

Revolve

Elevated return rates pressure profitability amid continued macro pressures

Reiterate Rating: UNDERPERFORM | PO: 10.50 USD | Price: 13.50 USD

Sales down LSD QTD with harder comps ahead

We reiterate our Underperform rating as we expect continued sales weakness and elevated return rates to pressure profitability. RVLV reported 3Q adj. EPS of \$0.11 in line with our \$0.11 estimate, excluding accruals from a pending legal matter of 7c. Sales declined 4% to \$257.6mn beating our/Visible Alpha ests of \$253.5/\$254.3mn respectively, while operating costs missed despite not hosting Gallery at NYFW this year. QTD trends are down LSD in October, though comps get harder for Nov/Dec. We continue to model 4Q sales -6%, but lower our 4QE EPS est by 3c to 4c to reflect elevated return rates. We are lowering our F23/F24E EPS ests by 8%/3% to \$0.44/\$0.56 respectively, and our PO by 9% to \$10.50, which reflects 8x our F24 EV/EBITDA (was 9x) on greater sales challenges on a high-cost model.

FWRD inventory to take until end of 1Q to optimize

Sales declined 4% in the quarter, led by -14% at FWRD, and -2% at REVOLVE. Mgmt expects inventory rebalancing at FWRD to take more than two quarters to optimize, given weakness in luxury demand and markdown restrictions on luxury. We are modeling 4Q sales down 4% at REVOLVE and down 16% at FWRD.

Expect return rates to remain elevated at all time high

Return rates remained elevated at 60% in 3Q, in line with 2Q's record level vs RVLV's historical 45-44% avg. We think this indicates deterioration in the underlying consumer appetite for apparel, as return rates should have sequentially improved from lower dress mix in 3Q, and the new DD growth in Beauty (a MSD returns category) should have further offset. Mgmt outlined initiatives such as virtual try-on technology to reduce return rates (2/3 of returns caused by mis-sizing), but we expect the technology to be costly to implement for apparel (vs accessories) and require longer to take effect. We are modeling elevated return rates of 60% through 1Q to reflect continued macro pressure on consumer purchasing patterns.

Beauty a bright spot and longer term strategic focus

Beauty was a bright spot amid the slowdown in apparel and luxury. While still just 4% of sales (up from 3% LY), mgmt sees potential for the category to become 15-20% of sales longer term. Although ASPs and gross margins are dilutive in beauty, return rates are also significantly lower, leading to a contribution margin comparable to company avgs.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.38	0.79	0.44	0.56	0.82
EPS Change (YoY)	66.3%	-42.8%	-44.3%	27.3%	46.4%
Consensus EPS (Bloomberg)			0.47	0.63	0.91
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	9.8x	17.1x	30.7x	24.1x	16.5x
GAAP P/E	9.8x	17.1x	30.7x	24.1x	16.5x
EV / EBITDA*	6.4x	9.1x	19.4x	12.8x	9.1x
Free Cash Flow Yield*	6.0%	1.8%	3.7%	1.2%	3.6%

* For full definitions of */QmethodSM* measures, see page 5.

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Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	11.50	10.50
2023E Rev (m)	1,049.3	1,053.6
2024E Rev (m)	1,079.7	1,083.0
2025E Rev (m)	1,166.7	1,226.9
2023E EPS	0.48	0.44
2024E EPS	0.58	0.56
2025E EPS	0.88	0.82

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Stock Data

Price	13.50 USD
Price Objective	10.50 USD
Date Established	2-Nov-2023
Investment Opinion	C-3-9
52-Week Range	12.25 USD - 32.59 USD
Mrkt Val (mn) / Shares Out (mn)	1,010 USD / 74.8
Average Daily Value (mn)	16.26 USD
BofA Ticker / Exchange	RVLV / NYS
Bloomberg / Reuters	RVLV US / RVLV.N
ROE (2023E)	8.4%
Net Dbt to Eqty (Dec-2022A)	-61.8%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

QTD: quarter to date

DD: double digits

LSD: low single digit

MSD: mid single digit

ASP: average selling price

NYFW: New York Fashion Week

iQprofileSM Revolve

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	37.8%	16.0%	5.7%	9.5%	13.3%
Return on Equity	39.9%	16.9%	8.4%	10.0%	13.8%
Operating Margin	12.2%	6.6%	2.8%	4.6%	5.8%
Free Cash Flow	60	18	38	12	37

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.6x	0.4x	1.3x	0.5x	0.8x
Asset Replacement Ratio	0.5x	1.1x	1.0x	1.5x	1.3x
Tax Rate	4.5%	23.4%	25.2%	25.0%	25.0%
Net Debt-to-Equity Ratio	-68.9%	-61.8%	-64.4%	-57.9%	-57.7%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	891	1,101	1,054	1,083	1,227
% Change	53.5%	23.6%	-4.3%	2.8%	13.3%
Gross Profit	490	592	546	570	653
% Change	60.5%	20.9%	-7.9%	4.5%	14.4%
EBITDA	119	84	39	59	83
% Change	63.7%	-29.5%	-53.2%	51.0%	40.6%
Net Interest & Other Income	(1)	3	13	2	2
Net Income (Adjusted)	103	59	32	39	55
% Change	71.7%	-43.1%	-45.3%	20.5%	42.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	100	59	26	31	46
Depreciation & Amortization	5	5	5	6	7
Change in Working Capital	(42)	(40)	7	(20)	(12)
Deferred Taxation Charge	(5)	(6)	0	0	0
Other Adjustments, Net	5	6	5	4	4
Capital Expenditure	(2)	(5)	(5)	(9)	(10)
Free Cash Flow	60	18	38	12	37
% Change	-15.9%	-69.6%	105.6%	-68.9%	215.0%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	218	235	250	222	239
Trade Receivables	5	5	5	4	4
Other Current Assets	217	278	274	297	329
Property, Plant & Equipment	9	9	9	12	14
Other Non-Current Assets	25	29	30	30	30
Total Assets	474	556	568	565	616
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	156	175	176	178	198
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	156	175	176	178	198
Total Equity	317	380	388	383	414
Total Equity & Liabilities	473	555	564	561	612

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Internet/e-Commerce

Company Description

REVOLVE Group, Inc. is an eCommerce fashion retailer focused on Millennial and Generation Z consumers. The Company mainly markets and sells women's designer apparel, footwear, accessories and beauty styles through two differentiated segments, REVOLVE and FORWARD. The company generates high relative average order values (AOVs) versus peers, with close to 80% of its total net sales in the US.

Investment Rationale

Our rating on REVOLVE is Underperform. We continue to view it as a long-term structural winner, but we now expect medium-term macro factors to pressure sales. The multiple has compressed significantly from 2021 highs but remains expensive versus peers, and we do not expect it to maintain this multiple as we view sales deceleration imminent. We see risk of downward estimate revision consensus.

Stock Data

Average Daily Volume 1,204,780

Quarterly Earnings Estimates

	2022	2023
Q1	0.30A	0.19A
Q2	0.22A	0.10A
Q3	0.16A	0.11A
Q4	0.11A	0.04E



Exhibit 1: RVLV Income Statement

RVLV reported 3Q adj. EPS of \$0.11 in line with our \$0.11 estimate, excluding accruals from a pending legal matter of 7c.

Revolve	1Q 22	2Q 22	3Q 22	4Q 22	FY 2022	1Q 23	2Q 23	3Q 23	4Q 23E	FY 2023E	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E
Income Statement (\$ Thousands except AOV)	Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec	
Revolve Revenue	237,740	244,729	222,069	217,138	921,676	231,653	235,149	217,698	208,452	892,952	220,502	243,314	236,645	235,977	936,437
Forward Revenue	45,758	45,325	46,642	42,015	179,740	47,956	38,580	39,905	34,157	160,598	40,055	34,445	38,226	33,815	146,541
Net Sales	283,498	290,054	268,711	259,153	1,101,416	279,609	273,729	257,603	242,609	1,053,550	260,557	277,759	274,870	269,792	1,082,978
Cost of Sales	129,087	127,812	126,329	125,865	509,093	140,389	126,031	124,371	116,941	507,732	128,088	126,396	130,444	127,667	512,595
Gross Profit	154,411	162,242	142,382	133,288	592,323	139,220	147,698	133,232	125,668	545,818	132,469	151,362	144,427	142,125	570,383
Fulfillment	7,290	7,910	8,072	8,532	31,804	9,071	9,401	9,185	9,200	36,857	7,150	8,706	9,251	9,692	34,799
Selling and Distribution	46,586	51,967	46,477	45,389	190,419	51,458	50,893	48,925	43,120	194,396	51,458	50,893	48,925	43,120	194,396
Marketing	45,250	51,921	44,584	39,893	181,648	38,343	51,497	39,581	40,691	170,112	35,730	51,497	44,331	43,215	174,773
General and Administrative	26,835	31,164	28,498	28,815	115,312	28,092	28,552	28,578	29,740	114,962	27,135	28,762	29,536	31,406	116,839
Operating Income	28,450	19,280	14,751	10,659	73,140	12,256	7,355	6,963	2,917	29,491	10,996	11,504	12,384	14,692	49,576
Other expenses (income), net	(516)	(1,813)	(1,440)	293	(3,476)	(6,585)	(2,381)	(3,984)	(500)	(13,450)	(500)	(500)	(500)	(500)	(2,000)
Pre-tax Income	28,966	21,093	16,191	10,366	76,616	18,841	9,736	10,947	3,417	42,941	11,496	12,004	12,884	15,192	51,576
Taxes	6,398	4,820	4,203	2,498	17,919	4,669	2,433	2,871	854	10,828	2,874	3,001	3,221	3,798	12,894
Tax Rate	22.1%	22.9%	26.0%	24.1%	23.4%	24.8%	25.0%	26.2%	25.0%	25.2%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	22,568	16,273	11,988	7,868	58,697	14,172	7,303	8,076	2,563	32,114	8,622	9,003	9,663	11,394	38,682
Earnings per Share	\$0.30	\$0.22	\$0.16	\$0.11	\$0.79	\$0.19	\$0.10	\$0.11	\$0.04	\$0.44	\$0.12	\$0.13	\$0.14	\$0.17	\$0.56
Basic shares outstanding (wtd. Avg)	73,264	73,312	73,328	73,349	73,349	73,370	73,442	73,262	73,262	73,262	73,262	73,262	73,262	73,262	73,262
Diluted shares outstanding (wtd. Avg)	74,803	74,635	74,354	74,286	74,286	74,379	74,081	73,716	72,764	72,764	71,811	70,859	69,906	68,954	68,954
EBITDA (adj)	31,5430	26,8780	17,6760	13,3830	83,793	15,0100	10,3770	9,318.6	4,834.4	39,224	13,120.6	14,228.5	15,098.0	17,059.7	59,507
EBITDA margin	11.1%	9.3%	6.6%	5.2%	7.6%	5.4%	3.8%	3.6%	2.0%	3.7%	5.0%	5.1%	5.5%	6.3%	5.5%
Margins															
Gross profit margin	54.5%	55.9%	53.0%	51.4%	53.8%	49.8%	54.0%	51.7%	51.8%	51.8%	50.8%	54.5%	52.5%	52.7%	52.7%
bp change y/y	44	29	(211)	(339)	(117)	(468)	(198)	(127)	37	(197)	105	54	82	88	86
Operating Expenses (Total)	44.4%	49.3%	47.5%	47.3%	47.4%	45.4%	51.3%	49.0%	50.6%	48.8%	46.6%	50.4%	48.0%	47.2%	47.9%
bp change y/y	280	906	27	582	461	98	198	152	328	139	121	(92)	(98)	(336)	(89)
Fulfillment (as % of revenue)	2.6%	2.7%	3.0%	3.3%	2.9%	3.2%	3.4%	3.6%	3.8%	3.5%	2.7%	3.1%	3.4%	3.6%	3.2%
bp change y/y	13	40	64	84	50	67	71	56	50	61	(50)	(30)	(20)	(20)	(29)
Selling and Distribution (as % of revenue)	16.4%	17.9%	17.3%	17.5%	17.3%	18.4%	18.6%	19.0%	17.8%	18.5%	19.7%	18.3%	17.8%	16.0%	18.0%
bp change y/y	247	386	158	165	231	197	68	170	26	116	135	(27)	(119)	(179)	(50)
% change y/y	18%	27%	10%	10%	15%	12%	4%	10%	-5%	7%	0%	0%	0%	0%	-3%
per order	21.6	23.2	23.8	23.2	22.9	22.6	22.4	22.9	20.5	22.1	21.6	21.5	21.7	19.8	21.2
Marketing (as % of revenue)	16.0%	17.9%	16.6%	15.4%	16.5%	13.7%	18.8%	15.4%	16.8%	16.1%	13.7%	18.5%	16.1%	16.0%	16.1%
bp change y/y	130	265	(265)	191	74	(225)	91	(123)	138	(35)	0	(27)	76	(75)	(1)
% change y/y	73%	49%	-5%	23%	5%	-15%	-1%	-11.2%	2%	-2%	-7%	0%	12%	6%	0%
General and Administrative (as % of revenue)	9.5%	10.7%	10.6%	11.1%	10.7%	10.0%	10.4%	11.1%	12.3%	10.7%	10.4%	10.4%	10.7%	11.6%	10.6%
bp change y/y	(110)	215	70	141	106	58	(31)	49	114	(4)	37	(8)	(35)	(62)	(9)
% change y/y	-10%	25%	7%	15%	10%	6%	-3%	5%	3%	0%	-3%	1%	3%	6%	-1%
EBITDA Margin	11.1%	9.3%	6.6%	5.2%	7.6%	5.4%	3.8%	3.6%	2.0%	3.7%	5.0%	5.1%	5.5%	6.3%	5.5%
bp change y/y	(247)	(766)	(230)	(909)	(573)	(576)	(548)	(296)	(317)	(388)	(33)	133	188	433	177
% change y/y															
Sales	58%	27%	10%	8%	24%	-1%	-6%	-4%	-6%	-4%	-7%	1%	7%	11%	3%
Revolve Sales	56%	30%	9%	9%	24%	-3%	-4%	-2%	-4%	-4%	-5%	3%	9%	13%	5%
Forward sales	71%	14%	17%	5%	23%	5%	-15%	-14%	-19%	-11%	-16%	-11%	-4%	-1%	-9%

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH

Price objective basis & risk

Revolve (RVLV)

Our \$10.50 price objective is based on 8x F24E EV/EBITDA, in line with a group of digitally native peers.

Upside risks: Results could hold up better in the near term than other retailers given its primarily fashion offering (versus casual) and higher-end demographic focus, estimate cuts could be greeted with a surge in the stock as the worst is behind, or the macro climate could fare better than we expect, paving the way for better sales growth than we are modeling.

Downside risks: the consumer could pull back faster than we expect due to inflation, pandemic-recovery margin gains may unwind through higher promotional activity, execution on the ramp of owned brand penetration, and shifts in the broader consumer trends away from products in categories Revolve offers.

Analyst Certification

I, Alice Xiao, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	American Eagle	AEO	AEO US	Christopher Nardone
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Macy's	M	M US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

IQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of **IQmethod** are: A consistently structured, detailed, and transparent methodology; Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

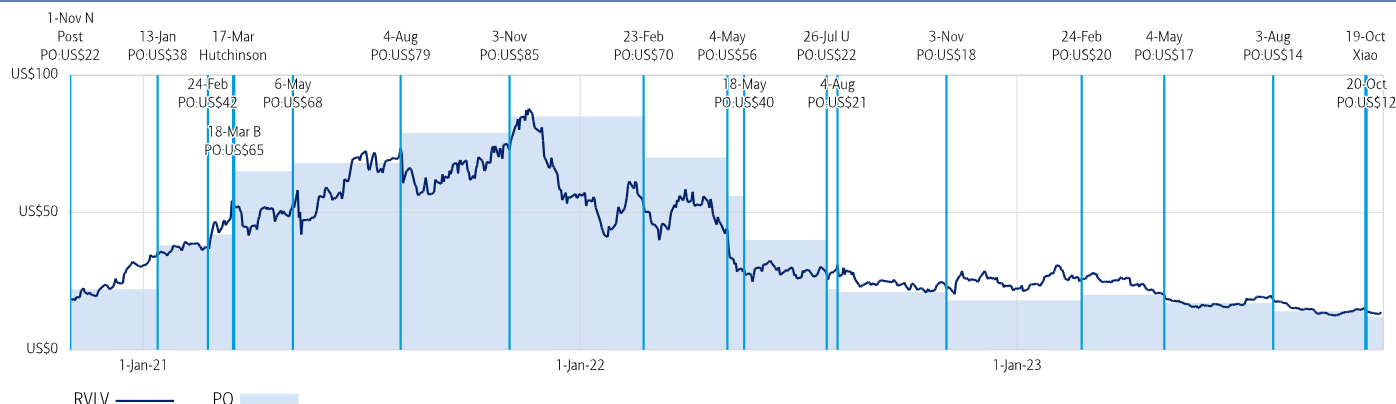
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Disclosures

Important Disclosures

Revolve (RVLV) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	204	51.52%	Buy	104	50.98%
Hold	95	23.99%	Hold	45	47.37%
Sell	97	24.49%	Sell	27	27.84%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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