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 7, 2024

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 150
San Francisco, CA 94133

(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 7, 2024, The RealReal, Inc. ("The RealReal") issued a press release announcing its financial results for the quarter ended March 31, 2024. 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 7, 2024, 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 7, 2024
99.2	Shareholder Letter dated May 7, 2024
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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 7, 2024

By: /s/ Ajay Madan Gopal

Ajay Madan Gopal

Chief Financial Officer

Exhibit 99.1

THE REALREAL ANNOUNCES FIRST QUARTER 2024 RESULTS

Q1 2024 Gross Merchandise Value Increased 2% Year-Over-Year

Q1 2024 Consignment Revenue Increased 13% Year-Over-Year

Q1 2024 Net Loss Improved $51 million Year-Over-Year

Q1 2024 Adjusted EBITDA Loss of $2.3, an improvement of $25 million Year-Over-Year

SAN FRANCISCO, May 7, 2024 — The RealReal (Nasdaq: REAL)—the world's largest online marketplace for authenticated, resale luxury goods—today reported financial results for its first quarter ended March 31, 2024. The company returned to overall top-line growth with gross merchandise value (GMV) increasing 2% compared the prior year period. Additionally, consignment revenue increased 13% compared to the same period in 2023.

"We continue to focus on the core consignment business and driving efficiencies to deliver results. In the first quarter of 2024 we grew profitable consignment supply, which resulted in a return to overall top-line growth and an all-time high gross margin rate." said John Koryl, Chief Executive Officer of The RealReal.

Koryl added, "For the quarter, GMV and Adjusted EBITDA exceeded the high-end of our guidance range. Today, we provided second quarter 2024 guidance and raised the mid-point of our full year financial outlook for Adjusted EBITDA. The RealReal is starting 2024 with strong momentum in the core business as we continue to deliver exceptional experiences to our consignors and provide outstanding luxury goods to our buyers."

First Quarter Financial Highlights

- GMV was $452 million, an increase of 2% compared to the same period in 2023
- Total Revenue was $144 million, an increase of 1% compared to the same period in 2023
- Gross Profit was $107 million, an increase of $17 million compared to the same period in 2023
- Gross Margin was $74.6% , an increase of 1,100 basis points compared to the same period in 2023
- Net Loss was $(31.1) million or (21.6)% of total revenue, compared to $(82.5) million or (58.1)% of total revenue in the same period in 2023
- Adjusted EBITDA was $(2.3) million or (1.6)% of total revenue compared to $(27.3) million or (19.2)% of total revenue in the first quarter of 2023
- GAAP basic and diluted net loss per share was $(0.30) compared to $(0.83) in the prior year period
- Non-GAAP net loss attributable to common shareholders per share, basic and diluted, was $(0.12) compared to $(0.36) in the prior year period
- *Top-line-related Metrics*
  - Trailing 12 months (TTM) active buyers were 922,000, a decrease of 9% compared to the same period in 2023
  - Orders were 840,000, a decrease of 6% compared to the same period in 2023
  - Average order value (AOV) was $538, an increase of 8% compared to the same period in 2023
  - Higher AOV was driven by a year-over-year increase in average selling prices (ASPs) and higher units per transaction (UPT)

Q2 and Full Year 2024 Guidance

Based on market conditions as of May 7, 2024, we are providing guidance for the second quarter and full year 2024 GMV, total revenue and Adjusted EBITDA, which is a Non-GAAP financial measure.

We have not reconciled forward-looking Adjusted EBITDA to net income (loss), the most directly comparable GAAP measure, because we cannot predict with reasonable certainty the ultimate outcome of certain components of such reconciliations including payroll tax expense on employee stock transactions that are not within our control, or other components that may arise, without unreasonable effort. For these reasons, we are unable to assess the probable significance of the unavailable information, which could materially impact the amount of future net income (loss).

	Q2 2024	Full Year 2024
GMV	$420 - $450 million	$1.81 - $1.87 billion
Total Revenue	$135 - $145 million	$580 - $605 million
Adjusted EBITDA	$(6) - $(3) million	$(5) - $8 million[1]

[1]Midpoint of guidance range is $1.5 million and represents an increase of $1.5 million from the midpoint of the guidance range provided on February 29, 2024.

Webcast and Conference Call

The RealReal will post a stockholder letter on its investor relations website at investor.therealreal.com/financial-information/quarterly-results and host a conference call at 2:00 p.m. Pacific Time (5:00 p.m. Eastern Time) to answer questions regarding its first quarter 2024 results. Investors and analysts can access the call at https://register.vevent.com/register/BI1466f288ce4743249ea754bd45f06dbf. The call will also be available via live webcast at investor.therealreal.com along with the stockholder letter and supporting slides.

An archive of the webcast conference call will be available shortly after the call ends at investor.therealreal.com.

About The RealReal, Inc.

The RealReal is the world's largest online marketplace for authenticated, resale luxury goods, with more than 36 million members. 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 hundreds of 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 thousands of brands across numerous categories—including women's and men's fashion, fine jewelry and watches, art and home—in support of the circular economy. We make selling effortless with free virtual appointments, in-home pickup, drop-off and direct shipping. We handle all of the work for consignors, including authenticating, using AI and machine learning to determine optimal pricing, photographing and listing their items, as well as shipping and customer service.

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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 and financial results, including our strategies, plans, commitments, objectives and goals, in particular in the context of the recent geopolitical events, including the conflict between Russia and Ukraine and the Israel-Hamas war, and uncertainty surrounding macroeconomic trends; the debt exchange; financial guidance, anticipated growth in 2024 and long-range financial projections. 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, inflation, macroeconomic uncertainty, geopolitical instability, 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, labor shortages 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 for the year ended December 31, 2023 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, Free Cash Flow, Adjusted EBITDA as a percentage of total revenue ("Adjusted EBITDA Margin"), 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 (benefit) for income taxes, depreciation and amortization, further adjusted to exclude stock-based compensation, CEO transition costs, employer payroll tax on employee stock transactions, legal settlement charges, restructuring charges, gain on extinguishment of debt, change in fair value of warrant liability and certain one-time expenses. The employer payroll tax expense related to employee stock transactions are tied to the vesting or exercise of underlying equity awards and the price of our common stock at the time of vesting, which may vary from period to period independent of the operating performance of our business. 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 and the related employer payroll tax on employee stock transactions, excludes an item that we do not consider to be indicative of our core operating performance. Investors should, however, understand that stock-based compensation and the related employer payroll tax 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 (benefit) for income taxes, payroll tax expense on employee stock transactions, CEO transition costs, restructuring charges, legal settlement charges, gain on extinguishment of debt, change in fair value of warrant liability, and certain one-time items divided by weighted average shares outstanding. We believe that making these adjustments 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)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Revenue:		
Consignment revenue	$ 115,648	$ 102,643
Direct revenue	12,709	24,953
Shipping services revenue	15,443	14,308
Total revenue	143,800	141,904
Cost of revenue:		
Cost of consignment revenue	13,280	15,529
Cost of direct revenue	12,285	25,030
Cost of shipping services revenue	10,956	11,362
Total cost of revenue	36,521	51,921
Gross profit	107,279	89,983
Operating expenses:		
Marketing	15,283	17,518
Operations and technology	62,972	68,032
Selling, general and administrative	46,770	49,845
Restructuring charges	196	36,388
Total operating expenses (1)	125,221	171,783
Loss from operations	(17,942)	(81,800)
Change in fair value of warrant liability	(15,583)	—
Gain on extinguishment of debt	4,177	—
Interest income	2,069	2,053
Interest expense	(3,751)	(2,667)
Loss before provision for income taxes	(31,030)	(82,414)
Provision for income taxes	71	86
Net loss attributable to common stockholders	$ (31,101)	$ (82,500)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.30)	$ (0.83)
Weighted average shares used to compute net loss per share attributable to common stockholders, basic and diluted	105,212,053	99,608,071

	2024	2023
(1) Includes stock-based compensation as follows:		
Marketing	$ 410	$ 450
Operating and technology	2,304	3,691
Selling, general and administrative	4,406	4,850
Total	$ 7,120	$ 8,991

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

	March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 165,996	$ 175,709
Accounts receivable, net	19,819	17,226
Inventory, net	21,120	22,246
Prepaid expenses and other current assets	18,387	20,766
Total current assets	225,322	235,947
Property and equipment, net	101,327	104,087
Operating lease right-of-use assets	84,690	86,348
Restricted cash	14,910	14,914
Other assets	5,330	5,627
Total assets	$ 431,579	$ 446,923
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 14,126	$ 8,961
Accrued consignor payable	75,800	77,122
Operating lease liabilities, current portion	21,234	20,094
Other accrued and current liabilities	82,528	82,685
Total current liabilities	193,688	188,862
Operating lease liabilities, net of current portion	100,809	104,856
Convertible senior notes, net	302,324	452,421
Non-convertible notes, net	131,199	—
Warrant liability	26,000	—
Other noncurrent liabilities	4,612	4,083
Total liabilities	758,632	750,222
Stockholders' deficit:		
Common stock, $0.00001 par value; 500,000,000 shares authorized as of March 31, 2024, and December 31, 2023; 105,917,789 and 104,670,500 shares issued and outstanding as of March 31, 2024, and December 31, 2023, respectively	1	1
Additional paid-in capital	823,672	816,325
Accumulated deficit	(1,150,726)	(1,119,625)
Total stockholders' deficit	(327,053)	(303,299)
Total liabilities and stockholders' deficit	$ 431,579	$ 446,923

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

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net loss	$ (31,101)	$ (82,500)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	8,309	7,821
Stock-based compensation expense	7,120	8,991
Reduction of operating lease right-of-use assets	3,667	5,172
Bad debt expense	424	651
Non-cash interest expense	818	575
Issuance costs allocated to liability classified warrants	374	—
Accretion of debt discounts and issuance costs	581	633
Property, plant, equipment, and right-of-use asset impairments	—	32,891
Provision for inventory write-downs and shrinkage	1,149	3,446
Gain on debt extinguishment	(4,177)	—
Change in fair value of warrant liability	15,583	—
Other adjustments	(699)	36
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,017)	2,615
Inventory, net	(23)	8,678
Prepaid expenses and other current assets	2,993	(1,139)
Other assets	258	(461)
Operating lease liability	(4,916)	(6,158)
Accounts payable	133	(1,385)
Accrued consignor payable	(1,322)	(9,429)
Other accrued and current liabilities	385	(894)
Other noncurrent liabilities	(6)	24
Net cash used in operating activities	(3,467)	(30,433)
Cash flow from investing activities:		
Capitalized proprietary software development costs	(3,180)	(4,214)
Purchases of property and equipment	(2,141)	(11,706)
Net cash used in investing activities	(5,321)	(15,920)
Cash flow from financing activities:		
Proceeds from exercise of stock options	7	—
Taxes paid related to restricted stock vesting	(305)	(295)
Cash received from settlement of capped calls in conjunction with the note exchange	396	—
Issuance costs paid related to the Note Exchange	(1,027)	—
Net cash used in financing activities	(929)	(295)
Net decrease in cash, cash equivalents and restricted cash	(9,717)	(46,648)
Cash, cash equivalents and restricted cash		
Beginning of period	190,623	293,793
End of period	$ 180,906	$ 247,145

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,	
	2024	2023
Adjusted EBITDA Reconciliation:		
Net loss	$ (31,101)	$ (82,500)
Net loss (% of revenue)	21.6 %	58.1 %
Depreciation and amortization	8,309	7,821
Interest income	(2,069)	(2,053)
Interest expense	3,751	2,667
Provision for income taxes	71	86
EBITDA	(21,039)	(73,979)
Stock-based compensation	7,120	8,991
CEO transition costs (1)	—	159
Payroll taxes expense on employee stock transactions	56	44
Legal settlement	—	1,100
Restructuring charges (2)	196	36,388
Gain on extinguishment of debt (3)	(4,177)	—
Change in fair value of warrant liability (4)	15,583	—
Adjusted EBITDA	$ (2,261)	$ (27,297)
Adjusted EBITDA (% of revenue)	1.6 %	19.2 %

(1) The CEO transition charges for the three months ended March 31, 2023 consists of retention bonuses for certain executives incurred in connection with our founder's resignation on June 6, 2022.

(2) The restructuring charges for the three months ended March 31, 2023 consists of impairment of right-of-use assets and property and equipment, employee severance charges, and other charges, including legal and transportation expenses.

(3) The gain on extinguishment of debt for the three months ended March 31, 2024 reflects the difference between the carrying value of the Exchanged Notes and the fair value of the 2029 Notes.

(4) The change in fair value of warrant liability for the three months ended March 31, 2024 reflects the remeasurement of the warrants issued by the Company in connection with the Note Exchange in February 2024.

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,	
	2024	2023
Net loss	$ (31,101)	$ (82,500)
Stock-based compensation	7,120	8,991
Payroll tax expense on employee stock transactions	56	44
CEO transition costs	—	159
Restructuring charges	196	36,388
Legal settlement	—	1,100
Provision for income taxes	71	86
Gain on extinguishment of debt	(4,177)	—
Change in fair value of warrant liability	15,583	—
Non-GAAP net loss attributable to common stockholders	$ (12,252)	$ (35,732)
Weighted-average common shares outstanding used to calculate Non-GAAP net loss attributable to common stockholders per share, basic and diluted	105,212,053	99,608,071
Non-GAAP net loss attributable to common stockholders per share, basic and diluted	$ (0.12)	$ (0.36)

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, 2024	Three Months Ended March 31, 2023
Net cash used in operating activities	$ (3,467)	$ (30,433)
Purchase of property and equipment and capitalized proprietary software development costs	(5,321)	(15,920)
Free Cash Flow	$ (8,788)	$ (46,353)

Key Financial and Operating Metrics:

	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023	March 31, 2024
	(In thousands, except AOV and percentages)								
GMV	$ 428,206	$ 454,163	$ 440,659	$ 492,955	$ 444,366	$ 423,341	$ 407,608	$ 450,668	$ 451,941
NMV	$ 310,511	$ 332,508	$ 325,105	$ 367,382	$ 327,805	$ 303,918	$ 302,912	$ 335,245	$ 334,815
Consignment Revenue	$ 83,989	$ 96,917	$ 93,874	$ 110,199	$ 102,643	$ 96,577	$ 102,852	$ 113,500	$ 115,648
Direct Revenue	$ 48,823	$ 42,646	$ 34,005	$ 33,252	$ 24,953	$ 20,887	$ 17,356	$ 15,964	$ 12,709
Shipping Services Revenue	$ 13,888	$ 14,872	$ 14,824	$ 16,204	$ 14,308	$ 13,391	$ 12,964	$ 13,909	$ 15,443
Number of Orders	878	934	952	993	891	789	794	826	840
Take Rate	35.7 %	36.1 %	36.0 %	35.7 %	37.4 %	36.7 %	38.1 %	37.7 %	38.4 %
Active Buyers	828	889	950	998	1,014	985	954	922	922
AOV	$ 487	$ 486	$ 463	$ 496	$ 499	$ 537	$ 513	$ 545	$ 538

TheRealReal

The RealReal First Quarter 2024 Shareholder Letter

May 7, 2024

Executive Summary & Key Highlights

- **Better Than Anticipated Q1 2024 Financial Results**: Today, we reported financial results for the first quarter of 2024, with GMV and Adjusted EBITDA exceeding the top end of our guidance range and revenue exceeding the midpoint of our guidance range. During the first quarter, consignment revenue grew 13% compared to the prior year period.
- **Delivering Profitable Growth**: We continue to focus our growth model on the core consignment business, resulting in a return to overall top-line revenue growth with an all-time high gross margin rate.
- **Driving Efficiencies and Improved Client Experience**: Across sales, marketing, authentication, and operations, we see opportunities to invest in automation and AI as we leverage our data to improve client experience and work to profitably scale the business.
- **Guidance for Second Quarter and Full Year 2024**: Today, we provided forward-looking financial guidance for the second quarter, and updated our full year 2024 guidance. We are raising the midpoint of our Adjusted EBITDA guidance range and confirming GMV and revenue guidance for full year 2024.

Dear Shareholder,

Today, we shared our financial results for the first quarter of 2024. We continue to build on our financial and operational progress from last year. Strong demand generated a return to overall top-line growth with consignment revenue growing 13% year-over-year. For Q1, we delivered gross merchandise value (“GMV”) and Adjusted EBITDA above the high-end of our guidance range, and revenue at the high-end of our guidance range. Our strategy to focus on the core consignment business and drive efficiencies is delivering results.

Delivering Profitable Growth

We continue to focus our growth model on the core consignment business. Over the past few quarters, we reduced company-owned inventory (i.e., direct), overhauled our consignor commission structure, and refined our approach to sales and marketing. In Q1, we returned to overall top-line revenue growth with a favorable margin profile, which resulted in significantly improved bottom-line results compared to the prior year period.

For the quarter, we grew consignment revenue by 13% compared to the prior year. We improved our sales mix by growing consignment revenue double-digits and continuing to purposefully deemphasize direct revenue. This change in mix, combined with improved margins on our consignment revenue, drove gross margin up over 1,100 basis points year-over-year. We delivered gross margins of 74.6% in Q1, an all-time high for The RealReal. From here, margins may vary quarter-to-quarter, including due to the mix of product sold, but we intend to continue to emphasize our consignment revenue, which is margin-enhancing.

We also refined our approach to sales and marketing to drive profitable supply. We continue to reorient our sales team's compensation to better align incentives with our strategic focus on profitable supply, and we use more targeted marketing spend to attract higher life-time value consignors. We believe sales and marketing are the engine powering the next chapter of our growth.

Looking ahead, we see opportunity to expand our supply channels to generate incremental growth. For instance, our previously announced drop-ship consignment initiative has the potential to unlock incremental supply from trusted partners. With momentum in the core consignment business, our improved margin structure gives us confidence in our ability to continue to deliver profitable growth in 2024.

Driving Efficiencies and Improving Client Experience

We continue to focus on operational excellence and realizing efficiencies to expand our margins. As you may recall, throughout last year we invested in automation in our authentication centers. These changes are making an impact in our financial and operational results.

We believe we are in the early stages of realizing further efficiencies across our unique marketplace, which encompasses our functional areas of sales, marketing, authentication, and operations. We see opportunities to invest in automation and AI as we leverage our data to improve client experience and work to profitably scale the business.

Our highest priority use cases are in pricing, sales, and authentication. In pricing luxury items for our consignors, we continue to refine our pricing algorithms, and we have extended this powerful tool to a larger proportion of the items on our platform.

On the sales front, we are helping our luxury managers reach more high-propensity and high-value consignors through enhancing their technology and tools. We recently improved lead scoring and directive selling, which aids our sales team in being more effective and efficient. Relevant to both consignors and buyers, we continue to capitalize on personalization in our marketing to get the relevant products and promotions to our clients, driving enhanced client experience.

In our operations, we aim to further automate authentication, drive cost efficiencies and reduce processing times. Overall, we see significant opportunity across sales, marketing, authentication, and operations to deploy technology and tools as we scale the business.

First Quarter 2024 Financial Results and 2024 Outlook

For the first quarter of 2024, we generated GMV of $452 million, a year-over-year increase of 2%, and revenue of $144 million, a year-over-year increase of 1%. It is worth highlighting that consignment revenue grew 13% during the first quarter, and we accomplished a 49% reduction in direct revenue year-over-year, which exceeded our goal. Our first quarter gross margin was 74.6%, an improvement of more than 1,100 basis points year-over-year.

Our first quarter Adjusted EBITDA was $(2.3) million, or (2)% of total revenue, compared to $(27) million, or (19)% of total revenue, in the first quarter of 2023.

We ended the first quarter of 2024 with $181 million of cash and cash equivalents, and restricted cash, consisting of $166 million of cash and cash equivalents and $15 million of restricted cash relating to letter of credit collateral. At the end of the first quarter, we had $21 million of inventory, net, a decrease of $2 million compared to the end of fiscal year 2023.

Based on market conditions as of May 7, 2024, we are providing guidance for the second quarter and full year 2024 for GMV, Revenue and Adjusted EBITDA, which is a Non-GAAP financial measure:

	Q2 2024	**Full Year 2024**
GMV	$420 - $450 million	$1.81 - $1.87 billion
Revenue	$135 - $145 million	$580 - $605 million
Adjusted EBITDA	$(6) - $(3) million	$(5) - $8 million[1]

[1]Midpoint of guidance range is $1.5 million and represents an increase of $1.5 million from the midpoint of the guidance range provided on February 29, 2024.

We have not reconciled forward-looking Adjusted EBITDA to net income (loss), the most directly comparable GAAP measure, because we cannot predict with reasonable certainty the ultimate outcome of certain components of such reconciliations including payroll tax expense on employee stock transactions that are not within our control, or other components that may arise, without unreasonable effort. For these reasons, we are unable to assess the probable significance of the unavailable information, which could materially impact the amount of future net income (loss).

We believe our strategy to focus on the core consignment business and drive efficiencies is working — we are growing our consignment revenue, expanding our margins, and improving the consignor experience. We are playing to our strengths and uniquely positioned to capitalize on the growing luxury resale space.

In closing, I want to thank our entire team at The RealReal for their hard work in delivering a strong start to 2024. I look forward to continuing to drive the momentum in our business. Importantly, I also want to thank our market-leading community of 36 million members as they join us on our mission to extend the life of luxury and make fashion more sustainable.

Sincerely,

John E. Koryl
CEO of The RealReal

The RealReal

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 and financial results, including our strategies, plans, commitments, objectives and goals, in particular in the context of the recent geopolitical events, including the conflict between Russia and Ukraine and the Israel-Hamas war, and uncertainty surrounding macroeconomic trends; the debt exchange; financial guidance, anticipated growth in 2024 and long-range financial projections. 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, inflation, macroeconomic uncertainty, geopolitical instability, 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, labor shortages 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 for the year ended December 31, 2023 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 shareholder letter, 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 stockholder letter and the accompanying tables and the related earnings conference call contain certain non-GAAP financial measures, including Adjusted EBITDA and Adjusted EBITDA as a percentage of total revenue ("Adjusted EBITDA Margin"). 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 (benefit) for income taxes, depreciation and amortization, further adjusted to exclude stock-based compensation, employer payroll tax on employee stock transactions, and certain one-time expenses. The employer payroll tax expense related to employee stock transactions are tied to the vesting or exercise of underlying equity awards and the price of our common stock at the time of vesting, which may vary from period to period independent of the operating performance of our business. 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 and the related employer payroll tax on employee stock transactions, excludes an item that we do not consider to be indicative of our core operating performance. Investors should, however, understand that stock-based compensation and the related employer payroll tax 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.

The following table reflects the reconciliation of net loss to Adjusted EBITDA and Adjusted EBITDA as a percentage of total revenue for each of the periods indicated (in thousands):

	Three Months Ended March 31,	
	2024	2023
Total revenue	$ 143,800	$ 141,904
Adjusted EBITDA Reconciliation:		
Net loss	$ (31,101)	$ (82,500)
Net loss (% of revenue)	21.6 %	58.1 %
Depreciation and amortization	8,309	7,821
Interest income	(2,069)	(2,053)
Interest expense	3,751	2,667
Provision for income taxes	71	86
EBITDA	(21,039)	(73,979)
Stock-based compensation	7,120	8,991
CEO transition costs (1)	—	159
Payroll taxes expense on employee stock transactions	56	44
Legal settlement	—	1,100
Restructuring charges (2)	196	36,388
Gain on extinguishment of debt (3)	(4,177)	—
Change in fair value of warrant liability (4)	15,583	—
Adjusted EBITDA	$ (2,261)	$ (27,297)
Adjusted EBITDA (% of revenue)	1.6 %	19.2 %

(1) The CEO transition charges for the three months ended March 31, 2023 consists of retention bonuses for certain executives incurred in connection with our founder's resignation on June 6, 2022.

(2) The restructuring charges for the three months ended March 31, 2023 consists of impairment of right-of-use assets and property and equipment, employee severance charges, and other charges, including legal and transportation expenses. See "Note 10 - Restructuring" in the notes to the unaudited financial statements for disclosure regarding the restructuring expenses incurred.

(3) The gain on extinguishment of debt for the three months ended March 31, 2024 reflects the difference between the carrying value of the Exchanged Notes and the fair value of the 2029 Notes.

(4) The change in fair value of warrant liabilities for the three months ended March 31, 2024 reflects the remeasurement of the warrants issued by the Company in connection with the Note Exchange in February 2024.