UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 6, 2020

The RealReal, Inc.
(Exact name of Registrant as Specified in Its Charter)

Delaware	001-38953	45-1234222
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

55 Francisco Street Suite 600
San Francisco, CA 94133
(Address of Principal Executive Offices, including Zip Code)

(855) 435-5893

(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.00001 par value	REAL	The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On May 6, 2020, The RealReal, Inc. ("The RealReal") issued a press release announcing its financial results for the quarter ended March 31, 2020. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference herein.

Item 7.01 Regulation FD Disclosure

On May 6, 2020, The RealReal posted a shareholder letter on its investor.therealreal.com website. A copy of the shareholder letter is furnished as Exhibit 99.2 to this Current Report on Form 8-K and is incorporated by reference herein.

The information in this current report on Form 8-K and the exhibits attached hereto is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description
99.1	Press Release dated May 6, 2020
99.2	Shareholder Letter dated May 6, 2020

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	The RealReal, Inc.
Date: May 6, 2020	By: /s/ Matt Gustke
	Matt Gustke
	Chief Financial Officer

THE REALREAL ANNOUNCES FIRST QUARTER 2020 RESULTS

Q1 Gross Merchandise Value Increased 15% Year over Year to $257.6 million
Q1 Total Revenue Increased 11% Year over Year to $78.2 million
Q1 Gross Profit Increased 16% Year over Year to $49.2 million

SAN FRANCISCO, May. 6, 2020 — The RealReal (Nasdaq: REAL)—the world's largest online marketplace for authenticated, consigned luxury goods—today reported financial results for its first quarter ended March 31, 2020.

"Since we announced preliminary first quarter results on April 14, our operations continued to be constrained by shelter-in-place directives, resulting in a significant GMV headwind," said Julie Wainwright, CEO of The RealReal. "Faced with the unknown duration of the pandemic, we've focused on reducing operating expenses to weather these new challenges and preserving liquidity to ensure we are well positioned for the future. Given the strength of our balance sheet, customer satisfaction, high buyer and consignor repeat rates, and technology innovations driving efficiency, I'm confident we're well positioned to bounce back quickly once the economy stabilizes and capitalize on the significant opportunity in front of us."

GMV trends performed as expected through early March, with GMV growth in excess of 30% year over year. However, as local directives limited operations in the company's warehouses, GMW was significantly impacted. Since March 17, when Bay Area shelter-in-place directives went into effect, and continuing through mid-April, GMV declined approximately 40%-45% year over year. During the last two weeks of April, GMV trends have improved modestly.

Interest in consignment remains strong. When social distancing prevented in-person White Glove appointments, the company pivoted and launched virtual appointments to continue delivering personalized consignment consultations and enable people to monetize the assets in their homes during these uncertain times. The RealReal has conducted thousands of virtual appointments since launching the service and will integrate virtual appointments into its supply acquisition strategy going forward.

The RealReal B2B vendor program, where the company sources supply from brands and retailers seeking distribution and demand, was resilient in March and strength has continued into April. Interest from business sellers has increased 10X vs. pre-COVID levels.

Traffic trends have increased modestly in April year over year despite an approximately two-thirds reduction in the company's advertising spend, and the company's four day sell-through has rebounded to pre-COVID levels. "Growing traffic and healthy four-day velocity give us confidence that GMV trends could improve once shelter-in-place restrictions are removed and we are able to ramp supply," continued Wainwright.

First Quarter Financial Highlights

- Gross Merchandise Volume (GMV) was $257.6 million, up 15% year over year.
- Total Revenue was $78.2 million, up 11% year over year.
- Consignment and Service Revenue was $65.3 million, up 17% year over year.

- Gross Profit was $49.2 million, up 16% year over year.
- Net Loss was ($38.3) million.
- Adjusted EBITDA was ($30.9) million or (39.5%) of total revenue.
- GAAP basic and diluted net loss per share was ($0.44).
- Non-GAAP basic and diluted net loss per share was ($0.39).
- At the end of the first quarter, cash, cash equivalents and short-term investments totaled $303.2 million.
- Since inception through March 31, consignment with The RealReal saved 14,300 metric tons of carbon and saved 660 million liters of water.

Other First Quarter Highlights

- Trailing 12 months active buyers reached 601,766, up 32% year over year.
- Orders reached 574,215, up 15% year over year.
- Average Order Value was $449 compared to $450 in the first quarter of 2019.
- Consignment Take Rate increased 90bps year over year to 36.2%.
- GMV from repeat buyers was 84.4% compared to 82.4% in the first quarter of 2019.

Financial Outlook

On March 17, the company withdrew its outlook for the first quarter and full year 2020 as a result of the growing impact of the COVID-19 pandemic on its business. Given limited near-term visibility, the company elects to not provide an updated financial outlook.

Webcast and Conference Call

The RealReal will post a shareholder letter on its investor relations website at https://investor.therealreal.com/financial-information/quarterly-results in lieu of a live presentation and host a conference call at 2 p.m. PDT to answer questions regarding its first quarter 2020 financial results, the shareholder letter and the supporting slides. Investors and participants can access the call by dialing (866) 996-5385 in the U.S. and (270) 215-9574 internationally. The passcode for the conference line is 8592508. The call will also be available via live webcast at investor.therealreal.com along with the shareholder letter and the supporting slides. An archive of the webcast conference call will be available shortly after the call ends. The archived webcast will be available at investor.therealreal.com.

About The RealReal, Inc.

The RealReal is the world’s largest online marketplace for authenticated, consigned luxury goods. With a rigorous authentication process overseen by experts, The RealReal provides a safe and reliable platform for consumers to buy and sell their luxury items. We have 150+ in-house gemologists, horologists and brand authenticators who inspect thousands of items each day. As a sustainable company, we give new life to pieces by hundreds of brands, from Gucci to Cartier, supporting the circular economy. We make consigning effortless with free in-home pickup, drop-off service and direct shipping for individual consignors and estates. At our stores in LA, NYC and San Francisco, customers can shop, consign, and meet with our experts. At our 10 Luxury Consignment Offices, four of which are in our retail stores, our expert staff provides free valuations.

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Forward Looking Statements

This press release contains forward-looking statements relating to, among other things, the future performance of The RealReal that are based on the company's current expectations, forecasts and assumptions and involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “continue,” “ongoing” or the negative of these terms or other comparable terminology. These statements include, but are not limited to, statements about future operating results, including the amounts of our operating expense and capital expenditure reductions and our strategies, plans, commitments, objectives and goals, in particular in the context of the impacts of the COVID-19 pandemic. Actual results could differ materially from those predicted or implied and reported results should not be considered as an indication of future performance. Other factors that could cause or contribute to such differences include, but are not limited to, the impact of the COVID-19 pandemic on our operations, any failure to generate a supply of consigned goods, pricing pressure on the consignment market resulting from discounting in the market for new goods, failure to efficiently and effectively operate our merchandising and fulfillment operations and other reasons.

More information about factors that could affect the company's operating results is included under the captions “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in the company's most recent Annual Report on Form 10-K and subsequent quarterly reports on Form 10-Q, copies of which may be obtained by visiting the company's Investor Relations website at https://investor.therealreal.com or the SEC's website at www.sec.gov. Undue reliance should not be placed on the forward-looking statements in this press release, which are based on information available to the company on the date hereof. The company assumes no obligation to update such statements.

Non-GAAP Financial Measures

To supplement our unaudited and condensed financial statements presented in accordance with generally accepted accounting principles ("GAAP"), this earnings release and the accompanying tables and the related earnings conference call contain certain non-GAAP financial measures, including Adjusted EBITDA, Adjusted EBITDA as a percentage of total net revenue ("Adjusted EBITDA Margin"), free cash flow, non-GAAP net loss attributable to common stockholders, and non-GAAP net loss per share attributable to common stockholders, basic and diluted. We have provided a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures in this earnings release.

We do not, nor do we suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors should also note that non-GAAP financial measures we use may not be the same non-GAAP financial measures, and may not be calculated in the same manner, as that of other companies, including other companies in our industry.

Adjusted EBITDA is a key performance measure that our management uses to assess our operating performance. Because Adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we use this measure as an overall assessment of our performance, to evaluate the effectiveness of our business strategies and for business planning purposes. Adjusted EBITDA may not be comparable to similarly titled metrics of other companies.

We calculate **Adjusted EBITDA** as net loss before interest income, interest expense, other (income) expense net, provision for income taxes, depreciation and amortization, further adjusted to exclude stock-based compensation, and certain one-time expenses. Adjusted EBITDA has certain limitations as the measure excludes the impact of certain expenses that are included in our statements of operations that are necessary to run our business and should not be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP.

In particular, the exclusion of certain expenses in calculating Adjusted EBITDA and Adjusted EBITDA Margin facilitates operating performance comparisons on a period-to-period basis and, in the case of exclusion of the impact of stock-based compensation, excludes an item that we do not consider to be indicative of our core operating performance. Investors should, however, understand that stock-based compensation will be a significant recurring expense in our business and an important part of the compensation provided to our employees. Accordingly, we believe that Adjusted EBITDA and Adjusted EBITDA Margin provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Free cash flow is a non-GAAP financial measure that is calculated as net cash (used in) provided by operating activities less net cash used to purchase property and equipment and capitalized proprietary software development costs. We believe free cash flow is an important indicator of our business performance, as it measures the amount of cash we generate. Accordingly, we believe that free cash flow provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management.

Non-GAAP net loss per share attributable to common stockholders, basic and diluted is a non-GAAP financial measure that is calculated as GAAP net loss plus stock-based compensation expense, provision for income taxes, and nonrecurring items divided by weighted average shares outstanding. We believe that adding back stock-based compensation expense and provision for income taxes, and non-recurring items as adjustments to our GAAP net loss, before calculating per share amounts for all periods presented provides a more meaningful comparison between our operating results from period to period.

THE REALREAL, INC.
Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Revenue:		
Consignment and service revenue	$ 65,297	$ 55,575
Direct revenue	12,942	15,007
Total revenue	78,239	70,582
Cost of revenue:		
Cost of consignment and service revenue	18,088	15,946
Cost of direct revenue	10,954	12,254
Total cost of revenue	29,042	28,200
Gross profit	49,197	42,382
Operating expenses:		
Marketing	12,922	11,733
Operations and technology	40,737	31,544
Selling, general and administrative	35,104	22,319
Total operating expenses (1)	88,763	65,596
Loss from operations	(39,566)	(23,214)
Interest income	1,286	405
Interest expense	(20)	(131)
Other income (expense), net	8	(282)
Loss before provision for income taxes	(38,292)	(23,222)
Provision for income taxes	—	—
Net loss	$ (38,292)	$ (23,222)
Accretion of redeemable convertible preferred stock to redemption value	$ —	$ (3,355)
Net loss attributable to common stockholders	$ (38,292)	$ (26,577)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.44)	$ (3.05)
Weighted average shares used to compute net loss per share attributable to common stockholders, basic and diluted	86,588,796	8,705,664

(1) Includes stock-based compensation as follows:		
Marketing	188	68
Operating and technology	1,478	490
Selling, general and administrative (2)	1,744	551
Total	3,410	1,109

(2) Includes compensation expense related to stock sales by current and former employees in March 2019.

THE REALREAL, INC.
Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2020		December 31, 2019	
Assets				
Current assets				
Cash and cash equivalents	$	134,662	$	154,446
Short-term investments		168,592		208,811
Accounts receivable		3,089		7,779
Inventory, net		24,916		23,599
Prepaid expenses and other current assets		11,273		13,804
Total current assets		342,532		408,439
Property and equipment, net		59,637		55,831
Operating lease right-of-use assets		124,346		—
Other assets		3,025		2,660
Total assets	$	529,540	$	466,930
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	$	9,916	$	11,159
Accrued consignor payable		33,489		52,820
Operating lease liabilities, current portion		14,209		—
Other accrued and current liabilities		43,941		54,567
Total current liabilities		101,555		118,546
Operating lease liabilities, net of current portion		120,174		—
Other noncurrent liabilities		1,038		9,456
Total liabilities		222,767		128,002
Stockholders' equity:				
Common stock, $0.00001 par value; 500,000,000 shares authorized as of March 31, 2020 and December 31, 2019; 86,850,694 and 85,872,320 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively		1		1
Additional paid-in capital		699,249		693,426
Accumulated other comprehensive income		321		7
Accumulated deficit		(392,798)		(354,506)
Total stockholders' equity		306,773		338,928
Total liabilities and stockholders' equity	$	529,540	$	466,930

THE REALREAL, INC.
Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (38,292)	$ (23,222)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	4,145	2,808
Stock-based compensation expense	3,410	1,109
Amortization of operating lease right-of-use assets	4,121	—
Bad debt expense	455	321
Compensation expense related to stock sales by current and former employees	—	819
Change in fair value of convertible preferred stock warrant liability	—	280
Accretion of unconditional endowment grant liability	23	26
Accretion of debt discounts	—	7
Amortization of premiums (discounts) on short-term investments	(207)	40
Changes in operating assets and liabilities:		
Accounts receivable	4,235	(4,050)
Inventory, net	(1,317)	(173)
Prepaid expenses and other current assets	2,356	(2,388)
Other assets	(365)	(111)
Operating lease liability	(2,721)	—
Accounts payable	(2,206)	797
Accrued consignor payable	(19,331)	1,292
Other accrued and current liabilities	(8,865)	(475)
Other noncurrent liabilities	(412)	349
Net cash used in operating activities	(54,971)	(22,571)
Cash flow from investing activities:		
Purchases of short-term investments	(73,280)	—
Proceeds from maturities of short-term investments	114,020	12,873
Capitalized proprietary software development costs	(1,480)	(1,686)
Purchases of property and equipment	(6,486)	(3,743)
Net cash provided by investing activities	32,774	7,444
Cash flow from financing activities:		
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	43,572
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	26,279
Proceeds from exercise of stock options and common stock warrants	2,564	1,332
Payment of deferred offering costs	—	(222)
Taxes paid related to restricted stock vesting	(151)	—
Repayment of debt	—	(1,250)
Net cash provided by financing activities	2,413	69,711
Net (decrease) increase in cash, cash equivalents and restricted cash	(19,784)	54,584
Cash, cash equivalents, and restricted cash		
Beginning of period	154,446	45,627
End of period	$ 134,662	$ 100,211
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 4	$ 98

The following table reflects the reconciliation of net loss to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Adjusted EBITDA Reconciliation:		
Net loss	$ (38,292)	$ (23,222)
Depreciation and amortization	4,145	2,808
Stock-based compensation	3,410	1,109
Legal settlement	1,110	—
Compensation expense related to stock sales by current and former employees	—	819
Interest income	(1,286)	(405)
Interest expense	20	131
Other (income) expense, net	(8)	282
Provision for income taxes	—	—
Adjusted EBITDA	$ (30,901)	$ (18,478)

A reconciliation of GAAP net loss to non-GAAP net loss attributable to common stockholders, the most directly comparable GAAP financial measure, in order to calculate non-GAAP net loss attributable to common stockholders per share, basic and diluted, is as follows (in thousands, except share and per share data):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net loss	$ (38,292)	$ (23,222)
Stock-based compensation	3,410	1,109
Compensation expense related to stock sales by current and former employees	—	819
Accretion of redeemable convertible preferred stock	—	(3,355)
Remeasurement of preferred stock warrant liability	—	280
Legal settlement	1,110	—
Provision for income taxes	—	—
Non-GAAP net loss attributable to common stockholders	$ (33,772)	$ (24,369)
Weighted-average common shares outstanding used to calculate Non-GAAP net loss attributable to common stockholders per share, basic and diluted	86,588,796	8,705,664
Non-GAAP net loss attributable to common stockholders per share, basic and diluted	$ (0.39)	$ (2.80)

The following table presents a reconciliation of net cash used in operating activities to free cash flow for each of the periods indicated (in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net cash used in operating activities	$ (54,971)	$ (22,571)
Purchase of property and equipment and capitalized proprietary software development costs	(7,966)	(5,429)
Free Cash Flow	$ (62,937)	$ (28,000)

Key Financial and Operating Metrics:

	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020
	(In thousands, except AOV and percentages)								
GMV	$ 158,378	$ 162,954	$ 170,923	$ 218,495	$ 224,116	$ 228,487	$ 252,766	$ 302,975	$ 257,606
NMV	$ 113,347	$ 115,916	$ 123,550	$ 153,776	$ 160,538	$ 164,782	$ 186,617	$ 219,508	$ 184,625
Consignment and Services Revenue	$ 40,319	$ 41,426	$ 44,968	$ 53,894	$ 55,575	$ 60,070	$ 69,245	$ 82,522	$ 65,297
Direct Revenue	$ 7,400	$ 7,021	$ 8,255	$ 10,449	$ 15,007	$ 12,139	$ 12,271	$ 11,209	$ 12,942
Number of Orders	356	359	409	471	498	505	577	637	574
Take Rate	35.1%	35.5%	36.4%	34.9%	35.3%	36.6%	36.8%	36.2%	36.2%
Active Buyers	326	352	379	416	456	492	543	582	602
AOV	$ 445	$ 453	$ 418	$ 464	$ 450	$ 453	$ 438	$ 476	$ 449
% of GMV from Repeat Buyers	81.5%	82.9%	82.9%	81.6%	82.4%	83.1%	81.8%	82.9%	84.4%

Exhibit 99.2

The RealReal

The RealReal Q1 2020 Shareholder Letter

May 6, 2020

Dear Shareholders,

We appreciate you spending time with us to learn more about our Q1 results. These are unprecedented times for everyone, and our thoughts go out to you and the rest of The RealReal community, especially those who have been directly impacted by the coronavirus.

First, we'd like to thank our The RealReal team for their hard work and agility in navigating the pandemic. They have really come together to tackle these new challenges head on, driving a number of innovations that will serve us well both now and over the long term. We especially want to acknowledge the employees in our e-commerce facilities who have worked tirelessly to keep our business moving forward. We continue to operate at reduced capacity in our warehouses in accordance with local government and CDC guidelines. For those on the front lines of our business, we thank you.

Q1 Results and the Current Operating Environment

Compared to the preliminary Q1 results we announced on April 14, gross merchandise volume (GMV) was in line with the pre-announcement and Adjusted EBITDA was slightly better.

We were off to a strong start in Q1, on track to meet or exceed our Q1 guidance. As the world changed with the spread of COVID-19, we were impacted by the new reality emerging from shelter-in-place and social distancing mandates, which resulted in the immediate closure of our stores and Brisbane operations center as well as limited the number of workers in our New Jersey facilities.

For context, GMV trends performed as expected through early March, with GMV growth in excess of 30% year over year. GMV growth in the second week of March was 12% year over year. However, limited operations in our warehouses in accordance with local directives significantly impacted GMV. Since March 17, when Bay Area shelter-in-place directives went into effect, and continuing through mid-April, GMV declined approximately 40%-45% year over year. During the last two weeks of April, GMV trends improved modestly.

These limited operations in our warehouses constrained our ability to source and process supply, and consequently to fulfill demand. Our four warehouses are all currently open, but operate in a significantly reduced capacity. Operations in our warehouse in Brisbane, Calif., are severely limited by local mandates to a small fraction of the more than 460 people we employed there prior to COVID-19. In New Jersey, our three other warehouses are also limited due to social distancing and state-mandated curfews that required us to suspend our evening shift.

We are optimistic that trends will improve as shelter-in place restrictions are relaxed and we are able to return to higher levels of staffing — at which point we'll focus more marketing resources to drive supply. Throughout the pandemic, supply trends have remained healthy, with supply growth trending slightly higher in the weeks since mid-March. The key for us is the ability to operate at reasonable levels while continuing to ensure the health and safety of our employees.

We have consistently held ourselves to very high standards to protect our employees and help flatten the curve. Some of the preventative measures we have implemented in response to the COVID-19 include:

- Temporarily closing our stores and Luxury Consignment Offices;
- Suspending all in-person White Glove consignment appointments;
- Social distancing in our e-commerce centers, including staggered shifts, reduced staff onsite, taped off six-foot boundaries, training, signage, etc. enforced by our safety officers;
- Cleaning and sanitizing during every hour of shifts and weekly deep cleanings;
- Providing personal protective equipment, including daily kits for every onsite employee with gloves and a mask;
- Ensuring sick employees stay home by providing additional PTO and performing daily wellness checks before shifts, including taking employee temperatures;
- Providing a transportation allowance for private transportation to work;
- Cleaning items received for consignment, including steam cleaning fine jewelry and watches, heat steaming ready-to-wear, and wiping down accessories and handbags;
- Working with a third-party medical expert to validate our approach and identify ways to continually improve on these measures.

Expense Reduction and Liquidity Preservation Plan

As the leaders of The RealReal, our job is to ensure the business is positioned to succeed under any scenario.

In early April, we implemented a comprehensive expense reduction plan to realign our expense structure for the new reality, preserve liquidity and position the company for the long term.
Some of these measures included:

- Reduced marketing investments;
- Reduced overall headcount by approximately 10% and annual company payroll related expenses by approximately 15%, excluding the impact of furloughs;
- Furloughed approximately 15% of total headcount including employees in our e-commerce centers, retail stores, Luxury Consignment Offices, sales organization and headquarters;
- Renegotiated certain vendor contracts and deferred other expense payments;
- Instituted a hiring freeze;
- Postponed the opening of our Chicago store;
- Deferred certain capital investments;
- Reduced discretionary investments across the business; and
- Reduced executive salaries.

These actions are intended to result in operating expense reductions of more than $70 million and capital expenditure reductions of approximately $15 million in 2020 compared to previously planned levels. They are designed to enable us to support our employees through the pandemic and ensure our team is well positioned for a strong restart on the other side.

With these actions and approximately $303 million of cash, cash equivalents and short-term investments on the balance sheet at the end of March, we believe we are well positioned to rebound strongly and fuel growth once the economy stabilizes and are sufficiently capitalized to reach profitability.

We Continue to Invest in Innovation

We continue to strategically invest in technology, as innovation positions us to scale and support growth once the economy normalizes.

We exited 1Q automating the pricing of 65% of unit volume, 47% of copywriting (including product title and description) and 44% of photo retouching. We expect each of these areas could approach 75% automation by the end of the year, which will support improvements in inbound operations unit costs and continue to increase the scalability of our operations. We are continuing our investment in AI and machine learning to support our authentication experts by identifying item and consignor risk. We also plan to launch appointment self-scheduling over the next two weeks, increasing our efficiency and improving the consignor appointment experience.

Green Shoots in the Business

Interest in consignment remains strong. While social distancing prevents in-person White Glove appointments, we have increased focus on the digital experience. We've turned to virtual appointments to continue delivering personalized consignment consultations and support people monetizing the assets in their homes during these uncertain times. We have conducted thousands of virtual appointments since launching the service, which is delivering comparable per-consignment results vs. in-home appointments. Given their early success, we will integrate virtual appointments into our supply acquisition strategy going forward.

We are excited about our plans to launch consignor self-scheduling. We expect this to remove substantial friction from the consignment experience, both now and in a post-COVID world. We have also rolled out contactless curbside pick-up in eight cities to continue delivering an elevated remote consignment experience.

The combination of virtual appointments, appointment self-scheduling and curbside pick-ups has the potential to improve the productivity of our luxury managers by increasing the number of appointments they can handle per day when things get back to normal.

The RealReal B2B vendor program, where we source supply from business sellers seeking distribution and demand, is another green shoot. Our vendor channel was resilient in March, and that resiliency has continued into April. Additionally, interest from new business sellers has increased 10x vs. pre-COVID levels. We will remain selective in engaging with vendors but vendor mix of total GMV is likely to increase over the near term.

On the demand side, traffic trends increased modestly in April year-over-year despite an approximately two-thirds reduction in our advertising spend, and our buyer NPS score was at an all-time high in April. Our four day sell-through has rebounded to pre-COVID levels, which demonstrates the supply we bring in continues to sell quickly. Growing traffic and healthy four day velocity give us confidence that GMV trends could improve once shelter-in-place restrictions are removed and we are able to ramp supply.

Finally, given the macro backdrop, we believe supply will ramp up once the operating environment improves and people seek to monetize luxury products in their homes. We also believe value wins during recessions, and we offer our buyers incredible value. Of course, average order values will likely come down given the macro economic conditions, but we think an influx of supply and a value orientation position us to emerge from the pandemic with a meaningful tailwind. We also believe the online and offline competitive landscape will be transformed over the next six to12 months due to the impacts of the COVID-19 pandemic, and we are well positioned to take market share.

Confident We Can Overcome Near-Term Challenges

Given the unknown duration of the pandemic, we’ve focused on reducing operating expenses and preserving liquidity to weather the near-term challenges and ensure we are well positioned to capitalize on the significant opportunity in front of us. We have never been more optimistic about the long-term opportunity and our leadership position.

We are confident in the strength of our balance sheet, customer satisfaction, healthy traffic trends and buyer and consignor repeat rates. Those strengths, along with continuing progress in technology initiatives that support efficiently scaling our operations, will position us to bounce back once the economy stabilizes.

Environment, Society and Governance (ESG)

ESG has always been important to The RealReal – our business and our culture – so we made additional reporting on these topics a priority. We are in the early stages of implementing a more robust set of disclosures, and our first set of policy statements can now be found on our investor relations site. These include our team’s guiding principles on Climate Change, Diversity and GHG Emissions. We look forward to elevating ESG in our discussions with investors going forward.

On a related note, since inception through March 31, consignment with The RealReal saved 14,300 metric tons of carbon and 660 million liters of water.

Q1 Financial Results

In Q1, we generated GMV of $257.6 million, a 15% Y/Y increase, and our Adjusted EBITDA loss was $30.9 million. The shelter-in-place directives constrained our operations beginning in mid-March, resulting in significant GMV headwinds and operating expense deleveraging in the last few weeks of the quarter.

We ended Q1 with 602K active buyers on a 12-month trailing basis, up 32% Y/Y. We added approximately 20K net new active buyers Q/Q. GMV from repeat buyers was 84.4% of total GMV in Q1, up approximately 200 basis points Y/Y and reflecting strong buyer retention in the period. TTM GMV per active buyer was approximately $1,731, up 2% Y/Y.

Q1 orders were approximately 574K, up 15% Y/Y. Q1 AOV was $449, down $1 Y/Y. Average selling price (ASP) per item increased Y/Y but units per transaction decreased Y/Y. In April, AOVs were down Y/Y driven by lower ASPs and lower units per transaction. ASP declines in April were driven by the sale of aged products in the apparel category and was partially offset by a modest mix shift to handbags and jewelry.

Returns and cancellations were 28.3% of GMV and improved 10 basis points Y/Y. Cancellation rates began to increase starting in mid-March given that our warehouses were minimally staffed, and we experienced delays in our pick, pack and ship operations that resulted in higher than normal order cancellations.

Our Q1 consignment take rate was 36.2%, an increase of 90 basis points Y/Y, reflecting the impact of our 1Q19 commission changes. Take rates can also vary from quarter to quarter based on the mix of products sold, as well as which consignors had item sales. In a steady state, we expect take rates to be highest in the second and third quarters of the year, and to decrease in Q4 with a higher mix of high-priced products.

Total revenue in Q1 was $78.2 million, an increase of 11% Y/Y. Q1 consignment and service revenue was $65.3 million, up 17% Y/Y. Direct revenue was $12.9 million, down 14% Y/Y due to the expected lower mix of direct revenue that we discussed on our last earnings call and the negative impact from COVID-19.

Q1 gross profit was $49.2 million, an increase of 16% Y/Y. Gross profit per order increased 1% Y/Y to $86, primarily driven by shipping leverage. Total gross margin was 62.9%, up 280 basis points Y/Y. Q1 gross margin was negatively impacted by a one time accounting change relating to amortization of inbound shipping costs, direct revenue mix and the fixed nature of certain expenses.

Q1 consignment gross margin was 72.3%, up 100 basis points Y/Y driven primarily by shipping leverage. Direct gross margin was 15.4%, down approximately 300 basis points Y/Y due to the impact of allocating certain costs proportionally to a lower base of direct revenue. As a reminder, direct gross margin is lower than consignment gross margin because direct revenue is recognized on a gross basis with corresponding cost of sales.

Moving on to operating expenses. Please note that the following discussion regarding operating expenses is on a non-GAAP basis, excluding stock-based compensation and related taxes. For a reconciliation to the most comparable GAAP measure, please refer to our earnings release.

We also note that the Y/Y comparison of expense line item leverage is negatively impacted by the higher growth of direct revenue in 1Q 2019 partially due to holiday timing.

Marketing expense was $12.7 million in Q1, an increase of 9% Y/Y. Q1 marketing as a percentage of revenue improved to 16.3% compared to 16.5% in the same period a year ago. Q4 marketing as a percentage of GMV improved to 4.9% compared to 5.2% in the same period a year ago.

Buyer Acquisition Cost (BAC) was up slightly Y/Y in Q1, and more than 50% of our new buyers came from our large member base of more than 15 million members. BAC trends so far in Q2 are very positive. Our BAC in April improved significantly due to media mix optimization, SEO improvements and a new member home page test that drove higher member conversion in April.

Operations and Technology expense—which includes costs relating to our stores, luxury consignment offices, fulfillment centers, merchandising, engineering and product management—was $39.3 million in Q1, an increase of 26% Y/Y. Operations and Technology as a percent of revenue was 50.2% versus 44.0% in the same period a year ago. Operations and Technology as a percent of GMV was 15.2% versus 13.9% in the same period a year ago. Benefits from progress in automation were offset by maintaining payroll levels in March despite the closure of our stores and minimal staffing of our warehouses due to shelter-in-place directives.

Selling General and Administrative, or SG&A expense, was $33.4 million, up 53% Y/Y. SG&A as a percentage of revenue was 42.6% compared to 30.8% in the same period a year ago. SG&A as a percentage of GMV was 13.0% compared to 9.7% in the same period a year ago. Deleverage was driven by investments in our administrative function headcount to support being a public company, $1.1 million in legal settlements and the negative impact of COVID-19 in late March. We also experienced deleverage in our sales function due to lower supply volume since mid-March.

Our Adjusted EBITDA loss for Q1 was $30.9 million or 39.5% of revenue.

At the end of Q4, cash, cash equivalents and short-term investments totaled $303.3 million.

2020 Outlook

On March 17, we withdrew our outlook for the full year 2020 as a result of the growing impact of the coronavirus (COVID-19) on our business. Given limited near-term visibility, we will not provide a detailed Q2 or 2020 outlook at this time. However, we will lay out the assumptions we used to inform our expense reductions and give a directional sense of how those assumptions impact our financial strength.

Our internal planning scenario relies on some degree of normalization of COVID-19 in June. While the lifting of restrictions on our operations are out of our control, to the extent that they do happen progressively beginning in June, we would anticipate a recovery in our business trends commensurate with new guidelines. Our current assumptions would result in a gradual recovery in business trends in Q2 and Q3, such that in Q4 we could potentially exit the quarter at approximately 2019 GMV levels. While we anticipate gradually improving GMV trends as the year progresses, Q3 GMV has a difficult Y/Y comparison so growth rate improvements are not likely to be linear.

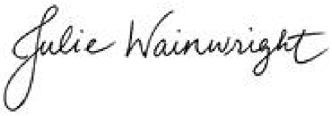
In this scenario, the $70 million in expense reductions detailed above would offset the majority of the Adjusted EBITDA impact of lower 2020 GMV. Capital expense reductions, vendor payment and payroll tax deferrals further reduce the impact on 2020 liquidity as compared to our previous expectations.

Summing it all up, and subject to these very fluid assumptions, we believe we are well positioned to rebound strongly and fuel growth once the economy stabilizes and are sufficiently capitalized to reach profitability.

We look forward to providing another update on our progress in a few months.

Wishing health and safety to you and yours.

Julie Wainwright



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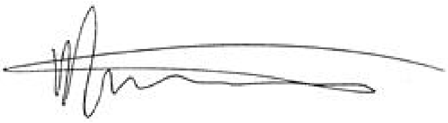

Forward Looking Statements

This shareholder letter contains forward-looking statements relating to, among other things, the future performance of The RealReal that are based on the company's current expectations, forecasts and assumptions and involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “continue,” “ongoing” or the negative of these terms or other comparable terminology. These statements include, but are not limited to, statements about future operating results, including the amounts of our operating expense and capital expenditure reductions and our strategies, plans, commitments, objectives and goals, in particular in the context of the impacts of the COVID-19 pandemic. Actual results could differ materially from those predicted or implied and reported results should not be considered as an indication of future performance. Other factors that could cause or contribute to such differences include, but are not limited to, the impact of the COVID-19 pandemic on our operations, any failure to generate a supply of consigned goods, pricing pressure on the consignment market resulting from discounting in the market for new goods, failure to efficiently and effectively operate our merchandising and fulfillment operations and other reasons.

More information about factors that could affect the company's operating results is included under the captions “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in the company's most recent Annual Report on Form 10-K and subsequent quarterly reports on Form 10-Q, copies of which may be obtained by visiting the company's Investor Relations website at https://investor.therealreal.com or the SEC's website at www.sec.gov. Undue reliance should not be placed on the forward-looking statements in this press release, which are based on information available to the company on the date hereof. The company assumes no obligation to update such statements.

Non-GAAP Financial Measures

This shareholder letter refers to the non-GAAP financial measure Adjusted EBITDA. We have provided a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure in our earnings release and below.

We do not, nor do we suggest that investors should, consider such non-GAAP financial measure in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors should also note that non-GAAP financial measures we use may not be the same non-GAAP financial measures, and may not be calculated in the same manner, as that of other companies, including other companies in our industry.

Adjusted EBITDA is a key performance measure that our management uses to assess our operating performance. Because Adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we use this measure as an overall assessment of our performance, to evaluate the effectiveness of our business strategies and for business planning purposes. Adjusted EBITDA may not be comparable to similarly titled metrics of other companies.

We calculate **Adjusted EBITDA** as net loss before interest income, interest expense, net other (income) expense, income tax provision, depreciation and amortization, further adjusted to exclude stock-based compensation, and certain one-time expenses. Adjusted EBITDA has certain limitations as the measure excludes the impact of certain expenses that are included in our statements of operations that are necessary to run our business and should not be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP.

In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis and, in the case of exclusion of the impact of stock-based compensation, excludes an item that we do not consider to be indicative of our core operating performance. Investors should, however, understand that stock-based compensation will be a significant recurring expense in our business and an important part of the compensation provided to our employees. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

The following table reflects the reconciliation of net loss to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended March 31,	
	2020	**2019**
Adjusted EBITDA Reconciliation:		
Net loss	$ (38,292)	$ (23,222)
Depreciation and amortization	4,145	2,808
Stock-based compensation	3,410	1,109
Legal settlement	1,110	—
Compensation expense related to stock sales by current and former employees	—	819
Interest income	(1,286)	(405)
Interest expense	20	131
Other (income) expense, net	(8)	282
Provision for income taxes	—	—
Adjusted EBITDA	$ (30,901)	$ (18,478)