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PRESENTATION

Operator

Good day, and thank you for standing by and welcome to the Allbird's Fourth Quarter 2023 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today Christine Greany with The Blueshirt Group. Please begin.

Christine Greany ***The Blueshirt Group, LLC - Investor Relations***

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

Before we start, I'd like to remind you that we will make certain statements today that are forward-looking within the meaning of the federal securities laws, including statements about our financial outlook, including cash flow and adjusted EBITDA expectations. 2024 guidance targets, impact and duration of external headwinds, strategic transformation plan and related planned efforts go to market strategy plans, transitions to a distributor model in certain international markets, anticipated distributor model arrangements, expected profitability, cost savings targets, gross margin estimates, product plans, time lines and expectations. Third party Perbio strategy, marketing strategy and other matters referenced in our earnings release issued today.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially please also note that these forward-looking statements reflect our opinions only as of the date of this call, and we undertake no obligation to revise any statements to reflect changes that occur after this call, please refer to our SEC filings, including our quarterly report on Form 10-Q for the quarter ended September 30, 2023. For a more detailed description of the risk factors that may affect our results.

Also, during this call, we'll 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, if applicable in today's earnings release.

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

Joseph Zwillinger ***Allbirds Inc - Chief Executive Officer***

Thanks, Christine, and welcome, everyone. As we concluded 2023 with Q4 results at the higher end of our expectations, marking the fourth consecutive quarter of meeting or exceeding our guidance with strong execution towards reshaping the business under our strategic transformation plan.

This being my last earnings call at the helm of our group is a big moment for me, both professionally and personally, I'm incredibly proud of what Tim and I helped create over the last nine years. I am also incredibly pleased with the renewed foundation we've established through our transformation work over the past year, not least of which being the incredible management team we recruited to lead this next chapter of revitalization and growth.

Zooming out for a moment, I want to remind everyone about our higher-level opportunity, Allbirds, make shoes that are timeless and versatile and style and innovative. In the nature of materials. We use blend of our unique approach to design and materials creates a highly differentiated offering that our consumer feels immediately on their slip-on shoes.

The consumer we target a group called the change makers, represents approximately 20 million people in the US on applying the sharpest definition. And when we include closely adjacent demographic group, this group grew to approximately 68 million people, only about 5% of that 68 million target. It purchased our products since our inception and the per capita average of eight pairs of shoes per year.

The untapped potential of this group constitutes a tremendous market opportunity for Albert in the US alone, judged by our consumer views and NPS. We know that people who tried our products with Walter, the challenge. We are tackling now to raise awareness of the brand and compel this group to buy. We're delivering a great product and storytelling.

I will get back to product and marketing in a moment as it is the most essential aspect of our transformation to revitalize momentum on the brand this year. However, before we can bring our refreshed product line to market as we expect to begin in earnest later, this year and invest behind those introductions with breakthrough marketing, we had to clean up our business in just one year's time. We have fundamentally changed and strengthened our underlying operating model.

Touching all critical aspects of the business, including our store portfolio, international marketplace, manufacturing efficiency and cost structure. And we closed out 2023 with our inventory in a clean and healthy position in terms of both composition and absolute volume of finished goods across all channels. This new foundation enables us to drive durable profit as we grow in the years ahead.

I'll give you a quick review of what our flock delivered in the 1st year of our transformation. First and foremost, we cleaned up inventory clearing through underperforming legacy products and reducing our inventory levels by 51% year over year. As a result, we entered 2024 with a healthy mix of core franchise goods and the ability to lean into the fresh product innovation coming later this year.

Relatedly, we significantly improved our rate of full year operating cash use and ended the year in a strong cash position, providing us with the financial flexibility to continue executing our strategic transformation plan and now invest in profitable growth.

The third area of success is cost discipline. We delivered cost of goods and SG&A savings compared to our run rate at the end of 2022, keeping us on track to achieve the 2025 cost reduction targets we had previously communicated.

Fourth, we secured pathways for four of our international regions to transition to a more profitable go-to-market strategy via distributors, Canada and South Korea transitioned in Q3, while Japan and Australia and New Zealand are expected to transition later this year.

The final aspect of improving the operating model is related to our work to balance and optimize the US marketplace. Related to that, we have signed or anticipate signing agreements to close 10 to 15 underperforming stores in the US, all of which are expected to close during calendar 2024. While the groundwork for profitable growth is now laid, there will be short term revenue impact in 2024 as a result of these transformative activities between store closures and the shift to a more capital efficient go to market strategy in the international regions.

Our guidance for the year contemplates between $32 million to $37 million of revenue impact in 2024. Andy will walk through the implications of these actions in detail. The important takeaway is that we're doing what's right for the business. And this part of our journey is in service of driving long term, profitable growth well into the future.

Stores remain a highly effective way to meet new customers and drive omnichannel purchasing and omnichannel purchasing is the most profitable consumer journey we can generate with their lifetime values far surpassing single channel repeat customers. As we focus on renewing brand momentum and driving sustained growth in the US, we are leaning into our most efficient stores in key cities where we want to win.

The wholesale channel also represents an important vehicle for Albert one that can help us build awareness for the brand while further balancing the marketplace we have always envisioned wholesale as a large portion of our long-term channel mix and continue to see that in the future, offering a major growth vector for us, which we expect to drive solid contribution margin and increase awareness, all coinciding with our objective to introduce consumers to our refreshed product line around our Iacon for our international regions.

I want to recognize that this is one of the more complex aspects of our transformation plan. And to that end, Andy will provide a detailed walk-through on the economics of these transitions and the related P&L impact. We have secured partnerships in four key regions with additional regions and process. This was a significant task and one that the team affected quickly while prioritizing a premium brand presentation to consumers in these regions.

The distributor model carries multiple benefits, including improved profitability, inventory efficiency, reduce complexity in our U.S. headquarters and improve working capital in the early stages of the transition, there is a short-term headwind to growth, but the benefit is higher quality revenue with greater flow-through to the bottom line.

Going forward, we expect to generate an approximately 20% contribution margins and the transition in new international regions through this model, with the capability built to effectively serve distributors in international markets, we are now pursuing opportunities to enter new regions, including Southeast Asia, the Gulf Coast country, and to localizing key regional marketplaces across Continental Europe.

We expect to share news of these growth opportunities in the near future in the UK, we expect to maintain a direct distribution model as we see big opportunity to win in London, which we view as a strategically important market for other regions where we have made significant inroads. We will also add wholesale in the UK to drive the growth with the heavy lifting of last year complete and a clean inventory backdrop, our teams have amplified their focus on driving long-term profitable growth.

The most critical aspect and the final step in our transformation is to revive brand momentum and reignite top-line growth. The path to do so is through delivery of a relentless flow of compelling product, coupled with resonant stories and change makers with our approach to innovation, leveraging a franchise offense with embellishments and distortions to our icons. We intend to drive newness while maintaining high SKU productivity.

Given we started this transformation in the beginning of 2023 and have typical lead times of 15 to 18 months from concept to consumer. We are on track to begin delivering this refreshed product line in late Q2 of this year. Our first test of this strategy was with the release of the wall runner two this past November, which was our most successful launch in over a year.

And while just in initial tests with relatively minor aesthetic adjustments, the success of this product has given us clear indication of how we can differentiate from others in our category and deliver products that our consumers will come back for time and time again, you'll see our first major innovation of 2024 around an icon in April when we plan to launch the trigger on Argo, who will follow that with additional innovations specifically designed to address our opportunity with women change makers in Q three, in conjunction with the new life ingested into the product line.

You should also expect investments in brand marketing later this year and that growing awareness. The focus of these investments will be to introduce new consumers to the brand and drive full price sales as they progress through the funnel with mid and longer-term impact extending into 2025. Our aided awareness is estimated to be just 15% in the US, illustrating the big opportunity to showcase our beloved products to new consumers. In support of this effort, we have significantly elevated the horsepower on the creative side of our business.

In December, we appointed Kelly Olmstead as our Chief Marketing Officer as well as Adrian nine and as our Chief Design Officer. Both of these individuals bring incredible track record and decades of experience in footwear and apparel. Adrian helped deliver an enhanced creative vision through his work as an adviser last fall and since joining as our Chief Design Officer, has accelerated our work towards a cohesive approach to our franchise offense. Kelly is refining the messaging to match the elevated product offering and bolstering efforts with the digital first influencer program to build awareness and relevancy.

With this superb design and marketing leadership in place ahead of our upcoming product cycle. We're eager to create the renewed consumer excitement and margin expansion, what we anticipate on the horizon from these leaders, and he has been successful in driving the operating and financial discipline. We have demonstrated through her role as our CFO since joining early last year.

And finally, I'll speak about Joe Vernacho, who, as our COO, played an integral role in the success of the first year of our transformation efforts, along with some other longer-term team members, we have assembled the best executive team in the history of the Company with a world-class team in place. I am proud to hand over the reins to Joe to be our next Chief Executive Officer.

Joe and I have developed a strong partnership over the past three years has steadily increased the scope of his responsibility, not only as an exceptional retail operator, but I learned that Joe's appetite and ability to drive positive outcomes has increased with each expansion to, as will be the product executive at heart, but a human center leader who pragmatically focuses on driving outcomes for the company and its shareholders. I'm thrilled to welcome Joe as our next year and as a member of our Board of Directors will sit alongside them and continue to support and rebuilding momentum behind the Aalberts brand.

Joe, congratulations on that. Pass it over to you to share a bit about your background and your initial priorities.

Joe Vernachio ***Allbirds Inc - Chief Operating Officer***

Thank you, Joey. I'm excited and honored to be stepping into this role and look forward to getting to know our analysts and investors in the upcoming quarters. This transition marks a high point in my career, which began in 1987 at Patagonia and it was during those early years that I developed a passion for creating exceptional products. I honed my skills in product development, operations and merchandising over decades, working with several iconic brands such as Nike, Calvin Klein and The North Face and orchestrated the turnaround at Mountain Hardwear.

I joined Allbirds nearly three years ago, attracted by its potential to become a lasting iconic brand, led by its lifestyle positioning, commitment to sustainability and inherent consumer down since June 2021.

I've had the pleasure of working side-by-side with Joe. Initially, I was tasked with establishing operational excellence across various functions, including distribution, inventory and manufacturing, while leading our global commercial activities in digital stores and wholesale as a key player in our operational transformation, I have been able to apply my turnaround experience to our inventory reduction, international transition and retail optimization.

Most recently, I took charge of our product engine where I installed Adrian, as our Chief Design Officer. Together, we are building a world-class design team as the year progresses. We look forward to sharing more about our vision of the 2025 product line as I step into the CEO role, I'm pleased that we have structured the business to deliver profitable growth in the years ahead, consistent with the pillars under our strategic transformation plan in the near term, I will be prioritizing these four areas.

Number one is product, ensuring we have a steady flow of compelling product that resonates with the consumer is paramount to my strategy. We believe a combination of focusing on our iconic footwear and incorporating seasonal collection is a recipe for delivering more what our consumers love about offers. Number two is brand messaging that delivers a clear connected narrative at both the brand and product level that results in increased consumer awareness.

Third is developing a robust US marketplace. This includes growing full-price sales in our digital channel, optimizing our own retail performance and steadily growing our wholesale channel with key partners such as REI, Nordstrom and Dick's Sporting Goods. We believe there's tremendous growth opportunity in the wholesale channel for our brands.

Fourth is expanding our international business, primarily through distributors. Partnering with these in-region experts can help us extend our reach and drive greater brand awareness in both existing and new geographies over time. As you can tell, my priorities are about driving growth. We have significantly improved our business model and reduced our cost structure over the past year. And now it's time to regain momentum with our customer and position the brand to return to growth in 2025.

As we turn to this next chapter, we are fortunate to have incredible people across the organization who are passionate about the brand dedicated to our purpose and committed to win.

Now I'll pass the call to Annie to discuss the financials and our outlook for 2020.

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

Thanks, Joe, and good afternoon, everyone. We're pleased to report our fourth consecutive quarter of both operational and financial progress. Our Q4 results came in at the high end of our guided range on the top line and ahead of our expectations on the adjusted EBITDA line. We also delivered significant progress across inventory and cash with inventory reduced by half versus a year ago and operating cash use down both sequentially and year over year. Fourth quarter revenue of $72 million declined 14.5%, reflective of our actions to continue clearing through non-core product and reduced marketing events.

Gross margin came in at 38.0% compared to 43.1% a year ago. This was in line with our expectations and was inclusive of our planned promotional activity, which allowed us to end the year in a healthy inventory position. The impact of promotions more than offset cost of goods savings resulting from lower outbound freight.

Looking at expenses, SG&A, excluding stock-based compensation and depreciation and amortization, came in better than we expected on both the sequential and year-over-year basis. This reflects lower personnel expense as well as ongoing cost discipline. In 2024. We expect SG&A dollars to be down year over year as we realize the full year impact from previous workforce reductions and capture partial year savings related to 2024 store closures in international transition.

Turning now to Q4 marketing expense, we were up sequentially from Q3 and which was in line with our plans to increase spend in support of the holiday selling season as well as our whole runner to March.

Looking at 2024, we expect marketing spend to be down largely associated with our international transitions with planned incremental investments in the U.S. and the Bakken.

Moving to the balance sheet and cash flow. We delivered another solid quarter of progress on inventory and cash and ended the year in strong financial condition. Year end, inventories totaled $58 million, that's down 51% versus a year ago and reflects the cleanup of non-core colors and styles, which allowed us to enter 2024 with healthy levels and composition.

Our progress on reducing inventories, coupled with strict control of expenses enabled us to narrow our Q4 operating cash use to $4.7 million versus $8.4 million a year ago. On a full year basis, operating cash use was $30 million, down significantly from $91 million in 2022. We closed the year with $130 million of cash and cash equivalents and no outstanding borrowings on our $50 million revolver, providing us with the runway and financial flexibility to execute our strategic transformation plan after a year in which we converted a significant amount of inventory into cash.

We anticipate that the operating cash use will naturally increase in 2024 compared to 2023. We're proud of our strong execution in 2023. We did the hard work to achieve our goals and put us on the path to rightsizing our cost structure. Importantly, we're tracking to the COGS and SG&A savings targets we laid out a year ago.

As a reminder, our 2025 target includes $20 million to $25 million of cost of goods savings on a volume neutral basis to 2022 and $15 million to $20 million of SG&A savings on an annualized basis as compared to our run rate at the end of 2022 as you referenced earlier in the call, we're taking actions this year designed to position the business to return to top-line growth in 2025 and set us up to deliver profitability in future years.

Now I'll walk you through the financial impact of two key initiatives. First, we're optimizing our US store portfolio for the exit of certain underperforming leases. We are focused on four-wall EBITDA profitability and anticipate that a leaner portfolio will enable us to improve fleet profitability, working capital and inventory.

Following a rigorous fleet review, we are planning to close 10 to 15 stores in 2024, representing a one-third of the portfolio conjunction with the closures. We expect to incur onetime cash charges to settle these leases largely in the first half of the year.

Turning now to our international go-to-market strategy. One of our objectives today is to educate our analysts and investors on the modeling implications and related P&L impact resulting from our transition to a distributor model in the majority of our international markets.

Conceptually, the best way to think about each line item is as follows. Starting with net sales from a high-level perspective, we are replacing direct sales to the consumer with sales to the distributors at a lower price, similar to a wholesale model following a large initial inventory buy as part of an asset purchase agreement.

Volumes remain low for the first quarter, so and then begin building in the next quarter. While the distributors will buy from us each quarter we anticipate volume purchases in Q2 and Q4 will be proportionately higher due to seasonality. Margin and profit profile is also similar to a wholesale model and that gross margin is lower than our direct business and SG&A and marketing expense business, we anticipate that gross margin will be approximately 15-percentage-points to 20-percentage-points below total company margin and in-region SG&A and marketing costs will reduce to a nominal amount.

Taken together, this represents in-region savings of approximately $14 million on an annualized basis. Additionally, our in-region CapEx will be de minimus for added context we will leverage global creative investments at the corporate level and maintaining limited operational costs within our headquarters, which will be included in total company SG&A from a bottom-line perspective, despite lower gross margins with minimal overhead in these regions, they are expected to be immediately profitable and period average contribution margin of approximately 20%.

Additionally, from a working capital perspective, the new model is expected to unlock inventory efficiency and drive improvement in working capital to further assist with your understanding of our international transition and progress against our strategic transformation.

At the conclusion of this call, we will be posting supplemental materials to our Investor Relations website under quarterly results. The financial guidance we're providing today reflects a full year of operations under the new distributor model for two regions, Canada and South Korea, and approximately half of your contributions for other regions transitioning or expected to transition this year to assist with your modeling efforts for the first year of transition, we are also providing a revenue outlook for each of the US and the international geographies for the full year in 2024, revenue is expected to be in the range of $190 million to $210 million. This reflects the headwind of $32 million to $37 million related to our strategic actions to close US stores and transition our international markets to a more profitable distributor model.

Stepping back and looking at the underlying business, excluding these two near-term headwinds, we believe the inventory cleanup in 2023 will enable us to return to more full-price selling in 2024. We believe this is the right approach for the brand, but we recognize there may be a natural lag for the consumer after responding to our promotional messages and offers last year to that end, the low end of our guidance reflects trends down in the mid teens. The high end of our guidance reflects sales down mid singles, which assumes a modest improvement in consumer response to our new products and storytelling in the second half of the year.

Taking a look at revenue by geographical market, full year U.S. revenue is expected to be $150 million to $165 million and includes approximately $7 million to $9 million of impact resulting from our anticipated US store closures. Full year international revenue is expected to be $40 million to $45 million and includes approximately $25 million to $28 million of impact resulting from our anticipated transition to a distributor model in international markets.

Gross margin is expected to be in the range of 42% to 45% and reflects a few key factors reduced promotional intensity compared to

2023, lower inbound and outbound freight and initial savings from our factory shift to Vietnam and material innovations. These benefits are expected to be partially offset by lower gross profit from international regions that have transitioned or are planning to transition to a distributor model in 2024 full year adjusted EBITDA loss is expected to be in the range of $78 million to $63 million.

Turning to Q1 guidance, first quarter revenue is expected to be in the range of $37 million to $42 million. That includes US revenue guidance of $28 million to $31 million and international revenue guidance of $9 million to $11 million. Adjusted EBITDA loss is expected to be in the range of $27 million to $23 million. As a reminder, during the first quarter, we'll be operating with two of our international regions already transitioned to distributor model, Canada and South Korea.

For added perspective, as you think about building your full year models, we expect top line trends to remain fairly consistent for the first three quarters of the year with seasonally driven improvements in Q4. There are a number of factors driving anticipated trend line, including the transition of at least four international regions, store closures, tough comparisons to promotional activity in 2023 and consumer response to new product introductions as well as marketing investments we intend to make in the second half of the year.

Looking further ahead, achieving adjusted EBITDA profitability and positive cash flow on a full year basis remains our North Star. The timing to get there may take longer than anticipated. We believe the actions we're taking this year will position the business to return to top-line growth in 2025 and feel confident that our transformation work is enabling us to build the operating model needed to drive profitable growth in future years.

We appreciate your time this afternoon and look forward to reporting to you on our progress throughout 2024. Now I'll ask the operator to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Alex Straton, Morgan Stanley.

Katie Delahunt ***Morgan Stanley - Analyst***

Hi. Thank you for taking my question. This is Katie Delahunt on for Alex straighten. My first question is on we were surprised to see sales decline even when adjusting for store closures and Monash international transition. What's driving that decline? Is it just waiting for the new product to arrive in second half?

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

Katy, it's nice to hear your voice again. And yes, when you're looking at our guidance is there are a number of factors impacting some of the quarterly trends as well as the overall numbers. And we talked about the closing of the retail doors that did already start from in Q1 and the international markets and the two new ones will happen midyear.

And then where we expect there to be a growth to be coming from is the introductions of refreshed and compelling new products that will happen later this year and really as we're ramping up as we move into 2025.

And additionally, we are planning to coincide our marketing investment with the launch of those new products so in the first half of the year, we have all of the non-comp impacts and it is starting in the back half of the year with the introduction of new product that gives us excitement as we work our way into 2025.

Katie Delahunt ***Morgan Stanley - Analyst***

it makes sense. And then just one was a little on US store closures. Is there any like specific like demographic trends are driving behind the ones that you're closing, like are they in more suburban markets, a certain size or any trends we should think about there?

Joseph Zwillinger ***Allbirds Inc - Chief Executive Officer***

And yes, I would say the overwhelming theme to think about in the ones that we're closing for the year are really some of the newer ones that were designed with a little bit of a larger store footprint and probably best served with a more robust apparel offering.

And as we refocus product line really sharply on those iconic franchises in footwear, we wanted to make sure that the fleet was rightsized for the at go forward product as well as as well as just a great optimize U.S. marketplace that we're in the key cities that we need to win and we can balance out some of those other places with more robust wholesale distribution.

Katie Delahunt ***Morgan Stanley - Analyst***

Thank you.

Operator

Janine Stichter, BTRG.

Janine Stitcher ***BTIG - Analyst***

Thanks for taking my question was asked about the wholesale distribution. You talked about it being a long term, a larger portion of your mix, what's needed to reaccelerate that there? How should we think about timing and magnitude? And maybe just remind us of where you are in that, what accounts here in and what the go-forward plan might look like?

Joseph Zwillinger ***Allbirds Inc - Chief Executive Officer***

Thank you again. Yes, I'll start us off here and then I'll kick it over to Joe. If you want to add something after the go forward? So you're just context wise, we had some nasty work to accomplish last year, and that was with a robust set of promotions and markdowns to make sure that we had a very healthy inventory to come into the year in 2024. So we did that.

And along the same time line, we were also refreshing the product line and moving things through the development cycle, which which really is going to start to hit in earnest in Q2 and beyond in 2024 and we think very, very optimistic about the back half of what's coming as improvement versus '23 and before I'm really excited about 2025.

So when we think about what we want to do with wholesale. We want to be great partners there. And the biggest and most important element for our partners is to drive great sell-through and margin. So we want to make sure that the right product on the shelves, and we're showing that fantastically for the consumer when we enter when we when we when we really push the acceleration in that channel.

And we do think it's a very big part of our business going forward. We've always envisioned it being a sizable chunk when we had the right product to do that. So that is where we're headed. But we did want to make sure to be cautious and not and not put product in the channel that we didn't think would resonate strongly with consumers and create a messy marketplace.

So that's the that's the worst thing that could happen. And so we are fairly prudent and cautious about making sure we have pulled back in that channel so that we can then reaccelerate and our partners are great to support us there, too.

Joe, maybe you can just mention who were who were working closely and what you have in store moving parts.

Joe Vernachio ***Allbirds Inc - Chief Operating Officer***

And overall, I'm Janine, nice to meet you and hello from me as well. We believe that wholesale is a big component of our overall balanced US marketplace, along with our own digital and our own retail stores. And we think the opportunity in wholesale is quite significant for us as we move forward.

We purposefully held back last year for all the reasons Joey just described to make sure that we weren't putting product into the marketplace, knowing that we had to move through our own inventory. And we're really fortunate that we've got marquee and retailer partners to work with on a lot of brands would on our would be very fortunate to have the portfolio that we have. We are working directly with them and we'll be going on on a roadshow over the next series of months to reintroduce our product strategy.

Our ICON strategy our communication strategy to reinvigorate our selling with those retailers, and you should start to see products starting to come on line later in this year and early next year.

Janine Stitcher ***BTIG - Analyst***

Thanks. So much for all the color and best of luck. Thank you.

Operator

Thank you.

Dylan Carden, William Blair.

Dylan Carden ***William Blair - Analyst***

Hey, thanks. Kind of some boring ones here, but the breakout between retail and digital growth in the quarter and kind of curious how you're thinking about reporting go forward if you're going to start breaking out the wholesale distribution arm and just kind of look to maybe adjust our model

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

and don't for the immediacy we're not going to be changing the way that we are sharing our segments in our estimation for this year, we're looking at guidance for US and international separately. We did that for the full year for Q1, I we understand that this shift international is going to be meaningful in terms of the modeling. So for this year, we do anticipate giving us our guidance in terms of reporting No, we do not intend to change our segments.

Dylan Carden ***William Blair - Analyst***

What quite yet you're not going to be breaking out retail and digital that we normally provide in a wholesale. Okay. Okay. And then on gross margin, the guide kind of actually up on the year despite and maybe I could have misheard you, but despite the sort of the lower gross margin associated with that distributor models that simply because the offset on the promotion on cadence are missing there?

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

yeah, so we do we are giving guidance and are expecting there to be margin improvement in 2024 over 2023. And it's coming from a number of factors and the largest one being exactly as you just called out, the reduced promotional intensity compared to last year. Last year, we ended up doing a significant amount of promotions to rightsize our inventory, and we were very successful at doing that. As you can see from inventory being cut in half from a year ago.

We've since shifted back to more full-price selling time and the consumers responding when we give them freshness either through new product or color drops. And so shifting back to full price is the largest. The next is the lower freight expense and some of the initial cost savings from our fast factory shift to Vietnam and the material innovation and a little more color specifically on the freight.

And these are result of the proactive efforts that we made last year to drive some savings and the inbound savings are coming from our redesigned shoe boxes and which are allowing for more efficient shipping and outbound savings are coming from a freight tender that we completed in 2023.

But you are correct that's going to be offset by the distributor model and the gross margin, and that is lower. However, with the OpEx and marketing being virtually zero. And this is a strategic decision that will overall improve the bottom line. And we expect the contribution margin around 20% coming from the international distributor business.

Dylan Carden ***William Blair - Analyst***

Got it. And then sorry, last one and again, apologies if I sort of missed I heard you say it was going pretty quickly, but so the 190 to 10 revenue guide 30 to 37 miles from store closures, 25, 28 from distributor model shift. The midpoint of those two plus the midpoint of the guide would suggest actually that growth in sales, but the organic guide is sort of down mid 10s down mid-single digits.

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

And I know I'm missing something there, but can you tell me how you deal with it and yes, we definitely went through quickly. We're trying to get a lot of messages across today. The total of retail and international is 32 to 37. That's made up of retail, yes, retail is 7 to 9 million and international is 25 to 28. So I think there's a little bit double counting that you might have had going on there sounds about right.

Dylan Carden ***William Blair - Analyst***

Okay. Okay. And then so the organic growth is down mid teens to down mid-single. Is the right way to think about that, correct?

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

That's exactly right.

Dylan Carden ***William Blair - Analyst***

Okay, okay. Thank you very much.

Operator

Thank you. (Operator Instructions)

Abbie Zvejnieks, Piper Sandler.

Abbie Zvejnieks ***Piper Sandler - Analyst***

Okay. I am on one just for Joe. Can you talk about the decision to step down. And then I have a follow-up on SG&A. Thank you.

Joseph Zwillinger ***Allbirds Inc - Chief Executive Officer***

Sure. And we've been now a year into this transformation, and we're all quite happy with the progress, albeit not necessarily with the overall situation that we find ourselves in here. And we're in this moment. It's incredibly important to have the right leadership team in place, both through the various phases of a transformation.

And Joe and I have been talking about this virtually since he joined the company almost three years ago now, but really in earnest over the last year as an opportunity to and get the best retail execution we possibly possibly could at the helm. I think the timing is fantastic and Joe has proven to be an exceptionally capable leader and one that I personally thought was best suited to handle the transformation as we go forward here.

So that that in particular was was the decision around myself and Joe, but I just want to underscore the fact that that we have we have work to do and that work is predominantly around driving growth. And in order for us to do that. We have to get exceptional product teams in place and we have to have exceptional storytelling and we have to have the resources to bring to bear to invest behind those people. And fortunately, throughout this process, being a deliberate and methodical one, we have a balance sheet that's extremely healthy. And now we have an A-plus team in place and we think we have absolutely everything we need to. We need in order to accomplish this next phase, which is all about this return to growth and getting back on offense.

Abbie Zvejnieks ***Piper Sandler - Analyst***

Maybe just as a follow-up to that for my SG&A question, and have you seen any like green shoots on some of the new products that you've put out recently? I mean, we know that some of the performance tests didn't really connect with their consumer, but and then the newer product launches, have you seen those green shoots yet? Or is this still more of a 2025 story on products now we should see some in advance of that.

Joseph Zwillinger ***Allbirds Inc - Chief Executive Officer***

I think we've already demonstrated a bit and maybe I'll let Joe speak to it and add a little color now on --

Joe Vernachio ***Allbirds Inc - Chief Operating Officer***

the we'll run or two is probably the best near-term example of our icon strategy coming to life. So it was our best launch that we've had in a number of years. And the consumer really reacted strongly to the messaging and the positioning of that product and coming right behind it will be a product. We're calling the tree runner GO, which is kind of a sister product to that with more of a summer expression that we'll be launching in the near future. And we expect similar if not even greater results.

The tree runner itself is our number one product in our in our total offering. We expect this new version of to do quite well, we'll have a couple of more coming out the balance of the year on the product. We're calling the glider, which has a more active slant and is oriented more towards a went a female consumer, and then we've got a really strong Q4 offering coming right behind that. So we're really excited about the offering that we've got coming this year and then the Icon strategy and the distortion of the icons coming through '25, we think are really going to propel our growth and drive full-price sales.

Abbie Zvejnieks ***Piper Sandler - Analyst***

Got it. And on just the SG&A piece, can you talk a little bit more about is that the cadence of marketing one, you said some reinvestment in the second half. Does that mean that marketing will grow year-over-year in the second half? Or will it still decline, but just at a lesser rate than the first?

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

When we're looking at marketing yeah, overall it would be down sorry, but overall it will be down and largely related to the international transition in terms of the overall timing and cadence of it. And we do anticipate that each quarter will be down and the exact timing and the investment in marketing will happen in the back half of the year. But we haven't I've articulated it into exactly which month or quarter. We want to make sure that we're supporting the product coming to life and it's a while will be in the back half of the year. And we do anticipate that each quarter will generally be down with potentially some changes in Q3 and Q4.

Joseph Zwillinger ***Allbirds Inc - Chief Executive Officer***

And Annie, maybe I can just add from a high-level perspective on just a slightly different way to think about it. You can see in the supplemental deck, we put up some specific timing on the international transitions, and that really drives a lot of the overall decline in marketing so that should actually kind of help you pencil out the timing and some of the relative weighting of what you should expect from that decrease related to the switch of the go to market.

And then in the organic go-forward business, we really want to time the investment was in marketing to coincide with this refreshed product line coming out, and we're going to start getting back on offense there and really showcasing some of the strength of this product offering and just make sure we have the opportunity to meet all the new consumers who haven't even heard of Allbirds yet, and that's the biggest opportunity we probably have. So that's that's starting in the back half and we'll hopefully get gained strength and continue to accelerate data center clients.

Abbie Zvejnieks ***Piper Sandler - Analyst***

Thank you.

Operator

Tom Nikic, Wedbush.

Tom Nikic ***William Blair - Analyst***

Hey, everybody. I think pushed into my question on the Q3 call, you mentioned that you are still confident in getting to adjusted EBITDA profitability and free cash flow positive in 2025. I mean, the do you still have confidence in that time line. And I guess the reason why I ask is because there isn't much adjusted EBITDA improvement in the guidance for 2024 ourselves and even even working on the cost savings and stuff like that. Jim seems like a pretty long bridge across, but just kind of kind of right, right wrap my head around the time line of game profitability.

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

Achieving adjusted EBITDA profitability does remain our North Star, and we anticipate that it may take longer than initially communicated. We believe the transformation work that we've done to date, and we'll continue to do in 2024. And we've positioned the business to achieve top line growth in 2025.

But this year, the deliberate strategic actions that we're taking are international and US store closures, we'll only see a partial year impact from these due to timing happening over the course of the year. And in 2025, we will benefit from the full year of profitability improvement, setting us up to drive long-term profitable growth, supported by the new product and marketing coming online later this year and as we ramp up into 2025.

Tom Nikic ***William Blair - Analyst***

Understood. And I guess as we think out to 2025, I mean, I guess there should still be some amount of headwind from a top line headwind from store closures and the international distributor transition drags you kind of wrap around?

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

That is correct. And when we do the quarterly comp year over year. We will continue to have noncomp impacts as we go into 2025. But remember, these strategic actions actions are being made because they will be impactful and positive on the bottom line. And so that's what we're focusing on as we go to 2025 is improving adjusted EBITDA.

Tom Nikic ***William Blair - Analyst***

Understood. Thank you very much and best of luck this year.

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

Thank you.

Operator

Dana Telsey, Telsey Advisory Group.

Dana Telsey ***Telsey Advisory Group - Analyst***

Hi, good afternoon, everyone. As you think about your store base and the closing of 10 to 15, what is the right number of stores that you should have by eliminating these stores? What's the revenue impact and what's the cost impact that you see of those? Thank you.

Annie Mitchell ***Allbirds Inc - Chief Financial Officer***

Thanks, Dana. And the overall impact to the top line this year is seven to $9 million. That is largely based on about a half average of a half year convention with the door closures. So we do expect the top line to have some non-comp impact as we go in to 2025. And in terms of the cost savings, we believe that this change this year, again, largely a partial impact will be a range of positive $3 million to $5 million from closing these retail doors. And then again, that's approximately on a half-year convention, again, somewhere close, some have already closed and then some will continue to close over the course of Q2 and into a few in Q3.

Does that help, Dana?

Dana Telsey ***Telsey Advisory Group - Analyst***

Yes. And what is what's the go-forward number of stores that you should have from the existing base after that, what are you looking to regain in terms of doing?

Joseph Zwillinger ***Allbirds Inc - Chief Executive Officer***

And then I think it's hard to put a number on that because as the as the base of customers who are aware of us and our purchasing our product expands, I think there's really big whitespace for the number of stores that could potentially potentially exist. So we need to revitalize momentum and get some relevance with those new consumers we meet and then we can start thinking about building stores. Again, I think the most important aspect there is just keep maintaining balance and where we should.

And we expect to have a lot of weapons at our disposal, including a much more robust wholesale offering. We have introduced products on Amazon, which has been really successful for us alongside our RDTC. channel. So as we see the marketplace develop, it's going to be mostly about balance going forward and the rights, the right number of stores should should reveal itself as the business scales and we regain momentum, and that will be a geographic-specific decision. And one we want to maintain with and drive great omnichannel purchase, but but do it in a very balanced way.

Dana Telsey ***Telsey Advisory Group - Analyst***

Thank you.

Operator

Thank you. And this concludes the Q&A portion. I'll now turn the call back over to Joe Vernachio for closing.

Joe Vernachio ***Allbirds Inc - Chief Operating Officer***

Yeah, thank you, everyone, for joining us today. I'm incredibly energized by the opportunity ahead of us at all Bruce and really personally excited to get to meet and spend time with our analysts and investors in the coming months. Thank you very much.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect everyone have a wonderful day.