

REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q1 2024 CONFERENCE CALL

PREPARED REMARKS ON MAY 7, 2024

ERIK RANDERSON, VP INVESTOR RELATIONS

Good afternoon, everyone, and thanks for joining us to discuss REVOLVE's first quarter 2024 results.

Before we begin, I would like to mention that we have posted a presentation containing Q1 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 future growth; our inventory balance; our key priorities and operating initiatives; industry trends; our marketing events; our partnerships; our physical retail stores; and our outlook for net sales, gross margin, operating expenses, 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, 2023, 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

Hello everyone and thanks for joining us today.

We had an encouraging **first quarter** on many levels, highlighted by meaningful gross margin expansion and year-over-year efficiency in our variable logistics costs that exceeded our guidance ranges. The great work by our operations team on the efficiency measures discussed on prior calls enabled us to achieve our first year-over-year decrease in Selling and Distribution costs as a percentage of net sales in three years.

These gains helped us to achieve significant profitability and cash flow in the first quarter, despite a slight decline in net sales year-over-year and the expected increase in marketing spend due to the timing of our brand building investments in 2024.

Importantly, our net sales trajectory has improved since our last update when net sales during the first eight weeks of the first quarter had declined by a mid-single digit percentage year-over-year. In fact, our net sales returned to positive year-over-year growth during March, and the momentum continued into April when our net sales growth remained positive to begin the second quarter.

Most importantly, we achieved these solid results while continuing to invest in the foundations for long-term success.

With that introduction, let me step back and provide a brief recap of the first quarter.

Net sales were \$271 million, a decrease of 3% year-over-year. Recall that in the first quarter of 2023 a much larger-than-normal percentage of our net sales were on markdown as we worked aggressively to reduce our inventory position a year ago. By comparison, in the first quarter of 2024, our inventory health was in a much better place -- so the net sales comparison in Q1 2024 reflects increased net sales at full price year-over-year that was more than offset by lower net sales on markdown year-over-year.

Our **gross margin** expansion in the first quarter powerfully demonstrates the financial benefit of our much cleaner inventory position and higher mix of net sales at full price year-over-year. Driven by the performance of the REVOLVE Segment, our consolidated gross margin increased 250 basis points year-over-year in the first quarter. The margin gains resulted in increased gross profit dollars year-over-year, despite the lower revenue.

By segment, **REVOLVE net sales** decreased 1% year-over-year in the first quarter.

FWRD net sales decreased 15% year-over-year, directionally consistent with external datapoints including reports that U.S. luxury spending in March declined 18% year-over-year, according to Citi credit card data, the lowest monthly rate in nearly three years.

We view the luxury industry challenges as an exciting opportunity for REVOLVE to go on offense and invest in market share capture, supported by our consistent profitability and cash flow generation that sets us apart in fashion e-commerce.

Net income for the first quarter was \$11 million, or \$0.15 per diluted share, and **Adjusted EBITDA** was \$13 million. As expected, both profitability measures declined year-over-year, but benefited from gross margin expansion and operating expense efficiency outperforming our guidance ranges.

Importantly, our business continues to generate meaningful cash flow. In the first quarter, we generated \$38 million in **operating cash flow**, increasing our cash position by \$28 million in just three months – even while we continued to enhance shareholder value through the repurchase of an additional \$8 million in shares of our Class A common stock during the first quarter at what we believe were attractive prices.

Beyond the numbers, I am excited by our team’s execution that has led to early progress on the **strategic priorities outlined last quarter**. Before turning it over to Michael, I will give you a brief recap of our progress on each initiative.

- First, I am extremely proud that we have delivered **efficiencies in our logistics costs** year-over-year. Selling and distribution expense as a percentage of net sales decreased 50 basis points year-over-year, despite continued pressures from a higher return rate in the first quarter of 2024.
- Considering the meaningful potential to drive efficiency if we can contain our return rate, we are extremely focused on **initiatives designed to reduce our return rate and make returns more efficient**. While not yet visible in our results, under the hood we see early signs of progress from these tests and initiatives that we intend to scale in the coming quarters. Some focus areas we are excited about include improved size guidance that primarily leverages technology partners and AR tools, testing of important new measures designed to prevent “wardrobing,” which refers to a customer wearing a purchased style out for an event and then returning it for a refund or exchange. And, finally, effective last week, we have reduced our window for product returns to 30 days for returns and 60 days for exchanges, consistent with the return and exchange window we had successfully offered for many years prior to the pandemic. You may recall that in March of 2020, after the onset of the pandemic, we increased the window for returns and exchanges to 60 days and 90 days, respectively.

- Our analysis of the competitive landscape confirms that our hassle-free return policy remains among the most customer friendly in the industry, especially considering that most apparel retailers now charge customers a fee for online product returns. By comparison, we continue to encourage our customers to use the home as a dressing room with a no-hassle, free shipping and returns policy, which we have offered since our launch in 2003, making us one of the pioneers of free returns.
- Second, we further validated our opportunity to expand our share of wallet through continued **expansion of emerging areas such as beauty, men's, and home**. Net sales in the beauty category increased 34% year-over-year in the first quarter, and our pipeline of coveted beauty brands we expect to onboard has never been stronger.
- Third, we continue to **expand our international presence**, where we have remained focused on further elevating service levels to drive growth. Australia and the United Kingdom offer important proof points of our recent success. Our operational excellence and wide range of logistics partnerships drove shipping and cost efficiencies that enabled us to reduce the minimum purchase threshold for consumers in Australia and the UK to receive free international shipping. As with many of our service level breakthroughs, consumer response has been incredible. We had improved year-over-year growth in both Australia and the UK in the first quarter, which helped us to offset a very tough comparison in China. Based on this success, we have already begun to expand this proven model to additional international countries.
- Fourth, we remain committed to efficiently **investing to expand our brand awareness, grow our customer base and strengthen our connection with the next-generation consumer**. As Michael will expand upon, we reimagined the format of our REVOLVE Festival held last month to be even more intimate and exclusive this year, while maintaining the elevated brand positioning that is so unique to REVOLVE. The marketing team delivered an incredible REVOLVE Festival event that generated a greater impact on our key metrics within the one-day format in 2024 than we had achieved over an entire weekend for last year's REVOLVE Festival event.

- And lastly, we continue to **leverage AI and other technology** to drive the business forward and even further elevate the customer experience: By leveraging AI and machine learning technology to better align product merchandising with customer preferences, we have driven notably higher conversion rates for our curated shops such as our Festival Shop where associated revenue increased more than 50% year-over-year in the period leading up to REVOLVE Festival.

To wrap up, we are pleased with how the year has begun, encouraged by the return to year-over-year growth in March and April, and we are excited about our growth and efficiency initiatives that we believe improve our foundation for profitable growth over the long term.

I would like to congratulate our team on the wins this quarter. We have a lot of work ahead of us, but with your relentless drive and commitment, we are confident in our ability to compete and win together in 2024 and beyond.

Now, over to Michael.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike, and hello everyone.

I am excited by the progress we have made on our key priorities, especially the investments we are making in building our brands and continuing to strengthen our connection with the next-generation consumer. We are making the most of the opportunities at this important time to create brand heat and awareness as our core consumer gears up for an active lifestyle of events and travel in the months ahead.

For the seventh year, we held REVOLVE Festival in Palm Springs on April 13th in a reimaged format that was better than ever. The more intimate venue for REVOLVE Festival this year was incredibly efficient, impactful, and buzzing with energy flowing from Y2K-themed performers including Ludacris, T Pain, Sean Paul, and the Ying Yang Twins. Many top A-listers in the desert chose to attend REVOLVE Festival, including actors, musicians, athletes, celebrities, and content creators such as Kendall Jenner, Rihanna, Teyana Taylor, A\$AP Rocky, Billie Eilish, Megan Fox, Hailey and Justin Bieber, Zay Flowers, DeAndre Hopkins, Nina Dobrev, Lili Reinhart, Shaun White, Emma Roberts and Natalia Bryant.

Most impressive is that we delivered our incredible REVOLVE Festival event while spending millions of dollars less than in recent years. And yet we delivered greater impact than before. In fact, press impressions from REVOLVE Festival in 2024 more than doubled year-over-year while social media impressions also increased year-over-year for the one-day event, compared to last year's REVOLVE Festival event that took place over an entire weekend.

A key to our success is that our powerful REVOLVE brand consistently attracts a roster of top tier content creators, brand partners and A-listers who understand that our events give them a unique platform to further strengthen their own personal brands.

Importantly, delivering meaningful efficiency in our REVOLVE Festival investment year-over-year has allowed us to significantly expand our marketing playbook in the second quarter.

Just two weeks after REVOLVE Festival, we hosted a successful activation at the Stagecoach Festival, attended by A-listers including Post Malone, Tyga and Charlie D'Amelio. We also have exciting activations in the upcoming weeks in Jamaica, St. Tropez and Sicily. All told, we are delivering a much broader range of activations in the second quarter in 2024 than in recent years, despite investing a lower percentage of net sales on our marketing investment year-over-year.

We are also continuing to invest in marketing, production, and collaborations to drive success in our owned brands. While contributions from owned brands as a percentage of REVOLVE Segment revenue remains below its longer-term potential, we have had some notable recent success that further validate this long-term opportunity.

We recently launched the first capsule of the **L'Academie** owned brand after Marianna Hewitt became its Creative Director. Initial sell-through was outstanding, exceeding our expectations, and strategically broadening our range of offerings. The new L'Academie brand aesthetic expands our assortment to serve a wider range of our customers' lifestyles, including fashionable everyday essentials for the office. The collaboration with Marianna as Creative Director extends our long-standing and successful partnership with her over many years. Marianna is the co-founder of Summer Fridays, a top selling beauty brand on REVOLVE, and she is one of the top performers in our proprietary REVOLVE brand ambassador program.

Another owned brand collection that has performed extremely well in recent months is **HELSA**, a collaboration with supermodel Elsa Hosk that we introduced in 2022. In March, we introduced HELSA's eighth drop and it has been one of the most successful owned brand capsules in our history. Of note, HELSA features higher-than-typical price points and has uniquely performed exceptionally well on both REVOLVE and FWRD. In fact, HELSA was one of the most searched brands on the FWRD site in recent months. This is remarkable considering that FWRD offers some of the most iconic luxury brands in the world.

Another recently launched owned brand that is exclusively available on REVOLVE and FWRD is our first ever owned brand within our Men's offering, **WAO**. We view expansion into Men's as a large and compelling opportunity for growth in the years to come. We were thrilled to see trendsetter Justin Bieber looking stylish sporting a WAO polo at our REVOLVE Festival afterparty last month.

Now, let's shift gears to discuss physical retail. Performance of our REVOLVE and FWRD Pop Up shopping experience in Aspen during the first quarter was incredible, exceeding our initial financial goals. This exciting new channel for engaging with customers in real life has been a home run for brand building, acquiring new customers, and even further strengthening our relationships with brand partners who view our desirable Aspen presence as elevating to their brands. They are thrilled to partner with us and tap into an attractive consumer demographic with a proven appetite for premium, on trend fashion.

The Aspen results and feedback have been so compelling that we have entered into a multi-year lease to operate our physical retail presence in Aspen. The economics alone are favorable, and even more importantly, we see this as a huge opportunity to expand and elevate our brands in this fashion playground for the rich and famous.

The incredible success and learnings in Aspen have led us to explore other regions where a retail shopping experience may offer similar potential for compelling financial returns and further elevation of our brands. We are excited to continue to test and learn more about physical retail, taking a thoughtful and measured approach consistent with our founder-led and investor first mindset. We will keep you apprised of our plans and progress on this exciting initiative moving forward.

Now, I will close with an update on the dynamic competitive landscape within the luxury e-commerce sector. Challenges among certain of our luxury e-commerce competitors have further accelerated in recent months. The resulting disruption affecting luxury consumers and luxury brands creates a compelling opportunity for a profitable and cash generative company like REVOLVE to capitalize by investing in strategies to gain market share.

We believe there is an opportunity to pursue the millions of effectively abandoned luxury customers that are up for grabs in the aftermath of the recent industry malaise. We are also renewing our efforts to expand our luxury brand relationships in the current environment. Beyond our financial strength that is a huge competitive advantage, luxury brands see FWRD as a highly attractive partner due to our strength in North America, our product curation, our distinct styling point of view that has attracted younger luxury customers, and our incredible brand marketing engine supported by FWRD Creative Director Kendall Jenner.

Finally, while many competitors have no choice but to play defense in the current environment, we are aggressively investing in the future to drive revenue and efficiency, through the expansion in the use of AI. As just one example, in the first quarter we delivered promising tests of leveraging AI technology to intelligently route customer service inquiries that we believe could drive operating efficiency and even further raise the bar on our exceptional customer experience. Most compelling is that, in our testing, our internally developed AI technology solution has outperformed the commercially available AI solutions we had tested previously. We have also recently assembled a dedicated internal generative AI team that is building on our early successes in leveraging AI for imagery on our website and other digital channels, as well as to expand the use of AI across the business in pursuit of the large market opportunity ahead of us.

To summarize, our powerful brands, connection with the consumer and our unwavering focus on the long term, along with our strong financial profile, illustrated by the \$38 million in cash flow from operations we generated in the first quarter, enables us to invest in a multitude of initiatives in pursuit of our long-term growth opportunity ahead of us.

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

JESSE TIMMERMANS, CFO

Thanks, Michael, and hello everyone.

I am pleased with our execution in the first quarter, highlighted by outperforming our guidance for gross margin expansion and selling and distribution cost efficiency, our largest operating expense line item.

I'll start by recapping our first quarter results and then close with updates on recent trends in the business and our outlook for gross margin and cost structure.

Starting with the first quarter results....

Net sales were \$271 million, a year-over-year decrease of 3%, as growth in net sales at full price was more than offset by a decrease in net sales on markdown year-over-year.

REVOLVE Segment net sales decreased 1% and **FWRD Segment net sales** decreased 15% year-over-year within a luxury sector that remains challenged.

By territory, **domestic net sales** and **international net sales** each decreased 3% year-over-year.

Active Customers, which is a trailing 12-month measure, grew to 2.6 million, an increase of 5% year-over-year.

Average order value, or **AOV**, increased 4% year-over-year to \$299, benefitting from the higher mix of net sales at full price. The higher AOV was more than offset by a 2% decrease in **total orders placed** to 2.2 million, and a year-over-year increase in our return rate.

Shifting to gross profit... Gross profit increased 2% year-over-year to \$142 million, despite the decline in net sales.

Consolidated gross margin was 52.3%, an increase of 250 basis points year-over-year and exceeding the high end of our guidance range, driven by our REVOLVE Segment. The increased gross margin primarily reflects a higher mix of net sales at full price and lower inventory valuation adjustments year-over-year.

Moving on to operating expenses....

Fulfillment costs were 3.5% of net sales, consistent with our outlook, and an increase of 23 basis points year-over-year.

Selling and distribution costs were 17.9% of net sales, a decrease of 50 basis points year-over-year that marks the first time in three years that Selling and Distribution costs have decreased as a percentage of net sales year-over-year. Great execution in reducing logistics costs enabled us to outperform our guidance for Selling and Distribution cost efficiency, despite the higher return rate year-over-year.

Our Marketing investment also came in more favorable than expected in the first quarter, representing 15.3% of net sales. The increase of 158 basis points year-over-year is primarily due to a shift in the timing of our brand marketing investments this year with a very active first quarter.

General and administrative costs were \$33 million, consistent with our outlook. Around 40% of the year-over-year increase in G&A expense in the first quarter of 2024 reflects increased variable compensation expense in 2024 and increased stock-based-compensation expense year-over-year.

Our tax rate was 26% in the first quarter, up slightly from 25% in the prior year and within our expected range.

Net income was \$11 million, or \$0.15 per diluted share, a decrease of 21% year-over-year. Net income in the first quarters of 2024 and 2023 each included an insurance recovery within other income. For the first quarter of 2024, the insurance recovery was \$2.8 million, or \$2.1 million, net of tax, equivalent to \$0.03 per diluted share.

Adjusted EBITDA was \$13 million, a decrease of 12% year-over-year.

Moving on to the balance sheet and cash flow statement...

Net cash provided by operating activities was \$38 million and **free cash flow** was \$37 million, further strengthening our balance sheet and supporting our commitment to enhance shareholder value through capital allocation. These cash flow metrics decreased 21% and 23%, respectively, versus the first quarter of 2023, when our cash flow benefited meaningfully from favorable working capital movements including a large reduction in inventory during the prior-year period.

Inventory at March 31, 2024 was \$202 million, a decrease of 1% on a sequential basis compared to December 31, 2023, and an increase of 6% year-over-year. We continue to view our inventory position in the REVOLVE Segment as very clean, consistent with our gross margin expansion year-over-year, and we have made continued progress in rebalancing FWRD inventory.

As of March 31, 2024, **cash and cash equivalents** were \$273 million, an increase of \$28 million, or 11%, from December 31, 2023, and we had no debt. The decrease in cash and cash equivalents year-over-year compared to March 31, 2023 reflects strong cash flow from operations that was more than offset by our stock repurchases in the last three quarters.

Our strong financial position enabled us to continue to invest in the business while **repurchasing Class A common shares** as part of our commitment to enhance shareholder value. During the first quarter, we repurchased approximately 530,000 Class A common shares at an average price of \$15.17. Approximately \$61 million remained under our \$100 million stock repurchase program as of March 31, 2024.

Now, let me update you on some recent trends in the business since the first quarter ended and provide some direction on our cost structure to help in your modeling of the business for the second quarter and full year 2024.

Starting from the top.... The return to positive year-over-year net sales growth in March has continued into the second quarter with net sales in April 2024 increasing by a low single digit percentage year-over-year.

Consistent with recent performance, during the month of April, net sales comparisons in the REVOLVE Segment continued to outperform the FWRD Segment year-over-year.

Shifting to gross margin... We expect gross margin in the second quarter of 2024 of between 53.9% and 54.4%, which implies a slight increase year-over-year at the midpoint of the range. For the full year 2024, we continue to expect gross margin to be between 52.5% and 53.0%.

Fulfillment: We expect fulfillment as a percentage of net sales of approximately 3.4% for the second quarter of 2024, consistent with the fulfillment efficiency ratio in the second quarter of 2023. For the full year 2024, we continue to expect fulfillment costs of between 3.3% and 3.5% of net sales.

Selling and Distribution: We expect Selling and Distribution costs as a percentage of net sales of approximately 18.0% for the second quarter of 2024, which implies a year-over-year improvement of approximately 60 basis points.

For the full year 2024, we continue to expect Selling and Distribution costs to improve to a range of between 17.8% and 18.0% of net sales.

Marketing: We have an extremely active calendar of brand building events in the second quarter, including REVOLVE Festival, our recent activation at Stagecoach Festival, and the many international events Michael mentioned.

Importantly, we expect the increased efficiency of our impactful REVOLVE Festival investment in 2024 and our operating discipline to help us achieve marketing efficiency year-over-year in the second quarter. We expect marketing in the second quarter of 2024 to be approximately 17.0% of net sales, a decrease of approximately 180 basis points year-over-year. For the full year 2024, we continue to expect our marketing investment to represent between 16.0% and 16.2% of net sales.

General and Administrative: We expect G&A expense of approximately \$34 million in the second quarter.

For the full year 2024, we continue to expect G&A expense of between \$130 to \$133 million, most likely towards the high end of the range as we continue to invest in the business through a multitude of initiatives to drive long term value creation.

We expect quarterly G&A expense in dollar terms to be relatively consistent throughout 2024. Note that this expectation is a change from the variability in quarterly G&A expense during 2022 and 2023 when we had non-routine accruals for two separate legal matters that we do not expect to incur this year.

And lastly, we continue to expect our **effective tax rate** to be around 24% to 26%, both in the second quarter and in the full year 2024.

To recap, we had a productive first quarter with solid profitability and strong cash flow that further strengthened our balance sheet. Our strong financial profile gives us the financial flexibility to invest in the business, pursue strategic opportunities and repurchase common stock to enhance long-term shareholder value.

Now we'll open it up for your questions.