REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2022 Allbirds Inc Earnings Call

EVENT DATE/TIME: MARCH 09, 2023 / 10:00PM GMT

CORPORATE PARTICIPANTS

Joseph Z. Zwillinger *Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director*
Katina Metzidakis *Allbirds, Inc. - VP of IR & Business Development*
Michael J. Bufano *Allbirds, Inc. - CFO*
Timothy O. Brown *Allbirds, Inc. - Co-Founder, Co-CEO & Director*

CONFERENCE CALL PARTICIPANTS

Blake Anderson *Jefferies LLC, Research Division - Equity Associate*
Edward James Yruma *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*
James Vincent Duffy *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*
Janine Marie Hoffman Stichter *BTIG, LLC, Research Division - MD & Consumer Retail and Lifestyle Brands Analyst*
John David Kernan *TD Cowen, Research Division - MD & Research Analyst*
Mark R. Altschwager *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Allbirds Fourth Quarter 2022 Conference Call. (Operator Instructions)

Now I'd like to turn the call over to Katina Metzidakis, Vice President of Investor Relations and Business Development at Allbirds. Ma'am, you may begin.

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 Joey Zwillinger and Tim Brown, Allbirds' Co-Founders and Co-CEOs; and Mike Bufano, Allbirds' 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, Q1 guidance targets, impact and duration of external headwinds, simplification initiatives, strategic transformation plan and related planned efforts, go-to-market strategy, expected profitability and cost savings, product plans and expectations 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 September 30, 2022, 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.

During today's call, we will also be referring to our active customers. Active customers are defined as the total number of unique customers who have made at least one purchase in the preceding 12-month period, measured from the last date of such period. The supplemental slide presentation is also available in the Investors section of Allbird's website.

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

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

Thanks, Katina. And good afternoon, everyone. 2022 came to a challenging close as we ended the year below our guidance range, ending the year with nearly $300 million in net revenue, representing 7% year-over-year growth or 10% excluding $8 million impact related to FX. Our adjusted EBITDA for the year was negative $60 million, which includes a $17 million impact, primarily associated with the previously announced discontinuation of certain first-generation apparel. Like the industry, we were impacted by weak consumer demand, but we also made some strategic and executional missteps that impacted results.

The most important thing we want you to hear from us today is that we know we need to improve performance, in particular, our path towards elevated and sustained operating margins, and the set of actions we will outline today strive to do just that. We're announcing new transformation initiatives designed to get the business back on track with an emphasis on profitable growth. But before we talk about where we're going, let's talk about how we got here.

In our first full year as a public company, we made important progress. We launched new materials innovations such as SwiftFoam and Plant Leather; built third-party selling relationships with Nordstrom, REI, SCHEELS and DICK'S Sporting Goods; executed on our simplification initiative; and added key leadership at the management and board level. And we did all of this while remaining true to the sustainability principles upon which we were founded. These achievements will be important to our future success.

However, in this journey, we also made some missteps. First, we over-emphasized products that extended beyond our core DNA. And as a result, some products and colors have had narrower appeal than expected. Because we were spending significant time and resources on these new products that did not resonate well, we underinvested in our core consumers' favorite products. Finally, we did not increase our brand awareness to the level that we anticipated. In essence, over the past couple of years, we shifted our focus away from our core consumer, and we must refocus sharply on this large and attractive group.

Taking a look at Q4 specifically, this dynamic was exacerbated by the fact that the final weeks of December were exceptionally promotional and we did not sufficiently promote to meet consumers' expectations. As a result, Q4 was the first quarter of negative growth in our history. We are disappointed with these results. And we know that as we look ahead, the status quo is not enough.

In response to these challenges, today, we are outlining 4 areas of focus as part of the strategic transformation designed to drive growth, expand gross margin and transition to an asset and OpEx-light model that will enable us to reconnect with our core consumers and meet new consumers in a capital-efficient manner. To support this effort, we hired a Chief Transformation Officer named Jared Fix at the end of last year. Jared brings significant experience driving operational improvement across organizations and consumer-facing industries. Importantly, the initiatives we are announcing today represent the first step, and we will continue to evolve as we chart the path forward.

There are 4 key areas of focus: one, reignite product and brand with a more focused product strategy that will enable us to reconnect with our core consumer and better appeal to new consumers; two, slow the pace of Allbirds store openings in the U.S. and continue to partner with third-party customers to enhance brand awareness and drive sales; three, evaluate transition.

(technical difficulty)

And four, enhance growth and operating margins by building upon and further accelerating the cost and cash optimization work we began in mid-2022. I'll now dive into each.

The first initiative centers on reconnecting with our core consumer and driving brand momentum through product and marketing. Just 6 years ago, we created an amazing brand, which achieved an incredible level of commercial success due to our unique value proposition: thoughtfully designed naturally derived, comfortable athleisure footwear. Roughly 2 years ago and after a period of considerable growth, we made a decision to diversify our product beyond the core DNA of what has made us one of the most beloved brands in footwear in an effort to reach a younger fashion-forward and performance-oriented consumer.

We over-invested in seasonal trend colors and new silhouettes like the Pacer and Flyer. And while we created a number of breakthrough material innovations, we have yet to commercialize them effectively. And while these products did succeed in attracting new consumers to the brand, they have lower conversion and sell-throughs in our classic styles across channels. Ultimately, we have come to recognize that our overinvestment on newness came at the expense of focus on consumers, who are loyal to our brands and on nurturing our core franchises, such as the Runner and Dasher.

We recently conducted a deep consumer study, which confirms some key insights about our core consumer and found that the fundamentals of brand are very strong. For context, our target consumers are fairly evenly split by gender, though our core consumer actually skews female relative to industry peers and are between the ages of 30 to 40. One key takeaway from this study is that we have an opportunity to improve conversion with female customers through a dedicated product offering focused on meeting her needs. This is a substantial growth opportunity as we address her need moving forward.

Overall, our consumers lead an active lifestyle, are adventurous and travel the world. They care about the environment and making a positive impact. They tend to be affluent and are partial to premium products and brands and are well-weighted to the general population in terms of geography.

Importantly, our Net Promoter Score was the second highest in our peer group. We continue to have a strong level of brand loyalty and satisfaction with 96% of our shoppers in the past year in the survey stating they would consider purchasing from Allbirds again. Quality, comfort and design of the 3 key reasons why our consumers recommend our brand. In fact, the primary reason consumers did not make another purchase was that the product they wanted were not available, which is we believe a byproduct of this assortment expansion at the expense of core franchise development. Again, this represents a huge opportunity.

However, this doesn't mean that newness is irrelevant. Yet while we update classic styles in the near term, thoughtful innovation and new product introductions beyond our core with more measured buys and marketing investment will remain key to unlocking our full growth potential.

One final insight I will share from the study is how we fit into consumers' lives and the white space in the market that we will target. Specifically, we found that products we have categorized as performance can more effectively be positioned by promoting an active lifestyle as opposed to a technical performance offering. We have already begun to recalibrate our assortment to increase focus on core franchise management, embracing our super natural North Star and deliberately connecting this to the consumer, who we have frankly paid too little attention to, over the last 2 years.

We expect to make significant strides by offering a more curated seasonal color offering, utilizing a gender-specific color segmentation. We will also leverage our various materials platforms to create embellishments across core franchises. In total, we believe these actions will offer the freshness our consumers want while increasing SKU productivity. However, during this transition, we do expect to face margin pressure as we utilize markdowns to ensure we recalibrate the line and move into 2024 with a cleaner inventory position.

Our focused product strategy will be complemented by increased investments into mid-funnel brand marketing, embracing our disruptor position and differentiated brand purpose that is below our target consumer. We will create values-aligned products and brand partnerships to better integrate our marketing investments, increase awareness growth and drive sales.

And we will focus the majority of these marketing efforts against core franchises. We estimate Allbirds still has less than 15% aided brand awareness in the U.S., which gives us an incredible opportunity reinforced by our consumer insights work. While we are excited about these efforts across products and brands, these initiatives will take time to materialize, given the long development lead times in our industry.

Our second initiative is focused on distribution in the U.S. as we work to make stores a more strategic and effective lever to grow our brand. After a year in which we opened 19 new stores in the U.S., we are significantly slowing the pace of new store openings in 2023. This year, we plan to open 3 stores in the U.S. against leases signed in early 2022 and rebalance our focus from opening new stores towards driving profitability and new customer acquisition from our existing fleet, including the roughly half of our U.S. stores that have been opened for less than a year.

We continue to view stores, both owned by Allbirds and leveraged through third-party partnerships, as critical to reaching new consumers and increasing penetration of valuable omnichannel consumers. Our insights work over the past months has demonstrated that the shoppers in our stores are less price-resistant and continue to drive the omnichannel shopping behavior, our most profitable consumer journey. However, we must drive more foot traffic to our stores and increase engagement once shoppers enter our four walls.

We plan to drive traffic through an increased store marketing investment, including omnichannel opportunities focused on our most engaged customers. Additionally, we intend to increase conversion through region-specific merchandising, improved store navigation and enhanced associate training so that every consumer entering our stores enjoys an experience matched to their high intent.

To support this effort, we have appointed a new head of stores for North America with over 15 years of retail experience working with brands such as Athleta and Under Armour. She's already making steady progress against our most significant areas of opportunity. Like our direct store channel, we believe our third-party strategy helps us achieve similar objectives, including increasing brand awareness and adding new consumers to our ecosystem. We are encouraged by early activations in REI, DICK'S Sporting Goods, Nordstrom and SCHEEL, which have demonstrated solid sell-through core franchises.

Looking ahead, we plan to continue our measured expansion within our current partners, and we'll evaluate expanding to new premium partners in the future. Though still early -- in the early days, we feel good about the progress in this channel and the relationships we are building with partners and consumers.

Our third initiative encompasses an evaluation of our international go-to-market strategy and could be the most significant shift of the 4 key focus areas. To be clear, international growth remains vital to achieving our long-term goals, but we believe a pivot in how we go to market may be necessary to reduce complexity and grow our international business with efficient use of OpEx and CapEx, creating greater flow-through to the bottom line. In many of the markets in which we operate, we have excellent brand positioning and solid growth, yet remains subscale. Japan is a great example of the strong brand position where we have seen more than 50% organic growth thus far in Q1. We believe that potentially transitioning the go-to-market strategy in certain markets to partnerships with distributors could unlock profitability and inventory efficiency in these regions while also reducing complexity in our U.S. headquarters.

Said another way, we are ultimately seeking higher quality revenues even if that impacts sales growth in the short term. As we evaluate this go-to-market shift, we will speak to distributors with a long track record of embracing the core DNA of partner brands while effectively localizing into their markets. Even in regions where we may shift the distribution strategy, we will work to maintain the option to reclaim direct operations over time.

The fourth and final initiative targets cost savings and capital efficiency. This builds upon and further accelerates the cost and cash optimization work we started in the middle of 2022. To highlight a few of these changes, we plan to fully transition footwear production to our new manufacturing partner in Vietnam by Q4 this year and are already seeing higher quality products with materially lower costs coming off the line. We have also enhanced our strategic sourcing program to drive increased profitability through optimized material costs. As we enhance SKU productivity with our sharpened focus on products that celebrate our core brand DNA, we expect additional cost benefit from downstream logistics.

We have identified several additional areas for SG&A savings and cash optimization opportunities, which Mike will walk through in a moment. To deliver against these initiatives, we have made a number of changes to our leadership team. We previously announced the expansion of Kate Ridley's role to encompass both brand and product. Kate has deep roots in the footwear industry, including more than 2 decades at Adidas. And we have already seen the impact of our experience as we recalibrate our product portfolio and integrated marketing approach.

We have also eliminated our Chief Commercial Officer role and has shifted to a regional focus with an omnichannel North America structure reporting directly to executive management. On our Board of Directors, we welcome Ann Freeman back in August, an industry veteran with over 25 years of experience from Nike. And we recently added Eric Sprunk as a Board adviser, whose leadership in decades in the footwear industry, including his tenure as Nike's COO, are catalyzing positive momentum internally.

Finally, as we announced earlier today, this will be Mike's last earnings call as our CFO. I want to take a moment to thank him for his partnership with Tim and me, the executive leadership team and the Board throughout this process of becoming a public company just over a year ago. We appreciate all Mike has done in setting up a strong finance organization within the company and know he'll help ensure a smooth transition. Mike, it has been a pleasure working with you, and we wish you the very best.

As we look ahead to Allbirds' next chapter, we're thrilled to announce that Annie Mitchell will join us as our CFO in late April. Annie is a proven finance executive who is wrapping up her role managing finance and insights for GymShark North America and was previously SVP of Finance and CFO of Adidas North America. Annie's deep functional expertise, paired with her industry experience, will be vital as we execute against our transformation strategy and deliver on our performance goals.

We have continued to deepen our bench with talented executives, who bring extensive footwear industry experience, proven leadership capability and a hunger to drive improvement across our organization. Many of the changes I've outlined will take time, and 2023 will be a transition year, which should set us up to significantly improve profitability in 2024.

Against the backdrop of our transformation work, most notably the timing and implications of potential changes to our international business, coupled with the uncertain macro environment, we are providing only quarterly guidance today. Year-to-date results have trended similar to Q4, with sales down in the high teens, coupled with gross margin erosion from price action we've taken, primarily on end of season sales. Excluding the impact of any potential international transition, over the course of 2023, we are not planning for any improvement in current demand trends. Similarly, we expect gross margin pressure to continue as we use markdowns at a more elevated level than is typical in order to enter 2024 with a healthy mix and size of inventory.

Overall, the strength of the Allbirds brand, coupled with our experienced and deeply committed team, gives us confidence in our ability to reaccelerate growth beginning in 2024. In the short term, we are laser-focused on managing cash and getting to profitability and expect the actions we're taking to help us capitalize on significant revenue and margin expansion opportunities in 2024. As we look further down the line, we expect to achieve cash flow profitability and positive adjusted EBITDA in 2025.

We want you to know that management is fully aligned and energized by the opportunities to transform and reinvigorate our brand. As we work to achieve our goals, the members of our executive leadership team will not receive a 2022 performance-based bonus, and we have all reduced our 2023 base salaries. In addition, our company-wide 2023 incentive structure has been revised to closely align with the 4 initiatives I described.

Transformations like this take tremendous discipline and focus, and I want to specifically recognize the incredible members of the Allbirds flock for supporting this effort. Since day 1, Allbirds has had an incredible culture rooted in deeply held commitment to our business, our consumers and our products. As we've grown and evolved over the years, our goal to prove that comfort, great design and sustainability don't have to be mutually exclusive has remained at the center of everything we do. I know that this will continue in the months and years ahead.

With that, I'll turn it over to Mike to give additional details on Q4 and our plans for the year.

Michael J. Bufano ***Allbirds, Inc. - CFO***

Thanks, Joey, both for the kind words and your partnership over the last 2 years. Allbirds is a special company with a unique mission, so this was not an easy decision on my part. I appreciate how you, Tim and the Board have been working closely with me in a highly collaborative way to facilitate a seamless transition.

Before walking through the P&L, I would like to highlight that we have added both a restructuring and an impairment line in the income statement. In 2022 in restructuring, we are capturing costs associated with our previously announced simplification initiatives. In impairment, we are reflecting a charge related to store assets in China that were impacted by COVID-related closures. Going forward, we plan to use the restructuring and impairment lines in the income statement to reflect costs associated with our strategic transformation.

Also, in light of the strategic transformation and in order to align with these expressed by members of the staff of the SEC following the receipt of a routine comment letter in December, we are no longer excluding from our non-GAAP measures the revenue and cost of revenue associated with the previously announced discontinuation of our first-generation apparel business. Our guidance targets for Q4 net revenue and adjusted EBITDA loss did exclude these items. The impact of this change, compared to our guidance targets, was an increase to Q4 revenue of $1.5 million, a decrease to Q4 gross profit of $3.5 million and an increase to Q4 adjusted EBITDA loss of $3.5 million.

After factoring in the impact of this change, Q4 adjusted EBITDA was only slightly below guidance on an apples-to-apples basis. And that's a good transition to Q4, where the headline is that sales were disappointing, but we were able to offset most of that decline in the middle of the P&L, thanks to the positive impact of our simplification initiatives and tight cost management.

When we last spoke with you in early November, we identified potential headwinds and tailwinds as we headed into our peak season. At the time, Q4 to date sales have been trending negatively, but we believe that we could get back to flat as consumer spending patterns shifted to a more normalized holiday cadence and as our holiday marketing campaign, product news and promotions kicked into gear. After achieving strong results during Black Friday/Cyber Monday week, sales growth turned negative again over the last few weeks of the year. Joey outlined the drivers earlier, but I would like to provide more color on markdowns.

As a young and premium brand, we chose not to chase to the bottom with markdowns in Q4. Inclusive of elevated discounting in Q4, our full price sell-through was approximately 85% for the year, in line with our expectation of 80% to 85% full price sell-through and well above the industry average.

Looking at Q4 sales through a customer lens, we experienced weaker-than-expected new customer acquisition and repeat purchase behavior, which resulted in an 11% decrease in active customers. From a geographic and channel lens, the U.S. business is weak, down 14%, driven by digital softness, which fully offset the positive impact of retail, which grew 8% in the quarter; and third party, which was a mid-single-digit percent of our sales mix in Q4.

Again, we were able to make up most of the sales miss, thanks to the positive impact of our simplification initiatives and tight cost management. Going a little deeper. Gross margin was down versus Q4 2021, driven by the previously announced discontinuation of certain first-generation apparel as well as increased promotions and was partially offset by COGS savings related to our simplification initiatives. Indeed, since Q2 2022, when we announced our simplification initiatives, on a per unit basis, we have begun to see a mid-teens percent decrease in U.S. warehousing costs and a nearly 40% decrease in U.S. return processing costs.

In addition, the transition to our new manufacturing partner remains on track. The first few products have been transitioned, and we are seeing the expected savings and product cost out of the factory. We expect the savings to start showing up in the P&L in 2023 before fully flowing through in 2024.

Moving down the P&L. We chose to reduce marketing spend year-over-year in Q4 given the highly promotional holiday environment. Finally, as sales turn negative, we significantly reduced discretionary SG&A spend, which helped the quarter. Looking at 2022 as a whole, the corporate SG&A component of the simplification initiatives reduced run rate spend by approximately $5 million in 2022, in line with our expectations. We are on track to deliver the previously communicated target of $13 million to $15 million of annualized savings in 2023.

Moving to our balance sheet. Inventory was down 8% sequentially from Q3, but up 9% year-over-year as a result of the slower sell-through of new products and colors launched in H2. That said, I do want to highlight that year-over-year inventory growth slowed every quarter this year. Cash burn was $13.6 million in the quarter, continuing the quarter-over-quarter trend of a slowing rate of cash burn. I'll share more about cash and inventory management in a moment as I walk through the financial impact of our strategic transformation.

Turning quickly to our Q1 guidance targets. We are targeting total company net revenue between $45 million and $50 million, a decrease of 20% to 28% year-over-year and down 9% to flat on a 2-year basis, and we are targeting an adjusted EBITDA loss of negative $29 million to negative $26 million.

I'll now provide an overview of the financial implications of our strategic transformation. As Joey said earlier, we intend to significantly reduce operating complexity and costs in addition to focusing on higher-quality revenues. I'll take a few minutes to discuss the financial implications of each of our 4 key focus areas.

Regarding the first initiative centered on product and brand, there are 3 implications. One, we plan to spend additional U.S. marketing dollars on a year-over-year basis in 2023 to support our brand, including additional spend for store marketing. Two, over time, our sharpened focus on products that celebrate our core brand DNA should help improve SKU productivity. Three, given the time it will take to recalibrate our product line, in 2023, we anticipate that gross margin will be negatively impacted by significant discounting of the slow-moving products and colors we launched in H2 2022, including the potential for modestly above cost liquidation.

We are committed to bringing down inventory through 2023 as part of this reset. We plan to measure the success of this initiative by tracking our aided brand awareness in the U.S. and the percent of our sales coming from core franchises and expect to provide periodic updates on how these metrics are trending.

Turning to the second initiative. We continue to believe that increased store-based distribution in the U.S. will allow us to grow brand awareness and acquire new customers in a way that leverages our marketing spend. Over the next 2 years, we plan to continue to grow our third-party business, and over the next 12 to 18 months, significantly slow the pace of new openings of all of our stores. Taken together, we expect this approach will likely be gross margin dilutive, adjusted EBITDA margin accretive and more capital and SG&A efficient. At the same time, we are focused on increasing productivity within our current store footprint, as Joey outlined earlier.

In 2023, we expect this channel mix shift to be a drag on year-over-year gross margin. In 2023 and 2024, with fewer planned Allbirds store openings, we also anticipate lower CapEx spend and less SG&A drag from preopening and ramp-up expenses. We plan to measure the success of this second initiative by tracking Allbirds store operating metrics as well as our number of third-party doors.

Shifting gears to our third initiative, we believe that a potential change in our international go-to-market strategy could have the biggest impact on our financial profile. Although we are evaluating different scenarios, a switch to a partnership model with distributors for certain markets would lead to less revenue on our P&L on an apples-to-apples basis, but it will be higher quality revenue with greater flow-through to the bottom line. If we switch to a partnership model with distributors in certain markets, gross margins in those markets are expected to be lower, but we believe that will be more than offset by reduced market-specific marketing expenses and SG&A expenses as well as reduced SG&A at headquarters.

Lastly, we believe a potential change in international go-to-market will improve our balance sheet as we will carry less inventory and will require very little CapEx to support future international growth. It is still early on in our evaluation process for a potential shift in our international go-to-market strategy, and we expect to provide updates on our discussions with potential partners.

That brings us to our fourth and final initiative, delivering profitable growth by building upon the cost and cash optimization actions started as part of our simplification initiatives. We made notable progress in these areas in 2022, which gives us confidence that we can accelerate cost savings across several areas going forward. First, we expect to continue to reduce COGS through our previously announced manufacturing transition. In addition, as part of our transformation plan, we are enhancing our strategic sourcing program as well as optimizing the use of materials across platforms. Second, we expect our sharpened focus on product and brand marketing that celebrates our core DNA will unlock supply chain and logistics savings through improved assortment productivity.

Third, we will continue to leverage savings in warehousing and logistics generated by the simplification initiatives. Fourth, we expect to make an additional SG&A reduction of $15 million to $20 million through the actions we are taking across the other 3 initiatives. And fifth, we anticipate that operating cash flow will continue to improve through these 4 actions as well as our enhanced cash management activities, particularly tight inventory management. We plan to measure the success of this initiative by tracking our landed product margin out of the factories as a percent of product MSRP as well as direct business gross margin and SG&A as a percent of sales and expect to provide periodic updates on how these metrics are trending.

To summarize the cost savings actions. While there is still much work to do, we are targeting savings of $35 million to $45 million over the next 3 years made up of cost of goods savings of $20 million to $25 million and SG&A savings of $15 million to $20 million.

Going a little deeper on cash, I'd like to discuss the implications of these changes on our cash position and how we have best positioned ourselves to have no additional need for capital in the foreseeable future. We continue to tighten new inventory buys. Coupled with the actions we are taking to move through inventory of H2 2022 launches, we expect to leave 2023 with lower inventory on hand. With fewer new Allbirds store openings, our 2023 CapEx is expected to come down to between $10 million and $15 million.

On the cash management front, we have updated our investment policy and have kicked off working capital improvement initiatives. Finally, we have just put in place an LOI with JPMorgan to extend and upsize our undrawn revolver, which, when amended, would extend the maturity through 2026 and provide us with access to up to $50 million of committed liquidity and the option to request an upsize to $100 million. When combined with the approximately $167 million we had in cash on hand at the end of Q4, this new facility puts us in a strong liquidity position.

Bringing the financial implications of the strategic transformation together, in 2024, we expect to begin to see the P&L benefits and a new financial profile for Allbirds to emerge, one which requires less CapEx and SG&A to grow and with better flow-through from the top line to the bottom line, especially as revenue reaccelerates.

Finally, I want to wrap up with some personal remarks as my decision to leave Allbirds was not an easy one. First, it has been a pleasure to work with our investors and analysts. You have all provided a great perspective on the business, and I value the relationships we've built. Second, Allbirds is a unique company with a flock dedicated to the company's important mission into making and selling great products that customers love. This is especially true of the great team I've built and led over the past 2 years.

Third, I welcome Annie to the flock and look forward to supporting her as she comes on board. This moment of transformation from the business provides a natural transition point, which factored into the timing of my decision. I believe Annie will hit the ground running and be successful in the role given her industry experience, the great team she will now lead and the work we've done around cost savings initiatives and the company's capital structure. Finally, I continue to believe that the company has great opportunities ahead and look forward to following the company's success.

As I turn the call over to Tim, I would also like to thank Tim for his inspiration and friendship the last couple of years and thank the rest of the executive team for their partnership and our time working together.

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

Thanks, Mike, and thank you for your partnership and contributions to Allbirds. You've heard us share today a clear plan for reigniting growth across our company. We are an innovative organization. And in many ways, this effort is not dissimilar to how we think about innovation itself.

Innovation is the search for new solutions. Sometimes these solutions are unique. Other times, there are a reconstitution of things that we already know. But in all cases, they require taking a step back and looking at things differently. And that's what we're doing as we launch Allbirds' strategic transformation plan. This plan is about taking a fresh look at how we deliver on our commitment to develop premium, differentiated and sustainably-built products so that we can better connect with our core consumer and reignite growth.

A key role I am playing in this work is getting back to my roots evangelizing our brand. We have always believed that serving as a force for good for the planet is not only the right thing to do, but it also makes Allbirds a more enduring business for the long term. As we enter this next chapter, I am deeply passionate about helping to define the future of our approach to sustainable innovation in footwear and raising the standards for others across the retail industry.

I'm equally focused on building a thriving culture at Allbirds. As you all know, Joey and I founded this company with a mission to create better products in a better way. And we did that by bringing a group of incredibly talented and passionate people together. Our shared commitment to our values has unified our team as we've grown and evolved the business over the years, and we'll continue to serve as our North Star as we work to refine our operations and strategy.

We've learned a lot over the last year, and we're confident that the initiatives we announced today are the right ones to get Allbirds back on track. We are still in the early innings of our journey, but I firmly believe that the core foundation of this 100-year brand is as strong as it has ever been, and our mission has never been more relevant. I know that the strategy outlined today is the right one for us, and I'm thankful that our team has embraced this pivotal moment with such enthusiasm.

With that, I'll hand it back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Mark Altschwager with Baird.

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

I guess just, first, I wanted to ask on the product strategy. As you retrench and focus on the core, I guess which silhouettes and fabrics are you planning to pull back on or discontinue, if any? Or is the retrenching and refocusing here just more related to the marketing and how you're going after your core consumer? And then I have a follow-up.

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

Mark, thanks for the question. Yes. And this is Joey for everyone's sake. So it's a little bit of a combination. It's not just the market positioning. It also is really down to the core silhouette. And I'll say that there are a couple of examples we gave around the Pacer and the Flyer specifically are good examples for you to, I guess, clear out the picture there.

So first on the Pacer, that was both the product execution and a marketing campaign that was really oriented around a younger consumer, really outside the sweet spot of the group of people who have really fell in love with us and love the core franchise for what we do. And similarly, with the Flyer, that was a product that was really marketed with heavy orientation around the technical running performance that, that item delivers. And it's a great product.

We just found out that the customers that were -- that are really in our sweet spot aren't resonating with a core technical performance messaging. And some of that missed execution by us, I think, boils down to us having a little bit of difficulty with signal and noise as we launched the Dasher and saw really tremendous success.

And so as we dug in and did a bunch of consumer insight work here, what we have found is that this active lifestyle and the central space that really bridges those 2 kind of separate categories of lifestyle and performance really requires a focused effort around product development, and it also requires a more focused effort with marketing. And we need to align those 2 in a really integrated fashion. And the Dasher, as I noted, is a great example of a franchise that we think embellishes this story and this message to our consumers in exactly the way that we know it's going to resonate.

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

And then a follow-up, Mike, a lot of changes to the P&L that you talked about today. As the changes take hold, is there a framework we should use to think about contribution margin as growth resumes? I believe you also said you don't see the need for additional liquidity beyond the actions you discussed today. So what is the implicit view there on the time line to hit positive free cash flow?

Michael J. Bufano ***Allbirds, Inc. - CFO***

Yes. Thanks, Mark. On the second part of that question, we talked about in Joey's comments earlier about getting to EBITDA positive in 2025. So I think you could follow that along on the cash flow side, especially this new model is going to be much more OpEx light and much more CapEx light for us. It's going to be higher quality revenues that flow through down to the bottom line.

So in terms of contribution margin, I'd say let us follow up with you on that in future quarters, how we're thinking about like the right shape of the P&L. I think the reality is we have to get these international transformation, these potential international transformations done. And as the P&L takes shape, we'll walk everybody through that later on.

Operator

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

Unidentified Analyst

This is [Keisha] on for Alex Straton. I was wondering, it sounds like you're kind of pulling back from appealing to that younger consumer and more technical performance. So I was wondering how you're viewing your TAM and if you think it might be lower than it was maybe when you IPO-ed.

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

Thanks for the question. Really, not at all different, actually. What we looked at, when we last showed a really comprehensive set of consumer data, largely mirrors what we're describing here. So I would describe the core consumer. This is a largely affluent set. It's pretty balanced between gender. So currently, it's about 55% women in the SKUs that we sell. But what we've heard from the consumer in that study is that we have even a bigger opportunity with women than we understood. And to the previous comments around product calibration, having a really tightly gender-differentiated color strategy and silhouette strategy will offer us a significant opportunity going forward.

The geography is really dispersed, so there's not really any big concentrations in any part of the country. And so this demographic and even the psychographic really spreads across the country, so we continue to estimate this core demo that represents around 1/3 of the population and a really sizable and attractive group of customers for which we think this message is going to resonate very strongly. And I'll say this white space around the active lifestyle, urban exploration are territories that are really wide open, and we think we have a unique position to be able to capitalize on that.

Operator

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

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

Joey, it has been great working with you. I guess first on technical performance. I'd assume that there are other products in the pipeline maybe Flyer 2.0. Is there expectation that other products maybe get liquidated over time? And then I guess if I zoom out from that, in terms of liquidation strategy, can you help us understand how you can kind of protect the core brand? We've seen some liquidated products end up on like Walmart.com through marketplace vendor or another. So can you maybe talk about your disposition philosophies kind of broadly speaking.

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

Yes. Thanks, Ed. So in terms of -- I guess I'll do the second one first because I think we can bleed into the specific example of things like the Tree Flyer. Overall, what we're looking to do, as I noted, we're going to do a little bit more elevated markdown than you'd typically see from our brand. And those are going to be targeted at truly end of season or end of silhouette when we're going to either sunset that style completely or generationally update it. So this is about making sure that we protect what the core is. And that will be our continued strategy. And selectively around that, some promotion to invite new customers in that are just looking for a deal and what is continuing to be a heavy inventory industry and consumer environment that we think we need to be -- remain competitive with.

So in general, while it's going to be elevated, that's in part due to a bit of a mixed miss in terms of what we've outlined here. It's also just in part due to the overall volume and the miss in Q4 that we're going to need to catch up with. So those 2 things are going to be thoughtful and measured. And we expect to be able to enter 2024 with a clean inventory, with a great mix and with the appropriate size of inventory. And I'll also say that as we go through the rest of the year, we'll give you some updates on how inventory plays with these international transition should those be executed.

And so lastly, just on that first part of your question, Ed, around technical performance, and I know you've loved that product before as you've used it on runs. So it is a great product for running. But as I said, I think our consumers just weren't ready to have us enter that space and play that role in their lives. And so one of the elements there is if we continue to even upgrade a product like that, make sure that it meets a really nice lifestyle moment and an active lifestyle and we can realign market positioning and marketing around that kind of territory. We think that will be a lot more successful. And of course, we're going to have to couple that with more measured buys given what happened with the TF1.

Operator

Our next question comes from the line of Jim Duffy with Stifel.

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

Mike, thanks for all the help through these past quarters and so forth. We're going to be sorry to see you go. I wanted to start by asking about the change in go-to-market strategy for the international markets. That seems particularly compelling. Under a distributor structure, do you feel there are clear sight lines to that international business becoming profitable? And then I guess the question that goes along with that is, what's the cost associated with exiting the direct footprint in international markets before you can get there? And then is it realistic to expect the change in go-to-market strategies will fully influence the P&L and balance sheet in 2024?

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

Yes. Thanks for the question, Jim. I'll take the kind of first part of that in terms of how we're thinking about the overall structure and transition. And maybe Mike can tackle some of the implications on the financials and how we see that shaping. So in terms -- first of all, we are fairly early in the evaluation process. We went through a period of diligence where we really sought to understand what the overall impact of a strategy like that and a shift like that could make on the business and the financials. And so what we found from that, which we now, after we've gone into the market and started some conversations, continue to believe, is that while we're going to shrink the revenue on an apples-to-apples basis, as Mike noted.

We are going to immediately see solid flow-through to the bottom line. And once we manage to get over the threshold where we can reduce the complexity inside of HQ to couple with that, that entire part of the business should flip to something profitable and meaningful quite quickly after those transitions are made.

And I'll note that we've not made investments in our third party -- in our international business for third party. And so while we have with great partners here in the U.S. like Nordstrom, REI, ESG and SCHEELS, we have not done that in any material form in international markets. And when we look at some of these distribution partnerships, there's an opportunity to plug in quite quickly to an infrastructure that can support third-party distribution and build a really healthy marketplace with higher market awareness in those geographies.

And so it's still a bit early on this journey, and we're out ahead of this and talking to you guys about it transparently now, Jim. But we would -- of course, we'll update you as this goes. But we would expect this to be a really positive transition as it relates to having profitability as our core mindset here.

And lastly, I'll just say that as we have shifted into starting to explore these conversations, I'll say it's very encouraging that there's quite a bit of options out there in all of the regions that we might consider for this strategy. So positive early signs, and we'll give you more detail as we go.

Michael J. Bufano ***Allbirds, Inc. - CFO***

All right. And I'll just add on. And thanks, Jim, by the way. It's been great to work with you as well. So in terms of like when we'll see this in the balance sheet and the P&L, I think to Joey's point, it will be the pace of the transitions that they occur that will really dictate that. Given some of the earlier demand, if we do go forward on some of this, we'll hopefully see it as early as 2024, and that will be a really positive impact for us clearly.

The first part of your question, I think, was then what are the costs associated with exiting. I think the reality is going to be there will be obviously some costs around discontinued operations or assets that are held for sale if distributors are going to end up buying stores from us. Our guess, though, is the inventory that we're going to sell them as they kind of ramp up and fill the channel asserting those markets, the cash we're going to receive from that and the revenue we're going to receive from that should more than offset any of the exit cost.

But obviously, every deal is a little bit unique. Every transaction is a little bit unique. So if we do proceed with the transaction, we'll obviously give a lot more visibility around that and let you know how that's working out over time. But our hope as we go into these deals and if we view them, they're going to be cash-neutral, if not, cash-positive.

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

It makes good sense. I realize you still have much to explore, but that does seem a very logical structure. Question for Joey and Tim, and I'll just be direct here. Are the 2 of you open to exploring the idea that the best future for Allbirds may not be as an independent entity?

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

Yes. Look, we are always open-minded. We have a belief, and have for some time, that the opportunity for this brand is really substantial. And I think we've more than validated, in fact surprised ourselves, when we ran this most recent and deep consumer insight study that we did with some external partners. So we continue to believe in the long-term opportunity here as having an incredibly high ceiling, and we want to pursue that with the best path that we possibly can for our shareholders.

And at this moment, as we look around and, of course, had discussions with all the right people that you'd expect us to be having, it continues to be our belief and the Board's belief that the best opportunity is as a public company that's seeking an independent future. And that's in the best interest of shareholders, Tim and myself being some of the most significant ones.

Operator

Our next question comes from the line of John Kernan with Cowen.

John David Kernan ***TD Cowen, Research Division - MD & Research Analyst***

And Mike, it's been good working with you.

Michael J. Bufano ***Allbirds, Inc. - CFO***

Thanks, John.

John David Kernan ***TD Cowen, Research Division - MD & Research Analyst***

Mike, maybe just on OpEx and within operating expenses, the 2 buckets, SG&A and marketing. I think in your prepared remarks, Joey, I think you said marketing dollars would be up again this year. So how do we think about SG&A and overall operating expense dollars and rates as we go into 2023?

Michael J. Bufano ***Allbirds, Inc. - CFO***

Yes. We're not giving guidance for the full year, John, like Joey said in the call. And obviously, the pace that would happen with the international transitions, if those do happen, that's going to have a pretty big impact both on the marketing spend and on the OpEx. So unfortunately, that's a really hard question to give a lot more clarity on. As you all work through your model, I mean Katina and I are happy to answer some follow-up questions over the next few days as you look at the model.

I will tell you, though, over time, as you balance this out when we talk about getting to like EBITDA positive in 2025, you'd be looking at a business that obviously has a lot less marketing dollars because they'd be primarily focused on the U.S. and a lot less OpEx dollars. Because, again, it'll be a much smaller and simpler go-to-market structure and a lot less CapEx required to grow that business. So I focus a little bit less, John, on just the '23 piece and a little bit more about the destination of 2025 and why some of these potential changes make a lot of sense for us.

John David Kernan ***TD Cowen, Research Division - MD & Research Analyst***

Understood. A lot of helpful commentary on the product strategy and the margin profile. I guess what about the balance sheet and working capital as we get into 2023 inventory dollars and other areas where you can conserve cash?

Michael J. Bufano ***Allbirds, Inc. - CFO***

Yes. So I think a couple of pieces there. I think you've already seen some of the benefits of the work we've put into place around, like definitely inventory management being a lot more judicious about the rate of our cash burn, and that has come down every quarter. And our inventory growth has come down every quarter. So we feel like we're making a lot of progress there. Joey and I both said earlier during the prepared remarks, I think the reality is we are sitting on a little bit more inventory than we would want right now.

A lot of that is some product that comes from the second half of 2022, and those are the ones we talked about that we're going to be a bit more aggressive within our own channels around markdown and moving some of that out. And at the same time, we've been a lot tighter on the inventory buy clearly for 2023 and into the early part of 2024.

And then in terms of working capital, the reality is that once the business is a little bit more third-party oriented and distribution-oriented over time, that's certainly going to change how we think about working capital. We want more levers for us to pull around working capital. Then the last thing I'd say is when we think about what would happen with cash in 2023, again, to kind of follow up on what we were just saying to Jim's question, we expect any of those transitions if they happen to be cash flow-neutral or cash flow-positive.

As you get closer to those potential transactions, you're obviously not going to be buying inventory for the market, so that will start to come down over time. There's lots of levers we have within there. It's just because of the pace of the potential transitions internationally, John, it's hard to give you a very precise answer. But those are the factors we think about as we have confidence in the liquidity position and with inventory coming down over 2023.

Operator

Our next question comes from the line of Janine Stichter with BTIG.

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

I was hoping you could elaborate a bit more on what you're seeing on the wholesale side. Curious how effective you've seen these partnerships be in acquiring new customers, if you're seeing any differences there in terms of sell-through versus what you're seeing in your own stores. And then how much would you or could you accelerate it if you think it's the right strategy to go more wholesale route?

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

Yes. Thanks for the question. The -- we've only selected just a handful of accounts so far, and they're really premium. And we went into these relationships understanding that we were going to fill a real need for their consumer that is walking in their doors. That was differentiated and was accretive to our overall ecosystem, being that we expect some of those customers to come back to our direct channel and, of course, just add aided awareness in the regions that we may not be able to hit with our stores or can best hit with multiple touch points.

So far, that's working. That seems to be working decently here, but we're still so small. It's hard to really clear out the noise and understand what the impact on aided awareness growth has been related to that channel.

And I'll say as it relates to product, we've seen a good deal of consistency across all our channels. So the sell-through being really strong on the core franchises that we kind of have described is what is most resonant with our core consumer. And in some of the more technical performance areas, some of those being at elevated price points. Those are -- that's been a little bit weaker. And so we're recalibrating that. And the overall approach here is we want to have really strong sell-through to support our partners and customers here.

And as we have really strong sell-through, we're going to be able to do that by recalibrating and focusing on not just like the sweet spot of core, but also these embellishments that we make around the core franchises. Drive sell-through there, which goes into better sell-in in the next season. We can add doors in these accounts because they all have substantial number of doors that can reach a great consumer. And then finally, we will consider selectively evaluating some additional partners, whether that be on the physical brick-and-mortar side of the wholesale marketplace or even in digital.

So we're looking at that. We're looking at it from a clean marketplace perspective and trying to grow this in a very healthy way and don't want to just go extremely quickly. Because theoretically, the numbers would pencil out to be higher flow-through to EBITDA for that, but really want to make sure we have a clean marketplace and give our consumer a great experience as they come into our company's ecosystem.

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

Great. Makes sense. And then one more. On the retail side, as you've become more of a retail business, more wholesale than you were initially, I'm curious, I noticed you mentioned that you didn't promote as much as maybe you thought you could have in the fourth quarter. So as your sales base shifts more to stores and wholesale from online, are you finding that you need to compete more with the traditional retail calendar? I'm just curious how that changes your approach to promotions and, ultimately, the gross margin structure.

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

Yes. I think if the wholesale becomes -- the wholesale channel becomes much more significant, I think there's probably some constraints that we are going to have to work with in terms of promotion calendar and markdowns. I would also expect that we would be able to differentiate our assortment across channel really effectively. And then it's important to also understand the role that each of these wholesale partners, our stores and our digital ecosystem play.

And we found in our retail stores, these are consumers who are much less price-resistant and have a very high purchase intent, and so they're coming in. And we want to make sure they have the best experience, the best product and items that we don't expect to mark down quite as much or quite as quickly as we work through this inventory and well into the future.

So that's sort of how we're thinking about the flow across each of these segments of the omnichannel offering within the U.S. And so far, pretty good. I think some of the lessons we've learned in this in Q4, we're working through in Q1 to make sure everyone is cleaned up in an effective way so that we march through the rest of this year in a very healthy and deliberate manner.

Michael J. Bufano ***Allbirds, Inc. - CFO***

Right. So I think we're a little bit over time, since we have a long prepared remarks. So we'll take one more question, and then we'll catch anybody else in the follow-up call. So thank you all for your patience. We'll take one last question, operator.

Operator

Our final question comes from the line of Blake Anderson with Jefferies.

Blake Anderson ***Jefferies LLC, Research Division - Equity Associate***

Just wanted to ask on slowdown in the core customer, it sounds like that was mainly product launches in the second half, So I just want to make sure. It sounds like you guys saw a step down in Q4. It's not like this was such a gradual realization and kind of took a step down in Q4 with some products like the Flyer. So how much of the slowdown do you think is macro-related? I don't know if you could size that out.

And then just secondly on getting back the focus to the core customer. I was just wondering how we should think about the pace of innovation. Are you going to try to innovate more products for the core customer? Or is just shifting your attention and marketing back to the core customer kind of good enough to improve that part?

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

Thanks, Blake. So the turn down was actually most pronounced in the very end of the quarter, which is unique. And frankly, we didn't have as much of an opportunity to react even if we wanted to in terms of increasing some of the promotion or markdown cadence there. That was one element that we saw.

In general, the comments around our core customers, that's really what we found, in particular, when we dig into the research, and this is a multi-thousand consumer study that we ran. Has shown us that what we became famous for early on, those are things like the Wool Runner, the Tree Runner, the Tree Dasher, those are still resonating very strongly. What I alluded to earlier is that we put some of these newer products out there, and we did that at the expense of what in the footwear industry is so much more dimensionality we still have yet to offer on the core franchise. That can be in a gender-differentiated color strategy. It can be with trim. It can be with things that are really specifically oriented hitting consumer needs and some trend-based things that are very wearable and compelling for her, but for both genders in particular.

So I'd say that's a bit more of where we're headed. And those are things that we can impact a little bit more quickly than we can in overall silhouette differences. So in terms of the innovation that you should see coming forward or should expect from us going forward, you're going to see a lot more embellishment and emphasis from the marketing side as well around core franchise development.

And then secondly, as I noted, newness is still really important. And when we sharpen our focus and we focus on what the consumer is telling us, what her needs are, then we should be able to introduce some really interesting new silhouettes and new styles that will branch off of these franchises that we know are a little bit closer to those core products and core consumer needs. So that's generally the sequence that you should expect. And I'm now talking from changes that we can do in the core product mix in 2023 with colors and trim, things like that, smaller variables, and then greater things on silhouettes in 2024.

So that's generally the pace. Newness is still really important. It's just directing that newness in a way that's listening really deeply to these consumer insights that we picked up.

Operator

I would now like to turn the call back to Joey for closing remarks.

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

Thank you very much. And thank you, everyone, for joining us today. I just want to say that our team is really energized and aligned where we need to go and how to get there. The changes we announced today are substantial. And much of that work will take time, but we are committed to getting this right to create value for shareholders. And on behalf of the entire Allbirds team, I want to thank the investors and the analyst community who believe in the foundation of this brand. We look forward to updating you all on progress in the next quarters.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.