REFINITIV STREETEVENTS

EDITED TRANSCRIPT

REAL.OQ - Q1 2021 RealReal Inc Earnings Call

EVENT DATE/TIME: MAY 10, 2021 / 9:00PM GMT

CORPORATE PARTICIPANTS

Julie Wainwright *The RealReal, Inc. - Founder, CEO & Chairperson*

Matthew Gustke *The RealReal, Inc. - CFO & Treasurer*

Paul Judd Bieber *The RealReal, Inc. - Head of IR*

CONFERENCE CALL PARTICIPANTS

Aaron Michael Kessler *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

Alec Edward Legg *B. Riley Securities, Inc., Research Division - Associate*

Edward James Yruma *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

Erinn Elisabeth Murphy *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Irwin Bernard Boruchow *Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst*

Justin Post *BofA Securities, Research Division - MD*

Lauren Elizabeth Cassel Schenk *Morgan Stanley, Research Division - Equity Analyst*

Mark R. Altschwager *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Marvin Milton Fong *BTIG, LLC, Research Division - Director & E-commerce Analyst*

Michael Charles Binetti *Crédit Suisse AG, Research Division - Research Analyst*

Oliver Chen *Cowen and Company, LLC, Research Division - MD & Senior Equity Research Analyst*

Simeon Avram Siegel *BMO Capital Markets Equity Research - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the RealReal First Quarter 2021 Financial Results Conference Call. (Operator Instructions) I would now like to hand the conference over to your host today, Mr. Paul Bieber. Sir, please go ahead.

Paul Judd Bieber - *The RealReal, Inc. - Head of IR*

Thank you, Mel. Good afternoon, and welcome to the RealReal's Earnings Call for the Quarter Ended March 31, 2021. I'm Paul Bieber, Head of Investor Relations and Capital Markets at the RealReal. Joining me today to discuss our results are Founder and CEO, Julie Wainwright; and Chief Financial Officer, Matt Gustke.

Hopefully you had a chance to read our press release and stockholder letter that we distributed earlier today, both of which are available on our Investor Relations website. Before we begin, I'd like to remind you that we will make forward-looking statements during the course of this call. These forward-looking statements involve known and unknown risks and uncertainties, and our actual results could differ materially. You can find more information about these risks, uncertainties and other factors that could affect our operating results in our most recent periodic report on Form 10-Q, subsequent quarterly reports on Form 10 -- excuse me, in our most recent periodic report on Form 10-K and subsequent quarterly reports on Form 10-Q and in our earnings release earlier today.

In addition, our presentation will include certain non-GAAP financial measures for which we have provided reconciliations to the most comparable GAAP measures in our earnings press release.

With that, I'll hand the call over to Julie for introductory remarks, and then we'll go straight to Q&A. Julie?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Thanks, Paul. Well, after more than a year of navigating the challenges created by COVID, it is great to say that we returned to growth in Q1 and also achieved our highest quarterly GMV in the company's history. Q1 GMV increased 27% year-on-year, a significant improvement from the 1% year-on-year decline in Q4. Our members increased by 1.5 million in Q1. We also added the greatest quarterly number of new consignors to date in Q1. And as of April, we have surpassed $2 billion in cumulative consignor commission payouts. For perspective, it took us 8 years to pay out the first $1 billion in commissions, but the second $1 billion happened in less than 2 years.

Tackling the challenges of the past year led to numerous innovations and strategic initiatives, which have us well positioned to build on our momentum and support long-term growth. Specifically, we have significantly diversified our supply acquisition, expanded our retail footprint and brought millions of new members into the circular economy. We thank our entire team for their dedication to delivering a superior experience to our community throughout these unprecedented times. As we build on our recent momentum and march toward profitability, we remain focused on driving scale and operation efficiency gains. The pandemic still limits our forward visibility. However, our return to growth, combined with the widespread vaccination distribution, leaves us optimistic about the balance of 2021.

Importantly, I want to thank Matt. He has been my partner managing the company for the last 8 years, raising over $1 billion in capital and taking us public. Matt will be with the RealReal until we find his replacement, and he will ensure we have a successful transition with the next CFO.

Now back to the quarterly results. Now we're ready for the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Justin Post.

Justin Post - *BofA Securities, Research Division - MD*

I guess I want to talk about GMV kind of flat quarter-over-quarter in the guidance. How do you think about 2Q seasonality? Of course, we can look back at prior years, but how are you thinking about that? And then specifically, we know how important in-home visits are. Are those going to be kind of ramping in 2Q? Or is the real benefit to that going to be in the back half?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. I'll take the first and start the second -- hand to Julie. So the GMV guide for the second quarter of $320 million to $330 million, as you point out, is roughly flat. That's basically consistent with the non-COVID period. We typically see sequential flatness in the Q2 over Q1 as well as Q3 over Q2 with a kind of more hockey stick-like inflection in the fourth quarter each year.

With respect to in-home, yes, I mean, your question was asked and answered basically. We began reintroducing in-home in March and then nationwide in April. Still very early days, but we're seeing good indications that there's a lot of pent-up supply. So we'd expect to see that continue ramping throughout the balance of this year and beyond, frankly.

Justin Post - *BofA Securities, Research Division - MD*

Got it. And maybe one follow-up. So the impact of that, I mean, is it going to be additive once you get that back up and running? And could we look for better-than-normal sequential trends in the second half?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, we don't -- this is Julie, obviously. We don't know what normal is as we come out of COVID. So I would say early indicators show that we're picking up more units than we did prior to COVID when we do our in-home visits, but that could be temporary and could go on the balance of the year. It's just hard to project right now, and we tend to make more conservative projections. All we can say is that we're encouraged by the early signs.

Justin Post - *BofA Securities, Research Division - MD*

Got it. Good to see you back at growth rates again.

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Thanks.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Thanks.

Operator

Next question comes from the line of Oliver Chen from Cowen.

Oliver Chen - *Cowen and Company, LLC, Research Division - MD & Senior Equity Research Analyst*

The vendor program has been impressive. What do you see ahead in terms of the vendor program momentum and also capabilities, whether that be human capabilities or infrastructure that you're building, and how might that manifest? Would just love your view on New York, L.A. as well. And as we reopen, what is your hypothesis for acquiring goods in those regions as well?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

The multi-question. Look, vendor is -- has -- it is an alternate channel for us, and we have both upgraded our management there and are improving our technology, where we can add SKU depth, which we'll launch on time in the summer. Vendor is important, but it's still relatively small as a percent of our total business. And we don't expect it to grow that much more as our in-home visits start taking up -- they're getting very aggressive.

L.A. and New York, we're not reporting on them separately, but I could say we're very pleased with the progress and growth we're seeing in both of those 2 critical regions. So vendor is a great channel for us. Just to close the loop, it's still not as strategic as getting back in-home and working with our individual consignors.

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes and the capabilities with respect to vendor are tracking, and we continue to work on them. And over the course of the next quarter or so, we expect to enhance our capabilities that would really be more customer-facing.

Oliver Chen - *Cowen and Company, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And as we look forward to the reopening, what do you see happening with product mix? Do you anticipate that apparel and UPTs will accelerate? And do you -- it looks like buyers' incentives will normalize based on your comments. Are there any thoughts around seller incentives as well in the marketplace?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, all incentives actually are decelerating or normalized as we speak for the buyers and the consignors. The buyers are back to pre-COVID time. The same with consignors. We're using consignor incentives only when we open neighborhood stores to introduce the idea of drop-offs now going forward. That doesn't mean occasionally we wouldn't run small promotions that are normal with the business that we see where we need more of some type of product, but those have been normalized. So we're excited about that.

The question about when will apparel return, apparel did show growth in Q1. It's just not growing -- it's still not part of the mix as it was prior to COVID. And also, shoes are down but showing growth. So we don't know when it's going to return to normal. We have a hypothesis, which could be totally wrong, that it will return in the fall. But in the meantime, our AOVs are at an all-time high. It's just the mix in the baskets change.

Operator

We have the next question that comes from the line of Michael Binetti from Credit Suisse.

Michael Charles Binetti - *Crédit Suisse AG, Research Division - Research Analyst*

Congrats on the return to growth. Can you -- I guess, the gross profit per order was around flat, even though you saw a nice -- you did see a nice acceleration in GMV. So I'm just trying to think for the model here, maybe a little bit more clarity on the road map to $100 per order in gross profit that you pointed to in the shareholder letter by the end of '22. Anything beyond what you mentioned in the shareholder letter as far as the biggest points of leverage from here. I know you did -- got a lot of the automation that you've been talking about over the last 2 years is in place now.

And then, I guess, just backing up bigger picture. Matt, we've talked about this a lot. Can you help us revisit the path to profitability? I think the early framework that you were thinking about to get the company to break even on EBITDA with, rough math, $2 billion of GMV and $100 of gross profit per order. Is that still the right framework? Or have some of the investments below the gross margin line changed those dynamics?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Sure. So on the gross profit per order, there's a decent amount of disclosure in the shareholder letter. So yes, roughly flat. We do expect that to increase this quarter modestly mostly due to buyer incentives coming down. We don't know, as Julie mentioned, exactly what the AOV trend is going to look like longer term. But roughly speaking, AOVs and take rates are nearly perfectly inversely correlated. As AOV goes up, it's a little bit additive to gross profit per order. So we think that's not going to be a major driver getting towards $100. Continuing shipping leverage, getting the buyer incentives down and leverage over some fixed cost is mostly what gets us there by the end of '22, as you point out.

With respect to the path to profitability, we're not in a position to update any longer-term projections because we're still in so much -- so fluid an environment with COVID. But no fundamental changes. I think to the extent that you saw forever elevated mix in terms of high-priced goods and a higher AOV, it would take a slightly higher amount of GMV, all other things equal, but that's not necessarily our long-term view. So no real update to speak of.

Michael Charles Binetti - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then you mentioned in the shareholder letter some of the cash from the recent trial was -- you had -- it looks like you had some international investments in mind. Maybe you could speak to what you think about in the near term and maybe a little bit more over the medium term there.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, in the near term, which we would put -- and we would define near term the next 6 months, certainly put on hold, given the lack of return to normal across Europe and other countries. So we're taking -- we still have 2022 in our crosshairs for some international small expansion. It may -- it most likely moved to the latter half of that year. And right now, we're -- what we're working on is more planning, some development work, but COVID moved that back a little bit.

Operator

Next question comes from the line of Erinn Murphy from Piper Sandler.

Erinn Elisabeth Murphy - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I was hoping you could talk a little bit more about the neighborhood stores. I know you gave some encouraging metrics on how the buyer is engaging with that format. Can you just share a little bit more about what you're seeing in terms of brand awareness and what you're seeing in terms of the drop-off? What kind of units is the consumer dropping off when they are consigning there?

And then just secondly, on the road map, does -- I guess, Matt, does your departure -- your pending departure, does that impact maybe the ability to secure a good pipeline of second half leases for that initiative?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

On the neighborhood stores, they are exceeding our expectations, both with demand and also supply, and the stores that we've had open the longest are ahead of our expectations. Now I think it's -- we all know this, but I'll just put it out there. We're still operating with COVID restrictions in every single market. So we still have limited capacity in the store for either a buyer or a consignor. And even then, we're seeing incredible reception to us having these small neighborhood stores. So we're encouraged by that.

We're so encouraged that we're actually going to open 3 more than we originally planned this year, but then we're going to take a breath and take a pause and measure the effect as we hopefully do pull out of any limitations in running those stores from both consignors and buyers being in the store. But right now, they're exceeding our expectations. And they're exceeding our expectations even if we were in a non-COVID period. So that's really the best way to state it right now because we're still working under what we consider restrictive and artificial circumstances. So it looks good even then. Matt, do you want to add?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. On the second question, the answer -- the simple answer is no. Almost all of the leases of those 13 are already signed, and I wouldn't expect to have any difficulties securing future locations.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Plus, Matt is not going anywhere for a while. We're just giving you guys the heads up here.

Erinn Elisabeth Murphy - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Good to hear. And then just secondly, just with the announcement this -- or this afternoon on shuttering the Brisbane center as we move through the summer. How do you think about the opportunity in the back half to narrow some of the losses just from the expense base maybe coming in a bit?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. I can start with that, yes. So unfortunately, with the move into Arizona, which provides us with a lot of benefits in terms of cost leverage over time, we made the difficult decision that we will close the Brisbane, California location sometime at the end of the third quarter. So yes, we'll be rolling off of some operating expenses, which are roughly equal to what the Arizona facility, although it's double the size, the cost. So it will be helpful. And as we start to leverage the Arizona facility, that's where we start to throw off some meaningful fixed cost leverage.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

I just want to make a couple of statements about that. We did extend every employee in the Brisbane facility and offered to join us if they were in good standing, and we're happy to say that we've had a higher-than-expected response. And all the experts are staying with the company in some capacity. So we actually are moving some core talent with us when we do move into Arizona. And also the State of Arizona did give us incentives to move there, which the State of California really never -- it's not really their focus. So we just -- we're very excited about expanding and making it a major hiring focus for us in the future in Arizona. We're excited about the state.

Operator

Next question comes from the line of Edward Yruma from KeyBanc Capital Markets.

Edward James Yruma - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

I guess, first, on marketing expense, I know you guys leveraged it in the first quarter. Now that your supply is more normalized, can you give us the thought process on whether that should -- that leverage should occur for the remainder of the year?

And then second, Julie, on these neighborhood stores, can you talk a little bit more about your experience on the sell-side there? I know, historically, they were kind of designed so that people could buy items there and you had a couple of comments on the shareholder letter. Any interesting findings on the receptivity of consumers to shop at those neighborhood stores?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Sure. On the marketing side, yes, we do expect leverage going forward. It's not always going to be a straight line because the cadence of our marketing spend is not like direct short-term relationship to our GMV expectations. But we do expect marketing expense to be slightly down quarter-over-quarter this quarter and leverage on the full year significantly even versus the pre-COVID baseline of 2019. And notably, in the quarter, we saw in Q1 substantial leverage in marketing, and our buyer acquisition cost was down significantly. So we're pleased with where we're trending.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, yes, I mean -- and it's just too early to tell what's happening in the stores. I would say it all looks very positive right now. I'd like us to get out of COVID restrictions. And so we can -- but people are -- let's just say there are still lines outside the store to get in. People will wait because they either want to shop or consign, and it's all very encouraging actually. They -- some stores are way ahead on their path to their own profitability even under the most conservative terms. So it looks good. Having said that, again, we're going to do 13 and see what happens before we go crazy with it because we are still in uncertain times.

Operator

The next question comes from the line of Ike Boruchow from Wells Fargo.

Irwin Bernard Boruchow - *Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst*

Matt, I have 2 questions on the direct business. Well, I guess, the first one, just on the direct gross margins. I understand the buyer incentives are there and it's muddying the waters a bit the last quarter or 2. But where do you see the gross margin structure for that channel once you kind of move past that maybe into the back half and beyond?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Sure. So the direct business, as you know, has an inherently lower gross margin given that we have to recognize GMV as revenue in this case. So we did see about 300 basis points of margin improvement quarter-over-quarter in direct and we saw that in the consigned businesses as well. So they tend to trend together more or less. We expect that to continue going up, particularly as the mix within direct starts to move more toward purposeful direct revenue, where we have bought inventory upfront on purpose rather than just out of policy returns. So we'd expect to see direct margins trend up over time, not necessarily in a straight line but several percentage points as we get through the year. It does impact consigned and direct roughly equally.

Irwin Bernard Boruchow - *Wells Fargo Securities, LLC, Research Division - MD and Senior Specialty Retail Analyst*

Understood. And then just one more, Matt. I think in the shareholder letter, you mentioned a large vendor transaction in the fourth quarter which helped you in 1Q and should help the rest of the year. Can you give any more detail on that comment and what exactly that is?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. Sure. So we made a large -- our largest-ever vendor transaction in the fourth quarter of last year. But broadly speaking, it wasn't that large, but it was significant for us. We've begun selling through. We're seeing good sell-through, realizing the margins and the -- actually pretty high selling prices for those products. And we'll expect that to continue selling through the balance of the year and really will accelerate when we get the functionality up on the website we were referring to earlier with, we call, depth in SKU allowing to have multiple quantities behind the same image on the site, which still doesn't exist. So that limits our ability to launch or surface all of those items onto the site. So sell-through should accelerate once we enable the technology.

Operator

The next question comes from the line of Mark Altschwager from Baird.

Mark R. Altschwager - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great to see the in-home appointments back. I guess relative to pre-COVID levels, can you quantify the level of supply you're generating from that channel in the March and April period? Then you mentioned in the shareholder letter and on the call you're seeing evidence of pent-up supply. I was hoping you could expand on that a bit, just maybe any metrics you can share on the productivity of these in-home appointments or kind of number of units or GMV you're generating kind of per appointment versus kind of where you were before.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

So we just started really in March offering it. It wasn't even something you could choose by looking at the website. And then April, we changed the website to make sure it was in-home. And May 1 is when we're really going sort of full throttle on offering it, meaning it's our first option we're offering for consignors if they're comfortable. Prior to COVID, an in-home pickup would yield between 17 and 20 units per pickup. Now when we're going in, it can be, on average, 30 units, but we don't know how long that's going to last. So we're still at a pretty small percentage for Q1 because, again, you couldn't choose it if you were going to the website, meaning you couldn't choose in-home, you could only choose virtual so that the reps we have would say we're now offering in-home if you're comfortable. So we expect to see that accelerate. It's still a pretty small number even in April because it was in transition where it was evident on the website that you could actually book an in-home appointment. And people are getting much more comfortable as they're getting vaccinated.

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. Still -- relative to pre-COVID, still substantially lower volume as a share of the appointments in consignor volume now. So a long way to go.

Mark R. Altschwager - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And if I could just follow up on the marketing front, could you speak to the decline in the buyer acquisition costs and the drivers there? I know it's early in the neighborhood stores. Is that moving the needle? Or are you seeing efficiencies in other areas?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, I mean, really what happened, last year, we're coming into sort of an odd time because usually, in Q1, we spend pretty heavily to get prepared for -- it's a spring cleaning. So it gets people thinking about spring cleaning, cleaning up their closets. So we had done that in March of last year, spending at our normal levels. And this year, we took -- we're taking a more back-end approach. And so meaning that we didn't know what was going to happen with COVID.

So we actually reduced it consciously given the fact that the spring cleaning phenomena may not be happening during COVID, but we saw better results. And so I would say it's an ongoing testing situation with marketing, but we do -- as Matt indicated, we do expect them to be significantly more efficient than last year overall because then we cut marketing completely when our facilities were shut down. And we spent to -- last quarter in Q4 more heavily than normal to prepare us for a strong Q1, which actually worked. So it's going to be one of those uneven years because -- but overall, the trend will be a significant reduction in acquisition costs.

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Right. Just to pick up on the point that Julie made. So last year, we didn't really reduce our marketing spend until we had already made it through the month of March, even though we had half of the month where the business was disrupted significantly. So some pretty inefficient spend in the second half of March. So we got that freebie. But beyond that, yes, the stores are absolutely helping. A meaningful share of our new consignors and a significant number of new buyers are coming through our stores. And we are always testing and optimizing our media mix, and the team is great at finding new and innovative ways to stay one step ahead of the curve. So I think they'll continue to do that as we go throughout the year and beyond.

Operator

The next question comes from the line of Lauren Schenk from Morgan Stanley.

Lauren Elizabeth Cassel Schenk - *Morgan Stanley, Research Division - Equity Analyst*

Great. Inventory was up quite a bit at the end of the quarter, both year-over-year and sequentially despite the strength in direct revenue. Could you just help us think about sort of the drivers there? And then how you're expecting that to trend through the rest of the year?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. Sure. So I think we had about $50 million of inventory. So still pretty small numbers overall in the grand scheme of things for our business and our size. A -- not the majority of it, but a significant amount was that large vendor transaction at the end of the fourth quarter and other similar types of purchases that until we have certain technology on the site that allows us to merchandise the products in a more scalable way, the sell-through is going to be a little bit slower because we only have a small fraction of the inventory actually available to purchase at any point in time. But that should normalize once the technology is available, and I wouldn't expect to see inventory growing anywhere near that rate as we get into the back end of the year.

Lauren Elizabeth Cassel Schenk - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Great. And then is there any sort of high-level commentary you can give about trends that you're seeing in April or quarter-to-date versus maybe what sort of the March or 1Q broadly run rate was?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

I thought about that in the context of guidance, but now we're in kind of silly numbers as we're lapping COVID and the growth rates in a short-term basis are sort of meaningless. So we almost -- we're spending more time looking at what our performance looks like versus a pre-COVID period in 2019. And I would say that it's looking very, very encouraging and positive with some acceleration versus the equivalent period in 2019. So we're very optimistic about the short and long-term future.

Operator

Next question comes from the line of Simeon Siegel from BMO Capital.

Simeon Avram Siegel - *BMO Capital Markets Equity Research - Analyst*

Sorry if I missed this, but -- and understanding moving pieces of mix, but any help on what you're expecting for take rate going forward? And then to go back to the stores for a second, great to see the heightened productivity. How are the AOVs and frequency of those shoppers before they started using the stores? Just trying to think through the lift you're seeing as they become omni. And if they were, what type of customers they were beforehand?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, we have some information in the shareholder letter. We're still getting a high percentage of new, new consignors and new shoppers to the stores. So the -- and on an efficiency basis for acquiring consignors, they're actually accretive for us. So we're pretty excited about seeing that. You want to -- on the AOV, I mean, in general, stores added are adding significantly to our AOV mix. Almost half of the reason our AOV is at an all-time high is due to the impact of stores because people do spend more -- they spend less -- sort of less units per, but they spend more dollars per unit at a store.

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Sure. I'll just add to both. So on stores, in terms of what we see, broad rush, of course, everyone is a little different. So averages are sort of a little misleading. But generally speaking, as Julie said, about half of the people who interact with the stores are new to us altogether. But those who are interacting with the store after having worked with us previously online, their store activity is pretty close to purely incremental to their overall activity. So their online activity continues at the frequency and the dollar volume than it was before they start interacting with the stores. So that's significantly accretive for those -- that segment, both on the buyer side and the consignor side.

With respect to take rate, we just don't know at this point. In the short term, we're seeing quarter-to-date AOVs continue to be very high. So take rate is going to be comparatively low versus pre-COVID. They more or less offset. So just keep focused on gross profit dollars per order. Over time, we think it's going to normalize, but to what degree and exactly when is hard to say.

Operator

The next question comes from the line of Susan Anderson from B. Riley.

Alec Edward Legg - *B. Riley Securities, Inc., Research Division - Associate*

Alec Legg on for Susan. My question is just on the First Look subscription, where customers can view items a day in advance. How big is that subscription service relative to your consumer ecosystem? And any details you can provide on consumers who utilize that, such as their consumer spending habits? I mean do you think that service could be a meaningful portion of your revenue going forward?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

It is our most engaged customers. It's still a pretty small number. But we haven't -- that one sort of just took a backseat during COVID. So we're going to take a look at it and see really the value of really aggressively marketing it. It's one of those things that if people do sign up for First Look, they tend to be very, very frequent buyers, maybe 3 to 6 times a year. Some up -- some buy every month. So it's still small. Matt has some statistics on it. It's still small, but they're meaningful.

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. So First Look as a direct revenue line is very small. It's immaterial. There's a number of people who have access to First Look who aren't paying members. So our VIP consignors, et cetera. Overall, the first -- the people who participate in First Look are about 20% of our GMV, and that's -- that hasn't really changed over time. That's in disclosures that are in our S-1. So a small number of people who are very important.

Alec Edward Legg - *B. Riley Securities, Inc., Research Division - Associate*

And then, I guess, just a follow-up. It's great to hear about your offering relocation assistance for the Brisbane employees. And we've seen some companies having trouble finding employees and are offering hundreds of dollars just to get them to sign up. Have you seen -- or have you had any challenges finding employees to work in your authentication centers? And then are you expecting any meaningful wage costs to materially impact the rest of the year?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

I'm going to -- I'll start with that, and then I'll kick it over to Matt. All of our experts, experts and the experts we train in the training program, were having absolutely no problem recruiting. There is some pushback a little bit at our Perth facility, not a large percentage. I would say that we do have openings in Perth. And what we hear, and this is anecdotal only, that the government is paying them too much not to work. So an anecdotal comment. Do we think we have to change our wages? We're a really good wage payer in general. Our starting wage is $17 an hour. And what we're hearing is some people would rather stay home. So I would say that I really do hope the government does stop subsidizing the workers. I think there's something to the low unemployment numbers.

Alec Edward Legg - *B. Riley Securities, Inc., Research Division - Associate*

It's an interesting time.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, it's an interesting time. But the -- look, we have a high retention rate of our experts. We -- in fact, our Arizona facility actually has -- is fully staffed with experts. So it really kept us recruiting hourly employees. And honestly, most employees, when they really think about it, the combination of benefits and having a paying job that they can count on and building a career, we hope we'll win over staying at home because $17 an hour isn't enough to get out of bed. But there is enough anecdotes that makes me feel that the government has overpaid, to be honest.

But do we have to raise our wages? No. We don't have to do that. We think it's all going to equalize. So if you think of how many people are at Perth, Matt, about 725, we have 50 openings. We've never had that many openings. So on the grand scheme of things, we're fine. But we've never had that many openings and had to recruit that hard to fill them because they tend to be really good jobs versus other jobs in the area.

Operator

Next question comes from the line of Marvin Fong from BTIG.

Marvin Milton Fong - *BTIG, LLC, Research Division - Director & E-commerce Analyst*

Great. Just a couple. Maybe at a high level, I realize you're not disclosing supply units anymore. But maybe you could just give us some qualitative assessment on how supply units are tracking versus GMV. Do you feel like it's in balance now with demand? Any commentary there would be great.

And then second question, just as I try to unpack guidance and sequentially flat. Just curious, and I know we've asked about stimulus in the past, but do you feel like stimulus in the first quarter had any impact and that might explain some of the flatness going into the second quarter? Any commentary there would be great.

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

No. I mean I'll tackle some of it. I mean the truth is, we have no indication that stimulus impacted our business. It really is our ability to generate supply. And then as we've always been saying, and it tends to be true, it's hard for us to separate supply incoming from demand and stimulus. Now we were in quite a hole last year because we had a complete shutdown in the State of California for supply acquisition that was prolonged, and then natural COVID fears slowed that down. However, I'm happy to say that we are getting back to a nice balance. If we have more supply, we could sell it through, but everything feels like it's moving in the right direction right now. And a very -- it's a very positive time for the company.

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Yes. Yes. And supply and demand are always very tightly correlated in our business. So we have a comment that to the extent that we see supply and demand trends diverge, then we'll go back to providing some level of transparency and supply metrics. But they're in perfect harmony at the moment.

With respect to the guidance, again, I'd just point back to like the quarter-over-quarter cadence. So the flatness is perfectly typical of our business. And notably, we're just getting started with resuming guidance. So you'd have to characterize the -- like our willingness to even put it out means it's high confidence at this point.

Operator

Last question comes from the line of Aaron Kessler from Raymond James.

Aaron Michael Kessler - *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

Maybe first on the gross profit per transaction, kind of the 2022 kind of the target of $100. Should we think of that as kind of a base case, kind of an aspirational case? Or kind of -- and what are the biggest factors? I know you've talked about this number before, but kind of what are the biggest factors in terms of achieving this? And kind of what's the probability weighting that you think we can get around that number by the end of '22?

Matthew Gustke - *The RealReal, Inc. - CFO & Treasurer*

Biggest factors haven't really changed. It's AOV and take rate and their relationship together. So if -- the product of one and the other is -- are essentially our tick dollars per order or per unit. Return rates do come in there, but they've been very stable, lower during COVID, are normalizing. And what's left is predominantly shipping expense, which we have seen substantial leverage and expect to continue seeing leverage over time. Short term, we have -- buyer incentives have been an offset to progress there, but we expect to see those normalize as well. And then the rest of it, you get from scale leveraging certain fixed costs that are in cost of goods. So our confidence of getting there by the end of next year is high.

Aaron Michael Kessler - *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

Got it. And then just quickly on a follow-up. In terms of like going outwear, kind of for dresses, et cetera, are we starting to see the pickup in that? We've seen some mixed data points so far. One of the companies recently said March is a big month in the quarter for more going outwear. Are you starting to see that trend as well?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

Well, apparel is up. It's just not as up as much as fine jewelry, handbag and watches. So apparel has recovered into growth mode, but we are -- the mix has shifted to more high-value items.

Operator

I am showing no further questions at this time. I would now like to turn the conference back to Ms. Julie Wainwright. Ma'am?

Julie Wainwright - *The RealReal, Inc. - Founder, CEO & Chairperson*

So that concludes our Q1. I'm happy to say what a difference a year makes. There's a lot of positive enthusiasm in the employees and the team. We are seeing people excited to shop the site, shop in the stores. We're hoping this continues. And honestly, it's all about getting people vaccinated at this point and the government stopping with their care packages. So we're excited. It looks -- right now, it looks like a totally different view than we had a year ago, and it feels like we're getting back and we're stronger than ever. So thank you for your time, and we appreciate it, and we'll talk again soon.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you all for participating. You may now disconnect.