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): February 29, 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 1.01 Entry into a Material Definitive Agreement.

Exchange Agreements

On February 29, 2024 (the "Effective Date"), The RealReal, Inc. (the "Company") entered into private, separately negotiated exchange agreements (collectively, the "Exchange Agreements") with certain Noteholders (as defined therein), pursuant to which the parties agreed to exchange (i) $145,751,000 in aggregate principal amount of the holders' 3.00% Convertible Senior Notes due 2025 and (ii) $6,480,000 in aggregate principal amount of the holders' 1.00% Convertible Senior Notes due 2028 (clauses (i) and (ii) together, the "Exchanged Notes") for (a) $135,000,000 in aggregate principal amount of the Company's 4.25%/8.75% PIK/Cash Senior Secured Notes due 2029 (the "New Notes"), issued pursuant to the Indenture (as defined below), (b) warrants (the "Warrants") to purchase up to 7,894,737 shares (subject to adjustment in accordance with their terms) of the Company's common stock, $0.00001 par value per share, with a strike price of $1.71 and (c) accrued and unpaid interest on the Exchanged Notes to (but excluding) the Effective Date (collectively, the "Exchange Transactions"). The Exchange Agreements contain representations, warranties and covenants customary for transactions of this type and described in greater detail in the Exchange Agreements. The Exchange Transactions were consummated on the Effective Date, following the satisfaction of the closing conditions described in the Exchange Agreements. The Company did not receive any cash proceeds from the Exchange Transactions.

The New Notes and Warrants were issued in private placement transactions pursuant to the exemptions provided by Rule 144A, Regulation S and Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act").

Indenture

On the Effective Date, in connection with the Exchange Transactions, the Company issued $135,000,000 in aggregate principal amount of New Notes pursuant to that certain Indenture, dated as of the Effective Date (the "Indenture"), by and among the Company, the Guarantors (as defined in the Indenture) party thereto from time to time and GLAS Trust Company LLC, as trustee and notes collateral agent. As of the Effective Date, there are no Guarantors.

Interest and maturity. The New Notes will mature on the earlier of (a) March 1, 2029 and (b) any date, if any, on or after December 1, 2027 on which (a) the aggregate principal amount of the 1.00% Convertible Senior Notes due 2028 (the "2028 Notes") then outstanding is greater than $20 million and (b) the difference between (i) the amount of unrestricted cash and cash equivalents held by the Company and its subsidiaries as of such date of determination and (ii) the aggregate principal amount of 2028 Notes outstanding as of such date of determination is less than $75 million. The New Notes bear interest at a rate of 13.00% per annum, consisting of cash interest at a rate of 8.75% per annum and payment-in-kind ("PIK") interest at a rate of 4.25% per annum. Interest will accrue from the most recent date to which interest has been paid or provided for or, if no interest has been paid or duly provided for, from the Effective Date, and will be payable semi-annually in arrears on March 1 and September 1 to holders of record at the close of business on February 15 and August 15 of each year, commencing on September 1, 2024.

Guarantees and security. The New Notes will be guaranteed by certain of the Company's future wholly-owned domestic subsidiaries (if any) on a senior secured basis. The New Notes and the guarantees (if any), together with any future indebtedness secured on a pari passu basis with the New Notes and the guarantees (if any), will be secured by a first priority lien on substantially all of the assets of the Company and the Guarantors (if any), subject to certain exceptions.

Optional redemption. On or after March 1, 2025, the Company may redeem the New Notes at its option, in whole at any time or in part from time to time, at the following redemption prices (expressed as percentages of principal amount) plus accrued and unpaid interest, to, but excluding, the applicable redemption date (subject to the right of holders of record of the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the following periods: March 1, 2025 to (but excluding) March 1, 2026 – 113.000%; March 1, 2026 to (but excluding) October 1, 2026 – 106.500%; and October 1, 2026 and thereafter – 100.000%. In addition, prior to March 1, 2025, the Company may redeem the New Notes at its option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the New Notes redeemed plus the Applicable Premium (as defined in the Indenture) as of, and accrued and unpaid interest to, but excluding, the applicable redemption date (subject to the right of holders of record of the relevant record date to receive interest due on the relevant interest payment date). Notwithstanding the foregoing, at any time and from time to time on or prior to March 1, 2025, the Company may redeem in the aggregate up to 40% of the original aggregate principal amount of the New Notes (calculated after giving effect to the issuance of any PIK payments) with the net proceeds of one or more equity offerings to the extent the net cash proceeds thereof are contributed to the common equity capital of the Company or are used to purchase capital stock (other than disqualified stock) of the Company, at a redemption price of 113.000%, plus accrued and unpaid interest, to, but excluding, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), provided at least 60% of the original aggregate principal amount of the New Notes (calculated after giving effect to any PIK payments) remains outstanding after each such redemption.

Covenants. The Indenture contains covenants that limit the Company's ability and certain of the Company's future subsidiaries (if any) to, among other things: (i) grant or incur liens securing indebtedness; (ii) incur, assume or guarantee additional indebtedness; (iii) enter into transactions with affiliates; (iv) sell or otherwise dispose of assets, including capital stock of subsidiaries; (v) in the case of the Company and any future Guarantor (if any), consolidate, amalgamate or merge with or into, or sell all or substantially all of its assets to, another person; (vi) make certain restricted payments or other investments; and (vii) pay dividends or make other distributions (including loans and other advances). In addition, the Indenture contains a covenant that provides that the Company may not permit liquidity (calculated as the sum of (a) unused commitments then available to be drawn under any revolving credit facility, delayed draw term loan facility or qualified securitization financing permitted thereunder (after giving effect to any borrowing base or similar limitations), plus (b) the amount of unrestricted cash and cash equivalents held by the Company and its subsidiaries (if any)) to be less than $25 million as of the last day of any month that ends following the Effective Date.

Events of default. The Indenture sets forth certain events of default after which the New Notes may be declared immediately due and payable and sets forth certain types of bankruptcy or insolvency events of default involving the Company or its subsidiaries.

Warrant Agreement

On the Effective Date and pursuant to the Exchange Agreements, the Company entered into a warrant agency agreement (the "Warrant Agreement") with Computershare Trust Company, N.A. and its affiliate Computershare Trust Company, N.A., as transfer and warrant agent. Pursuant to the Warrant Agreement, on the Effective Date, the Company issued warrants ("Warrants") to purchase 7,894,737 shares (subject to adjustment in accordance with its terms) of common stock ("Common Stock"), $0.00001 par value per share of the Company (the "Warrant Shares"), with a strike price of $1.71 (the "Exercise Price"), subject to the cashless exercise provisions contained in the Warrant Agreement.

The Warrants are exercisable from the date of issuance until March 1, 2029 (the "Expiration Date").

The Exercise Price is subject to adjustment from time to time upon the occurrence of certain dilutive events, including (a) stock dividends and splits, (b) the issuance of options or other convertible securities in certain circumstances, (c) certain other dividends or distributions, (d) a tender or exchange offer by the Company to purchase or redeem Common Stock in certain circumstances, and (e) certain reclassification, reorganization or charge of the of the Common Stock.

Whenever the Exercise Price is adjusted as provided above, the number of Warrant Shares for which a Warrant is exercisable (the "Warrant Share Number") shall simultaneously be adjusted by multiplying the Warrant Share Number in effect immediately prior to such adjustment by a fraction, the numerator of which shall be the Exercise Price immediately prior to such adjustment, and the denominator of which shall be the Exercise Price immediately thereafter.

In the event of a Fundamental Change (as defined in the Warrant Agreement), upon request, the holders of Warrants will receive cash in an amount and as determined in accordance with the Warrant Agreement.

Subject to limited exceptions, a holder of Warrants will not have the right to exercise any portion of its Warrants if the holder (together with any persons whose beneficial ownership of Common Stock would be aggregated with such holder's for purposes of Section 13(d) of the Exchange Act and the applicable rules and regulations of the SEC, including any group, within the meaning of the Exchange Act, of which such holder or such holder's affiliates is a member) would beneficially own a number of shares of Common Stock in excess of 4.99% of the Common Stock then outstanding immediately after giving effect to such exercise (the "Maximum Percentage"); provided, however, that upon 61 days' notice to the Company, the holder may increase (with such increase not effective until the sixty-first (61st) day after delivery of such notice) or decrease the Maximum Percentage to any other percentage not in excess of 9.99% as specified in such notice.

Pursuant to the Warrant Agreement, no holder of a Warrant, by virtue of holding or having a beneficial interest in the Warrant, will have the right to vote, receive dividends, receive notice as stockholders with respect to any meeting of stockholders for the election of the Company's directors or any other matter, or exercise any rights whatsoever as a stockholder of the Company unless, until and only to the extent such holders become holders of record of Common Stock issued upon exercise of the Warrants.

The foregoing description of the Exchange Agreements, Indenture and the Warrant Agreement does not purport to be complete and is qualified in its entirety by the terms and conditions of the agreements, copies of which will be attached as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Item 2.02 Results of Operations and Financial Condition.

On February 29, 2024, The RealReal, Inc. (“The RealReal”) issued a press release announcing its financial results for the quarter and fiscal year ended December 31, 2023. 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 February 29, 2024, The RealReal posted a stockholder letter on its investor.therealreal.com website. A copy of the stockholder 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 February 29, 2024
99.2	Stockholder Letter dated February 29, 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: February 29, 2024	By:	/s/ Todd Suko
		Todd Suko
		Interim Chief Financial Officer, Chief Legal Officer and Secretary

Exhibit 99.1

THE REALREAL ANNOUNCES FOURTH QUARTER AND FULL YEAR 2023 RESULTS

Q4 and FY 2023 Net Loss Improved Year-Over-Year by $17 million and $28 million, respectively

Q4 2023 Adjusted EBITDA of positive $1.4 million, improving $22 million year-over-year

Debt Exchange Transactions Entered into with Certain Holders of Convertible Senior Notes due 2025 and 2028

SAN FRANCISCO, February 29, 2024 — The RealReal (Nasdaq: REAL)—the world's largest online marketplace for authenticated, resale luxury goods—today reported financial results for its fourth quarter and full year ended December 31, 2023. Fourth quarter 2023 Net Loss was $22 million, compared to $39 million in the fourth quarter of 2022. Fourth quarter 2023 Adjusted EBITDA was positive $1.4 million, a $22 million improvement compared to the fourth quarter of 2022. Full year 2023 Net Loss was $168 million, compared to $196 million for full year 2022. Full year 2023 Adjusted EBITDA was $(55) million, compared to $(112) million for full year 2022.

"In the fourth quarter of 2023, The RealReal delivered positive Adjusted EBITDA and positive free cash flow. These are historic milestones and firsts for the company since our IPO in 2019. Our strategic shift to re-focus on the consignment business is delivering strong progress in our results. We refined our growth model with a focus on profitable supply and in the process we significantly improved our margin structure. We intend to carry forward this improved margin structure as we reaccelerate growth going forward." said John Koryl, Chief Executive Officer of The RealReal.

The RealReal also announced it entered into private, separately negotiated debt exchange transactions with certain holders of $145,751,000 in aggregate principal amount of its 3.00% Convertible Senior Notes due 2025 and $6,480,000 in aggregate principal amount of its 1.00% Convertible Senior Notes due 2028, pursuant to which such holders exchanged their existing convertible notes for (a) $135,000,000 in aggregate principal amount of new 4.25%/8.75% PIK/Cash Senior Secured Notes due 2029, (b) warrants to purchase up to 7,894,737 shares (subject to adjustment in accordance with their terms) of the Company's common stock, $0.00001 par value per share, at a strike price equal to $1.71, which was the closing price of the Company's common stock on February 28, 2024 and (c) accrued and unpaid interest. As a result of the debt exchange transactions, the Company reduced its total indebtedness by more than $17 million and extended a significant portion of its 2025 maturities.

Moelis & Company LLC served as financial advisor and Wachtell, Lipton, Rosen & Katz served as legal counsel to The RealReal in connection with the exchange transactions.

"The exchange transactions completed today are another significant step forward for The RealReal, creating substantial runway and capital structure flexibility for us to execute on our strategic vision," Koryl continued. "We believe our strong brand recognition coupled with our growing technology and data capabilities position us to deliver profitable growth in 2024."

Fourth Quarter Financial Highlights

- GMV was $451 million, a decrease of 9% compared to the same period in 2022
- Total Revenue was $143 million, a decrease of 10% compared to the same period in 2022
- Net Loss was $22 million or (15.1)% of total revenue, compared to $39 million or (24.2%) of total revenue in the fourth quarter of 2022
- Adjusted EBITDA was $1.4 million or 1.0% of total revenue, compared to $(20.2) million or (12.6)% of total revenue in the fourth quarter of 2022
- GAAP basic and diluted net loss per share was $(0.21) compared to $(0.39) in the prior year period
- Non-GAAP basic and diluted net loss per share was $(0.07) compared to $(0.29) in the prior year period
- *Top-line-related Metrics*
    - Trailing 12-months active buyers reached 922,000, a decrease of 8% compared to the same period in 2022

- Orders reached 826,000, a decrease of 17% compared to the same period in 2022
- Average order value (AOV) was $545, an increase of 10% compared to the same period in 2022
- Higher AOV was driven by a 13% increase in average selling prices

Full Year 2023 Financial Highlights

- GMV was $1.73 billion, a decrease of 5% compared to full year 2022
- Total Revenue was $549 million, a decrease of 9% compared to full year 2022
- Net Loss was $168 million or (30.7)% of total revenue, compared to $196 million or (32.5%) of total revenue for full year 2022
- Adjusted EBITDA was $(55.2) million or (10.0)% of total revenue compared to $(112.4) million or (18.6)% of total revenue for full year 2022
- GAAP basic and diluted net loss per share was $(1.65) compared to $(2.05) in the prior year
- Non-GAAP basic and diluted net loss per share was $(0.87) compared to $(1.53) in the prior year
- At the end of 2023, cash, cash equivalents and restricted cash totaled $191 million

Q1 and Full Year 2024 Guidance

Based on market conditions as of February 29, 2024, we are providing guidance for 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).

	Q1 2024	Full Year 2024
GMV	$415 - $445 million	$1.80 - $1.88 billion
Total Revenue	$135 - $145 million	$580 - $605 million
Adjusted EBITDA	$(8) - $(4) million	$(8) - $8 million

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 fourth quarter and full year 2023 results. Investors and analysts can access the call via the following link: https://register.vevent.com/register/BI3644a7479aa04644b48e497e14e46fec. 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 35 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.

Investors:
Caitlin Howe
Senior Vice President, Finance
IR@therealreal.com

Media:
Laura Hogya
Head of Communications
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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, 2022 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 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 (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.

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, employer payroll tax on employee stock transactions and non-recurring items divided by weighted average shares outstanding. We believe that adding back stock-based compensation expense, employer payroll tax on employee stock transactions, provision (benefit) 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) Three Months Ended December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Revenue:				
Consignment revenue	$ 113,500	$ 110,199	$ 415,572	$ 384,979
Direct revenue	15,964	33,252	79,160	158,726
Shipping services revenue	13,909	16,204	54,572	59,788
Total revenue	143,373	159,655	549,304	603,493
Cost of revenue:				
Cost of consignment revenue	14,439	13,770	58,120	56,963
Cost of direct revenue	13,181	36,246	74,343	141,661
Cost of shipping services revenue	9,704	13,029	40,563	56,178
Total cost of revenue	37,324	63,045	173,026	254,802
Gross profit	106,049	96,610	376,278	348,691
Operating expenses:				
Marketing	13,815	14,533	58,275	62,988
Operations and technology	62,396	71,469	257,041	278,628
Selling, general and administrative	44,594	47,932	182,453	194,886
Restructuring charges	6,066	621	43,462	896
Legal settlement	240	—	1,340	456
Total operating expenses (1)	127,111	134,555	542,571	537,854
Loss from operations	(21,062)	(37,945)	(166,293)	(189,163)
Interest income	2,088	1,831	8,805	3,191
Interest expense	(2,683)	(2,458)	(10,701)	(10,472)
Other income (expense), net	—	38	—	171
Loss before provision for income taxes	(21,657)	(38,534)	(168,189)	(196,273)
Provision for income taxes	36	76	283	172
Net loss attributable to common stockholders	$ (21,693)	$ (38,610)	$ (168,472)	$ (196,445)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.21)	$ (0.39)	$ (1.65)	$ (2.05)
Weighted average shares used to compute net loss per share attributable to common stockholders, basic and diluted	103,937,199	98,546,282	101,806,000	95,921,246
(1) Includes stock-based compensation as follows:				
Marketing	$ 370	$ 435	$ 1,550	$ 2,209
Operations and technology	2,426	3,919	12,534	19,822
Selling, general and administrative	5,184	4,764	20,189	24,107
Total	$ 7,980	$ 9,118	$ 34,273	$ 46,138

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

	December 31, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 175,709	$ 293,793
Accounts receivable	17,226	12,207
Inventory, net	22,246	42,967
Prepaid expenses and other current assets	20,766	23,291
Total current assets	235,947	372,258
Property and equipment, net	104,087	112,679
Operating lease right-of-use assets	86,348	127,955
Restricted cash	14,914	—
Other assets	5,627	2,749
Total assets	$ 446,923	$ 615,641
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 8,961	$ 11,902
Accrued consignor payable	77,122	81,543
Operating lease liabilities, current portion	20,094	20,776
Other accrued and current liabilities	82,685	93,292
Total current liabilities	188,862	207,513
Operating lease liabilities, net of current portion	104,856	125,118
Convertible senior notes, net	452,421	449,848
Other noncurrent liabilities	4,083	3,254
Total liabilities	750,222	785,733
Stockholders' deficit:		
Common stock, $0.00001 par value; 500,000,000 shares authorized as of December 31, 2023 and December 31, 2022; 104,670,500 and 99,088,172 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively	1	1
Additional paid-in capital	816,325	781,060
Accumulated deficit	(1,119,625)	(951,153)
Total stockholders' deficit	(303,299)	(170,092)
Total liabilities and stockholders' deficit	$ 446,923	$ 615,641

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

	Year Ended December 31,	
	2023	**2022**
Cash flows from operating activities:		
Net loss	$ (168,472)	$ (196,445)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	31,695	27,669
Stock-based compensation expense	34,273	46,138
Reduction of operating lease right-of-use assets	16,746	19,602
Bad debt expense	1,962	1,680
Loss on disposal of property and equipment and impairment of capitalized proprietary software	223	702
Accretion of debt discounts and issuance costs	2,573	2,368
Property, plant, equipment and right-of-use asset impairments	39,739	—
Provision for inventory write-downs and shrinkage	9,783	4,077
Gain on lease termination	(738)	—
Changes in operating assets and liabilities:		
Accounts receivable	(6,981)	(6,120)
Inventory, net	10,938	23,971
Prepaid expenses and other current assets	2,001	(2,952)
Other assets	(3,050)	(409)
Operating lease liability	(26,478)	(17,764)
Accounts payable	(425)	4,947
Accrued consignor payable	(4,421)	10,501
Other accrued and current liabilities	(464)	(9,823)
Other noncurrent liabilities	(172)	301
Net cash used in operating activities	(61,268)	(91,557)
Cash flow from investing activities:		
Capitalized proprietary software development costs	(12,951)	(14,061)
Purchases of property and equipment	(29,177)	(22,861)
Net cash used in investing activities	(42,128)	(36,922)
Cash flow from financing activities:		
Proceeds from exercise of stock options	19	2,906
Proceeds from issuance of stock in connection with the Employee Stock Purchase Program	886	1,400
Taxes paid related to restricted stock vesting	(679)	(205)
Net cash provided by financing activities	226	4,101
Net decrease in cash, cash equivalents, and restricted cash	(103,170)	(124,378)
Cash, cash equivalents, and restricted cash		
Beginning of period	293,793	418,171
End of period	$ 190,623	$ 293,793

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

	Three Months Ended December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Adjusted EBITDA Reconciliation:				
Net loss	$ (21,693)	$ (38,610)	$ (168,472)	$ (196,445)
Net loss (% of revenue)	15.1 %	24.2 %	30.7 %	32.6 %
Depreciation and amortization	8,165	7,414	31,695	27,669
Interest income	(2,088)	(1,831)	(8,805)	(3,191)
Interest expense	2,683	2,458	10,701	10,472
Provision (benefit) for income taxes	36	76	283	172
EBITDA	(12,897)	(30,493)	(134,598)	(161,323)
Stock-based compensation (1)	7,980	9,118	34,273	46,138
CEO separation benefits (2)	—	46	—	948
CEO transition costs (3)	—	533	159	1,551
Payroll tax expense on employee stock transactions	53	39	195	451
Legal fees reimbursement benefit (4)	—	—	—	(1,400)
Legal settlements (5)	240	—	1,340	456
Restructuring charges (6)	6,066	621	43,462	896
Other (income) expense, net	—	(38)	—	(171)
Adjusted EBITDA	$ 1,442	$ (20,174)	$ (55,169)	$ (112,454)
Adjusted EBITDA (% of revenue)	1.0 %	12.6 %	10.0 %	18.6 %

(1) The stock-based compensation expense for the year ended December 31, 2022 includes a one-time charge of $1.0 million related to the modification of certain equity awards pursuant to the terms of the transition and separation agreement entered into with our founder, Julie Wainwright, in connection with her resignation as Chief Executive Officer ("CEO") on June 6, 2022 (the "Separation Agreement").

(2) The CEO separation benefit charges for the year ended December 31, 2022 consist of base salary, bonus and benefits for the 2022 fiscal year, as well as an additional twelve months of base salary and benefits payable to Julie Wainwright pursuant to the Separation Agreement.

(3) The CEO transition charges for the year ended December 31, 2022 consist of general and administrative fees, including legal and recruiting expenses, as well as retention bonuses for certain executives incurred in connection with our founder's resignation on June 6, 2022. The CEO transition charges for the year ended December 31, 2023 consists of retention bonuses for certain executives incurred in connection with our founder's resignation in 2022.

(4) During the year ended December 31, 2022, we received insurance reimbursement of $1.4 million related to a legal settlement expense.

(5) The legal settlement charges for the year ended December 31, 2023 reflect legal settlement expenses arising from the settlement of two former employees' individual claims and California Private Attorney General Actions initiated against the Company on behalf of such former employees and those similarly situated.

(6) Restructuring for the year ended December 31, 2023 consists of impairment of right-of-use assets and property and equipment, employee severance charges, gain on lease terminations, and other charges, including legal and transportation expenses. Restructuring for the year ended December 31, 2022 consists of employee severance payments and benefits.

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 December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Net loss	$ (21,693)	$ (38,610)	$ (168,472)	$ (196,445)
Stock-based compensation	7,980	9,118	34,273	46,138
CEO separation benefits	—	46	—	948
CEO transition costs	—	533	159	1,551
Payroll tax expense on employee stock transactions	53	39	195	451
Legal fees reimbursement benefit	—	—	—	(1,400)
Legal settlement	240	—	1,340	456
Restructuring charges	6,066	621	43,462	896
Provision for income taxes	36	76	283	172
Non-GAAP net loss attributable to common stockholders	$ (7,318)	$ (28,177)	$ (88,760)	$ (147,233)
Weighted-average common shares outstanding used to calculate Non-GAAP net loss attributable to common stockholders per share, basic and diluted	103,937,199	98,546,282	101,806,000	95,921,246
Non-GAAP net loss attributable to common stockholders per share, basic and diluted	$ (0.07)	$ (0.29)	$ (0.87)	$ (1.53)

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 December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Net cash provided by (used in) operating activities	$ 10,523	$ 3,698	$ (61,268)	$ (91,557)
Purchase of property and equipment and capitalized proprietary software development costs	(6,730)	(10,667)	(42,128)	(36,922)
Free cash flow	$ 3,793	$ (6,969)	$ (103,396)	$ (128,479)

Key Financial and Operating Metrics:

	Three Months Ended								
	December 31, 2021	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023
	(In thousands, except AOV and percentages)								
GMV	$ 437,179	$ 428,206	$ 454,163	$ 440,659	$ 492,955	$ 444,366	$ 423,341	$ 407,608	$ 450,668
NMV	$ 318,265	$ 310,511	$ 332,508	$ 325,105	$ 367,382	$ 327,805	$ 303,918	$ 302,912	$ 335,245
Consignment Revenue	$ 86,508	$ 83,989	$ 96,917	$ 93,874	$ 110,199	$ 102,643	$ 96,577	$ 102,852	$ 113,500
Direct Revenue	$ 45,262	$ 48,823	$ 42,646	$ 34,005	$ 33,252	$ 24,953	$ 20,887	$ 17,356	$ 15,964
Shipping Services Revenue	$ 13,355	$ 13,888	$ 14,872	$ 14,824	$ 16,204	$ 14,308	$ 13,391	$ 12,964	$ 13,909
Number of Orders	861	878	934	952	993	891	789	794	826
Take Rate	35.0 %	35.7 %	36.1 %	36.0 %	35.7 %	37.4 %	36.7 %	38.1 %	37.7 %
Active Buyers	797	828	889	950	998	1,014	985	954	922
AOV	$ 508	$ 487	$ 486	$ 463	$ 496	$ 499	$ 537	$ 513	$ 545

The RealReal

Fourth Quarter and Full Year 2023 Shareholder Letter

February 29, 2024

Dear Shareholder,

Earlier today, we shared our financial results for the fourth quarter and full year 2023. For the first time since our IPO in 2019, we reported a full quarter of positive Adjusted EBITDA and positive free cash flow. Importantly, we also announced today a reworking of our capital structure. As previously announced, Ajay Gopal will join us next month as our new Chief Financial Officer, and Karen Katz, a member of our Board of Directors and former Chief Executive Officer at Neiman Marcus Group, was appointed Chairperson of our Board of Directors. Our organization continues to make progress on several other fronts as we reaccelerate growth in 2024.

Progress with Core Consignment Re-focus

Our strategic shift to re-focus on our core consignment business is delivering significant progress as evidenced in our fourth quarter and full year 2023 results. We refined our growth model with a focus on profitable supply. As part of these efforts, we reduced company-owned inventory (i.e. direct), overhauled our consignor commission structure, and revamped our approach to sales and marketing. For the full year 2023 compared to the full year 2022, we grew consignment revenue by 8% and over that same period, we purposefully decreased direct revenue by half. As a result of these initiatives, during 2023, our gross margin expanded over 1,000 basis points compared to full year 2022. Our gross margin rate was 74.0% in the fourth quarter of 2023.

Looking ahead, our new initiative of drop-ship consignment (previously referred to as virtual consignment) 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 delivering profitable growth in 2024. We look forward to providing more updates in the coming quarters.

Increasing Efficiencies Through our Technological Investments

Operationally, our results in 2023 were a significant step forward on our path to profitability. We are beginning to deliver efficiencies from our investments in automation and artificial intelligence. For example, in 2023 we invested in automating the picking and packing of items in our authentication centers. These changes have begun to make an impact; for the second half of 2023, Operations and Technology operating expense as a percent of revenue declined 250 basis points compared to the second half of 2022. In 2024, we are focused on enhancing our processes and technology to improve the product flow in our authentication centers and further automate our state-of-the-art authentication capabilities.

New Capital Structure Agreement

Today, we also announced we entered into private, separately negotiated debt exchange transactions with certain holders of our 3.00% Convertible Senior Notes due 2025 and our 1.00% Convertible Senior Notes due 2028. Under the terms of this transaction, such holders exchanged their existing convertible notes for our new 4.25%/8.75% PIK/Cash Senior Secured Notes due 2029, accrued and unpaid interest and warrants to purchase 7,894,737 shares of common stock ($0.00001 par value per share) (subject to customary anti-dilution protections). As a result of the debt exchange transactions, we reduced our total indebtedness by more than $17 million. The transactions are another significant step forward, creating substantial runway and capital structure flexibility to execute on our strategic vision.

Fourth Quarter 2023 and Full Year 2023 Financial Results

In the fourth quarter of 2023 we generated gross merchandise value ("GMV") of $451 million, a year-over-year decrease of 9%. Average order value was $545 in the fourth quarter, an increase of 10% compared to the fourth quarter of 2022. Total revenue in the fourth quarter was $143 million, a decrease of 10% versus the same period last year. Revenue from consigned items rose 3%, while direct revenue declined 52%, reflecting our purposeful actions to reduce this portion of the business. Gross margin in the fourth quarter of 2023 improved to 74.0%, a 1300-basis point increase year-over-year. For the full year 2023, we generated GMV of $1.73 billion, a decrease of 5% compared to the full year 2022. Revenue for the full year 2023 was $549 million, a decrease of 9% year-over-year.

As referenced earlier, for the first time since our IPO in 2019, we reported a full quarter of positive Adjusted EBITDA and positive free cash flow in the fourth quarter of 2023. Our Adjusted EBITDA improved to positive $1.4 million, or +1.0% of revenue in the fourth quarter of 2023, compared to $(20.2) million, or -12.6% of revenue, in the prior year. For the full year 2023, our Adjusted EBITDA was $(55.2) million, or -10.0% of revenue, compared to Adjusted EBITDA of $(112.4) million, or -18.6% of revenue in 2022.

We ended 2023 with $191 million of cash and cash equivalents, and restricted cash, consisting of $176 million of cash and cash equivalents, and $15 million of restricted cash relating to letter of credit collateral. As referenced earlier, we grew free cash flow in the fourth quarter to +$4 million, compared to $(7) million in the fourth quarter of 2022. At the end of the fiscal year 2023, we had $22 million of inventory, net, a decrease of $21 million compared to the end of fiscal year 2022.

Based on market conditions as of February 29, 2024, we are providing guidance for the first quarter and full year 2024 for GMV, Total Revenue and Adjusted EBITDA, which is a Non-GAAP financial measure:

	Q1 2024	**FY 2024**
GMV	$415 - $445 million	$1.80 - $1.88 billion
Total Revenue	$135 - $145 million	$580 - $605 million
Adjusted EBITDA	$(8) - $(4) million	$(8) - $8 million

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 that we offer a differentiated full-service consignment experience in the large and growing luxury resale market. With our strong brand recognition and growing technology and data capabilities, we believe that we are well-positioned to deliver profitable growth in 2024.

Executive Summary

- **Positive Adjusted EBITDA in Q4 2023**: Today, we reported financial results for the fourth quarter and full year 2023, including positive Adjusted EBITDA and positive free cash flow in the fourth quarter of 2023.

- **Progress on Key Focus Areas Driving More Upside Potential**: Through growing profitable supply, driving efficiencies and delivering exceptional service to our customers, we believe we can continue to make significant progress in 2024.

- **Reworking of Capital Structure**: Today, we announced we entered into private, separately negotiated debt exchange transactions with certain holders of our 3.00% Convertible Senior Notes due 2025 and our 1.00% Convertible Senior Notes due 2028, creating substantial runway and capital structure flexibility.

- **Guidance for First Quarter and Full Year 2024**: Today, we provided forward-looking financial guidance for the first quarter and full year 2024.

We'd like to thank our entire team at The RealReal for their hard work and dedication in delivering significant progress in our operations and results in 2023. I look forward to the next phase of our growth as we continue to deliver the pre-eminent luxury resale experience to our consignors and buyers. We thank our more than 35 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

Investors:
Caitlin Howe
Senior Vice President, Finance
IR@therealreal.com

Media:
Laura Hogya
Head of Communications
PR@therealreal.com

The RealReal

Forward Looking Statements

This stockholder 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 recent geopolitical events, including the conflict between Russia and Ukraine and the Israel-Hamas war, and uncertainty surrounding macroeconomic trends; the debt exchange; and our 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, failure to achieve anticipated savings in connection with our real estate reduction plan and associated workforce reduction, 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, 2022 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 stockholder letter 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 revenue ("Adjusted EBITDA Margin"), non-GAAP net loss attributable to common stockholders, and free cash flow. We have provided a reconciliation of the non-GAAP financial measures presented herein to the most directly comparable GAAP financial measures.

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.

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.

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 December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Total revenue	$ 143,373	$ 159,655	$ 549,304	$ 603,493
Adjusted EBITDA Reconciliation:				
Net loss	$ (21,693)	$ (38,610)	$ (168,472)	$ (196,445)
Net loss (% of revenue)	15.1 %	24.2 %	30.7 %	32.6 %
Depreciation and amortization	8,165	7,414	31,695	27,669
Interest income	(2,088)	(1,831)	(8,805)	(3,191)
Interest expense	2,683	2,458	10,701	10,472
Provision for income taxes	36	76	283	172
EBITDA	(12,897)	(30,493)	(134,598)	(161,323)
Stock-based compensation (1)	7,980	9,118	34,273	46,138
CEO separation benefits (2)	—	46	—	948
CEO transition costs (3)	—	533	159	1,551
Payroll taxes expense on employee stock transactions	53	39	195	451
Legal fees reimbursement benefit (4)	—	—	—	(1,400)
Legal settlement (5)	240	—	1,340	456
Restructuring charges (6)	6,066	621	43,462	896
Other (income) expense, net	—	(38)	—	(171)
Adjusted EBITDA	$ 1,442	$ (20,174)	$ (55,169)	$ (112,454)
Adjusted EBITDA (% of revenue)	1.0 %	(12.6)%	(10.0)%	(18.6)%

(1) The stock-based compensation expense for the year ended December 31, 2022 includes a one-time charge of $1.0 million related to the modification of certain equity awards pursuant to the terms of the transition and separation agreement entered into with our founder, Julie Wainwright, in connection with her resignation as Chief Executive Officer ("CEO") on June 6, 2022 (the "Separation Agreement").

(2) The CEO separation benefit charges for the year ended December 31, 2022 consist of base salary, bonus and benefits for the 2022 fiscal year, as well as an additional twelve months of base salary and benefits payable to Julie Wainwright pursuant to the Separation Agreement.

(3) The CEO transition charges for the year ended December 31, 2022 consist of general and administrative fees, including legal and recruiting expenses, as well as retention bonuses for certain executives incurred in connection with our founder's resignation on June 6, 2022. The CEO transition charges for the year ended December 31, 2023 consists of retention bonuses for certain executives incurred in connection with our founder's resignation in 2022.

(4) During the year ended December 31, 2022, we received insurance reimbursement of $1.4 million related to a legal settlement expense.

(5) The legal settlement charges for the year ended December 31, 2023 reflect legal settlement expenses arising from the settlement of two former employees' individual claims and California Private Attorney General Actions initiated against the Company on behalf of such former employees and those similarly situated.

(6) Restructuring for the year ended December 31, 2023 consists of impairment of right-of-use assets and property and equipment, employee severance charges, gain on lease terminations, and other charges, including legal and transportation expenses. Restructuring for the year ended December 31, 2022 consists of employee severance payments and benefits.

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 December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Net cash provided by (used in) operating activities	$ 10,523	$ 3,698	$ (61,268)	$ (91,557)
Purchase of property and equipment and capitalized proprietary software development costs	(6,730)	(10,667)	(42,128)	(36,922)
Free cash flow	$ 3,793	$ (6,969)	$ (103,396)	$ (128,479)