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Q2 2023 Allbirds Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Allbirds Second Quarter 2023 Conference Call.

(Operator Instructions) I would now like to turn the call over to Christine Greany of The Blueshirt Group. Please go ahead.

Christine Greany ***The Blueshirt Group, LLC - MD***

Good afternoon, everyone, and thank you for joining us. With me today on the call are Joey Zwillinger, CEO; and Annie Mitchell, Chief Financial Officer.

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, Q3 guidance targets, impact and duration of external headwinds, simplification initiatives, strategic transformation plan and related planned efforts, go-to-market strategy, planned transition to a distributor model in certain international markets, anticipated distributor model arrangements, expected profitability, cost savings targets, gross margin estimates, product plans 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 quarterly report on Form 10-Q for the quarter ended March 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 measure to the extent reasonably available in today's earnings release.

Now I'll turn the call over to Joey to begin the formal remarks. Joey?

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

Thank you, Christine, and welcome, everyone. We are pleased to report another quarter of top and bottom line results above our expectations during a transformational time for Allbirds. We laid out a road map for our strategic transformation back in March. And now 2 quarters into our work, we have gained traction and are solidly on track to drive towards profitability expectations. We don't currently have a store in Missouri, but we believe in the Show-Me State model. We are sharply focused on reporting sustained and durable cash flow and profit and will not rest until we achieve our goals.

We continue to make progress on laying the groundwork to drive profitable growth. We are reducing inventory levels, working with our suppliers on cost of goods savings, trimming overhead and streamlining working capital to grow profitably in our international markets. This past quarter marks incremental progress on all of those dimensions. First, inventory levels declined approximately 24% on a year-over-year basis, ending the quarter below $95 million for the first time in 2 years. This is the result of prudent financial and inventory planning and our balanced approach to meeting the consumer where they are on price while maintaining brand integrity.

Next, we continued our strategic sourcing effort. And between materials optimization and factory footprint management, we are confident that we are trending towards the upper end of the target range of cost of goods savings of $20 million to $25 million in 2025 versus 2022 on a volume-neutral basis. Also on cost management, we are pleased to be able to reaffirm our range of expected SG&A cost savings of $15 million to $20 million by 2025 versus 2022.

And lastly, we closed the quarter with $140 million of cash, reflecting significantly improved operating cash usage versus a year ago and our commitment to driving capital efficiency over the long term.

Most recently, we executed on another material proof point under our transformation work. We announced today the signing of 2 letters of intent with international distributors as part of our plan to transition select overseas regions from a direct go-to-market model to a third-party distributor model, encompassing an omnichannel scope, aimed in part at driving volume via wholesale distribution. These first 2 transitions are in Canada and South Korea, and we anticipate announcing additional geographies in the coming quarters.

Transitioning our international model is one of the 4 key pillars under our strategic transformation plan. As a reminder, those include: one, reigniting product and brand; two, optimizing U.S. distribution and four-wall profitability in stores; three, evaluating a transition of our international direct go-to-market strategy towards a distributor model; and four, improving overall gross margin and leverage on operating expenses.

I'll take you through a brief update on each of these strategies and how we're progressing, starting with product and brand.

Our product team remains laser-focused on recalibrating our assortment with a focus on revitalizing our core franchises and driving more of the business from these models, while also delivering important innovation to engage with our loyal consumers. With an incredibly strong NPS of 86 in the quarter, we continued to deliver a wonderful experience, which helps to build confidence in our ability to reconnect with our core consumer and drive greater brand momentum over the long term. To be clear, we expect this to begin meaningfully taking shape next year in the spring of 2024.

We've delivered thoughtful innovation and select newness this year with measured inventory buys to help delight our customers. There are several noteworthy callouts. Our recent core franchise extension of the Golf Dasher has met with solid demand and rave reviews from our consumers around the golf world, with PGA Tour players organically finding our products and playing with them in tournaments, having a much more comfortable round, I suspect.

We dropped our SuperLight collection in April, our lightest-ever sneaker that was perfect for travel and also boasts our lowest carbon footprint to date. Last month, we debuted our Artist Series, a string of collaborations with artists designed to amplify creative voices and reach new consumers. The first in our series is a limited edition Riser, created in partnership with London-based fashion designer, Olivia Rubin. In the future, you will see us increase focus towards our core franchises with this and other collaborations.

Most recently, we launched the Tree Flyer 2. While a very high-quality technical running shoe, the past couple of years have taught us that our consumers look to us most for versatility in their active lives rather than for support during marathons. In addition to buying this update tightly from an inventory perspective, we have introduced important aesthetic changes that elevate the product for lifestyle occasions and have matched the marketing message and approach to meet our consumers' needs better.

We have additional innovation we plan to deliver to consumers in the second half of this year, including a key update to the Wool Runner. This will be the first significant and highly visible change to this hero franchise that launched our business in 2016 when it was broadly described as the most comfortable shoe in the world. The Wool Runner 2 will have a modernized aesthetic and deliver superior comfort and durability.

Q4 will also begin our execution against the gender differentiated product strategy with a capsule for her. This will be just a taste of what's ahead in the coming year, leaning into novelty materials and trends to drive further differentiation and seasonally right expression. While we are exercising disciplined inventory management and more measured buys from new launches this year, we are still bringing excitement and newness to consumers, and we're pleased to see sell-through trending on plan and in some cases, ahead of our expectations.

Looking further ahead, we are pleased by the consumer and industry response to our release of the M0.0NSHOT project, further cementing our leadership and sustainability with the world's first net zero-carbon shoe. While small in volume, we anticipate this project will pave the way for important collaborations that have the potential to catalyze momentum in 2024 and beyond.

To showcase all of this newness and to drive traffic, we continue to employ a social-first, influencer-led marketing approach. Building on the success of our Supernatural Exploration campaign this spring, we will be expanding our influencer programs throughout the second half of 2023 and leading up to the holiday selling season. We anticipate that this refined marketing approach, coupled with compelling price offers during consumer-led promotional windows, like Back To School and Labor Day, will help continue our execution during this transition year.

Turning to our second pillar, optimizing U.S. distribution and store profitability. We know that brick-and-mortar, both our own and third party, is an important way to reach new consumers and also increase spend among our valuable omnichannel consumers. During Q2, we opened 2 full-priced U.S. stores in Greenwich, Connecticut and in Walnut Creek in the SF Bay Area, bringing our total U.S. store count to 44 at quarter end. Subsequent to the close of Q2, we opened one additional U.S. store in Columbus, Ohio. As a reminder, these 3 locations were opened against early 2022 lease timing, and we currently have no further U.S. openings planned.

On the international front, we opened a new location in Hamburg, Germany during Q2, marking our last overseas store opening planned for 2023.

Returning to the U.S. store base, traffic remains challenging, and we expect this to persist through the end of the year. As we work to optimize our U.S. store profitability, we are underway in a number of initiatives designed to help establish a consistent selling and performance culture across the organization. This includes new visual messaging, more targeted merchandising strategies that bring greater excitement and energy to our floor sets.

In wholesale, we made substantial progress working down existing inventory so that we exit this year in a healthy position. Promotional levels remain somewhat elevated, but have trended lower over the past couple of months. We are fortunate to be working with marquee partners who understand our priority to recalibrate our product lineup, closely manage inventory levels and move at a very measured pace as we bring newness to the channel.

One noteworthy example of the strength of our third-party relationships is the opening of our Selfridges carbon concept pop-up store in mid-July, located in a premier location in London Oxford Street. This 6-week immersive experience highlights our mutual commitment to sustainability, while delivering style and comfort to their global taste-making shoppers. The buzz has been tremendous, bringing visibility to our brand in the U.K., enhancing our credibility and paving the way for future collaborations and partnerships.

Now on to our third pillar, transitioning our direct go-to-market strategy towards the distributor model and international markets. We believe today's announcement of our expected transition to distributors in Canada and South Korea will mark the beginning of a more profitable path to growth for the Allbirds brand in overseas markets. We've been searching for the right partners with strong merchandising capabilities to drive the right products for the right channels as well as the ability to connect with the local consumer, enhance brand equity and fuel customer engagement.

The goal of this strategic shift towards the distributor model is multifaceted and is designed to position the Allbirds brand for long term and scalable growth internationally. First, we believe these partnerships will help us build upon our global brand equity by leveraging regional expertise and wholesale capabilities to resonate with local consumers in each respective geography. We're very excited about the cumulative years of experience these distributors will bring to our operations and the growth plans they are committed to helping us attain, which we anticipate will generate unit sales growth in excess of what we might achieve on our own in the short and midterm.

A secondary benefit of this strategic shift is to reduce overall complexity and lower operating expenses to improve profitability. Lastly, the adoption of this model positions us to free up cash tied up in inventory internationally and reduce our overall inventory balance.

As a directional blueprint, based on the signed letters of intent, we anticipate that these arrangements in Canada and South Korea will be multiyear in duration, and we plan to include volume minimums and marketing commitments. We expect our business under these international partnerships to deliver gross margins below our U.S. wholesale business, but anticipate equal or higher contribution margin and anticipate strong cash flow dynamics with expected title transfer from us to our distributor partners, ex factory.

Looking ahead, we are impressed by the caliber of potential partners we are hearing from in other international markets. This includes distributors with deep industry expertise who have a high regard for the Allbirds brand and are eager to collaborate. Our ongoing discussions in other countries gives us confidence that we'll be able to announce additional transitions in future quarters.

Moving to our fourth and final pillar, improving overall gross margins and managing operating expenses. We made continued progress in Q2, and entering the second half of the year, we are on track to deliver the cost savings targets we outlined previously. This includes $20 million to $25 million in savings on COGS and $15 million to $20 million of savings in SG&A by 2025 compared to our run rate at the end of 2022. Annie will provide additional context to these shortly.

But before I pass it over to her, I want to note how well our flock is performing. Their resolute spirit, hard work and resilience in the face of big change has allowed us to make such important progress thus far in our transformation. Our teams are aligned on our core objectives, focused on superior execution and energized by the opportunity to win as we work collectively to take Allbirds into our next phase of growth. I'm proud to see everyone stacking hands and doing the tough work that transformations like this require.

We are entering the second half of the year with confidence in our trajectory and a relentless focus on managing cash and achieving our goal of positive adjusted EBITDA in 2025. As always, underpinning both our near-term objectives and long-term vision is our unwavering commitment to create better things in a better way.

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

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

Thanks, Joey. Our second quarter results reflect ongoing progress with our transformation work with significant improvement across the key benchmarks we laid out in March, including lower inventory levels, reduced usage of operating cash and cost control.

Q2 revenue of $70.5 million, declined 10% year-over-year and came in ahead of our expectations. Excluding an estimated $700,000 impact from FX, Q2 revenue would have been $71.2 million, which would have represented a 9% decline year-over-year. We delivered significant expansion in gross margin for Q2, which came in at 42.8%. That's up 6.7 percentage points compared to Q2 2022 and reflects a few key factors.

First, inventory write-downs were significantly lower on a year-over-year basis. Second, we captured some benefit from lower inbound freight expense. And lastly, we benefited from an increased mix of higher-margin sales in Asia. These factors more than offset the impact of higher promotional activity in the second quarter of 2023 versus the second quarter of 2022. We're pleased with the continued progress towards our $20 million to $25 million COGS reduction target for 2025 versus 2022. In Q2, we largely completed the transition to our new manufacturing partner in Vietnam, and our material optimization initiatives are continuing to progress.

Moving to expenses. SG&A, excluding depreciation and stock-based compensation, increased just $4.5 million compared to Q2 2022. That reflects a continued improvement in trend as we focus on careful cost control, most notably, the ongoing tightening of discretionary expenses. Looking at the second half, we anticipate that SG&A dollars in Q3 will be flat to up slightly from Q2 levels. Additionally, we anticipate that Q4 SG&A dollars will be up on both a sequential and a year-over-year basis, primarily reflecting our larger store portfolio.

Marketing expenses declined $3.3 million or 21% compared to Q2 2022. In the first half of the year, we made the strategic decision to pull back on marketing as we focus on our transformation plan and navigated the promotional environment. Looking ahead, we are preparing to support our recalibrated product lines in Q4 and into 2024 with new campaigns. Entering the second half, we expect Q3 marketing dollars to decline slightly from Q2 levels, followed by a modest uptick from third quarter into the fourth quarter.

In Q2, we incurred $1 million in restructuring charges associated with our strategic transformation. A combination of better-than-expected top line performance and careful cost control drove an adjusted EBITDA loss of $18.3 million in Q2. That's ahead of our guidance for negative $20 million to $23 million and represents an improvement of 12% versus a year ago.

Turning now to the balance sheet and cash flow. I am pleased to report that we made significant improvement within both areas. First, you know that we've been laser-focused on inventory. We ended the quarter with inventory levels down approximately 24% compared to Q2 of 2022 and down 21% from year-end. The improvement reflects more selective and disciplined buys, resulting in lower levels of inventory on hand. Looking at the remainder of 2023, we expect to see ongoing progress from quarter-to-quarter, ending the year with a healthier composition and clean position.

Now let's look at cash. At the close of Q2, we had $140 million in cash on the balance sheet. We dramatically cut our operating cash use during the second quarter, generating positive cash flow of close to $1 million compared to negative operating cash flow of $24 million a year ago. The improvement can be traced to our aggressive actions to bring down inventory levels and reduce operating expenses. For added perspective, our working capital needs typically peak in the first and third quarters as we prepare for the spring and holiday selling seasons. Looking at the balance of the year, we anticipate seasonally higher working capital needs in Q3 compared to Q2 with a moderating trend in Q4.

Moving to guidance. we are maintaining a cautious outlook given the extensive transformation work we have underway, including our methodical approach to rightsizing existing inventory to enable us to drive healthy growth in 2024 and beyond. We are providing the following outlook for the third quarter of 2023, which reflects the ongoing work we are doing to execute against our transformation plan.

Q3 revenue is expected to be in the range of $56 million to $61 million, representing year-over-year comparisons of negative 23% to negative 16%. The deceleration in trend from Q2 to Q3 can largely be traced to dynamics around promotional intensity levels as well as the lapping of significant sell-in to the third-party channel last year. Adjusted EBITDA loss is expected to be in the range of $20 million to $23 million.

Looking ahead, we anticipate that our expected shift to a distributor model in Canada and South Korea will benefit working capital and the profitability of these markets on a go-forward basis. The agreements contemplated by the letters of intent we signed with the distributors in these 2 geographies are expected to be completed in the second half of the year. To that end, we expect to be in a position on our next earnings call to provide a framework for how the transitions will strengthen our financial model over the long term.

The transformation plan we laid out in March is designed to reignite growth, improve capital efficiency and drive improved profitability. While the majority of our product and branding initiatives will be coming to market in 2024, you can expect to see us continue to aggressively manage inventory, cash and costs in both the near and long term.

Now I'll ask the operator to open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Matthew Boss from JPMorgan.

Amanda Kristen Douglas ***JPMorgan Chase & Co, Research Division - Analyst***

It's Amanda Douglas, on for Matt. So Joey, with 2Q inventories finishing down 24% year-over-year, could you speak to the composition of inventory levels, maybe how best to break apart core franchise inventory levels relative to progress you've made on clearing through some of the obsolete styles? And then just what level of promotional activity have you contemplated in your forward guidance?

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

Amanda, thanks for the question. So the way that we've been approaching markdowns and our promotions in terms of what assortment we're putting in is primarily focused on kind of eliminating the long tail of product that is outside of the core franchise and then perhaps even deeper when you get to seasonal colors that are no longer relevant.

So far, I'm quite pleased at the progress that the team has been making in terms of selecting which assortment and managing the depth of markdown or promotion that we're offering there. And so where that lands us is a position where in Q2, a very significant portion of the inventory that we moved within the Tree Flyer franchise, which you may recall from the last couple of quarters we noted was a bit high and outside of what we would consider a core franchise.

So as we transition to a much more measured buy and a different positioning on the Tree Flyer 2, we wanted to sunset that first-generation product. And so alongside that, some of the other ancillary products that we will no longer support going forward, plus some of the more kind of flashy seasonal colors. So far so good in terms of the look-back.

And in terms of the look-forward, again, I think we're seeing a really nice methodical pacing to this. And you can see that as we flex things like pulling marketing spend back 21% and moving inventory down 24% in the quarter, that's pretty significant progress and much better than the trend on sales. So that is something that we expect to be able to continue. And while as Annie noted, continuing to deliver some positive news in terms of sequential gross margin on that.

Operator

Our next question comes from the line of Dana Telsey from Telsey Advisory Group. Please go ahead. Dana, your line is open.

The next question comes from the line of Alex Straton from Morgan Stanley.

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

Great. A couple for me. Just on the second quarter guide. It looks like it's embedding a deceleration in the underlying revenue growth trend. So I'm just wondering, is that a function of what you're seeing so far quarter-to-date? Or is that just some conservatism on your part? Any help there with how you thought that through? And then I think just second, on the promo question. I'm wondering if you could speak to like the broader environment. And Joey, I think you also said it trended lower in the last couple of months. If you have any sense for what drove that and kind of how it panned out that way.

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

Sure. I'll follow up on that one and maybe Annie can give a little color on the Q3 guide.

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

The decelerating trend that we are expecting from Q2 and into Q3 is a number of factors. First is that elevated promotional activity that we had in Q2 that enabled us to clear through so much of that inventory. We do believe there was some level of a pull forward of demand from Q3 into Q2. The other major topic that we're looking at is in Q3 last year, we had a major sell-in moments with our 3P. And so as we're ramping up our presence in that channel last year, therefore, we're up against a tough comparison year-over-year.

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

Yes. And on the promo environment, Alex, it's an interesting situation. We would have expected at this point for it to subside a bit. But what we're seeing in the overall industry is continued elevated promotional cadence, both frequency and depth, in terms of the discount rate, and we're seeing that kind of anecdotally as well as in the numbers that we look at weekly. And in some ways, I think it's a good thing for us because we're able to really surgically use promo and markdowns on our sale page to drive pretty solid conversion and allow us to be competitive on a price basis with an industry that's a bit over inventoried, while also moving very importantly through the inventory that we don't want to support when we start to reignite growth in '24. So fortunately, we're able to be quite opportunistic during this period and maintain a very premium brand integrity with the way we show it for consumers because of that environment.

Operator

Our next question comes from the line of Cristina Fernández of Telsey Advisory Group.

Cristina Fernández ***Telsey Advisory Group LLC - MD & Senior Research Analyst***

I'm filling in for Dana today. I wanted to see if you can talk about your core styles, how are those performing, and how is the full price selling on those styles?

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

Cristina, the core franchises, as we've noted, if you go from noncore to core, you're going to get higher full price sell-through, and the trends are going to be better. And when you go from your seasonal colors and particularly the very high pop ones, which are short duration life cycles for us towards more classic neutrals, again, the sell-through gets better. So that is the trend we're seeing.

That said, I think we've had a couple of franchises that have been iconic for the brand and have been around for quite a long time now. And so one of the key focal areas for us in 2024 is to revitalize some of these core franchises with updated tooling and in many cases, a lot of new designs on the upper, both reinforcing from a quality perspective, but also -- and when I say quality, I mean, the actual comfort and the durability of the product as well as modernizing the aesthetic.

And that is going to be a pretty important update for us in Q4 this year in terms of the Wool Runner, and we will have subsequent revitalization of those core franchises in 2024. I would say that's given a lot of optimism inside this building in terms of how we're set up for the coming quarters as we get into 2024 and beyond.

Cristina Fernández ***Telsey Advisory Group LLC - MD & Senior Research Analyst***

And then a second question. I'm not sure how much you can share on the shift to the distributor model. But at least on the ones that you signed the LOI, will the distributors be running the stores in Canada? And are there any like onetime sort of costs here in the second half that we should expect as those deals get closed?

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

Yes. Let me give you a bit of high-level color and then Annie can fill in for that as well. So in general, just to be clear, when we make a transition, what we expect is that we'll have a decline in revenue on a volume-neutral basis, but we will be supported by an immediate benefit to profitability and cash flow. And what we're also looking for in these partners is the ability to drive additional volume due to their footprint within the wholesale marketplace in their regions.

So that's the overall expectation, which -- because we have not invested in infrastructure for wholesale inside of these international markets, we would expect some really interesting growth opportunities. And we're very pleased with the partners that we're having conversations with and in particular, the 2 that we're mentioning today that we're through the LOI phase with. So that's the kind of -- that is the high level. And maybe, Annie, if you want to fill in any details for accounting of that.

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

Absolutely. So to go back to the first part of your question, yes, we do anticipate that our partners in South Korea and in Canada will take over existing operations across e-comm and retail, and we'll have the opportunity to grow the business with potential wholesale partners as well. In terms of impact, we do expect that any impact from the transition in terms of revenue in Q3 will be de minimis. But we do look forward to walking you through more details on these transactions in our next earnings call.

Operator

Our next question comes from the line of James Duffy from Stifel.

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

I have a question about the big-picture objectives for the international market transition. So international currently contributing at a loss. Upon transition, do the international businesses under a distributor relationship immediately contribute a positive profitability?

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

Yes. That is the expectation we have. So upon transition, we would expect virtually an immediate flip to profitable contribution and also a really nice positive impact from working capital. And just to note, these relationships, the way we expect them to happen, there will be from the partners a minimum marketing commitment. There will also be a minimum volume commitment that they agreed to in our arrangements. And they will pick up inventory from us, ex factory, with a -- which will be a positive improvement in terms of the working capital cycle on an ongoing basis.

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

Excellent. That seems a meaningful beneficial transition. And then with respect to the big picture objective to be EBITDA positive by fiscal '25, I presume the assumption is that the international business is profitable. Would you foresee the domestic business to be contributing profitably as well at that objective? Or is that not the framework?

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

Annie, why don't you fill in color here? And just to be clear, that is on a -- as we referenced that, that's on a calendar year basis to be adjusted EBITDA and cash flow profitable for the full year. But in terms of the segment breakdown, do you want to give a little color for Jim?

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

Sure. Yes, moving each of our international businesses to distributor will definitely be positive. As Joey has mentioned, we see the immediate benefit, and we also see it over the long term. We have additional work to do between now and then to ensure that our overall business is profitable by the end of 2025. And I can let you know that our team is in lockstep to -- and we are all marching towards that full year 2025 to have a positive cash flow and positive adjusted EBITDA in that year.

Operator

Our next question comes from the line of Bob Drbul from Guggenheim.

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

Just a couple of questions for me. The first one is just on the store optimization, can you just expand a little bit more sort of the progress that you've made, sort of how you've approached it, and sort of where you see the opportunities the remainder of the year into next year? And then Annie, when you think about the cost savings program, have there been any sort of low-hanging fruit surprises that you've found as you've dug in a little bit more in the last few months?

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

Thanks, Bob. So on the first part of your question, I would say kind of zooming out, the most important thing for our store fleets to do is to control what they can control within their four-walls. And so our objective in the stores is to be -- is to have that segment not only contribute what it does from a marketing perspective and a customer experience perspective, shifting customers to that omnichannel, a very valuable omnichannel customer shopping journey, but it's also to be profitable on a four-wall basis and accretive to our overall profitability. So that's the overall framing.

And when I say control what they can control in the four walls, significantly, putting our resources around training and development, lowering attrition of the store fleet and the staff there and then driving conversion and units per transaction for every time someone walks in the door. And so those, we're starting to see some sequential improvement quarter-over-quarter, and I expect that to continue over time. And as we drive to a more new product and freshness style of marketing and put that recalibrated product line into place, particularly with the materiality of that coming in 2024, we would expect to start lifting traffic as well.

So that's kind of how we framed it for the team. Pretty happy with the early progress. The team is doing a great job and are working methodically to get the building blocks in place such that when traffic comes significantly, we hold on that conversion and drive continued expansion to AOV.

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

In terms of overall cost savings, the major savings this year comes from the workforce reduction that we had done in Q2. As you would expect, there are a number of other areas across the P&L and especially in OpEx, where we are really reviewing our discretionary spend. And we've come up with a plan, and we're executing against it. And as you can imagine, coming up with the plan is sort of the easier part. It's the execution that matters, and this is where the team is really coming together to make sure that we are all driving towards a more profitable business going forward.

Operator

Our next question comes from the line of Edward Yruma from Piper Sandler.

Edward James Yruma ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

I guess first on new products. I know you said in the last call, you'll see a lot more in the second half. Just trying to understand cadence on when that gets released. And maybe a little bit of a click down. I thought you guys were exiting technical runs, and we noticed you dropped the new Free Flyer 2. So I'm just trying to understand that. And then as a bigger picture question, where should we expect marketing expenses to kind of reramp into some of these new product introductions?

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

Thanks, Ed. So in terms of the recalibrated products, just to kind of clarify the way you framed that question. I would say the second half of this year, we'll have some additional products, but probably at the same measured pace that we did in the first half with, I would call it, disciplined inventory buys that will give us a good forward-leading read into rebuying those into 2024. The more material changes that we were able to make starting early this year aren't really going to take place in any significant quantity until 2024, albeit we should see the benefits of a more gender differentiated approach in Q4 and also the first revitalization of the core franchise with the Wool Runner in November time frame.

So that is -- I'd say that's -- it's trending a little bit more in the direction that you described, but the materiality of those changes are really going to hit home in 2024 for consumers.

And then on TF2, we're about halfway through the year here. And frankly, as we saw some of the trends in TF1, we already had purchased some of the TF2 and that was fully through development. And the important thing is while we may have stealth technology and technical running componentry and performance in our products, we can still take that aesthetic and position it more in that active lifestyle crossover space and expect to see better results when it's positioned more effectively versus what we did in Tree Flyer 1, which was a little more hardcore technical running performance and our consumer just wasn't ready for that from us. So that's a big part of the learning. The inventory buy, in this case, is quite measured. I think the colors are fantastic and do great for the lifestyle occasion, and the messaging has improved. So happy with how that is set up despite the fact that it kind of has the similar aesthetic from the TF1.

And then your last one on marketing spend, I will say we're definitely managing this and making those trade-offs with -- between markdowns and marketing cadence and really want to save a lot of dry powder in terms of new product, particularly when we revitalize the core franchises. But maybe some specifics, Annie can drill in to help you all actually put some numbers to paper, too.

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

Absolutely. As you may recall, we were down in our marketing spend, both in Q1 and Q2 by $2 million and $3 million, respectively, compared to the prior year. And we did that, as Joey said, to be really prudent as we really wanted to make sure that we are allowing the promos and the margin impact from that to drive conversion. In terms of Q3 marketing dollars, we do expect them to decline slightly from Q2 levels, followed by a modest uptick from Q3 and into Q4. And we'll do that as we want to make sure that we capture the opportunity to drive greater conversion and full price sell-through as the product line improves in the back half of the year.

Operator

(Operator Instructions) Our next question comes from the line of Dylan Carden of William Blair.

Dylan Douglas Carden ***William Blair & Company L.L.C., Research Division - Analyst***

Great. And apologies, I've missed some of this call. But I'm just curious what it might take, as far as sort of an internal infrastructure standpoint, if you wanted to more fully ramp North America wholesale? And is that sort of something that you're thinking about here as you kind of assess the landscape and sort of where you've come from after this last year?

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

Yes, it's a great question, Dylan. We are building the appropriate infrastructure both from an IT perspective, a personnel perspective on the sales team as well as the necessary kind of product seasonal muscle that is required to enter that -- into that channel effectively. The one thing that I would say is holding us back is not infrastructure. It's that we really want to drive sell-through and margin for our partners, and that is the only way that you're going to be successful in that channel. We would much rather have high sell-through first and then have a pull strategy where the retailers are really crying for more. And that is then the time that we would like to methodically expand inside of those accounts with more doors and more SKUs and then select other accounts as well.

The time that that's really going to be effective for us to drive that approach isn't going to be in any material quantity of growth until 2H '24, and that is a bit of a hangover from the fact that we're putting a lot of change in recalibrating our product portfolio to hit those seasonal selling windows. We're just a little bit behind schedule on that and want to make sure we see the sell-through in our own channels before we put it to the partners.

Dylan Douglas Carden ***William Blair & Company L.L.C., Research Division - Analyst***

Yes, all that makes sense. And again, with the same caveat, any update on Golf? I know it's small and sort of more of a test, but just kind of curious if it emboldens you as far as sort of category extension, brand extension?

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

Yes. The way to think about the Golf Dasher is more of the dasher than an entry into golf. It's one of those things where we know we have an absolutely star product there. But the resources required to really fully get into golf isn't something we're ready to undertake. And so the idea with that (inaudible) quench the thirst of customers who have been asking for this for years. And it's an amazing product. As I said, you might have missed it, but there's tour players playing in PG events with these on their feet right now, and it's just a phenomenal shoe. And I think it speaks to the breadth and the idea of franchise expansion and core franchise management that we expect to bring to all of the key core franchises to make sure that they continue to bring energy to consumers.

Operator

(Operator Instructions) Our next question comes from the line of John Kernan from TD Cowen.

Alexander Laurence Douglas ***TD Cowen, Research Division - Associate***

This is Alex Douglas, on for John. I just had one additional question on the international business. It looks like it's outpaced the domestic business for the last 3 quarters and inflected positively in Q2, which was nice to see. Is there like any specific callouts there that you guys would have from a either a product perspective, brand perspective or consumer behavior perspective that would be driving that? Or is that more just a function of broader market dynamic?

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

Yes. Thanks for the question. I think it's largely the latter. I mean, first of all, the international business in each geography is coming off a smaller base. The second thing is that there is a lot of idiosyncrasies by market. If you think back to the first half of '22, there was a number of regions with pretty severe COVID lockdowns still at that time. And so we're lapping some kind of unique backdrop in terms of the way those regions were -- how the retail environment was in those regions, frankly. So we saw some extreme and stellar growth inside of a couple of regions that had those lapping periods even though we pulled back on marketing spend pretty significantly and really drove towards a really nice business in those as we started to explore some of those transitions.

Operator

(Operator Instructions) All right. Well, I'm showing no further questions at this time. I'd like to turn the call back over to management for closing remarks.

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

Thanks, Haley. I'll just close by noting that we are spending every waking moment focused on driving sustained and durable profit for the future chapter of Allbirds. It is not going to happen overnight, but rest assured that this is our myopic focus, and we are working in all the right areas with the urgency you all would expect.

Appreciate your continued support, and we look forward to speaking with you next quarter to update you on our continued progress. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.