

REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q2 2025 CONFERENCE CALL

PREPARED REMARKS ON AUGUST 5, 2025

ERIK RANDERSON, SVP INVESTOR RELATIONS

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

Before we begin, I would like to mention that we have posted a presentation containing Q2 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 business initiatives; industry trends; the impact of tariffs and our mitigation efforts; our marketing events and their expected impact; 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.

Outstanding execution by our team within an incredibly dynamic operating environment led to strong second quarter results and continued market share gains.

Our net sales increased 9% year-over-year, outpaced by Adjusted EBITDA increasing 12% year-over-year as we delivered our highest adjusted EBITDA margin in three years, despite pressure from increased tariff rates. Improved inventory dynamics and our tariff mitigation efforts drove a slight expansion of our gross margin year-over-year as well as healthy cash flow generation. In fact, our \$52 million in free cash flow generated during the first six months of 2025 is nearly three times the free cash flow we achieved for the full year in 2024.

Looking beyond the numbers, I am excited by the underlying drivers of our strong results that illustrate great progress in key areas of investment for long-term success. Our customer base continues to increase and, on average, we are generating more revenue per active customer, helped by a lower return rate year-over-year and our successful efforts to capture a greater share of the consumer's wallet. I am also thrilled with our momentum and expansion within international markets and by the increasing mix of Owned Brands as a percentage of REVOLVE Segment net sales that is accretive to our margins.

With that as an introduction.... I will step back and provide a brief recap of our Q2 results, before reviewing the progress on our longer-term initiatives.

Starting with Q2 results.... As discussed on our Q1 earnings call, net sales for the second quarter of 2025 had a slow start coinciding with the peak tariff uncertainty in April and historically low consumer sentiment. Encouragingly, our net sales growth rebounded strongly from mid-single digits in April 2025 into the low-double digit growth territory for the months of May and June.

All told, **net sales for the full second quarter** increased 9% year-over-year, driven by **domestic and international** net sales increases of 7% and 17% year-over-year, respectively.

By segment, REVOLVE net sales increased 9% and FWRD net sales increased 10% year-over-year within a global luxury market that declined year-over-year in the first quarter, according to research from Bain Altagamma. The underlying FWRD metrics are very encouraging, further validating the efficacy of our FWRD investments over the past several quarters to capitalize on opportunities created by all the challenges among other luxury retailers.

The biggest source of upside for the second quarter, relative to expectations, was our **gross margin** performance. Despite the tariff pressures we discussed at length last quarter, we delivered a slight increase in consolidated gross margin year over-year – significantly outperforming our guidance.

Key contributors to our gross margin outperformance in Q2 were continued penetration growth for our Owned Brand offerings, which generate higher margins than third-party brands; the team's outstanding work on tariff mitigation relative to our prior assumptions; as well as the successful testing and rollout of enhancements to our markdown algorithms that drove meaningful improvements in the depth of markdowns in the second quarter, relative to our recent performance on these metrics.

Speaking of tariff mitigation.... While there is still a level of uncertainty, thus far, we have been able to successfully mitigate a significant majority of the tariff impacts. Importantly, the severity and abruptness of the tariffs served as a catalyst for mitigation efforts that should be favorable to our long-term margin structure. Which is exciting.

Shifting to our bottom-line results.... Our operating discipline allowed us to achieve a 10% increase in operating income and a 12% increase in Adjusted EBITDA year-over-year, outpacing our net sales growth of 9% year-over-year.

In addition to our top-line growth and increased gross profit we discussed, contributing to our profitability gains were our successful efforts to drive efficiencies in our global logistics operations. Notably, our product return rate decreased by more than one and a half points year-over-year in the quarter, helping us to achieve nearly 60 basis points of leverage in our variable cost line items of Selling and Distribution and Fulfillment.

Most exciting is that our profitable growth once again converted very strongly to **cash flow** generation that serves as a key competitive advantage. It was our best second quarter performance for cash flow generation in four years, helped by meaningfully improved inventory dynamics. As an illustration of our improved efficiency, our net sales increased 9% year-over-year while our inventory balance declined 6% year-over-year.

Notably, for the first half of 2025, our free cash flow generation exceeded our Adjusted EBITDA profitability by \$10 million. As a result, cash and equivalents grew to an all-time high of \$311 million as of June 30th, an increase of 27% year-over-year.

Now, I'll conclude by recapping our exciting progress against our strategic priorities and growth vectors over the past few months. We have a lot of exciting initiatives in play and our team is doing an excellent job executing on this set of initiatives that we believe can deliver value for shareholders over the long term.

- **First, we continue to efficiently invest to expand our brand awareness, grow our customer base and strengthen our connection with the next-generation consumer.** We had an extremely active and impactful second quarter for brand building, featuring marquee events such as REVOLVE Festival, REVOLVE in the Hamptons, and more that Michael will talk about in his remarks.
- **Second, we continue to successfully expand our international penetration,** highlighted by 17% growth outside of the U.S. in the second quarter. Net sales increased across nearly all regions, including China, which has become one of the top contributors for our REVOLVE Segment. In fact, our REVOLVE segment sales in Mainland China have more than doubled over the past two years after we invested in a team dedicated to the China market. Their efforts have helped us to capitalize on exciting opportunities, including through successful marketplace partnerships that have fueled our growth acceleration. REVOLVE was recently named the #1 cross-border store on the Tmall Global marketplace within the apparel category, and we recently launched a dedicated REVOLVE Man store on the Tmall marketplace to further expand our reach. Our international results underscore our traction and the attractive growth opportunity overseas that is several times larger than the U.S. market.
- **Third, we have continued to build on the successful expansion of our assortment to gain a greater share of consumer spending.** Sales of Fashion Apparel, Beauty, Men's and Home products each increased by a healthy double-digit percentage year-over-year, contributing to our reduced return rate and increased revenue per active customer year-over-year. This success expanding beyond our historical core further validates our opportunity to drive customer acquisition and expand our share of wallet among our loyal existing customers who trust in our brands and delight in our premium shopping experience.

- **Finally, we are also continuing to leverage AI to drive growth and efficiency initiatives across the company**, including to refine our shopping experience and personalization capabilities. Building on our successful recent launch of internally developed AI search algorithms for consumer product discovery on our ecommerce sites, during the second quarter, we tested and launched into production enhancements to our AI-search algorithms that are delivering great results, including a meaningful lift in conversion rate for search queries on our REVOLVE site. This exciting innovation by our data science team is driving incremental conversion gains on top of the incredible lift in performance that we achieved last year by replacing third-party search technology with our internally-developed AI algorithms for on-site search.

To wrap up, I am very proud of the team for delivering such strong second quarter results and great progress on longer-term initiatives that are critical building blocks for continued profitable growth over the long-term. Particularly in such an uncertain environment.

I would like to thank our team for your incredible agility, innovation and commitment that has helped us to navigate through all the tariff uncertainty while remaining focused on delivering excellence for our customers every day.

With our talented team, powerful brands, operational excellence, data-driven mindset and proprietary technology infrastructure, I am confident that we have the ingredients to power profitable growth and further market share gains in 2025 and beyond.

Now, over to Michael.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike, and hello everyone.

The core competitive advantages we have built over the last 20 years continue to set us apart and together with our strong team, enabled us to deliver strong results and market share gains in the second quarter, demonstrating our ability to navigate through this volatile period with huge changes in the effective tariff rates from day to day.

Even in such a dynamic environment in 2025 with wildfires, tariffs and macro uncertainty, in the first half of the year our revenue increased 10%, our Adjusted EBITDA increased 25%, and our free cash flow was more than five times higher year-over-year.

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 investments
- Merchandising
- FWRD momentum within the luxury industry
- Expansion of Owned Brands
- And physical retail exploration

First, Brand Building....

Our brand elevating **REVOLVE Festival** held in April set the tone for the second quarter by delivering significantly greater marketing impact on reduced spending year-over-year. Aspirational content from REVOLVE Festival in the Coachella Valley dominated social media feeds during the one-week period around our events.

But we didn't stop there. We had a very active second quarter for brand building, exciting and delighting our passionate community of consumers, brands, content creators and partners by hosting impactful events in New York, Miami, the Hamptons and at Stagecoach Festival in California.

Particularly exciting was our multi-week activation in the Hamptons. We engaged our community with REVOLVE Summer activations attended by numerous A-listers, co-hosted the vibrant Palm Tree Music Festival, and hosted an experiential pop-up shop in partnership with Vivrelle that remains open through Labor Day.

All told, it was our most efficient second quarter for brand building in four years, based on the estimated value of impressions generated by our brand marketing investments.

Second, merchandising. A key highlight from Q2 was our strong cash flow generation, which benefited from higher inventory turns year over year. In fact, we achieved the highest second quarter inventory turns ratio for full-price merchandise on REVOLVE in four years.

The underlying drivers are exciting as well. Our vastly improved merchandising on the site and on other consumer touch points in recent quarters is a key contributor to our improved inventory efficiency, while also driving increased consumer engagement and category expansion.

For instance, net sales from our ‘Festival Shop’ on REVOLVE nearly tripled year-over-year in the first half of 2025 – on top of very significant growth last year. Our fashion and editorial merchandising are making it easier than ever for our customers to find what they are looking for, driving improved inventory efficiency.

Our merchandising is also helping to generate increased demand in fashion apparel offerings outside of our historical core of event dressing. Sales of shorts have been incredible in the first half of 2025, also contributing to our improved inventory turns year-over-year. Leveraging our data-driven approach, our merchandising team identified the shorts trend very early and we capitalized by highlighting the perfect short styling for the Boho look, or for wearing at the beach. I truly believe the combination of our merchandising, editorial and photography that seamlessly feeds into our marketing messaging is second to none and continues to improve.

Third, FWRD. Our FWRD segment delivered impressive second quarter results that further validate our strategy of investing through the cycle while the luxury industry continues to face near-term challenges.

While many luxury players have reported declining revenue, FWRD net sales increased 10% year-over-year on increased margins as FWRD gross profit increased by 16% year-over-year in the second quarter.

And at a time when some of the largest luxury retailers are delaying payments to luxury brands for merchandise received, FWRD continues to attract coveted luxury brands as new partners.

Illustrating our brand assortment momentum are recent launches on FWRD by coveted luxury brands including Phoebe Philo, Victoria Beckham Beauty, Ralph Lauren and the launch of the SKIMs x Roberto Cavalli collaboration.

Finally, luxury brands have also been creating in-demand products that are exclusively available on FWRD. In June, we launched our FWRD Summer Club capsule that features exclusive-to-FWRD styles for summer getaways from hot brands including Christopher Esber, SIEDRÉS and SAME. Consumer demand for the capsule has been outstanding, resulting in very positive feedback from other luxury brands who are eager to partner with us more closely going forward.

Fourth, Owned Brands, where our team has been incredibly agile in navigating the evolving tariff landscape. Despite all the uncertainty, I am pleased to share that our momentum in Owned Brands continues to build strongly.

In fact, year-over-year growth of our Owned Brand net sales improved for the fifth consecutive quarter in Q2 and is outpacing our overall growth, leading to increasing penetration of Owned Brands.

The increased Owned Brand mix of REVOLVE Segment net sales year-over-year was a key contributor to our better-than-expected gross margin, as Owned Brands generate much higher gross margins than third-party brands.

And since our Owned Brand collections are exclusively available through REVOLVE and FWRD, Owned Brands are a key driver of traffic, new customer acquisition and net sales at full price.

With the underlying metrics for Owned Brands performing better than ever, and continuing to outperform comparable metrics for third-party brands, we are investing with confidence ahead of the launch of some exciting new Owned Brands in the next few quarters. I look forward to sharing more on next quarter's conference call.

Finally, Physical Retail:

We continue to be very excited about the growth opportunity in physical retail over the long term.

We are making significant progress developing our retail muscle as we continue to build out a team that continues to raise the bar on our go-to-market strategy and operations at our Aspen store, resulting in conversion gains, net sales growth and phenomenal customer feedback.

And brands have taken notice of our Aspen success. An executive from an iconic Italian luxury brand that we have targeted for years to carry in our FWRD assortment, visited our Aspen store recently and was so impressed by our merchandising, service and overall aesthetic that we have begun discussions about carrying their iconic brand as part of our in-store assortment.

All of this is further validation of the attractive long-term opportunity ahead in physical retail and will be an important driver of success at our soon to be open store in Los Angeles. We are on track to open our permanent store in Los Angeles in the fourth quarter, just in time for the holiday season. The store design looks incredible, inside and out, and will beautifully showcase our brands in a prime space within the quintessential shopping destination at the Grove Los Angeles.

Wrapping up, clearly, we have a lot of promising growth initiatives in the works that we are very excited about. Our strong financial profile sets us apart, especially in such a dynamic operating environment, illustrated by our profitable growth and cash flow generation that further strengthened our balance sheet to more than \$310 million in cash and cash equivalents as of June 30th. This strategic advantage gives us the capacity to invest for long term success in initiatives that we believe will continue to drive profitable growth for many years to come.

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

JESSE TIMMERMANS, CFO

Thanks, Michael, and hello everyone.

Our ability to deliver profitable growth again in the second quarter, while continuing to invest in long term growth drivers and at the same time, further building our already strong balance sheet is a true reflection of the platform we have built, our operating excellence and the team's ability to execute. I am proud of the team for delivering strong second quarter results, particularly considering the volatile macroeconomic environment and our slow start to the quarter amidst all the uncertainty around the tariff policy announcements in early April.

I'll start by recapping our second quarter results, then I will summarize our great progress on navigating tariffs, before closing with updates on recent trends in the business and guidance for the balance of the year.

Starting with the second quarter results...

Net sales were \$309 million, a year-over-year increase of 9%, representing an exciting milestone of delivering more than \$300 million in quarterly revenue for the first time.

REVOLVE Segment net sales increased 9% and **FWRD Segment net sales** increased 10% year-over-year in the second quarter.

By territory, **domestic net sales** increased 7% and **international net sales** increased 17% year-over-year.

Active customers, a trailing 12-month measure, increased 6% year-over-year.

Total orders placed were 2.4 million, an increase of 7% year-over-year.

Average order value was \$300, a decrease of 2% year-over-year, that was primarily due to a shift in product mix.

Consolidated gross margin was 54.1%, an increase of 4 basis points year-over-year, and well above our guidance range. Contributing to the slight margin expansion year-over-year was a higher mix of Owned Brands as a percentage of REVOLVE segment net sales, partially offset by a lower, but still very strong, mix of net sales at full price.

Now moving on to operating expenses....

Fulfillment costs were 3.2% of net sales, a decrease of 10 basis points year-over-year, albeit slightly higher than our guidance. The year-over-year efficiency reflects a decrease in our return rate, partially offset by a lower AOV year-over-year.

Selling and distribution cost efficiency outperformed our guidance, at 17.4% of net sales, a decrease of 45 basis points year-over-year. This strong result reflects a continued decrease in our return rate year-over-year, as well as our team's successful execution in driving logistics cost efficiencies, partially offset by a lower AOV year-over-year.

Our **marketing investment** represented 15.2% of net sales, essentially flat year-over-year, and well below our average marketing investment for the second quarters over the past four years.

General and administrative costs were \$38.3 million, outperforming our guidance of \$39.0 million, albeit an increase of 55 basis points year-over-year as a percentage of net sales.

The increase in net sales and gross profit year-over-year and improved efficiency in our logistics costs helped us to achieve solid growth in operating profitability. Our **GAAP Income from Operations** increased 10% year-over-year in the second quarter.

Now, below the Operating Income line, there was a big swing year over-year in Other Income / Expense that I will walk you through next.

In the second quarter of this year, we recorded **Other Expense** of \$2.9 million, a decrease from recording **Other Income** of \$4.3 million in the second quarter of 2024. This \$7.2 million decrease in Other Income year-over-year is primarily attributable to a \$2.8 million increase in unrealized foreign currency exchange losses year-over-year, a \$2.4 million non-cash charge in the second quarter of 2025 related to the disposal of a subsidiary -- as compared to a bargain purchase gain of \$1.9 million related to the acquisition of the same subsidiary in the second quarter of 2024.

Now, let me provide some background on the disposal of a subsidiary charge in the second quarter of 2025 and the related bargain purchase gain in the second quarter of 2024. Both relate to a very small acquisition we closed in the second quarter of 2024. We made the difficult decision to cease funding the operations of our majority owned foreign subsidiary that had acquired the business of French designer Alexandre Vauthier for approximately \$400,000 in the second quarter of 2024. Our disciplined approach to capital allocation guided our decision to move on and shift our focus to other initiatives with higher ROI that we believe will maximize the overall returns on our investments over the long term.

Our **tax rate** was 33.7% in the second quarter, as compared to 25.7% in the prior year. The higher-than-expected effective tax rate is primarily due to certain discrete tax items recorded in the second quarter of 2025 that we previously expected to be reflected in the third quarter of 2025.

Net income was \$10 million, or \$0.14 per diluted share, compared to \$0.21 per diluted share, in the second quarter of 2024. This decrease was primarily due to the significant year-over-year decrease in Other Income and the increased effective tax rate I just mentioned.

Adjusted EBITDA was \$23 million, a year-over-year increase of 12%, which outpaced our net sales growth of 9%.

Adjusted EBITDA margin was 7.4%, our highest quarterly margin in three years.

Moving on to the balance sheet and cash flow statement...

We delivered strong **cash flows** in the second quarter. Free cash flow was \$9.6 million for the quarter and \$52.4 million for the six-month year-to-date period, a year-over-year increase of \$42.4 million, or 424%, compared to the six-month year-to-date period in 2024.

Improved Inventory dynamics was a key driver of our strong cash flow generation, as net sales increased 9% while our **inventory** declined 6% year-over-year. Inventory at June 30, 2025 was \$221 million, a decrease of \$13 million, year-over-year.

Importantly, we are entering the third quarter with inventory that is healthy and clean, featuring newness that is resonating with our core customer.

As of June 30, 2025, **cash and cash equivalents** were \$311 million, an increase of \$10 million during the quarter and growth of \$66 million, or 27%, year over year. And we continue to have no debt.

Our strong balance sheet and cash flow gives us capacity to continue to invest in the business to drive long term growth, including physical retail and AI, while at the same time, opportunistically evaluating strategic M&A and repurchasing Class A common shares to enhance shareholder value.

During the second quarter, we **repurchased** approximately 93,000 shares of Class A common stock at an average price of \$18.78.

Approximately \$56 million remained under our \$100 million stock repurchase program as of June 30, 2025.

Now, a brief update on tariffs. Over the past few months, our cross-functional team has made excellent progress on tariff mitigation – working closely with our partners and brands to drive a successful outcome. As a result, in the second quarter, we estimate that we mitigated the significant majority of our tariff exposure.

We expect that our diversification initiatives will enable us to slightly reduce our sourcing exposure to China for our Owned Brand products starting in the second half of this year and into 2026. We remain thoughtful in our approach, however, keeping a close eye on where the tariffs across regions may ultimately land amidst all the continuing uncertainty.

To illustrate the volatility we are dealing with, when we announced our first quarter results and gave guidance in early May, the incremental tariff for China was 145%. By comparison, today, the incremental tariff for China is 30%. While still high, we view the current China tariff level as much more manageable, particularly with our great progress on tariff mitigation achieved in the past few months.

Importantly, looking beyond the current tariff challenges that we will continue to navigate for the balance of the year and into 2026, we believe our team's great work on tariff mitigation initiatives has the potential to improve our gross margin over the long run.

So, while the tariff landscape remains very uncertain, we feel much better today about our ability to navigate through the tariff landscape than we did just three months ago. And this is reflected in our improved gross margin outlook I will discuss shortly.

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 2025.

Starting from the top.... Our net sales in the month of July increased by approximately 7% year-over-year.

Now, before we get into guidance, let me caveat that our outlook is based on the current status of tariffs as of today, August 5, 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 third quarter of 2025 of between 51.2% and 51.7%, which at the midpoint implies a slight increase year-over-year.

For the full year 2025, we now expect gross margin of between 52.1% and 52.6%, which is considerably higher than our prior guidance. At the midpoint, the new range implies a slight decrease year-over-year.

Again, this guidance reflects our best estimate at this point, but there are a lot of moving pieces and a considerable amount of uncertainty that remains.

Fulfillment: We expect fulfillment as a percentage of net sales of approximately 3.2% for the third quarter of 2025, a slight decrease year-over-year. For the full year 2025, we expect fulfillment to represent between 3.1% and 3.2% of net sales.

Selling and Distribution: We expect Selling and Distribution costs as a percentage of net sales of approximately 17.5% for the third quarter of 2025 and a range of 17.2% to 17.5% for the full year 2025 – unchanged from last quarter.

Embedded in our assumptions are that we will face more difficult return rate comparisons going forward, after 5 consecutive quarters of year-over-year decreases in our return rate.

Marketing: We expect our marketing investment to be approximately 14.5% of net sales in the third quarter of 2025 and between 14.8% and 15.0% of net sales for the full year 2025, a slight decrease from our prior guidance.

General and Administrative: We expect G&A expense of approximately \$38.5 million in the third quarter of 2025 and between \$152 million and \$154 million for the full year 2025, also lower than our prior full-year guidance range.

And lastly, we now expect our **effective tax rate** to be approximately 28% to 29% for the full year 2025. As previously mentioned, the higher-than-expected tax rate in the second quarter is primarily due to certain discrete tax items that we had previously expected to be reflected in our tax provision in the third quarter of 2025. For the second half of 2025, we expect our effective tax rate to be approximately 27%.

To recap, we delivered strong Q2 results during what continues to be a challenging and fluid environment. With our highly capable team, healthy cash flow and rock-solid balance sheet, we are well positioned to navigate the current uncertainty while continuing to invest in the exciting longer-term growth opportunities ahead of us.

Now we'll open it up for your questions.