Allbirds
Q1 2024 Earnings Call Prepared Remarks
Wednesday, May 8, 2024
2:00 p.m. PT

Christine Greany, Investor Relations

Good afternoon, everyone and thank you for joining us. With me on the call today are Joe Vernachio, CEO, and Annie Mitchell, CFO.

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, 2024 guidance targets, impact and duration of external headwinds, strategic transformation plan and related planned efforts, go-to-market strategy, planned transitions to a distributor model in certain international markets, anticipated distributor model arrangements, expected profitability, cost savings targets, gross margin estimates, product plan timelines and expectations, third party partnership strategy, marketing strategy, and other matters referenced in our earnings release issued today.

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, 2023, for a more detailed description of the risk factors that may affect our results.

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 a reconciliation of these non-GAAP measures to their most directly comparable GAAP measures to the extent reasonably available, in today's earnings release.

Now, I'll turn the call over to Joe to begin the formal remarks.

Joe Vernachio, CEO

I am pleased to be here today, hosting my first earnings call as CEO. I've been in the seat for nearly 60 days and it's been gratifying to see that our teams are coalesced around our transformation plan, leaning into the tasks at hand and operating with purpose. Today's headline is that we know what needs to be done and we're executing with urgency.

We're pleased to share that first quarter results were in line with expectations, highlighted by our ability to achieve significant improvement in gross margin and narrow our adjusted EBITDA loss despite a 28% sales decline. We are delivering strong execution against the key pillars under our strategic transformation plan, which are:

- Reigniting product and brand
- Optimizing our US distribution and store profitability
- Transitioning to a distributor model in international markets
- Improving cost and capital efficiency

We made substantial progress in the first year of our transformation - with our initiatives across stores, distributor transitions and cost reduction well underway and generating benefits. We have set up 2024 as a year to regain top line momentum through improved product and storytelling, and position the brand for growth in 2025.

Among our strategic imperatives is the return to full price selling. After a year of promotional activity, we recognize this shift will create a near-term impact to sales but we know it is the right decision for the long-term health of the brand. In Q1, we had just one promotion - a planned event in March. Going forward, you can expect to see a similar cadence of limited promotions connected to consumer-driven moments throughout the year.

As we start to deliver a more robust offering of fresh, updated product later this year, we believe the consumer will respond. We are laser focused on creating a cohesive icon strategy that celebrates and innovates upon the core franchises that Allbirds is known for and our customers love. It has been encouraging to see some green shoots when we have brought newness.

Most recently, we introduced the latest addition to our Runner Franchise, the Tree Runner Go. This shoe draws inspiration from one of our best-selling silhouettes with new innovations and upgrades. It’s still early, but consumer feedback has been extremely positive, with our customers responding well to the style, color and comfort – and our limited color drop to date leaves opportunity to bring additional newness in the coming months. Initial conversion rates have been robust in both men’s and women’s, and for the two-week period subsequent to launch, it’s the highest performing product we’ve seen in almost two years. Following the success of our Wool Runner 2 launch last November, this tells us that our franchise offense strategy is resonating. And we have more to come for fall and holiday.

Importantly, we are moving as quickly as possible to advance our product pipeline for 2025. The work being done now will be in-market mid-year and we are thrilled with how our design direction is taking shape. We will be designing through consumer-led insights and stories and anchoring on core colors to meet the needs of our customers throughout their day, their week and across seasons – all through a very focused Brand lens.

With a healthy inventory position and rejuvenated product design, we are beginning to sharpen our Brand position and marketing message. In the short term, we plan to keep our spend efficient. As we begin to flow in updated product offerings during the second half of the year, we expect to make incremental investments in upper funnel marketing to broaden brand awareness and reach new customers.

In parallel with our efforts to reignite our product and brand, we are taking actions to create a healthy, balanced US marketplace, which includes optimizing our store profitability and distribution. We are on track with the store optimization initiative that we outlined last quarter. We closed three US stores in Q1 and plan to close 10-15 underperforming US locations this year. As we focus on maximizing the productivity of our remaining stores, we're encouraged that our initiatives to drive conversion - including new visual merchandising strategies and an enhanced selling culture - are beginning to gain traction.

Wholesale is another critical channel where we can reach both new and existing customers. In the near-term, we will continue to be conservative to ensure that we don't over-assort before we have a portfolio of resonant products. You've heard us say this previously but it bears repeating: we are fortunate to have exceptional partners in the wholesale channel, including Dick's Sporting Goods, Nordstrom and REI. We intentionally pulled back the brand's presence in these doors in 2023 as we wanted to ensure that we could show up in this channel with a clean book of inventory and compelling product. We're now positioned to become better partners to them – we're moving forward with a long-term game plan to strengthen these relationships and deliver a compelling product offering that will excite their consumers.

The decision to add Amazon as an additional digital marketplace last year is bearing fruit and outpacing our expectations. This is a profitable extension of our reach and allows Allbirds to meet our customers where they are.

Turning now to international, we have made substantial progress in a short period of time with our transition to a distributor model.

- Canada and South Korea transitioned in Q3 of last year, while Japan and Australia/New Zealand are on track to transition in the next two months.
- Additionally, we are pursuing opportunities to localize key regional marketplaces throughout continental Europe.
- We're also entering new regions and recently announced distribution agreements in the Gulf countries and southeast Asia.

By the end of 2024, we expect to have a much stronger expression of the Allbirds brand across key international geographies. Most importantly, we will be utilizing the knowledge, local marketplace expertise and wholesale capabilities of our distributors to drive scalable growth over the coming years. As Annie talked about last quarter, we view 2024 as a stair step as we transition these markets at different times throughout the year – and make the trade off necessary to generate higher quality revenue that allows for stronger flow through to the bottom line.

Underlying all of the strategic actions we're taking is cost discipline. We are rebuilding the wire frame of the Company, making significant progress across the cost structure, inventory and cash to lay the groundwork to achieve profitability. This year, we'll begin to realize COGS savings resulting from our factory shift and materials innovation, while also capturing operating expense savings from our workforce reductions, international transitions and store closures. More on this shortly from Annie.

Our key areas of focus within our transformation pillars - where our teams are executing this year - are as follows:

- Returning our brand to full price selling;
- Creating a cohesive icon product strategy;
- Refreshing our Brand position and message;
- Building a balanced US marketplace across digital, retail storefronts and wholesale;
- Executing our international transitions; and
- Continuing to right-size our cost structure.

As I said earlier, we have our plan and we're executing with urgency.

We greatly appreciate the dedication of our teams and the support of our shareholders during this transformational time for Allbirds. We look forward to keeping you updated on our progress and driving value for all of our stakeholders in the quarters and years to come.

Now, I'll turn the call over to Annie to discuss the financials.

Annie Mitchell, CFO

Thanks Joe, and good afternoon everyone.

We're pleased to report a fifth consecutive quarter of operational and financial progress under our strategic transformation plan. Our first quarter performance reflects strong execution by our teams, with revenue meeting and adjusted EBITDA exceeding our guidance. Notably, we delivered significant gross margin expansion and a 4% improvement in adjusted EBITDA on a 28% sales decline.

Q1 revenue totaled $39 million, primarily reflecting a few key factors: lower overall demand levels and our strategic decision to return to full price selling, as well as the anticipated impact from our international distributor transitions and retail store closures.

Gross margin came in at 46.9%. That reflects 680 basis points of expansion versus a year ago as we start to realize the benefits from our strategic actions. This includes initial product cost savings related to our factory shift and materials innovation, a healthier inventory position, and the return to full price selling in our direct channels. Looking at the remainder of the year, we expect gross margin to be in the mid-40s, with some moderation in Q4 due to planned seasonal promotions.

We also saw improvement in operating expenses. SG&A dollars, excluding stock-based compensation and depreciation & amortization, totaled $32 million, down 1% versus prior year. The results can primarily be traced to lower payroll and occupancy costs, as well as ongoing cost discipline. This was partially offset by costs associated with our retail store closures and distributor transitions.

As planned, during the quarter we closed three Allbirds stores in the US. We expect to close the next tranche of US stores in Q2 and early Q3, putting us squarely on track with our previously communicated plan for 10-15 closures in 2024. In connection with the store closings, we incurred one-time cash charges of $2 million in the quarter and expect to incur additional charges this year. We expect to begin capturing incremental savings from our strategic actions around store closures and distributor transitions in the second half of the year.

Q1 marketing expense came in at $8 million. That's down sequentially and year over year, in line with our plan to maintain conservative spend until we begin to flow in an expanded offering of new product in the second half of the year. Additionally, and to a lesser degree, lower Q1 spend is reflective of our international distributor transitions. We continue to expect full year marketing spend to be down versus 2023, with planned incremental investments in the US in the back half of 2024.

Moving to the balance sheet and cash flow, we are pleased to have a solid balance sheet as we progress through our strategic transformation.

Inventories at the end of Q1 totaled $61 million. That's down 45% versus a year ago and up 5% from year-end, reflecting healthy levels and composition following our successful reset in 2023.

We closed the quarter with $102 million of cash and cash equivalents and no outstanding borrowings under our $50 million revolver. Operating cash use was $26 million in the quarter and reflects a few key factors. First, as a reminder, our working capital needs peak in Q1, which is the lowest revenue quarter of the year. Next, we used approximately $4 million of cash to build inventory, including new products such as the Tree Runner Go, as well as color updates to existing franchises. And lastly, we deployed approximately $2 million to exit underperforming leases.

For added perspective and understanding of our cash flows in 2024, I want to highlight some important nuances that will have a bearing on our full year cash use.

- First, when we transition to a new distributor, they purchase all of our inventory and assets in the region, which results in an initial infusion of cash.
- Next, we are beginning to see cost of goods benefits flow through the P&L and remain on track to achieve our savings target of $20-$25M by 2025 on a volume neutral basis vs 2022.
- So…we are buying inventory at a lower average cost compared to last year.
- Therefore, inventory will continue to be a source of cash this year.

Importantly, we continue to have the runway and financial flexibility to execute our strategic transformation plan. We finished the quarter with inventories down 45%, gross margin up 680 basis points and over $100 million of cash.

We’re reiterating our full year guidance as follows:

Revenue is expected to be in the range of $190-$210 million. As we previously communicated, this reflects a headwind of $32-$37 million related to our strategic actions to close certain underperforming US stores and transition our existing international markets to a more profitable distributor model.

Taking a look at revenue by geographical market…

- Full year US revenue is expected to be $150-$165 million and includes approximately $7-$9 million of impact resulting from our anticipated US store closures.
- Full year International revenue is expected to be $40-$45 million and includes approximately $25-$28 million of impact resulting from our anticipated transitions to a distributor model in international markets.

Gross margin is expected to be in the range of 42%-45% and reflects a few key factors:

- Reduced promotional intensity compared to 2023;
- Lower inbound and outbound freight; and
- Initial savings from our factory shift to Vietnam and material innovations.
- These benefits are expected to be partially offset by lower gross margin from international regions that have transitioned or are planned to transition to a distributor model in 2024.

Full year adjusted EBITDA loss is expected to be in the range of $78-$63 million.

Turning to Q2 guidance…..Second quarter revenue is expected to be in the range of $48-$53 million. That includes US revenue guidance of $35-$37 million and international revenue guidance of $13-$16 million.

Adjusted EBITDA loss is expected to be in the range of $20-$17 million.

We’re pleased with our solid start to the year and proud of the way our teams are executing as we continue on our path to transform the business and deliver long-term shareholder value.

With that, I’ll ask the operator to open the call to questions.