Katina Metzidakis, VP Investor Relations & Business Development

Good afternoon, everyone and thank you for joining us. With me on the call today are Joey Zwillinger and Tim Brown, Allbirds's Co-founders, and Annie Mitchell, Allbirds's Chief Financial Officer.

Before we start, I'd like to remind you that we will make certain statements today that are forward-looking within the meaning of the federal securities laws, including statements about our financial outlook, including cash flow and adjusted EBITDA expectations, Q2 guidance targets, impact and duration of external headwinds, simplification initiatives, strategic transformation plan and related planned efforts, go-to-market strategy, expected profitability, cost savings targets, product plans and expectations, third party partnership strategy, marketing strategy, and other matters referenced in our earnings release issued today.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please also note that these forward-looking statements reflect our opinions only as of the date of this call, and we undertake no obligation to revise any statements to reflect changes -that occur after this call. Please refer to our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2022, for a more detailed description of the risk factors that may affect our results.

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

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

Joey Zwillinger, Co-Founder and Chief Executive Officer

Thank you Katina and welcome everyone.

We started the year with top and bottom line results above our expectations, as our teams are executing to plan in what continues to be a difficult macro backdrop. The footwear industry saw a heavy promotional cadence in January, followed by a slowdown in spend in February, which was exacerbated during the bank run in March. Yet despite the industry headwinds, and a leaner product launch calendar this quarter versus Q1 '22, demand for Allbirds product exceeded our plans, particularly in March. This top line performance, coupled with tight expense control enabled us to deliver bottom line results and cash flows that were better than expectations.

On the strategic transformation initiatives we announced on our last earnings call, we are making solid progress against our plan to drive growth with expanded margins. As a reminder, our four initiatives include (1) reigniting our product and brand; (2) optimizing US distribution and four-wall profitability in our stores; (3) evaluating a transition of international direct go-to-market strategy towards a distributor model to reduce opex and overall complexity; and (4) improving overall gross margin and managing operating expenses. Let's go through each of those now.

Starting with reigniting our product and brand, our teams are hard at work connecting insights to a recalibrated product line and refined marketing approach, which we expect to begin to bear fruit in early 2024. That said, I'd like to highlight some recent product launches that speak to our dual-pronged strategy focused on both surprising and delighting our core consumer, while reinvigorating our core franchises to drive growth and assortment productivity.

During Q1 we announced M0.0NSHOT, a purpose-led project to create the world's first net zero carbon shoe. This net zero carbon footprint compares to our estimate of the industry average of 14 kg of CO_2-equivalent emissions for a typical sneaker, and speaks to our core consumer, who cares deeply for the environment, as do the next generation of consumers. This announcement was designed to drive brand awareness, and was successful in garnering north of 2 billion media impressions. Social sentiment was extremely positive, with video views more than double our average organic social post, and engagement rates up almost 200%.

We also just launched an extension to our consumer favorite Breezer ballet flat, with the new Breezer Point for women. The Breezer Point is a great example of reinvigorating and extending one of our core franchises, by adding an elevated aesthetic appropriate for the casualized workplace. And as we mentioned last call, our core consumer skews female relative to industry peers, and we believe we have an opportunity to improve conversion with women through a dedicated product offering focused on meeting *her* needs. We intend to continue our investment in similar extensions.

Overall, the Allbirds brand remains strong. Last quarter we spoke about the results from a company-sponsored BCG study. There are a few notable takeaways: first, Allbirds had the second highest Net Promoter Score in our peer group. Next, our consumers have a strong level of brand loyalty and satisfaction, with 96% of shoppers in the past year stating they would consider purchasing from us again. Quality, comfort and design are the three reasons why our consumers recommend us. More recently, in March 2023, L.E.K. published its 2023 US Footwear and Apparel Brand Heat Index, which ranked Allbirds as a top 10 casual footwear brand for both men and women.

To amplify our product focus on core franchise innovation, we are emphasizing a social-first, influencer-led marketing approach, which we expect to drive improved organic traffic and relevance for our recalibrated product line. Expanding upon our "Super Natural" northstar, our message of Super Natural Exploration celebrates the fact that our consumers lead an active lifestyle, are adventurous, and aspire to travel the world. We have delivered strong and aligned creative, coupled with an integrated influencer activation to reinforce the amazing qualities of our core product for travel. This is just a taste of what is to come in the coming quarters.

Moving now to US distribution. As a reminder, we have slowed the pace of new store openings to focus on driving four-wall profitability. We are pleased with our real estate portfolio of 40 full price stores and 3 outlets in the US. In Q2, we opened one new store in the US, with two more to follow later in the year. We continue to focus on driving traffic and conversion, and are making inroads with several store pilots under the leadership of our new head of stores.

Turning to third party partnerships, we continue to make steady progress with our marquee partners - Dick's Sporting Goods, Nordstrom, REI and Scheels - and initial feedback regarding our recalibrated 2024 product pipeline has been positive, with great alignment of the insights they have pulled on their shoppers' perception of our brand. After working through some slower moving inventory from Q4 2022, we believe this channel is clean from an inventory perspective. For now, we are targeting our wholesale marketing investments towards in-store communications and staff training to drive increased sell through and margins. We intend to invest alongside our retail partners to help ensure that our brand and product really stand out.

Moving now to our third initiative of evaluating a transition away from a direct go-to-market strategy in certain international regions. We continue to explore alternatives with the goal of driving unit sales growth and near term profitability. And, we have made meaningful progress in discussions with a number of strong potential distribution partners with embedded distribution in addition to our current footprint in these international regions. In summary, we are pleased at both the level of interest we have generated, and the pace of discussions, and will update you on our regular quarterly calls as we make additional headway.

Overall, demand and brand health remain solid in our international business, with revenue growth of 6.5% in local currency. Similar to last quarter, we are seeing strong momentum in our Asia business with more than 50% organic revenue growth in Japan, which is a key trend market for footwear. We are seeing similarly strong trends in China, with accelerating growth since January.

Finally, our fourth initiative on cost management is progressing very well. We are on track to deliver on our $35 to $45M annualized cost savings target as compared to our run rate at the end of 2022, made up of COGS savings of $20M - $25M and SG&A savings of $15M - $20M.

Starting with actions we are taking to manage COGS, we are already seeing meaningful cost benefits from our manufacturing transition. Though it is still early days, we are starting to see significant improvements in costs for products coming off the line from our new factory partner in Vietnam; we expect to see an acceleration in savings throughout the remainder of 2023 as we finalize the factory transition this year. We expect savings from raw materials optimization to begin to hit production later in 2023 with results expected to positively impact COGS in 2024. The early results lend confidence that we will be able to achieve the $20 to 25M annualized COGS cost savings target on a volume-neutral basis to 2022.

Moving to SG&A, we recently undertook a workforce reduction to reflect the reduced complexity created by these strategic initiatives. These moments are difficult, and we have taken steps to provide our departing colleagues with a smooth transition. And for those who remain, our strategy allows us to streamline operations, leaving a highly talented workforce well positioned to ignite growth for the brand. We estimate that this recent action will deliver approximately $7M in annualized SG&A savings, with full year impact to be reflected beginning in 2024, and lends confidence that we will be able to achieve our $15-$20M annualized SG&A cost savings target as compared to our run rate at the end of 2022.

Annie will provide a little more detail on our cash management efforts, but I'll share a couple high level points. We ended Q1 with $143M of cash, reflecting a ***significant*** improvement in cash usage in the first quarter versus Q1 of last year. With tightened inventory buys, streamlined expenses, and solid demand capture, we expect that cash flow trends will continue to improve throughout the year, and we remain focused on ensuring that we maintain an ample cash cushion to support investments needed to reignite growth and drive sustained profitability.

I'm now thrilled to hand over the call to Annie Mitchell. Annie began her tenure as our CFO just a few weeks ago, and she is already making a major impact, and I couldn't be happier to have Annie rounding out our executive team with the great depth of industry expertise she brings. Welcome, Annie – over to you.

Annie Mitchell, Chief Financial Officer

Thank you for the warm welcome, Joey. I am very excited to join the flock at such a pivotal moment for this company and brand that I admire so much.

Let's get right to it with an overview of our financial results for the first quarter

Q1 revenue of $54.4M declined 13% YoY, which was better than we expected, driven by improved performance into March. Excluding a $1.2M impact from FX, revenue would have declined by 9%.

Our gross margin was 40.1%, down vs 51.9% in Q1 2022, and was impacted by several factors including:

1. a higher level of promotional activity due to both the on-going industry-wide promotional environment, and elevated markdowns as we work to clear out inventory of colors and styles that are being sunsetted,
2. inventory write-downs related to prior generation products,
3. costs associated with our manufacturing transition and
4. a year over year shift in channel mix

We continue to be thoughtful with our discounts, with an eye towards protecting our core franchises. To that end, core franchises - such as the Wool Runner, Tree Runner, and Tree Dasher - continued to have 85% or higher full price yield in the quarter.

Moving down the P&L, it is worth highlighting that SG&A, excluding depreciation and stock compensation, grew just 3% in the quarter. This represents a meaningful improvement compared to Q1 of 2022, despite 20 additional retail stores, and reflects actions we are taking to control costs in the middle of the P&L, including slowing new store growth and tightening discretionary spend.

Similar to last quarter we chose to pull back on overall marketing spend on a year-over-year basis given the promotional environment. We continue to look for ways to best manage our costs and have made the choice to update our marketing strategy to prioritize our marketing spend to align with the recalibrated product line expected to come to market starting later in the year.

In Q1 we incurred $3.2M in restructuring charges associated with our strategic transformation.

Taken together, Adjusted EBITDA came in at a -$21.7M loss, ahead of our guidance of -$29 to -$26M.

Turning now to the Balance sheet, I am pleased to report that inventory was down 8% compared to Q1 of 2022, and down 6% sequentially vs year-end. The decrease from the end of 2022 is attributable to less on hand inventory as we continue to buy tighter, particularly for non-core product. A good example of this is our recent Riser launch where we pivoted quickly to buy more tightly. As a result, this more fashion-forward product is trending ahead of our annual sales forecast, with room to potentially capture additional upside later in the year as we get more consumer feedback. Overall we continue to work towards entering 2024 clean from an inventory perspective.

With regards to cash, we ended the quarter with approximately $143M on our balance sheet. Importantly, and as Joey mentioned earlier, our Q1 cash usage was cut in half on a year over year basis - from $48M in Q1 2022 to $24M in Q1 2023. As a reminder, Q1 is typically our highest cash usage quarter. The improvement we saw vs. last year's result was driven by the lower inventory that I just mentioned, lower capex spend primarily related to slowing the pace of new store openings, a reduction in corporate headcount, tighter discretionary spend and significantly lower inbound shipping costs, which should provide a positive offset to gross margin pressure in coming quarters. Looking ahead, we expect Q2's cash usage trends to improve vs Q2 2022.

Lastly, I am pleased to announce that we finalized the extension and upsizing of our undrawn revolver with JP Morgan which extended the maturity through 2026 and provides us with $50M of committed liquidity, which is $10M above our prior facility, and $50M of uncommitted incremental liquidity, $15M above our prior facility.

Regarding Q2 guidance:

- We expect Q2 revenue in the range of $64 to $69M which represents a range of -18% to -12% YoY growth
- We expect Adjusted EBITDA to be in the range of -$20 to -$23M

We will not be providing annual guidance at this time primarily due to the uncertainty surrounding the timing of our strategic transformation, and most notably the international GTM transitions that we are evaluating.

From a directional perspective, similar to what we said in Q4, excluding the impact of any potential change in our international go-to-market, we are not anticipating any significant improvement in demand trends. We are maintaining a cautious outlook for the rest of the year given the uncertain macro backdrop and the nature of our transformation plan, including the fact that many of our product and branding initiatives will not take hold until 2024. As we work towards a clean inventory balance and mix in early 2024, we continue to expect gross margin to be pressured as we use markdowns at a more elevated level than is typical for our company.

Before handing it over, I'd like to thank Joey, Tim and the Board for the opportunity to join the company during this watershed moment. I'd also like to thank Mike for helping to ensure a smooth transition and the finance team for their support. I have long admired and been a big fan of the Allbirds brand and mission and I firmly believe that the Strategic Transformation plan the team has put into motion is the best path forward for the company and to maximize shareholder value. I look forward to meeting and working with you all in the future. With that I'll pass it over to Tim.

Tim Brown, Co-Founder and Chief Innovation Officer

Thanks Annie and welcome to the flock. We are thrilled to have you on the team.

As I covered in the last call, I have been focused on four key areas as part of our Strategic Transformation Plan: One, evangelizing the Allbirds brand, two, helping to establish key strategic partnerships to grow our awareness, three, working to define our future approach to sustainable innovation in footwear and, lastly, continuing to work closely on an area of deep importance to both me and the business, culture. I am energized and excited by this work and the potential it has to support the growth of the business and the long term expansion of the brand's audience.

One example of the early fruits of this focus is our M0.0nshot project. As Joey mentioned, this project to create the world's first net zero shoe to market is a category first with the potential to become a long term commercial franchise for the brand. I will continue to work to champion this spirit of innovation that has been with us since our founding.

To support this focus, Joey and I together with the board, have made the decision to transition my title from Co-Founder and Co-CEO to Co-Founder and Chief Innovation Officer. I am looking forward to supporting Joey as he continues to lead the business as our CEO on a day-to-day basis.

While my role has changed, one thing hasn't – and that's my long term focus and belief in the potential of this brand and business. I know both how far we have come and how much further we can go. From the original Kickstarter campaign, to the launch of Allbirds and the World's Most Comfortable shoe, and to the recent launch of innovations like the M0.0nshot project, we have significant opportunities ahead. With a focus on design, innovation and a clear vision for the role that brands will play in a new sustainable economy, we have significant potential through the Strategic Transformation underway.

Finally, a note of thanks to our Flock. Through the seven years Allbirds has been in existence I have seen you meet every challenge with an unrelenting belief in the long term potential of our work. At each stage of our evolution, we have been met with new challenges — and new opportunities. This moment is no different. I know we will work together as one team to continue executing on our plan together – with a focus on innovation, execution, and staying true to what makes our company great. Thank you.