REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q3 2024 CONFERENCE CALL

PREPARED REMARKS ON NOVEMBER 5, 2024

ERIK RANDERSON, VP INVESTOR RELATIONS

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

Before we begin, I would like to mention that we have posted a presentation containing Q3 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 and innovation initiatives; industry trends; our marketing events and impact; our partnerships and strategic acquisitions; 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 the most directly comparable 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 delivered an exceptional third quarter, highlighted by double-digit **top-line growth**, a significant increase in **net income** year over year, and a 250-basis point increase in our **Adjusted EBITDA margin** year-over-year.

Contributing to the significant growth in profitability was better-than-expected logistics cost efficiencies helped by a meaningful decrease in our return rate, as well as impressive marketing efficiency that also outperformed our guidance, which more than offset a slight decrease in our gross margin year-over-year.

The fourth quarter is also off to an encouraging start, with total **net sales in October** increasing in the low-double digits year-over-year supported by year-over-year growth in both segments of the business and across both domestic and international.

Most importantly, we achieved these very strong financial results while continuing to invest in a wide range of initiatives that we believe set us up well for profitable growth and market share gains over the long term.

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

Net sales were $283 million, an increase of 10% year-over-year, driven by improved year-over-year trends across both segments and geographies relative to our comparisons in the second quarter of 2024.

Net sales in the REVOLVE Segment increased 12% year-over-year, our best performance in more than two years. **Net sales in the FWRD Segment** also improved to nearly flat year-over-year, helped by a solid exit rate that has continued in the month of October.

Net sales in the Fashion Apparel and Dresses categories rebounded strongly to 13% and 10% year-over-year growth, respectively, serving as key contributors to our growth reacceleration. These results benefitted from outstanding wins in product merchandising in these core categories that Michael will speak to in his remarks.

The growth in net sales was further supported by our underlying **key operating metrics**, highlighted by growth in active customers. Trailing 12-month **active customers** increased by 51,000 during the third quarter, almost double the increase in active customers achieved in the second quarter of 2024.

Net income for the third quarter of $11 million, or $0.15 per diluted share, was meaningfully higher than the $3 million in the prior-year quarter. **Adjusted EBITDA** was $18 million, an increase of 85% year-over-year, with a 250-basis point expansion of our Adjusted EBITDA margin.

Beyond the numbers, I am excited by our team's execution that has led to continued great progress on the **strategic priorities** we have outlined on prior calls. Here are some of the key highlights since our update last quarter.

- First, I am thrilled that we delivered significantly greater **efficiencies in our logistics costs** year-over-year than last quarter, contributing to our strong growth in profitability in the third quarter. Expressed as a percentage of net sales, **selling and distribution expense** decreased by more than 200 basis points year-over-year and **fulfillment expense** decreased approximately 30 basis points year-over-year.

- These impressive results are being driven by successful execution on two important priorities. We continue to make outstanding progress across many initiatives designed to drive efficiencies within our global shipping and logistics operations. Even more exciting, during the third quarter we achieved incredible further progress on our **efforts to reduce our return rate**. In fact, our return rate decreased year-over-year during each month of the third quarter, and by a larger magnitude than the slight year-over-year decrease achieved in the second quarter. As an illustration of our success, total freight costs for customer shipments and returns decreased by a high single digit percentage in the third quarter, despite a 3% increase in the number of orders placed and a 10% year-over-year increase in net sales. These metrics provide an indication of the compelling financial benefits we hope to realize from reducing our return rate further over time.

- Importantly, we achieved a lower **return rate** in the third quarter through many efforts that further elevate the customer experience. For instance, a size and fit initiative we are testing has resulted in a noticeably lower return rate, while also driving a meaningful lift to the conversion rate. It is a great example of a "win win" scenario in that for REVOLVE, the initiative helps us to generate increased revenue at lower costs. And for our valued customers, the improved size and fit information enables us to even further elevate the overall shopping experience.

- Second, we remain committed to efficiently **investing to expand our brand awareness and further strengthening our connection with next-generation consumers**. We delivered another very strong and efficient quarter with increased customer acquisition at a reduced acquisition cost, driven by year-over-year efficiency gains across performance and brand marketing channels. In fact, it was our most efficient third quarter for marketing investments in four years, based on our marketing investment calculated as a percentage of net sales. Of note, one contributor to our marketing efficiency in the third quarter also provides a dual benefit of contributing to our reduced return rate. In recent months, we have begun to leverage our extensive internal data to optimize our marketing efficiency by including within our algorithms an understanding of our customer purchase and return behavior. This initiative provides a powerful illustration of the competitive advantages of our data-driven approach to nearly all aspects of our business.

- Third, we successfully expanded our **international presence** in the third quarter, with net sales from international markets increasing 20% year-over-year. Net sales increased across all major regions, and benefited from recent marketing innovations that have exceeded our expectations and further elevation of service levels overseas. The great progress we have made to improve the international customer experience in recent years now allows us to confidently invest marketing dollars to drive profitable growth in key international markets.

- And lastly, we continue to **leverage AI technology** to drive growth and efficiency initiatives across the company, including e-commerce operations, marketing, and customer experience. Last quarter, I talked about how our internal team of data scientists developed and launched into production on our FWRD website an internally developed AI search algorithm that meaningfully outperformed the incumbent retail search platform developed by a large third-party technology company. I am excited to share that our internally developed AI search algorithm also tested exceptionally well on our flagship REVOLVE site, and was recently launched into full production on REVOLVE. We estimate that our AI-innovation will deliver incremental revenue in the seven figures on an annualized basis, at a much lower operating cost than using third-party technology solutions.

- Another recent AI development that we are very excited about is our internal development of AI algorithms that are able to better evaluate our products for marketing purposes and expand our marketing reach. Our team developed the AI innovation from concept to A/B testing in just a few weeks during the third quarter. Most exciting is that early results show that our AI algorithms can deliver a meaningful boost in both revenue and efficiency for one of our largest performance marketing channels. All at a very low operating cost.

To summarize, we believe that our improved results on the top and bottom lines are a direct outcome of our team's strong execution on our strategic initiatives. I would like to thank all of my REVOLVE colleagues for their incredible contributions that have driven the business forward this year and strengthened our foundation for future growth.

We are firmly on offense and, as always, we are focused on testing, learning and iterating our way towards continued improvement in all aspects of our business. We still have a lot of work to do, yet I feel great about our progress and current momentum in the business.

Michael will now talk in his remarks about investments in our brands and many growth opportunities that we are very excited about.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike, and hello everyone.

I am very proud of our top-line and bottom-line results for the third quarter, highlighted by a 7-point improvement in net sales growth, relative to our year-over-year net sales comparison in the second quarter of 2024.

The clear takeaway is that our strong Q3 results are a result of our execution on key **growth and efficiency initiatives**, in spite of the many challenges in our operating environment today. Our hard work has enabled us to drive revenue and reduce costs through a wide range of notable wins including the in-house AI innovations Mike mentioned, reducing our return rate in ways that actually elevate the customer experience, and expanding sales internationally through continued investment and focus.

I would also like to speak about incredible and broad-based gains in **our merchandising and site experience** that have been key contributors to our growth. Notably, site merchandising innovations related to the showcasing of our merchandise assortments performed very well and contributed to the much-improved growth in **Fashion Apparel and Dresses** in the third quarter. By leveraging AI technology across our ecommerce applications, we have made it easier and more intuitive than ever before for our customers to search our site and navigate through broader categories, such as dresses, improving product discovery for the customer. More than ever, we are also driving increased conversion by leveraging data to optimize the products we merchandise on specific channels to maximize revenue across mobile, desktop and social. And by surfacing more relevant products to our customers when and where they are most likely to engage, we have created an even better shopping experience. We also recently delivered an impactful upgrade to our global site navigation, meaningfully improving engagement metrics by surfacing the most relevant products of the greatest interest to our customers. I'd like to thank the merchandising and product teams for their great work this quarter and I'm excited to see what they can deliver going forward.

The merchandising gains are not just limited to the site. In the third quarter, we also achieved improved consumer engagement and revenue from the **email channel**, also by leveraging technology and data in innovative ways. It was our best third quarter performance for email metrics since 2021 when the consumer spending backdrop was in a much better place. We believe these gains illustrate the strength of our brand connections with next-generation consumers, particularly in the current economic environment.

I am also pleased with our recent progress in **Owned Brands**, a key differentiator of our assortment. In the third quarter, Owned Brand net sales increased year-over-year for the first time in almost two years, helped by outstanding results from our recent launches. Our GRLFRND owned brand generated headlines when Taylor Swift was spotted looking stylish while wearing GRLFRND denim in front of an audience of tens of millions of television viewers at a recent Kansas City Chiefs game.

Most important, the success of our recent launches and the strength in key underlying Owned Brand metrics give us confidence as we invest into several exciting launches planned for 2025, including collaborations with incredible talent and the planned re-launch of the Alexandre Vauthier brand and DTC site that we acquired and talked about on our earnings call last quarter.

Speaking of investing, I am thrilled that we had another very efficient quarter for marketing investment, even while we continue to push the boundaries in exciting new ways to build our brands and drive deeper connections with next-generation consumers.

I'll now provide a **recap of marketing and brand building investments** that I am excited about:

- We hosted a **New York Fashion Week activation** to celebrate our launch of style icon and media personality Morgan Stewart's Renggli brand on FWRD. Renggli is one of the hottest fashion brands around right now, and FWRD is the first and only retail distribution partner where the Renggli brand is available for sale. The brand has sold incredibly well on FWRD in the early going.

- We had a highly successful **retail activation in Dallas in partnership with Cotton** in September. It was our first ever pop-up shop in Texas and a great way to engage in real life with our growing customer base in the southwest region. Retail sales of our merchandise were outstanding, reinforcing the exciting growth potential in physical retail.

- We announced our first-ever **global brand ambassador for REVOLVE** -- international sensation **Jeon Somi**, one of the most popular female K-Pop artists. We have launched our first-ever global campaign that showcases her iconic style as a fashion trendsetter. We will also introduce a merchandise collaboration to align with her new music in 2025 that we expect will resonate with her expansive and passionate Gen Z audience that includes more than 20 million social followers on Instagram, TikTok and YouTube.

- And lastly, we executed an impactful **marketing activation with NBA legend Dwayne Wade** that generated excitement and favorable awareness for our FWRD Man and REVOLVE Man brands. We co-hosted the Miami event to celebrate the unveiling of a bronze statue for the Hall of Famer's illustrious career with the Miami Heat.

So, you can see that we have been very active in engaging with our customers through our dynamic marketing playbook. We intend to continue to keep the pedal down and invest in the large runway ahead of us for years to come.

Now, I will conclude with an update on our exploration of physical retail as a future growth opportunity. As announced last week, we are opening an exclusive and limited-time **REVOLVE Holiday Shop at the Grove in Los Angeles**, a high-end retail and entertainment destination that is the second most productive shopping center in the United States. Our Holiday Shop will remain open through the holiday season until January 5, 2025.

On the heels of our incredible holiday season success in Aspen last year, we are thrilled to showcase our REVOLVE and FWRD brands within the most visited holiday shopping destination in Los Angeles. Our prime location in the center of the action positions us to maximize consumer awareness for our brands, acquire new customers and generate sales.

And in true REVOLVE fashion, we have an exciting slate of **marketing events planned for the Holiday Shop** involving our expansive community of brands, influencers and celebrities. We believe the activations will create even further excitement for the REVOLVE and FWRD brands while driving increasing consumer engagement. We are confident the REVOLVE Holiday Shop will strongly resonate with our loyal community and even further strengthen our connection with next-generation consumers.

Equally exciting, we have also entered into a **long-term lease to open a flagship retail store in Los Angeles** within a very desirable location. We expect to open our doors by mid-2025. The learnings we will gain from operating our REVOLVE Holiday Shop at the Grove will undoubtedly help us to prepare for a successful opening of our permanent retail location in Los Angeles next year.

We have built an incredible brand that we continue to believe can translate to physical retail, and the opening of our flagship store in Los Angeles next year will be an important proof point in our physical retail journey. The proximity of our home base of Los Angeles provides compelling benefits. Virtually our entire leadership team is based here in Los Angeles, along with our primary fulfillment center, creating meaningful operational and logistics efficiencies. For instance, we plan to drive foot traffic and provide elevated service to our customers by encouraging them to return items purchased online to the store, and to pre-select items from our websites to try on for free in the store.

We will provide more details on our next earnings call as we get closer to the launch date.

To wrap up, we are very pleased with the momentum in our business and excited about the many initiatives underway that we believe will continue to drive growth in the months and years ahead. Rest assured, we will continue to invest, innovate and aggressively pursue the significant market opportunities that lie ahead.

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

JESSE TIMMERMANS, CFO

Thanks, Michael, and hello everyone.

I am very pleased with our third quarter, highlighted by a return to double-digit net sales growth, significant expansion of our profitability year-over-year, and great progress on operational initiatives that lay the foundation for profitable growth in the future.

I will start by recapping our third quarter results and then close with updates on recent trends in the business and our outlook for gross margin and cost structure for the balance of the year.

Starting with the third quarter results….

Net sales were $283 million, a year-over-year increase of 10%. We delivered meaningfully improved top-line results across both segments and geographies.

REVOLVE Segment net sales increased 12% and **FWRD Segment net sales** were essentially flat year-over-year.

Domestic net sales increased 7% year-over-year and **international net sales** increased 20% year-over-year.

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

Total orders placed were 2.2 million, an increase of 3% year-over-year.

Average order value, or AOV, was $303, an increase of 1% year-over-year.

Consolidated gross margin was 51.2%, a decrease of 56 basis points year-over-year. In an otherwise exceptional third quarter, gross margin is the one key metric that underperformed our prior expectations -- primarily due to deeper markdowns than we had modeled. We understand the underlying dynamics and have course corrected, setting us up for a return to gross margin expansion in 2025.

Let's shift to **operating expenses**, a source of meaningful operating leverage in the third quarter. We delivered better-than-expected operating expense efficiency across each of the four line items that we guide to each quarter.

Fulfillment costs were 3.3% of net sales, a decrease of 29 basis points year-over-year.

Selling and distribution costs were 16.9% of net sales, a decrease of 206 basis points year-over-year, and outperforming our guidance by approximately 140 basis points. This impressive result reflects outstanding execution by our teams to drive efficiency in our logistics costs, and a decrease in our return rate year-over-year for the second consecutive quarter.

Our **marketing investments** were 14.0% of net sales, a decrease of 141 basis points year-over-year, driven by efficiencies in both performance marketing and brand marketing.

General and administrative costs were $33.9 million, approximately $1.6 million lower than our outlook, as the timing for certain investments shifted into the fourth quarter of 2024. We continue to invest in a variety of exciting initiatives, such as exploration of physical retail, AI technology and owned brands expansion, all of which support our long-term growth opportunity.

Our **tax rate** was 26% in the third quarter, consistent with the prior year and within our expected range.

The increased net sales and gross profit year-over-year, the improved marketing efficiency and the outstanding progress driving efficiencies in our logistics costs resulted in impressive growth on the bottom line.

Net income grew significantly to $11 million, or $0.15 per diluted share, from $3 million, or $0.04 per diluted share, in the third quarter of 2023. Note that the prior-year comparison included non-routine costs of $5 million, net of tax, for a settled legal matter.

Adjusted EBITDA was $18 million, an increase of 85% year-over-year. For the first nine months of 2024, Adjusted EBITDA increased 47% year-over-year. Nine months into 2024, we have already surpassed our net income and Adjusted EBITDA results for the full year of 2023.

Moving on to the balance sheet and cash flow statement…

Net cash generated by operating activities was $9 million and **free cash flow** was $6 million in the third quarter, which further strengthened our balance sheet, although these metrics were lower year-over-year.

Inventory at September 30, 2024 was $240 million, an increase of 18% year-over-year that outpaced our 10% net sales growth. In the coming quarters, we expect growth in our inventory balance year-over-year to converge more closely with net sales growth, which should have a favorable impact on our cash flow generated from operations.

As of September 30, 2024, **cash and cash equivalents** on our balance sheet were $253 million, an increase of $8 million from the second quarter of 2024, and we have no debt. Our strong financial position gives us the capacity to continue to invest in the business while opportunistically evaluating strategic M&A and repurchasing Class A common shares to enhance shareholder value. During the third quarter, we repurchased approximately 118,000 Class A common shares at an average price of $15.67. Approximately $58 million remained under our $100 million **stock repurchase program** as of September 30, 2024.

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

Starting from the top…. Our strong top-line performance has continued into the fourth quarter with net sales in October 2024 increasing by a low double digit percentage year-over-year – with year-over-year growth across both segments and geographies.

Shifting to gross margin… We expect gross margin in the fourth quarter of 2024 of between 51.2% and 51.5%, which implies a decrease of 65 basis points year-over-year at the midpoint of the range. For the full year 2024, we now expect gross margin to be approximately 52.2%, an increase of around 30 basis points from our gross margin of 51.9% for the full year 2023.

The decrease from our prior full-year guidance range primarily reflects deeper markdowns within our markdown inventory that we expect to continue in the fourth quarter, as well as continued pressure on inbound freight costs for receiving merchandise from vendors.

Fulfillment: We expect fulfillment as a percentage of net sales of approximately 3.4% for the fourth quarter of 2024, a decrease of approximately 10 basis points from the fulfillment efficiency ratio in the fourth quarter of 2023. After delivering better-than-expected fulfillment efficiency in the third quarter, we now expect fulfillment costs for the full year 2024 to be approximately 3.3% of net sales – which is at the low end of our prior guidance range.

Selling and Distribution: We expect Selling and Distribution costs as a percentage of net sales of approximately 17.3% for the fourth quarter of 2024, which implies a year-over-year improvement of approximately 50 basis points.

On the heels of our strong third quarter results, for the full year 2024, we now expect Selling and Distribution costs to improve to approximately 17.5% of net sales, nearly a full point lower than the full year of 2023.

Marketing: We expect our marketing investment in the fourth quarter of 2024 to be approximately 15.9% of net sales, a decrease of around 50 basis points year-over-year. For the full year 2024, we now expect our marketing investment to represent approximately 15.1% of net sales.

Looking ahead, we will continue to invest in building our brands to support the attractive long-term growth opportunity ahead of us. So, on a preliminary basis, I would expect marketing costs in the 15% to 16% of net sales range for 2025.

General and Administrative: As I mentioned earlier, the timing of some of our G&A investments shifted from the third quarter to the fourth quarter. With that, we expect G&A expense of approximately $35.6 million in the fourth quarter. For modeling purposes, remember that our G&A expense in the fourth quarter of 2023 a year ago included a non-routine accrual of $3.4 million for a then-pending legal matter.

For the full year 2024, we now expect G&A expense of approximately $136 million, towards the lower end of our prior guidance range.

And lastly, we expect our **effective tax rate** to be around 25% to 26% in the fourth quarter and 26% for the full year 2024.

To recap, I am very encouraged by our third quarter results, highlighted by an inflection in our top-line growth and operating discipline that drove a substantial increase in profitability year-over-year.

Now we'll open it up for your questions.