REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q4 AND FY 2021 CONFERENCE CALL PREPARED REMARKS ON FEBRUARY 23, 2022

ERIK RANDERSON, VP INVESTOR RELATIONS

Good afternoon, everyone, and thanks for joining us to discuss REVOLVE's fourth quarter and full year 2021 results.

Before we begin, I would like to mention that we have posted a presentation containing Q4 and full year financial highlights to our Investor Relations website located at investors.revolve.com.

I would also like to remind you that this conference call will include forward-looking statements, including statements related to our current expectations regarding the continued impact of the COVID-19 pandemic on our business, operations and financial results, our growth and market opportunities, our ability to manage through supply chain challenges, our plans to expand our operations footprint and loyalty programs, our marketing investments and events, our merchandise mix, our seasonality pattern, freight costs and our outlook for operating expenses, net sales, gross margin, and effective tax rate. These statements are subject to various risks, uncertainties and assumptions that could cause our actual results to differ materially from these statements, including the risks mentioned in this afternoon's press release as well as other risks and uncertainties disclosed under the caption "Risk Factors" and elsewhere in our filings with the Securities and Exchange Commission, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2020 and our subsequent Quarterly Reports on Form 10-Q, all of which can be found on our website at investors.revolve.com. We undertake no obligation to revise or update any forward-looking statements or information except as required by law.

During our call today, we will also reference certain non-GAAP financial information, including Adjusted EBITDA and Free Cash Flow. We use non-GAAP measures in some of our financial discussions, as we believe they provide valuable insights on our operational performance and underlying operating results. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and our non-GAAP measures may be different from non-GAAP measures used by other companies. Reconciliations of non-GAAP measures to GAAP measures, as well as the definitions of each measure, their limitations and our rationale for using them, can be found in this afternoon's press release and in our SEC filings.

Joining me on the call today are our co-founders and co-CEOs, Mike Karanikolas and Michael Mente, as well as Jesse Timmermans, our CFO. Following our prepared remarks, we'll open the call for your questions.

With that, I'll turn it over to Mike.

MIKE KARANIKOLAS, CO-FOUNDER AND CO-CEO

Good afternoon, everyone. I'm excited to update you on our exceptional top-line growth and profitability in the fourth quarter. Our extraordinary performance capped off a phenomenal year for us. A year in which we outperformed in the face of macro challenges and supply chain headwinds, demonstrating the strength of our brands and great execution by our team.

There are three points that I want everyone to walk away with today.

First, our business has experienced incredible momentum, as demonstrated by our financial results and key operating metrics. We delivered record results in the fourth quarter, highlighted by net sales of $240 million, an increase of 70% year-over-year and 63% growth on a two-year basis versus the fourth quarter of 2019. This is an acceleration of approximately 5 points compared to the two-year growth rate we reported for the third quarter of 2021. And the outstanding revenue trends have continued through the first seven weeks of the quarter.

We also delivered record profitability for a fourth quarter, highlighted by $29 million in net income and $34 million in Adjusted EBITDA, with each measure increasing by a strong triple digit percentage compared to pre-COVID levels in Q4 of 2019. For the full year in 2021, we achieved record net income of $100 million, almost 3 times higher than the net income of $36 million reported in 2019.

An exciting driver of our outstanding results was a record increase in **active customers.** We added 162,000 active customers in the fourth quarter, outpacing our prior record of 124,000 announced just last quarter. Equally important, our rapidly growing base of active customers are increasingly productive in generating orders and net sales, further illustrating our business momentum and increasing consumer engagement across the business. Our customer acquisition and retention efforts were also very efficient in the fourth quarter, with marketing as a percentage of net sales declining year-over-year to 13.5%, evidence that our brands are strong, our marketing investments are effective and our customer is engaged.

Second, we believe our ability to achieve such outstanding results during a challenging operating environment underscores our sustainable competitive advantages. Emergence of the Omicron variant created new headwinds and logistical challenges, air freight costs increased to the highest levels we've ever seen, and other supply chain and macro pressures have required us to be extremely agile to maintain our high operating standards. Against this backdrop, I am proud to share that our operations didn't skip a beat and that we achieved record net promoter scores during the fourth quarter and full year, a powerful indication of customer loyalty. We proved how effectively our organization can scale while maintaining our quality standards by managing the 72% growth in customer orders year-over-year in Q4.

Our nearly 20-year history since founding REVOLVE has taught Michael and I that challenging operating environments create opportunities for the best positioned companies to capitalize on their strengths, thrive and gain market share. Just as we successfully navigated earlier periods of macro disruption, such as the great financial crisis, our strong team and competitive differentiators have guided our outperformance throughout the pandemic. We believe our technology-driven DNA and proprietary technology infrastructure, operational excellence and agility, and the strength of the REVOLVE brand positions us very well for 2022 and beyond.

Third, above and beyond our strong operating results achieved throughout 2021, we see a long runway for growth ahead. In 2022, we plan to continue to invest in customer acquisition and retention, as well as thoughtfully investing in continuing to build our infrastructure to support our increased scale and pursuit of what we believe is a large market opportunity ahead of us.

Key priorities for our investments and focus in 2022 include the following.

- **We will build our brands and brand awareness to capitalize on our current momentum.** With our customer engaging with us more than ever following our successful brand marketing investments last fall, we plan to keep the pedal down on our impactful marketing efforts in 2022. We're also excited about the potential of our recently announced Brand Ambassador program that has performed extremely well early on. Michael will hit on this more.

- **We will capitalize on the long-term opportunity at FWRD to build a curated luxury platform for the next generation consumer**. After years of investment, our FWRD segment is firing on all cylinders. We delivered 83% net sales growth in 2021, outpacing industry benchmarks by a wide margin. We see so much opportunity for growth in luxury – even just within the existing REVOLVE customer base – that we are going to aggressively invest in FWRD in 2022.

- **We will expand our assortment into adjacent product categories, where we see exciting opportunity over the long term.** Consider that our beauty sales nearly tripled in just the past two years on top of continued growth in our more mature categories. Building on the trust we have earned with our customer, we believe we can expand our offerings to serve more aspects of her life to expand our share of wallet over the longer term.

- **We will expand our international presence and elevate service levels overseas to capitalize on the huge global opportunity outside of the U.S.** The successful service level enhancements for our customers in Canada led to a more than doubling of Canadian net sales year-over-year in 2021. In the coming year, we plan to increase service levels in additional markets offering exciting growth potential, continue to refine the assortment for our international customers, and increase the level of marketing investment.

- **We will continue to reinforce our owned brand capabilities to deliver healthy performance within existing categories and support expansion into additional product categories**, which we believe will further differentiate our assortment. As a sign of our early progress, in the fourth quarter Owned brands net sales mix as a percentage of REVOLVE segment net sales increased year-over-year for the first time in two years.

- **We will further elevate our customer experience by investing in our operations footprint and staying laser focused on providing a best-in-class customer experience**. We strive to exceed our customers' expectations each and every day. Of note, later this year we plan to break ground on a second warehouse in the U.S. that we believe will even further raise the bar on our very high standards for customer service and fulfillment operations.

- **And, finally, we will further enhance our technology stack and leverage our rich data, including increased personalization on our websites that contributed to an improved conversion rate in 2021**. Our technology, product and data science teams have done a great job in leveraging our vast data asset to optimize our assortment and provide a personalized experience for our customers and customer segments based on their prior behaviors. We will continue to invest in these and many other applications of our technology stack that serve as the backbone for our data driven approach to virtually everything we do.

I will wrap up by discussing the retention performance of our customer cohorts during 2021 – a major improvement compared to 2020 when cohort spending was challenged by COVID-19 headwinds that impacted consumer demand.

As economies began to reopen and we were able to reconnect with our customers through our impactful marketing campaigns and on point assortment, the retention of our prior-year customer cohorts achieved higher levels of performance than ever before. This is very encouraging, considering that our cohort performance has historically been so consistent and strong to begin with.

I would also like to highlight that the vast majority of our newly added customers in 2021 purchased from us at full price, since full-price customers generate a higher lifetime value than customers acquired through markdowns.

One factor that we believe is contributing to favorable customer retention is the success of our new loyalty programs.

We leveraged our proprietary technology to create a loyalty program, first for REVOLVE in 2020, and later for FWRD in 2021. The early results have been really exciting. Among our active customer base, on average, our loyalty members placed almost three times more orders than non-loyalty members during 2021. And during every single month since we launched the FWRD loyalty program, we have driven increased overlap between REVOLVE and FWRD active customers that have contributed to FWRD's exceptional sales growth during 2021. We believe there's still a very long runway for driving further cross shopping between REVOLVE and FWRD in the future.

We plan to further expand the REVOLVE loyalty program in 2022, rolling it out in select international markets.

Before I turn it over to Michael, I would like to thank our team for their incredible efforts that contributed to our exceptional results throughout 2021. Michael and I are so fortunate to be surrounded by such an outstanding team of talented, dedicated, results driven and passionate individuals.

We are better positioned than ever before for what lies ahead, and I truly believe the best is yet to come.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike.

I couldn't be more proud of the team and our performance for the fourth quarter. Our results were nothing short of incredible across the board. Net sales growth in the REVOLVE segment accelerated for the fourth consecutive quarter – to a 68% increase year over year. FWRD delivered an even stronger 83% growth in net sales year-over-year in the fourth quarter.

To perform this well, while facing serious challenges including a Covid spike, inflation concerns, supply chain delays, labor shortages and major changes in the digital advertising, is astounding.

Also exciting is that for the full year in 2021, 87% of our total **net sales were at full price**. That is 10 points higher than in 2020, and represents the first time the full price mix of net sales exceeded 80% for a full year. Our team deserves a lot of credit for these results, being so agile and decisive during a fluid environment.

The competitive differentiators Mike alluded to are built into our DNA, have guided us throughout the pandemic, and have positioned us for continued success over the long term.

It starts with our proprietary technology, data-driven culture, and exceptional team. Our accelerated growth throughout 2021 benefited significantly from having access to the right type of inventory during a time when supply chains were an industry wide challenge. Our proprietary technology and data-driven approach have been a huge differentiator in this time of disruption. Since we have automated so many aspects of the decision-making process, we can leverage data much faster than others to identify trends and make merchandising decisions in a very quick, accurate, and efficient way.

Reading and reacting quickly to have the right inventory for her needs at the right time has been core to our success over the years and was key to our success in the most recent quarters. In addition to meeting her shopping needs and desires, having the right inventory allows us to be more aggressive and efficient in our marketing approach, having full confidence that we can support the increasing consumer demand resulting from our impactful marketing campaigns.

Our proprietary technology infrastructure is also integrated in a way that enables us to operate efficiently, and consistently exceed the expectations of our customers.

We have also leveraged our technology stack to develop loyalty programs that have proven highly successful in deepening the connection with our valuable customers, and in providing us with massive amounts of additional data insights.

Last November, we announced a further extension of our in-house technology with the launch of our new Brand Ambassador program. The program is a community-driven extension of our pioneering influencer marketing strategy and is already generating a meaningful amount of incremental traffic and incremental revenue. We had almost 10,000 signups within the first 24 hours alone, with a significant portion of them being micro influencers that comprise an exciting area of opportunity. And since the Brand Ambassador program is built on our technology stack, we capture more data and insights than ever before.

Aside from enabling our passionate customers and fans to engage with our brand in new and exciting ways, top performing ambassadors can gain access to our exclusive events, adding excitement and powerful incentives to drive further engagement with our brand.

The strength of our brands is another key differentiator that has been integral to our success. We believe the strength of our brands and the diversity of our marketing channels has helped us to navigate through the marketing headwinds resulting from Apple's recent iOS privacy updates. In fact, during the fourth quarter, we realized more than a full point of marketing efficiency as a percentage of net sales when compared to Q4 of 2020.

As our current brand heat and customer engagement suggests, early indications are that the New York Fashion Week investments I discussed last quarter were highly beneficial. And to keep up the momentum, we are planning to maintain an elevated level of marketing investment in 2022.

We have an exciting slate of marketing events and activations planned for the year. Earlier this month, coinciding with the Super Bowl being hosted in Los Angeles, we co-hosted an exclusive, 2-day homecoming event that was one of the hottest parties on the planet during the biggest entertainment weekend of the year. Co-hosted with the h.wood group and featuring headliner entertainment from Justin Bieber and Drake, the invite-only event brought together some of the most influential celebrities, athletes, musicians and CEOs in the world – further reinforcing the strength of our aspirational lifestyle brand. Attendance by A-listers was off the charts and included Kendall Jenner, Hailey Bieber, Khloe Kardashian, Heidi Klum, Nicole Scherzinger, Adele, Lizzo, Ciara, Cardi B, Offset, Leonardo DiCaprio, Lil Wayne, Jamie Foxx, Russell Wilson, Derrick Henry, Paul Pierce, Mike Tyson, Jack Dorsey, and Jeff Bezos.

As we look ahead to re-launch the **REVOLVE Social Club**, a pop-up retail concept opening in Los Angeles next week and extending through the end of April. The REVOLVE Social Club will feature exclusive experiences and special events for our loyal customers, fans, brand ambassadors, and VIP friends of the brand.

Then in April, after a two-year hiatus, we have plans to bring back our showcase **REVOLVE Festival**. REVOLVE Festival has historically been our most impactful event of the year and we are going bigger and better than ever. We are also excited for the continued expansion of our marketing playbook across both REVOLVE and FWRD with some very special FWRD activations in the works with our creative director, Kendall Jenner, later this year.

With the strength of our brand and trust we have earned from our core customer through our authentic and aspirational marketing and lifestyle events, combined with our exceptional service levels, we believe we can continue to expand our offerings and broaden her range of shopping at REVOLVE and FWRD. We believe the opportunity continues to grow and is a key building block of our growth plans in 2022 and over the long term.

And finally, our operational excellence and our agility are key differentiators and are a critical long-term competitive advantage that is especially evident today. Consider that during 2021, our average cost to fulfill an order decreased by 12% year over year, despite rising inflation pressures and the headwind of an increasing return rate year-over-year. And throughout all the chaos during the pandemic, we have continued to maintain our very high standards in an environment where shipping delays have become widespread.

As our numbers attest, we are leveraging our competitive advantages to delight our customers and gain market share in a challenging operating environment that has adversely impacted the results for many other companies in our industry. As excited and proud as I am of our recent performance, I am even more excited about what lies ahead.

With our positioning at the intersection of the digital shift and the rise of the next generation consumer, we believe there remains a large opportunity to gain further market share from legacy retailers and competitors. The pace of the digital shift has accelerated over the last two years and we believe there is even more opportunity in the years to come. Our brands are truly connecting with the next-generation consumer, a demographic expected to become the dominant generation in the coming years and with a further increase in purchasing power. With these favorable industry trends combined with our technology-driven DNA, the strength of our brands, our operational excellence and our focus on the customer, we believe we are positioned to win the hearts and the wallets of the consumer.

Now, I will turn it over to Jesse for a discussion of the financials.

JESSE TIMMERMANS, CFO

Thanks, Michael, and hello everyone.

We believe our results throughout 2021 demonstrate the exceptional momentum of our brands, our competitive differentiation and our focus on operational excellence.

I'll start by recapping the fourth quarter results, highlighted by continued acceleration in our topline growth and record growth in active customers.

Net sales were $240 million, a year-over-year increase of 70%, and reflect a two-year growth rate of 63% compared to the fourth quarter of 2019. This two-year growth rate is 5 points higher than the 58% two-year growth rate that we reported for the third quarter of 2021.

Both **segments** contributed to our exceptional growth. **REVOLVE Segment** net sales increased 68% and **FWRD Segment** net sales increased 83% year-over-year in the fourth quarter.

From a **merchandise standpoint**, triple digit growth in dresses was a notable contributor to our accelerated growth in net sales during the fourth quarter. And yet, the net sales mix of dresses remains well below pre-COVID levels, which illustrates how successful we have been in driving rapid growth across a wide range of categories.

Also notable is that **owned brands** as a percentage of REVOLVE Segment net sales increased year-over-year for the first time in two years. We continue to expect the Owned brands mix of REVOLVE segment sales to trend higher in 2022, increasing from the Owned brand mix of 20% we achieved for the full year of 2021.

By territory, both domestic and international markets contributed to the strong top-line results.

Active customers increased by an exceptional 162,000 compared to the third quarter of 2021, handily outpacing the prior record performance announced just last quarter. This expanded our active customer count to 1.8 million, an increase of 25% year-over-year. This expansion was driven by record new customer additions as well as record retention rates.

And our customer was very active, placing a record 1.8 million **orders** in the quarter, an increase of 72% year-over-year.

Average order value, or AOV, was $292, an increase of 14% year-over-year and an increase of 6% sequentially from the third quarter. A key driver of the growth in AOV year-over-year, and sequentially, was a further shift in mix back to higher price point merchandise such as dresses, handbags and shoes, as well as the continued strength coming from the FWRD segment.

Shifting to gross profit… Consolidated gross margin was 54.8%, a decrease of 116 basis points against a record prior-year comparison, yet gross margin increased 189 basis points on a two-year basis, compared to the fourth quarter of 2019.

This strong result was ahead of the gross margin outlook provided last quarter, despite the cost of inbound freight in the fourth quarter increasing to a record high level.

Moving on to operating expenses….

Consistent with the outlook we provided last quarter, **fulfillment expense** showed efficiency as a percentage of net sales year-over-year, while **selling and distribution** increased to 15.9% of net sales.

After the significant marketing investments in the third quarter, our **marketing expense** as a percentage of net sales came in at 13.5% in the fourth quarter, due in part to the timing of brand marketing investments, as well as sequential efficiencies gained in our performance marketing efforts.

General and administrative expense leveraged significantly, primarily due to our robust 70% growth in net sales outpacing the 26% growth in G&A expenses during the fourth quarter.

Net income was $29 million, or 39 cents per diluted share, a 50% increase as compared to diluted EPS of $0.26 in the fourth quarter of 2020. This brings the full year diluted earnings per share to $1.34 in 2021, an increase of 70% year-over-year.

We reported **Adjusted EBITDA** of $34 million, a record high for a fourth quarter, and a year-over-year increase of 82%. Adjusted EBITDA margin expanded to 14.3% from 13.3% a year ago, an increase of 93 basis points.

On a two-year growth basis, when compared to for the fourth quarter of 2019, net income and Adjusted EBITDA increased by 250% and 150%, respectively.

Finally, profitability highlights for the full year 2021 include net income of $100 million and an Adjusted EBITDA margin of 12.9%, up from 11.9% in 2020.

Moving to the balance sheet and cash flow statement… During the fourth quarter, we continued to invest in inventory to position our assortment to support strong consumer demand and to ensure we have adequate available inventory as we head into 2022, expecting seasonality to return closer to the historical cadence and also considering the current supply chain challenges. As a result, inventory increased by $29 million during the quarter, to $171 million.

For the full year 2021, we generated $60 million in free cash flow, representing 7% of net sales. The 16% decrease in free cash flow generation year-over-year reflects the much larger inventory investment in 2021 compared to 2020 when we reduced inventory to preserve liquidity.

Our balance sheet remains debt free and cash and cash equivalents, at year end 2021, were $218 million, an increase of $72 million, or 50%, from $146 million as of the end of 2020.

We are extremely proud of our incredible results, especially considering the challenging and uncertain macro environment. We faced a myriad of headwinds this quarter; inflation, the Omicron variant, global supply chain challenges and other logistical challenges, yet we continued to maintain our world-class customer service and operations, while delivering exceptional growth and profitability.

We feel great about our success in navigating these challenges so far, yet these are real headwinds that we continue to contend with every day.

Now, let me update you on some recent trends in the business since the fourth quarter ended and provide some direction on our cost structure to help in your modeling of the business.

Starting from the top, the strong top-line trends we experienced in the fourth quarter continued through the first seven weeks of the first quarter of 2022, with a year-over-year growth rate in the same zone as our fourth quarter 2021 growth rate.

Now, as you think about modeling net sales growth for the full first quarter, it is important to consider that year-over-year comparisons become much more difficult beginning in March.

To put a finer point on this, recall from our prior commentary that net sales in the months of January 2021 and February 2021 each grew by a low single digit percentage year over year. By comparison, net sales in March 2021 grew by a much faster rate year over year, leading to the 22% growth for the full first quarter of 2021. March was also the largest monthly contributor to net sales in the first quarter of 2021, so, do bear in mind the more difficult monthly comps for the rest of the first quarter.

Looking at the potential trajectory for net sales growth over the full year 2022, directionally speaking we are confident in our ability to meet or exceed our long-term target growth rate of 20% in 2022 -- even coming off a year when we delivered net sales growth of 54%.

From a linearity standpoint, considering that our growth rate meaningfully accelerated throughout 2021, we expect our growth rate in 2022 to be highest in the first quarter of 2022 and lowest in the fourth quarter of 2022. On an absolute basis and barring any macro shifts, we expect our quarterly seasonality to revert closer to historical patterns with a peak in the second quarter as we head into festival season and the warm summer months.

Finally, we expect strong net sales growth across both segments and expect that FWRD's growth rate will continue to outpace REVOLVE's in 2022.

Shifting to gross margin… We are extremely pleased with our gross margin performance that hit our long-term target of 55% for the full year of 2021, an increase of 237 basis points versus 2020, and 138 basis points higher on a two-year basis versus 2019.

Looking ahead and starting with the outlook for gross margin in the first quarter…. We expect gross margin in the first quarter of 2022 to be between 53.5% and 54%, a strong result considering this would represent the lowest sequential quarter decrease compared to the preceding fourth quarter gross margin in 7 years.

For the full year 2022, we expect gross margin to be flat to slightly down versus our record gross margin of 55% achieved in 2021 due to some offsetting puts and takes. We expect a gross margin benefit from a moderately higher mix of Owned Brand sales in 2022 to be at least offset by three main factors:

- **#1,** a greater **mix of FWRD net sales,** where segment gross margins are roughly 10 points lower than the REVOLVE segment gross margin. Importantly, gross profit dollars per FWRD order are actually higher than at REVOLVE because of the much higher average order value, so it is a tradeoff we are happy to make;

- **#2,** as Michael mentioned, we achieved a record 87% of our **net sales at full price** in 2021 **–** a 10-point increase compared to 2020 – as well as record low depth of markdowns. While we believe we can continue to deliver outstanding results on full price sell-through and the depth of markdowns, consistent with our prior commentary we are expecting these metrics to start to move in the direction of historical trends in 2022.

- and **#3,** we expect **in-bound freight costs** to remain elevated in 2022. As a reference point, in-bound freight costs for our owned brands products in the fourth quarter increased 3X versus 2019 levels and have remained elevated thus far in 2022.

Fulfillment: Performance in the past two years has been incredible, with fulfillment leveraging by approximately 40 basis points for each of the past two years.

In 2022, we believe we can maintain these efficiencies and achieve fulfillment expense of around 2.5% of net sales. We expect further efficiencies resulting from incremental automation and space maximization in our warehouse and a higher average order value to be offset by increased wages and other input costs, as well as expected pressure from our return rate in 2022 being higher year over year.

Selling and Distribution: In 2022, we expect Selling and Distribution costs to be around 16% of net sales, consistent with prior commentary. The anticipated deleverage versus 2021 reflects cost pressures resulting from a return rate that we expect to be higher in 2022, as well as external pressures on shipping costs industry wide. Recall that shipping and handling costs comprise the majority of the Selling and Distribution line item.

Marketing: We expect our marketing investment to remain approximately flat with the 2021 rate of 15.8% of net sales. We are very excited by the performance of our recent in-person activations and how well our brand is resonating with the next generation consumer, as illustrated by the record growth in Active Customers the past two quarters and the record retention performance of our prior-year customer cohorts in 2021. To capitalize on our current momentum, we plan to maintain a slightly-higher-than historical level of marketing investment in 2022.

General and Administrative: We expect G&A expense of approximately $26 million in the first quarter and $105 to $110 million for the full year 2022 as we continue to invest to support our growth and expansion.

Lastly, let me touch on our **tax rate**. Our effective tax rate in the fourth quarters of 2021 and 2020 reflect tax benefits realized as a result of the exercise of nonqualified stock options. Absent such tax benefits in future quarters, we expect our effective tax rate to be around 24% to 26%.

To recap, we are incredibly excited about our recent results, capping off an outstanding year with strength across segment and geography, supported by a very loyal customer. While mindful of continuing short-term uncertainties, challenges and potential headwinds in the current environment, we remain focused on the customer and on the long-term, and we are investing in the business to capitalize on the incredible growth opportunity ahead.

Now we'll open it up for your questions.