REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q1 2025 CONFERENCE CALL

PREPARED REMARKS ON MAY 6, 2025

ERIK RANDERSON, VP INVESTOR RELATIONS

Good afternoon, everyone, and thanks for joining us to discuss REVOLVE's first quarter 2025 results.

Before we begin, I would like to mention that we have posted a presentation containing Q1 2025 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; the impact of changes in international trade policies and our planned mitigation efforts; our marketing events and their expected 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, 2024, 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 presented and prepared 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.

Our strong execution within a dynamic environment resulted in outstanding first quarter results, highlighted by double-digit top-line growth, 57% growth in operating income year-over-year, and $45 million in operating cash flow that further strengthened our balance sheet. What's more, our Adjusted EBITDA margin increased by 160 basis points year-over-year and cash and cash equivalents on the balance sheet exceeded $300 million.

It's a great start to the year in an environment that has become progressively more uncertain than when we last spoke at the end of February. We achieved these strong results while continuing to invest in key foundations for long-term success, including advancing our AI technology and personalization capabilities, international expansion, building our brands, capturing a greater share of wallet among existing consumers, and developing new Owned Brands.

With that introduction.... I will begin by drilling deeper into our Q1 results, then I'll talk about the current environment and global tariff uncertainty, before wrapping up with progress on our longer-term objectives.

Starting with Q1 results…. Our healthy **top-line performance** illustrates that our strategic initiatives are working and that we are gaining market share during an uncertain time when industry peers with weaker foundations have dialed back investment plans.

Net sales increased 10% year-over-year, driven by **domestic and international net sales** increases of 9% and 12% year-over-year, respectively.

By segment, REVOLVE net sales increased 11% and FWRD net sales increased 3% year-over-year, our second consecutive quarter of growth within a luxury market that remains challenged. We see considerable opportunity for further gains amidst the disruption in the luxury market, as evidenced by the recent bankruptcy and liquidation of Canada's iconic premium department store chain, Hudson's Bay.

Now, let's unpack the strong **bottom-line results**, highlighted by a 57% increase in operating income and a 45% increase in Adjusted EBITDA year-over-year. In addition to our top-line gains, contributing to our strong growth in profitability was our brand strength that helped drive meaningful marketing efficiencies year-over-year, as well as our successful efforts to drive efficiencies in our global logistics operations. In fact, our product return rate decreased by nearly three points year-over-year in the quarter, yielding significant operating efficiencies and contributing to further elevation of the customer experience.

As an illustration of our progress, **our operating income margin** and **adjusted EBITDA margin** were the highest for any first quarter in 3 years.

Our profitable growth converted very strongly to generation of cash flows, which is a particular advantage in the current environment. We generated $45 million in **operating cash flow** in the first quarter, increasing our cash position by $44 million in just three months.

Now, I will address the recent slate of tariff announcements that have created a great deal of uncertainty for our entire sector. The macro environment is facing geopolitical and macro-economic uncertainty, particularly with the implementation of significant and broad-based tariffs, presenting considerable challenges for our sector. It is very challenging to operate in an environment when applicable tariffs can change almost daily, yet our team is engaged, collaborating with brands and other partners daily to mitigate the impacts, and we believe we are fully up to the challenge.

Importantly, our leadership team has a strong track record for navigating times of extreme uncertainty and coming out stronger on the other end. In our more than 20 years of operating our business, we have successfully navigated through turbulent cycles, including the Global Financial Crisis and COVID-19, and we have emerged stronger as a result. In contrast to many fashion ecommerce peers, we have a profitable and cash generative business, proven financial discipline, a strong balance sheet and key competitive advantages that together with our strong team enable us to confidently invest in the large opportunity ahead of us.

Beyond the numbers and despite the current macro challenges, I am excited by our team's execution that has led to measurable **progress on our strategic priorities.** Before turning it over to Michael, I will briefly recap our progress.

- **First, we continue to efficiently invest to expand our brand awareness, grow our customer base and strengthen our connection with the next-generation consumer.** A powerful example is our 8th Annual REVOLVE Festival held last month, which handily exceeded our expectations for delivering marketing impact, consumer engagement and efficiency – as Michael will talk about in his remarks. We are also encouraged that year-over-year growth in trailing 12-month active customers and average revenue per active customer accelerated in the first quarter, even while we achieved marketing efficiency of 100 basis points year-over-year.

- Second, we continue to **expand our international presence,** where we have made excellent progress in further improving the experience for our international customers by reducing friction in foreign currency payment processing and product returns, among many other service enhancements. In the first quarter, **International net sales** increased 12% year-over-year, despite currency headwinds in most regions and what we hope is temporary weakness in Canada due to boycotts of U.S. retailers in response to U.S. policy. These very solid results further validate the underlying strength of our international business and growth opportunity.

- Beyond international, we are relentlessly **focused on further elevating the experience for all customers.** Since the beginning, the customer has been at the center of our focus, so I am thrilled to report that in the first quarter we achieved a modern record for our customer satisfaction score. Shipping efficiency is a great example of our continuous improvement in service levels. Customers love our two-day express shipping offered in the U.S. free of charge. What is truly incredible is that we now deliver more than a third of our U.S. shipments to customers in just one business day, free of charge, exceeding our two-day promise by a full day. The percentage of U.S. packages we deliver to customers in only one business day has increased by 6 percentage points in the past three years, underscoring our progress in raising the bar to delight our loyal customers.

- And lastly, we continue to leverage **AI and other technology** to drive growth and efficiency. I am excited to share that we have internally developed AI algorithms that we believe will drive efficiency and even further elevate the customer experience. Our internal data science team has developed AI technology algorithms that now automatically transcribe customer service phone calls, providing greatly increased visibility into agent performance and greater awareness of customer issues. It is early days, yet we are excited about the potential for increasing operating efficiency as well as improved learning and training opportunities for our customer service teams.
- **We are also continuing to leverage AI to refine our shopping experience and personalization capabilities**. I am excited to share that in collaboration with a third-party, we are testing a new AI-powered styling feature that enables shoppers on REVOLVE to virtually style recommended items by mixing and matching styles from our vast assortment. Virtual styling is a powerful use case for AI technology that we believe has the potential to elevate product discovery, increase consumer engagement and loyalty, and advance our efforts to reduce product returns.

To wrap up, we delivered a strong first quarter and continued to strengthen our foundation for profitable growth over the long-term.

I would like to thank our team for your hard work, for staying nimble, and for your dedication to exceeding our customers' expectations. We are in a very challenging environment, yet I'm confident that we have the organizational discipline to manage our way through the uncertainty and gain further market share in 2025 and beyond.

Now, over to Michael.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike, and hello everyone.

I am extremely proud of our impressive first quarter results, particularly in light of the current macro environment. Our strong Q1 results were highlighted by double-digit top-line growth and very strong cash flow -- as well as our outstanding progress on longer-term initiatives.

Our success is the direct result of our continued strong execution by our team across the business, including in merchandising, site experience, marketing, owned brands, technology and international that collectively have further strengthened our connections with our engaged community of brands, consumers and content creators.

With that as an introduction, **I will focus my remarks on some of the strategic areas we are investing in** and that we are especially excited about:

- Brand building investments, highlighted by our REVOLVE Festival event
- Expansion of Owned Brands
- And physical retail exploration

First, REVOLVE Festival:

As our core consumer gears up for an active lifestyle of events in the months ahead, we are making the most of this opportunity to further build our brand heat and expand awareness.

On April 12th, we hosted our Eighth Annual REVOLVE Festival in Coachella Valley, bringing together the worlds of fashion, music, and culture in an exclusive and immersive experience. The atmosphere in the desert was electric, elevated by high-octane performances from our incredible lineup featuring Lil Wayne, Tyga, Gelo, and special guest Cardi B, who took the stage in a custom REVOLVE Atelier look, designed exclusively for her by our Owned Brands team.

The aspirational lifestyle event was very successful in elevating our brands and exciting and delighting our community of VIPs, brands, influencers, partners and fans who were fortunate enough to attend the invite-only activation that WWD called a "hot ticket" and the "biggest celebrity draw" of the weekend. The impressive range of A-List actors, musicians, athletes, celebrities, and content creators attending our weekend festivities included LISA of BLACKPINK and The White Lotus, Kendall Jenner, Kylie Jenner, Cara Delevingne, Charli and Dixie D'Amelio, Dwayne Wade, Chris Brown, Teyana Taylor, Emma Roberts, Ariana Greenblatt, Jordan Chiles, Julia Fox, Becky G, Wiz Khalifa, Landon Barker, Alix Earle, Christina Milian, Victor Cruz, Braxton Berrios, Ty Dolla $ign, Shaboozey, YG, Victoria Monet, Gracie Hunt, Alex Consani, Heidi Montag and Spencer Pratt.

REVOLVE Festival has evolved into a vibrant fashion show for the next generation of consumers, featuring trendsetting styles from REVOLVE and FWRD. Guests captured their looks across a variety of photo moments and immersive brand activations, generating incredible content that dominated social media feeds—and reaching hundreds of millions of people through the vast follower counts of our A-list attendees.

The proof of our success is in the incredible numbers. On the heels of last year's stellar Festival results when we delivered significantly greater marketing impact while reducing spend by millions of dollars, we were able to raise the bar yet again as an encore. In fact, press impressions from REVOLVE Festival in 2025 increased by more than 40% year-over-year while social media impressions increased by more than 25% year-over-year – achieved on reduced spending year-over-year. Most impressive is that according to data insights company CreatorIQ, REVOLVE's earned media value ranked #1 among brands from April 10th through April 20th coinciding with the Coachella Festival. This is a true testament to our brand strength and very strong execution by the team.

Second, Owned Brands, where our momentum has continued to build:

In the first quarter, the mix of Owned Brand net sales as a percentage of REVOLVE Segment net sales increased year-over-year for the first time in two and a half years.

It is particularly exciting considering that Owned Brands typically generate much higher gross margins than third-party brands and are exclusively available through REVOLVE and FWRD.

Most important, our underlying foundational metrics for Owned Brands continued to improve in the first quarter and in fact, significantly outperformed our third-party brands on key comparable metrics. This progress reinforces our confidence to invest in an incredible portfolio of new Owned Brand launches planned for the second half of 2025 and early 2026.

Also notable is that in the first quarter, within our limited physical retail footprint, Owned Brands continued to generate a meaningfully higher percentage of sales than we generate online. Particularly with our upcoming launches, we believe we can further increase the Owned Brand penetration of REVOLVE Segment net sales in the years to come.

Third, Physical Retail:

We continue to be very excited about **the growth opportunity in physical retail over the long term.** We are making great progress towards opening our permanent store in Los Angeles at the Grove, an open-air destination that is one of the highest grossing shopping and entertainment centers in the U.S. Construction is underway and we are on track to open our doors in the fall in our central location with outstanding foot traffic.

Our journey has already validated the physical retail channel as a great source for brand building, acquiring new customers and merchandising our high-margin Owned Brands. The retail channel has also featured a much lower return rate as compared to our online channel, and further strengthened our relationships with brand partners who view our premium retail environment as brand elevating.

As founders focused on maximizing shareholder value over the long term, Mike and I are measured in our approach with this new opportunity. The Los Angeles build will be our second retail store and our first in a major metropolitan market. With Aspen and Los Angeles, we will have two unique destinations to leverage as we continue to test, learn and iterate as we drive toward our internal performance goals. We have no plans to further expand our retail footprint beyond Los Angeles until we fully optimize and achieve our internal success targets within our existing footprint.

To help ensure our success, I am excited to share that we hired a **head of retail** with deep industry experience. Our new leader brings a proven track record of success in opening and profitably operating retail stores for fashion and lifestyle brands. Her job number one will be to open our permanent Los Angeles store at the Grove and leverage the strength of our brands and connection with next-generation consumers to maximize this exciting opportunity.

Before I close, I want to touch on an exciting partnership in the works with Grammy award winning performer and global style icon, Cardi B. We believe this partnership can be especially powerful in that we are creating a long-term joint venture that is first-of-its-kind for both parties. This venture will leverage our strong operational, brand building and marketing expertise with Cardi's powerful brand, trendsetting fashion and global audience that extends beyond our current core target demographic – both within the U.S. and abroad. The venture will be multi-faceted and will include the launch of apparel and beauty lines.

After many successful brand collaborations together, Cardi is excited to create a much deeper and longer-term equity partnership for her namesake brand. She chose REVOLVE because it was important to her to find a partner that would stay true to her authenticity and she is also completely aligned with our long-term focus. We believe Cardi choosing REVOLVE is a testament to the strength of our brands and the powerful platform that we have built.

Wrapping up, our strong financial profile, illustrated by the $45 million in operating cash flow we generated in the first quarter and a cash balance over $300 million, is a strategic advantage that gives us the capacity to invest for long term success. As our Q1 results attest, our investments are working, and I am excited about the many initiatives underway that we believe will continue to drive profitable growth over the long term.

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 proud of our strong first quarter results on both the top and bottom lines, especially considering the current macroeconomic environment.

I'll start by recapping our first quarter results and then I will provide context on our tariff exposure and mitigation strategies before closing with updates on recent trends in the business and guidance for the balance of the year.

Starting with the first quarter results…

Net sales were $297 million, a year-over-year increase of 10%.

REVOLVE Segment net sales increased 11% and **FWRD Segment net sales** increased 3% year-over-year in the first quarter.

By territory, **domestic net sales** increased 9% and **international net sales** increased 12% year-over-year.

Active customers, a trailing 12-month measure, increased 6% year-over-year, a slight uptick from the recent trend. With only 2.7 million active customers at quarter end within what is a very large addressable market, we see a great deal of opportunity to further expand our customer base in the years ahead.

Total orders placed were 2.3 million, an increase of 4% year-over-year.

Average order value was $295, a decrease of 1% year-over-year, that was primarily due to lower AOV in the FWRD segment, driven by product mix.

Consolidated gross margin was 52.0%, a decrease of 30 basis points year-over-year that primarily reflects a lower mix of net sales at full price and deeper markdowns year-over-year, partially offset by an increased mix of Owned Brands year-over-year. As illustrated by the year-over-year AOV decline in the first quarter, and with many consumers feeling pressure in the current environment, we are seeing customers begin to move to more accessible price points.

Importantly, our operating discipline enabled us to meaningfully outperform our guidance for operating expenses by a much greater amount than the slight miss on gross margin.

So, now moving on to operating expenses….

Fulfillment costs were 3.2% of net sales, a decrease of 32 basis points year-over-year.

Selling and distribution costs showed greater-than-expected efficiency at 16.8% of net sales, a decrease of 106 basis points year-over-year. This impressive result reflects a meaningful decrease in our return rate year-over-year as well as great execution by our teams to drive efficiency in our logistics costs, partially offset by a lower AOV year-over-year.

Our **marketing investment** was also more efficient than expected, representing 14.3% of net sales, a decrease of 100 basis points year-over-year that was primarily due to efficiencies in our brand marketing investments.

General and administrative costs were $37.9 million, outperforming our guidance of $39.5 million, albeit an increase of 58 basis points year-over-year as a percentage of net sales.

The increase in net sales and gross profit year-over-year and the meaningfully improved efficiency in our marketing and logistics costs helped us to achieve exceptional growth in operating profitability. **Our GAAP Income from Operations** increased 57% year-over-year in the first quarter.

As a reminder, below the operating income line, in the first quarter of 2024 we recorded a non-routine gain from an insurance recovery of $2.8 million, which was reflected in **Other Income** last year. This largely explains the decrease in Other Income year-over-year in the first quarter.

Our **tax rate** was 27% in the first quarter, up slightly from 26% in the prior year.

Net income increased to $11 million, or $0.16 per diluted share, up from $0.15 per diluted share, in the first quarter of 2024. The insurance recovery in the prior year was equivalent to approximately $0.03 per diluted share.

Adjusted EBITDA was $19 million, an impressive increase of 45% year-over-year.

Moving on to the balance sheet and cash flow statement…

We delivered strong cash flows in the first quarter. **Net cash provided by operating activities** and **free cash flow** were $45 million and $43 million, respectively, an increase of 18% and 17% year-over-year, that further strengthened our balance sheet. As you think about modeling cash flow for the balance of the year, we expect the build-out of our permanent store in Los Angeles to add $8 to $9 million to our **Capex** in 2025 as we customize our space at the Grove ahead of the opening of this experiential retail destination later this year.

Improved Inventory dynamics were a key driver of our strong cash flow generation. **Inventory** at March 31, 2025 was $214 million, a decrease of $16 million, or 7%, compared to year-end 2024. Inventory increased 6% year-over-year, which was outpaced by our 10% net sales growth for the first quarter. Importantly, the net sales growth to inventory growth differential was positive on both the Revolve and FWRD segments.

As of March 31, 2025, **cash and cash equivalents** were $301 million, surpassing $300 million for the first time. Our balance of cash and cash equivalents increased by $44 million, or 17%, in just three months compared to year-end 2024. And we continue to have no debt.

In the last 5 years, we have increased our net cash and cash equivalents balance fourfold, an increase of $227 million in five years, net of borrowings, while returning more than $40 million to shareholders through our stock repurchase program.

Now let's discuss our tariff exposure and mitigation strategies in more detail.

First, our tariff exposure….. We purchase the majority of our inventory from third-party brands under structures where we <u>are not</u> the importer of record, and so for these inventory purchases, we are not directly impacted by higher tariffs. More specifically, using 2024 as a benchmark, approximately 78% of our total inventory purchases last year came from third-party brands where the products were imported into the U.S. by our brand partners. Again, in these instances, we do not pay the tariffs.

Now, that leaves approximately 22% of our 2024 inventory receipts where we were the direct importer of record and where we do pay the tariffs directly. This bucket is composed of our Owned Brand products and from a limited number of third-party branded products where we are the importer of record**.**

So, to summarize, we have no direct tariff exposure for around 78% of our inventory receipts, whereas we do have direct tariff exposure for around 22% of our inventory receipts.

Now, given the very high tariff rate currently in place on China imports, let's talk about our China sourcing exposure. As mentioned, based on our 2024 data, approximately 22% of our inventory receipts have direct tariff exposure. Within that 22%, approximately 72% related to products we directly imported from China. Taking it one level deeper, the vast majority of our owned brand products were imported from China and a much lower, but still significant portion, of third-party products that we imported directly, originated from China. Said differently and to summarize, approximately 16% of our total inventory purchases in 2024 were directly imported from China. For the 78% of the inventory that was not directly imported by us, the percentage of products that have a China origin is much lower.

Now let's talk about our mitigation strategies. Our focus is on the products that we directly import, primarily within our Owned Brands, and, to a lesser extent, in the limited number of instances where we are the importer of record for third-party branded products.

The biggest area of mitigation opportunity is in Owned Brands, given the very high concentration of products imported from China. We are actively engaged in cost sharing discussions with our Owned Brand manufacturing partners and while there is a longer lead time, we are also working to diversify our manufacturing sources outside of China. Other mitigation measures that we expect will help us to offset some of the increased cost due to tariffs include: optimizing our product import logistics, selectively increasing prices for our products, and further optimization of our supply chain.

We are also working hard to mitigate the tariff impact for the limited instances where we are the importer of record for third-party branded products, primarily by partnering with our third-party brands to reduce the direct tariff impact, and to a lesser extent, selective price increases in partnership with our brand partners.

Now, for the approximately 78% of products that are not directly imported by us... We have a brand roster of over 1,000 brands that source from dozens of countries all over the world, which provides us with optionality and flexibility in sourcing and product assortment. We are actively working with these brand partners to manage through what is hopefully a transitory period of economic and supply chain disruption.

Our confidence in our ability to navigate through the tariff pressures that Mike alluded to is supported by our track record. We successfully navigated through the global financial crisis, the first wave of Trump tariffs in 2018 and 2019, and the COVID-19 pandemic. In all cases, coming out stronger. We are on even stronger footing today than we were during these previous cycles and we continue to have the financial discipline, balance sheet strength and long-term focus to support investing through this current cycle.

Now, let me update you on some recent trends in the business since the first quarter ended and provide some direction on our cost structure to help in your modeling of the business for 2025.

Starting from the top…. Our net sales in the month of April increased by a mid-single digit percentage year-over-year, with international growth outpacing the U.S.

For modeling purposes for the balance of 2025, given the challenging backdrop with U.S. Consumer Confidence declining every month in 2025 to a 5-year low and U.S. Consumer Sentiment having declined 30% year-to-date, it is clear that the consumer is feeling increasingly uncertain about the future. While we do not give revenue guidance, the increasingly uncertain backdrop has led us to moderate our internal revenue growth expectations for the full year and, as a result, we are taking a measured approach to planning our inventory buys for the balance of 2025.

Now, before we get into guidance, let me caveat that our outlook is based on the current status of tariffs as of today, May 6, 2025 and our estimate of the impact of potential mitigating activities that are currently underway. Our outlook for gross margin is especially susceptible to variability given the uncertainty surrounding the timing and level of tariffs that will ultimately be in effect, as well as the timing and magnitude of the potential impact resulting from our mitigation efforts.

With that, let's discuss our updated guidance for gross margin, which includes our best estimate for the impact of tariffs, net of our mitigation efforts. We expect gross margin in the second quarter of 2025 of between 52% and 53%, which assumes some tariff impact later in the second quarter. By comparison, we expect the magnitude of tariff impacts to increase in the third quarter and particularly in the fourth quarter of 2025. As a result, for the full year 2025, we now expect gross margin of between 50% and 52%. For additional context, the high end of the guidance range reflects a minimal tariff impact with the assumption that we are able to mitigate the vast majority of the impact and/or tariffs are reduced to a much lower level relative to where we stand today. The low end of the guidance range assumes elevated tariff rates and our best estimate of the impact of our mitigation efforts. Again, our guidance reflects our best estimate at this point, in what is a very dynamic situation with a number of variables in play, all of which are very uncertain.

Fulfillment: We expect fulfillment as a percentage of net sales of approximately 3.1% for the second quarter of 2025 and between 3.0% and 3.2% of net sales for the full year 2025, unchanged from our previous guidance.

Selling and Distribution: We expect Selling and Distribution costs as a percentage of net sales of approximately 17.9% for the second quarter of 2025 and we now expect a range of 17.2% to 17.5% for the full year 2025. The slight increase from our prior range primarily reflects our expectation for lower average order values in the coming months, given the current macro environment. For context, lower average order values are a headwind to logistics efficiency because a lower AOV means that our shipping costs comprise a larger percentage of the revenue we generate on a per order basis.

Marketing: We expect our marketing investment in the second quarter of 2025 to be approximately 15% of net sales, a slight decrease year-over-year. For the full year 2025, we expect our marketing investment to represent between 14.9% and 15.1% of net sales, unchanged from our prior guidance.

General and Administrative: We expect G&A expense of approximately $39 million in the second quarter of 2025 and between $154 million and $157 million for the full year 2025, a slight decrease from our prior full-year guidance range.

And lastly, due to some discrete items affecting our tax rate this year, we now expect our **effective tax rate** to be approximately 27% to 28% for the full year 2025 – with the highest quarterly tax rate expected in the third quarter of 2025. In 2026, we expect our effective tax rate to return to our previous guidance range of between 24% and 26%.

To recap, we delivered strong Q1 results in an environment that has become increasingly challenged. With our strong performance over the last few quarters and our very healthy balance sheet, we are entering into this time of turbulence on solid footing. We believe we are well positioned to navigate through the current tariff uncertainty and other macro challenges ahead considering our financial strength that is supported by a premium price point and healthy gross margin, operating discipline and agility, our technology and data-driven DNA, our powerful brands, and our connection with the next generation consumer.

Now we'll open it up for your questions.