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Q1 2023 Allbirds Inc Earnings Call

EVENT DATE/TIME: MAY 09, 2023 / 9:00PM GMT

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to theÂ AllbirdsÂ First Quarter 2023.Â (Operator Instructions). Now I'd like to turn the call over toÂ Katina Metzidakis, VP of Investor Relations and Business Development at Allbirds.

Katina Metzidakis ***Allbirds, Inc. - VP of IR & Business Development***

Good afternoon, everyone, and thank you for joining us. With me on the call today are Joseph Zwillinger and Tim Brown, Allbirds Co-Founder; and Annie Mitchell, Allbirds Chief Financial Officer.Â

Before we start, I'd like to remind you that we will make certain statements today that are forward-looking within the meaning of the federal securities laws, including statements about our financial outlook, including cash flow and adjusted EBITDA expectations, Q2 guidance targets, impact and duration of external headwinds, visitation initiatives, strategic transformation plans and related safer go-to-market strategy, expected profitability, cost savings targets, product plans and expectations, third-party partnership strategy, marketing strategy and other matters referenced in our earnings release issued today.Â

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please also note that these forward-looking statements reflect our opinions only as of the date of this call, and we undertake no obligation to revise any statements to reflect changes that occur after this call. Please refer to our SEC filings, including our annual report on Form 10-K for the year ended December 31, 2022, for a more detailed description of the risk factors that may affect our results.Â

Also during this call, we will discuss non-GAAP financial measures that adjust our GAAP results to eliminate the impact of certain items. These non-GAAP items should be used in addition to and not as a substitute for any GAAP results. You will find additional information regarding these non-GAAP financial measures and the reconciliation of these non-GAAP measures to the most directly comparable GAAP measures to the extent reasonably available in today's earnings release. A supplemental slide presentation is also available in the Investors section of our Allbirds website. Now I'll turn the call over to Joseph Zwillinger to begin the formal remarks.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Thank you, Katina, and welcome, everyone. We started the year with top and bottom-line results above our expectations as our teams are executing the plan and will continue to be a difficult macro backdrop. The footwear industry saw a heavy promotional cadence in

January, followed by a slowdown in spend in February, which was exacerbated during the bank ground in March. Despite the industry headwind and a leaner product launch calendar this quarter versus Q1 '22, demand for Allbirds products exceeded our plans, particularly in March. This top-line performance, coupled with tight expense control, enabled us to deliver bottom-line results and cash flows that were better than expectations.Â

On the strategic transformation initiatives we announced on our last earnings call, we are making solid progress against our plan to drive growth with expanded margins. As a reminder, our 4 initiatives include: one, reigniting our products and brands; two, optimizing U.S. distribution of 4-wall profitability in our stores; three, evaluating a transition of international direct go-to-market strategy towards a distributor model to reduce OpEx and overall complexity; and four, improving overall gross margin and managing operating expenses. Let's go through each of these now.Â

Starting with reigniting our products and brand, our teams are hard at work connecting insights to a recalibrated product line and refined marketing approach, which we expect to begin to bear fruit in early 2024. That said, I'd like to highlight some recent product launches that speak to our dual-pronged strategy focused on both surprising and delighting our core consumers while reinvigorating our core franchises to drive growth and assortment productivity. During Q1, we announced Moonshot, a purpose-led project to create the world's first net 0 carbon share. This net zero carbon footprint compares to our estimate of the industry average of 14 kilograms of carbon-dated equivalent emissions for a typical sneaker and speaks to our core consumer, who cares deeply for the environment as to the next generation of consumers. This announcement was designed to drive brand awareness and was successful in garnering north of 2 billion media impressions.Â

Social sentiment was extremely positive, with video views more than double our average organic social posts and engagement rates up almost 200%. We also just launched an extension to our consumer favorite Breeze Valet flat with the new Breezer point for women. The freezer point is a great example of reinvigorating and extending one of our core franchises by adding an elevated aesthetic appropriate for the casualized workspace. And as we mentioned last call, our core consumer skews female relative to industry peers, and we believe we have an opportunity to improve conversion with women through a dedicated product offering focused on meeting her needs. We intend to continue our investment in a similar extension.Â

Overall, the Allbirds brand remains strong. Last quarter, we spoke about the results from a company-sponsored BCG study. There are a few notable takeaways: First, Allbirds had the second-highest Net Promoter Score in our peer group. Next, our consumers have a strong level of brand loyalty and satisfaction, with 96% of shoppers in the past year saying they would consider purchasing from us again. Quality, comfort and design are the 3 main reasons why our consumers recommend that. More recently, in March 2023, LEK published its 2023 U.S. footwear and apparel brand heat Index, which ranks Allbirds as a top 10 casual footwear brand for both men and women. To amplify our product focus on core franchise innovation, we are emphasizing a social-first influencer-led marketing approach, which we expect to drive improved organic traffic and relevance for our recalibrated product line.Â

Expanding upon our supernatural North Star, our message of supernatural exploration celebrates the fact that our consumers lead active lifestyles, our adventures and aspire to travel the world. We have delivered strong and aligned creative, coupled with an integrated influencer activation, to reinforce the amazing qualities of our core product for travel. This is just a taste of what's to come in the next quarters. Moving now to U.S. distribution.Â

As a reminder, we have slowed the pace of our new store openings to focus on driving 4-wall profitability. We are pleased with our real estate portfolio of 40 full-price stores and 3 outlets in the U.S. In Q2, we opened 1 new store in the U.S., with 2 more to follow later this year. We continue to focus on driving traffic and conversion and are making inroads with several store pilots under the leadership of our new head of stores.Â

Turning to third-party partnerships. We continue to make steady progress with our marquee partners, Dick's Sporting Goods, Nordstrom, REI and Shield. And initial feedback regarding our recalibrated 2024 product pipeline has been positive, with great alignment of the insights they have pulled on their shoppers' perception of our brand.

After working through some slower-moving inventory from Q4 '22, we believe this channel is clean from an inventory perspective. For now, we are targeting our wholesale marketing investments towards in-store communications and staff training to increase sell-through and drive margins. We intend to invest alongside our retail partners to help ensure that our brand and product really stand out.Â

Moving now to our third initiative of evaluating a transition away from direct go-to-market strategies in certain international regions. We continue to explore alternatives with the goal of driving unit sales growth and near-term profitability. And we have made meaningful progress in discussions with a number of strong potential distribution partners with embedded distribution in addition to our current footprint in these international regions. In summary, we are pleased that both the level of interest we have generated and the pace of discussions, and we'll update you on our regular quarterly calls as we make additional headway.Â

Overall, demand and brand health remains solid in our international business, with revenue growth of 6.5% in local currency. Similar to last quarter, we are seeing strong momentum in our Asia business, with more than 50% organic revenue growth in Japan, which is a key trend in the market in footwear. We are seeing similarly strong trends in China with accelerating growth since January.Â

Finally, our fourth initiative on cost management is progressing very well. We are on track to deliver on our $35 million to $45 million of annualized cost savings target as compared to our run rate at the end of 2022, made up of COGS savings of $20 million to $25 million and SG&A savings of $15 million to $20 million. Starting with actions we are taking to manage cost. We are already seeing meaningful cost benefits from our manufacturing transition. Though it is still early days, we are starting to see significant improvements in costs for products coming off the line from our new factory partner in Vietnam. We expect to see an acceleration in savings throughout the remainder of 2023 as we finalize the factory transition this year. We expect savings from raw materials optimization to begin to hit production later in '23, with the results expected to positively impact COGS in 2024.Â

The early results lend confidence that we will be able to achieve the $20 million to $25 million of annualized COGS cost savings target on a volume-neutral basis to 2022. Moving to SG&A. We recently undertook a workforce reduction to reflect the reduced complexity created by these strategic initiatives. These moments are difficult, and we have taken steps to provide our departing colleagues with a smooth transition. And for those who remain, our strategy allows us to streamline operations, leaving a highly talented workforce well-positioned to ignite growth for the brand. We estimate that this recent action will deliver approximately $7 million in annualized SG&A savings with full year impact to be reflected beginning in 2024 and lends confidence that we will be able to achieve our $15 million to $20 million of annualized SG&A cost savings target as compared to our run rate at the end of '22.Â Annie willÂ provide a little more detail on our cash management efforts, but I'll share a couple of high-level points.Â

We ended Q1 with $143 million of cash, reflecting a significant improvement in cash usage in the first quarter versus Q1 of last year. With tightened inventory buys, streamlined expenses and solid demand capture, we expect the cash flow trends will continue to improve throughout the year, and we remain focused on ensuring that we maintain an ample cash cushion to support investments needed to reignite growth and drive sustained profitability. I'm now thrilled to hand the call over to Annie Mitchell.Â

Annie began her tenure as our CFO just a few weeks ago, and she's already making a major impact, and I couldn't be happier to have Annie rounding out our executive team with the great depth of industry expertise, Brent. Welcome, Annie. Over to you.

Annie Mitchell *Allbirds, Inc. - CFO*

Thank you for the warm welcome, Joey. I'm very excited to join the last at such a pivotal moment for this company and brands that I admire so much. Let's get right to it with an overview of our financial results for the first quarter.Â

Q1 revenue of $54.4 million declined 13% year-over-year, which was better than we expected, driven by improved performance into March, including a $1.2 million impact from FX, revenue would have declined by 9%. Our gross margin was 40.1%, down versus 51.9% in Q1 '22 and was impacted by several factors, including: first, a higher level of promotional activity due to both the ongoing industry-wide promotional environment and elevated markdowns as we work to clear our inventory of colors and styles that are being sunsetted. Second, inventory write-downs related to prior generation products, Third, costs associated with our manufacturing transition; and fourth, a year-over-year shift in channel. We continue to be thoughtful with our discount with an eye were protecting our core franchises. To that end, core franchises such as the Will Runner, Free Runner and Tree Dasher continue to have 85% or higher full price yield in the quarter.Â

Moving down the P&L. It is worth highlighting that SG&A, excluding depreciation and stock compensation, grew just 3% in the quarter. This represents a meaningful improvement compared to Q1 of 2022 despite 20 additional retail stores and reflects actions we are taking to control cost in the middle of the P&L, including slowing new store growth and tightening discretionary spend. Similar to last quarter, we chose to pull back on overall marketing spend on a year-over-year basis, given the promotional environment. We continue to look for ways to best manage our costs and have made the choice to update our marketing strategy to prioritize our marketing spend to align with the recalibrated product line expected to come to market slightly later in the year.Â

In Q1, we incurred $3.2 million in restructuring charges associated with our strategic transformation. Taken together, adjusted EBITDA came in at a $21.7 million loss, ahead of our guidance of negative 29% to negative 26%. Turning now to the balance sheet. I am pleased to report that inventory was down 8% compared to Q1 of 2022 and down 6% sequentially versus year-end. The decrease in the end of 2022 was attributable to less on-hand inventory as we continue to buy tighter, particularly for non-core products. A good example of this is our recent riser launch, we're pivoted quickly to buy more tightly.Â

As a result, this more fashion-forward product is trending ahead of our annual sales forecast with room to potentially capture additional upside later in the year as we get more consumer feedback. Overall, we continue to work towards entering 2024 clean from an inventory perspective.Â

With regards to cash, we ended the quarter with approximately $143 million on our balance sheet. Importantly, and as Joey mentioned earlier, our Q1 cash usage was cut in half on a year-over-year basis from $48 million in Q1 2022 to $24 million in Q1 2023. As a reminder, Q1 is typically our highest cash usage quarter. The improvement we saw versus last year's results was driven by the lower inventory that I just mentioned, lower CapEx spend primarily related to slowing the pace of new store openings, a reduction in corporate headcount, tide discretionary spend, and significantly lower inbound shipping costs, which should prove a positive offset to gross margin pressure in coming quarters.Â

Looking ahead, we expect Q2's cash usage trends to improve versus Q2 2022. Lastly, I'm pleased to announce that we finalized the extension and upsizing of our undrawn revolver with JPMorgan, which extends the maturity through 2026 and provides us with $50 million of committed liquidity, which is $10 million above our prior facility and $150 million of uncommitted incremental liquidity, $15 million above our prior facility. Regarding Q2 guidance, we expect Q2 revenue in the range of $64 million to $69 million, which represents a range of negative 18% to negative 12% year-over-year growth. We expect adjusted EBITDA to be in the range of negative $20 million to negative $23 million.Â

We will not be providing annual guidance this time, primarily due to the uncertainty surrounding the timing of our strategic transformation and most notably, the international go-to-market transitions that we are evaluating. From a directional perspective, similar to what we said in Q4, excluding the impact of any potential change in our international so-to-market, we are not anticipating any significant improvement in demand trends. We are maintaining a cautious outlook for the rest of the year given the uncertain macro backdrop and the nature of our transformation plan, including the fact that many of our product and brand initiatives won't kick hold until 2024. As we work towards a clean inventory balance and mix in 2024, we continue to expect gross margin to be pressured as we use markdowns at a more elevated level than is typical for our company.Â

Before handing it over, I'd like to thank Joey, Tim and the Board for the opportunity to join a company during this watershed moment. I'd also like to thank Mike for helping to ensure a smooth transition and the finance team for their support. I've long admired and have been a big fan of theÂ AllbirdsÂ brand and mission, and I firmly believe that the strategic transformation plan the team has put into motion is the best path forward for the company and to maximize shareholder value. I look forward to meeting and working with you all in the future. With that, I'll pass it over to Tim.

Timothy O. Brown ***Allbirds, Inc. - Co-Founder, Co-CEO & Director***

Thanks, Annie, and welcome to the flock. We are thrilled to have you on the team. As I covered in the last call, I have been focused on 4 key areas as part of our strategic transformation plan. One, evangelizing the Allbirds brand; two, helping to establish key strategic partnerships to grow our awareness; three, working to define our future approach to sustainable innovation in footwear and lastly, continuing to work closely on an area of deep importance to both me and the business culture. I'm energized and excited by this work and the potential it has to support the growth of the business and the long-term expansion of the brand's audience.Â

One example of the early fruits of this focus is our Moonshot project. As Joey mentioned, this project to create the world's first net zero shoe to market is a category first with the potential to become a long-term commercial franchise for the brand. I will continue to work to champion this spirit of innovation that has been with us since our founding. To support this focus, Joey and I, together with the Board, have made the decision to transition my title from Co-Founder and Co-CEO to Co-Founder and Chief Innovation Officer. I'm looking forward to supporting Joey as he continues to lead the business as our CEO on a day-to-day basis.Â

While my role has changed, one thing hasn't and that's my long-term focus and belief in the potential of this brand and business. I know both how far we have come and how much further we can go. From the original Kickstarter campaign to the launch of Allbirds and the world's most comfortable shoe and to the recent launch of innovations like the Moonshot project, we have significant opportunities ahead. With a focus on design, innovation and a clear vision for the role that brands will play in a new sustainable economy, we have significant potential through the strategic transformation underway.Â

Finally, a note of thanks to our block. Through the 7 years Allbirds has been in existence, I have seen you meet every challenge with an unrelenting belief in the long-term potential of our work. At each stage of our evolution, we have been met with new challenges and new opportunities. This moment is no different. I know we will work together as one team to continue executing on our plan together with a focus on innovation, execution and staying true to what makes our company great. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. And at this time, we will conduct a question-and-answer session.Â (Operator Instructions)Â Our first question comes from Lorraine Hutchinson with Bank of America.

Lorraine Corrine Maikis Hutchinson ***BofA Securities, Research Division - MD in Equity Research***

I wanted to follow up on your comments around inventory. How would you characterize the health of your inventory positioning exiting 1Q? And then what's the outlook on the promotional cadence from here?Â (technical difficulty)

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

So I guess in terms of inventory, I'll start it off with just kind of a shape of the inventory and then pass it over to Annie for a little bit more detail. On the shape, I just describe the inventory, maybe cutting it into 2 buckets. First bucket being the prior season, obsolete styles that we plan to sunset and colorways that we also plan to sunset. So in that bucket, that's where you see the predominance of our markdown. And that's where we're working through inventory quite quickly. And as we take price action, we're very encouraged by the movement in sales velocity we're seeing there, which gives us a lot of confidence in our statement around making sure we get cleaned by 24%.Â

The other bucket is in the core franchises and really mostly a majority in the classic colorways there. And in that bucket, we are maintaining a fairly high full-price yield, and we're really working that from just managing down future receipts that we're buying from the factory. And that you can see reflected in the really improved cash usage quarter over or year-over-year, I should say, for the first quarter.

Annie Mitchell ***Allbirds, Inc. - CFO***

A couple of notes I would add on top of that. First is that we do feel like our inventory is also clean with our partners as well, which is an improvement compared to last year. As we look forward, we're really focusing on the idea about (inaudible). And so as Joey said, we've done a good job of segmenting these buckets, and now it's really about the focus and execution. Overall, we feel good about our inventory. We have our plan, and this year is going to be about executing that plan.

Lorraine Corrine Maikis Hutchinson ***BofA Securities, Research Division - MD in Equity Research***

And as we look at your domestic third-party relationships, are you happy with the number of relationships you have right now? Are you looking for more? Or would you just like to get bigger within those existing third parties?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Yes, I think our focus is on showing up fantastically for those consumers that are walking through those doors. So we have great partners in different channels that reach our core consumer in a really effective way. So we're quite happy there. We're in about 100 doors, and there's a lot of room to run within those 4 accounts before we start looking outside that. And I also want to say that I think our focus is not in big growth in the wholesale channel in 2023. We really want to make sure that we come with the recalibrated product line that will start to come in towards the end of this year, but really the most material impact of that is in the first half of '24 and beyond.Â

And when we do that, that's when we really expect to be able to push the gas down. And fortunately, we started that sell-in process with some of these accounts and the feedback on the new product line is really warm. So very encouraging, but early signs there.

Operator

Our next question comes from Alex Straton with Morgan Stanley.

Alexandra Ann Straton ***Morgan Stanley, Research Division - Research Associate***

Great. I just wanted to make sure I understood the commentary you gave on the January to March cadence in terms of demand.Â

It sounds like you guys actually saw an acceleration. Is that right? Or how would you talk about the cadence in terms of the top line throughout the quarter?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Yes. So I think just to be clear, I made a couple of comments about the industry overall. And so I think what we saw was actually generally worsening trends in the industry overall sequentially, particularly from January to the second 2 months of the quarter. We outperformed that in terms of our own trends. So relative to that, we did see a continuation of Q4 early on and a little bit of an uptick with a good solid performance in March. And so that was...

Alexandra Ann Straton ***Morgan Stanley, Research Division - Research Associate***

Got it. That's super clear. Maybe one other quick question for you. I just wanted to understand the adjusted EBITDA guidance for the second quarter. It does look like dollars are most of the same, but there is a slight improvement in margin. I think that's seasonally kind of how your business typically runs. But I'm just trying to understand how you guys kind of thought about that guide and what's changing quarter-over-quarter on that metric.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

I'd just say, largely a continuation of the trend. And we're expecting for really the remainder of the year that the backdrop improves materially. And we're really surgically working through inventory this year, and we're going to take the opportunities where we can to move through that efficiently so that we set ourselves up to reignite growth in '24, while we're really effectively managing cash this year. And I can say that is the laser focus of how we're guiding the business. And maybe, Annie, if you want to add some specifics to the guide.

Annie Mitchell ***Allbirds, Inc. - CFO***

Sure. Yes, it's going to be relatively similar in Q2 compared to what we saw in Q1. We are still seeing, again, that the consumer backdrop is weak. It's a volatile margin environment. And so we really are maintaining our focus on executing our strategic plan, managing our inventory and our cash. And we do expect, again, in Q2 to see significant cash improvement year-over-year. That's really going to be the highlight. While the P&L will stay roughly the same.

Operator

Our next question comes fromÂ Robert DrbulÂ with Guggenheim.

Robert Scott Drbul ***Guggenheim Securities, LLC, Research Division - Senior MD***

Annie, welcome. Best of luck. And I have a couple of questions, if I could. I think the first one is there's a lot of launches that you've done over the last few weeks and few months. I think even the golf shoe launched maybe today or yesterday. Just would love to hear any feedback that you've gotten on some of the newer launches that you've had pricing perspective on, where you place them and how you feel about the pricing opportunity that you have. And then I guess just take it up a higher level, can you talk a little bit more around where you feel the brand is today, the brand equity, the brand heat, the brand recognition and if you're making progress there?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Thanks, Bob. So on the product launches, specifically, I can give you a couple of examples to kind of color it in. All of them are really bought, and I think we reflected this in the last quarter, all of them are bought pretty tight. So when we're looking at a situation where we have elevated inventory that we're trying to work through significantly, we're not betting on any big home runs or huge upticks in demand from new product launches throughout the remainder of this year.

And when we have opportunities that really we can see we put into the marketplace and they resonate really strongly. We have ample time to chase, and we have a fairly agile supply chain partner with our manufacturing group in Vietnam. So opportunities to chase when demand presents itself. And the thing I'll highlight, the Gulf faster was today, and that's an example where our customers have just consistently since we started the company, frankly, I said that they play golf and Allbirds and where on the clubhouse and that they would love to have one.Â

The DASH is the perfect franchise to do that. It is a core franchise product for us, and it just gave us an opportunity to delight a consumer group who really has been asking for it. And so we're only 6 hours into the launch, but so far, tracking really well. And similarly, with the Breezerpoint and the super-light versions of the tree runner and kind of an extension of that on the trainer, those have all performed to expectations and show really good signs. We learn a lot, and then we can chase that in the back part of the year and into '24 when it makes sense. So I'd say that's sort of how I would calibrate you on the product launches specifically.Â

Overall brand health. I'd say the brand health, the fundamentals are quite strong. I would say that the awareness growth is not picking up to the pace that we would have expected. And so I think when you think about some of the points I gave you around what the brand is showing up like for customers who do know about us, incredibly high NPS, lots of repeat purchase intent and good sell-through at high yields on our core franchises. All that speaks to a really good experience. The trick now is really we just got to focus on growing brand awareness and saying all the hellos to our core consumers. And when I look at what we've outlined in terms of the way we expect to show up, there's a couple of elements I'd point you to that I think should lend some good confidence into how we're headed here.

The first is the consumer who they are, they're quite young, digital-first people, pretty high household income. About 2/3 of our customer base is north of $100,000 household income, really geographically dispersed across the U.S. and skew quite significantly female relative to others in our industry. So that's sort of the backdrop. Less than 15% of the U.S. population has yet to find out about the greatness of Allbirds. So that's now what we got to work on. So we're tightly integrating our creative and marketing approach around core franchises. And we're showing up with this social first and influencer-led approach, which is helping to amplify the message and keep that focus on the core franchise. I gave the example around supernatural exploration, but that's one taste of it, and you should expect a whole bunch more of that. And we'll give you updates on how that progresses in terms of increasing brand awareness as we go.

Operator

Our next question comes from Janine Stichter with BTIG.

Janine Marie Hoffman Stichter ***BTIG, LLC, Research Division - MD & Consumer Retail and Lifestyle Brands Analyst***

On a little bit more color on some of the strategies you're using to move through the product that you're tuning. And I'm curious if you think you're getting a new customer through this promotional product and ultimately, that's somebody who you can transition to full price.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Yes, thanks for the question. Yes, we are seeing a pretty good balance where we are getting a lot of new customer acquisition when we do surgical markdowns, and they're accessing the brand at a lower price point. And frankly, they're performing as well or better as our full-price entry customers. And that's been pretty consistent for us over the last 12, 18 months, and that's really encouraging for us because I think promotion is really important to give access to new people who may be on the fence.

And as I mentioned earlier, the sales velocity, when we do move some of those products that we're going to sunset in the future in terms of taking them out of the assortment, the velocity is good, and the pickup on that is good. And when you match that with a consistent long-term customer value of those people entering through that entry point, it's an encouraging time for us.

Janine Marie Hoffman Stichter ***BTIG, LLC, Research Division - MD & Consumer Retail and Lifestyle Brands Analyst***

Great. And then maybe just kind of on the flip side. Historically, you haven't been a very promotional brand. So as you clear through some of those products, how do you make sure that your existing customer, who thinks of you as a full-price brand, doesn't become accustomed to the promotion?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Yes. Great question, and we are trying to be very thoughtful about that. First of all, I'll tip my hat to our factory partner here who has made tremendous efforts of making a lot of late additions for our spring/summer line for 24. So they're working truly around the clock to make sure we recalibrate that product line. And I say that because the large majority of impact when we really get the new assortment in front of consumers isn't until '24. So we want to pace this out as we work through the inventory, and that allows us to be quite surgical there.

And when I say surgical, what I mean is we want to really only focus to the extent we can on products that we will sunset in the future and keep our classic colors and our core franchises really intact at full price. So that's sort of the balance that we're trying to strike and exceptions to that might be on select windows when we run assortment-wide promotions or targeted promotions around different items, and that's really just a tactic to get new consumers into the brand.

Operator

Our next question comes from Jim Duffy with Stifel.

James Vincent Duffy ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***

So let me start on the international business model transition. I know it's a complex process. You said this is something that could influence the annual numbers. Does that suggest you expect some changes could be in place before year-end? Or are we looking at a much longer process?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

No, we would expect at least one, if not more, to be done this year and we hope to update you on that soon.

James Vincent Duffy ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***

Okay. Great. Maybe that in part answers my next question. Do you expect announcements on a piecemeal kind of country-by-country basis? Or is there certain regions where you'd expect to bundle relationships? How do you foresee that playing out?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

I think what we would like to do is just kind of collect them, and when they happen, we'll announce them on these quarterly calls, Jim.

Operator

Our next question comes from Dana Telsey with Telsey Advisory Group.

Dana Lauren Telsey ***Telsey Advisory Group LLC - CEO & Chief Research Officer***

On the differentiation between the performance in stores and the performance online, what is the biggest difference you're seeing, whether it's in terms of traffic, price point, how you're managing each? And as you think about optimizing the stores, where are you seeing the most success lately, whether it's some region box size or open-air and closed malls? How are you thinking about it? And then in terms of the product side with promotions, is there a channel where you're using promotions more than another? And with the core franchise that will be expanded by early 2024, what percent do you want that to be of the assortment?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Thanks, Dana. All right. I'll try to work through those. I'd say kind of store versus digital on our direct channel, we see generally a consistent customer. It does -- in our store business, it skews a little younger of a consumer, and they tend to be less price sensitive, and we drive kind of one of your later questions there. We drive a higher full-price sell-through inside of our brick-and-mortar. That is really the best expression for the brand. We have the highest NPS in our 4 walls, and we do drive higher full-price sell-through. And then that translates to a great kind of omni experience where those customers cross over and those dual channel customers tend to spend quite a bit more than just single-channel customers, even if they're repeat customers.Â

So I'd say those are kind of the biggest differences. And then in terms of how we're going about improving productivity in the stores, it's really we're here to sell shoes in the stores and focusing on what we can control in the 4-wall is probably the most important. So our new store leadership team has put a new regional structure in place, really driving good incentive management, good labor productivity and then, of course, focused on making sure everyone walks out with the Parachee or more.Â

And so those initiatives have been focused on merchandising in-store visuals and also just general kind of brass tax incentivizing our store fleet of great ambassadors in the stores. So I'd say those are largely. And then lastly, I guess I'll close out with your question on promos. Generally, we do that cross channel, albeit in terms of managing margin inside of those stores, which does tend to have a higher gross margin in terms of relative shape of business. We do like to minimize Sendbax and sometimes we offer local deals to people who are within our community and make sure they get the best experience there and get access to things that might be a little unique versus other consumers.

Operator

Our next question comes from Tom Nikic with Wedbush Securities.

Tom Nikic ***Wedbush Securities Inc., Research Division - Research Analyst***

The marketing expense declined quite a bit year-over-year, and I'm assuming that that's a function of not having the right product at the moment and not trying to put marketing dollars when you do exactly as your product where you want it to be, should we think that marketing continues to decline on a year-over-year basis kind of through year-end and then in 2024 when you have the new product lines that you're excited about, then we would see a reinvestment in marketing to reignite growth?

Annie Mitchell ***Allbirds, Inc. - CFO***

Yes. That is exactly how you should look about marketing. We absolutely plan to align and prioritize our marketing spend this year with the recalibrated product launch that we expect to come at the end of the year. We do expect that our marketing spend will be planned down year-over-year both in absolute and as a percentage of sales. We really want to make sure that we are matching our investments with the product, and we will be -- as a result, is why we've made the decision to hold further spend until we have the product recalibration to justify that higher investment and everything we've seen so far confirms for us that will be the case in 2024.

Operator

Our next question comes from Edward Roma with Piper Sandler.

Unidentified Analyst

It's Abbie on for Ed. So just in terms of the product recalibration, you talked about the golf shoe launch, but can you talk about your thoughts on Allbirds position within the performance category after some of the missteps on running? And what your plan is for the performance product going forward.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Yes. Thanks. I think the best way to characterize it is we saw some, I would say, perhaps more noise than signal in the midst of the pandemic. We saw our DASH franchise come out and just be an absolute blockbuster for us resonate really well. And we read some of those signals as permission from the consumer to get a little bit more technical in terms of performance running. And so we backed that up with some of the products that you saw at the end of last year, things like the flyer that really emphasize the technical running credibility.

And as I think we've been pretty open and candid about that, that just didn't land as well with the consumer. So we really want to pull that back to this active lifestyle. This blend of where consumers fell in love with us and we became famous for with him around this blend of lifestyle and activity kind of in that athleisure space. If we focus on that as the way we show up, the way we message and the products that we brief in, we know that resonates much more strongly with our core consumers, and we see the same thing from feedback in our third parties.Â

So you'll see a lot less in terms of kind of the hardcore technical running or technical sport. And I think even if you look at the way we've messaged the Gulf Dasher today, you can see it's just as good on the 1 tool as it is in the 19th pole. And so that kind of language where we really talk about that versatility and that style element that layers into something that still delivers on good comfort and good performance. That's the sweet spot for us.

Unidentified Analyst

Got it. That makes sense. And then just one more. When you say you'll enter 24 in a clean inventory position, do you have like a dollar amount that you can give us to you consider a healthy position there?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Yes. We won't give specific guidance on that, just kind of align with the overall change in terms of what's going on with the strategic transformation. And I can also tell you that as we noted, the international changeovers are a big element of that. So it's difficult to put it in where that's going to land. But we'll give you updates. And as we do finalize our decision to move in one of those regions to a distributor model, I think we can give you a blueprint and really cover that in more detail.

Operator

(Operator Instructions)Â Our next question comes from Mark Altschwager with Baird.

Mark R. Altschwager ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

So I mean it sounds like 24 is really going to be the bigger flow of new products. But as I was mentioned a few times on this call, I mean, there has been quite a bit of newness in the last few months here with the Superlight and Tree Runner and the Gulf. And I guess these seem like products that are really aimed right at that core customer. So what kind of marketing muscle are you putting behind that over the spring/summer or anything you're doing differently from a merchandising perspective in the stores? I know you're in early innings with the transformation here, but I'm curious if you're looking at some of these recent launches as a way to get an early read on the strategy to refocus on the core. Or is it really just going to be more about a 24-product flow story?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Yes, Mark, thanks for the question. It's a great one. These are really good examples of extensions off of core franchises. The reality is that we bought them quite tight, so we don't want to back up the truck with marketing dollars when we don't have the inventory. So in most of these cases, I should say, in some of these cases, we'll see 100% sell-through relatively quickly on some of these examples. And then you'll see things like the Breezer Point and its original kind of the Treebreezer franchise. We will continue to run the integrated marketing campaign and flow that through, and we are seeing solid progress to that.

So these are kind of like good tip-of-the-iceberg examples of where we're headed and how we integrate the marketing against these. And the signs are positive there. That said, as we move through the inventory, we want to make sure that we don't overextend on marketing and make sure that as we use markdown, particularly on some of these slower-moving products from prior seasons that we let that do with some of the heavy lifting for us instead of spending marketing dollars outside these walls.

Operator

And at this time, I would like to turn it back over to Joey for closing remarks.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***

Great. Well, I just want to close a couple of things. I want to say first that I'm really incredibly proud of our team's unwavering dedication to successfully executing this strategic transformation with a really unified set of goals around driving growth, particularly in '24 with expanded margins and also focusing on the day-to-day business with a laser focus on cash. I think we all know these big changes don't happen overnight, but as we progress through the plan, the strategy is already demonstrating real tangible value and value creation for Allbirds and our stakeholders and to all of our stakeholders here, we're grateful for your continued support and our commitment to growing into a global and vital generational brand remains steadfast, and I could not be happier with the team of people. I'm surrounded by to achieve these ambitions. Thanks very much, and we will look forward to sharing more with you in the next quarter.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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