

Felix Modeling Challenge

Your team is advising Revolve Inc (ticker: RVLV), a US-based online premium fashion retailer, on a strategic review of the business. The company operates within the Apparel industry.

Your MD has asked you to complete a three-statement model, with a six-year forecast, which can be used to provide a company valuation.

One of your colleagues has already input the historical financial data and created some basic forecast assumptions for the income statement and balance sheet. Your MD has asked you to review and update these forecast assumptions, build a forecast cash flow statement and use this to calculate cash/short term debt and net interest expense using average balances.

To assist with reviewing the forecasts, your MD has asked you to ensure that they are broadly consistent with current consensus numbers, and has also provided the following notes from a review of their recent results and industry research:

- During 2023 the company faced considerable cost inflation pressures on its materials and labor costs, which caused a significant reduction in EBITDA margin. These inflationary pressures eased in 2024 and 2025, and are expected to continue until 2029. Company guidance is for long-term EBITDA margins of c10%.
- Industry research suggests that the online fashion industry will grow at a compound annual growth rate ("CAGR") of 8.5% over the next 5 years, and at 5.0% thereafter.
- Marketing spend is expected to stay at 2025 levels (as a proportion of revenue) for the foreseeable future.
- Your MD believes capex is expected to grow to 1.5% of sales over the next 6 years.
- Management have recently commenced expansion of their international business by developing new fulfilment centers in Europe and Asia, which will become operational in FY26. The new fulfilment centers will be leased, rather than being purchased. The expansion will double the size of their operating lease portfolio vs 2024 and will have similar terms to their existing leases.
- Inventory levels have been elevated since the pandemic and management have initiated a 3 year plan to improve stock management processes. Your MD believes that they are targeting inventory days similar to those seen 2023 (consistent with industry peers) by 2028.
- Other working capital balances are expected to grow with business volumes.
- The company has access to a \$75m line of credit to help fund seasonal working capital fluctuations. The facility was undrawn as at 31 December 2025 but the facility prevents dividends being paid to shareholders. The facility matures in March 2031.
- Share repurchases have occurred recently. It is expected these will increase.

When you have completed your model, you should be prepared to comment on the trends in the operating statistics at the foot of your model. Can you justify these trends?