REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q2 2024 CONFERENCE CALL

PREPARED REMARKS ON AUGUST 6, 2024

ERIK RANDERSON, VP INVESTOR RELATIONS

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

Before we begin, I would like to mention that we have posted a presentation containing Q2 financial highlights to our Investor Relations website located at investors.revolve.com.

I would also like to remind you that this conference call will include forward-looking statements, including statements related to our future growth; our inventory balance; our key priorities and operating initiatives; industry trends; our marketing events 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 a strong second quarter, highlighted by a return to top-line growth, net income more than doubling year-over-year, and a nearly 350 basis point increase in our Adjusted EBITDA margin year-over-year.

Contributing to the significant growth in profitability was meaningfully better-than-expected marketing efficiency as well as increased logistics efficiencies that also outperformed our guidance, helped by improving trends in our return rate as many of our return rate initiatives began to take hold late in the second quarter.

Most importantly, we achieved these strong results while continuing to invest in initiatives to drive profitable growth and market share gains over the long term.

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

Net sales were $282 million, an increase of 3% year-over-year that was driven by improved year-over-year trends in both segments relative to our comparisons in the first quarter of 2024.

Net sales in the REVOLVE Segment increased 4% year-over-year, our best performance in 6 quarters. This was partially offset by a 4% decline in **FWRD Segment net sales**, an improvement of 10 points from FWRD's year-over-year comparison in the first quarter of 2024.

While we continue to see headwinds in a dynamic luxury environment where FWRD competes, as one of the financially strongest operators of a multi-brand luxury e-commerce platform, we are actively pursuing opportunities to capitalize on the current environment by investing in strategies to gain market share. Along these lines, Michael will talk about our acquisition of a majority interest in the revered luxury brand and long-time brand partner of FWRD, Alexandre Vauthier.

Net income for the second quarter was $15 million, or $0.21 per diluted share, an increase of 111% year-over-year. **Adjusted EBITDA** was $20 million, an increase of 97% year-over-year, driven by a nearly 350 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. I will discuss some of the key highlights since our update last quarter.

- First, I am pleased to report that we delivered even greater **efficiencies in our logistics costs** year-over-year than last quarter, contributing to our exceptional growth in profitability in the second quarter. Expressed as a percentage of net sales, **Selling and distribution expense** decreased approximately 70 basis points year-over-year and **fulfillment expense** decreased 15 basis points year-over-year. It was our first year-over-year decrease in fulfillment costs as a percentage of net sales in two and a half years. I would like to acknowledge great execution by our Operations team for driving these efficiencies, in the U.S. and international markets.

- Shifting to the outlook for driving future efficiency gains, I am thrilled to report that we are beginning to see early tangible benefits from the initiatives outlined on recent calls designed to reduce our return rates. As a proof point, our **return rate** declined year-over-year in the second quarter, representing the first year-over-year decline for any quarter in more than three years. The financial benefits of potentially reducing our return rate in the future are compelling considering that for every one-point decrease in our return rate, we would expect to realize cost savings of approximately 30 to 50 basis points in reduced Selling & Distribution and Fulfillment costs. Importantly, many of our efforts to reduce the return rate further elevate the customer experience, including by providing improved size guidance and leveraging technology and data for more personalized merchandising of products less likely to be returned.

- Second, we delivered strong results in **expanding our international presence** in the second quarter, as net sales from international markets increased 13% year-over-year. Net sales increased across nearly all major regions, including China where outstanding growth during the important 6-18 shopping festival in China led REVOLVE to be recognized as the second largest seller of fashion merchandise on TMall Global. The 6-18 festival is the second biggest event of the year in China for driving online sales, trailing only Singles Day in November. I am also excited that we have recently launched a branded retail presence on the Douyin and RED ecommerce marketplaces that serve more than 750 million monthly active users on a combined basis. These incredibly popular platforms serve a young, Gen Z demographic that skews female -- a highly relevant audience for our fashion, beauty and lifestyle offerings.

- Third, we remain committed to efficiently **investing to expand our brand awareness, growing our customer base and further strengthening our connection with the next-generation consumer**. Our team delivered outstanding results in the second quarter across brand and performance marketing channels, leveraging the strength of our brands. For instance, the second quarter was our most efficient quarter for performance marketing investments in nearly four years, based on our performance marketing investment calculated as a percentage of net sales. Michael will talk about important wins in brand marketing efficiency measures that are also a key contributor to the increased marketing efficiency reflected in our updated 2024 guidance for marketing investments.

- And lastly, we continue to leverage **AI technology** to drive growth and efficiency while further elevating the customer experience. A perfect example is our recent development and successful launch into production of an internally developed AI search algorithm on our FWRD site. For years, consumers have searched for products on our sites through a third-party search platform. With the emergence of AI and as part of our data-driven mindset, I challenged our team to develop and test our own AI search capabilities and test it against the incumbent retail search platform developed by a very large third-party technology company. It is incredibly impressive that our internal team of data scientists developed a solution that outperforms the third-party search technology, driving higher revenue per search and at a much lower operating cost. With this success, our internally developed AI search algorithm is now live on FWRD, and we are currently A/B testing the algorithm on our REVOLVE site with promising early results.

To wrap up, we still have work to do, yet I feel great about the important progress we have made in the first half of the year. We began the third quarter of 2024 with solidly positive year-over-year growth in net sales for the month of July 2024, and there is momentum building across key growth and efficiency initiatives that we believe may further improve our foundation for profitable growth in the years to come.

Now, over to Michael.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike, and hello everyone.

I am excited by the great progress we have made on our key priorities, especially the meaningfully increased efficiency of our marketing investments year-over-year as we invest to build our brands and further strengthen our connection with the next generation consumer.

Our newly reimagined **REVOLVE Festival** in April set the tone for the second quarter by exceeding our expectations and generating a much greater impact on our key metrics within the one-day format in 2024 than we had achieved over an entire weekend for last year's event.

But we didn't stop there. We had an incredibly active and efficient second quarter for brand building, hosting impactful events at Stagecoach Festival, the Formula 1 Grand Prix in Miami, the Met Gala in New York, at our retail store in Aspen, as well as in international locations such as Mexico, Jamaica, St. Tropez and Sicily.

Particularly exciting was the **REVOLVE and FWRD Met Gala afterparty with rapper and fashionista Cardi B** that generated nearly 3 billion press impressions in top publications including Vogue, Elle, W Magazine, The New York Times, MSN, E! News and People. At the center of all the press attention was Cardi B's incredible dress at the afterparty that was custom designed for her by our Owned Brands team. Rave reviews in the press and on social media included Page Six of the New York Post calling Cardi B's dress a "Red Hot Atelier REVOLVE number." Most exciting, in Cosmopolitan's ranking of the 'Best Met Gala After Party Looks', Cardi B and our REVOLVE Atelier dress ranked #1 at the very top of the list.

Most impressive is that we were much more active in the second quarter of 2024 and delivered significantly increased marketing impact, while spending millions of dollars less year-over-year. In fact, for the second quarter, year-over-year growth in our press and social media impressions accelerated meaningfully, even though we spent $7.5 million less on brand marketing than in the second quarter of 2023.

Our impactful marketing efforts in the second quarter also helped to drive a reacceleration of active customer growth. Trailing 12-month **active customers** increased by 26,000 during the second quarter, more than triple the increase in active customers in the first quarter of 2024.

Let’s shift gears and talk about our recent acquisition of Alexandre Vauthier announced in June.

We view the luxury industry challenges as an exciting opportunity to go on offense and invest in market share capture, supported by our consistent profitability and cash flow generation that sets us apart in fashion e-commerce. So, we have had our eye out for opportunities, and we took on an exciting transaction late in the second quarter with the **acquisition of an 80% ownership stake in Alexandre Vauthier**, an iconic luxury fashion house that we have sold on FWRD for many years. Alexandre himself retains the other 20% ownership of the business and he is equally excited to expand the partnership with the REVOLVE Group. Our team pursued this complex transaction in the depths of the French bankruptcy courts, unlocking a compelling opportunity to acquire the Alexandre Vauthier business for a commitment to invest 6 million Euros over the next three years.

I will share just a few reasons why we and the entire Alexandre Vauthier team are so excited about the combination:

- Alexandre Vauthier is one of only 15 **Haute Couture brands** in the world, a recognition that is incredibly important to luxury customers. To provide some context, the term Haute Couture is legally protected and can only be used by brands approved by The Federation of Haute Couture and Fashion, including Chanel, Christian Dior, Givenchy and Alexandre Vauthier. We expect REVOLVE and FWRD to benefit from the association with the revered luxury brand while giving us a direct line into the French fashion ecosystem. The approximately 30 Alexandre Vauthier employees are based in Paris.

- The brand marketing impact that REVOLVE can deliver is an ideal complement to the Alexandre Vauthier brand that has dressed an incredible range of A-listers on red carpets including Kendall Jenner, Rihanna, Beyonce, Taylor Swift, Selena Gomez, Katy Perry and Brigitte Macron, the First Lady of France. In close partnership with Alexandre, we intend to relaunch the Vauthier brand with a reimagined new collection in the fall, followed by a fashion show during Paris Couture week in January 2025.

- Also compelling are the **expected synergies** from our e-commerce experience, data driven merchandising expertise and operational excellence to help grow the Alexandre Vauthier direct-to-consumer business which historically has been very small. Our creative teams are already working hard in designing a new AlexandreVauthier.com e-commerce site.

With the Vauthier brand coming off a period of underinvestment, in the near term we will understandably need to invest ahead of the financial benefits we expect to realize in future years. In summary, there is a whole lot of work to do, yet we see a ton of opportunity to grow this incredible brand on our platform, through wholesale and other distribution channels in the years to come.

We have also increased our organic investment in our luxury business. Capitalizing on the availability of outstanding talent, we have made a variety of strategic investments at FWRD that we believe can advance our pursuit of the vast number of effectively abandoned luxury customers that are up for grabs with all the recent industry disruption. As a case in point, two weeks ago luxury ecommerce retailer Matches Fashion was shut down entirely, a business that in 2022 reportedly generated $460 million in revenue.

Also important, the recent industry malaise has reinforced for brands that FWRD is an attractive partner due to our product curation, district styling point of view, and incredible brand marketing engine that have attracted young luxury customers. I am pleased to share that **Nike** has recently committed to sell a full range of products on FWRD for the first time, building on Nike's successful and long-standing partnership selling on REVOLVE.

Now, I will conclude with an update on our evaluation of the physical retail opportunity. I am excited to share that our key performance metrics such as traffic, sales, and customer engagement at our first permanent retail store in Aspen continue to be encouraging. Summer has been a great selling season, further illustrating our potential in this new market opportunity. I view our early momentum in physical retail as impressive considering that we are still learning a great deal in the early stages of our retail journey.

Mike and I have always believed that when a part of the business is performing as strongly as Aspen has so far, we want to invest into that opportunity in a much bigger way. Exploring retail expansion is especially exciting considering that most apparel sales still happen in physical stores. At the same time, we recognize that physical retail is a new and adjacent market opportunity for us that we haven't fully mastered. We have built an incredible brand that we believe can translate to physical retail, but before we move too quickly and to truly assess the longer-term growth potential, we need to first validate that we can replicate the success in Aspen in other locations.

To guide us through the next phase of our journey in testing physical retail beyond Aspen, we have engaged with one of the most accomplished **retail advisory firms** in the market. Our partner has played a key role in retail expansion for some of the world's most respected consumer brands, including Apple, Lululemon, Abercrombie and Fitch and Restoration Hardware. Their deep industry experience will help us to navigate critical decisions on evaluation of potential markets, retail site selection, negotiation, architecture and store design.

We are very excited to further explore and test the long-term opportunity in physical retail. We should have an update on what comes next by our third quarter conference call in early November.

To summarize, it feels great to see our team's hard work on growth and efficiency initiatives deliver results on the top and bottom lines. With our powerful brands we have invested in for more than 20 years, operational excellence and strong financial position — especially compared to our fashion e-commerce peers — we believe we are well-positioned to pursue profitable growth and market share gains.

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 second quarter, both from a financial standpoint and even more so by the progress made by the team on our operational initiatives that gives me increased confidence in our financial outlook moving forward.

I will start by recapping our second 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 second quarter results….

Net sales were $282 million, a year-over-year increase of 3%.

REVOLVE Segment net sales increased 4% and FWRD Segment net sales decreased 4% year-over-year.

In terms of geography, both territories returned to year-over-year growth in the second quarter. **Domestic net sales** increased 1% year-over-year and **international net sales** increased 13% 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 2.3 million, flat with the prior year.

Average order value, or AOV, increased 2% year-over-year to $306, benefitting from the higher mix of net sales at full price year-over-year.

Another contributor to the improved year-over-year net sales growth was that our return rate decreased year-over-year in the second quarter, as the many initiatives designed to reduce our return rate in customer friendly ways have begun to deliver visible results.

Consolidated gross margin was 54.0%, an increase of 7 basis points year-over-year, driven by a year-over-year increase in our higher-margin REVOLVE Segment.

Let's move on to **operating expenses**, which was a true highlight that drove our meaningful operating leverage in the second quarter. Of note, 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, around 10 basis points more favorable than our guidance, and a decrease of 15 basis points year-over-year.

Selling and distribution costs were 17.9% of net sales, also better than expected by approximately 10 basis points and lower by 73 basis points year-over-year. This year-over-year decrease reflects the continued great work by our teams to drive efficiency in our logistics costs while also benefiting from the slight decrease in our return rate year-over-year.

The biggest source of outperformance in the second quarter versus our guidance was **marketing**, which came in at 15.2% of net sales, significantly below our guidance of 17% of net sales. This represents a 360-basis point decrease year-over-year compared to our marketing investment of 18.8% of net sales in the second quarter of 2023.

General and administrative costs were $33.5 million, around $500,000 lower than our outlook, yet reflects a year-over-year increase that continued to outpace our net sales growth as we continue to invest in initiatives that support our long-term growth opportunity.

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

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

Net income was $15 million, or $0.21 per diluted share, an increase of 111% year-over-year.

Adjusted EBITDA was $20 million, an increase of 97% year-over-year.

Moving on to the balance sheet and cash flow statement…

Net cash used by operating activities was $25 million and **free cash flow** was negative $27 million in the second quarter, primarily due to unfavorable working capital movements that more than offset the increased net income. For the 6-month year-to-date period in 2024, we generated positive operating and free cash flow, although lower year-over-year, primarily reflecting an increase in inventory investments to support a return to top-line growth compared to a declining inventory balance in the first half of 2023 when we were very focused on rebalancing our inventory position.

Inventory at June 30, 2024 was $234 million, an increase of 14% year-over-year.

As of June 30, 2024, our balance sheet remained in a very strong position with **cash and cash equivalents** of $245 million and no debt. The decrease in cash and cash equivalents year-over-year compared to June 30, 2023 primarily reflects positive cash flow from operations that was more than offset by our stock repurchases exceeding $40 million in the last four quarters.

Our strong financial position enabled us to execute on **our capital allocation strategy in an effort to enhance shareholder value** through:

1. **Investing in the business** to support the long term growth opportunity ahead of us,

2. **Opportunistically pursuing strategic M&A and partnerships,** and

3. **Returning capital through our stock repurchase program**, where we repurchased approximately 119,000 Class A common shares at an average price of $15.83 during the second quarter. Approximately $60 million remained under our $100 million stock repurchase program as of June 30, 2024.

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

Starting from the top…. Our return to positive year-over-year net sales growth has continued into the third quarter with net sales in July 2024 increasing by a mid-single digit percentage year-over-year, a sequential improvement compared to the year-over-year trend reported for the second quarter of 2024.

Shifting to gross margin… We expect gross margin in the third quarter of 2024 of between 52.3% and 52.5%, which implies an increase of approximately 70 basis points year-over-year at the midpoint of the range. For the full year 2024, we continue to expect gross margin to be between 52.5% and 53.0%.

Fulfillment: We expect fulfillment as a percentage of net sales of approximately 3.4% for the third quarter of 2024, a decrease of approximately 20 basis points from the fulfillment efficiency ratio in the third quarter of 2023. For the full year 2024, we continue to expect fulfillment costs of between 3.3% and 3.5% of net sales.

Selling and Distribution: We expect Selling and Distribution costs as a percentage of net sales of approximately 18.3% for the third quarter of 2024, which implies a year-over-year improvement of approximately 70 basis points.

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

I also want to note that our outlook for fulfillment costs and selling and distribution costs continues to assume a return rate that is flat year-over-year for the full year 2024, consistent with our expectation at the beginning of the year. We are optimistic that our great progress in the second quarter of 2024 in reducing the return rate year-over-year will continue, and the team is working hard to achieve this. However, since the improved return rate happened late in the second quarter, as encouraged as we are, I am not yet comfortable factoring in a lower return rate into our financial outlook until we can prove it out for a longer period.

Marketing: We believe our strategies to drive impactful marketing campaigns at an increased level of efficiency will continue. We expect our marketing investment in the third quarter of 2024 to be approximately 15.2% of net sales, a decrease of approximately 20 basis points year-over-year. For the full year 2024, we now expect our marketing investment to represent between 15.3% and 15.5% of net sales, which is a decrease of 70 basis points from our prior full year 2024 guidance range for marketing investment.

General and Administrative: Offsetting some of the increased marketing efficiencies is our expectation for higher G&A costs than our prior full-year guidance. We expect G&A expense of approximately $35.5 million in the third quarter. For modeling purposes, remember that our G&A expense in the third quarter of 2023 a year ago included a non-routine accrual of $6.6 million for a then-pending legal matter that we do not expect to reoccur this year.

For the full year 2024, we now expect G&A expense of between $135 to $138 million, which at the midpoint, is an increase of $3.5 million from the high end of our prior G&A guidance range that we guided to on last quarter's earnings call. The majority of the G&A increase from our prior outlook is related to the Alexandre Vauthier acquisition completed late in the second quarter, including around 30 employees based in Paris and our investment to relaunch the Alexandre Vauthier brand and DTC website in the coming months. The remainder of the increase in our G&A outlook for full year 2024 relates to increased investment in certain key areas where we see timely opportunities to invest today to even further increase our competitive position and drive future results such as the FWRD investments that Michael discussed and continued investment in AI technology, where we have already delivered meaningful growth and efficiency gains throughout the company.

And lastly, we expect our **effective tax rate** to be around 24% to 26% in the third quarter and 25% to 26% for the full year 2024.

To recap, I am very encouraged by our second quarter results, highlighted by the return to top line growth, operating discipline that drove a more than doubling of net income year-over-year, and driving the first year-over-year decrease in our return rate in more than three years.

Now we'll open it up for your questions.