

# REAL – Prepared Remarks – Q1'25

## REAL CEO Remarks – Q1'25

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Thank you, Caitlin. Good afternoon everyone, and welcome to The RealReal's first quarter earnings conference call.

Today, I am pleased to report strong Q1 results and reaffirm our full year 2025 outlook. The RealReal, founded on trust and authenticity, is leading the evolution of luxury resale. Our commitment to expertise and a frictionless experience is changing the way people shop for the better.

Before getting into results, I'd like to address what we're seeing in the overall environment. Despite the uncertainties from tariffs and a less predictable backdrop, our performance has been strong and our focus remains steadfast. We occupy a unique position at the intersection of luxury and value, and - we source our supply primarily from domestic closets, so there is potential to realize benefits in the current environment. Our strategy is working; our brand is strong and we have built flexibility into our operations that enables us to effectively navigate a range of conditions.

We continue to build on the foundational changes we made to reshape our business. In 2024, we delivered our first-ever full year of positive adjusted EBITDA and we continued this momentum into 2025. Through our growth playbook, we're generating strong, and importantly – CONSISTENT – supply growth. We're also driving operational efficiency throughout the organization – building true “win-win” capabilities that harness the power of AI and automation. For instance, Athena, our AI enabled product intake process reduces costs AND improves the experience for our buyers and consignors. We are driving results that compound and expand our profitability. We believe The RealReal has a stronger, more profitable, and more sustainable business model today than ever before.

We are driving top line growth by unlocking profitable supply through our multi-channel, frictionless approach to consignment. The elements of our growth playbook – sales, marketing, and stores – came together in the first quarter to drive healthy supply trends. Ajay will review our financial results later in the call, but I'd like to note a few key highlights from the quarter:

- Looking at growth - GMV increased 9% and revenue increased 11% year-over-year, which aligns with our goal of high single-digit to low double-digit growth.
- Active buyers also increased – up 7% on a trailing 12-month basis.
- In Q1, Average Order Value was \$564, up 5% year-over-year
- Turning to margins and profitability - Gross Margin improved 40 basis points year over year, after an improvement of 1100 basis points in Q1 of 2024. Adjusted EBITDA increased to positive \$4M, an increase of \$6M versus Q1 of last year.
- And, we delivered our highest number of new consignors in over 2 years.

Today, I'll discuss how our three strategic pillars – unlocking supply through our growth playbook, driving operational efficiency, and obsessing over service – are fueling our strong results and progress.

Let's start with the growth playbook...

We often mention that we are a supply-focused business as our lifetime sell-through rate is over 90%. Success in executing against our growth playbook relies on driving supply through 3 key areas...sales, marketing, and our retail stores.

Our sales team works alongside our merchandising department to curate our platform's unique assortment. We leverage search and trend data as well as historical purchase information to identify in-demand brands and categories. Then, we mobilize our sales team to proactively pursue it. These capabilities allow The RealReal to quickly pivot and influence our diverse product mix, as we aim to successfully address changes in customer tastes and behaviors. Notably, our sales team drove strong consigner growth this past quarter, as a result of our revamped incentive structure and a focused approach on consignor acquisition.

Turning to marketing, our teams are constantly working to reinforce our position as the leader in luxury resale, known for authenticity and expertise. We've worked to drive effectiveness in our marketing investments and through increased focus on social media and influencer partnerships, our brand awareness increased versus last year. In addition to awareness, marketing efforts directly drive consigner and buyer engagement and generate leads for our sales and retail teams.

For us, stores offer a curated experience and provide consignors with access to our experts for valuations for fine jewelry and watches. Similar to our approach with the sales team, we measure success in our retail locations through the lens of supply generation and new consignor acquisition. In Q1, stores contributed a quarter of all new consignors. Our stores and sales team are highly integrated, working together on in-store and off-site events, consignor referrals, and expert appointments, which drive high value supply. In the first quarter, the elements of our growth playbook combined to unlock supply through enhanced service and new consignment offerings:

First, we reduced friction in the consignment process by offering a walk-in, on-demand valuation experience in stores. This provides sellers with flexibility, convenience and access to our experts, resulting in an increase in consignment appointments and higher customer satisfaction.

Another area that is driving results is our Real Partners program. Our referral programs focus on building relationships with key partners like stylists, closet organizers, and real estate agents to expand our reach and supply network. These partnerships are crucial for sourcing high-value items and expanding our access to desirable inventory. Our referral programs are now driving over \$1M of incremental supply per month.

The next highlight within supply is our Get Paid Now program. Get Paid Now is an offering for consignors on a select list of high-end, in-demand brands in just 3 categories - watches, handbags, and fine jewelry. Through Get Paid Now, we purchase inventory and these sales flow into our direct revenue, which to be clear, is an entirely different and significantly more profitable business than it was a year ago. Today, we've reimaged the direct business and this revenue is driven by high-value supply from consignors and select vendors. . Average selling prices for the merchandise we acquire through Get Paid Now is more than 10 times higher than our average selling price.

And the final growth playbook initiative I'll highlight today is drop-ship. Drop-ship continued to evolve throughout the first quarter. Building on our success in watches, we expanded drop-ship into handbags, and

we are seeing good traction so far. This is an important next step in building new and innovative capabilities to unlock supply.

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Moving to our next strategic pillar – operational efficiency.

We continue to leverage our robust proprietary data and AI capabilities to build trust and improve the customer experience. For years, The RealReal has been a leader in authentication, with proprietary tools like Vision and Shield helping build customer trust. Last year, through increased automation, we reduced processing time by over 10% while keeping headcount steady and supporting topline growth.

On our last call, I reviewed in detail our new AI-enabled product intake process, Athena. This initiative was launched in Q1 of this year and now, more than 10% of items are processed via Athena.

Units managed by Athena are processed faster. Early indications are that we can reduce launch-to-site time significantly and in this initial phase, we cut processing times by an estimated 20%. Athena is currently focused on ready to wear units and we plan to expand to shoes and handbags later this year.

A key differentiator for The RealReal is our expertise in item pricing. Our well-developed approach leverages both human expertise along with data and AI to find optimal market prices for our consignors. The algorithms are dynamic and incorporate near real-time signals from internal and external sources, like page views, obsession counts, primary market pricing and search trends. As of the end of last year, the majority of our units are launched with algorithmic pricing. The next step in our development is applying our AI expertise and increased precision into our discounting cadence. The current rules-based approach to discounting is largely manual and so, we see significant opportunity to apply our powerful pricing algorithms to this use case. Early test results indicate that we can drive better balance between price and sell-through using algorithmic discounting.

We are leveraging AI and technology to improve speed, reduce human intervention, and drive operational efficiency.

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Turning to our third strategic pillar – Obsess Over Service

We provide best-in-class service to our buyers and consignors. Our modern luxury experience, enabled by technology, is grounded in expertise, trust, and authenticity.

We obsess over service by understanding what type of user experience and feature set our buyers and consignors want from our platform.

Our members spend a lot of time with us – many clocking more than 40 hours per year on our app. Here are just a few examples of how we're enhancing engagement and fostering a sense of community: In Q1, we added obsession counts (similar to the count of "likes" or "hearts" on other platforms) to our product listings, allowing buyers to easily see which items are trending. This creates deeper engagement with the platform and because each item is unique on our site, creates more urgency and gamification. We are also building community through initiatives like our successful Substack strategy, which provides valuable fashion content and fosters connection among our users and fans.

We regularly implement user experience updates to improve navigation and search on our platform, making it easier for buyers to find what they are looking for. And - we are enhancing buyer personalization to show the most relevant items, driving faster sell through and lower discounting.

In closing, our Q1 was a solid start to the year and we're encouraged by the momentum we're seeing in supply. The RealReal is positioned as the leader in a market with lots of room to scale. I'm excited about the future and right now we are heads down - focused on execution in 2025.

I'd like to thank the team for their hard work throughout the first quarter. Our unrelenting focus on our strategic pillars is working, and we remain confident in our ability to deliver on our 2025 objectives. With that, I'll turn the call over to Ajay to discuss our operational results and our financial outlook.

## **REAL CFO Remarks – Q1'25**

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Thank you, Rati.

In the first quarter we made further progress executing on our strategic pillars. Our focus on unlocking supply through our growth playbook, driving operational efficiencies, and obsessing over service resulted in strong top line growth and margin expansion. For the 3rd consecutive quarter, we delivered positive Adjusted EBITDA, demonstrating our ability to drive profitable growth. We are laying the foundation for consistent execution and delivering on our 2025 goals.

Now turning to our detailed Q1 results, beginning with topline...

Q1 GMV of \$490M increased 9% compared to last year. Our growth playbook initiatives drove strong top-line growth and we also recorded our highest new consignor growth in over two years. In Q1, Active buyers increased 7% on a trailing 12-month basis to 985 thousand, demonstrating our reach and leadership position within luxury resale.

Q1 revenue of \$160M increased 11% year-over-year; Consignment Revenue increased 7% and Direct Revenue increased 61% compared to Q1 of 2024. We expect direct revenue to remain in the range of 10-15% of total revenue going forward. I'd like to take a moment to discuss the trajectory and enhanced unit economics of our reimagined overall direct business.

As we've highlighted in the past, our direct revenue consists of out of policy returns and select vendor supply. In addition as Rati mentioned, we launched an offering for consignors aimed at unlocking incremental supply – Get Paid Now. We offer this option on a selective basis on marquee brands in high value categories and we are enthusiastic about the program's potential to contribute to market share gains over time.

The profitability profile of our direct revenue has improved dramatically. First quarter 2025 direct gross margins were 25.5% compared to 3.3% in the first quarter of last year, a substantial improvement. We're committed to maintaining a disciplined inventory strategy focused on sell-through and margins.

Continuing with our first quarter results...

First quarter Gross Profit of \$120M increased 12% year-over-year resulting in Gross Margin of 75.0%, an increase of 40 basis points compared to the prior year, driven by operational efficiencies in our fulfillment centers and customer support functions.

First quarter Operating Expenses of \$133M increased 6% year-over-year. As a percent of total revenue, operating expenses improved by 410 basis points. Excluding stock based compensation, operating expenses improved by 370 basis points driven by AI-led efficiency efforts like Athena & Smart Sales, improvements in marketing ROI, and increased automation.

First quarter Adjusted EBITDA of \$4.1M, or 2.6% of Total Revenue, increased \$6.4M versus prior year. Adjusted EBITDA margins increased over 400 basis points year-over-year.

Operating Cash Flow for the first quarter was negative \$28M. Due to timing of incentive payment and working capital seasonality, we expect operating cash flow and free cash flow to be back-half weighted. As a reminder, the remaining \$27M stub of our 2025 convertible note will mature in June of this year.

We ended the quarter with \$154M in cash, cash equivalents, and restricted cash.

Turning to guidance...

Today, we are reaffirming our full-year guidance, which we provided earlier this year. We expect full year GMV in the range of \$1.96 to \$1.99 billion for the year, up 8% year-over-year at the midpoint of our guidance range. We expect Revenue in the range of \$645M to \$660M, up 9%, year-over-year at the midpoint of our guidance.

We continue to expect Adjusted EBITDA in the range of \$20 to \$30M, with Adjusted EBITDA margin expansion driven by strong top line growth and operating expense leverage.

In the current environment, our ability to reaffirm our guidance stems from our consistent execution and the inherent flexibility in our marketplace business model. As a resale platform, our supply primarily comes from domestic closets, and is therefore unaffected by tariffs. Furthermore, we believe we are well positioned to realize benefits from consumers seeking value in the face of price increases, or from customers being more motivated to monetize their closets. We acknowledge the potential for challenges arising from a more uncertain macroeconomic environment and maintain a balanced perspective in our expectations for the rest of the year.

Moving to our outlook for the second quarter...

GMV is expected in the range of \$476M to \$486M which represents 9% growth compared to prior year at the midpoint of our guidance range.

Second quarter Revenue is expected in the range of \$157 to \$161M. This reflects 10% growth compared to last year at the midpoint of our guidance range. We continue to expect the direct channel to contribute between 10% and 15% of total revenue.

Second Quarter Adjusted EBITDA is expected to be between \$3 and \$4M which represents 350 basis points of margin expansion year-over-year at the midpoint of our range.

To be helpful, I'll provide some additional detail regarding the quarterly cadence of 2025. Last year, we were still making changes to the business and saw significant quarterly variation in Adjusted EBITDA margin from Q1 through Q3. This year, we expect a more consistent rate across the first three quarters of the year and a typical seasonal step-up in both topline volume and Adjusted EBITDA margin in Q4.

In closing, I'm pleased to see the progress our teams made in the first quarter. Our success in unlocking supply and acquiring new consignors gives us confidence that The RealReal is well positioned to deliver on our 2025 objectives.

With that I will turn the call back over to the operator to begin Q&A.