REVOLVE

REVOLVE GROUP INC. (NYSE: RVLV) Q4 AND FULL YEAR 2022 CONFERENCE CALL

PREPARED REMARKS ON FEBRUARY 23, 2023

ERIK RANDERSON, VP INVESTOR RELATIONS

Good afternoon, everyone, and thanks for joining us to discuss REVOLVE's fourth quarter and full year 2022 results.

Before we begin, I would like to mention that we have posted a presentation containing Q4 and full year 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 economic conditions and their impact on consumer demand and our business, operating results and financial condition; our cost and inventory management; the impact of new fulfillment centers; our growth, including growth in active customers and product offerings; market opportunities and related macroeconomic and industry trends; our future events; 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, 2021 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 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.

2022 was the 19th full year since Michael and I founded REVOLVE, and I'm proud of our financial performance and the accomplishments our team delivered in such a dynamic operating environment. Our net sales for the year increased 24% to $1.1 billion, we delivered record growth in active customers, and we generated significant profitably and cash flow that further strengthened our balance sheet.

There are **three key messages** I want to focus your attention on today.

First, our agility, operating discipline and execution of key growth initiatives helped us deliver fourth quarter and full year results that we believe continue to outperform industry peers and relevant benchmarks, further extending our market share gains. Importantly, our combination of growth and profitability truly stands out within the fashion e-commerce sector and, coupled with our strong balance sheet, allows us to continue to prudently invest in our long-term growth opportunity at a time when others are forced to play defense.

Second, while the macroenvironment remains a challenge for all companies, in the fourth quarter we made solid progress with our inventory dynamics and we believe we are on track with our objective of re-balancing our inventory position by the end of the second quarter of 2023. The spread between our inventory growth year-over-year and our net sales growth year-over-year decreased by more than 50% in the fourth quarter on a sequential basis when compared to the third quarter of 2022, and we continue to expect to exit the second quarter of 2023 with an inventory position that is balanced for growth and efficiency.

And third, this year is off to an encouraging start, which we believe further validates the power of our core competitive advantages, and positions us very well for our large market opportunity over the long term. Despite the very challenging comparison against our exceptional first quarter of 2022, I am pleased to report that seven weeks into the first quarter of 2023 our net sales have increased by a mid-single-digit percentage, new customer growth remains healthy year-over-year, and we drove a further sequential improvement in our inventory dynamics through the month of January 2023 that Jesse will discuss in his remarks.

Now, I'll briefly discuss highlights from our fourth quarter results. In the face of many challenges, especially outside of the U.S., our net sales increased 8% in the fourth quarter compared to the prior year period. We achieved growth across **segments**, REVOLVE and FWRD, and **geographies**, domestic and international.

I am particularly pleased to have delivered positive growth in **international markets** year-over-year, considering the significant currency headwinds discussed last quarter that make our product more expensive for consumers living abroad. The currency headwinds and weaker macroeconomic conditions led to a meaningful decline in net sales in the U.K. and Europe in the fourth quarter, two of our larger and most developed international regions.

Stronger results in the Middle East and Canada, as well as a large and growing contribution from emerging markets such as Mexico and India, more than offset the weakness in Europe and Australia, and continued challenges in China in the fourth quarter. Several of our emerging markets are benefitting from our investments to elevate service levels, highlighted by India where we recently established a REVOLVE store within the **Nykka Fashion marketplace**, which enabled us to offer free shipping and hassle-free returns in India. Nykka attracts more than 20 million unique visitors each month and is one of the fastest-growing fashion platforms in India, a market expected to overtake Japan and Germany to become the world's third largest economy by 2030, according to industry forecasts.

Net income for the fourth quarter was $8 million, or $0.11 per diluted share, and **Adjusted EBITDA** was $14 million. As expected, profitability was significantly lower than our record Q4 performance in last year's fourth quarter due to reduced gross margins, higher return rates and other cost pressures discussed on recent investor conference calls. In 2023, we are focused on initiatives to drive further cost efficiencies across the organization to help offset the persistent cost pressures in the current operating environment.

With our long-term focus, I'll now shift to **a review of our accomplishments for the full year 2022** before briefly touching on our key areas of focus for the coming year.

- **Starting with our top line**, I'm excited that we crossed the one-billion-dollar milestone in net sales in 2022, and very proud that we have delivered on our goal to grow 20% annually, as disclosed at the time of our IPO – growing through all the volatility and challenges of the past three years. Our net sales in 2022 were $1.1 billion, an increase of 24% year-over-year and reflect a compound annual growth rate of 22% for the three full years since we completed our IPO in June 2019.

It is compelling to compare our growth trajectory during this three-year period to legacy retailers offering premium price points including higher-end department stores, where reported revenue from some larger players has been flat to lower than pre-pandemic levels. This comparison illustrates just how much the next generation of consumers is moving in our direction and how well our brands are connecting with her through our impactful and diversified marketing approach. We believe there remains a very large opportunity to gain further market share from these legacy retailers that generate tens of billions of dollars in revenue annually.

- A key driver of our top line expansion was delivering record growth in **Active Customers** for the second consecutive year. Our active customers grew to 2.3 million at year end 2022, an increase of 500,000, or 27%, serving as further validation of our large market potential.

- And our customer's propensity to spend with us has continued to expand. Our **Average Order Value** was $304 in 2022, an increase of 12% year over year, driven by healthy expansion of average order values at REVOLVE and FWRD.

- **Taking it down a level to customer metrics….** From day one, we have been hyper focused on the customer experience, consistently raising the bar on service levels. Our commitment to exceeding our customers' expectations continues to drive results, as we delivered a record **net promoter score** in 2022. In a year plagued with global supply chain and logistics challenges, I'm proud that our customer-facing teams and fulfillment operations didn't skip a beat.

- And our customer is continuing to spend with us at full price to look and feel her best. **Approximately 85% of our net sales in 2022 were at full price**, just shy of our record performance in 2021, and 6 points higher than our best full price mix in pre-pandemic periods. We exited the year on a lower trajectory as we rebalance inventory in the near term, yet our consistently high mix of net sales at full price over many years is a powerful driver of our profitable business model.

- Our **customer retention metrics** provide further validation of our ability to connect with the next generation consumer and our best-in-class service levels. For the second consecutive year, a key customer retention metric performed above pre-COVID trends. Recall that once a year we disclose the revenue retention of our prior-year customer cohorts, defined as the revenue retention rate from the previous year for all existing customers who had purchased from us in a prior year. In 2022, our revenue retention of the prior year customer cohorts was an exceptional 97%, meaning that even if we didn't add any new customers last year, our net sales would have remained nearly flat year-over-year.

  Retention is an important driver of our business since tenured customers generate an outsized share of our revenue in any given year.

I'll wrap up with a discussion of **some of our key priorities for 2023**. Our key focus is to continue to leverage our core competitive advantages of data-driven technology, operational excellence and the strength of our brands to drive growth and operating efficiencies throughout the organization.

- **First, we will continue to efficiently invest in our brands** to grow our brand awareness, customer base and strengthen the connection with next generation consumers. We have some exciting plans in store for 2023 that Michael will cover in his remarks.

- **Second, we will continue to expand our assortment into adjacent product categories**, where we see exciting opportunities over the long-term. With the trust we have earned from our loyal customers, our longer-term goal is to be our customer's first choice for every category and occasion.

- **Third,** with our revenue scale now exceeding one billion dollars annually, **we see opportunities to invest in operational initiatives to drive the dual benefits of improving service levels for customers while driving efficiencies in our variable cost structure.** An exciting milestone is that last month we began fulfilling customer orders from our new east coast fulfillment center, which will allow us to reduce customer delivery timeframes and reduce costs over time. We are also evaluating opportunities to launch small regional fulfillment centers in key international regions to provide similar benefits.

- **Fourth, we will further expand our international presence,** where we see exciting opportunities to further elevate service levels to drive growth, through our localization initiatives including expansion of hassle-free returns, all-inclusive pricing, launching new payment methods and further development of our websites and mobile apps.

- **Finally, we will further enhance our technology stack and leverage our advanced technologies** such as AI and Machine Learning that have become important in efficiently driving some key areas of our operations and customer experience. When Michael and I founded REVOLVE 20 years ago, our data driven approach and internally developed technology were critical in enabling us to operate an agile and sustainably profitable business from the outset. The data-driven mindset remains firmly established in our team culture and has been a driving force in our leveraging of advanced technology such AI and machine learning applications to power key functions at REVOLVE including fraud detection, personalized product recommendations, image recognition, similar item recommendations, and product attribute tagging.

  We believe our proven ability to effectively leverage technology to deliver results is a key contributor to our capital efficiency and our revenue per employee generation being more than twice the average level of revenue per employee among fashion e-commerce peers in the U.S., by our calculations. Our annual net sales per employee, based on the employee data we disclose annually, has increased by more than 30% in just the past three years.

All told, I believe our results and outlook demonstrate that we are striking an effective balance of navigating through a highly uncertain environment while thoughtfully investing in our tremendous growth opportunity.

I would like to thank our outstanding team for their incredible commitment, strength and discipline that has put us in the enviable position we are in today. I am very proud of how well we have executed and I'm excited about the path forward.

Now, over to Michael.

MICHAEL MENTE, CO-FOUNDER AND CO-CEO

Thanks, Mike.

I am proud of our ability to deliver 24% year-over-year growth in net sales in 2022, achieving our long-term revenue growth target in a very dynamic and fluid operating environment. All while maintaining a profitable and cash generative business that further strengthens our balance sheet to give us the flexibility to continue to invest in key initiatives to drive growth and continued market share gains. Our cash position at year end increased to $235 million with no debt.

Our ability to overcome countless business challenges to deliver profitable growth speaks volumes about our leadership team and our core competitive advantages that position us for continued success over the long term: our technology-driven DNA and proprietary technology infrastructure, our operational excellence and agility, and our powerful REVOLVE brand and connection with the next-generation consumer.

Since Mike talked about our technology and operational excellence, I'll spend a few minutes on the strength of **our brands and connection with the next-generation consumer** that we continue to build as illustrated by our record growth in active customers in 2022.

Consistent with our strategic focus discussed on recent investor calls, in the fourth quarter we continued to drive exceptional growth, impact and consumer engagement on video content across our marketing channels. Our new views on **Reels** increased 600% year-over-year in the fourth quarter and our new views on **TikTok** increased by nearly 800% year-over-year. I couldn't be more proud of how well our team has navigated changes in the market and executed our brand marketing transition from our historically successful focus on Instagram photo content to where we are today with the growing majority of our social media mindshare now coming via engaging video content channels. Also important, we believe our fast-growing engagement on TikTok and Reels further expands our brand reach and awareness into a larger audience and broader range of consumer demographics.

I know many analysts and investors follow our aspirational and engaging content on social channels. For those tracking REVOLVE on TikTok, you may have noticed that we are an early partner for **TikTok Shop**, which is TikTok's social e-commerce platform that has grown rapidly in Asia in recent years. Based on their overseas success, TikTok recently began testing the TikTok Shop livestreaming e-commerce initiative with U.S. consumers. This exciting development now enables a large and growing audience of consumers to initiate REVOLVE purchases directly on TikTok. We are among a limited set of brands selected to participate at this early stage, reinforcing our position at the forefront of innovation for consumer engagement on social channels.

Shifting to a discussion of our impactful marketing events… We continue to be very active in elevating our brands with aspirational lifestyle events intended to excite and delight our community of customers, partners and influencers. In the fourth quarter, we hosted two events in partnership with industry leading companies that we believe further validates the strength of our REVOLVE brand and influence.

In November, we partnered with an iconic luxury brand, **Porsche**, outside of the fashion industry on marketing and brand building initiatives that is unlike anything we have done before. We collaborated with Porsche on marketing events over multiple days to create impact and awareness regarding the customizable features of the Porsche Taycan among coveted next-generation consumers. Participating were more than 100 REVOLVE brand ambassadors, who were beyond excited to get behind the wheel of Porsche's first all-electric sports car at the Porsche Experience Center in Los Angeles. The successful **Porsche X REVOLVE** activation generated tens of millions of impressions on social media, and is highlighted on Porsche's website.

In December, we partnered with another leading brand in a completely different zone, **AT&T,** which served as co-host of our REVOLVE Winterland event, an experiential holiday-themed pop-up and social hub for our community of customers, ambassadors and brands. A private, invitation only event was headlined by VIP attendees including Khloe Kardashian, Natalia Bryant, Olivia Culpo, Winnie Harlow and Draya Michele, many of whom were showcasing our latest winter collections. In the days that followed, we opened up REVOLVE Winterland to the public, enabling us to directly engage with our customers and build deeper brand connections with our entire community through our aspirational lifestyle events.

Our work as event partners with incredible brands including Porsche and AT&T further validates our REVOLVE brand momentum and powerful influence on the next-generation of consumers.

Moving to **FWRD,** our luxury destination where we see a great deal of opportunity for growth over the long term**.** FWRD delivered 23% revenue growth in 2022, expanding on FWRD's incredible 83% year-over-year growth in 2021. With this continued success, FWRD has emerged as an increasingly important player in the luxury space.

FWRD has a distinct styling point of view that has truly captured the attention of younger luxury consumers and luxury brands alike. In addition, as evidenced by Kendall Jenner serving as FWRD's creative director, we have trusted relationships with incredible celebrities and tastemakers based here in Los Angeles that have been important for REVOLVE brand building historically and we are increasingly leveraging that brand marketing muscle for FWRD as well.

During the fourth quarter, Kendall hosted two successful FWRD events, highlighted by an incredibly impactful event in November to launch a new FWRD collection from iconic designer **Jean Paul Gaultier**. Our brand heat helped us organically attract A-Listers to this event including Megan Fox, Doja Cat, Chloe Bailey, Phoebe Gates, and Iris Apatow who were covered extensively in the press and on social channels. In the days that followed, numerous celebrities around the world were spotted wearing the very same Jean Paul Gaultier looks that Kendall, Megan and others debuted at our launch event, which helped drive strong sales of these styles on FWRD.

In her second year as Creative Director, Kendall continues to find exciting new ways to engage with our FWRD community. Last month the FWRD website began featuring new Q&A content from Kendall's insightful conversations with some emerging luxury designers, including a very hot brand, Khaite, that Kendall hand selected for FWRD last year after a showroom visit.

Looking ahead, we will continue to focus on cross promoting FWRD to our larger REVOLVE customer base, including plans to include FWRD in some of our REVOLVE marketing events this year. It's a great opportunity since both brands are so complementary, with REVOLVE's assortment more focused on the discovery of trend driven, ready-to-wear styles, while FWRD's assortment is more heavily weighted toward her statement pieces, such as shoes and handbags.

Wrapping up, I will expand on some of the **key priorities** Mike outlined in his remarks.

First, we will continue to efficiently invest in our brands to grow our brand awareness, customer base and even further strengthen our connection with the next generation of consumers. Our investments will include extending our outstanding recent progress in diversifying our marketing channels, highlighted by the incredible growth in video content I referenced earlier, as well as driving further expansion of our proprietary brand ambassador program now available on REVOLVE and FWRD. We will also continue to elevate the brand with our premier aspirational events and by building on our momentum in partnering with major lifestyle brands.

Second, we will continue to expand outside of our historical category strengths into adjacent categories to solidify us as the destination for all aspects of her life, supported by marketing initiatives to increasingly emphasize newer categories where we see opportunity. For instance, we recently hired an accomplished and experienced leader for our Beauty business that has grown nearly twice as fast as the overall business since 2019. Beauty is a great opportunity to grow our share of wallet among our extremely loyal customer base. We have also hired new leadership in our Men's business, which is quietly and nicely growing yet still a small source of revenue that we believe offers a great deal of opportunity over the long term.

And third, just as we have done for our first 20 years operating the business**, we will continue to make investments that we believe will generate meaningful returns over the long term with an unwavering focus on the customer.** In addition to continuing to gain existing market share as we execute on these key initiatives, we believe we are well positioned to continue to expand our position as the preferred fashion destination for Millennial and Gen-Z consumers as their share of U.S. household net worth continues to increase.

Mike and I are more excited than ever about the opportunity ahead. We believe crossing the one-billion-dollar milestone in annual revenue is just the beginning and we remain squarely focused on continuing to take market share and building a much larger and more powerful collection of brands than we have today. This year will not come without challenges, including our effort to offset cost pressures with efficiency gains and rebalancing our inventory position to drive gross margin, but we remain incredibly excited about what lies ahead of us this year and for many years beyond.

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

JESSE TIMMERMANS, CFO

Thanks, Michael, and hello everyone.

We are pleased with our fourth quarter and full year results, which demonstrate agility in navigating significant challenges in the short term, while maintaining an unrelenting focus on the customer and making disciplined investments that position us for continued success over the long-term.

I'll start by recapping our fourth quarter results.

Net sales were $259 million, a year-over-year increase of 8%, and representing a three-year compound annual growth rate of 21%.

REVOLVE Segment net sales increased 9% and **FWRD Segment** net sales increased 5% year-over-year in the fourth quarter.

By territory, domestic net sales increased 9% and international net sales increased 1% year-over-year, despite currency and macro headwinds overseas.

Active Customers increased by a healthy 91,000 during the fourth quarter. This growth expanded our active customer count to 2.3 million, an increase of 27% year-over-year.

Our customers placed **2.0 million orders** in the fourth quarter, an increase of 11% year-over-year.

Average order value, or AOV, was $306, an increase of 5% year-over-year and a decrease of 4% sequentially from $320 in the third quarter.

Shifting to gross profit… Consolidated gross margin was 51.4%, a decrease of 339 basis points year-over-year, primarily due to a lower mix of net sales at full price and deeper markdowns compared to the fourth quarter of 2021. The decrease in gross margin is directionally consistent with our commentary on last quarter's conference call, but did come in lower than our guidance range for the quarter.

Moving on to operating expenses….

Fulfillment costs deleveraged 84 basis points year-over-year, primarily due to a year-over-year increase in our return rate as well as increased labor costs and investments made to expand our fulfillment network.

Selling and distribution costs deleveraged 165 basis points year-over-year and remained a significant headwind, primarily due to higher costs for customer shipments, due to a higher return rate year-over-year and continued significant year-over-year growth in variable fuel surcharges.

Our investment in marketing was more favorable than the outlook we provided on last quarter's conference call. Our marketing investments represented 15.4% of net sales in the fourth quarter, up from 13.5% in the fourth quarter of 2021 yet below the 16.6% in the third quarter of 2022.

General and administrative costs were $29 million, in line with our outlook provided last quarter.

Our **effective tax rate** was 24%, 17 points higher than in the fourth quarter of 2021. The unusually low effective tax rate in the prior-year comparable period primarily reflects excess tax benefits as a result of the exercise of non-qualified stock options**.**

Net income was $8 million, or 11 cents per diluted share, a decrease of 73% year-over-year that was impacted by the meaningful differences in our effective tax rate, the lower gross margin, and growth in operating expenses that outpaced our net sales growth year-over-year.

Adjusted EBITDA was $14 million, a decrease of 59% year-over-year.

Moving to the balance sheet and cash flow statement… For the full year 2022, we generated $23 million in net cash provided by operating activities and $18 million in free cash flow, with both measures down significantly year-over-year from the exceptional cash flow generation in 2021. The decreases in both measures primarily reflect lower net income, which included much higher tax rates and cash payments for income taxes that increased by $20 million in 2022, as well as other changes in working capital.

Looking forward, we expect significantly higher cash flow generation in 2023, based on expected favorable changes in working capital, including our expectation that our receipts of new inventory will be lower this year.

Our balance sheet remains debt free and cash and cash equivalents, at year end 2022, were $235 million, an increase of $16 million, or 7%, year-over-year. Since June 30, 2019, right after we completed our IPO, we have increased our cash balance by $190 million.

Inventory at year end 2022 was $215 million, a 26% increase year-over-year. To illustrate our progress towards rebalancing our inventory position, the unfavorable spread between our inventory growth rate year-over-year and our sales growth rate year-over-year peaked at 49 points in the second quarter of 2022, decreased to 40 points in the third quarter of 2022, and decreased significantly to 18 points in the fourth quarter announced today.

Most encouraging, our inventory balance as of the end of January 2023 had decreased by approximately $20 million from year end 2022. I'm encouraged by our progress on our inventory dynamics and we remain confident that we are on track to rebalance our inventory by the end of the second quarter of 2023.

Now, let me update you on some recent trends in the business since the fourth quarter ended and provide some direction on our cost structure to help in your modeling of the business for 2023.

Starting from the top…. Despite a very challenging comparison in the first quarter of 2022, I'm pleased that through the first seven weeks of the first quarter of 2023 our net sales increased by a mid-single digit percentage year-over-year.

Now, as you think about modeling net sales for the full first quarter, please keep in mind that in the back half of the first quarter of 2022 a year ago we had an exceptionally active calendar of impactful marketing activations, including the REVOLVE Social Club popup that featured special events almost every night throughout March of 2022. We believe our very strong finish to the first quarter in 2022 also benefited from building consumer excitement last year heading into spring festival season after a two-year hiatus. As a result, and considering the uncertain macroenvironment, we encourage investors to model moderation in our year-over-year net sales comparisons for the balance of the first quarter from the mid-single digit year-over-year growth during the first seven weeks of the quarter.

We expect year-over-year comparisons in 2023 to become less challenging after the first quarter, especially in the second half of the year. However, as shared earlier, we are planning for lower inventory receipts year-over-year in 2023 and we continue to face a very uncertain macro environment.

Shifting to **Average Order Value, a key metric that influences net sales and operating efficiency….** After two years of significant growth in AOV during 2021 and 2022, we expect AOV to moderate in 2023. Our AOV expansion over the past two years has benefitted from a variety of factors including a growing mix of net sales in the dress category, which is now normalized back to pre-pandemic levels, and a very high mix of full price net sales that, while still very healthy, will further moderate in 2023.

Shifting to gross margin… We expect gross margin in the first quarter of 2023 of between 49% and 50%, a sequential quarter decrease in gross margin that is consistent with typical seasonality. Over the past several years, our gross margin has declined sequentially from the fourth quarter to the first quarter by an average of more than 2 points -- although the first quarter of 2022 was an outlier, making it a more difficult year-over-year comparison. We expect that our first quarter gross margin this year will be the low point in 2023.

For the full year 2023, we expect gross margin of between 52% and 53%. The anticipated decline from our 53.8% gross margin in 2022 primarily reflects our expectation that our full price mix of net sales in 2023 will be several points lower than the exceptional 85% full price mix of net sales in 2022. We continue to expect gross margin pressure in the first half of 2023 as we work through our inventory position, especially in the first quarter, then becoming more favorable in the second half of the year.

Fulfillment: We expect that for the full year, fulfillment as a percentage of net sales will be approximately 2.9%, consistent with 2022. Looking at the anticipated cadence throughout the year, we expect fulfillment expense as a percentage of net sales to deleverage year-over-year in the first half of 2023, and achieve leverage year-over-year in the second half of 2023. One factor influencing fulfillment efficiency is that we recently meaningfully expanded our fulfillment center capacity to support future growth, optimize our customer experience and benefit our fulfillment cost structure over the long term. Expansion of our fulfillment center capacity creates a temporary efficiency headwind until our growth and expansion enables us to again realize capacity utilization benefits over time.

Selling and Distribution: In 2023, we expect Selling and Distribution costs to represent around 17.5% of net sales for the first quarter and 17.3% of net sales for the full year, consistent with the full year in 2022. We expect return rates to remain elevated in 2023, contributing to continued pressure on shipping costs, partially offset by some expected logistics efficiencies resulting from our new east coast fulfillment center as it scales over time.

Marketing: We will continue to efficiently invest in building our brands, expanding our base of loyal customers and further strengthening our brand connection with our community. In the first quarter, we expect our marketing investment to represent approximately 14.5% of net sales, a decrease from 16% in the very active first quarter of 2022. We expect marketing as a percent of net sales to be the highest in the second quarter at approximately 18%, relatively consistent with the second quarter of 2022. For the full year 2023, we expect marketing to represent approximately 16.0% to 16.5% of net sales, a slight improvement at the midpoint of the range, from the 16.5% of net sales in 2022.

General and Administrative: We expect G&A expense of approximately $28.5 million in the first quarter of 2023 and between $113 to $116 million for the full year 2023. This implies a 1% year-over-year decline in G&A costs for the full year, at the midpoint of the range.

Lastly, let me touch on our **tax rate**. We continue to expect our effective tax rate to be around 24% to 26%.

To recap, while there is still significant uncertainty in the macro environment, we continue to take a disciplined and longer-term approach to everything we do. Our leadership team is exploring many ways to leverage our technology, brands and operational excellence to be even more efficient in 2023 and beyond. If these efforts prove successful, we could potentially drive greater efficiency in our cost structure than implied by our outlook. To highlight just one example, we are exploring a multi-million dollar annualized opportunity to reduce shipping costs by consolidating return shipments from some of our larger international regions, and in some cases, to hold international returns in country and fulfill orders from them locally without ever returning the items to the U.S.

We are continuing to strike a balance between managing operating expenses while at the same time, investing in our brands and other key growth initiatives that are critical to maximizing our long-term growth potential. Guided by Mike and Michael, our two largest shareholders who own nearly 45% of our common shares, we believe this is the right strategy to drive value for shareholders over the long term.

Now we'll open it up for your questions.