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# FIGS, Inc. (FIGS)

Q2 2024 Earnings Call

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### Trina Spear

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

### Kevin Fosty

*Interim Chief Financial Officer, Vice President & Corporate Controller, FIGS, Inc.*

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## OTHER PARTICIPANTS

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### Robert Drbul

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### Dana Lauren Telsey

*Analyst, Telsey Advisory Group LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. Thank you for joining today's FIGS Second Quarter and Fiscal 2024 Earnings Conference Call. My name is Cole and I'll be the moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions] I now like to pass the call over to Todd Maron. Please go ahead.

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### Todd Maron

*Secretary & Chief Legal Officer, FIGS, Inc.*

Thank you. Good afternoon and thank you for joining today's call to discuss FIGS' second quarter 2024 results, which we released this afternoon and can be found in our earnings press release and in the stockholder presentation posted to our Investor Relations website at [ir.wearfigs.com](http://ir.wearfigs.com). Presenting on today's call are Trina Spear, our Co-Founder and CEO; and Kevin Fosty, our Interim CFO. As a reminder, remarks on this call that do not concern past events are forward-looking statements. These may include predictions, expectations or estimates including about future financial performance, market opportunity or business plans. Forward-looking statements involve risks and uncertainties and actual results could differ materially. These and other risks are discussed in our SEC filings including in the 10-Q we filed today, which we encourage you to review. Do not place undue reliance on forward-looking statements which speak only as of today and which we undertake no obligation to update. Finally, we will discuss certain non-GAAP metrics and key performance indicators, which we believe are useful supplemental measures for understanding our business. Definitions and reconciliations of these non-

GAAP measures to their most comparable GAAP measures are included in the stockholder presentation we issued today.

Now, I would like to turn the call over to Trina Spear, CEO of FIGS.

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## Trina Spear

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

Thank you, Todd. We delivered solid second quarter results with revenue growth at the high end of our expected range and adjusted EBITDA margin above our expectations. Our US growth inflected back into positive territory driven by better repeat frequency trends. Our international growth accelerated and scrubwear also returned to year-on-year growth. Our balance sheet is in stellar shape with a healthy inventory position, and we have the financial flexibility to scale our brand and our business.

We are particularly pleased that, alongside these Q2 results, we saw leading indicators of revenue improve. We teed up our company for our Olympics partnership, our most consequential marketing campaign ever, and we drove innovation in product, marketing and supply chain. Our growth opportunity is massive and our ability to capture that growth is unique. As we activate our product innovation and broaden our brand reach, we are exceptionally well-positioned to capitalize on that growth opportunity in the second half of this year and beyond.

I want to lead with our partnership and outfitting of the Team USA medical team and the ongoing Olympic and Paralympic games in Paris. Our Olympics campaign embodies the key strategic drivers we're pursuing for our company. First, we are, above all, a brand for healthcare. Our Olympics product is some of the best products we've ever made, and we have designed it to address the specific needs of the healthcare professionals who will wear it. We've talked about creating pinnacle products and how that pinnacle helps drive our core business. We have amazing pinnacle products with innovative and solutions-oriented features, and this includes what we designed for the Olympics. The Olympics Collection is on shift. Many of these healthcare professionals are working outside and they need durable, functional products that enables high performance.

Other healthcare professionals can replicate the look and get the same solutions as their counterparts they see on screen at the games. They can then clearly experience those same design elements, the same colors, the same visual cues in the core products. Our design team went on site to [indiscernible] (00:04:21) to hand-deliver this product to the medical team supporting our Olympians. The medical team was blown away. While there is a core group that works with the US Olympic Committee year round, the majority of the medical team volunteers [indiscernible] (00:04:35), never before have they received this kind of focus with product designed specifically for them in a commercial that tells their stories in an elevated way. We also hosted an incredible event to watch the opening ceremony in New York City on July 26 and a celebration of service in Paris earlier this week to honor the USA medical team.

Next, we've talked about the importance of our top of funnel marketing campaigns which allow us to tap into the emotional connection we have with our community. We are strategically allocating key marketing resources as we execute the kind of 360-degree marketing that will continue to elevate our brand. Shining a light on the USA medical team is an absolute honor and there are so many stories about them to be told, stories that resonate deeply with not only the awesome humans from our healthcare community, but everyone inside and outside of healthcare.

Dr. Gloria Beim represents the best of both of those worlds. She is epic. She is an orthopedic surgeon and broke gender barriers to earn her seat. She was the first woman accepted into the prestigious sports medicine program at the University of Pittsburgh where she completed her training before serving on the US medical teams for

multiple Olympic and Paralympic Games. Every Olympics she goes to, she learns the language of that country. This is her eighth Olympics. We hope you've seen our intended brand film. We feature Team USA healthcare professionals, including Dr. Beim and some of our FIGS brand ambassadors. But it really speaks to all healthcare professionals and showcases the dedication and the passion they put into their craft, its area across linear and streaming broadcast. We're on buses, subways and billboards. We're obviously on social, from awareness to consideration to conversion. This customer journey is very much the future of our brand. As we showed, it truly does take heart to build bodies that break records.

Third and finally, we've spoken to you about our second community hub which recently opened in Rittenhouse Square in Philadelphia. It has opened as an activation dedicated to our celebration of the Olympics which is catapulting it onto the retail [indiscernible] (00:06:49). It will transition to mainline FIGS presentation after the game. Our focus on product innovation and top of the funnel marketing continues to drive strong results. 2024 is an exciting year of bringing real innovation through design, collaboration, fabrication and fit. Almost every single launch in Q2 performed above our expectations. We launched our Flare ScrubLegging, essentially creating a category that didn't exist previously and performing extremely well.

On our last call, we discussed our Indestructible Collection, highlighting Dr. Chloe, a wildlife veterinarian working in South Africa. The combination of unparalleled durability and a compelling narrative [ph] resonated (00:07:29) with our community. Collaborations are an ongoing strength for us as our brand and franchise attract the highest quality partners. Our Star Wars May The Force Be With You collaboration with Lucasfilm was highly successful. We also had more incredible launches with New Balance including both the Roav and 327 models, which combined style, function and comfort. We partner in a strategic way with companies that are aligned with us, earning fantastic engagement.

Our layering system is also working. We offer product for on-shift and off-shift, head to toe to work, at work, from work inside and out. In the second quarter, our non-scrubwear categories grew by 13% and reached 18% of sales. These products expand our TAM, position us as a lifestyle brand and help drive our core over the long run. As I'll describe later, this impacts gross margin as the new products ramp but as we gain scale in these new categories and the core follows, we expect to see margins improve. Customers are embracing our product innovation, top of funnel marketing and collaboration. They are coming back to our brand more frequently, continuing a trend we shared with you on our last conference call.

Another important trend that is moving in a positive direction is branded search. There are now equal number of searches online for FIGS as there are for scrubs. This indicates that we own mindshare for the category which was always our goal, but we have more to look forward to in the second half of the year. On product, we achieved \$440 million of net revenue in Scrubs alone in 2023, almost entirely from a single fabrication, FIONx. Competitors have tried to copy us, but we're building more and more distance from them. Our product is too innovative, too high-quality, too technical, too tailored in the literal design sense and [indiscernible] (00:09:25).

As we move through the second half, we continue to update and upgrade our fit in a way that works for all bodies. As a D2C company, we know more about our customers than anyone and our fit upgrades will allow us to direct them to the right fit and sizing with greater consistency. Our other growth initiatives are also progressing well. International had a record quarter with year-on-year revenue growth accelerating to 32% from 29% in the first quarter of 2024, reflecting the reclassification of duty subsidies which negatively impacted international growth by 12 percentage points. We have fantastic marketing opportunities to go deep in high-potential country that we're going to pursue over time. We sell internationally, but we haven't even come close to fully capitalizing on the potential of international. As we think about the revenue opportunity of our company, there's so much there and

the competitive set overseas is so much more limited. Our brand has amazing cachet and we're just getting started with what we can do.

Our TEAMS business also had a record quarter. We launched our expanded catalog, impacting over 2,000 organizations. We also launched an exciting new virtual storefront for team members of VEG, Veterinary Emergency Group, one of our largest new customers, to enable them to use VEG funds to buy FIGS as their uniform. We're excited that this customizable feature can be scaled to support current and future TEAMS customers. It is incredible to see more and more concierge clinics looking to outfit their teams in FIGS and cover the expense for their employees.

Our retail push is also continuing [ph] apace (00:11:07). We continue to see 40% of our community hub transactions from customers that are new to the brand. Our retail customers proving to be sticky, customers who make their first purchase in the store are buying from FIGS more frequently than those who make their first purchase online. Our Century City Community Hub is delivering on its ambitious plan and is achieving a stellar \$1,800 of sales per square foot. And again, we couldn't be more excited to launch the Rittenhouse Community Hub in Philly, which is four times larger than our Century City location and through both products and programming will be a one of a kind hub for our community there.

With respect to our operations, we have massively upgraded our logistics infrastructure to improve our cost profile at our current size and enhance our customer service. We now have the footprint to support a much larger company. We recently opened our new distribution facility in Arizona and have nearly completed our transition out of our legacy facility in California. We've increased our footprint by more than 75% while reducing our rent per square foot substantially. Our new facility is state of the art with extensive use of robotics. 60% of the facility is completely automated, essentially, people-free with over 700 robots picking and allocating product and extensive automated conveyors moving orders through our facility.

We've more than doubled our potential throughput and tripled space for embroidery workshop to personalize and customize our product for our healthcare professionals. As expected, the distribution center move increased our selling expenses as a percent of revenue with our estimated full year transition costs continuing to be approximately \$13 million. Even as we've expanded our product offering, geared up for the Olympics, and managed our transition into our new DC, inventory remains in excellent shape. Our inventory declined 29% year-over-year while revenues grew 4.4%. As a reminder, we're structurally advantaged when it comes to inventory because, as uniform players, the products we sell are relatively non-discretionary, [indiscernible] (00:13:20) and much less subject to fashion risk. Healthcare professionals need them to do their jobs.

We also continue to advocate for our community. We mobilized our impact effort during Q2 by bringing 16 extraordinary healthcare professionals to Capitol Hill and White House. Our advocacy resulted in several important wins on our Awesome Humans Bill, including a commitment from congressional leadership to pass critical mental health support for healthcare professionals this year.

As we enter the back half, we are delighted to welcome Sarah Oughtred as our new Chief Financial Officer. Sarah spent almost 17 years at lululemon, and for the past three years served as Senior Vice President of Financial Planning and Analysis. She has firsthand experience growing in an innovative lifestyle brand as she helped the company grow revenue more than 30-fold to over \$10 billion, build a 700-store retail footprint, and scaled this to more than 25 countries across the globe. We want to thank Kevin Fosty for stepping up and serving ably as Interim CFO, and are delighted that he will continue on in his prior role as VP Corporate Controller.

To summarize our quarter and achievements, our Olympics effort is yielding amazing products in an unprecedented, highly effective marketing campaign. Our innovation machine is humming, and we have an impactful enhancement [indiscernible] (00:14:45) fabrication. Our marketing is resonating, and customers are coming back to our brand. International teams and community hubs are all in early stages of their long-term growth trajectory, and our logistics capabilities set us up to drive powerful growth going forward.

Moving to the outlook. I will let Kevin dive in, but would like to briefly touch on revenue, gross margin, and adjusted EBITDA margin. We are raising our 2024 full year revenue growth outlook to a range of flat to positive 2% growth, the prior range of negative 2% to positive 2% growth. This reflects our second quarter outperformance and our current visibility to Q3 and the second half overall, despite a choppy US consumer backdrop. We expect gross margin for full year 2024 to be 150 basis points to 200 basis points lower than 2023. The reason for this is that our [ph] newness (00:15:42) is working better and faster than we expected, with our new pinnacle products, new scrubwear styles, and new non-scrubwear products outperforming.

The fact that our [ph] newness (00:15:53) is resonating is very important. It means we are becoming a lifestyle brand and we are creating TAM in an industry where many of these categories did not previously exist. Our new pinnacle products also help drive the core. So, over time, we expect our success will help grow our already high gross margin core products. And although our new products have a lower gross margin today, as they gain volume and scale, we expect them to have a margin curve that is similar to the one we have historically experienced with our core scrubwear. All of these factors make us optimistic about our [ph] newness (00:16:30) strategy and its impact on gross margin over the long term.

In terms of our adjusted EBITDA margin outlook, we are not flowing the full gross margin impact to the bottom line as we expect to offset some of the impact within marketing and G&A. As a result, we are guiding to 9.5% to 10% adjusted EBITDA margin for the year.

Our balance sheet is in stellar shape. We ended the quarter with over \$268 million in the bank, a record level, and with zero debt. Our shareholders equity is also at a record, and exceeded \$400 million for the first time in our history. We have the cash flow dynamics and the capital to fund our growth ambition. With all of this in mind, we're announcing that our board has authorized a \$50 million share repurchase program. We're pleased that our strong financial profile and long-term outlook enable us to evolve our capital allocation strategy and return value to our shareholders through our share repurchase program.

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

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## Kevin Fosty

*Interim Chief Financial Officer, Vice President & Corporate Controller, FIGS, Inc.*

Thank you, Trina; and good afternoon. For the second quarter, we are pleased that net revenues and adjusted EBITDA margins came in ahead of our guidance. The inflection of our frequency trends and the return to growth in our US and scrubs business indicate the long-term growth opportunity is still ahead of us. As we reignite industry-leading product innovation and powerful top of funnel marketing campaigns, we are confident that we are on the right track to drive long-term sustainable growth.

I will begin my discussion with a detailed review of our second quarter results, followed by an update on our financial outlook.

Starting with our second quarter results. Net revenues increased 4.4% to \$144.2 million as compared to Q2 last year. Net revenues reflect higher orders from existing customers, offset by lower AOV. Active customers for the

trailing 12 month period increased 6.1% compared to the same period last year. Average order value decreased 1.7% to \$113, and net revenues per active customer decreased 2.3% to \$210 versus the same period last year, mainly driven by the accounting reclass related to duty subsidies for international customers.

Looking at product categories. Non-scrubs grew 13%, reaching 18% of net revenues, as Trina noted. Gross margin for Q2 was 67.4%, compared to 69.5% in Q2 of 2023. The decline in gross margin rate was primarily due to the product category mix shift that Trina described, as well as the reclass to duty subsidies. Our selling expense for Q2 was \$36.9 million, representing 25.6% of net revenues, compared to 24.4% in Q2 of 2023. The decrease in selling expense as a percentage of net revenues primarily reflects transitory expenses associated with the transition to our new fulfillment center.

Marketing expense for Q2 2024 was \$23 million, representing 15.9% of net revenues, compared to 15.1% in Q2 2023. The increase in marketing expense as a percentage of net revenues was primarily due to our strategic investment in the biggest marketing campaign that we have ever done, our first-of-its-kind partnership, outfitting the Team USA Medical Team at the Olympic Games.

G&A for Q2 was \$35.8 million, representing 24.8% of net revenues compared to 25.2% in Q2 of 2023. The decrease in G&A expense as a percentage of net revenues was primarily due to lower stock-based compensation expense and lower legal fees. The decrease was partially offset by a one-time scrubwear donation.

Taking this to the bottom line. Second quarter net income was \$1.1 million, or diluted EPS of \$0.01 compared to second quarter 2023 net income of \$4.6 million, or \$0.02 in diluted EPS. Adjusted EBITDA for Q2 was \$12.9 million, with an adjusted EBITDA margin of 9% compared to 13.7% in Q2 of 2023.

Touching on our balance sheet. We finished the second quarter with cash and cash equivalents and short-term investments of \$268.5 million, with no debt. Inventory declined 29% to \$119.3 million versus Q2 last year as we continue to track to our plan of bringing inventory back to normalized levels by the end of the year. This is our fourth consecutive quarter of improved inventory turns. We are very proud of our ability to significantly reduce inventory while maintaining healthy margins and generating sales growth, illustrating the resiliency in our business model. Capital expenditures for the second quarter totaled \$9 million. This is primarily related to the buildout of our new distribution center. And finally, we delivered strong free cash flow of \$7.5 million in the second quarter.

Turning to our outlook. Based on our Q2 performance and strong response to our product launches and brand initiatives, we are raising our full year net revenue outlook, as Trina noted, to flat to positive 2% growth compared to 2023 and versus prior guidance of negative 2% to positive 2% growth. We are pleased by the momentum of our business coming out of the second quarter and the success of our Olympic campaign.

As we mentioned last quarter, we are committed and focused on driving product innovation across scrubs and non-scrubs assortments, including new categories. As we evolve our product mix, we expect to shift into non-scrubwear as well as the shift into new scrubwear styles to impact our gross margin. As a result, we expect our 2024 gross margin to be 150 basis points to 200 basis points lower than the prior year. It is important to note that we remain confident that we can maintain healthy gross margins over the long term. As we invest in new innovation, fabrications and product categories, we anticipate realizing economies of scale over the long run. We expect new innovation to provide a halo effect over our higher margin core business as we are working on several initiatives, including evaluating our pricing and costing, along with optimizing our supply chain strategies, which we believe will enhance margins over time.

Regarding selling expenses, transitory costs are still estimated at approximately \$13 million. Majority of these costs are now expected in the third quarter, including some costs initially planned for the second quarter. We anticipate the transition to be largely complete by the end of the third quarter. With respect to marketing, our increased investments are beginning to pay off. We are pleased with the results from our Olympic marketing campaign, and continue to expect the bulk of this investment to be incurred in the third quarter. For G&A, we continue to carefully manage our expenses as we are identifying further cost efficiencies to offset our reduced gross margin outlook.

As a result of these factors, we are updating our full year adjusted EBITDA margin to the range of 9.5% to 10%. Notably, as Trina described, we are not flowing the full gross margin impact to the bottom line, and we are instead expecting to offset some of the impact from marketing and G&A.

Turning to our third quarter 2024 outlook. We expect net revenue growth of approximately 1%. We expect gross margin to have a similar trend year-over-year to what we experienced in Q2, largely due to our product mix shift that we discussed earlier.

Looking at operating expenses. For selling expense, we expect de-leverage of approximately 250 basis points compared to the prior year. With respect to marketing, we continue to plan for the highest marketing investment in the third quarter. These higher expenses will be partially offset by continued efficiencies in G&A expenses. To that extent, we expect third quarter adjusted EBITDA margin to be approximately 5.5% to 6%. Our capital expenditures expectation for 2024 continues to be about \$18 million and \$19 million, including \$13 million to \$14 million in fulfillment enhancement-related costs.

In closing, we're encouraged to see that our strategy around product innovation and top of funnel marketing is working and driving positive trends in our business. Moving forward, we will continue to capitalize on our robust balance sheet and cash flow dynamics to strategically invest in our future growth and drive long-term shareholder value.

With that, I will turn it over to the operator to kick off our Q&A session. Operator?



## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question is from Brooke Roach with Goldman. Your line is now open.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Good afternoon, and thank you so much for taking our question. Trina, I was wondering if you could elaborate on the consumer engagement metrics and the trends that you saw throughout the second quarter and into third quarter to date. What is your current assessment of the health of the FIGS consumer today in the United States?

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thanks, Brooke. And great to speak with you. We're seeing – we talked about this in the last call, we continue to see positive trends as it relates to repeat frequency. And that's really being driven by our product innovation, coupled with the top of funnel marketing. You saw this in Q2 with our launch of our Indestructible collection. We tied that in with Dr. Chloe's story and that worked really well. And in Q3, I talked a little bit about it, but our biggest campaign ever, we had really incredible pinnacle products around our Olympics collection. That, coupled with all of the marketing we're doing around the Olympics, is really driving engagement. It's driving it's driving repeat frequency. It's driving a lot of positive trends across the business.

In terms of the health of our consumer, I think it's great to see these trends. That being said, there's a lot of uncertainty in the macro environment. Our customers still buying well below their purchasing from prior to COVID, obviously lessened during COVID, even prior to COVID. Prior to COVID, healthcare professionals are buying about four to six scrubs per year. We're well below that level on an industry level. But it's great to see that we're on the direction to normalizing from that perspective. And so, still a lot of uncertainty, a lot of noise in the environment. But once again, we serve healthcare professional. This is, as you know, the fastest growing job segment over the next 10 years. Incredibly stable consumer base, incredibly stable regions. And so, our goal is to continue to serve them with great products, incredible marketing and, get them excited about what we're doing and and hope to kind of see that normalization generally across the industry as it relates to purchasing patterns.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks. And then just as a follow-up, can you speak for the current level of margin that you achieved between your core business versus the rate that you're seeing on new innovations that have yet to scale? What's the outlook for narrowing that gap between those two product lines going forward? And then can you provide a little bit of color on the marketing pullback that's offsetting some of these incremental gross margin pressures for the rest of the year? Thanks so much.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Sure. Okay. So, as it relates to the margin, we have a strategy that pinnacle is driving core pinnacle products as well as, non-scrubwear. These are a bit of a lower margin, not a huge delta, but a bit of a lower margin than our core scrubwear product. As we gain scale in our newer products, right, we will look to see similar margin curve as we saw within the core scrubwear.

And the second piece is that, we're already seeing some positive trends as it relates to pinnacle driving core. So, these new launches, these new styles, this new innovation that we're bringing to our consumer base that's also driving them to replenish their core. As our core, and core follows pinnacle, as the core continues to build, we'll see the margin from that core pay for that margin on the [ph] newness (00:29:36). And so, those two things kind of combined as well as, Kevin mentioned on the call, opportunities around costing, around pricing, we're always looking at that. It had been super data-driven around capitalizing on margin opportunity across the portfolio.

Your second question was around how we're making up the margin from a marketing and G&A. So, in the third quarter, there are two things that are happening. The first one being the gross margin that we talked about for this mix shift, right? This mix shift within scrubwear, mix shift to non-scrubwear, mix shift to within non-scrubwear. So, those three things, which is literally all the innovation [ph] and newness (00:30:17) is driving that gross margin impact. The second thing that's happening in Q3 is this marketing campaign around the Olympics. And so, that's driving the bottom line.

Going into Q4, offsetting that, there's a number of opportunities that we found to kind of offset the impact on gross margin, and that's within marketing in the fourth quarter as well as in G&A. So, I think we're just being strategic about how – looking across the business to offset that gross margin impact. And I think we feel really good about that.

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**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks so much. I'll pass it on.

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**Operator:** Our next question is from Bob Drbul with Guggenheim. Your line is now open.

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**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Hi. Good afternoon.

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Hey, Bob.

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**Kevin Fosty**

*Interim Chief Financial Officer, Vice President & Corporate Controller, FIGS, Inc.*

A

Bob.

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**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Couple of questions for me. Hi, Trina. The first one is just on – I know it's early, but the Olympic marketing campaign, I think it's been incredible. What are some of the early learnings that you have been able to take away from it? How will it shape your marketing strategy going forward between brand messaging and performance marketing?

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Sure. Okay. So, as I mentioned on the call, this has been our biggest and best campaign we've ever done, and we're seeing the payoff. We're incredibly proud that we are the first brand to outfit the healthcare professional supporting our Olympians, and so it's really a historic moment. I think we've learned a lot. It's been – this [indiscernible] (00:31:59) really been next level. We have a commercial that's airing in prime spots throughout the Olympics. We have taken over, as I mentioned, buses, subways, billboards. I think there's not a day that goes by that you're not seeing our campaign. I mean, we're just getting the feedback from our community and outside of our community just how large scale and how everyone's been really blown away by it. And we've seen the metrics as well.

And so, we're seeing – I think this is very much driving what we're talking about in terms of repeat frequency. We're also seeing our core business improve. And then, in terms of engagement, which I think is really important, we've been able to see 60 million impressions from out of home, over 200 million paid digital impressions, 50 million linear impressions, and almost 500 million earned media impressions. And so, I do think, as it relates to your question around shaping the future of how we think about marketing, top of funnel, top of funnel, top of funnel. We're real brand, right? And we're building this brand the right way, the hard way over the long run.

And so, yes, digital marketing fuels that top of funnel, digital marketing fuels what we're doing from a product standpoint. But if you're not kind of building the message in an authentic way with your community, in all the places where they are, not just on social, not just on search, right, in all the places they are in the real world, you're kind of missing it. So, we feel really good about our strategy around marketing, around top of funnel, around doing things others can't, right? We have the scale, we have the leadership position to partner with Team USA on this. Not many can do that. And so, really just pleased by the team and all the all the things we did to pull it off. And so, yeah, that's what I'll say about that. I hope that answers your question.

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**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

It does. Thank you very much.

Q

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

Thanks, Bob. Bob, I forgot to mention the most important metric, Snoop Dogg does Olympics. So check that out on social as well.

A

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**Operator:** Our next question is from Dana Telsey with Telsey Group. Your line is now open.

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**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Hi. Good afternoon, everyone. Hello, Trina. As you think about just one follow-up on the Olympic marketing campaign, which loved the commercials, thought they were great, what is this, what doors is this opening for you for other marketing campaigns and how you see the brand resonating? And next, with the new product that you're introducing and the innovation, how do you see the price point of the innovation product versus the core and essentials? What is the consumer willing to accept and how do you think about it? And lastly, with transitory fulfillment expenses, it sounded like there's a bit more in the third quarter that maybe came out of the second quarter. How should we be thinking of that for the balance of the year? Thank you.

Q

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thanks, Dana. Okay. So, the first in terms of this campaign and what it does, I mean, we're still in it, right? So, I think there's going to be a lot of more learnings to come as it relates to what this is going to enable us to do. I think it's giving us a lot of authority to work with others, right? We have an incredible partnership with New Balance, super authentic, creating footwear for the best people we know, and really designed to develop with them. We're now the – we're outfitting Team USA Medical Team in Paris, right? And that just delivers so much credibility in terms of what we do and really opens the door, to your point, for future collaborations with the best of the best, right, across landscape beyond healthcare. And I think that's how we're thinking, how are we taking this brand beyond healthcare.

In terms of the price point within our new product innovation, our new product, as I mentioned, is outperforming, and the demand is there. And so, we are being strategic and thoughtful around pricing. Just given – I think you saw, right, the first day of our Olympics collection, most of the products sold out before the first day was even over. So, just being really strategic and thoughtful around our pricing, at the same time obviously being affordable and accessible is truly very important to who we are and what we do. And so, we need to ensure that our price points are aligned with our community. And want to ensure that we can serve everyone. But I do think there's a lot of opportunity there as we continue to see our innovation outperform.

Finally, your third question around transitory fulfillment. So, our transitory costs, we said on the last call, were expected to be \$13 million. That's not changing. We're just seeing a shift between the second to third quarter. And so, that's all that is.

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**Dana Lauren Telsey**  
*Analyst, Telsey Advisory Group LLC*

Q

Thank you.

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**Trina Spear**  
*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thanks, Dana.

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**Operator:** We have a question from Adrienne Yih with Barclays. Your line is now open.

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**Adrienne Yih**  
*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you very much, and nice to see the progress, Trina. Can you talk about sort of the trends in your CAC metrics? Where do you see those? How are they trending?

Secondarily, it sounds like you haven't talked about promotionality, so I assume that that has been anniversaried successfully.

And then third, if you can talk about kind of, from a longer term perspective, the non-scrubs is closing in on 20%, how do you see that kind of over the longer term? Like, where do you want that to be in terms of kind of the mix between scrubs and non-scrubs? Thank you.

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**Trina Spear**  
*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thanks, Adrienne. Okay. So, as it relates to our CAC metrics, we feel really good about our marketing efficiency. In the third quarter, we talked about how our marketing [indiscernible] (00:37:58) and that's strategic investment

as it relates to true top of the funnel marketing. As it relates to – when we think of CAC, we really think of that as digital CAC, right? How much are we spending across paid, social paid? And that has been stable and efficient, and it gives us the opportunity to spend and from a top of funnel perspective.

And so, over the last – I would say in 2024, we really shifted funds to more top of funnel, which once again, if you can do, right, it's because we've been so efficient on our digital marketing [indiscernible] (00:38:33) able to invest top of funnel and really show up in big, amazing ways with our community.

As it relates to the promotions, we have – our promotional calendar this year is actually pretty similar to 2023. That is, we're still working through our inventory balance. You saw our inventory balance come down by 29% in the quarter year-over-year even while we have a group revenue. And so, the cadence of promotions, we felt good about our ability to continue to move through our inventory; at the same time, bring innovation, bring awesome product and awesome campaigns to our community.

As it relates to non-scrub...

[indiscernible] (00:39:18)

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**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Yeah. Sorry. Go ahead, Trina.

[indiscernible] (00:39:21)

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

No, as it relates to non-scrubs, we are really proud, right? It's only a few years ago, people said, are we really going to be able to be more than a scrubs company? And so, the fact that 20% – almost 20% of our business in non-scrubs is a testament to our layering system really resonating with our community. Healthcare professionals are coming to pay for their underscrubs, for their outerwear, for their fleeces, their vest, their compression socks. By the way, Snoop Dogg does love our compression socks as well, for their footwear, right? So this is all really great. This is really [ph] exciting (00:40:02). This is really great as it relates to the whole business.

That being said, core scrub, we're seeing incredibly positive trends, Scrubwear, in general, seeing positive trends. So, scrubwear, we expect to continue to scale and grow, right? The people are coming back more for their scrubs than the other pieces, right? So, as repeat frequency dynamics continues to improve, scrubwear across core and limited edition will improve, in addition to non-scrubs. Non-scrubs, as a reminder, is on shift. These are also replenishment pieces, and so we look to see that grow over time. But we're not looking over time for this to be 50/50. I think we're going to see where this goes. But I think both are growing and both are trending positively.

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**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Yeah, fantastic. Trina, I'll just say a quick question on the supply chain. Obviously, we're seeing container costs increase. So, two quick questions here. Are you seeing any – I know you're probably on contract, but even people who are on contract on the outer edge of the end of the year are starting to see a little bit of pressure build. Can you speak to that? And then secondarily, do you do a lot of manufacturing in Bangladesh? And if so, do you have any impact from what's going on there? Thank you.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

So, in terms of the supply chain, we're very focused on what's happening, and we do have contracted rates, so we're in a good position. And we do feel as though we're being strategic across our global supply chain in terms of where we're producing all of our different categories and how we can gain efficiency across that. We do not produce in Bangladesh.

**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Q

Okay, great. Thank you very much. Best of luck.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thank you, Adrienne.

**Operator:** Our next question is from Andy Wen with Raymond James. Your line is now open.

**Rick B. Patel**

*Analyst, Raymond James & Associates, Inc.*

Q

Oh, hey, guys. Can you hear me?

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Yes. How are you doing?

**Rick B. Patel**

*Analyst, Raymond James & Associates, Inc.*

Q

Hey. It's Rick Patel. How are you doing? I had a question on international market. Do you unpack the growth that you're seeing there? How do trends look like in like for like markets for some of the areas where you've been in for a longer period? And how should we think about the contribution of newer markets to the overall growth?

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Sure. So, international growth for the quarter is 44%. So, I just want to highlight it because it's important to adjust for the duty reclass. So, really encouraged by what we're seeing in terms of our international business. We're continuing to localize by market and managing a number of different websites across markets, which has been an incredible undertaking. As I mentioned on the call, we're still early days, there's so much opportunity, and we're excited to see the growth.

Canada, UK, Australia are three, like, most tenured market. They are performing and have very similar dynamics to the US in terms of how often people come back, AOV, how much they're spending. And so that's great to see. The newer markets, there's been a few really big highlights. I know we talked about Mexico, continues to be performing extremely well; the Philippines. And then, in terms of opportunities going forward, we're not really, other than the Philippines, in Asia. So, a huge opportunity there. And I think there's a lot more we can do in terms of the EU. We're working on a number of initiatives. Actually from a team's perspective, as we see a number of

private practice and other concierge clinics really looking to outfit their team in FIGS. So the TEAMS opportunity isn't just the US. We're seeing a lot of opportunity internationally as it relates to TEAMS as well.

**Rick B. Patel**

*Analyst, Raymond James & Associates, Inc.*

Q

And you also touched on the potential to go deeper in international markets that have higher – that are higher potential countries, maybe some additional color there would be great.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Yeah. I mean, it's early days in a number of the newer countries that we've launched this year. And, I think, our strategy around it is to really see that demand. We see the traffic coming to our site. We turn on these countries. We really see that demand before we invest behind it and so it's, like I said, early days. We're seeing that demand, we're seeing the growth. And we look to invest in the highest potential markets and we'll definitely give more color on them as we go on our upcoming calls.

**Rick B. Patel**

*Analyst, Raymond James & Associates, Inc.*

Q

Thanks, Trina. Nice progress.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thanks, Rick.

**Operator:** We have a question from Ashley Owens with KeyBanc. Your line is now open.

**Chandana Madaka**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hi. Thanks for taking my question. This is Chandana Madaka on for Ashley today. I just kind of wanted to ask really quick, could you speak on your more functional consumer like the one who more needs their scrub uniforms, how often they're buying, maybe are there any dynamics there that set them apart that are a bit different from the more a non-scrubwear-oriented, if you're seeing any of that? And then secondly, there's been a good amount of exciting innovation and new styles [indiscernible] (00:45:40) so just kind of wanting to ask if you could [ph] lay out (00:45:43) some pockets within that outperformance where you've been seeing the most excitement among consumers and what they're gravitating towards to maybe inform more of that lifestyle opportunity within the non-scrubwear categories. Thank you.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Great. Thank you, Chandana. Okay. So in terms of our – just thinking broadly about our healthcare professionals, they are buying the full layering system. So most of the time, they're kind of coming in starting with our core scrubwear. On their next purchase, maybe they're purchasing an outerwear item or an underscrub then they're coming back again to replenish their scrubs. And so that journey is very much the full layering system. We have very few customers that are only non-scrubs or only scrubs. It's really about that full journey of coming to FIGS for the whole uniform on shifts, right, you're wearing underscrub on shift, you're wearing your scrub on shift, you're wearing your outerwear pieces on shift. And so that's how to think about like who we're serving.

As it relates to replenishment, how many sets a year are they buying? They're buying an industry-wide. Prior to COVID, they're buying about four to six sets a year. The industry is below that today. Just given COVID overhang, there was a stocking up during COVID. We're still at this kind of lower point. It's been great to see some of that normalizing and that trend heading in a more positive direction. I think a lot having to do with our new product and driving that forward. But to see they're engaging with our newness on the scrubwear, they're engaging with our newness on non-scrubwear is great to see.

As it relates to what is outperforming within, I would say both, right? What's outperforming within scrubwear? We're seeing our Isabel Wide Leg outperform. Wide leg is a hot style and our healthcare professionals love it. I will check it out. It's super cool. And then our scrub leggings, our scrub legging, not our, our regular and then our flare, both are performing incredibly well and outperforming our expectation. Our indestructible fabric was an awesome collection, it's more durable on the outside, soft on the inside, really meant to be worn outside, on shift in different environments that's really demanding and having products that help you perform is what we're all about. Having functional, durable, comfortable product, that is what we do. And so it's exciting to see all this innovation.

I would say finally, our Olympics Collection, I don't know if you saw our stadium jacket. I don't know if you saw our scrub jumpsuit. But these items are killer. I think they're both sold out. So I don't know if you can get those but look forward to seeing what comes next. But thank you so much, Chandana.

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**Chandana Madaka**

*Analyst, KeyBanc Capital Markets, Inc.*



Got it. Very helpful. Thank you.

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**Operator:** Our next question is from Matt Koranda with Roth Capital Partners. Your line is now open.

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**Matt Koranda**

*Analyst, ROTH Capital Partners LLC*



Hi, guys. Thanks for taking the questions. So super exciting to hear about the success with the Olympic campaign and I guess that bodes well for growth. I'm just curious about how that fits into sort of the third quarter top line guidance that you provided. So do we have a thought process where maybe we grow a little bit better than that 1% in kind of the campaign period in July and August? And then we're assuming a drop off after that. Maybe just unpack for us the third quarter guidance and maybe why some conservatism could be baked in there.

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*



Sure. Thanks, Matt. Okay. So we increased our revenue guide for the year and we're very encouraged to see the positive trends in our business including the frequency trends. And so that being said, the trends are [indiscernible] (00:49:33) and we're cognizant of the broader environment. It is election year and there is a lot of news about a potentially choppy economic environment. So, that's what you're seeing in the guidance.

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**Matt Koranda**

*Analyst, ROTH Capital Partners LLC*



Okay. Got it. And then maybe just around any behaviors you could highlight for your core consumer. I know you mentioned sort of repeat is coming back a bit and we're normalizing in terms of total scrub sets being purchased. But what are you seeing from the consumer in promotional periods, non-promotional periods, are you seeing sort



of more concentration around those promotional periods that you run and then a drop off? Just curious what kind of the cadence of how things go when you're promoting and when you're off promotion.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Sure. I mean, I think what's been great to see in the last few quarters is really around our healthcare professionals in our community engaging with us in non-promotional times in a way that is beyond expectation. So it really is tied to launches of new products, new styles within scrubwear, new collections like what we mentioned with the Olympics and it's great to see. And so I would say we've talked a lot about, in the past, specifically in 2023, around how our community was engaging during promotional periods, more than expectation given the environment. And I think this year it's great to see that it's the non-promotional time where the engagement is beyond the expectation.

**Matt Koranda**

*Analyst, ROTH Capital Partners LLC*

Q

Okay. That's great. Could I sneak one more in just on the DC shift? I just wanted to make sure I understood, the \$13 million we're assuming all falls in the third quarter. I guess maybe just a little more detail on why that spilled out of the second quarter into the third and just any potential that you see for those costs maybe the split between the third and fourth? Is there risk that anything slips or how should we think about that?

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

So there's a little – actually, that \$13 million is across Q4 last year, Q1 this year, Q2 this year and Q3 and actually a little bit in Q4. So that is not all in the third quarter. We're just saying that there was a shift between some of that transitory between Q2 and Q3. But that \$13 million isn't about Q4 last year, just 2024, but that \$13 million [indiscernible] (00:52:03) this year just a portion of it shifts from Q2 to Q3.

**Matt Koranda**

*Analyst, ROTH Capital Partners LLC*

Q

Okay. Got it. I'll leave it there. Thanks.

**Operator:** We have a question from Nathan Feather with Morgan Stanley. Your line is now open.

**Nathan Feather**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey, everyone. Really encouraging signs of the business and particularly helpful to see frequency start to turn the quarter. I understand volatile macro [indiscernible] (00:52:33) things going on, but does it feel like you've finally reached the trough here? And how should we think about that metric picking up over the next kind of 12 to 24 months as you continue to inject new product? And then just one on the share buyback program. Interested to hear how you're thinking about potentially running the cadence or size of that? Thanks.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Sure. Thank you so much, Nathan. So I think, we are encouraged by the trends that we're seeing in repeat frequency. We're encouraged by a number of leading indicators around I mentioned branded search, open rates around our email, net subscriber rate. All of these indicators are headed in the right direction. But it's the recency

of these metrics that we're just being mindful of but it is encouraging to see and we'll keep you updated as we continue to go.

As it relates to the share buyback, we're really excited to announce that our strong financial profile and long-term business outlook give us the confidence to be able to evolve our capital allocation strategy. As you know, we have sufficient liquidity and cash flow generation to both invest for growth and also return value to our shareholders. And so this buyback is going to allow us to do this, and we're going to be opportunistic over time. There's no end date on the program. And as we go here, we'll update you.

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**Nathan Feather**

*Analyst, Morgan Stanley & Co. LLC*

Great. Thank you.

Q

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

Thank you.

A

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**Operator:** Our next question is from John Kernan with TD Cowen. Your line is now open.

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**John Kernan**

*Analyst, TD Cowen*

Good Afternoon. Thanks for taking the question.

Q

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

Thanks, John.

A

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**John Kernan**

*Analyst, TD Cowen*

Trina, where do you see the most operating leverage in the business as top line eventually reaccelerates? There's obviously been some deleverage on the adjusted EBITDA margin line the last two years. Just curious where you think that you see biggest opportunity over a multi-year period?

Q

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**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

Sure. If you look at our financial profile, we have a structurally advantaged financial profile, a lot of the decisions that we've made have been real strategic investments for growth. And so from a gross margin perspective, as the pinnacle keeps driving core, there's leverage there. From a selling perspective, the transitory costs are going to roll off. And we are in a facility where it's super automated. And as we scale, there's a ton of leverage there. From a marketing perspective, as we continue to gain efficiency on digital, we're going to invest in top of funnel. But still overall, from a marketing perspective, there's leverage there.

A

And then G&A, I would say, we've been really disciplined around people around spending around just total G&A. And I think there's leverage there. So I know you asked for like where is the most leverage, but I do think I would say in this year it's selling because it's transitory, it's like [indiscernible] (00:55:44) like all that extra cost is transitory.

**John Kernan**

*Analyst, TD Cowen*

Q

Got it. And then just while you're on the topic of top of funnel marketing and some of the increase in marketing dollars in Q2 and Q3 of this year, you did see a nice sequential uptick in active customers from Q1. And just curious, how should we think about active customers as we get into the back half of the year given the marketing dollars are going to rise again pretty significantly in Q3?

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Yeah. I mean, I think active customers is a great lagging indicator or lagging metric. It's an important metric, but it is an LTM metric. And so, when you look at LTM-active customers which is what that is, you're basically still comparing it. And so to answer your question, we're proud of the growth in active customers, but we're comparing – we're being compared to something like a Q3, Q4 2022 is [indiscernible] (00:56:44) year-over-year growth metric. And so as we continue to grow here, that metric, we're super excited to have that incorporate a lot of the repeat frequency that we've seen recently. And so I think we're excited about what's to come in terms of active, what's to come in terms of new customer growth and what's to come in terms of resurrected. We've had an incredible number of resurrected customers. And so I think, overall, active customers going forward will follow a lot of the more recent trends we're seeing in repeat frequency.

**John Kernan**

*Analyst, TD Cowen*

Q

Got it. Thank you.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thanks, John.

**Operator:** Our next question is from Brian Nagel with Oppenheimer. Your line is now open.

**Brian Nagel**

*Analyst, Oppenheimer & Co., Inc.*

Q

Hi. Good afternoon. Congrats on the success.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Hey, Brian. Thanks, Brian.

**Brian Nagel**

*Analyst, Oppenheimer & Co., Inc.*

Q

So, Trina, I wanted to dive a little deeper into this, just the gross margin dynamic you're discussing with some of the new product. So I guess the question I have, is the impact of business we're seeing or you're telegraphing – is that simply a function of this product selling better than expected or is there some type of shifting dynamic that's causing this to happen?

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Yeah. I mean, I think there's – it is exactly that, right? Our new styles, our new innovation, our new fabrications are outperforming expectations. And so this gross margin is impacted by, essentially, three mix shifts. There's a mix shift within scrubwear from core to limited edition, limited edition meaning the newness to innovation. There's a mix shift between scrubwear and non-scrubwear, people buying more of the layering system and wanting our outerwear, wanting our underscrubs, wanting our footwear. There's a mix shift within non-scrubwear that's driving that as well. And so those three pieces together are driving the gross margin. That being said, there is so much that we're doing that we're excited about. So this pinnacle of newness will over time drive more core. And because healthcare professionals are not only coming back for what's new, what's still there, they're coming also back for the core. And core, as you know, Brian, is at a much higher margin. So having the pinnacle drive the core leads to higher gross margin over time.

Second, our new products, I think I mentioned this, but as they have lower gross margin today, we will gain volume and scale from these new categories, from these new products. And we expect to see that margin curve grow in a way like what we've seen within our core scrubwear.

Finally, we do believe there is opportunity within pricing, within costing, given how well these products are performing. And so we're going to be really strategic in looking at those opportunities. And with Sarah Oughtred just joining us, we have a lot of opportunity there. And so this is all exciting. And over the long term, gross margin, we really are optimistic about the opportunity.

**Brian Nagel**

*Analyst, Oppenheimer & Co., Inc.*

Q

That's really helpful. My follow-up question, so you discussed tonight some of the [indiscernible] (01:00:12), some of the more upbeat, if you will, consumer metrics. But I guess the way I want to frame the question, so last time when in the last quarterly report, you were discussing at that point, I think it was late in the quarter or maybe even early in Q2, that you saw this improving consumer frequency and this coincided with some of these new product launches. So the question I have is, as Q2 progressed and now as we moved into Q3, are you still seeing that same improvement in frequency?

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

We are. We are. And the Olympics has been just an incredible campaign that, once again, it's taking the strategy we've talked about, right, pinnacle, awesome, limited edition, innovative product combined with top of funnel, great storytelling in an awesome campaign. And so those two things together, the strategy of really these two things combining, driving the core, driving people back, it's working and we've continued to see that trend that we talked about last quarter.

**Brian Nagel**

*Analyst, Oppenheimer & Co., Inc.*

Q

Perfect. Well, thank you very much.

**Trina Spear**

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

A

Thank you.

**Operator:** We have no further questions at this time, so I'll pass it back to the management team for any closing remarks.

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## Trina Spear

*Chief Executive Officer, Co-Founder & Director, FIGS, Inc.*

Thank you so much for joining our second quarter conference call. We look forward to seeing you again soon and have a great night.

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**Operator:** That concludes today's call. Thank you, all, for your participation. You may now disconnect your line.

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