)	**2021**	**2020**
Affiliate agreements	$ —	1
Customer relationships	12	12
Other technology	4	4
Acquisition related amortization	16	17
Property and equipment	40	43
Software amortization	21	21
Channel placement amortization and related expenses	25	33
Total depreciation and amortization	$ 102	114

The decrease in channel placement amortization and related expenses was due to certain channel placement agreements becoming fully amortized.

Equity in losses of investee

The Company has a joint venture with CNR Media Group, formerly known as China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"). The Company owns a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS"). CNRS operates a retail business in China through a shopping television channel with an associated website. This joint venture is accounted for as an equity method investment.

Interest expense, net

For the three months ended March 31, 2021, consolidated interest expense, net decreased $2 million or 3% as compared to the corresponding period in the prior year. The decrease is primarily related to $2 million in interest income related to the $1.8 billion note receivable with Qurate Retail.

Foreign currency (loss) gain

Certain loans between QVC and its subsidiaries are deemed to be short-term in nature, and accordingly, the translation of these loans is recorded in the condensed consolidated statements of operations. For the three months ended March 31, 2021, the change in foreign currency loss was also due to variances in interest and operating payables balances between QVC and its international subsidiaries denominated in the currency of the subsidiary and the effects of currency exchange rate changes on those balances.

Income taxes

Our effective tax rate was 26.3% and 29.9% for three months ended March 31, 2021 and 2020, respectively. The 2021 rate differs from the U.S. federal income tax rate of 21% due primarily to state and foreign tax expenses. The 2021 effective tax rate has decreased from the prior year primarily due to a valuation allowance established in the prior year for excess U.S. foreign tax credits, and reductions in other permanent items.

Adjusted Operating Income before Depreciation and Amortization (Adjusted OIBDA)

To provide investors with additional information regarding our financial statements, we disclose Adjusted OIBDA (defined below), which is a non-GAAP measure. QVC defines Adjusted OIBDA as operating income plus depreciation and amortization and stock-based compensation. QVC's chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate the businesses and make decisions about allocating resources among the businesses. QVC believes that this is an important indicator of the operational strength and performance of the segments by identifying those items that are not directly a reflection of each segment's performance or indicative of ongoing business trends. In addition, this measure allows QVC to view operating results, perform analytical comparisons and perform benchmarking among its businesses and identify strategies to improve performance. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with U.S generally accepted accounting principles ("U.S. GAAP").

The primary material limitations associated with the use of Adjusted OIBDA as compared to U.S. GAAP results are (i) it may not be comparable to similarly titled measures used by other companies in the industry, and (ii) it excludes financial information that some may consider important in evaluating QVC's performance. QVC compensates for these limitations by providing disclosure of the difference between Adjusted OIBDA and U.S. GAAP results, including providing a reconciliation of Adjusted OIBDA to U.S. GAAP results, to enable investors to perform their own analysis of QVC's operating results. The following table provides a reconciliation of operating income to Adjusted OIBDA.

	Three months ended March 31,	
(in millions)	**2021**	**2020**
Operating income	$ 381	270
Depreciation and amortization	102	114
Stock-based compensation	9	6
Adjusted OIBDA	$ 492	390

QVC Adjusted OIBDA increased by $102 million for the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase is comprised of a $56 million increase in QxH and a $46 million increase in QVC-International.

Seasonality

QVC's business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, QVC has earned, on average, between 21% and 24% of its revenue in each of the first three quarters of the year and 32% of its revenue in the fourth quarter of the year.

Financial Position, Liquidity and Capital Resources

General

Historically, QVC's primary sources of cash have been cash provided by operating activities and borrowings. In general, QVC uses this cash to fund its operations, make capital purchases, make payments to Qurate Retail, make interest payments and minimize QVC's outstanding senior secured credit facility balance.

As of March 31, 2021, substantially all of QVC's cash and cash equivalents were invested in AAA rated money market funds and time deposits with banks rated equal to or above A.

Exchangeable Senior Debentures

The Company has elected to account for its Motorola Solutions, Inc. 3.5% Senior Exchangeable Debentures Due 2031 (the “MSI Exchangeables”) using the fair value option. Accordingly, changes in the fair value of these instruments are recognized as gains (losses) on financial instruments in the accompanying statements of operations and in other comprehensive income as it relates to instrument specific credit risk on the accompanying consolidated statements of comprehensive income. The Company has classified for financial reporting purposes the MSI Exchangeables as a current liability as the MSI Exchangeables are exchangeable at the option of the holder at any time.

Senior Secured Notes

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority to the senior secured credit facility. With the exception of the 6.375% Senior Secured Notes due 2067 and the 6.25% Senior Secured Notes due 2068, for which interest is payable quarterly, the interest on QVC's senior secured notes is payable semi-annually.

Senior Secured Credit Facility

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement with Zulily as borrowers (collectively, the “Borrowers”) which is a multi-currency facility that provides for a $2.95 billion revolving credit facility with a $450 million sub-limit for standby letters of credit and $1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans. The Fourth Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by the Company or Zulily with a $50 million sub-limit for standby letters of credit. The remaining $2.55 billion and any incremental loans may be borrowed only by the Company. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.75% depending on the Borrowers’ combined ratio of Consolidated Total Debt to Consolidated EBITDA for the most recent four fiscal quarter period (the “Combined Consolidated Leverage Ratio”). Borrowings that are London Interbank Offered Rate ("LIBOR") loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin that varies between 1.25% and 1.75% depending on the Borrowers’ Combined Consolidated Leverage Ratio. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed availability; provided that, if Zulily ceases to be controlled by Qurate Retail, all of its loans must be repaid and its letters of credit cash collateralized. The facility matures on December 31, 2023. Payment of loans may be accelerated following certain customary events of default.

QVC had $2.85 billion available under the terms of the Fourth Amended and Restated Credit Agreement as of March 31, 2021, including the portion available under the $400 million tranche that Zulily may also borrow on.

The payment and performance of the Borrowers' obligations under the Fourth Amended and Restated Credit Agreement are guaranteed by each of QVC's Material Domestic Subsidiaries (as defined in the Fourth Amended and Restated Credit Agreement). Further, the borrowings under the Fourth Amended and Restated Credit Agreement are secured, *pari passu* with QVC's existing notes, by a pledge of all of QVC's equity interests. In addition, the payment and performance of the Borrowers' obligations with respect to the $400 million tranche available to both QVC and Zulily are also guaranteed by Zulily and secured by a pledge of all of Zulily's equity interests.

The Fourth Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including certain restrictions on the Company and Zulily and each of their respective restricted subsidiaries (subject to certain exceptions) with respect to, among other things: incurring additional indebtedness; creating liens on property or assets; making certain loans or investments; selling or disposing of assets; paying certain dividends and other restricted payments; dissolving, consolidating or merging; entering into certain transactions with affiliates; entering into sale or leaseback transactions; restricting subsidiary distributions; and limiting the Company's consolidated leverage ratio and the Borrowers' Combined Consolidated Leverage Ratio.

Parent Issuer and Subsidiary Guarantor Summarized Financial Information

The following information contains the summarized financial information for the combined parent (QVC, Inc.) and subsidiary guarantors (Affiliate Relations Holdings, Inc.; Affiliate Investment, Inc.; AMI 2, Inc.; ER Marks, Inc.; QVC Global Corporate Holdings, LLC; QVC GCH Company, LLC; QVC Rocky Mount, Inc.; QVC San Antonio, LLC; QVC Global Holdings I, Inc.; HSN, Inc; HSNi, LLC; HSN Holding LLC; AST Sub, Inc.; Home Shopping Network En Espanol, L.P.; Home Shopping Network En Espanol, L.L.C; Ingenious Designs LLC; NLG Merger Corp.; Ventana Television, Inc.; and Ventana Television Holdings, Inc.) pursuant to Rules 3-10, 13-01 and 13-02 of Regulation S-X.

This consolidated summarized financial information has been prepared from the Company's financial information on the same basis of accounting as the Company's consolidated financial statements. Transactions between the parent and subsidiary guarantors presented on a combined basis have been eliminated. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, such as management fees, royalty revenue and expense, interest income and expense and gains on intercompany asset transfers. Goodwill and other intangible assets have been allocated to the subsidiaries based on management's estimates. Certain costs have been partially allocated to all of the subsidiaries of the Company.

The subsidiary guarantors are 100% owned by the Company. All guarantees are full and unconditional and are joint and several. There are no significant restrictions on the ability of the Company to obtain funds from its U.S. subsidiaries, including the guarantors, by dividend or loan.

Summarized financial information for the year-to-date interim period and the most recent annual period was as follows:

	Combined Parent-QVC, Inc. and Subsidiary Guarantors March 31, 2021
Current assets	$ 2,144
Intercompany payable to non-guarantor subsidiaries	(2,585)
Note receivable - related party	1,825
Noncurrent assets	10,289
Current liabilities	1,838
Noncurrent liabilities	5,278

		Combined Parent-QVC, Inc. and Subsidiary Guarantors December 31, 2020
Current assets	$	2,394
Intercompany receivable from non-guarantor subsidiaries		(2,501)
Note receivable - related party		1,825
Noncurrent assets		11,118
Current liabilities		2,152
Noncurrent liabilities		5,286

		Combined Parent-QVC, Inc. and Subsidiary Guarantors Three months ended March 31, 2021
Net revenue	$	2,188
Net revenue less cost of goods sold		906
Income before taxes		224
Net income		238
Net income attributable to QVC, Inc. Stockholder		222

		Combined Parent-QVC, Inc. and Subsidiary Guarantors Year ended December 31, 2020
Net revenue	$	9,631
Net revenue less cost of goods sold		4,066
Income before taxes		945
Net income		910
Net income attributable to QVC, Inc. Stockholder		852

Other Debt Related Information

QVC was in compliance with all of its debt covenants as of March 31, 2021.

There are no restrictions under the debt agreements on QVC's ability to pay dividends or make other restricted payments if QVC is not in default on its senior secured notes or the Fourth Amended and Restated Credit Agreement, and QVC's consolidated leverage ratio, and a Combined Consolidated Leverage Ratio for both QVC and Zulily, would be no greater than 3.5 to 1.0. As a result, Qurate Retail will, in many instances, be permitted to rely on QVC's cash flow for servicing Qurate Retail's debt and for other purposes, including repurchases of Qurate Retail's common stock, paying dividends to Qurate Retail's shareholders, including quarterly cash dividends to holders of Qurate Retail's Series A Cumulative Redeemable Preferred Stock (Nasdaq: QRTEP), or to fund acquisitions or other operational requirements of Qurate Retail and its subsidiaries. These events may increase accumulated deficit or require QVC to borrow under the Fourth Amended and Restated Credit Agreement, increasing QVC's leverage and decreasing liquidity. QVC has made significant distributions to Qurate Retail in the past.

Interest Rate Swap Arrangements

In July 2019, the Company entered into a three-year interest swap arrangement with a notional amount of $125 million. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP and the fair value of the swap instrument was in a net liability position of $2 million and $3 million as of March 31, 2021 and December 31, 2020, respectively, which was included in other long-term liabilities.

Additional Cash Flow Information

During the three months ended March 31, 2021, QVC's primary uses of cash were $177 million of dividends to Qurate Retail, $143 million of principal payments of the senior secured credit facility and finance lease obligations, $97 million of capital and television distribution rights expenditures and $16 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $247 million of cash provided by operating activities, $135 million of principal borrowings from the senior secured credit facility and $40 million in proceeds from sale of fixed assets. As of March 31, 2021, QVC's cash, cash equivalents and restricted cash balance was $646 million.

During the three months ended March 31, 2020, QVC's primary uses of cash were $872 million of principal payments on debt and finance lease obligations, $122 million of dividends to Qurate Retail, $40 million of capital and television distribution rights expenditures and $15 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $575 million of proceeds from issuance of senior secured notes, $310 million of cash provided by operating activities and $112 million of principal borrowings from the senior secured credit facility. As of March 31, 2020, QVC's cash, cash equivalents balance and restricted cash was $505 million.

The change in cash provided by operating activities for the three months ended March 31, 2021 compared to the previous year was primarily due to changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

As of March 31, 2021, $269 million of the $646 million in cash, cash equivalents and restricted cash was held by foreign subsidiaries. Cash in foreign subsidiaries is available for domestic purposes with no significant tax consequences upon repatriation to the U.S. QVC accrues taxes on the unremitted earnings of its international subsidiaries. Approximately 71% of this foreign cash balance was that of QVC-Japan. QVC owns 60% of QVC-Japan and shares all profits and losses with the 40% minority interest holder, Mitsui. We believe that we currently have appropriate legal structures in place to repatriate foreign cash as tax efficiently as possible and meet the business needs of QVC.

Other

Capital expenditures in 2021 are expected to be between $220 and $250 million, including $41 million already expended for the three months ended March 31, 2021.

Refer to the chart under the "Off-balance Sheet Arrangements and Aggregate Contractual Obligations" section below for additional information concerning the amount and timing of expected future payments under QVC's contractual obligations as of March 31, 2021.

QVC has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible QVC may incur losses upon the conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, that may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

Off-balance Sheet Arrangements and Aggregate Contractual Obligations

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations as of March 31, 2021 is summarized below:

						Payments due by period	
(in millions)	**Remainder of 2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Long-term debt (1)	$ 4	8	758	609	609	2,676	4,664
Interest payments (2)	146	238	222	182	154	2,587	3,529
Finance lease obligations (including imputed interest)	18	26	25	23	21	89	202
Operating lease obligations	$ 27	33	27	24	21	168	300

(1) Amounts exclude Finance lease obligations and the issue discounts on the 4.375%, 4.45%, 4.85%, 5.45% and 5.95% Senior Secured Notes.

(2) Amounts (i) are based on the terms of our senior secured notes and exchangeable senior debentures, (ii) assumes that our existing debt is repaid at maturity and (iii) excludes finance lease obligations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

QVC is exposed to market risk in the normal course of business due to ongoing investing and financial activities and the conduct of operations by subsidiaries in different foreign countries. Market risk refers to the risk of loss arising from adverse changes in stock prices, interest rates and foreign currency exchange rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. QVC has established procedures and internal processes governing the management of market risks and the use of financial instruments to manage exposure to such risks.

Interest rate risk

QVC is exposed to changes in interest rates primarily as a result of borrowing activities. Over the long-term, QVC manages the exposure to interest rates by maintaining what QVC believes is an appropriate mix of fixed and variable rate debt.

The table below summarizes the Company's debt obligations, related interest rates and fair value of debt at March 31, 2021:

(in millions, except percentages)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total	Fair Value
Fixed rate debt (1) (2)	$ 4	8	758	609	609	2,676	4,664	5,051
Weighted average interest rate on fixed rate debt	3.5 %	3.5 %	4.4 %	4.8 %	4.4 %	5.3 %	4.9 %	N/A
Variable rate debt	$ —	—	—	—	—	—	—	—
Average interest rate on variable rate debt	— %	— %	— %	— %	— %	— %	— %	N/A

(1) Amounts exclude finance lease obligations and the issue discounts on the 4.375%, 4.45%, 4.85%, 5.45% and 5.95% Senior Secured Notes.

(2) Amounts exclude impact related to interest rate swaps, which we have discussed further below.

N/A - Not applicable.

In July 2019, the Company entered into a three-year interest swap arrangement with a notional amount of $125 million. The new swap arrangement did not qualify as a cash flow hedge under U.S. GAAP and the fair value of the swap instrument was in a net liability position of approximately $2 million as of March 31, 2021, which was included in other long-term liabilities.

Changes in the fair value of the swaps are reflected in gains (losses) on financial instruments in the condensed consolidated statements of operations.

Foreign currency exchange rate risk

QVC is exposed to foreign exchange rate fluctuations related to the monetary assets and liabilities and the financial results of its foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. Dollars at period-end exchange rates, and the statements of operations are translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. Dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income as a separate component of stockholder's equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end transactions) or realized upon settlement of the transactions. Cash flows from operations in foreign countries are translated at the average rate for the period. Accordingly, QVC may experience economic loss and a negative impact on earnings and equity with respect to its holdings solely as a result of foreign currency exchange rate fluctuations. QVC's reported Adjusted OIBDA for the three months ended March 31, 2021 would have been impacted by approximately $1 million for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

The Fourth Amended and Restated Credit Agreement provides QVC with the ability to borrow in multiple currencies. This allows QVC to somewhat mitigate foreign currency exchange rate risks. As of March 31, 2021, no borrowings in foreign currencies were outstanding.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and its principal accounting and financial officer (the “Executives”), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of March 31, 2021 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company’s internal control over financial reporting that occurred during the Company’s quarter ended March 31, 2021, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

Item 6. Exhibits

(a) *Exhibits*

Listed below are the exhibits which are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

31.1	Rule 13a-14(a)/15d-14(a) Certification*
31.2	Rule 13a-14(a)/15d-14(a) Certification*
32.1	Section 1350 Certification**
101.INS	Inline XBRL Instance Document* - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Definition Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*

*Filed herewith.

**Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QVC, Inc.

Date: May 7, 2021	By:/s/ MICHAEL A. GEORGE
	Michael A. George President and Chief Executive Officer (Principal Executive Officer)
Date: May 7, 2021	By:/s/ JEFFREY A. DAVIS
	Jeffrey A. Davis Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Michael A. George, certify that:

1. I have reviewed this report on Form 10-Q of QVC, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2021

By:/s/ MICHAEL A. GEORGE

Michael A. George
President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Jeffrey A. Davis, certify that:

1. I have reviewed this report on Form 10-Q of QVC, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2021

By:/s/ JEFFREY A. DAVIS

Jeffrey A. Davis
Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of QVC, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Report on Form 10-Q for the quarter ended March 31, 2021 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021 By:/s/ MICHAEL A. GEORGE

Michael A. George
President and Chief Executive Officer (Principal Executive Officer)

Date: May 7, 2021 By:/s/ JEFFREY A. DAVIS

Jeffrey A. Davis
Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.