

REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q1 2021 CONFERENCE CALL

PREPARED REMARKS ON MAY 6, 2021

ERIK RANDERSON, VP INVESTOR RELATIONS

Good afternoon, everyone, and thanks for joining us to discuss REVOLVE's first quarter 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. These statements include our current expectations regarding the continued impact of the COVID-19 pandemic on our business, operations and financial results, and our outlook for operating expenses and capital expenditures for 2021. 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, Adjusted EBITDA margin, 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 the call over to Mike.

MIKE KARANIKOLAS, CO-FOUNDER AND CO-CEO

Good afternoon everybody. We're excited to update you today on the momentum in our business and our record Q1 financial results.

As we successfully managed through one of the most challenging times in our history, we have been eagerly preparing for the reopening of the economy which we believe will be extremely positive for REVOLVE as a brand associated with an active social lifestyle.

I am pleased to announce that as the economy began to reopen in the first quarter, we experienced a significant surge in demand, which drove the outstanding results for the first quarter. Our topline trends saw substantial acceleration as we entered March, increasing from the low single digit growth we experienced in January and February. Then, as vaccines started to roll out, restrictions eased and additional stimulus payments were made by the federal government, demand increased significantly.

The strong close to the quarter continued into April with growth of over 100% compared to April 2020 and over 30% compared to April 2019. Even more exciting was that the accelerated net sales growth in March and April came from both the REVOLVE and FORWARD segments, as well as the domestic and international businesses.

With that as an introduction, I'll go into more detail on the first quarter results and recent developments.

Net sales for the first quarter of 2021 were a record \$179 million, an increase of 22% from the first quarter of 2020, substantially ahead of the low-single digit growth we experienced for the months of January and February when we spoke during our last conference call.

Particularly exciting is that the strong recovery in growth during March came from a return to growth in styles associated with social outings, such as dresses, as well as continued strong growth in at home related product categories, including beauty, intimates and activewear that have rapidly grown throughout the pandemic. These results support our view that we can return to strong growth in our core offerings of occasion wear while continuing to drive growth in newer categories to pursue a deeper share of wallet.

Also driving our top-line acceleration late in the quarter was strong performance in growth of new customers and a significant recovery in traffic during the month of March. In fact, March was the second-highest month in our history for attracting new customers and delivered the highest year-over-year growth in traffic in more than a year, despite mobility restrictions in most markets at the time. This gives me a great deal of confidence in our longer-term outlook when the wind is fully at our backs again.

It is also very exciting to see the recovery in the U.S. market. On last quarter's conference call, we talked about key international markets like Australia serving as a leading indicator of a potential recovery in the U.S. The domestic recovery we anticipated took hold in March, which certainly benefited, to a degree, from government stimulus. Yet, the domestic recovery remained on a healthy pace through the month of April as well, when the U.S. growth outpaced the international business.

Our profitability and cash flow in the first quarter were outstanding. Net income was a record \$22 million, or \$0.30 per diluted share, a more than 400% increase from the first quarter of 2020 and also a more than 300% increase from the first quarter of 2019. Free cash flow was \$32 million, a more than 300% increase from the first quarter of 2020. This cash generation further strengthened our balance sheet, positioning us well to invest in future growth opportunities.

Turning to operations.... Just as we were able to read and react and adapt last year upon the onset of the pandemic when demand was negatively impacted, we have been able to quickly react to the significant increase in demand as economies have begun to reopen and our customers began to socialize in person again and plan for summer travel. Our fulfillment operations were able to scale up quickly and continue to meet our very high standards for customer satisfaction. The increase in demand, combined with continued operational efficiencies, were key contributors to our record profitability in the first quarter. We have and will continue to invest in technologies and tools to further raise the bar on service for our customers. For instance, in the past few months, we have significantly reduced the average timeframe for our customers to receive credit on their merchandise returns.

Our data-driven merchandising function also continues to deliver what our customer needs, when she needs it, during what has been a very challenging environment of rapidly shifting customer demand and supply chain dynamics. Our inventory levels and assortment have been managed well, as illustrated by our financial results and a more than 20% increase in inventory turns in our REVOLVE segment. Our inventory health is best illustrated by our gross margin expansion, which reflects significant growth in net sales at full price.

We also continue to remain agile on the marketing front, and we are laser focused on capitalizing on the reopening opportunity. While restrictions have eased and we have conducted some smaller scale brand marketing activations, we still haven't yet been able to fully deploy our optimal marketing investment.

This is the right time for us to really invest in marketing. Our brand is squarely and positively positioned for the reopening and the post-COVID world, and we believe marketing investments in both REVOLVE and FORWARD this year will deliver strong returns over the long term.

We want to take full advantage of the pent-up demand among consumers who are finally going to be able to get out the house, socialize and celebrate in person again. When this moment comes, they are going to want to look and feel amazing with our latest fashion.

It's also important to note that in the near term, we do expect some headwinds on marketing efficiency resulting from the recent Apple iOS privacy changes that may reduce our efficiency in targeting users on Apple devices, which are used by a substantial majority of our customers.

The increased marketing investment this year will have an impact on short-term profitability measures, particularly relative to 2020 when our profitability benefited from temporary reductions in marketing as a percentage of sales due to COVID-19. In particular, we plan to scale up our brand marketing investments, which pay dividends over longer periods of time, building the brand, increasing awareness and driving continued long-term customer growth.

Lastly, our international business continues to perform very well and represents an exciting opportunity for future growth. International net sales grew 38% in the first quarter of 2021 relative to the prior year, driven by strength in all major regions, and illustrating how well our brand is translating across cultures and geographies.

Australia and Canada were among the top performing international markets in the quarter. In fact, Canada was our largest international contributor for the REVOLVE segment in the first quarter. A catalyst was our recent launch of all-inclusive pricing in Canada, showing how our international investments can drive growth and customer satisfaction. The successful rollout of the more localized customer experience in Canada is another proof point that our international strategy is working and is particularly exciting since we plan to introduce all-inclusive pricing in many other international markets.

In fact, I'm excited to share that earlier this month we launched all-inclusive pricing for customers located in the United Arab Emirates, one of our largest markets in the fast-growing Middle East region.

China is another exciting driver of our international success. In the first quarter, we began to see increased momentum in China in the REVOLVE segment, due in part to expanding our distribution to include a presence on Tmall Global, the largest cross-border, business to consumer marketplace in China with nearly 800 million shoppers. The REVOLVE store on Tmall Global is powered by our differentiated merchandising strategy, which has driven strong organic traffic, particularly from consumers interested in our emerging brands that weren't previously available on Tmall. It's early, yet we are encouraged by the opportunity to capture incremental growth in such an important market.

Before I turn it over to Michael, I will just reiterate that while there are still some uncertainties out there, we are very proud of our results, we are ready to invest and we are excited about what lies ahead.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike.

It is incredible to see the surge in traffic and demand as our customers get back out and start enjoying the social life they love and have grown to associate with REVOLVE. After such a challenging past year, this return to robust growth is gratifying, particularly considering that we are now just gearing up for some very exciting and impactful marketing events.

We are primed for the opportunity to capture demand during this unique moment in time, and our events are a critical part of our demand creation. I am thrilled to share that we have continued to scale up our in-person marketing events that are such a powerful marketing lever for building the brand long term. Remember that in-person events had unfortunately been on hold for most of 2020, creating a headwind to traffic and new customer acquisition last year.

In March of this year, we hosted an in-person marketing event in Los Angeles attended by more than 100 influencers over three days. To protect our community, we adhered to safety protocols that included COVID testing for all participants.

One of the takeaways from this event was that the influencer community can't wait to get back to doing in-person events. The desire to participate in this event was incredible, amounting to way more interest than we could accommodate, forcing us to unfortunately turn away a number of influencers.

This is just the beginning for restarting our events calendar. We plan to meaningfully increase the frequency and scale of events to capitalize on this moment in time, expand our marketing reach and drive long term-returns. We are excited to get out there again in a more meaningful way as economies continue to open up. We have several activations planned with top influencers in aspirational lifestyle locations that will help us to further expand our marketing reach and brand marketing impact, starting with an event in Turks and Caicos next week.

Moving forward, I am excited about the powerful combination of our aspirational, in-person marketing events along with continued growth and diversification of our content on emerging digital channels, creating an expanded marketing playbook.

Our data-driven approach to merchandising has also positioned us well to capitalize on the reopening, ensuring we have the right products for our customer. We have the flexibility to efficiently scale up, reading and reacting to data signals to quickly address shifts in consumer preference, assort into emerging trends, expand our style count and doubling down on successful styles through product reorders. Our merchandising agility helped drive a year-over-over growth rate that expanded from the low-single digits in January and February to over 100% year-over-year growth in April, all with strong inventory turns and full price mix of net sales.

This successful inventory ramp and shift in assortment is particularly impressive when considering that just a year ago, our merchandise focus shifted away from products associated with social outings and travel, such as dresses. And now, we are again reassorting back into those historically strong product categories while still driving rapid growth in our newer 'at home' categories like beauty, which more than doubled in the first quarter.

We have succeeded in providing her with the right product at the right time. Product that fits her current lifestyle, whether it's socializing, traveling or even being locked down at home. She recognizes this and is coming to us for more aspects of her life, allowing us to expand our share of wallet over time.

Our merchandising and marketing work hand in hand. We are continuing to innovate on our marketing and merchandising efforts to deepen relationships with our community. For instance, in the first quarter we launched a new REVOLVE Active handle on Instagram, to create an intimate community of fitness consumers, fans and influencers. It's in perfect alignment with the daily workouts we have hosted on Instagram Live for the past year to engage our community. These workouts have generated 10 million views since the pandemic began.

As I mentioned, beauty continues to perform very well and I am excited to share that we recently beta launched a 'replenish and save' program for our beauty customers who buy beauty products regularly. This enables us to automatically ship a customer's favorite products to them at regularly scheduled intervals, promoting convenience, customer loyalty and repeat purchases.

Our owned brands remain core to our long-term strategy of driving traffic, maintaining a unique assortment and expanding gross margin over the long term.

To capitalize on the growing consumer interest in sustainable fashion, we recently introduced the Tularosa Green collection. Tularosa Green styles are made with all natural and chemical free dyes, with 100% organic cotton. The production uses technology that draws 40% less water and reuses the water to reduce its impact on the environment. This is just the beginning to a more sustainable production process we are pursuing within our owned brands.

Another exciting product launch in recent weeks is our latest collection from GRLFRND, available on both REVOLVE and FORWARD. Our new GRLFRND line aligns with the current fashion trend towards a more comfortable and looser fitting denim silhouette that many consumers are seeking today.

We started reinvesting in owned brands in late 2020, after a significant pull back early in the year, and we will continue to invest heavily throughout 2021 to maximize our long-term opportunity. We've brought in some great talent and while it's still early in the rebuild, we are very optimistic about the underlying metrics we're seeing in this area.

I'll close out with a discussion of our luxury segment, FORWARD, where our momentum has been quietly building for some time. FORWARD had an outstanding quarter, growing net sales 24% in the first quarter of 2021 relative to the prior year. This is on top of a very strong prior-year comparison in the first quarter of 2020 when FORWARD net sales grew 47%. If you do the math, that means that for the first quarter, FORWARD has grown 82% since the first quarter of 2019. FORWARD also delivered record gross margins that increased 7 points year over year on a full price sales mix that was also an all-time high.

We believe FORWARD holds a differentiated position in the market and serves as a destination for the next-generation luxury consumer seeking curation and a strong edit.

Brands recognize our momentum and value our product curation, impactful marketing engine, customer base, and best-in-class catalog and editorial photography. During the first quarter, we launched two coveted luxury brands with only limited wholesale distribution, The Row and Alaia. Additionally, supermodel and actress Rosie Huntington-Whiteley recently debuted her new shoe collaboration with GIA exclusively on FORWARD, shooting a special video to promote her new line on our site.

With the great product curation, a key lever in further expanding FORWARD is leveraging the REVOLVE customer base and platform to cross market and increase FORWARD's share among our existing customers. Even though the REVOLVE and FORWARD merchandise is complementary, with FORWARD over indexing in handbags and shoes, only a low single-digit percentage of REVOLVE customers are also FORWARD customers. This speaks to the huge opportunity ahead of us that we continue to pursue, as illustrated by the launch of our FORWARD loyalty program earlier this month. The FORWARD program is fully integrated with the REVOLVE loyalty program, rewarding and incentivizing cross shopping on both of our sites. We believe the program will create a great deal of customer excitement and engagement in the months ahead.

Like REVOLVE, FORWARD is a global brand and China has been a key contributor to FORWARD's exceptional growth over the past two years, where FORWARD has attracted a large following of more than 250,000 followers on Weibo, a leading social media platform in China.

We view the global ecommerce market for luxury as a massive opportunity and with the re-opening of economies around the world, we think there is more opportunity to come. We will be making some exciting investments in FORWARD in the near term, the details of which I am excited to share on future calls.

All told, the recent momentum in our business across both the REVOLVE and FORWARD segments has been incredible. With our brand positioning, on point assortment and our strong financial position, we are primed and ready for the re-opening and beyond.

I'll turn it over to Jesse now for a review of the financials.

JESSE TIMMERMANS, CFO

Thanks, Michael, and hello everyone.

As you can tell, we are very pleased with the first quarter results and even more excited about the recent top-line trends. With that, let's start with the results for the quarter.....

Note that all of the comparisons I will discuss will be on a year-over-year basis, unless otherwise stated. In certain cases, I'll speak to our growth compared to 2019, since the comparison to 2020 is skewed by the impacts of COVID.

Net sales were \$179 million, an increase of 22% compared to the first quarter of 2020, which is a significant improvement from the low-single digit net sales growth trend we had been experiencing for the first seven weeks of the quarter that we disclosed during our last earnings call. Compared to the first quarter of 2019, net sales grew 30% for the first quarter and at an even higher rate for the month of March when our net sales growth meaningfully accelerated. During January and February, growth was primarily coming from categories and products like beauty, intimates and activewear, which more than offset the headwinds in products that are more focused on going-out, like dresses. This shifted in March, when we experienced a meaningful increase in the demand for products related to going out. This increase in demand, combined with continued strength in at-home products, helped drive the strong overall topline results as we exited the quarter.

By territory, both the U.S. and international markets contributed to the strong top line result for the quarter with domestic and international growth of 19% and 38%, respectively. Both regions also contributed to the growth acceleration in March. The international strength was broad-based with Australia, Canada, Greater China and the Middle East as key contributors.

By segment, REVOLVE Segment net sales increased 22% and FORWARD Segment net sales increased 24% in the first quarter. The FORWARD sales increase is particularly notable considering that FORWARD grew net sales 47% in the prior-year comparable quarter.

Active customers were 1.5 million, a decrease of 3%, consistent with our commentary on our last earnings call to expect further deceleration since active customers is a trailing 12-month measure. Importantly, active customers grew on a sequential basis compared to the fourth quarter of 2020, marking our first sequential quarterly growth in active customers in almost a year.

Our customers placed 1.3 million orders in the quarter, an increase of 9%, the highest year-over-year growth rate in five quarters.

Average order value was \$256, flat with the fourth quarter and down 1% year-over-year.

Moving to gross profit... Consolidated gross margin was 54.0%, the highest-ever gross margin reported for a first quarter, and an increase of 546 basis points year-over-year. This performance reflects the healthy inventory across both segments, particularly compared to the prior year, leading to an increase in the percentage of net sales at full-price, and a decrease in the depth of markdowns. These positive contributors to gross margin were partially offset by a decrease in the mix of owned brands as a percentage of REVOLVE Segment net sales, consistent with the outlook we shared on recent investor conference calls.

Our operating expenses, expressed as a percentage of net sales, were lower year-over-year across all line items in the first quarter. Our fulfillment and selling and distribution expenses continued to realize a meaningful short-term benefit from a lower return rate year-over-year. We do not expect this benefit to repeat in upcoming quarters as product mix shifts back towards “going out” categories.

Additionally, we realized marketing efficiency in the first quarter as we have not yet fully re-engaged on the marketing front. It is important to note that we intend on aggressively ramping our marketing investment for the balance of the year for both REVOLVE and FORWARD.

The strong top-line results, gross margin expansion and operating efficiencies resulted in record net income of \$22.3 million, or \$0.30 per diluted share for the quarter, five times higher than the \$0.06 of diluted EPS in the prior year. Net income was also four times greater than the first quarter of 2019.

We reported Adjusted EBITDA of \$23.3 million, an increase of 316%, with a margin of 13.0%. Adjusted EBITDA was nearly three times greater than the first quarter of 2019.

Moving to the balance sheet and cash flow statement... During the first quarter, we continued to invest in inventory to position our assortment for an anticipated increase in consumer demand. As a result, inventory increased by \$5 million from year-end, to \$100 million, but decreased 1% year-over-year. This compares favorably to the 22% increase in net sales for the first quarter of 2021 — illustrating our higher inventory turns year-on-year and improved inventory health.

Even with the investment in inventory, we generated \$32 million in free cash flow in the first quarter, a more than fourfold increase from the prior year.

Cash and cash equivalents, net of borrowings, at March 31st were \$183 million, an increase of \$109 million, or 149%, from \$74 million as of March 31, 2020.

Now looking ahead.... With the return to growth in Q1 and very strong trends in March and April, we are confident that we can continue to deliver net sales growth in excess of our long-term growth target of 20% — just as we were prior to the onset of COVID-19.

However, considering the recent acceleration in net sales growth represents a small sample size and that there are still many moving parts and uncertainties in the short term, we will hold off on providing formal guidance at this time.

Instead, let me update you on some recent trends in the business since the first quarter ended and provide some direction on our cost structure for the balance of the year to help in your modeling of the business for 2021.

Starting from the top, the significantly improved trends we experienced in the month of March continued through to the month of April. In fact, April net sales grew over 100% year over year, against a relatively easy comparison in April 2020 when our net sales had declined approximately 40% year-over-year, as we previously disclosed. As compared to April of 2019, net sales grew over 30%.

We are very excited about the recent top line trends and the prospect for a continuation of these trends, but we also want to temper this optimism as there remains some uncertainty related to COVID-19, there are potential headwinds from the recent Apple iOS changes that Mike mentioned, and we would anticipate that tailwinds from the government stimulus will subside.

Shifting to gross margin... We are extremely pleased with our gross margin performance in recent periods. For context, for three quarters in a row, we have generated a full price mix of greater than 80%, meaningfully exceeding historical ranges. The very high full-price mix of net sales and our inventory health have benefited from our successful inventory rebalancing in response to COVID-19 last year, which significantly skewed the mix of our inventory to full price. However, we want to caution that as we rebuild inventory to support future growth, we expect our full price mix of net sales and the depth of our markdowns to revert closer to historical norms over time.

With this taken into consideration, for the full year 2021, we expect gross margin of 53.5% to 54.0%. At the midpoint, this reflects an increase of more than a full percentage point compared to gross margin of 52.6% for full-year 2020, and is also higher than the 53.6% for the full-year 2019.

Fulfillment: We expect fulfillment costs in the second quarter to increase sequentially as a percentage of net sales as our return rate moves higher year over year due to our sales mix shifting to the products and categories related to going out. For the full year 2021, we expect fulfillment to be approximately 2.9% of net sales. This implies a decrease of 30 basis points compared to fulfillment representing 3.2% of net sales in 2019 as a result of the automation efficiencies implemented, which are more than offsetting macro cost increases.

Selling and Distribution: For our Selling and Distribution costs, similar to our fulfillment costs, we expect a sequential increase as a percentage of net sales in the second quarter, and for the full year 2021 we would expect to be in the same range as the 14.6% of net sales we achieved for the full year 2019. This implies a significant year-over-year increase in Selling and Distribution costs, consistent with our prior commentary and driven by two main factors.

- **First**, as we have now anniversaried the COVID-19 outbreak, we expect our return rate to be higher year over year in the near term, particularly as we comp the very low return rate in the prior year and since dresses, which have a much higher return rate than average, have recently returned to growth. A higher return rate results in increased costs for shipping, handling, packaging and payment processing for returned items, with shipping and handling costs representing the majority of this line item.
- **Second**, our average shipping costs per package have increased in recent months with the increase in shipping demand industrywide.

Moving on to Marketing: With our customer coming back in a very powerful way, it is time to invest. We plan to be more aggressive than ever, and anticipate a compelling return on this investment over the long term. We now expect marketing expenses as a percentage of net sales for the full year 2021 to be at least a full percentage point higher than the 14.8% of net sales reported for the full year 2019.

General and Administrative: In 2021, we are re-investing in our owned brand platform and other functions to support our next phase of growth and expansion. As a result, we expect G&A to continue to grow sequentially each quarter for the balance of the year.

Lastly, let me touch on our tax rate. Our effective tax rate in the first quarter in 2021 and 2020 each reflect a benefit from the excess tax benefits realized as a result of the exercise of non-qualified 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 the amount of progress we have made in just the past couple months since our Q4 earnings call. We delivered record net sales, record net income and a fourfold increase in free cash flow during the quarter. Consumers are coming to us in a very strong way and with our balance sheet position, we are investing in this unique moment in time centered around the reopening and the long-term market opportunity ahead.

Now we'll open it up for your questions.