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PRESENTATION

Operator

Thank you for standing by, and welcome to the Allbirds First Quarter 2022 Earnings Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Kyle Khasigian. Please go ahead.

Kyle Khasigian -

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 would 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, medium-term targets, time line for achievement of lifetime sales milestones, duration of external headwinds 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 as well as our earnings release and annual report on Form 10-K for the year ended December 31, 2021, for a more detailed description of the risk factors that may affect our results.

Also, during this call, we will discuss adjusted EBITDA and adjusted EBITDA margin, which are 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 financial measures to their most directly comparable GAAP measures in today's earnings release.

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, Kyle, and good afternoon, everyone. We are pleased to deliver strong first quarter results, which includes robust net revenue growth of 26% compared to 2021 and 49% versus 2020 along with adjusted EBITDA in line with our expectations.

The top line accelerated on both a 1- and 2-year basis as we focused on controlling the controllables against a volatile backdrop. Macro trends are creating both headwinds and tailwinds right now. Our U.S. business continues to show strength in both digital and physical retail. And as people go back to work, demand for our core lifestyle offering is increasing. As we have mentioned previously, we believe our brand is more resonant the further COVID recedes in the rearview mirror. At the same time, certain international regions have run into demand headwinds towards the end of the first quarter and have extended into Q2, particularly in China and the EU. The quarter was highlighted by 35% sales growth in our U.S. business, demonstrating the power of our digital-savvy omnichannel model, which is further buoyed by a post-pandemic retail recovery, improved pricing and resonant new product.

International sales grew 3% in the quarter, reflecting headwinds in consumer spending in the EU due to Russia's invasion of Ukraine and in China due to COVID restrictions. Coupling the slowdowns in Europe and China with a strengthening dollar in some of our international markets, most notably in Europe and Japan. These headwinds created a drag on revenue estimated to be approximately $2 million in the quarter, which would have represented an additional 15% year-over-year growth in our international business.

As we look at the balance of 2022, we are managing to a more conservative outlook to reflect what we believe are transitory factors affecting our international business. We believe that the impact of full year revenue will be approximately $15 million to $20 million, which is reflected in the guidance we're providing today. More on this from Mike, but in short, despite the external pressures that have changed our sales outlook for the year in our international business, we expect to deliver strong top line growth of 21% to 24% in 2022, well within our range of our medium-term revenue growth target of 20% to 30%.

Underpinning this outlook is our confidence in the purpose-driven lifestyle brand and durable operating model we have built, setting us up for decades of strong growth and profitability despite these short-term factors. As a reminder, our 3 growth pillars are to deliver product innovation, grow our store portfolio and scale our international business.

I'm going to turn things over to Tim to speak to product innovation, and I'll jump back to provide color on the other 2.

Timothy O. Brown ***Allbirds, Inc. - Co-Founder, Co-CEO & Director***
Thanks, Joey, and hello to everyone. I'm excited to share with you today our progress across product, brand and sustainability. On our last earnings call, we told you we were entering 2022 on a trajectory towards what we believe is the most compelling product road map in our history. And we're already starting to see that unfold across our lifestyle and performance portfolios. There are several highlights thus far in 2022.

First, our latest collaboration with adidas dropped in early April to a phenomenal consumer response. We sold through more than 90% of our inventory in 3 days' time. We're extremely proud of this ultra-light running shoe, which carries our lowest carbon footprint yet and includes sustainable performance innovations from heel-to-toe. In lifestyle, our core tree franchises have shown great performance heading into the spring and summer months. We've also launched a new summer collection headlined by the Sugar Sliders and Zeffers, 2 seasonal product offerings that leverage our SweetFoam material platform and reinforce our strategy to deliver supernatural comfort, rain or shine.

We also continued our strategy to use apparel as a compelling reengagement tactic, celebrating our unique material innovations. A great example of this was our recent extension of our successful [switch franchise into a switch shoe] leveraging [sustained] platform. We continue to build out our performance offering with the rollout of the Tree Dash 2 to positive consumer response. In our Trail Runner franchise, we're building heat through bold new colors and limited editions. And finally, the headline this week is the launch of the Tree Flyer, our third performance shoe and our latest best-performing and most visually bold design yet. We are currently in the midst of a comprehensive launch in conjunction with our Allgood Collective run community.

This is happening through run clubs, activations and content, anchored in our idea of supernatural comfort and performance. designed to perform equally well on a first run, on race day or anything in between. The Tree Flyer has gone through extensive development and testing both in our innovation lab and on the road with countless iterations developed to perfect the shoe. The shoe has been road tested by more than 100 runners over 6,000 miles across a wide array of conditions and climates to validate its remarkable performance attributes. We are incredibly excited about this launch, and as our first high-performance product expected to meaningfully increase our credibility in this category.

The core of what makes the Tree Flyer so special is SwiftFoam, a first of its kind midsole technology. The result is a shoe made for runners of all stripes with our highest rebound rate yet at 70%. While midsoles are usually made from petroleum and logan at 100% synthetic, SwiftFoam leverages plant-based oils, enabling a 20% reduction in carbon footprint versus petroleum-based synthetic alternatives. Tree Flyer's bouncy airy SwiftFoam midsoles are 30% more responsive, 25% lighter and require less energy to manufacture than our existing SwiftFoam. A strong testament to Allbirds' commitment to sustainable innovation and relentless improvement while continuing to tap into the design white space of reductive design to provide style versatility for even the best runners.

The launch of the flyer is another important step on our journey in the performance category. As a full or professional athlete, I know the bar is high and this will take time, built through a patient innovation engine centered on the consumer. When Joe and I got together in 2015, we saw an opportunity to create a lifestyle and performance brand that could deliver a powerful combination of comfort and design anchored in our environmental purpose and natural material innovation.

Consumer insights support this today. The mix of elite runners in the sport is declining. Marathon times are falling with the average finish time having slowed by 40 minutes over the last 25 years. Recreational running full of joy is on an upswing, driven by a new generation of runners who are running to stay healthy rather than to compete.

An increasing number of our core Allbirds customers are runners, and 29% of those runners are between 18 and 24, a demographic that index is high on their desire for sustainability. In short, we believe that Allbirds' brand ethos and purpose make us uniquely positioned to meet this growing consumer group where they are.

As a challenger brand, we're values-driven, we are not overly branded and we bring joy and exuberance to the category, and we are highly differentiated by a natural material innovation engine that is delivering products like the flyer. A great line for one performance running credit from last week's launch sums this up. The flyer is a huge step forward for Allbirds in the performance team, and they've managed to do it with mostly sustainable materials and a low carbon footprint, which is a feat in itself.

This progress extends beyond our performance ambitions to our overall company mission. Back in 2016, Time Magazine named Allbirds one the world's most comfortable shoe. Since that time, we've continued to deliver innovation and this year, time honors again by naming us to their prestigious list of the TIME 100 Most Influential Companies of 2022, specifically calling out our work in the performance category. We are energized and excited about what lies ahead and look forward to sharing more in future calls.

Now I'll turn it back to Joey to cover our remaining 2 growth drivers of stores and international.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Thanks, Tim. I'll start with international, where our rate of growth in Q1 was slowed by the macro factors I discussed earlier. In Europe, Russia's invasion of Ukraine and the resulting humanitarian crisis has had an indirect influence on our business via the impact of inflation on the psyche of the European consumer and petroleum prices. Despite this, we believe our store and digital model of vertical retail is working there, particularly in our 2 focus regions in Europe being the U.K. and Germany. As I'll mention later, we are bolstering this approach through third-party partnerships.

In China, COVID restrictions have slowed sales in stores via 4 shutdowns and slowed overall demand in the region. We believe these to be transitory impacts on our business in China, but we are preparing for extended restrictions of varying severity through the remainder of 2022. We continue to view the scale-up of our international business as an important element of our growth algorithm. Having invested early in regions like Europe and Asia, we believe we have established a broad foundation from which to grow as we strive to elevate our brand awareness into a consumer set that is at least as large as the opportunity in the U.S.

Now I'll turn to our third growth pillar, the store portfolio and our broader distribution strategy. Our retail footprint is highly productive and serves as an efficient means to acquire new customers. Opening new stores drive increased brand awareness and provides a halo effect on the overall business, including an increase in the absolute number and mix of repeat customers who shop with us both digitally and in stores. This journey tends to produce our most profitable customer, our multichannel repeat customer, who from our company's inception through this past quarter, now averages spend of 1.6x more than those who purchased multiple times in a single channel. In the first quarter, U.S. retail grew well in excess of 150% year-over-year and was our biggest driver of growth. With the successful opening of 4 new stores in Q1, highlighted by a flagship in Manhattan's Flatiron District, we now have 27 U.S. locations.

In addition to new store openings, we are seeing performance continue to strengthen in stores opened in 2021 and earlier. Based on the Q1 performance of these stores and our expectations for the balance of 2022, we continue to have strong conviction in achieving our previously shared pro forma U.S. new store targets of $3.5 million to $4.5 million in gross sales and low 20% 4-Wall EBITDA margins. We also saw strength during Q1 in the U.S. e-commerce, reinforcing the power and durability of our omnichannel model. When we zoom out and look at the core elements that underpin our operating and value creation model, we have tremendous confidence that we're set up to win in the coming years.

Allbirds is not just distinguished by materials and product innovation that Tim spoke to, but also our modern vertically-led omnichannel strategy. I'm not aware of any substantial brand that we compete with that has even 50% of its distribution by a vertical model. And we sit here today at greater than 99% being conducted in this manner. With the product assortment we have now and the exciting pipeline to come, we believe this is an incredible foundation where we can now layer in select third-party distribution. These additional consumer touch points can be another powerful and profitable elements to catalyze additional growth in our vertical retail strategy by increasing brand awareness across our target consumer segment. We are pleased to share that our first 2 partnerships are live as of Q2 with Zalando in Europe and with Public Lands, a banner of DICK's Sporting Goods here in the U.S., and we are excited to announce additional partnerships soon.

Early indicators on sell-through are positive with U.S. aided brand awareness in the low double digits, we view third-party as a highly effective way to build awareness and drive credibility while accelerating top and bottom line growth. Finally, we're pleased at the early performance of our ReRun platform, which allows us to resell lightly used shoes often to a different consumer than the ones we target for our core distribution model. This program also reaffirms our core brand promise by delivering on circularity in addition to our innovation work on natural materials.

With the product engine humming, this distribution model of the future sets us up to hit a milestone of $1 billion in lifetime sales in the second quarter. This is a remarkable accomplishment in just 6 years. and we are grateful to our flock for their hard work and dedication in getting us to this point. We are navigating a volatile environment, executing well and remain heads down on the growth strategies Tim and I outlined today with a focus on staying on course against our profitability targets while building long-term shareholder value.

With that, Mike will review the financials and discuss our outlook in greater detail.

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

Thanks, Joey. We're pleased to deliver strong Q1 performance, especially given the external headwinds, which picked up after our last call on February 23. Joey discussed the regions and channels, so I'll just add some color on the other drivers of the 26% net revenue growth in the quarter.

In Q1, orders increased 10% and average order value was up 17%. This strength is primarily attributable to new product launches and refreshes as well as price increases. We executed a price increase in March, which we use as an opportunity to establish a pricing structure that signals value to consumers along both materials and use occasions with advanced technologies and our performance products generally commanding a premium. This is our second price increase in the past several months with effectively no observable impact on overall demand. We believe our premium brand positioning and product quality enable us to maintain this pricing architecture that premium brands like Allbirds will come out of this period much stronger by taking stock of the current inflationary environment and thoughtfully revising their pricing architectures. Before wrapping up on pricing, I would also like to note that as we've done in the past, in Q1, we utilized promotion surgically. You will continue to see us do this in the future to drive growth and effectively manage inventory. In 2021, this approach helped us realize 97% full price yield.

Turning now to Q1 gross profit, which was up 26% to $33 million with gross margin at 51.9%, down 10 basis points to last year. Positive drivers of gross margin were mix shift to physical retail and higher-margin products as well as pricing. These positives were more than offset by the impact of the external headwinds, which intensified as we moved through the quarter. Specifically, we estimate a total of 420 basis points of year-over-year headwinds spread across 3 factors: One, macro-driven logistics and distribution center cost headwinds were an estimated 350 basis points year-over-year. two, unfavorable FX rates had a negative 50 basis point impact year-over-year. and three, the lower mix of sales in our margin-accretive international business when compared to Q1 2021 impacted gross margin by approximately 20 basis points year-over-year.

Moving down the P&L. SG&A deleveraged in the quarter. As you saw in the release, we have 17 more stores compared to Q1 2021 and opened 4 stores in the quarter, so store-level SG&A and start-up costs were the primary drivers here along with approximately $2 million of public company costs. On the marketing front, in Q1, the combination of increased marketing efficiency and channel mix drove 360 basis points of leverage. Pulling all that together, Q1 adjusted EBITDA came in within our guidance target range at negative $12.2 million.

Taking a quick look at the balance sheet. Inventory was up 11% from year-end as we continue to navigate the logistics environment and stay ahead of the demand curve. Breaking that down further, industry-wide extended lead times as well as higher inbound freight costs have resulted in higher levels of in-transit inventory on the balance sheet. At the close of Q1, in-transit was up 15% from year-end and accounted for about 1/3 of our total inventory.

I'd like to now share some thoughts on the impact of the external headwinds and how we're thinking about our guidance targets. Until we have more certainty around the length and severity of the external headwinds, we are incorporating a more cautious outlook into our updated 2022 guidance targets, particularly in the second quarter. We believe this is the prudent approach because we are facing the strongest headwinds in our gross margin accretive international business. To be transparent about how we define cautious outlook, our guidance targets assume that the Ukraine crisis and its ripple effects, the impact of COVID restrictions on our China business, and unfavorable FX rates all will continue to some degree through the balance of 2022. We estimate a $15 million to $20 million impact on international net revenue from these external headwinds with about 2/3 of that impact due to the Ukraine crisis and China's COVID restrictions and 1/3 due to FX rates.

With that estimated impact taken into account, our updated 2022 net revenue guidance target is $335 million to $345 million which is up 21% to 24% versus 2021, including an estimated year-over-year FX impact of 150 to 200 basis points. Factoring out FX, this target is solidly in the middle of our medium-term range of 20% to 30%. Compared to 2020, this range represents an acceleration on a 2-year basis to 53% to 57%. We're also taking a cautious outlook when it comes to gross profit and updating our 2022 guidance target to $170 million to $177.5 million. At the midpoint of our net revenue and gross profit targets, this represents a gross margin target of 51.1%.

Compared to our prior gross margin guidance target, there are 2 factors to unpack here. One, the biggest driver of the change is less demand from our gross margin accretive international business, especially China, which is our highest gross margin market. Two, our prior full year gross margin guidance target factored in an estimated 200 basis points year-over-year impact of external headwinds on logistics and distribution center costs. We are now estimating the impact of these external headwinds to be 250 to 300 basis points, driven by FX rates and increased outbound shipping costs due to fuel surcharges, a byproduct of Russia's invasion of Ukraine. Recall that we estimate the impact of these external headwinds was 200 basis points in 2021, so we are now looking at a total of 450 to 500 basis points of impact over a 2-year period.

Looking at our updated 2022 adjusted EBITDA guidance target of negative $25 million to negative $21 million, I'll just note that we have tightened our balance of year SG&A spending to partially offset the impact of the external headwinds. In addition, recall that the 2022 target includes an estimated $8 million of public company costs.

The impact of the external headwinds is estimated to be most acute in Q2. Our Q2 net revenue guidance target is $75 million to $79 million, up 10% to 16% versus Q2 2021, including an estimated year-over-year FX impact of 225 to 300 basis points. Compared to 2020, this range represents growth of 48% to 56%. Our Q2 adjusted EBITDA guidance target is negative $14 million to negative $11 million, including an estimated $2 million of public company cost.

Appreciating that, that there are a lot of moving parts here, let me add a few more thoughts to help you model out the year. We won't necessarily give this color on an ongoing basis, but feel it's helpful given the external environment. First, for the full year, U.S. net revenue is targeted to grow in the upper 20% range and acceleration on a 1- and 2-year basis. Second, full year international net revenue is targeted to grow mid-single digits. Excluding the impact of FX rates, full year international net revenue is targeted to grow in the low teens.

Third, in the second half, total net revenue growth is targeted to be in the middle of our medium-term target range of 20% to 30%, driven by a strong product pipeline, more retail stores and the increased velocity of our omnichannel flywheel in the U.S. In addition, the back half of the year is further augmented by the introduction of sales via our select third-party partners and the incremental sales, awareness and profitability this channel provides. Fourth, second half adjusted EBITDA is targeted to be roughly breakeven as we focus on tightly managing costs and responsibly growing the business in 2022 and into the future.

And finally, one last model housekeeping note. For full year 2022, we anticipate that stock-based compensation will be approximately $22 million and that depreciation and amortization will be approximately $18 million.

Let me close by reiterating our belief that the external headwinds we're facing right now are largely transitory. We remain confident in our ability to achieve our medium-term targets of 20% to 30% net revenue growth, gross margins north of 60% in our direct vertical channels and adjusted EBITDA margins in the mid- to high teens. This confidence is grounded in a few factors. On the top line, it's the excitement we feel about our new product road map, especially in footwear. The performance of our U.S. business, particularly the omnichannel flywheel that's accelerating with the broader U.S. retail recovery, our conviction that our international business will return to its historical growth rates once the external headwinds pass and the potential for third party to be a significant lever of EBITDA accretive growth. When we look at gross margin, our track record of improvement gives us confidence in getting to 60% plus gross margin in our direct vertical channels.

We have a clear path to hit this target through growth in our gross margin accretive retail international businesses, our strong pricing power, the continued introduction of new higher-margin products and the easing of at least a portion of the 450 to 500 basis points of logistics cost headwinds we have faced over the past 2 years. Finally, we are committed to profitable and responsible growth through a disciplined approach to SG&A balancing the top and bottom lines.

With that, let's open things up to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Matthew Boss with JPMorgan.

Matthew Robert Boss ***JPMorgan Chase & Co, Research Division - MD and Senior Analyst***

Great. So as we think about the new fiscal year guidance relative to the past, it implies second half sales growth and acceleration, I think, up to the mid-20s or low 20s CAGR. So I guess what gives you confidence in the second half reacceleration? What are the drivers that you think remain in the back half of the year in terms of your confidence as we move forward?

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

Matt, thanks for the question. Yes, going back to what we said on the script, there's really a few things there. One, we do have a strong product pipeline, some of which is rolling out now. We'll continue to roll out through the balance of the year. So we feel good about having that tailwind behind us. In addition, we are going to have more stores, which is certainly going to help the growth on a year-over-year basis. Coming along with more stores then is that increased velocity in the omnichannel flywheel that we're seeing, and you saw that even show up in our U.S. business results in Q1. And then lastly, we are going to continue to have a little bit more on the third-party side. So while it's still a relatively small overall sales volume, it does help on a year-over-year basis in the back half of the year.

Matthew Robert Boss ***JPMorgan Chase & Co, Research Division - MD and Senior Analyst***

Great. And then maybe just one follow-up on the margin front. From a promotional or pricing perspective, you noted that you'll continue to utilize promotions. Is -- are you seeing anything from the competitive backdrop from the promotional landscape, any pushback from your customer base on pricing? Just any larger picture thoughts on pricing and promotional activity would be helpful.

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

Yes. I'll touch on the price piece of it, then Joey, if you want to add anything on the sort of broader competitive landscape. Like I said in the comments on the call, Matt, this is now the second price increase we took. We took a more modest one last year in August. The one was a little bit more substantial. We haven't really been able to observe any overall drop off in demand. It's pretty early. That went in obviously in like early March. And I think that just speaks to the power of the brand, the quality of the products, things like the high Net Promoter Score, tell you that people really value overall what you're giving them. So we're not seeing a ton of pushback in that regard on the price increase. Again, early days. how we're holding that. Joey, I don't know if there's anything you'd want to add on the broader landscape when it comes to markdown or promote.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Yes, I do think -- I mean we've seen some increase in promotional activity across the industry. And maybe there's a little bit of impact on our business. But by and large, we're -- what we see with -- when we've used -- selectively used promotions in the past, the customers that we acquire have been fantastic and really match the LTV curves for everything that we've seen from our full price customers. And so we do think that it's a really interesting lever as we scale to make sure that we can selectively continue to selectively use them and do it in a way that's brand accretive. So we're really just heads down and focused on our business and making sure we manage our inventory to a really clean position and keep using that as a great lever.

Operator
Your next question comes from Alex Straton with Morgan Stanley.

Alexandra Ann Straton ***Morgan Stanley, Research Division - Research Associate***
I just got a couple for you. The first is on how you guys talked about the second quarter guidance in the press release, it says that you expect the majority of the kind of [downward version] from the full year to be in the second quarter. Can you just walk me through what exactly that means? Does that mean what happens that you are assuming in the second quarter that kind of fall off in the back half?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Yes. I think most of that commentary is related to where we're seeing the biggest impact to our business, which is in the international segment. And if you look at the impact on the invasion in Ukraine, we saw that happen kind of for the bulk of it in March so far, and that continued to extend into April and to today. But we already see signs of that impact on consumer demand receding to a certain degree. So I think relative to the status of that conflict, we do see trends already returning to somewhat of a positive direction. And in China, the restrictions from COVID, people have been in their homes locked up inside for 45 days now. And so this is -- that's in Shanghai specifically. Obviously, that's starting to extend to different locations. And we've modeled in some impact of that continuing for the remainder of the year, but not to the severity that we have that we've seen, and we think that that's going to be -- a bulk of that is going to impact in Q2 just because of the timing of when those occurred.

Michael J. Bufano ***Allbirds, Inc. - CFO***
And then the last piece, Alex, is just the FX rates. So we're using the latest forecast we have from all of your peers on the banking side and factor that into the guidance that we provided as well.

Alexandra Ann Straton ***Morgan Stanley, Research Division - Research Associate***
Great. That makes sense. Maybe one more quick one is just on your inventory composition. How are you guys feeling about where it stands? Are you being impacted by any of the lockdowns in China or in other regions right now?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
So yes, I'll kick that. This is Joey. The supply chain impact for upstream is -- we've continued to navigate

this really well. And this has been a strength for us over the past year navigating through a really tumultuous environment in Asia, in particular, with varying degrees of shutdowns. We've effectively moved out all of our footwear production from China. So we have really no Tier 1 facilities operating in that country to manufacture footwear. And so as a result of that, we don't see much impact to our supply chain in terms of these recent restrictions in that region. So most of our production is now split between Vietnam and Korea, which are faring really well, and the government has responded effectively in terms of combating COVID and applying much less stringent restrictions there. So really good there. The story is really on the demand side in China from an upstream perspective and what's happening in that conflict.

Operator
Your next question comes from Lorraine Hutchinson with Bank of America.

Christopher Nardone ***BofA Securities, Research Division - Research Analyst***
This is Chris Nardone on for Lorraine. So a couple of quick questions. So it sounds like you're expecting roughly breakeven EBITDA during the back half of this year. So given what you know today, do you still remain confident reaching breakeven or better adjusted EBITDA on a full year basis next year? And can you just talk through how your partnerships with Zalando and Public Lands will contribute to this outlook?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. So just to clarify on your first question, Chris, I don't know given 2023 guidance on EBITDA. So I think that's probably is in some of the analyst models and the consensus models. I think if you do look at the back half of the year, though, getting to breakeven on adjusted EBITDA is a big milestone for us in the back half of 2022. And I'd say we'll continue to update investors on the path forward from there. I think overall, the message that I do want people to kind of really understand, I touched on this a bit in my 2022 guidances. We're looking at this as a path of like responsible growth, balancing the top line and the bottom line of the P&L. That means -- there are so many external headwinds we're facing, we are being a bit more cautious on some of the spend that we're doing on the SG&A side, and we'll continue to balance across those. I just want to make sure that message kind of lands loud and clear.

In terms of the impact on third party, I think Joe and I both touched on this, but we really view third party as a profitable marketing channel for us. It should have good flow through as the business continues to ramp up. So I think that both helps the back half story, though the overall impact on the business is pretty small. But if that business accelerates, we do really expect it to have a positive impact on the overall financial profile in 2023 and beyond.

Operator
Your next comes from Bob Drbul with Guggenheim.

Robert Scott Drbul ***Guggenheim Securities, LLC, Research Division - Senior MD***
Two questions for me. I think the first one is, can you talk a little bit on sort of brand awareness and any

progress that you think you're making? And I think the second one is similar around. Can you just talk to interest levels in sustainable fashion, sustainable footwear in terms of changes that you're seeing or any data around that level in the category would be pretty helpful to us?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Sure. So yes, I think awareness is not a figure that we would recommend looking at on a month-to-month or a quarterly basis. But kind of directionally, over time, what we're looking to do is increase from low double digits, which we kind of suggested we grew from 2020 to 2021, got up into low double digits. We're continuing to see that trend really positively. And this is all about using that flywheel of distribution and then great brand great brand building techniques around partnerships and other campaigns that we're running. It's all about methodically building that with stores, with great marketing. And as we're doing that, not only good awareness lift, but also good awareness lift in the right vector. So that means that people think that we're aligned to what we're positioning the brand around supernatural comfort as well as our leadership position in sustainability. And so all that's trending really well.

Of course, if you look at specific geographies, there is variance across those. And often, where you see the highest the highest concentration of stores, you'll see the highest concentration or the highest level of aided awareness. And that speaks to that third-party strategy where when we selectively layer in those partnerships, not only is that just great for top line and bottom line growth because of the great EBITDA flow-through, but it also just lifts awareness. And we expect that to really catalyze better efficiency on our marketing for our direct channel. So that's kind of the overall picture on awareness.

And then I would just say maybe I'll hand it over to Tim in a minute for some highlights on what we've done in the past quarter, over the past few months in terms of brand awareness. But we continue to see that consumers are gravitating towards brands that speak environmental values. We do not believe that they will buy products just because of that. They have to be phenomenal products. And every bit of our energy is focused on making great products, not just sustainable ones, but we do increasingly believe that, that fantastic products do also have to be sustainable. And we see that in the consumer data and that has continued to grow as we build this business, frankly, faster than we've even expected. So you'll see us double down on marketing campaigns that speak to this and really emphasize that through every kind of touch point, whether it's in-store, in third party or on our digital platform.

Timothy O. Brown ***Allbirds, Inc. - Co-Founder, Co-CEO & Director***
Yes. I'll just add, reinforcing the point that the Tree Flyer, a recent product release from last week is powered by a sustainable material innovation, but it is better. So I think all that consumer research is saying, yes, sustainability matters, but it's only in service of better product experiences. And that's our focus. And I think in performance and in the flyer, I think, is a great example of us executing that at a very high level.

Operator
Your next question comes from Mark Altschwager with Baird.

Mark R. Altschwager ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***
Thanks for all the detail this afternoon. So the midpoint of the revenue guidance was reduced $20 million. I think you estimated the impact of international as $15 million to $20 million. So could you just clarify, I mean, has there been any change to your underlying revenue outlook for the U.S.? It seems like you saw some really nice momentum in the quarter. I guess I'm wondering if you're seeing any signs that rising energy prices, stock market volatility, et cetera, is impacting demand for the brand domestically?

Michael J. Bufano ***Allbirds, Inc. - CFO***
I'll start on that, Mark, and then turn it to Joey to talk a little about the consumer because the short answer is, no, we haven't seen any sort of drop off in our expectation in the U.S. We feel really great about that 35% growth that we saw. That tells us this long-term thesis is intact. That's what gives us confidence around the medium-term targets. Your question on we lowered the midpoint by $20 million. Like I said in the script, we estimate the impact is $15 million to $20 million, and we are taking a cautious outlook because we're dealing with just some like open-ended situations here with these external headwinds. So that hopefully marries up kind of the model on the math question there, if you, but I'll turn it to Joey to talk a little bit about the consumer landscape in the U.S.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Just supporting the statements that Mike just made, the U.S. consumer has already taken a little bit of a hit in terms of consumer confidence that we just see and not in our business necessarily, but in the macro numbers. And so when we look at our business internally, we actually see much more tailwinds than we see impact from inflation or anything that we're reading about in the newspapers.

People are coming back to stores. We're seeing that traffic pick up markedly and that gives us the confidence to kind of reaffirm and restate that we can hit those near-term unit economics that we mentioned in the formal remarks.

And lastly, I'd say, as people get out and about and activity picks up, as travel picks up, we have the product that people want. We are this perfect blend of performance, comfort, versatility and style, and we are meeting the moment. And that's to the point that I made earlier, the fact that as COVID recedes in the rearview mirror, this is -- we're much better of a choice.

So whereas COVID restrictions create some headwinds when we come out of it, we see just significant tailwinds that give us a lot of confidence in the U.S. consumer today. And we've seen this historically in international markets. When restrictions get lifted, the business picks up significantly and in a sustained fashion. And again, that speaks to some of our confidence despite ongoing restrictions in international markets that we think there's going to be some pickup in the back half.

Mark R. Altschwager ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***
And as a follow-up, a lot of product introductions in recent months with the Trail and the Dasher 2 and the apparel, which you spoke to. Can you give us some color on new versus repeat customers that are

purchasing those new innovations? What does that mix look like relative to historical product introductions?

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

Yes, Mark, we don't give that out on a quarterly basis. I would just member, we're only a 6-year-old brand here. So we're still acquiring a bunch of new customers doing that at a very healthy and very profitable clip. But just by the nature of things over time, more of our sales are going to continue to come from repeat customers.

And I think Tim and the team do a really nice job on the product side of balancing new products that bring in new customers that launches into some of those new categories like you referenced, but also bringing excitement and news and energy into the core of the product pipeline. And that's always our -- how we think about the balance on the product pipeline.

Operator

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

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

As you think about the price increases that you've taken so far, are you anticipating any additional price increases as we go through the balance of the year? And does it differ by category? And then, secondly, with the new gross margin guide for the year of 51%, how much of an international gross margin headwind is built in, given, I believe, that the first quarter was only around 20 basis points?

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

Thanks, Dana. I'll take the first one and pass it over to Mike on margins. For pricing, by and large, the action that we took in March is what we anticipate for the full year, but that's really an architecture that we set up. And if you kind of parse through what we did there, there's varying levels of price across materials. So we are differentiating to the consumer, specifically on the quality and price value that consumers should expect by material.

And then similarly on the performance versus lifestyle set when we add in technical features on our performance product, those are going to have an elevated price as we're packing a lot more technology and cost into the build. So that architecture has now been established as we layer in new products like the Flyer as we're doing, that will fit into that architecture.

So some of that impact and that pricing change will flow through new products as well. And you can see that the Flyer at $160 is the most expensive product that's kind of a core offering that we've ever introduced in the line.

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

Yes. So there's no plan for any further price increase in 2022. And then on your gross margin question, Dana, you go back the way I kind of walked through and unpacked the 2 factors versus our prior gross margin guidance. The bigger driver here is less demand from international. And when I talked about the other external headwinds, that's up to 200 basis points in our prior guidance. Now it's 250 to 300 basis points.

So if the midpoint gross margin is now about 200 basis points lower. You can kind of hold in your head that roughly kind of 1/3 of it comes from the stuff that's on the logistics and distribution center side and the rest of it is coming from the international demand being lower than what we would have been thinking in the last guidance target.

Dana Lauren Telsey ***Telsey Advisory Group LLC - CEO & Chief Research Officer***
Got it. And then just on the third-party distribution, cost to get that up and running, any way that we should think about how we should think about that? And should we expect more third-party partners to be added this year? Or is it the 2 this year?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
No. You'll hear more from us in the subsequent months. We are going to be selective and really methodical about how we grow this, and we don't expect a particularly material impact to 2022. But we do think that, that will start to really provide a catalyst in and of itself and then also haloing into the direct business starting in '23. So these partners that you'll hear us announce in the coming months are really important partners that we're going deep and we think they're all strategic brand-building partners for us.

So that is -- so that's kind of like -- that's the high level. And again, Mike touched on earlier that these are just really nice awareness boost and great catalysts for growth in this another consumer touch point. And in terms of the cost to stand it up, look, we've built this business into multi-hundreds of millions of dollars of sales from just a direct channel, and we've created a product engine that could support much more than that.

And so the cost to layer on a third-party partnership like this is really just a very small sales organization and the operations behind that to make that work. So we've largely laid the groundwork from an infrastructure perspective, whether that be finance or technology. And there's just a really thin layer to add. And that's why we're quite confident in the flow-through to EBITDA is going to be very attractive and provide really nice bottom line growth for us as well.

Operator
Your next question comes from Jim Duffy with Stifel.

James Vincent Duffy ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***
I wanted to ask a little bit more about store performance versus 2019. I recognize there's a lot of newness in the store fleet, but can you speak to trends you're seeing in urban versus more suburban or smaller market locations? And then specific to the European business, was the March pressure that you saw in retail productivity, digital? Or did it really come through in both channels?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
So on stores, there is really a lot of noise to compare all the way back to 2019. I think we had probably just a handful of stores, all in dense urban environments at that point. And so as I think everyone can attest to now that's in retail, the densest urban environments, high street locations have had the slowest recovery in general as a result of COVID and restrictions and people's changing locations and behaviors.

And we were -- we adapted to that pretty quickly. So during COVID, we started signing leases in lifestyle centers in suburban malls and whatnot. Those have performed really, really well. And those have proven to be much more resilient regardless of the consumer behaviors or restrictions in the regions and whatnot.

So we are continuing to -- we are continuing to focus on those types of real estate transactions when we're signing leases, and we're seeing quite a bit of positive uplift in those as we start up new stores as well. But that said, looking at the Flatiron launch that we just did about a month ago, it's been a really, really fantastic launch for us for a new store and gives us a lot of confidence in the comeback for Manhattan, which is, I think, a really nice bellwether for a lot of urban environments.

And if you couple that with our store in SoHo, we're just seeing a nice trend, and that gives us a lot of confidence to hit on those targets we mentioned.

Michael J. Bufano ***Allbirds, Inc. - CFO***
And the Europe impact, if it's retail or e-com, I mean...

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Yes, the mix is really heavily slanted to digital in Europe at the moment. And so it's hard to parse it out completely. There was also quite a bit of heavy restrictions on some of the stores during periods. But that said, I would say it's kind of broad-based, just an impact of the consumer based on incredibly high gas prices, what that does to the psyche of the consumer. And we've seen that really peak and then start to show some resilience again.

Operator
Your next question comes from Dylan Carden with William Blair.

Dylan Douglas Carden ***William Blair & Company L.L.C., Research Division - Analyst***
Just curious, Mike, in thinking about sort of back half breakeven on the EBITDA level. A lot here is sort of beyond your control as it relates to international outlook and status quo. What levers do you have that you feel are within your reach? I mean, is that a factor of third-party acceleration, retail maturity, marketing leverage more broadly? I guess what control do you have in your confidence level there?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. I'd go back to the comments I gave about the top line kind of basically getting into the media -- the

middle part of our medium-term range of 20% to 30%. And the drivers behind that, again, are the product portfolio we have in place there, the retail -- having more retail stores on a year-over-year basis, that's going to certainly help the increase in the velocity of that omnichannel flywheel that we continue to see.

And then the fact that third-party will certainly kind of help with that as well as we go through back half of the year. So I think all of that is the biggest thing that kind of gives us factor or gives us confidence. I think the next factor then, Dylan, is also the fact that like if things were going to accelerate beyond this cautious outlook that we're talking about on this call.

I do think you hit on a couple of the key ones, especially like if the retail recovery in the U.S. is an even faster pace, more broadly than what we're starting to see now. That obviously has a lot of benefits for Allbirds. You know our model well. So I think we have some confidence in that, if that got there.

The other thing I would just tell you when we think about -- you started out with EBITDA breakeven. It's not solely just a sales growth story for EBITDA breakeven. I referenced again in the full year EBITDA guidance. We have trimmed back a little bit on our SG&A spend, which I think is the responsible thing to do in an environment like this.

I do think if necessary, there's more we would revisit there, and it's not a pullback in marketing, makes you feel really good our marketing efficiency and our marketing spend and what we're doing brand building wise. But I think a business even our size, there are levers we can certainly pull as we balance that top and bottom line and get to the responsible growth we've talked about.

Operator

Your next question comes from John Kernan with Cowen.

John David Kernan ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Mike, maybe you could talk to the flow of inventory as the year goes on. It's up 70% year-over-year, it was up 80% in the fourth quarter. As the comparison is kind of easier, how should we think about the growth of inventory on the balance sheet?

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

Yes. I mean the big -- the 2 big X factors there are certainly the length of time of in-transit inventory. We have started to see that come down a little bit though obviously, the different like news on China on a day-to-day basis could have some effect on overall ocean shipping pace. So that's certainly something we're watching really closely.

And then if that has any impact then on the actual kind of shipping cost itself, I think those are the first 2 big factors. I think, demand-wise, clearly, we're going to be in a position where we're going to continue to sell through the product we have, balance that with the new product launches. So we're not giving sort of formal guidance on what we expect to happen with inventory over the course of the year. But I think those dynamics I just laid out, we should be in a position where as the laps do get easier to plan on the inventory side, we should start to see that come down.

John David Kernan ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***
Got it. My next question is just a follow-up on the long-term gross margin outlook. There's been quite a bit of inflation since the IPO. There's a lot of product cost inflation, freight inflation, labor inflation in stores in D.C. I'm just curious -- has the amount of inflation change -- that's changed, has it changed the way you're thinking about long-term gross margin potential?

Is there anything structural here that will prevent you from achieving the prior gross margin targets that you put out? Obviously, I think investors across this sector right now are really concerned. You look at valuations across the group, they are at levels we haven't seen in a long time, and I think there's concerns about the structural margin expansion story across the whole sector. So maybe you can talk to how you're going to offset some of these inflationary headwinds as we go forward.

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. I think there's 2 pieces in there, John. So the part where the question started, you're right. I do think there's more inflation than when we were on the road show last summer. I also think we've taken more price. And like I said earlier in the call, we've been able to pass that through successfully.

We have a tremendously strong brand that commands the price and great products that people love and come back and repeat for. And that's an advantage a lot of others don't have. And I think people who believe in the long-term story for Allbirds anchor it in those beliefs, right, the unique position of the brand and the quality of the products. And I think that helps us offset some of that.

And then to Joey's point, the thoughtfulness with which we're launching new products, launching in different categories, the higher margin we get from those products. I think those are huge factors in all this. So even in like kind of new news from the time of the road show. The other thing, again, I tried to do a little bit of my mini gross margin walk, probably at the end of the call there.

But if we think about the factors, it will take us from where we are today in the direct channels to where we'll be over time. Again, the growth in the gross margin accretive retail and international businesses. That's a big one. The strong pricing power fee that's certainly a significant factor. The introduction of these new higher-margin products.

And then when we look at that overall inflation story versus 2 years ago, announcing 450 to 500 basis points of these logistics cost headwinds over the past 2 years. I've said this repeatedly. We don't have to get all of that back, but we get part of that back over the next few years. That's another big step forward as well in our ability to hit that 60%-plus gross margin.

Operator
Your next question comes from Tom Nikic with Wedbush.

Tom Nikic ***Wedbush Securities Inc., Research Division - Research Analyst***
Mike, I guess some modeling minutia. When we think about the gross margins for the year, like how do we kind of think of the quarterly cadence for the remainder of the year? Historically, you've kind of had this sort of, I guess, head and shoulders kind of thing, where you saw seasonal spikes in Q2 and Q3. Should we assume that you're kind of more like in that 51%, 52%-ish range for the remainder of the year?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. Well, first off, Tom, welcome to the call. Welcome to the coverage group. We're happy to have you on. Looking forward to spend more time with you as we go forward.

If you look at what our historical seasonality of gross margin has been to your point, I think that's probably a pretty decent indicator, though I would tell you there's certainly pressure in Q2 on gross margin, both because I think the external impacts on sales and then some of the ripple effects those have in the gross margin are most acute in Q2.

So to your point, in the back part of the year, we were at 51.9% in Q1. I think the back part of the year, obviously, is going to have to be below that to get to the 51.1%. And I think it probably looks fairly similar across the 3 quarters, Q2, Q3 and Q4.

Tom Nikic ***Wedbush Securities Inc., Research Division - Research Analyst***
Got it. And I think -- and thank you very much for the well wishes. I'm happy to be aboard. As far as store growth goes, I think last call, you said 16 to 17 stores, is that still the plan for this year? And does some of the stuff that you're seeing in the international markets change your desire or willingness to open stores in international markets?

Michael J. Bufano ***Allbirds, Inc. - CFO***
So I'll start on the guidance point. It's still 16 to 17, now it's heavily weighted towards the U.S. And Joey and I, I think, have beaten the drum loud on this call that we're happy with the results we've seen in the U.S. overall in Q1, and we feel good about the balance of the year and certainly feel good about retail. So it doesn't change our perspective on 2022 on the store target.

Joey, maybe you want to touch a little bit more on international and the different levers of growth, maybe reiterate some of what you shared earlier in the call.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
I think we've continued to skew very heavily to the U.S. store portfolio, and we will do that for the foreseeable future. We do have opportunities in different regions. And sometimes that does require a different format in terms of a lower cost build-out just based on whether the lease structure is on the shorter term as it is in China, typically, those are 3-year leases versus the 5 or 10 that we can do in Europe versus the 10-plus in the U.S. with options to extend.

So it's all about how the lease dynamics play, how the halo across omnichannel impacts the go-to-market strategy in each region. And we're trying to be dynamic and be rightsized for each of the regions that we play in.

Michael J. Bufano ***Allbirds, Inc. - CFO***
All right. Carmen, I think we have time for one more question.

Operator
We'll take our final question from Ashley Helgans at Jefferies.

Unidentified Analyst -
It's [Blake] on for Ashley. You've answered most of them. I just wanted to ask on -- one on international. I believe you said that most of the top line impact was due to China versus Europe. Could you just confirm that and I didn't know if you could quantify anymore?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. First off, welcome to you, Ashley and [Blake] as well. Happy to have you on the coverage group, happy to have you on the call as well. So looking forward to working with you and the team a little bit more going forward.

Just to clarify the comment I made, I think what we're trying to convey there was that the bulk of the impact was from the combination of China and Ukraine. We didn't break out the difference between those 2 factors. And the other factor then was the impact of FX. So that was the other piece.

So I think what I -- let me pull up my own script here just for a second. We had talked about the fact that -- let me find it. Yes, about 2/3 of the impact is due to Ukraine crisis and China's COVID restrictions and 1/3 due to FX rates. So that was what we had shared in the recorded remarks, and we're not breaking out any more between Ukraine and China.

Unidentified Analyst -
Got it. And then last one was just on marketing. I know you've talked about it already. But should we expect the ratio as a percentage of sales to stay around 22% for the rest of the year? And then I didn't know if you could also maybe talk about how much of that in terms of dollars is U.S. versus international?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. We don't break out the dollar piece on that in U.S. versus international. And on the leverage point, we have gotten leverage on marketing in the last couple of years and certainly did in Q1. We continue to expect to get leverage and the drivers of that leverage are increased marketing efficiency. I think our marketing teams have done a phenomenal job of driving marketing efficiency.

Number two, the channel mix certainly helps us raising awareness, both through our own direct retail channels. And then as we ramp up on third party, that's certainly going to drive awareness for us with no incremental marketing spend. And then the last piece of it is just the pace of growth overall is going to be the big -- another big driver towards that. So we feel good that we'll continue to get leverage on that line.

All right. Well, thank you so much, everybody.

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

Operator
I will hand back to you for closing remarks.

Michael J. Bufano ***Allbirds, Inc. - CFO***
We'll just close out with a couple of comments. I think we've outlined really clearly that particularly in China as well as in Europe, the world and people in those regions are dealing with some really unfortunate circumstances, whether it be restrictions around COVID or the conflict in Ukraine. And we feel this internally as well.

Our people in Shanghai are directly affected from this. And yet we know that these things will pass. And we focus on what we can control right now. We have a beautiful product road map that's coming out, encourage everyone to get their hands on a pair of Flyers on May 17 when we launch those, and that's just a good starting point for us and what we have on the road map coming forward.

And I think that coupled with the strong distribution model and the strength we've shown in the U.S. gives us a ton of confidence in our long-term model and being able to hit all the financial outcomes that we said, and we've pointed to you guys to as well as just in general on the confidence that this is a brand that really stands for something meaningful that resonates with consumers, and we're just excited to keep building this business.

So thanks again, and look forward to talking with you all in the quarter.

Operator
And with that, ladies and gentlemen, we conclude today's conference call. Thank you for participating, and you may now disconnect.
