REAL – Prepared Remarks – Q2’25

REAL CEO Remarks – Q2’25

Thank you, Caitlin - Good afternoon, everyone. I’m pleased to review our second quarter 2025 results. Q2 was a breakout quarter for The RealReal, we demonstrated progress while further validating the success of our strategic roadmap. Our strong Q2 performance was highlighted by 14% top-line growth coupled with Adjusted EBITDA above expectations. These results were driven by our clear strategic vision, innovative mindset, and unique position in a growing category. We are fundamentally changing the way people shop. And we are at a pivotal moment—not just as a company, but as a category leader.

Before diving into the quarter’s highlights, I’ll take a moment to explain more about what “changing the way people shop” means to us. For the past 14 years, we’ve been ahead of the curve—making luxury resale desirable and accessible. Now, the circular economy is on the rise. We are not only leading the cultural shift in luxury resale, we are also helping to define it. Our operating and consumer expertise, and growing brand affinity drives our market leadership.

Our operating and consumer expertise is showcased in our world-class authentication, which has been the cornerstone from day one, creating trust with our customers. Our growth playbook centers on a scalable supply engine, and helps us forge enduring relationships with our sellers. And, our powerful brand attracts customers across the generational spectrum, with 53% of our customers being Millennial and Gen-Z. All of these are underpinned by our data-driven intelligence—from authentication, to pricing, to our smart sales and smart prospects engines - we are leveraging AI to drive efficiency, scalability, and user engagement.

Today’s modern consumer is embracing the circular economy and approaching luxury resale as an option of first resort, not last. Our customers view their closet as an investment that retains value; in fact, 47% of consumers consider the resale value of ready to wear items before making a purchase. The RealReal helps our sellers unlock that value and allows them to reinvest in other pieces, changing the way they shop on multiple fronts: prioritizing uniqueness, circularity, and financial savvy. This quarter's results affirm our strong brand equity and cultural relevance, positioning us for sustained growth, improved profitability, and consistent cash flow.

Looking at the numbers for Q2: we delivered record GMV at $504 million, and record Revenue of $165 million, both up 14% year-over-year. Adjusted EBITDA was $6.8 million, a 4.1% margin, which is a substantial beat versus expectations. This performance was underpinned by record new consignors—double-digit growth for the second quarter in a row and our highest number of new consignors ever. We’re encouraged by this trend, which has continued into Q3, as new consignor growth is a leading indicator for supply. Based on our second quarter results and the momentum we are seeing in the business, we are raising our full-year outlook.

Through strong execution across our strategic pillars of 1) unlocking supply through our growth playbook, 2) driving operational efficiency, and 3) obsessing over service, we are fueling top-line momentum and powering our profitability.

The first pillar, our growth playbook, is focused on three key areas: sales, marketing, and stores. The new sales team compensation plan has been fully implemented and emphasizes 'retail value' rather than simply unit targets. This means we are delivering even more of the goods and brands buyers want.

The key areas of our growth playbook amplify one another to generate supply. Our seasoned sales team has been collaborating with our store team on experiential pop-up events, like a recent event in Newport Beach which unlocked $800,000 of supply, and another at our Chicago store which brought in $500,000 in a single day. These events generate excitement, brand energy, and incremental high-value supply.

We're also making it simpler for those who already know and love us to engage on the platform. Our new Reconsign Program makes it easy for our existing, repeat consignors to add items they've previously bought from us back to their sell list. This provides a seamless, convenient way to re-engage with our platform, creating a circular loop for luxury assets. Reconsign strengthens our supply and is performing well – increasing new opportunities and accelerating the flywheel.

On the supply innovation front, we're progressing with our drop-ship initiative. Building on our success in watches and handbags, we are expanding drop-ship to fine jewelry in Q3. In the back half of this year, we plan to partner with larger luxury good aggregators and international vendors. While still early days, we are confident in drop-ship and its ability to drive incremental supply.

Within the second pillar of driving operational efficiency, AI and Automation are central to our efficiency gains. Our new product intake process, Athena, is now touching approximately 20% of all units, and we are on track to reach 30-40% by end of year. Our next phase will focus on enabling listing automation, enhancing search through AI, and further reducing manual processes. Through our AI and automation efforts we are increasing efficiency and accuracy, reducing processing time, and we are on track to cut multiple dollars from our processing cost per unit over the medium term.

Authentication is a differentiator that sets us apart. We set the industry standard for luxury goods authentication and we continue to raise the bar. We actively collaborate with law enforcement and government agencies to address the issue of counterfeiting within luxury. Since our inception, we've kept over one-quarter of a million fakes off the market. With proprietary technology like Vision, Shield, and now Athena, we are the definitive authority on what is REAL as we combine our extensive data, AI capabilities, and authentication expertise. Going forward, we believe Athena will continue to elevate our authentication process, in particular driving speed and efficiency while reinforcing the rigorous accuracy that defines our approach.

Touching briefly on our third strategic pillar, Obsessing Over Service…

Innovation is key as we elevate both the seller and buyer journeys on our platform. During Q2, we made a number of enhancements to our consignor page, all aimed at improving transparency in the consignment process and reinforcing trust with our sellers. Furthermore, in July, we launched a new Price History Feed, which is currently in a phased rollout. This provides consignors with simple, timely, and actionable insights to maximize their earnings. We are also building toward an extension of our platform called My Closet, a digital catalog of luxury items allowing sellers to keep up on market insights, and luxury managers to give proactive consignment recommendations.

On the buyer side, we are working to elevate the shopping journey. In the coming quarters, we look forward to releasing features like visual and conversational search powered by AI to make it effortless for buyers to discover items they love. Our relentless focus on innovation will help us continue to meet and anticipate the evolving needs of our discerning customers.

In closing, there is a rising tide in luxury resale that we've helped to pioneer. Now we're capitalizing on it, and accelerating it. Resale is the smart choice for a luxury-minded consumer, and price increases in the primary market, due to tariffs or other factors, make our value proposition even more compelling. Our business is fueled by the vast pool of luxury items currently sitting in domestic closets—a large and growing TAM of over $200 billion that our growth playbook is designed to effectively tap into.

Our disciplined approach to operational execution in unlocking supply, driving efficiency, and obsessing over service creates a powerful flywheel that fuels our growth. We lead with vision, authenticity, and a relentless commitment to excellence.

The market is ready. The customer is ready. And we are more ready than ever to embrace the moment and define the next era of luxury resale.

With that, I'll turn the call over to Ajay.

REAL CFO Remarks – Q2'25

Thank you, Rati.

Good afternoon, everyone. I'm pleased to report our financial results for Q2 2025, which demonstrate the disciplined execution and the effectiveness of our strategy to drive profitable growth. This past quarter, we delivered our highest ever quarterly GMV, Revenue and New Consignors. Our results reflect strong performance across the board and validate the strategic investments we're making, positioning us for continued momentum in both growth and efficiency.

Now turning to our detailed second quarter results, beginning with the topline…

Q2 GMV of $504M increased 14% compared to last year. This growth was driven primarily by healthy supply, which led to strong growth in units and to a lesser extent, from mixing into higher value items. Our active buyer base also expanded, increasing 6% on a trailing 12-month basis to exceed 1 million active buyers.

Q2 revenue of $165M increased 14% year-over-year. Consignment Revenue grew 14% year-over-year while Direct Revenue increased 23% compared to Q2 of 2024 and represented 12% of total revenue in the quarter.

Continuing with our second quarter results…

Second quarter Gross Profit of $123M increased 14% year-over-year. Gross Margin was 74.3% in the quarter, an increase of 20 basis points compared to the prior year. In the second quarter, consignment gross margin was 89.3%, an improvement of 93 basis points year-over-year. Direct gross margin was 16.2% in the second quarter, within our previously communicated range of 15%-25%. Direct gross margin fluctuates quarterly largely based on the category mix of products sold. For instance, in a quarter when we sell more watches at high price points, direct gross margin may be lower than in a quarter with a higher mix of handbags. Overall, we are pleased with the stability and continued improvement in total gross margin.

Second quarter Operating Expenses of $133M improved 690 basis points year-over-year as a percent of revenue. Excluding stock-based compensation, operating expenses leveraged by 660 basis points driven by productivity from our sales team, leverage on our fixed costs, and gains from AI and automation in our authentication center operations.

Second quarter Adjusted EBITDA of $6.8M, or 4.1% of Total Revenue, increased $8.6M versus the prior year. Adjusted EBITDA margins increased 530 basis points year-over-year. Year-to-date Adjusted EBITDA margin of 3.4%, increased 475 basis points versus prior year primarily due to operating expense leverage. We are pleased with the progress we are making in our productivity efforts and expect operating expenses to continue to be a source of leverage moving forward.

We are encouraged by our continued progress towards achieving sustained positive Free Cash Flow and strengthening our balance sheet.

We ended the quarter with $109 million in cash, cash equivalents, and restricted cash. Our Operating Cash Flow in the second quarter was negative $4 million, a $3 million improvement year-over-year and a $25 million improvement quarter-over-quarter.

In Q2, actions related to strengthening the balance sheet were the primary drivers of the change in cash balance. During the quarter, we reduced our total debt by $27 million as we paid off the remaining balance of our 2025 convertible notes. Since the beginning of 2024, we have reduced our total debt by $80 million. We have also rebalanced our debt maturity cycle and strengthened the balance sheet. Our next maturity isn't until 2028.

Capital Expenditures on property, plant, and equipment for the quarter were $8 million, due to the timing of planned investments to upgrade and densify our authentication centers. We continue to anticipate full-year Cap Ex PP&E to remain within 2-3% of total revenue.

Looking ahead, we expect to generate strong positive Free Cash Flows in Q3 and Q4. Similar to last year, we expect Free Cash Flows to outpace AEBITDA in the second half, demonstrating our business model's favorable cash dynamics as we grow.

Turning to our P&L outlook for the remainder of the year…

We are increasing our full-year guidance demonstrating our confidence in the trajectory and strategy of the business. We now expect full year GMV in the range of $2.030 to $2.045 billion for the year, up 11% year-over-year at the midpoint of our guidance range. We expect Revenue in the range of $667M to $674M, up 12% year-over-year at the midpoint of our guidance.

And - We now expect Adjusted EBITDA in the range of $29 to $32M, with margin expansion driven by top line growth and operating expense leverage.

Moving to our outlook for the third quarter…

GMV is expected in the range of $495M to $502M which represents 15% growth compared to the prior year at the midpoint of our guidance range.

Third quarter Revenue is expected in the range of $167 to $170M. This reflects 14% growth compared to last year at the midpoint of our guidance range. We continue to expect direct revenue to remain in the range of 10-15% of total revenue.

Third quarter Adjusted EBITDA is expected to be between $6.1 and $7.1M, approximately 3.9% of total revenue and over 230 basis points of margin expansion year-over-year at the midpoint of our range.

In closing, our second quarter financial results show the effectiveness of our disciplined approach to unlocking supply, driving efficiency, and obsessing over service. Record GMV and revenue, coupled with our improved profitability is stemming from the powerful flywheel effect we've created.

Through our growth playbook, we are confident in our ability to continue driving profitable supply. Additionally, our investment in AI and automation is already yielding efficiency gains and improved unit economics, with more to come. The momentum in our business and our outlook for 2025 signals confidence in our ability to capitalize on the increasing consumer interest in luxury resale. We are poised for sustained growth, improved profitability, and consistent cash flow, while defining the next era of luxury resale.

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

Operator?