



# The RealReal

## THE REALREAL – THE RESALE FASHION DISRUPTER

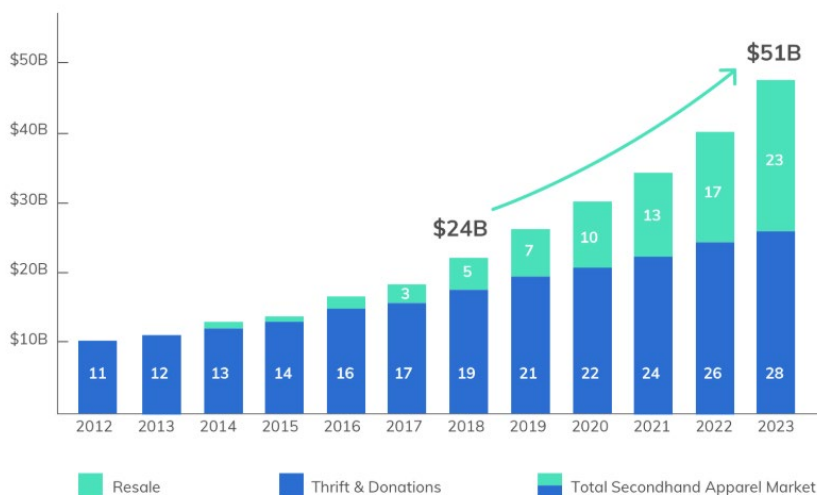
The RealReal (REAL.O, Market Capitalisation US\$ 1.23B)<sup>1</sup> is one of the largest online marketplaces for consigned luxury goods which we believe is well positioned to benefit from the favourable tailwinds in the Resale Industry.

Founded in 2011 by Julie Wainwright working from her kitchen table, The RealReal has revolutionised the business of luxury resale into a dynamic, global movement supporting the circular economy. From humble beginnings, The RealReal today has over 1,700 employees, and 14 million members worldwide, of which 543,000 are active buyers (as at 4 November 2019).

### The Future of Fashion is Circular

Driven by an increasing requirement for sustainability, environmentally conscious fashion consumers want to give products additional life by increasing the average number of times clothing is worn. The growing circular economy of fashion helps to solve the problem, and The RealReal is leading the way. With an efficient consignment system targeted at making the consigners experience hassle free, the company offers: direct shipping; in-home pickup; and in-store drop off. The RealReal provides a platform for its consigners to cash in on the unwanted ‘treasure’ in their closet. The market for second-hand fashion is expected to grow to ~\$51B by 2023<sup>2</sup>, and we believe The RealReal is positioned to reap the benefits of being an established player in the market.

### Total Second-Hand Apparel Market to Double in 5 Years with Resale Driving the Growth



Source: ThredUp

### Affordable Luxury

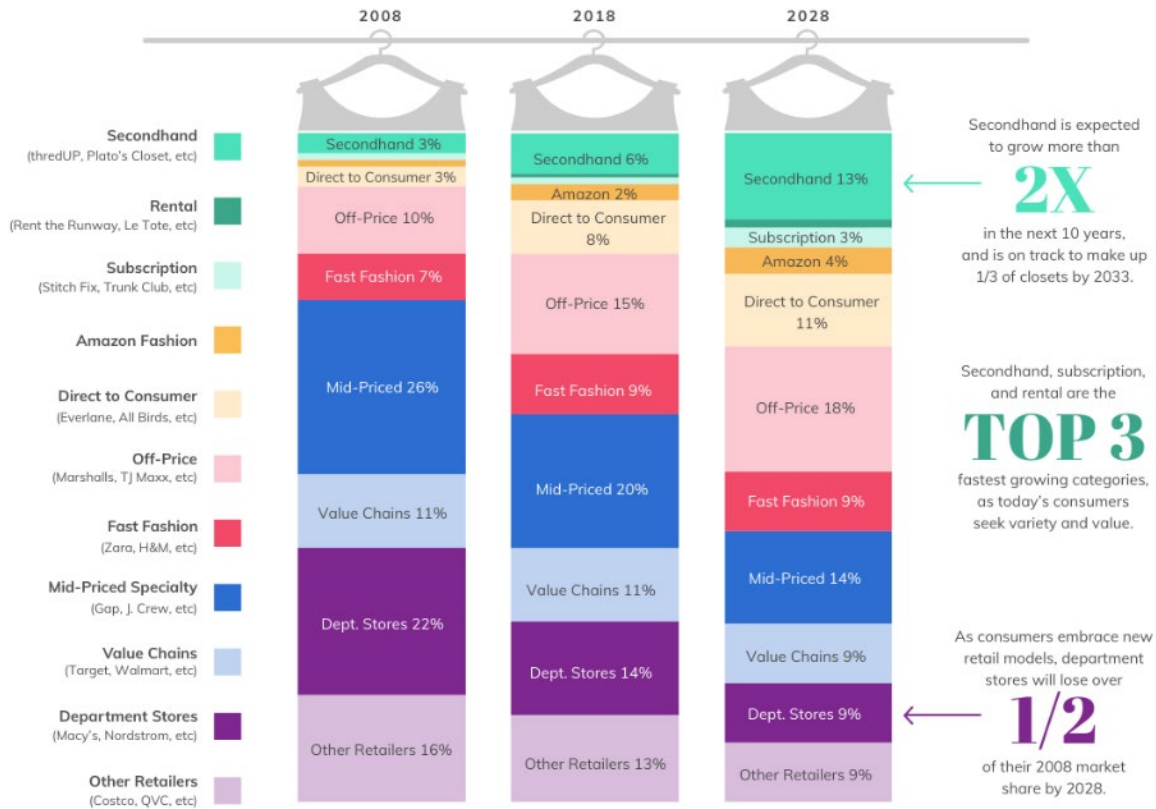
The RealReal offers over 5,500 high-end designers including, Gucci, Louis Vuitton, Chanel, Prada, and Rolex. The company is not only providing extended useful life for clothing, but also allows luxury brands to be affordable by disrupting the resale market previously dominated by eBay and brick-and-mortar establishments, The RealReal has transported an old and inefficient business model into the digital age, buying luxury has never been so attainable.

*“Industry insiders, like Ms. Wainwright, are adamant that resale sites can coexist peacefully with luxury brands, and even serve to bolster the luxury market by giving consumers a more affordable entry point to luxury goods [...]”*

*The New York Times – 9 April 2019*



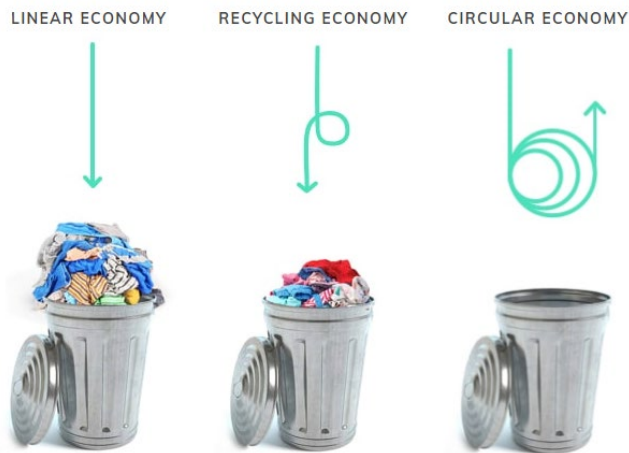
### Meet the Closet of the Future<sup>3</sup>



Source: ThredUp

### Leading the Way in Making Luxury Sustainable

In order to secure their future in the market, fashion players must address increasing consumer concerns over sustainability.<sup>4</sup> Failure to do so may cause a loss in brand affinity as 59% of consumers expect retailers to create clothes ethically and sustainably<sup>5</sup>. Changes in consumer behaviour has attracted consumers to companies who champion sustainability, enter The RealReal. Since 2011, The company has saved 12,200 metric tons of carbon and 553 million litres of water and will help to save more as the circular economy of fashion becomes prevalent. The proportion of consumers now preferring brands who are environmentally conscious is growing<sup>6</sup>, and as consumers consciously decreases their carbon footprint, the resale industry will experience growth.



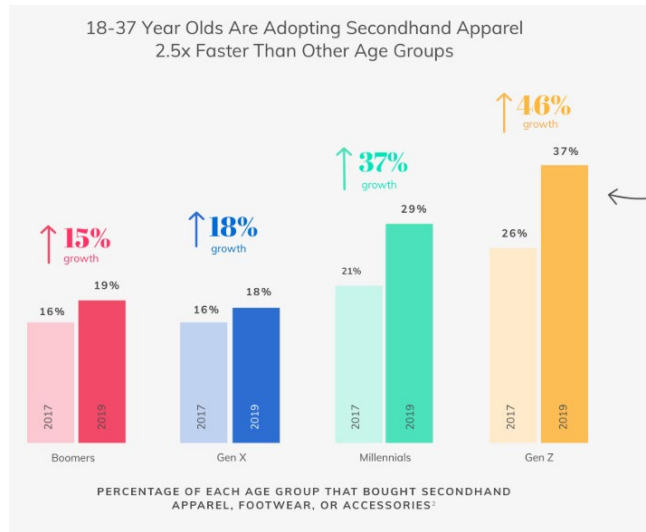
Source: ThredUp



### Millennials and Gen Zs Driving Demand

Millennials have become the world’s most powerful consumer group<sup>7</sup> and together with Gen-Z, are adopting second-hand apparel 2.5x faster than other age groups. Millennials & Gen-Z’s fashion requirement is changing as the prominence of social media increases, social pressures to stay in ‘fashion’ contribute to rapid wardrobe turnover. There are several market drivers turning the younger generations toward resale:

- Saving money;
- Buying sustainable;
- Buying unique;
- Buying brands which are otherwise too expensive<sup>8</sup>.



More than **1 in 3** Gen Zers will buy secondhand in 2019.



Source: ThredUp

### Growing Online and Retail Presence

While dominating the online marketplace is still the priority for resale companies, having physical stores comes with benefits:

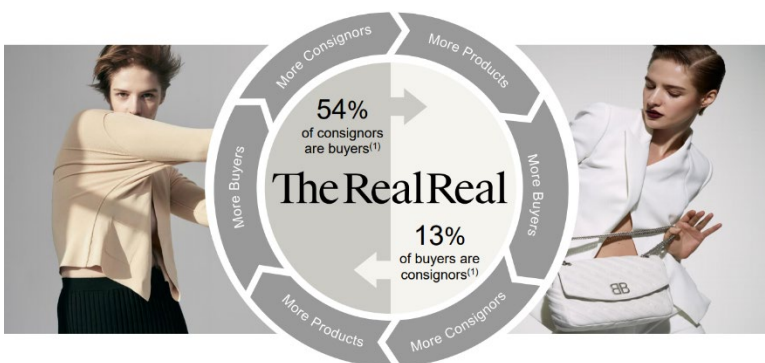
- Enhances inventory acquisition;
- Exposes foot traffic / consumers to the opportunity of consignment;
- Improves brand awareness<sup>9</sup>;

With three stores in New York, Chicago, Los Angeles and San Francisco, The RealReal has noticed that areas containing a store have experienced accelerated growth with customers and consignors buying and selling 40% more than they were before, as well as average order volume (AOV) being 2x larger in-store than online<sup>10</sup>. The RealReal reports that more physical stores are in their plans, with a long-term vision of opening a superstore in a major metropolitan area.

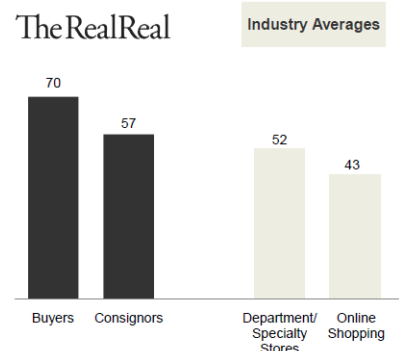
*“If you look at the tens of billions spent on apparel every year, people recognize that a large percentage of consumers want to get something at a fair price, [...]. There is plenty of demand for high-quality secondhand clothes.”*  
Wall Street Journal – 27 June 2019

### The RealReal’s Flywheel Effect

The company’s unique flywheel effect has been set in motion, where buyers become consignors and consignors become buyers. This effect will enable the company to generate sales inertia and attract new buyers, as the cyclical nature of the model results in high repeat customers. The company achieved a Net Promoter Score (see below) which compares favourably with best-in-class consumer companies (Apple NPS: 68, Costco NPS: 74). This high result indicates an elevated level of customer loyalty, and as fashion becomes circular, the RealReal’s flywheel will increasingly generate revenue.



### Net Promoter Score (NPS)





### Major Investments Complete, Focus is now on Generating Cash

The hard part is largely over. The brand is an accepted platform for buying and selling pre-owned luxury goods, with upwards of \$710 million of goods sold through the site in 2018<sup>11</sup>, and there's plenty of room to grow. A survey from Boston Consulting Group found that 60% of all luxury consumers would consider buying second hand<sup>12</sup>. Major cost drivers for the company include customer acquisition, operations and technology. Significant one-off costs in 2019 included developing proprietary technology that can identify price, and recommend and sell the most desirable items at the optimal time; authenticating goods; fulfilling orders in a manner you would expect from a luxury service; acquiring leases and developing sites for its growing network of showrooms and stores<sup>13</sup>. Growth strategies for The RealReal include partnering with luxury brands, thus becoming an authorised reseller would be the holy grail to unlocking potential. Having recently signed partnerships with Stella McCartney and Burberry, The RealReal is improving its reputation as it seeks to become synonymous with luxury resale; the company is also currently undergoing an expansion of product lines, especially into higher-priced categories i.e. jewellery, home and art<sup>14</sup>, where takings are significantly higher.



### Summary

Sustainability is a growing concern for businesses in all industries, especially in fashion. Consumers are increasingly concerned with the unsustainable practices that have plagued the industry for decades. The RealReal has sought to disrupt the industry by offering products a second life. With an innovative business model, the company seeks to capture a continual stream of hidden value from your wardrobe using their unique flywheel. As an online reseller, we believe The RealReal's early position in the growing resale market will result in attractive returns for those with patience to hold this stock over the long-term.

*"[...] [Stella] McCartney became an official partner of The RealReal last year [...] 'It's the biggest compliment for your product to have an afterlife—to me, that's luxury.'"*

*Vogue - 15 February 2019*



Any information not referenced was sourced from TheRealReals website which can be accessed at this link:

<https://www.therealreal.com/>

Quotes can be accessed at the following links:

NYT: <https://www.nytimes.com/2019/04/09/fashion/hermes-birkin-resale-secondary-market.html>

WSJ: <https://www.wsj.com/articles/a-second-act-for-realreals-ceo-11561649869>

Vogue: <https://www.vogue.com/article/stella-mccartney-sustainable-fashion-leather-conversation>

<sup>1</sup> Thomson Reuters Eikon as at 11 February 2020, Share Price was US\$ 14.50

<sup>2</sup> Raymond James & Associates. *Rise of the Fashion Resale Marketplaces*. Accessed at this link:

<https://raymondjames.bluematrix.com/sellside/EmailDocViewer?encrypt=57867c4c-320a-4cf0-9ec4-a3d28cd9bd81&mime=pdf&co=raymondjames&id=aaron.kessler@raymondjames.com&source=mail>

<sup>3</sup> TheRedUP. *2019 Resale Report*. Accessed at this link:

<https://www.thredup.com/resale>

<sup>3</sup> BOF Team, Mckinsey & Company. *The Year Ahead: End of Ownership*. Accessed at this link:

<https://www.businessoffashion.com/articles/intelligence/the-year-ahead-end-of-ownership>

<sup>4</sup> BOF Team, Mckinsey & Company. *The State of Fashion 2020*. Accessed at this link:

<https://www.mckinsey.com/~media/McKinsey/Industries/Retail/Our%20Insights/The%20state%20of%20fashion%202020%20Navigating%20uncertainty/The-State-of-Fashion-2020-vF.ashx>

<sup>5</sup> See footnote 3.

<sup>6</sup> See footnote 3.

<sup>7</sup> Consumer Clarity. *How Millennials Became the World's Most Powerful Consumers*. Accessed at this link:

<https://consumerclarity.com/how-millennials-became-the-worlds-most-powerful-consumers/>

<sup>8</sup> See footnote 2.

<sup>9</sup> See footnote 2.

<sup>10</sup> See footnote 2.

<sup>11</sup> Mcdowell, M. Arnett, G. *Charting The RealReal's Path to Profitability*. Vogue Business. Accessed at this link:

<https://www.voguebusiness.com/companies/the-real-real-ipo-sales-luxury-resale>

<sup>12</sup> See footnote 11.

<sup>13</sup> See footnote 11.

<sup>14</sup> See footnote 11.

*This summary report was written in February 2020.*

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