Allbirds
Q3 2024 Earnings Call Prepared Remarks
Wednesday, November 6, 2024

Christine Greany, Investor Relations:

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

Before we start, I'd like to remind you that we will make certain statements today that are forward-looking within the meaning of the federal securities laws, including statements about our financial outlook, including cash flow and adjusted EBITDA expectations, 2024 full year and Q4 guidance targets, impact and duration of external headwinds, strategic transformation plan and related planned efforts, go-to-market strategy, transitions to a distributor model in certain international markets, anticipated distributor model arrangements, expected profitability, cost savings targets, gross margin estimates, product plan timelines and expectations, marketing strategy and investment, product and brand 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 June 30, 2024, for a more detailed description of the risk factors that may affect our results.

Also, during this call, we will discuss non-GAAP financial measures that adjust our GAAP results to eliminate the impact of certain items. These non-GAAP items should be used in addition to and not as a substitute for any GAAP results. You will find additional information regarding these non-GAAP financial measures, and a reconciliation of these non-GAAP measures to their most directly comparable GAAP measures to the extent reasonably available, in today's earnings release.

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

Joe Vernachio, CEO:

Good afternoon and thank you for joining.

Q3 was another solid quarter for us, with strong execution across our teams with results that matched our expectations. We're pleased with our sustained progress and confident in the steps we're taking to advance the business. We're gearing up for a faster pace of change in the coming quarters, especially when it comes to product and marketing. Today, I'll recap the quarter and share updates on what's ahead.

Starting with the highlights from Q3:

- We recently launched two new products: the Tree Glider, a performance-inspired shoe, and the Lounger Lift, a slip-on designed for women. To support the Tree Glider launch, we enlisted wellness expert Melissa Wood-Tepperberg, founder of Melissa Wood Health, for an in-person event in our New York Soho store. This activation created engaging social content and positive media coverage, helping us reach a wider audience. The Lounger Lift was a top pick on the Today Show's Trend Report, highlighted as a must-buy for the holiday season. We're thrilled with the strong consumer response to these launches, which reinforces our confidence that our upcoming product, set for release in the second half of 2025, will drive future growth.

- As part of our ongoing efforts to optimize our store fleet for profitability, we completed two additional closures—one in Q3 and another shortly after the quarter ended. This brings our total U.S. store closures in 2024 to 15.

- As part of our international distributor strategy, we secured two additional agreements—one in Q3 and another in early October. These new distributors will help us expand awareness and reach in strategic markets, covering six countries in Latin America and six countries across mainland Europe, both beginning in mid-2025.

- And lastly, our operational and financial rigor enabled us to achieve strong gross margin performance, reduce costs and continue to carefully manage inventory levels this quarter.

We are operating with a strengthened foundation and an improved cost structure resulting from our transformation work. We're now in the next phase of our journey. Our renewed emphasis on Making Great Product, Telling Great Stories, and Providing Customers with an Engaging Shopping Experience is propelling the brand forward and positioning us to achieve growth and profitability.

Let's start with product. We're returning to our roots as a modern lifestyle footwear brand, refocusing on our core tenets of comfort and versatility that have always defined us. Our future product lineup brings a new level of modern sophistication that pays homage to our origin story of comfort and sustainability. This next-generation offering will begin to hit the market in the second half of 2025.

In the meantime, we're keeping things fresh with new silhouettes, materials, and colors. It's gratifying to see customers responding positively to our latest releases. As mentioned, this includes the Tree Runner Go, Tree Glider, Lounger Lift, and Canvas Piper. We've also brought back the Tree Topper by popular demand, and next week we're launching the Lounger Mule. Many of these introductions have been strong performers, demonstrating that we are delivering the newness customers want from Allbirds. Additionally, we will be introducing corduroy to our best-selling Runner franchise and rolling out more rugged versions of our water-repellent collection later this season.

Turning to marketing, it is clear to us that now is the right time to begin reintroducing the Allbirds brand by Telling Great Stories to both loyal customers and new audiences. We're on a mission to reinforce our aspirational brand position and rebuild our cultural relevance. With a strong lineup of products set to launch in mid-2025, we're beginning to thoughtfully lean into fresh marketing initiatives under our Allbirds by Nature brand narrative. We're already seeing positive engagement from our campaigns, and we expect to build on this momentum in the coming months.

Soon, we'll be launching a top-of-funnel strategy to increase brand awareness by partnering with OBB Media and its branded content division, Bolded, to build a premium digital content series. OBB is well-known for creating some of the most successful marketing campaigns in recent history; a great example is Cold as Balls, a series they created with Kevin Hart in partnership with Old Spice.

Our primary focus will be long form video content, which is emerging as a highly effective strategy for breaking through in today's attention economy. We believe our 'By Nature' messaging will enable us to convey our values around betterment and celebrate our roots, while the video format will help us build deeper and more meaningful connections.

More specifically, we will be building a premium digital content series, surrounding the Allbirds brand with inspirational people, ideas and storytelling. To lead this effort, we have brought on acclaimed producer Kristen Wong to act as showrunner for our series. Kristen's work on shorts and TV specials includes Dave Chappelle and Disney. We are preparing to start production with featured partners soon.

We also have a series of middle funnel initiatives and PR activations planned - some of which are already underway.

- In October, it was announced that Allbirds will become the inaugural footwear partner to Uber Eats Climate Collection. This is a curated selection of eco-friendly brands that will be available for delivery on the app. This collaboration will enable us to tap into their user base to increase awareness, making it easier for people to discover Allbirds. When we overlaid Uber Eats' users with our store locations, the overlap was significant. In California, New York, and Illinois alone, there are 19 million Uber Eats users within delivery distance of our stores.

- We are teaming up with Marriott Bonvoy on a sweepstakes with cross-channel activations including email, paid and influencer. This is a high visibility campaign for us, providing our brand with exposure to Marriott's customer base.

- Later this month, we'll be celebrating our most comfortable products with a special media and influencer event in New York ahead of the holiday season.

As we bring fresh, updated products to market and amplify our marketing, it is essential that we provide our customers with an engaging shopping experience across all brand touch points. To that end, we're planning improvements to both our e-commerce site and stores in the U.S. that will begin mid-2025 and take shape throughout the second half of next year.

Our e-commerce site will be reimagined to make navigation easier and to ensure that our storytelling and the overall shopping experience are aligned to our new product architecture and marketing message. In our Allbirds stores, we'll improve the shopping experience through new product displays, sharper storytelling and other enhancements - everything from seating and store navigation to flooring and display tables.

Looking just ahead to the upcoming holiday season, we believe our 2024 product launches and marketing initiatives position us to capture consumer attention. We recognize that shoppers will be looking for value and we are planning for relevant promotional moments throughout the season. Black Friday and Cyber Monday will be the most significant. Importantly, we are well positioned from an inventory perspective, and expect our overall promotional activity to be below last year's levels.

We are confident in our plans and how they're coming together. We're passionate about where we're going as a brand. Footwear is a long game, with product cycles taking up to 18 months, but our revitalization is well underway. We're just coming off our fall/holiday 2025 sales meeting which we believe was a resounding success. This was the first outside look at the new product architecture we've been talking to you about and the feedback from our external partners was tremendously positive. It's great to receive this validation of the product offerings we're planning to bring to market in the coming months. We're working swiftly, making big moves in a short period of time. In fact, from a product and marketing standpoint, we've never been sharper.

Alongside our work on these critical focus areas, we're also staying committed to the foundational aspects of the business. We've made significant progress on cost of goods, expenses, inventory, and cash, and you can expect to see continued discipline in these areas.

Since day one, sustainability has been at the heart of our brand. Our latest sustainability report reveals a 22% reduction in our per-unit carbon footprint. Just last week, our M0.0NSHOT Zero—the world's first net-zero carbon shoe, set to launch early next year—earned a spot on TIME Magazine's list of the best inventions of 2024. True to our core values, we remain committed to making a positive impact on the planet as we work toward both profitability and further carbon reduction.

It's incredibly gratifying to see the hard work and dedication of our teams across the organization. Everyone is aligned, working with speed and diligence toward a shared goal. This unity gives us tremendous confidence in our direction. We appreciate the continued support of our shareholders and remain focused on advancing our core strategies while staying committed to creating long-term value for all our stakeholders.

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

Annie Mitchell, CFO:

Thank you Joe, and good afternoon everyone. The third quarter of 2024 marks another successful quarter of results in line with our expectations. To echo Joe, our teams are delivering impressive execution and we are confident in our path forward.

Net revenue for the third quarter totaled $43 million and primarily reflects lower unit sales, partially offset by higher average selling prices within our direct business. As anticipated, revenue was also impacted by our international distributor transitions and retail store closures. Of note, Q3 is the first quarter in which all five of the direct regions we identified for transition are now operating under a distributor model.

Gross margin expanded 90 basis points versus a year ago to 44.4%. The improvement is primarily attributable to lower freight and duty costs, as well as benefits from our healthier inventory position. This is in line with the expectations we previously communicated for gross margin in the mid-40s for the full year.

Turning to expenses, we are pleased to see that our cost control actions are continuing to bear fruit. SG&A dollars, excluding stock based compensation and depreciation and amortization, totaled $25 million. That's down 24% versus a year ago, driven by lower personnel expenses and occupancy costs. During the quarter, we closed one U.S. store, followed by one additional closure subsequent to quarter end. That brings us to 15 closures year to date – at the high end of our plan. In connection with store closures, we incurred one-time cash charges of $1.5 million. We are pleased with our progress on this front and will continue to opportunistically evaluate our fleet going forward. In the fourth quarter, we expect SG&A to be down modestly on a year-over-year basis.

Third quarter marketing expense totaled $10 million, or 23% of net revenue, down 3% on a dollar basis compared to prior year. We expect total marketing dollars to continue to be down year-over-year in the fourth quarter, with U.S. spend anticipated to be up. Notably, we've made the strategic decision to hold back on starting our top of funnel spend in the U.S. until the latter part of Q4. We believe adjusting the timing of these investments will enable us to generate greater returns as we strive to build brand awareness ahead of our 2025 product launches.

Turning now to the balance sheet and cash flow. The Company remains in strong financial condition with cash and cash equivalents of $79 million and no outstanding borrowings under our $50 million dollar revolver. We ended the quarter with inventory totaling $57 million. That's down 28% versus a year ago and reflects healthy levels heading into the holiday selling season. Our ongoing financial rigor enabled us to narrow our operating cash use to $11 million in Q3, a sequential improvement from $16 million in the second quarter.

Moving now to full year guidance, we are revising our top line outlook, maintaining our gross margin outlook and narrowing our Adjusted EBITDA range.

Full year net revenue is expected to be between $187 and $193 million. This guidance range is inclusive of the full year impact from retail store closures, which we were able to execute at the high end of our range, and international transitions. These structural changes comprise about 40% of our expected year-over-year revenue decline and are estimated at $23 to $28 million of impact.

Broken down by geographical market:

- Full year 2024 U.S. net revenue is expected to be between $143 to $147 million. This includes a $10 to $12 million impact resulting from store closures.

- International revenue is expected to between $44 and $46 million, including $13 to $16 million of impact resulting from transitions to a distributor model in certain international markets.

We continue to anticipate gross margins in the range of 43% to 46%. Ongoing margin strength is expected to be driven by reduced promotional activity compared to last year, lower inbound and outbound freight, and initial savings from our factory shift to Vietnam and materials innovation. Partially offsetting this strength - in the fourth quarter we expect a greater portion of our business to come from international distributor sales, which are lower gross margin.

Full year adjusted EBITDA loss is now expected to be in the range of $75 to $71 million compared to our prior range of $75 to $63 million.

Turning now to fourth quarter guidance, we expect net revenues to be in the range of $53 to $59 million. U.S. revenue is expected to be in the range of $45 to $49 million and international revenue is expected to be in the range of $8 to $10 million.

Our Q4 guidance for the U.S. market reflects the following factors:

- Our plans for lower promotional activity versus a year ago;
- Our expectation that the landscape will be highly competitive this holiday season;
- The shift in timing of our upper funnel marketing spend; and
- Store closures at the high end of our range.

Q4 Adjusted EBITDA loss is expected to be below year ago levels, in the range of $25 to $21 million, primarily due to our Q4 revenue outlook, as well as a modest impact to gross profit related to the upcoming transition to our new European distributor.

Entering the final stretch of the year, we are continuing to execute on our strategic focus areas while maintaining financial and operational discipline. We appreciate your time this afternoon and will now open the call to questions.