

WESTPEAK RESEARCH ASSOCIATION

Revolve Group, Inc. (NYSE: RVLV)

Consumer Cyclical - Internet Retail

A Forward-looking Fashion Empire?

Revolve Group, Inc. is the next-generation fashion retailer for Millennial and Generation Z consumers, with two reportable segments, REVOLVE and FWRD, each offering diverse products available for sale to customers through their respective websites. REVOLVE offers a broad assortment of premium apparel, footwear, accessories, and beauty products while FWRD offers a curated assortment of emerging luxury brands.

Thesis

The shift of customer preference away from mass-market brands in favor of micro labels and special pieces will support Revolve's owned brand strategy that offers exclusive products only on REVOLVE and FRWD websites. Through the data-driven merchandising model, Revolve precisely identifies fashion trends and changes in customer needs. The combination of the data-driven model & owned brand strategy will help Revolve build a sustainable competitive advantage in the e-commerce and retail industry. Besides, the future entry into the Web3 mobile gaming market will enhance Revolve's transformative, data-led image in e-commerce and attract more millennial customers.

Drivers

One crucial driver for Revolve is increasing consumer spending in Asia, which is backed by rising GDP, considerable e-commerce market size and growth rate, and high adoption of technology. The rising consumer disposable income in the Asian market will bring Revolve a new opportunity to expand its customer base and brand awareness outside of the North American and European markets.

Valuation

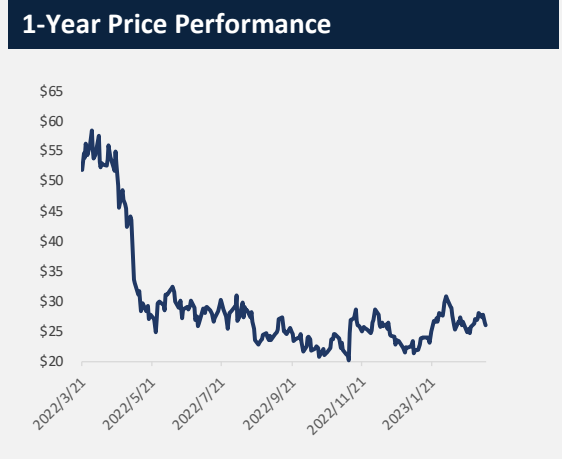
We recommend a **BUY** rating for Revolve. The target price is \$29.45 based on our Perpetuity Growth Multiple and our Terminal Exit Multiple from our Discounted Cash Flow Analysis, weighed at 70%, and our Comparable Companies Analysis, weighed at 30%, with the implied upside of 20.5%

Analyst: Liyun Sun, BCom. '24
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Equity Research		US
Price Target		USD\$ 29.47
Rating		Buy
Share Price (March. 20, Close)		USD\$ 24.45
Total Return		20.5%

Key Statistics	
52 Week H/L	\$63.92/\$20.17
Market Capitalization	\$1.76B
Average Daily Trading Volume	1.38M
Net Debt	\$25.80M
Enterprise Value	\$2.09B
Net Debt/EBITDA	0.31x
Diluted Shares Outstanding	73.30M
Free Float	99.36%
Dividend Yield	N/A

WestPeak's Forecast			
	2023E	2024E	2025E
Revenue	\$1.33B	\$1.67B	\$2.13B
EBITDA	\$109M	\$145M	\$186M
Net Income	\$89M	\$119M	\$153M
EPS	\$1.21	\$1.62	\$2.09
P/E	20.6x	15.3x	11.9x
EV/EBITDA	13.5x	9.5x	6.8x



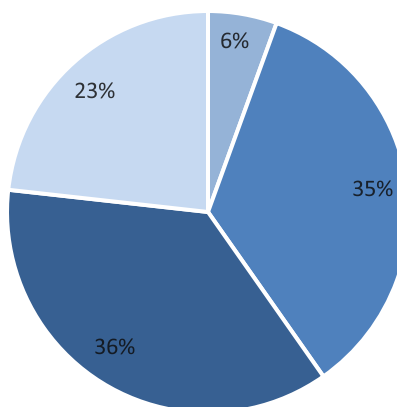
Business Overview/Fundamentals

Company Overview

Revolve Group, Inc. is the next-generation fashion retailer for Millennial and Generation Z consumers, with two reportable segments, REVOLVE and FWRD, each offering diverse products available for sale to customers through their respective websites. However, REVOLVE offers a broad assortment of premium apparel, footwear, accessories, and beauty products while FWRD offers a curated assortment of emerging luxury brands. Founded in 2003, Revolve Group aims to leverage digital channels and technology to transform the shopping experience, offering a scaled, one-stop destination for youthful, aspirational consumers. By launching exclusively owned brands and selling other brands from third parties, Revolve adopts a more targeted model than department stores or mass-market online retailers and provides a greater selection and access than specialty retailers, to more effectively serve consumers. Throughout 2021, Revolve offered over 850 emerging and established brands through REVOLVE, including 30 owned brands and almost 400 brands through FWRD.

Operating Expense Breakdown

■ Fulfillment ■ Selling & Distribution ■ Marketing ■ General & Administrative



Segments

REVOLVE

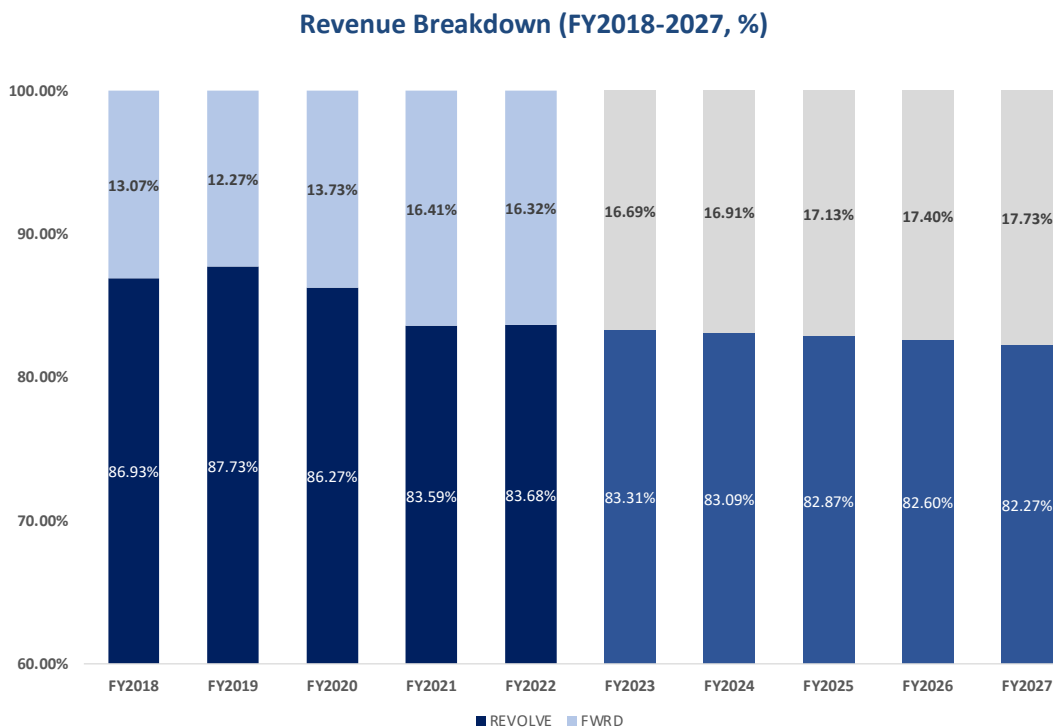
REVOLVE is one segment focusing on premium, trend-driven ready-to-wear assortment, with an average order value of \$248. REVOLVE offers constant newness and discovery through a broad assortment of premium apparel, footwear, accessories and beauty products. Revolve's revenue from REVOLVE segment accounts for 83.68% in 2022, demonstrating a prevailing position in the company's revenue. Though REVOLVE has been keeping more than 80% contribution to Revolve's sales, the declining proportion of REVOLVE segment shows that its revenue growth rate obviously falls behind that of FWRD. There are two reasons for the declining growth rate: the impact of Covid-19 and increasing tariffs. The COVID-19 pandemic

postponed or canceled several REVOLVE brand marketing events including #REVOLVEfestival, which historically resulted in peak sales during the second quarter of each fiscal year. This explains the obviously decreasing growth rate for REVOLVE segment in 2021. Second, trade disputes between the United States and China lead to increased tariffs on Revolve’s goods. Such tariffs could have a significant impact on its owned brands within the REVOLVE segment, of which a large portion are manufactured in China. In order to retain profitability, the REVOLVE segment is raising prices to the customer; however, this is hurting net sales and lowering the competitiveness of REVOLVE products. Thus, higher prices may directly trigger customers to buy from the FWRD segment, resulting in a decline in REVOLVE's contribution to overall net sales.

FWRD

FWRD is another segment providing customers with a unique destination for luxury products. It offers a curated assortment of iconic and emerging luxury brands with a strong and differentiated point of view, with an average order value of \$642. Unlike REVOLVE consisting primarily of emerging third-party, and owned brands, FWRD segment consists primarily of established third-party brands, especially with a focus on bags and shoes. FWRD’s revenue contributes 16.32% of the total net sales in 2022, showing an upward trend and indicating its rapid growth. It is worth noting that in the 2021 fiscal year, the sales of FWRD increased by 83.4%. The rising growth rate of the FWRD segment is primarily due to an increase in the number of total orders placed by customers complemented by an increase in average order value.

Revenue by Segments



Business Model/Strategies

Powerful Owned Brand Strategy

Based on a data-driven merchandising model, Revolve can enable a powerful owned brand strategy that differentiates its merchandise assortment, develops new owned brands and additional styles within its existing portfolio, and provides increased control of the supply chain. Revolve has built a portfolio of 30 owned brands, each crafted with unique attributes and supported by independent marketing investments. In 2022, owned brands represented five out of top 10 brands in the REVOLVE segment and contributed 22.4% of the REVOLVE segment’s net sales. Since REVOLVE made substantial investments to support the development of owned brands in 2022, the growth is expected to continue in the coming years.

Expansion to International Markets Strategy

Revolve intends to further localize and improve the shopping experience and merchandise selection for its international customers and leverage the global reach of the REVOLVE to accelerate growth outside of the United States. It began offering a more localized shopping experience, including free returns and all-inclusive pricing in 2018, for customers in the UK, the EU and Australia, and further expanded to New Zealand, Singapore and Canada in 2020 and Poland, Spain, Switzerland and the UAE in 2021. For 2021, Revolve generated \$165.1 million in net sales shipped to customers internationally, contributing 18.5% of total net sales. In the future, Revolve will continue to invest in and develop international markets while maintaining a focus on the core U.S. market.

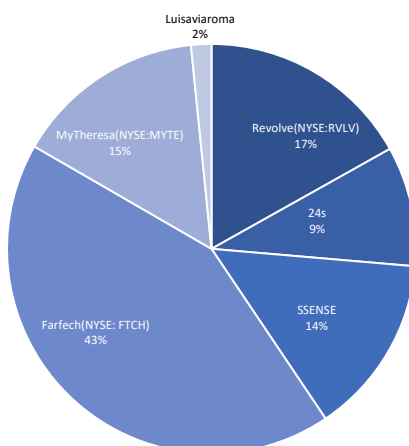
Industry Analysis

Based on the business overview and business models, we could categorize Revolve as an online retailer that oversees two e-commerce websites, REVOLVE and FWRD. Since 77% of Revolve’s sales came from apparel and dresses, Revolve faces direct competition in the apparel-oriented e-commerce sector such as the e-Commerce websites of traditional retailers and premium and luxury brands. As an online retailer itself, Revolve also faces indirect competition from in-person stores and boutiques such as traditional retailers as well as fashion boutiques.

Competitive Landscape

Competition Within E-Commerce Industry

Competitors by Revenue (FY2021)

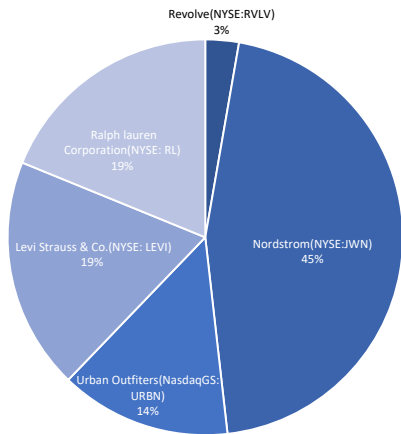


Online retailers and e-commerce companies that offer similar products are the primary sources of competition within e-commerce industry. Considering that consumers can easily compare prices online, the pricing strategy will directly impact whether a website is appealing to potential targeted customers. Industry operators that are able to offer discounted prices or extra free service usually create a greater incentive to buy. Furthermore, product selection and differentiation are also competitive factors. Since Millennials and Gen Z tend to go for more fashionable items and want to stay on trend, industry operators that can cater to changing fashion trends and consumer preferences will likely have a competitive advantage. Also, industry operators that promote their websites online through digital

marketing, such as collaborating with celebrities and influencers, and building up their own brand community with consumers, can increase brand awareness and attract more traffic.

Competition Outside E-Commerce Industry but Within Retail Industry

Competitors by Revenue (FY2022)



Source: PitchBook

Traditional offline department stores, boutiques are the primary sources of competition outside the e-Commerce industry. These offline stores can offer a superior customer experience by allowing customers to try on and examine the product closely, including the texture of the fabric and color. Even though online retailers try to focus on premium product display on their websites with high-quality pictures and videos, they still lack the advantage of a physical customer experience, which can be only provided by brick-or-mortar stores.

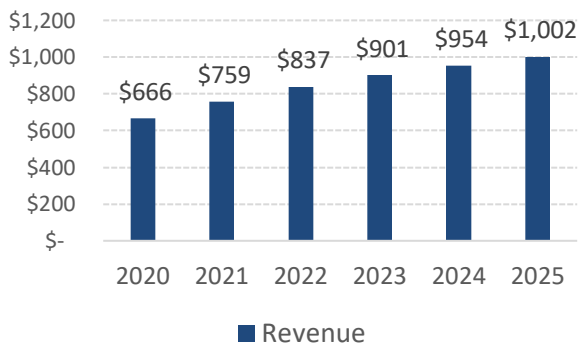
Key Success Factors

The online and offline retail markets are highly competitive and rapidly evolving. Industry operators in the online and offline retail markets compete based on prices, product selection, differentiation and curation, brand quality and brand awareness, ease of use and consumer experience, including order fulfillment and shipping timeliness and return policies.

Industry Trends

E-Commerce

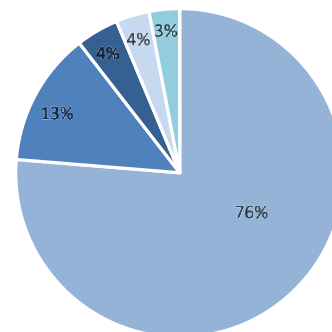
Revenue in the Online Fashion Market (USD Billion)



Source: Statista

Market Share (2021): Online Women’s Clothing Sales

- Other Companies
- Amazon.Com
- Nordstrom
- Kohl's
- Macy's



Source: IBIS World, Online Women’s Clothing Sales

According to Global Market Model, the global e-commerce market is expected to grow from \$2,641.10 billion in 2021 to \$4,801.34 billion in 2026, which will bring more opportunities to apparel retailers with a focus on the online channel. The global online fashion market will increase steadily and reach \$1,002 billion in 2025, with an annual compound growth rate of 7.2%. Among all product types, apparel and bags & accessories account for more than 70% and have dramatically increased from 2020. The overall e-commerce fashion market has considerable growth potential, providing key players with a huge market to capture and making the whole market more competitive. Although big players such as Amazon and Nordstrom have established solid positions in online women's clothing sales for a long time, other companies capture 76% of the total sales, which shows the e-commerce women's apparel market is fragmented with a low concentration. Considering the high growth potential of e-commerce, more and more traditional offline retailers turn to develop their online websites and compete with other mature online retailers.

Social Media

Both of traditional brick-and-mortar and online retailers tend to use social media to create an online community, in order to connect with the increasingly important Millennial and Generation Z demographics. By building a large community of influential social media celebrities, retailers will improve their digital presence, grow their e-Commerce business, and then form a competitive advantage.

Since social media is closely related to e-commerce, "social commerce" integrates social experiences and e-commerce transactions into a single purchase path. According to Accenture, the social commerce opportunity is expected to nearly triple by 2025, growing at a CAGR of 26%. The social commerce opportunity will reach \$1.2 trillion by 2025, which accounts for 16.7% of the \$7 trillion e-commerce total spend. The development of social commerce opens up new opportunities for individuals and small businesses. 59% of social buyers say that they are more likely to buy from a small business, and 44% are more likely to buy a brand they have not previously encountered when shopping through social commerce. Thus, social commerce will be a great opportunity for retailers to quickly expand their customer bases and stand out from the fierce competition. Also, retailers should pay attention to developed and highly developing markets in social commerce and expand their business to these locations for new revenue streams. Today, the largest category for social commerce is fashion, which includes apparel and accessories. The existing fierce competition in online women's apparel in e-commerce is very likely to extend to social commerce.

Industry Driver

Emerging Markets Growth

The apparel market benefits from increased spending on apparel and clothing in emerging markets. As the middle class began to emerge and expand, a change in spending patterns took place, departing from traditional spending paths and moving towards fashion apparel. This change was driven mainly by economic growth in emerging markets such as China and India. For instance, according to the IMF, China's GDP grew from \$11.3 trillion in 2016 to \$17.7 trillion in 2021. Additionally, according to a report by the IMF in 2022, emerging markets and developing economies together registered a growth of 4.5% in 2018 and this increased to 6.1% in 2021, supporting the increased consumption of apparel in these countries. The growth in emerging market GDP has increased consumer spending on clothing, which is especially seen in younger consumer generations like Gen Z. As of June 2022, over 30 percent of Gen-Zs were capable of spending more than

2,000 yuan (292 dollars) online per month, up by 2.7 percent compared to 2021. Thus, it explains why plenty of US and European companies accelerate their business in international markets like Asia. With rising GDP and expenditure growth in emerging markets, online clothing retailers have a better chance of success with their worldwide expansion strategy.

Catalysts

Diversified Supply Chain in Response to Tariffs

The U.S. government has from time to time imposed significant tariffs on certain product categories imported from China, including apparel, footwear, accessories, and beauty. Now the trade policy between US and China is still dim. Revolve's financial condition and operation results will improve if it can diversify its supply chain and continue sourcing alternative suppliers and manufacturers in Vietnam and Indonesia.

Strategic Acquisitions

Revolve is always open to strategic acquisitions that are complementary to its business and operations. In 2015, Revolve successfully acquired Alliance Apparel, a Los Angeles-based fashion group owning brands Lovers + Friends, NBD, and Tularosa. This acquisition helped Revolve expand its owned brands and accelerated its expansion as a wholesale brand with multiple labels. Since Revolve adheres to its owned brand strategy, it may expand its brand portfolios through acquisitions, which possibly create synergy for Revolve in expanding its product offering and achieving economies of scale. For example, Staud can be a partial target company for Revolve's acquisition considerations, which is an online retail platform offering vintage-inspired women's clothing and accessories, at similar prices to the products in REVOLVE segment. Given the similar pricing and complementary styles to Revolve's existing portfolios, Staud can be a good fit for Revolve to add into existing owned brands.

Celebrity Collaborations and Partnerships

The ongoing and solid relationships with social media influencers and celebrities make Revolve precisely target the younger generation. Revolve also uses their popularity to boost its own social media presence, which in turn boosts sales. FWRD used to introduce Kendall Jenner as its creative director, which caused the daily stock price to rise by 7.8%.

Future collaborations and partnerships with fashion icons will help Revolve not only increase traffic on social media, but also identify trends, styles, and looks and generate marketing ideas, brand partnerships, and brand activations, by using the celebrity's experiences in the fashion industry. Given its previously successful collaborations with Kendall Jenner and Jennifer Lopez, Revolve may consider other celebrities such as Kardashians or influential musicians such as to keep launching collaborative items. All of these could transfer into observable financial benefits and ultimately increase revenue. Therefore, such announcements will make the market react positively to Revolve's future earnings and then result in stock prices increase.

Management Team

Mike Karanikolas - Co-Chief Executive Officer and Chairman of the Board



Since its inception in 2003, Mike Karanikolas has served as Revolve's co-CEO and as a member of the board of directors for 20 years. He graduated from Virginia Tech University in 2000 and holds a B.S. in engineering. Before founding Revolve, he was a software engineer at NextStrat from 2000 until 2002. Karanikolas met Mente, another co-founder of Revolve, at a software company called NextStrat that ended up going belly up after the dot-com bubble burst. They started Revolve when they found that it was difficult to buy premium jeans and other apparel online. Besides participating in management, he is in charge of back-end operations, logistics, and anything tech-related and heavily analytical.

His total compensation for FY2021 was \$472,594. This breaks down into a \$451,236 base salary, and \$21,358 of other compensation.

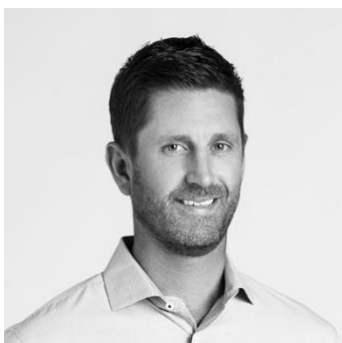
Michael Menteco - Co-Chief Executive Officer and Director



Same as Mike Karanikolas, Michael Mente has served as Revolve's co-CEO and as a member of the board of directors since inception, and has been working at Revolve for 20 years as well. Before founding Revolve, he was an analyst at NextStrat from 2001 until 2002. Mente graduated from the University of Southern California in 2001 and holds a B.S. in business administration. In 2008, Mente and Karanikolas also helped develop Farfetch North America which is a British-Portuguese online luxury fashion retail platform, but they are no longer involved. Apart from working with Karanikolas in determining the strategic plans for REVOLVE, Mente is mainly responsible for marketing, branding, and fashion stuff at Revolve.

His total compensation for FY2021 was \$455,356. This breaks down into a \$451,236 base salary, and \$4,120 of other compensation. Both CEO's compensations are below average for companies of similar size in the US market, which is \$5.37m.

Jesse Timmermans - Chief Financial Officer



Jesse Timmermans has been appointed as the chief financial officer since February 2017. He leads all aspects of finance, accounting, treasury and risk management and led the company through its IPO in June 2019. Timmermans also manages the legal and human resources functions at Revolve. He previously served as the chief financial officer of Jobalign from June 2014 to January 2017, and worked at Blue Nile from July 2004 until June 2014, most recently as the vice president of finance and controller. Before joining Revolve as CFO, he has rich experience in finance and accounting leadership roles as well as in the fashion industry. Timmermans holds a B.S. in accounting from Central Washington University.

His total compensation for FY2021 was \$1.36 million. This breaks down into a \$440,879 base salary, \$199,998 of stock awards, \$499,963 in option-based awards, \$200,000 of non-equity incentive plan compensation, as well as \$21,358 of other compensation.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

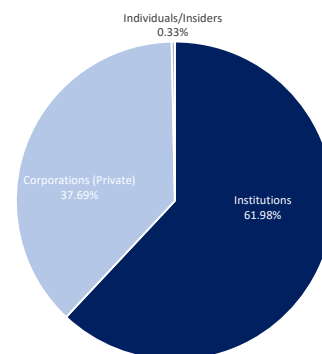
Revolve has a total of 73.365 million shares outstanding, with 99.36% free float. However, only 0.33% of shares are held by insiders. The majority of shares are held by institutional investors in investment firms and hedge funds. The top 10 largest shareholders who own 95.75% of total shares are listed below:

Top 10 Largest Shareholders

Holder Name	Shares Owned	% of Shares Out.
Kayne Anderson Rudnick Investment Management, LLC	7,148,406	17.55
Fidelity Management & Research, LLC	6,311,746	15.49
Virtus Investment Partners, Inc.	5,449,333	13.38
William Blair & Company, LLC	3,994,347	9.8
Vanguard Group Inc.	3,854,244	9.46
Pzena Investment Management, Inc.	3,615,998	8.88
Fisher Asset Management, LLC	2,626,704	6.45
Blackrock Inc.	2,622,995	6.44
Renaissance Technology, LLC	1,804,500	4.43
Wells Fargo & Company	1,575,725	3.87

Source: Bloomberg

Ownership Summary (%)

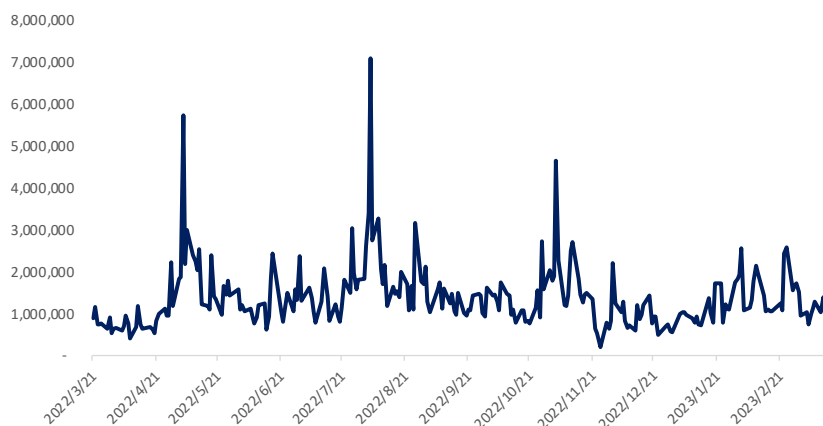


Source: Capital IQ

Liquidity

Revolve has an average daily trading volume of 1,376,576 within a year. The graph demonstrates that there are several volume peaks in early May, August, and November, with the release of earnings.

1 Year Trading Volume (M)



Source: Yahoo Finance

Valuation

Discounted Cash Flow

Revenue

Since the two revenue-generating segments of Revolve are FWRD and REVOLVE, the revenue projections consider these two websites' future growth potential and historical growth rates. With the development of owned brands and expansion to emerging markets, we expect FWRD and REVOLVE segments will grow at a GAGR of 28.37% and 25.85% respectively from 2023 to 2027. However, considering that the high inflation rates may restrain consumer spending confidence, we believe the revenue growth of both segments in 2022 and 2023 will be slightly lower than the forecasted average CAGRs (28.37% and 25.85%). From 2024 to 2027, with the economy returning to normal and the further execution of Revolve's business strategies, revenue growth will be more consistent with the forecasted CAGR and increase in a steadily rising trend.

Cost of Goods Sold (COGS)

Based on the historical averages of 46.4% of revenue, we forecast the next 5 years' COGS will keep the decreasing trend and accounts for 44.4% of revenue annually.

Effective Tax Rate

The effective tax rate is assumed to be 18.1%, which is from Bloomberg. The tax rate has been dramatically increasing since 2021, which was 23.39% in 2022 and 4.67% in 2021, respectively.

Weighted Average Cost of Capital (WACC)

The weighted average cost of capital is calculated to be 10.9%. The WACC calculation includes the cost of equity at 11% and cost of debt at 4.1%. The cost of equity is made up of risk-free rate of 3.5% and expected market return of 8.6%, as well as adjusted Beta at 1.48. The cost of debt is composed of effective tax rate of 18.1% and adjusted pre-tax cost of debt of 5.11%. The figures above are from Bloomberg.

Perpetuity Growth Rate

Since Revolve is in the high growth rate stage, the overall revenue growth rate in the two business segments (RVLV, FWRD) will be 27% in the next five years and is very likely to increase year over year in the long term. Currently, Revolve's business has been negatively impacted by the fluctuating inflation rates but in the long term, the inflation is likely to back to the normal level. Therefore, the perpetuity growth rate is assessed to be 3.0%. This method gives the implied share prices of \$20.08.

Terminal EV/EBITDA Multiple

A 10.1x Terminal EV/EBITDA Multiple is used by taking the median of seven comparable companies. This method gives the implied share price of \$35.09.

Comparable Company Analysis

We have chosen 7 comparable companies which have similar business models, geographical regions and customer bases to Revolve. They are listed below:

Ralph Lauren Corporation (NYSE: RL)

Ralph Lauren Corporation is an American publicly traded fashion company that was founded in 1967. The company is headquartered in New York City, producing products ranging from the mid-range to the luxury segments. They are known for marketing and distributing products in four categories: apparel, home, accessories, and fragrances. Through its retail storefronts and online shopping platforms, it sells its goods to department stores, specialty shops, golf and pro shops, as well as directly to customers.

Etsy, Inc. (NasdaqGS: ETSY)

Etsy, Inc. is an American e-commerce company focused on handmade or vintage items and craft supplies. These products come under a variety of categories, including jewelry, bags, clothing, furniture, art, as well as craft supplies and tools. It operates two-sided online marketplaces that connect buyers and sellers primarily in the United States, the United Kingdom, etc.

V.F. Corporation (NYSE: VFC)

VF Corporation is an American global apparel and footwear company founded in 1899 and headquartered in Denver, Colorado. Together with its subsidiaries, VFC engages in the design and distribution of branded lifestyle apparel, footwear for men, women, and children in the Americas, Europe, and the Asia-Pacific. The 13 brands owned by the corporation are divided into 3 categories: Outdoor, Active and Work. With the brands JanSport, Eastpak, Timberland, and The North Face, the corporation holds a 55% market share in the U.S. backpack industry.

Lululemon Athletica Inc. (NasdaqGS: LULU)

Lululemon athletica inc. is a Canadian multinational athletic apparel retailer headquartered in British Columbia and incorporated in Delaware, United States. Lululemon was founded in 1998 and is based in Vancouver, Canada. It operates in two segments, Company-Operated Stores and Direct to Consumer. The company offers pants, shorts, tops, and jackets for healthy lifestyle and athletic activities, such as yoga, running, and training, as well as other sweaty pursuits. It also provides fitness-related accessories and footwear.

Under Armour, Inc. (NYSE: UAA)

Under Armour, Inc. is an American sports equipment company that manufactures footwear, sports and casual apparel. The company sells its products through wholesale channels, including sporting goods chains, independent and specialty retailers, department store chains, and leagues and teams, as well as independent distributors. It also sells its goods directly to customers through a network of 422 brand and factory house stores, as well as through e-commerce websites.

Urban Outfitters, Inc. (NasdaqGS: URBN)

Urban Outfitters, Inc. is a multinational retail corporation that offers a diverse mix of fashion apparel, accessories, beauty and wellness products, housewares, and music primarily aimed at young adults. In addition to the Urban Outfitters brand, the company operates several other retail brands, including Anthropologie, Free People, Terrain, BHLDN, and the Vetri Family restaurant group. The company's wholesale division also produces and designs much of the merchandise sold under its private labels.

Levi Strauss & Co. (NYSE: LEVI)

Levi Strauss & Co. is an American clothing company founded in 1853 and headquartered in San Francisco, California. It is best known for its Levi's brand of denim jeans, which are sold worldwide. In addition to jeans, the company designs, markets, and sells a wide range of clothing and accessories for men, women, and children, including casual and dress pants, activewear, tops, shorts, skirts, dresses, jackets, footwear, and related accessories. The company also owns other brands, including Dockers, Signature by Levi Strauss & Co., and Denizen, and licenses its trademarks for use in other product categories. Levi Strauss & Co. sells its products through third-party retailers as well as through its own brand-dedicated stores and shop-in-shops, of which it operates approximately 3,100 globally.

Investment Thesis

Consumer Preference Shifting to Align with Revolve's Advantage

Currently, Revolve sells 30 exclusive self-owned brands on its websites. In 2021 and 2022, Revolve made substantial investments in the designer team and platform to support a return to growth of owned brands and it is expected to continue in 2023. The future success of Revolve's owned brand strategy will be backed by the shift of customer preference away from mass-market brands in favor of micro labels, emerging designers, and special pieces that cannot find elsewhere. Especially Millennials and Generation Z, emphasize their life attitude and show it through their outfits and accessories. They are very likely to become consumers of niche brands and private labels. Revolve neatly captures this new trend and has been investing plenty of money to support emerging fashion designers for Revolve itself. Additionally, Revolve's owned brand strategy is totally different from Amazon's private labels, which prioritize price competition. However, Revolve has a robust focus on brand ethos and marketing efforts, and effective connections with consumers in the social media community. Therefore, the owned brand strategy will help Revolve have a sustainable competitive advantage in spotting fashion trends, adapting to consumer preference shifts, and differentiating itself from rivals.

Expansion to Emerging Markets Creates a New Growth Driver

Revolve has been advancing its international expansion and further elevated service levels to support customers overseas. Rather than merely concentrating on the North American and European markets, Revolve chooses to enter the growing emerging markets such as the Asian market. According to Statista, revenue in the Asian apparel segment is projected to reach \$167.9 billion in 2023. With a CAGR of 6.78% in 2023-2027, the market size is expected to achieve \$342 billion by 2027. Besides, revenue in the Asian e-commerce market is anticipated to grow at 6.86% from 2023 to 2027, resulting in a projected market size of \$2,789 billion by 2027. The accelerating consumer spending growth and high adoption of

technology propelled Asia to become the largest region for online apparel shopping in 2020, overtaking the Americas. The vast market size and considerable growth rate in emerging markets will create a new growth driver for Revolve.

First Mover into Web3 Fashion Game as E-commerce Retailer

Revolve is planning to create a Web3 fashion game with Muus in 2023. Muus consists of women-led gaming and fashion/beauty industry veterans who worked at and with gaming brands. This fashion game allows users to explore the products, style their favorite looks and seamlessly shop them. Revolve as the first e-commerce retailer that enters into the web3 gaming industry can establish first-mover advantages. One is to convert gaming users to loyal customers of Revolve. According to data. ai, in 2021, 49% of mobile gamers worldwide were women and there were a staggering 83 billion mobile game downloads worldwide. The female players will build connections with their favorite brands from REVOLVE and FWRD through a gamified shopping and styling experience, and social interaction. Since mobile gaming has a huge female user community and this fashion game has a high level of peer-to-peer engagement, female players are very likely to transfer to loyal customers of Revolve.

Another advantage is to enhance brand awareness among Gen Z as part of the marketing strategy. The data from Movement Strategy states that the active users for two big Web3-based games (Fortnite and Roblox) fall into the under 16 and 18-24 age brackets. This indicates the potential gaming player for Revolve's new fashion game is likely to still be the millennials, which is also consistent with Revolve's target customers. Such collaboration will help Revolve strengthen its transformative image and leading position in e-Commerce. Therefore, the roll-out of Web3 fashion games will bring a new customer growth opportunity for Revolve and enhances its presence in the Web3 market.

Recommendation

Based on our analysis, we believe that Revolve is undervalued by the markets. Although Revolve faces direct and indirect competition from both apparel-oriented e-Commerce companies and in-person retail stores, it will still stand out from peers by leveraging its combination of data-driven model and owned brand strategy as well as expansion to international markets. As it breaks into the Web3 fashion and gaming market, Revolve is likely to acquire millennial female consumers more effectively than other competitors. Considering the huge growth potential of Revolve, the implied target share price was computed using the following weightings:

- A 30% weighting on the Perpetuity Growth DCF method, which projects a \$30.08 share price
- A 40% weighting on the Exit Multiple DCF method Implied Price DCF method, which projects a \$35.09 share price
- A 20% weighting on the EV/EBITDA Implied Price Method, which projects a \$23.40 share price
- A 10% weighting on the P/E Implied Price method, which projects a \$17.26 share price

We put on more weight on DCF calculation rather than Comparable Company Analysis method because it is difficult to choose from the currently listed companies that are fully consistent with Revolve's market value, business models, and customer bases. Considering that, we give DCF 70% weight and Comps 30% weight. Therefore, the overall implied share price is \$29.47, with an implied upside of 20.5%. We give a BUY recommendation to Revolve.

Risks

Supply Chain Disruptions

Revolve relies on third-party suppliers, manufacturers, distributors, and other vendors to produce and deliver its main products. A majority of Revolve's owned brand products and a substantial portion of the products from third parties are manufactured in China. For shipping, Revolve primarily relies on two major vendors. Since shipping is a critical part of retail, any interruptions in shipping could adversely affect operating results. Impacted by the COVID-19 pandemic and trade disputes between the United States and China, the supply chain has already been delayed and may result in higher manufacturing or shipping costs for goods imported from China.

Decrease in Consumer Spending

Economic downturns and other macroeconomic events or trends may have a negative impact on consumer spending. According to Goldman Sachs, with a resilient labor market and still elevated inflation, there won't be any rate cuts in 2023 unless the economy enters a recession after all. Since inflation almost reached the highest level during 2022, continued high inflation rates will directly impact the sales of Revolve products as well as its premium pricing and promotion strategy. The target market for Revolve is made up primarily of Millennials and members of Generation Z, who have fewer savings than previous generations and may be more vulnerable to recession and rising inflation in the years to come. As a result, the forecasting revenue growth for Revolve in 2022 and 2023 will be less than that one in 2021, which may also result in a lower expectation for its stock prices by the market.

Insufficient and Excess Inventory Levels

Revolve's business requires it to depend on the forecasts of demand and popularity of various products to make purchase decisions and to manage its inventory. However, demand for products can change significantly between the time inventory is ordered and the date of sale by several factors such as events like COVID-19, seasonality, new product launches, promotions, changes in consumer spending and tastes, etc. Therefore, it is really difficult to accurately forecast demand and determine the appropriate levels of product to purchase. Due to the potential changes in demand, Revolve faces pressure from the suppliers because Revolve has no right to return unsold products to suppliers. Under the overstocking situation, Revolve is likely to have a high risk of inventory obsolescence, and then a decline in inventory values. If this situation continues, Revolve may be forced to lower sale prices to reduce inventory levels or to pay higher prices to suppliers, which may negatively affect its profitability. Under the understocking situation, consumers' needs are not fully satisfied, which may cause consumers to buy products from Revolve's competitors. If this situation continues, it may also adversely impact Revolve's owned brand expansion, growth, and profitability.

Negative Impact from Influencers

Revolve maintains relationships with thousands of social media influencers and engages them in sponsorship initiatives. Partnering with a large network of social media influencers is part of Revolve's current marketing strategy. While social media influencers will enhance Revolve's digital presence by posting blogs and videos, there are potential concerns and

risks because Revolve does not prescribe what its influencers post. For example, influencers use their platforms to communicate directly with customers in a terrible manner or their own behavior brings negative publicity to Revolve. Such behavior is hard for Revolve to detect and prevent and the consequences may lead to a decrease in consumers and then sales and margins.

Environmental Social Governance

According to CBRE, Environmental, social, and governance (ESG) concerns are becoming increasingly important for the success of retailers. A growing share of consumers prefers ethically defensible brands, especially those focused on reducing carbon emissions and waste, which will request retailers to produce environmentally friendly and sustainable goods.

Revolve pays attention to the importance of sustainability in their business and perform strongly in the environment factor. Its key efforts and highlights are below:

Helping Customers Discover Sustainable Styles

Revolve has launched sustainability badges to give customers sustainability information about the clothes on Revolve's websites. There is also a Sustainable Shop page with a selection of products carefully curated to make it easy for customers to shop more sustainably fashionable.

Offering Box Free Return Options to Reduce Emissions

Revolve is partnering with Happy Returns which provides box-free, label-free returns in the U.S. and works with additional partners overseas to reduce the impact of product returns. The box-free return model can reduce the amount of cardboard required and then cut down the emissions of carbon dioxide. In the U.S. alone, 42 metric tons of GHG have been saved since launching the program in 2018. For comparison, the e-Commerce giant Amazon just started to implement this plan in 2022. Revolve's great foresight to launch the box-free return program at such an early stage shows its determination and long-term goals in environmental protection.

Recycling & Reuse

Revolve expanded its recycling initiatives within the distribution center in recent years and recycles 100% of all cardboard that comes into fulfillment operations, diverting more than 600 tons from landfills in 2020 alone. To further minimize waste, Revolve also reuses every pallet and collaborates with the waste management specialist firm.

Appendix 1: Model Summary

Summary Page															
	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
(Figures in mm USD)	FY2017	FY2018	FY2019	FY2020	FY2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Income Statement															
Revenue	399.6	498.7	601.0	580.6	891.4	283.5	290.1	268.7	259.2	1,101.4	1,327.3	1,663.5	2,134.9	2,752.5	3,592.7
EBITDA	-	44.7	52.1	65.9	109.8	29.6	20.5	16.0	11.9	77.9	108.8	144.7	185.7	239.5	312.6
Net Income	-	30.6	35.7	56.8	99.8	22.6	16.3	12.0	7.9	58.7	88.5	118.5	153.2	198.5	260.4
Earnings Per Share	\$ -	\$ 0.69	\$ 0.62	\$ 0.79	\$ 1.34	\$ 0.30	\$ 0.22	\$ 0.16	\$ 0.11	\$ 0.79	\$ 1.19	\$ 1.59	\$ 2.06	\$ 2.67	\$ 3.50
Cash Flow Statement															
Capital Expenditures	-	(3.0)	(12.5)	(2.3)	(2.2)	(1.1)	(1.4)	(1.4)	(1.3)	(5.2)	(3.9)	(3.9)	(3.8)	(3.8)	(3.8)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout to Earnings	#DIV/0!	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payout to Core FCF	#DIV/0!	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield	#DIV/0!	#DIV/0!	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance Sheet															
Current Assets	-	139.2	199.3	276.9	439.8	519.8	518.0	527.3	518.2	518.2	651.7	842.9	1,080.0	1,388.5	1,798.0
Non-Current Assets	-	22.9	32.9	28.8	40.6	51.0	50.5	59.4	61.1	61.1	60.2	61.1	61.0	60.9	61.0
Assets	-	162.1	232.3	305.8	480.4	570.8	568.5	586.7	579.3	579.3	711.9	904.0	1,141.0	1,449.4	1,859.1
Current Liabilities	-	82.3	101.5	105.7	160.2	217.2	199.8	199.3	181.1	181.1	225.2	296.5	378.7	486.5	633.2
Non-Current Liabilities	-	-	-	-	3.2	13.1	12.5	20.1	18.7	18.7	18.7	18.7	18.7	18.7	18.7
Liabilities	-	82.3	101.5	105.7	163.4	230.3	212.3	219.4	199.7	199.7	243.9	315.1	397.3	505.2	651.9
Shareholders' Equity	-	79.8	130.8	200.1	317.0	340.5	356.2	367.3	379.6	379.6	465.5	584.0	737.1	935.6	1,196.0
Cash	-	16.4	65.4	146.0	218.5	270.6	237.9	244.0	234.7	234.7	345.2	436.8	558.8	716.5	921.0
Debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Debt	-	(16.4)	(65.4)	(146.0)	(218.5)	(270.6)	(237.9)	(244.0)	(234.7)	(234.7)	(345.2)	(436.8)	(558.8)	(716.5)	(921.0)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	#DIV/0!	n/a	n/a	n/a	n/a	-	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Operating Metrics															
Return on Equity (ROE)	11.1%	47.9%	33.9%	34.4%	38.6%	6.6%	4.6%	3.3%	2.1%	15.5%	19.0%	20.3%	20.8%	21.2%	21.8%
Return on Assets (ROA)	10.7%	18.3%	15.6%	14.2%	16.7%	1.1%	0.8%	0.7%	0.4%	10.1%	12.4%	13.1%	13.4%	13.7%	14.0%
Return on Invested Capital (ROIC)	19.0%	36.6%	29.1%	23.1%	25.1%	-	-	-	-	-	-	-	-	-	-
Valuation Metrics															
Stock Price (High)	\$ -	\$ -	\$ 46.96	\$ 32.07	\$ 86.01	\$ 61.33	\$ 57.53	\$ 30.94	\$ 24.45	\$ 61.33	\$ 24.45	\$ 24.45	\$ 24.45	\$ 24.45	\$ 24.45
Stock Price (Low)	\$ -	\$ -	\$ 14.66	\$ 7.30	\$ 31.97	\$ 39.90	\$ 24.80	\$ 21.69	\$ 24.45	\$ 21.69	\$ 24.45	\$ 24.45	\$ 24.45	\$ 24.45	\$ 24.45
Stock Price (Average)	\$ -	\$ -	\$ 30.81	\$ 19.69	\$ 58.99	\$ 50.62	\$ 41.17	\$ 26.32	\$ 24.45	\$ 41.51	\$ 24.45	\$ 24.45	\$ 24.45	\$ 24.45	\$ 24.45
Diluted Shares Outstanding (Average)	-	44.6	57.3	72.1	74.5	74.8	74.6	74.4	74.4	74.5	74.4	74.4	74.4	74.4	74.4
Market Capitalization (Average)	-	-	1,765.2	1,418.5	4,397.5	3,786.2	3,072.3	1,956.6	1,818.0	3,093.3	1,818.0	1,818.0	1,818.0	1,818.0	1,818.0
Enterprise Value (Average)	-	(16.4)	1,699.8	1,272.4	4,179.1	3,515.5	2,834.5	1,712.6	1,583.2	2,858.6	1,472.7	1,381.2	1,259.2	1,101.4	897.0
P/E	#DIV/0!	-	49.5 x	25.0 x	44.0 x	-	-	-	-	52.7 x	20.6 x	15.3 x	11.9 x	9.2 x	7.0 x
EV/EBITDA	#DIV/0!	n/a	32.7 x	19.3 x	38.1 x	-	-	-	-	36.7 x	13.5 x	9.5 x	6.8 x	4.6 x	2.9 x
FCF Yield to Market Capitalization	#DIV/0!	#DIV/0!	1.9%	4.8%	1.4%	-	-	-	-	0.5%	5.9%	4.8%	6.4%	8.3%	10.7%
FCF Yield to Enterprise Value	#DIV/0!	-162.6%	2.0%	5.3%	1.5%	-	-	-	-	0.5%	7.3%	6.3%	9.2%	13.7%	21.7%
Free Cash Flow															
EBIT	-	41.8	48.1	61.1	105.3	28.5	19.3	14.8	10.7	73.1	104.1	139.4	180.2	233.6	306.3
Tax Expense	-	(10.5)	(11.5)	(3.3)	(4.9)	(6.4)	(4.8)	(4.2)	(2.5)	(17.9)	(18.8)	(25.2)	(32.6)	(42.3)	(55.4)
D&A	-	2.9	4.0	4.8	4.5	1.1	1.2	1.2	1.3	4.8	4.8	5.3	5.6	5.9	6.3
Capital Expenditures	-	(3.0)	(12.5)	(2.3)	(2.2)	(1.1)	(1.4)	(1.4)	(1.3)	(5.2)	(3.9)	(3.9)	(3.8)	(3.8)	(3.8)
Changes in NWC	-	(4.5)	6.0	7.3	(41.6)	28.6	(48.2)	(4.7)	(18.5)	(40.2)	21.2	(28.4)	(32.9)	(42.9)	(58.4)
Unlevered Free Cash Flow	-	26.6	34.1	67.6	61.1	50.7	(34.0)	5.7	(10.4)	14.6	107.3	87.2	116.4	150.5	195.0
Valuation Summary															
Current Price	\$ 24.45														
Target Price	\$ 29.47														
Total Return	20.5%														
Recommendation	BUY														
DCF Valuation															
Perpetuity Growth Implied Price	\$ 30.08														
Exit Multiple Implied Price	\$ 35.09														
Comps Valuation															
Comps - EV/EBITDA Implied Price	\$ 23.40														
Comps - P/E Implied Price	\$ 17.26														

Appendix 2: DCF

Discounted Cash Flow Analysis															
	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
(Figures in mm USD)	FY2017	FY2018	FY2019	FY2020	FY2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
WACC Calculations															
Cost of Equity															
Risk-free rate	3.5%														
Expected market return	8.6%														
Market Risk Premium	5.1%														
Beta (Adjusted)	1.48														
Cost of Equity	11.0%														
Cost of Debt															
Pre-tax cost of debt	3.7%														
Debt Adjustment Factor	1.38														
Effective tax rate	18.1%														
Cost of Debt	4.1%														
WACC															
Market value of equity	1,792.2														
Market value of debt	25.8														
Total Capitalization	1,818.0														
Cost of equity	11.0%														
Cost of debt	4.1%														
WACC	10.9%														
Free Cash Flow															
EBIT	-	41.8	48.1	61.1	105.3	28.5	19.3	14.8	10.7	73.1	104.1	139.4	180.2	233.6	306.3
Less: Tax expense	-	(10.5)	(11.5)	(3.3)	(4.9)	(6.4)	(4.8)	(4.2)	(2.5)	(17.9)	(18.8)	(25.2)	(32.6)	(42.3)	(55.4)
Add: Depreciation and amortization	-	2.9	4.0	4.8	4.5	1.1	1.2	1.2	1.3	4.8	4.8	5.3	5.6	5.9	6.3
Less: Capital expenditures	-	(3.0)	(12.5)	(2.3)	(2.2)	(1.1)	(1.4)	(1.4)	(1.3)	(5.2)	(3.9)	(3.9)	(3.8)	(3.8)	(3.8)
Less: Change in net working capital	-	(4.5)	6.0	7.3	(41.6)	28.6	(48.2)	(4.7)	(18.5)	(40.2)	21.2	(28.4)	(32.9)	(42.9)	(58.4)
Unlevered Free Cash Flow	-	26.6	34.1	67.6	61.1	50.7	(34.0)	5.7	(10.4)	14.6	107.3	87.2	116.4	150.5	195.0
Discount factor	-	-	-	-	-	-	-	-	-	-	1.00	2.00	3.00	4.00	5.00
Present Value of Unlevered Free Cash Flow	-	-	-	-	-	-	-	-	-	-	100.7	70.9	85.3	99.5	116.2
Discounted Cash Flow Valuations															
Perpetuity Growth Method															
Perpetuity Growth Rate	3.0%														
PV sum of unlevered FCF	472.7														
Terminal value	1,513.9														
Enterprise Value	1,986.6														
Add: Cash	244.0														
Less: Debt	25.8														
Less: Other EV adjustments	-														
Equity Value	2,204.8														
Shares outstanding	73.3														
Implied Share Price	\$ 30.08														
Current Price	\$ 24.45														
Implied Price	\$ 30.08														
Total Return	23.0%														
Exit Multiple Method															
Terminal EV/EBITDA Multiple	10.1 x														
PV sum of unlevered FCF	472.7														
Terminal value	1,881.4														
Enterprise Value	2,354.1														
Add: Cash	244.0														
Less: Debt	25.8														
Less: Other EV adjustments	-														
Equity Value	2,572.3														
Shares outstanding	73.3														
Implied Share Price	\$ 35.09														
Current Price	\$ 24.45														
Implied Price	\$ 35.09														
Total Return	43.5%														
WACC Sensitivity Analysis															
Perpetuity Growth Rate		WACC													
		12.00%	11.50%	11.00%	10.50%	10.00%									
	1.50%	\$ 23.83	\$ 24.99	\$ 26.28	\$ 27.71	\$ 29.31									
	2.00%	\$ 24.63	\$ 25.89	\$ 27.30	\$ 28.87	\$ 30.65									
	2.50%	\$ 25.52	\$ 26.90	\$ 28.45	\$ 30.19	\$ 32.16									
3.00%	\$ 26.51	\$ 28.03	\$ 29.73	\$ 31.67	\$ 33.89										
3.50%	\$ 27.62	\$ 29.29	\$ 31.19	\$ 33.37	\$ 35.89										
Terminal EV/EBITDA Multiple		WACC													
		12.00%	11.50%	11.00%	10.50%	10.00%									
	8.1 x	\$ 28.84	\$ 29.36	\$ 29.91	\$ 30.46	\$ 31.04									
	9.1 x	\$ 31.26	\$ 31.84	\$ 32.44	\$ 33.05	\$ 33.68									
	10.1 x	\$ 33.67	\$ 34.31	\$ 34.97	\$ 35.64	\$ 36.33									
	11.1 x	\$ 36.09	\$ 36.79	\$ 37.50	\$ 38.23	\$ 38.98									
	12.1 x	\$ 38.51	\$ 39.26	\$ 40.03	\$ 40.82	\$ 41.63									

Appendix 3: Comparable Company Analysis

Comparable Company Analysis											
(Figures in mm USD)											
Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple				
				2021A EV/EBITDA	2022E EV/EBITDA	2023E EV/EBITDA	2021A P/E	2022E P/E	2023E P/E		
Ralph lauren Corporation	(NYSE: RL)	7,516.1	8,861.2	19.8 x	8.4 x	9.0 x	-	14.1 x	14.8 x		
Etsy, Inc.	(NasdaqGS: ETSY)	17,521.3	18,869.8	34.5 x	27.2 x	24.9 x	41.0 x	33.8 x	33.7 x		
V.F. Corporation	(NYSE: VFC)	13,007.0	19,527.6	20.2 x	10.1 x	12.6 x	36.8 x	10.8 x	13.9 x		
Lululemon Athletica Inc.	(NasdaqGS: LULU)	48,682.1	49,137.4	49.2 x	30.7 x	24.2 x	84.8 x	51.0 x	38.6 x		
Under Armour, Inc.	(NYSE: UAA)	4,513.0	5,169.9	7.8 x	28.3 x	11.6 x	13.0 x	-	22.2 x		
Urban Outfitters, Inc.	(NasdaqGS: URBN)	2,630.5	3,326.9	24.4 x	6.6 x	9.3 x	2,853.0 x	9.1 x	16.4 x		
Levi Strauss & Co.	(NYSE: LEVI)	6,515.5	8,019.6	9.3 x	9.2 x	9.1 x	-	12.2 x	11.3 x		
RVLV	(NYSE: RVLV)	1,792.2	1,574.0	14.3 x	18.1 x	16.6 x	18.2 x	30.9 x	27.8 x		
Median					10.1 x	11.6 x		13.2 x	16.4 x		
Mean					17.2 x	14.4 x		21.8 x	21.5 x		
High					30.7 x	24.9 x		51.0 x	38.6 x		
Low					6.6 x	9.0 x		9.1 x	11.3 x		
				EV/EBITDA Implied Price		P/E Implied Price					
Median				\$	14.92	\$	18.04	\$	10.41	\$	14.43
Mean				\$	23.40	\$	21.60	\$	17.26	\$	18.96
High				\$	39.43	\$	35.25	\$	40.27	\$	33.97
Low				\$	10.75	\$	14.64	\$	7.20	\$	9.96

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