

REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q1 2022 CONFERENCE CALL PREPARED REMARKS ON MAY 3, 2022

ERIK RANDERSON, VP INVESTOR RELATIONS

Good afternoon, everyone, and thanks for joining us to discuss REVOLVE's first quarter 2022 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 current expectations regarding the continued impact of the COVID-19 pandemic on our business, operations and financial results, including near-term sales in Greater China; our growth and market opportunities and related macro and industry trends; our plans to broaden our offerings; our plans to expand our operations footprint and the expected impact on delivery times; our marketing investments and events; our seasonality pattern; our freight costs; the convergence of year-over-year growth rates of active customers and net sales; 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, 2021 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. We started the year out strong with another incredible quarter, highlighted by continued momentum across both segments.

In the first quarter of 2022, our **net sales** were \$283 million, a 58% increase year-over-year. The very strong results further accelerated our multi-year growth rate versus pre-pandemic periods and underscore our team's ability to navigate through what continues to be a very challenging macro environment.

As founders, we have been focused on profitable growth from day one and this quarter was no exception, continuing our long track record of delivering a unique combination of growth and profitability. **Net income** was \$23 million, or \$0.30 per share, in the first quarter, and **Adjusted EBITDA** was \$32 million, an increase of 35% year-over-year.

Cash flow generation in the first quarter was nothing short of incredible. We generated a record \$54 million in **operating cash flow** and \$53 million in **free cash flow**, an exceptional increase of 62% year-over-year for both measures, further bolstering an already strong balance sheet.

Looking at net sales performance by geography, the U.S. was incredibly strong, increasing 66% year-over-year, outpacing 28% growth in the international markets that faced a much more difficult comparison. All international regions increased year-over-year, highlighted by outstanding growth in Canada and the U.K. where we have made excellent progress with our localization initiatives.

Late in the first quarter we began to experience weaker trends in Greater China after COVID-19 restrictions negatively impacted consumer demand and logistics. With the current state of affairs, in the near term we expect continued softness in Greater China, which generated a low single digit percentage of our total net sales in the first quarter.

Now, circling back to our **consolidated results**, our results on a multi-year basis demonstrate just how much our business has strengthened during the past few years. Consider that in the last three years, our net sales have more than doubled, our Adjusted EBITDA has nearly quadrupled, and our Free Cash Flow today is almost 5X the Free Cash flow we reported in the first quarter of 2019.

Our results for the past several quarters demonstrate that we are gaining meaningful market share. Our technology-driven DNA, data driven merchandising, operational excellence and digitally native approach have enabled us to connect in a very powerful and authentic way with the next generation consumer and provide us with even more opportunity to address more aspects of her life and capture more share of her wallet. Our first quarter results offer encouraging indications of our progress.

For instance, we added over 200,000 **active customers** in the first quarter, significantly exceeding our prior record achieved just three months ago. Only two quarters ago, I was thrilled that we added more than 100,000 active customers for the first time. And now we surpassed twice that amount.

Equally exciting is that our fast-growing base of active customers is becoming more productive, illustrating our success in capturing a greater share of wallet. In fact, for the trailing 12-month period, net sales per active customer were \$488, an increase of 17% year-over-year.

These exceptional results reinforce the path forward in the **very large market opportunity** we are pursuing where purchasing power has continued to shift in our direction.

Even with the recent growth acceleration, we still serve only 2 million active customers, representing what we believe to be just three percent penetration of our target demographic in the U.S. market. The early stage of our expansion and the much larger global market opportunity where the REVOLVE brand translates across geography is what gives us confidence to keep the pedal down on our marketing and brand building investments. Our first quarter results demonstrate that our investments are working.

Our continued strength and consistent delivery of results also reflect our long-term focus on building trust with our customer through our brand over the last nearly 20 years. Core to building this trust is operational excellence and exceptional service levels.

We founded REVOLVE with a laser focus on customer satisfaction as key to our long-term success. With this customer centric mindset from the outset, serving our customer incredibly well is consistent with an unrelenting organizational focus on the customer that is built into our DNA.

Our **net promoter score** once again remained at a world-class, record level in the first quarter, underscoring how much customers love our brands and value our service levels. Importantly, we are on track to begin operating our first east coast warehouse in the second half of this year, which we believe will even further raise the bar on our ability to delight customers with even faster delivery times for some of our key geographies.

Having gained her trust, we have been able to expand our revenue per customer through category expansion, increased customer loyalty that has driven more orders per customer in recent periods, and increased **overlap between REVOLVE and FWRD active customers**. Recall that approximately one year ago we launched the FWRD loyalty program that encouraged cross shopping between REVOLVE and FWRD. This was followed by more cross marketing of the FWRD destination to Revolve customers. Each month since the launch, we have expanded the overlap between REVOLVE and FWRD active customers, yet the overlap is still less than 5%. This is particularly exciting considering that at FWRD's average order value of around \$650, every additional 1% overlap between REVOLVE and FWRD active customers could drive more than \$10 million in incremental net sales annually.

Over the longer term, we believe that the foundation of our team, consistent delivery of operational excellence, the strength of our brands, competitive differentiation and customer loyalty will enable us to not only continue to acquire new customers and gain market share, but also significantly broaden our offerings to serve more aspects of her life and expand our share of her wallet.

Now, over to Michael for an update on our exciting brand momentum.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike.

I'm super excited about the momentum in the business. With our strong operations and service levels as a foundation, we kicked off the year with a marketing playbook that is back to full strength and driving incredible momentum in the business. I'm so proud of our team's execution that delivered outstanding results in the first quarter. **Net sales growth in the REVOLVE segment** increased 56% year-over-year, the segment's highest first quarter growth in at least 8 years. And **FWRD** delivered an even stronger 71% growth in net sales year-over-year in the first quarter.

To deliver nearly 60% top-line growth in an environment with inflation pressures, supply chain headwinds, China lockdowns, and the war in the Ukraine, is truly remarkable.

While the macroenvironment is a challenge, we see strong demand from a resilient consumer that after more than two years, is finally able to live her life to the fullest again. After being on the sidelines for two years, the concert and festival season has come back strong, leisure travel has significantly accelerated in recent months, and 2022 is expected to see the busiest wedding season in nearly 40 years.

And in all of these cases, our customer wants to look and feel her best. As the go-to fashion destination for Millennial and Gen Z consumers, our on-point assortment and aspirational lifestyle events provide the inspiration she is looking for. We believe we are entering an exciting new phase of growth and consumer engagement and we are investing in this opportunity to engage and inspire our community and build on the strong momentum of our brands. After patiently waiting for most of the past two years, our in-person marketing events are truly back and better than ever.

It started in February with our exclusive **Homecoming event** held in Los Angeles during Super Bowl weekend that was attended by an unbelievable amount of A-listers. Our timing was perfect as to many, including myself, the time around Super Bowl was a turning point for in person social activities. The highly-impactful event generated more than 2.5 billion press impressions.

We continued the momentum in March with the launch of the **Good American** brand on Revolve, hosting an amazing event with co-founders Khloe Kardashian and Emma Grede that was attended by Kourtney Kardashian, Kendall Jenner, Travis Barker and more.

Also in March, we re-opened the **REVOLVE Social Club**, an experiential pop-up retail concept that combined a retail store, lounge, café, bar and wellness center all in one, along with incredible backdrops for guests to share their experience on social media. The Social Club was open to the public, enabling our community to experience the REVOLVE lifestyle in real life by shopping, socializing, or joining more than 25 special events we held from tequila nights to workouts to beauty makeovers and more. Over the course of approximately six weeks, we hosted over 300 influencers and VIP guests including Kendall Jenner, Kim Kardashian, Sofia Richie, Paris Hilton, Angus Cloud, Winnie Harlow, Elsa Hosk and Shay Mitchell, just to name a few.

The Social Club was highly effective in building excitement within our community and driving traffic to our site in the weeks leading up to our flagship event, REVOLVE Festival. To illustrate the consumer excitement for the return of festival season, our sales generated from the Festival Shop portion of REVOLVE.com in the weeks leading up to REVOLVE Festival more than doubled compared to the same period in 2019 when we last held a REVOLVE Festival event.

The two-year hiatus from **REVOLVE Festival**, combined with our brand heat that has been steadily building among Millennial and Gen Z consumers and the incredible lineup of talent performing, led to overwhelming consumer demand to attend our REVOLVE Festival event.

When guests arrived to REVOLVE Festival at the exquisite Merv Griffin estate in La Quinta, invariably the feedback was that people had the time of their lives. In so many ways, REVOLVE Festival was the best event we have ever held. Our musical lineup for the invite-only crowd of around 2,500 people was incredible, featuring performances from Post Malone, Latto, Ty Dolla \$ign, Willow Smith, Migos, Travis Scott, and Jack Harlow, who's recent hit song debuted at #1 on the Hot 100 Billboard chart. It was also really exciting to see Jack Harlow and Ty Dolla \$ign wearing some of our latest styles from FWRD Man during their sets.

The event was even more impactful than ever across several dimensions. Attendance was incredible and spanned a wide range of personalities including musicians, actors, celebrities, designers, athletes, Instagram influencers and TikTok stars. Notable VIPs in attendance included Kendall Jenner, Kim Kardashian, Kylie Jenner, Hailey Bieber, Justin Bieber, Timothee Chalamet, Patrick Mahomes, Halsey, Leonardo DiCaprio, Sydney Sweeney, Diddy, Tyga, Noah Beck, Peter Dundas and more. When compared to our most recent REVOLVE Festival in 2019, we hosted hundreds more influencers and partnered with even more top tier consumer-facing brands including Spotify, Venmo and Postmates. Brands are increasingly recognizing the power of REVOLVE and place a high value in tapping into our strong connection with Millennial and Gen Z consumers.

With such an impressive caliber of performers, attendees and partners generating impact for our event, the search interest for our REVOLVE brand was higher during the week of REVOLVE Festival than it's ever been, according to Google trends.

This excitement around the return of REVOLVE Festival resulted in demand for our incredible event being much higher than we anticipated. In fact, so much so that we temporarily experienced logistics challenges late in the first day of REVOLVE Festival when our venue reached full capacity – causing longer wait times for entry and resulting in some guests not being able to attend the festival. We have reached out to those affected to make it right, and we believe we have identified solutions to ensure we avoid similar circumstances at future events.

We believe our brand building investments have even further strengthened our connection with the next generation consumer, demonstrated by very positive signs of consumer engagement. In the first quarter, we drove record quarterly growth in active customers by a wide margin, and traffic to our sites and mobile apps increased significantly year-over-year. Monetization of this larger base of traffic has also continued to increase, helped by a 13% increase in our average order value year-over-year and continuing strength in net sales at full price.

Consumers spending more with us across more aspects of their lives further validates the trust we have earned and provides us with even more opportunity to deepen the relationship over time. Encouragingly, net sales across virtually all **product categories** increased year-over-year in the first quarter, which illustrates how we have expanded our customer relationships in recent years. **Activewear** offers particularly exciting growth potential since our customer lives an active lifestyle and increasingly looks to REVOLVE for inspiration. We recently launched our first activewear owned brand that has performed strongly in the early going. The **WellBeing + BeingWell brand** features styles sourced from sustainable materials thoughtfully designed with our planet in mind, and advances our strategy to diversify our owned brands assortment into new categories.

We also have an opportunity to diversify our assortment to further expand our reach into our target demographic. An exciting development was our recent launch of Khloe Kardashian's size inclusive brand, Good American, on REVOLVE that I mentioned earlier. Specializing in premium denim with sizes ranging from 00 to 26, the launch resonated extremely well with our customer and generated a lot of excitement. The brand continues to perform exceptionally well for us early on.

Continuing on the inclusivity theme, we recently announced plans to create a size inclusive collaboration for our owned brands with content creator and curve model, Remi Bader, set to launch with REVOLVE in the fall of 2022.

Finally, I will provide an update on the new **brand ambassador program** discussed on last quarter's conference call that leverages our proprietary technology. The community-driven extension of our influencer marketing strategy is proving to be a powerful driver of the business, with traffic from this initiative increasing more than 80% in the first quarter compared to the fourth quarter of 2021. It's early, yet the Brand Ambassador program has already driven meaningful incremental engagement and generated a great deal of excitement among ambassadors interested in gaining access to events and other exclusive perks of the program. We are investing to further expand the brand ambassador team and drive this exciting innovation forward in the months ahead.

To wrap up, I am extremely proud of the outstanding results we have achieved to date, especially over the last two years, thriving in a time of disruption and volatility. And I'm even more excited about the future. We've had a very busy and exciting few months with some amazing in person events that have generated significant brand momentum, but we're just getting started. We will continue to invest in marketing and building the brand and with our data-driven approach, operational excellence, and very strong connection with the next-generation consumer, we believe we are well positioned to gain further market share in the months and years ahead.

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 first quarter results demonstrate the incredible momentum of our brands, our competitive differentiation and our focus on operational excellence.

I'll start by recapping the first quarter results, highlighted by exceptional top line growth and record growth in active customers for the third consecutive quarter.

Net sales were \$283 million, a year-over-year increase of 58%, and an increase of 18% on a sequential basis from the fourth quarter.

Both **segments** contributed to our exceptional growth. **REVOLVE Segment** net sales increased 56% and **FWRD Segment** net sales increased 71% year-over-year in the first quarter.

From a **merchandise standpoint**, the dresses category further accelerated to nearly 150% growth year-over-year, demonstrating that our customer is out again, living a very active social lifestyle. **Owned brands** as a percentage of REVOLVE Segment net sales also increased year-over-year for the second consecutive quarter.

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

Active customers increased by an exceptional 201,000 compared to the fourth quarter of 2021, exceeding our prior record performance announced just last quarter. This growth expanded our active customer count to 2.0 million, an increase of 38% year-over-year. Looking forward, since active customers is a trailing 12-month measure, the comparisons become more difficult as our new customer growth began to accelerate in the second quarter of 2021. We continue to expect the year-over-year growth rates of active customers and net sales to converge in the coming quarters as we cycle out of the COVID periods that negatively impacted the trailing 12-month measure for Active Customers.

And our customer was very active, placing a record 2.2 million **orders** in the quarter, an increase of 68% year-over-year.

Average order value, or AOV, was \$288, an increase of 13% year-over-year that benefited from the strong growth in dresses and an increasing mix from the FWRD Segment.

Shifting to gross profit... Consolidated gross margin was 54.5%, our best-ever margin for a first quarter, and an increase of 44 basis points year-over-year.

Moving on to operating expenses....

Fulfillment, selling and distribution and marketing expense were generally consistent with our full year 2022 outlook commentary on these measures from last quarter.

We continue to drive very efficient results in **fulfillment**, despite inflation headwinds and a year-over-year increase in our return rate.

As expected, **selling and distribution** costs were a significant headwind year-over-year, due to higher return rates that came with a shift in mix back to dresses and other going-out categories, and higher shipping costs industrywide. Increased oil prices have also driven incremental fuel surcharges, further increasing shipping costs that comprise the majority of this line item.

For **marketing**, we continue to keep the pedal down on our investments to capitalize on the current momentum in our business. We are very pleased with the early results of our increased marketing investment and continue to believe that our in-person marketing activations have a long tail and will continue to provide benefits over the long term, just as they have historically.

General and administrative costs in dollar terms came in slightly higher than the Q1 outlook we provided last quarter. Nonetheless, our very strong top line results enabled us to achieve operating leverage as our 58% net sales growth outpaced the 35% growth in G&A expenses during the first quarter.

Income before income taxes increased 38% year-over-year, driven by the strong top line results.

Our effective tax rates were very different for the year-over-year comparison. Our tax rate for the first quarter of 2022 was 22%, 28 points higher than the negative 6% tax rate in the first quarter of 2021 that included meaningfully higher tax benefits.

Net income was \$23 million, or 30 cents per diluted share, flat year-over-year because of the meaningfully higher tax rate in the first quarter of 2022 that I just mentioned. Adjusting for the differences in our effective tax rates between both years, earnings per share would have increased 37% year-over-year.

We delivered **Adjusted EBITDA** of \$31.5 million, an increase of 35% year-over-year on top of a huge increase in Adjusted EBITDA from a year ago. Adjusted EBITDA has now nearly quadrupled in just three years when compared to the first quarter of 2019.

Moving to the balance sheet and cash flow statement... We had **net cash provided by operating activities** and **free cash flow** of \$54 million and \$53 million, respectively, an increase of 62% year-over-year for each measure.

The strong cash flow generation has further strengthened our **balance sheet and liquidity**. We remain debt free and cash and cash equivalents as of March 31, 2022 were \$271 million, an increase of \$52 million, or 24%, from just last quarter and an increase of \$88 million, or 48%, from a year ago. Most impressive, our cash and cash equivalents, net of borrowings, were more than 250% higher than just two years ago.

We are proud of our incredible results, especially considering the supply chain headwinds and uncertain macro environment that have dominated headlines on a daily basis. Our team has remained agile and focused on the customer throughout, rising to the occasion to successfully navigate through these operating challenges.

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.

Starting from the top, through the month of April we have continued to deliver strong top-line growth, with a year-over-year growth rate of more than 30% -- that was achieved on a more difficult comparison than we faced in the first quarter.

Now, as you think about modeling net sales growth for the full second quarter, it is important to keep seasonality and prior period comparisons in mind. Recall that our strong sales trends in April of 2021 continued into May and June of 2021, but the monthly growth rates in 2021 were skewed by the COVID dynamics of 2020. We believe it is more informative to view the 2021 comps on a two-year basis versus 2019. To provide some context, on a combined basis, the net sales comparisons we face in May and June of 2021 are more than 10 points higher than the April comparison we faced on a two-year growth basis versus 2019.

Also keep in mind that in light of the exceptional sequential sales growth of 18% from the fourth quarter of 2021 into the first quarter of 2022 that was significantly above the historical trend line, we expect the sequential growth from the first quarter of 2022 into the second quarter of 2022 to moderate versus historical pre-covid levels such as 2019.

We continue to expect the second quarter ending on June 30th to be the peak sales quarter for the full year, and we expect year-over-year growth for the second quarter to exceed our long-term target growth rate of 20%.

Shifting to gross margin... We are very pleased with our gross margin performance that exceeded our Q1 outlook provided last quarter, despite continuing headwinds on in-bound freight costs that remain significantly higher than pre-pandemic levels.

We expect continued gross margin strength and expect gross margin in the second quarter of 2022 to be between 55% and 55.5%, improving sequentially from the first quarter margin of 54.5%, consistent with typical seasonality.

For the full year 2022, we continue to expect gross margin to be flat to slightly down versus our record gross margin of 55% in 2021 for the reasons outlined last quarter.

Fulfillment: We continue to expect fulfillment expenses of around 2.5% of net sales for the full year 2022, which we view as very efficient among peers and gratifying considering the current inflationary environment and rising input costs.

Selling and Distribution: In 2022, we continue to expect Selling and Distribution costs to be around 16% of net sales, but we remain very cautious and are closely monitoring fuel surcharges from our carriers, which is a key driver of shipping costs that comprise the majority of this line item.

Marketing: We continue to expect our marketing investment to remain approximately flat with the 2021 rate of 15.8% of net sales – as we keep the pedal down to fully capitalize on our current momentum. With the return of our REVOLVE Festival bigger and more impactful than ever, we expect the second quarter to represent the highest level of marketing investment of the year comprising at least 17% of net sales.

General and Administrative: We expect G&A expense of approximately \$28 million in the second quarter and now expect the full year to be approximately \$110 million, at the high end of the previously provided range for the full year 2022, as we continue to invest to support our growth and expansion.

Lastly, let me touch on our **tax rate**. Absent tax benefits in future quarters, we continue to expect our effective tax rate to be around 24% to 26%.

To recap, we are incredibly excited about our outstanding start to the year, with strength across segment and geography, supported by a very loyal customer. While mindful of everything going on in the world around us in the current environment, including continuing macro headwinds and geopolitical uncertainties, we remain focused on the customer and on the long-term, and we are investing in the business, to build our brands and capitalize on the incredible growth opportunity ahead.

Now we'll open it up for your questions.