REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2021 Allbirds Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 30, 2021 / 10:00PM GMT

CORPORATE PARTICIPANTS

Joseph Zwillinger
Kyle Khasigian
Michael J. Bufano *Allbirds, Inc. - CFO*
Timothy Brown

CONFERENCE CALL PARTICIPANTS

Dana Lauren Telsey *Telsey Advisory Group LLC - CEO & Chief Research Officer*
Edward James Yruma *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*
Erinn Elisabeth Murphy *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*
John David Kernan *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*
Kimberly Conroy Greenberger *Morgan Stanley, Research Division - MD*
Lorraine Corrine Maikis Hutchinson *BofA Securities, Research Division - MD in Equity Research*
Mark R. Altschwager *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*
Matthew Robert Boss *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*
Robert Scott Drbul *Guggenheim Securities, LLC, Research Division - Senior MD*
Sharon Zackfia *William Blair & Company L.L.C., Research Division - Partner & Group Head of Consumer*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Allbirds Third Quarter 2021 Conference Call. (Operator Instructions) Now I would like to turn the call over to Kyle Khasigian, Head of Strategic Finance and Investor Relations at Allbirds. You may begin.

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 Q4 and fiscal year financial outlook as well as our preliminary outlook for 2022 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 Form 8-K filed today for a more detailed description of the risk factors that may affect our results.

Also, during this call, we may discuss non-GAAP financial measures, which 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 will turn the call over to Joey to begin the formal remarks.

Joseph Zwillinger

Thanks, Kyle, and thank you all for joining Allbirds' first earnings call. We are thrilled to have this platform to help us further advance our mission and discuss our plans for durable and profitable growth over the coming decades.

I would also like to take a moment to express our gratitude to the Allbirds team as well as members of the finance community and our investors, who helped us shape a successful IPO. And we're, of course, pleased to speak with you on the heels of a strong quarter, one that marked continued reacceleration of our business as we emerged from the idiosyncrasies of COVID.

When Tim and I started this business in 2015, we held the view that climate change was our most formidable and existential crisis and as a result, believed that consumers would eventually connect their purchase decisions with their values on the environment. Yet most in the footwear and apparel industries continued to rely on synthetics. Within that tension, we saw opportunity. But we didn't want to make sustainable products for the sake of being good for the planet. We wanted to make incredible products because they are sustainable. We put this purpose at the heart of our business and link it to everything we do, but most notably, our R&D investments and our distribution model.

These strategic choices have helped to create important and structural advantages that we believe will allow us to outmaneuver competitors well into the future. When we innovate, we harness some of nature's most abundant and high-quality materials to make products that feel different and perform better than the synthetics and leathers that the industry has historically relied on. We then connect this product engine to a vertical distribution model that allows us to reach consumers effectively while shrinking go-to-market timelines and enabling us to deliver fantastic value and a great shopping experience to consumers, all while preserving our advantaged gross margins.

Since launching the business in 2016, these strategic choices have enabled a strong and differentiated foundation. We have served over 4 million customers since we sold our first shoe in 2016, and we have maintained a Net Promoter Score greater than 80 in each quarter since Q1 2019. In fact, we logged a global cross-channel NPS of 86 in the first half of 2021.

And that wonderful customer experience has led to strong repeat engagement, with customer cohorts of a year or more coming back for a second purchase at a rate of 43%. This repeat purchase rate is notable for both the consistency of the high repeat rate and because it comes from the narrow assortment we have had to date.

As we expand our product offering, we're excited by the opportunity to utilize this expanded assortment, coupled with our technology and data advantage, to grow repeat purchases. We are also energized by how many people have yet to learn about our brand. Our aided brand awareness is low, just 11% in the U.S. as of Q1 2021. With revenues in the trailing 12 months of $260 million, we have a tremendous runway in the global footwear and apparel industries, estimated as of 2020 at $366 billion and $1.5 trillion, respectively. And we are executing this atop a brand platform built around the most important consumer trend of this generation, climate change.

Now we simply need to reach more customers. Because of our disciplined approach and product craftsmanship, we have consistently achieved contribution profit in excess of CAC within the initial month of purchase for each annual cohort since inception. And given technology advances over the past decade, our vertical distribution model, coupling a digital heritage with a growing fleet of brick-and-mortar stores, is the right way to do this. We've done this successfully against the backdrop of an industry that has principally relied on wholesale for the past 50-plus years.

We opened our first store in 2017. And despite the slowdown of this channel during the pandemic, we now operate a fleet of 35 stores globally, with 23 in the U.S. Each store has strong stand-alone 4-wall economics, but we have come to learn that it is our omnichannel repeat customers who are the most valuable to us. These customers spend 1.5x when compared to digital-only repeat customers, giving us more reason to continue our store expansion.

Now zooming out, over these past 5 years, we haven't cut corners and have been focused on building a strong foundation for the future. While we always envisioned building a global lifestyle brand, we opted to make shoes first. And now that we have gained consumers' trust, we believe they will now embrace our material innovations applied to apparel categories.

We have been almost 100% vertical in our sales model, and we made early investments in our global reach, deploying technology, establishing supply chains and placing teams on the ground in each of our core international markets. This disciplined approach, coupled with the authenticity of our brand ethos, is how we have built the foundation that we expect to rely upon to grow at a healthy clip for decades to come, which brings me to our growth algorithm.

We're driving the top line primarily through 3 areas: one, our growing store portfolio; two, international expansion; and three, product innovation, which fuels new customer growth and increases the lifetime value of existing customers. I'll briefly go into each of these.

On the first growth pillar, our real estate portfolio is highly productive and is an efficient means with which to acquire customers. Our stores generate strong returns on invested capital and have attractive payback periods. And when we open new stores, it drives increased brand awareness, provides a halo effect on the overall business, and hence, we improve the efficacy of our marketing spend. These impacts, along with lower return rates and more efficient transportation, means that growth in physical retail also drives margin expansion. We have a strong pipeline of new stores ahead, and ultimately, we see white space for hundreds of stores over time.

On international expansion, it's important to note that we planted flags early in key markets across Europe and Asia. With that foundation established and relatively low sales penetration in these markets, we have line of sight to attractive growth as a result, particularly in the digital channel. And as is true as we shift the channel mix, as we grow international, we expect to expand gross margins due to our pricing architecture and an efficient logistics network.

Underpinning the opportunity to drive growth in our retail and international businesses is an incredible product pipeline, led by footwear with a growing and important apparel offering. Our robust R&D engine means that we're continually innovating. In our short history, we've proven that our material and innovation platform creates a powerful flywheel, enabling us to build winning franchises while empowering us to expand into new categories. More on this from Tim shortly.

We are ideally positioned to execute against our strategic road map because of our amazing Allbirds flock. We are fortunate to have world-class teams who are energized by our mission and the potential ahead. The team's attention is now focused on achieving our medium-term targets. These include revenue growth of 20% to 30% annually, gross margin of over 60% and adjusted EBITDA margin in the mid- to high teens, rising to north of 20% over the long term. Simultaneously, we intend to reduce our CO2 emissions by 95% by 2030, helping us to drive towards our company mission while unlocking profitable growth.

We're pleased with our year-to-date performance in 2021 and feel great about our positioning as we wrap up the year and look ahead to 2022 and beyond. Different governments have responded to the pandemic with varying techniques, ranging from severe isolation and lockdowns, to more permissive approaches. New variants are bound to emerge and government response will continue to evolve, but we hope and believe that the worst is behind us. And as the world emerges from an environment marked by the most depressed retail traffic we've seen in decades, we believe the macro recovery that's underway will buoy our prospects as we flex our product innovation engine, see recovery in our existing fleet of stores and unlock our new store pipeline.

And briefly on Q3 results, which Mike will walk through in more detail, I will note that this quarter was headlined by 33% top line growth year-over-year, reflecting solid execution by our teams and robust global demand for the Allbirds brand. Revenue was strong across channels and geographies, with particular strength in U.S. retail as consumers return to in-store shopping. We opened 4 new stores in the U.S. in Q3 and another 2 in the fourth quarter, bringing us to 35 locations globally, which is where we will end the year. And on the international front, we grew sales by 10% despite a choppier recovery from COVID across some of our core regions outside the U.S.

Our team has navigated a difficult supply chain environment well, and we felt well positioned to capture demand for a holiday season that is shaping up to be quite strong, particularly in the U.S.

With that, let me turn it over to Tim to talk to you about product innovation and what lies ahead for the brand.

Timothy Brown

Thanks, Joey, and hello, everyone. It feels great to be holding our first public earnings call and welcoming our new shareholders. Allbirds started with an initial insight born out of a frustration with over-logoed, overly synthetic products and a conviction that there is a better way. We launched the Wool Runner in March of 2016 to prove that comfort, design and sustainability aren't mutually exclusive and that fashion shouldn't just feel good, it should also do good. Our blueprint from day 1 has been to build franchises. We start with one great product and increasingly bring energy and excitement to the mix through colors, materials and partnerships.

The Wool Runner and all of our product franchises since start with a deep understanding of our customer. We then leverage our internal capability in natural and sustainable material R&D to create differentiated product experiences, whether they be the amazing soft and cozy comfort in our wool products or the light and breezy feel from our tree products.

Each utilizes a unique minimalist design philosophy that has created a distinct family of products that represent a new language for sustainable design that highlights beautiful natural materials rather than flash and logos, something uniquely Allbirds and recognizable on the street when you see someone wearing our shoes.

The combination of our distribution model and our product engine has allowed us to build a real structural advantage in footwear, not only establishing ourselves as a leader in sustainability, but also gaining authority for both comfort and performance. It's exceptionally difficult to surpass the threshold in footwear and achieve scale. But once you do that, the customer trusts you to enter other categories. And we've seen that innovators come to us as a partner of choice. Because we've earned credibility with our customers, we're now ideally positioned to be able to connect new apparel offerings to our footwear franchises.

Overall, apparel is a small percentage of the business today at just under 10%, but that's intentional. Our approach is to build the business methodically and carefully to increase basket size and help drive repeat purchasing. And we saw a great response in the quarter to our product innovation, with strong traction from the Wool Piper Mid, Sugar Rover and our performance apparel launch in August, an exciting new collection to complement our performance footwear offering.

We continue to be very excited about our growing community marketing program called the Allgood Collective or AGC. Since the beginning, we've understood that what's good for our community is good for our business, and this strategy puts local ambassadors tied to our growing retail footprint at the center of our product creation process, while simultaneously driving brand engagement and awareness. We now have a series of weekly AGC run clubs in operation in Los Angeles, Atlanta, Seattle, San Francisco, London, Tokyo and Auckland, alongside supporting events showcasing our growing roster of performance products.

We have attracted a growing number of local influencers and community leaders who are using the Allbirds store network to host events. The AGC is also an emerging catalyst for new product testing, product launches and brand content, like our recent Trail shoe launch that featured a series of AGC athletes.

Our product partnerships remain a key focus. Product-specific partnerships with Braulio Amado and our continuing work with adidas and Jeff Staple are examples of our partners bringing incredible energy and amplification to existing franchises and our sustainable thought leadership.

In Q4, we were also excited to release a Marshawn Lynch Get Schooled content drop that underlined the potential of sustainability and climate change to be a powerful connector to new audiences. Advertising is also an important way that we amplify all of the great organic reach that our product and brand marketing efforts create for the brand. As we have evolved over the past few years, we have made a concerted effort to diversify our media mix and now feel like we have an effective and healthy balance through our paid marketing funnel.

One important outcome of that effort to diversify our spend is that recent privacy changes and resulting increases in cost of impressions and social media channels have had a limited impact on our business.

In the end, we know that people don't buy sustainable products, they buy great products. But to us, the very best products are inherently sustainable. We have spent the last 5 years building a product platform that marries product innovation through natural materials and a purpose-driven brand that meets consumers where they are headed, not where they are.

On deck in the next 24 to 36 months, we have the most exciting product pipeline in the history of the company. We can look forward to multiple new lifestyle and performance product launches and new material platforms as we see the benefit of historical investments in team and R&D and momentum from our increasing prominence in the footwear and apparel category as a leading partner for a global network of sustainable material innovators.

Now over to Mike to discuss Q3 financials and our full year outlook.

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

Thanks, Tim, and hello, everyone. I'll start by echoing the sentiment you heard from Joey and Tim about starting our life as a public company. We're thrilled to be here, we appreciate your interest in Allbirds, and we're looking forward to spending more time with our analysts and shareholders going forward.

I'll also echo what Joey said earlier. We're pleased to report strong Q3 results across the P&L, highlighted by revenue growth of 33%, above our medium-term annual target of 20% to 30%, continued gross margin expansion of 120 basis points and continued leverage in the marketing line of the P&L.

I'll take a few minutes to walk you through the P&L and explain the drivers of our Q3 performance. Net revenue increased 33% year-over-year to $63 million. As Joey and Tim mentioned, this growth was primarily driven by strong U.S. performance and from new product introductions. Breaking down our net revenue growth a bit further, orders were the main driver of the 33% increase. In addition, we saw a strong 13% increase in average order value.

Looking at net revenue by geography, our net revenue in the U.S. increased by 42%, reflecting strength in both physical retail and digital. We continue to see a notable uptick in the retail channel as consumers continue to return to stores. Net revenue in our international markets grew by 10%. And in some regions, particularly in China, Japan and New Zealand, our momentum was slowed somewhat by the COVID resurgence.

Finally, to close out our commentary on Q3 2021 net revenue growth, I would like to point out that the 2-year increase in net revenue was 40% when comparing to Q3 2019. I share this because we believe it's a helpful data point for investors as we begin to lap COVID.

Turning to gross profit. We delivered Q3 gross margins of 54.1%. That's an improvement of 120 basis points from Q3 2020. This improvement reflects our ability to make steady progress towards our medium-term target of 60% or greater gross margin. The biggest drivers of gross margin expansion in Q3 were improvements in product COGS and a favorable year-over-year mix of higher gross margin products, including our newly launched performance apparel. Those positives were partially offset by higher warehouse costs and pressure on logistics costs more broadly.

I'll pause here for just a second and state the obvious. We are mindful of the macro headwinds around supply chain and logistics costs, especially with the latest COVID variant news. Of course, this is a fluid situation. And like everyone in the industry, we'll monitor it closely as we have been since the pandemic started.

In that context, looking at gross margin for the balance of 2021, I will share that we are experiencing higher-than-normal holiday season outbound shipping surcharges in the current quarter. However, even with some headwinds, we still expect to achieve full year gross margin year-over-year improvement of approximately 150 to 200 basis points in 2021. That translates to an expected full year 2021 gross margin of 52.9% to 53.4%. As we march towards 60%-plus gross margins, we are focused on the annual gross margin progress we've been making and believe we will continue to make.

Indeed, we are proud of the progress we have made since 2018 when our gross margin was 46.9%. At the midpoint, we would end 2021 at an improvement of over 600 basis points from 2018 to 2021.

Moving down the P&L below gross margin. Q3 2021 SG&A totaled $33 million and increased by 64% year-over-year. Let me unpack SG&A a bit for you. First, it's important to note that SG&A includes the operating cost of our stores, such as labor and occupancy as well as preopening expenses. Indeed, in Q3 2021, the increase in store expenses was the biggest driver of the increase in our total SG&A.

Compared to Q3 2020, we had 11 more stores in Q3 2021, an increase in the number of stores of over 50%. In Q3 2021 alone, we expanded our store portfolio by 4 new stores in Manhattan on the Upper West Side, in L.A. in Century City, in the Bay Area in Palo Alto and our first store in Atlanta. One last note on store expenses is that we had approximately $300,000 of preopening costs in Q3 2021.

Closing out SG&A, another significant driver over the -- of the year-over-year increase was approximately $2 million of incremental costs we incurred in preparing to be a public company. We expect to see another $3 million of public company costs in Q4 '21, bringing the full year 2021 total to an estimated $5 million.

Looking now at marketing spend. We achieved more than 500 basis points of leverage relative to Q3 2020 as our teams focused on scaling marketing efficiency while maintaining strong sales growth. Bringing all that together, adjusted EBITDA in the third quarter of 2021 was negative $6.3 million compared to negative $3.8 million in the third quarter of 2020. When you factor out the $2 million of public company costs in the quarter, adjusted EBITDA decreased by only about $0.5 million year-over-year.

I'll finish up my commentary on our Q3 financials with a quick look at the balance sheet and cash flow. We ended the quarter with $65 million of cash and cash equivalents and $40 million of availability under our revolving credit facility. Capital expenditures in the quarter totaled $6.2 million, primarily driven by new store openings. As you can see on the balance sheet, the big mover this quarter was inventory, which totaled $99 million, up 55% from Q3 last year.

Given the macro supply chain and logistics environment, we felt it was prudent to take advantage of our strong balance sheet and increase our inventory positions. We were well inventoried in Q3 and continue to be so in Q4 and into the first half of 2022. I think this is a good place to touch on supply chain broadly before moving on to guidance.

From a production perspective, it's important to note that Vietnam accounts for only about 50% of our manufacturing, with more of our production in the north than the south. Thus far, we have not experienced any government-mandated manufacturing shutdowns in Vietnam. Through careful planning, secondary sourcing and regional diversification, our teams have definitely navigated the challenging environment, positioning us to meet demand throughout the holiday season and over the coming quarters. Huge kudos to our supply chain team.

I'll wrap up my remarks by sharing our outlook going forward. For full year 2021, we expect net revenue to be between $270 million and $272 million, which equates to an increase of 23% to 24% versus full year 2020. On a 2-year basis, that's a 39% to 40% increase when compared to full year 2019. Looking at the bottom line, we expect full year 2021 adjusted EBITDA of negative $15 million to negative $17 million, including an estimated $5 million of public company cost.

Backing out the public company cost, full year 2021 adjusted EBITDA would be negative $10 million to negative $12 million. On an apples-to-apples basis, that would be an improvement of 22% to 35% when compared to full year 2020's adjusted EBITDA of negative $15.4 million.

Looking around the corner to 2022, we'll be providing detailed guidance on our Q4 earnings call in February 2022. As a reminder, our seasonality skews towards Q4 and the gifting season. So on an ongoing basis, we plan to provide detailed annual guidance on the Q4 call each year. That being said, with this call occurring off cycle due to the IPO, we did want to share with investors and analysts our preliminary thoughts on the top line next year.

In short, we feel we have great momentum in our business, and we are confident that in 2022 we can grow net revenue at the high end of our medium-term target of 20% to 30%. Our preliminary 2022 net revenue expectation is approximately $350 million, which would represent a 60% 2-year growth rate, a significant acceleration over the 2-year growth rate in 2021.

In closing, I would just like to share that we continue to feel confident about how the business is positioned and our ability to capitalize on the opportunities ahead of us. Through careful investments, we have built a solid infrastructure across people, supply chain and technology, that we believe positions us to profitably grow the business and create shareholder value.

With that, I'll turn the call back to the operator to start Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Lorraine Hutchinson from Bank of America.

Lorraine Corrine Maikis Hutchinson ***BofA Securities, Research Division - MD in Equity Research***

You spoke about the strength in the quarter driven by physical retail. Can you talk a little bit about the performance of the digital channel and how you expect this to play out over holiday and then into 2022?

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

Yes. Hey, Lorraine. Thanks. Yes, the recovery in the U.S. has been particularly strong in retail as we noted. But digital also has been strong. And as we've kind of noted in the remarks, the way that these interoperate is where the power is. And we are seeing that in play, and we're seeing some really good pickup on digital and we see that continuing through into the early parts of Q4 here, including this past weekend. So very optimistic, and that's both with existing customers and new customer acquisitions. So we feel quite good about how that's performing.

Operator

Our next question comes from the line of Kimberly Greenberger from Morgan Stanley.

Kimberly Conroy Greenberger ***Morgan Stanley, Research Division - MD***

I'm wondering, look, considering everything that's going on in supply chain and looking at your inventory levels, do you think it's perhaps even prudent to carry more inventory through the year next year, for example, just to sort of guard against some of the things that we're seeing in supply chain? I'm just interested to hear your inventory management philosophy. And any more specific color or comments you could provide about the performance apparel launch and the consumer reception here in the quarter would be helpful.

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

Great to hear your voice. I'll start on the inventory and supply chain piece, and I'll turn it over to Tim on the performance apparel piece. Well, like it's certainly something we'll continue to monitor really closely and consider about how much inventory to hold through '22. Again, our supply chain team, we think, has done a fabulous job helping us navigate through a lot of these like recent challenges.

I would say if we were going to, we would probably really lean into our core products, core colors, core sizes, the stuff that we know there's a nice long tail on and long life on. But it's certainly something we're going to monitor pretty closely. And now, after the transaction, we obviously have a really strong balance sheet. We're in a great place to be able to use that to our advantage to continue to meet demand and grow business.

Timothy Brown

Hi, Kimberly. We're thrilled with how the performance apparel launch has been received. It's another big step for us into the performance space. We're still only 1.5 years into that journey. We have a couple of products. We launched the Dasher 1.5 years ago. It's going really, really well.

We've added the Trail shoe, which, in my opinion, is I think possibly the best product we've ever made, the most technically advanced. And then to be able to further our strategy of connecting these footwear franchises to our apparel offering, I think you see that in the performance apparel.

Again, it's still footwear first. That's still the focus of the majority of our innovation efforts, but we saw an ability in the performance apparel to leverage the material innovation and poured it into apparel and do something that, quite frankly, the rest of the category is not doing in natural materials. So we see the product as really differentiated.

But again, we'll end the year with apparel at something like 10% of the business. We're going to build that very methodically and slowly, with a strategy to increase repeat purchase rates, increase basket size and do that sort of step by step. But we're really, really pleased by our initial sort of -- initial launch there and how it's been received.

Operator

Our next question comes from the line of Matthew Boss from JPMorgan.

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

And congrats on your first quarter out of the gate. So on the top line, Joey, could you speak to your product pipeline, maybe what you're most excited about looking forward? And then, Mike, near term, you delivered 40% growth in the third quarter relative to 2019. And guidance at the midpoint, I think, embeds this moderation to 34% in the fourth quarter. Maybe could you just speak to business trends that you're seeing into holiday relative to some of the assumptions that are embedded in your near-term guide?

Joseph Zwillinger

Do you want to start with that one?

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

Well, why don't you start, you can start with product, and I'll talk about the...

Joseph Zwillinger

Sure. So hey, Matt, so yes, the product pipeline, so I think you've heard us share previously that -- and Tim mentioned it already today, it is -- the next 2 years is the most exciting aspect of the product pipeline that we've ever created as a company. And the innovations that we're doing on the material side, they just take a long time. And so as we're working those through the innovation cycle, we can't yet put that into the front part of our kind of go-to-market product development cycle.

Well, now, a lot of those innovations are coming through, and we can now use those and harvest that and turn them into fantastic products, as Tim mentioned, with a big focus on footwear and then also coupling that with great material innovation that we think translates into apparel.

And so how we do that? So we think about the use occasions significantly. We really try to balance lifestyle and performance and have a nice offering that's balanced across those types of uses. And I would also say that the cadence is something that's come into sharper focus for us.

And what we've seen throughout this year and particularly in the past, in Q3, but also in the early parts of Q4, when we have a great product cadence -- and this doesn't need to be a brand-new innovation. This can be small things like the fluff collection that we introduced recently, that speaks to the brand really well, and it's a great cozy comfort right for the moment. When we can do things like that, even if they're small, it engages our customer base so significantly, and it just drives really attractive engagement and lift into our existing customer LTV. And so we see a lot of that in the future.

I think we've grown a lot of discipline in our go-to-market. And we've also, as you can see from what we've done in this past quarter, we really buffered some lead times to make sure that we can deliver through what is a challenging supply chain environment. So it's not just the innovation and design side, it's also just the execution side and making sure we're getting these to customers at the right time in the right place, which is always the trick in our business.

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

Great. Thanks, Joey. And to answer the question then on the 2-year, Matt. I mean look, in a business our size, I think there's always going to be a little bit of noise kind of when you look at that 2-year. We feel like it lands roughly within the range. I actually step back and I look at it, for the full year of 2020, the 2-year will be 39% to 40%. We feel really good about that growth, especially with a lot of the COVID volatility, especially the stuff we mentioned in international.

And then, for me, at that approximately $350 million for 2022, we feel really good about the acceleration over the course of full year '22 on the 2-year. So I'll just say, we've given that 20% to 30% medium-term revenue target range on an annual basis. We're really focused on hitting that year-over-year and really delivering the long term -- the medium- and long-term growth. And we look at the quarter, certainly, we want to try to deliver consistently, but we're really focused on that annual piece.

Operator

Our next question comes from the line of Mark Altschwager from Baird.

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

And congrats on your first report here. Mike, I was hoping you could give us a bit more color on how you're thinking about gross margin for Q4. I think the annual guide that you gave does imply a fairly wide range for Q4 specifically. So maybe just talk about the factors that might drive you towards the upper end there versus the lower end based on what you're seeing today.

And similar question, just as we think about 2022, I think some of the freight pressures may be intensifying had been in the early part of the year. But just any update there and the various levers that you're using to offset.

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

Yes. Thanks for the question, Mark. So yes, on Q4 gross margin, look, I think the reality is it's our highest-volume quarter of the year. Folks have looked at the seasonality of the business as we shared in the roadshow and as we shared in the S-1. So I think the range may not be quite as wide, if you look at it on a full year basis, because Q4 does have the bulk of the volume in there.

And then the factors that play in there are some of the stuff that I mentioned on the call. We're certainly feeling warehousing pressure. We're feeling some outbound shipping pressures. So I think there's a host of factors that are kind of moving along there.

On your point about what we can do to offset it, we actually already took one step in Q3, where we took a modest price increase on our core items, so from $95 to $98. That was very well-received from a customer perspective. We didn't really see any drop-off in demand when we did that. So that's one step we took to kind of mitigate some of these costs. And that obviously will carry over into 2022 as well for us.

We're not going to get specifically, right now, into 2022 gross margin guidance and the factors. I mean you're right, it's a pretty volatile environment. we're monitoring it really closely. But we'll keep updating analysts and investors when we get that detailed guidance in Q4 on the Q4 call, I should say, when appropriate.

Operator

Our next question comes from the line of Bob Drbul from Guggenheim Securities.

Robert Scott Drbul ***Guggenheim Securities, LLC, Research Division - Senior MD***

Just a quick question for me, is essentially on the pricing we just mentioned, Mike. I think the Trail Runners are sort of at the higher end of your pricing spectrum. And I think Tim called it out a little bit in terms of his excitement around it. Can you just talk about the success at these higher price points that you're seeing? And then the second question is, can you talk a little bit more about like the new store openings that you've done and how they've opened versus your plan and what you're seeing there?

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

Yes. I think these are both good Joey questions, Bob. So I'm going to turn it over to him to answer those.

Joseph Zwillinger

Yes, sure. Thanks, Bob. So we have historically seen that when we introduce products with a technical edge to it, customers' willingness to pay goes up significantly. And we've seen this before on a materials basis. We've also seen it when we weatherproof products. Our Mizzle line is part of the Wool Runner franchise, and we add a weatherized treatment to it for wintertime and it's a fantastic producer for us, particularly in the colder-weather months. And people want to pay more for it. So that's one aspect.

The Dasher is another proof point for us. And the Trail further extends it. And so we're really, really pleased with the response. And that's a technical performance.

We've also seen that, as Mike just mentioned, when we move from $95 to $98 on some of our core products, there was really no perceivable volume impact. And so we know we can continue to do this. And I would just say, back to the previous question, we have a lot of exciting newness coming in the next 2 years and more so than you would kind of consider for a mature company, so meaning that a larger percentage of the sales that will contribute in the next couple of years, is going to come from products that don't exist today, that we don't sell today.

And so as we do that, we have an opportunity to really cement our premium brand and premium price position with consumers, and we expect this to go really well based on what we've seen so far. And on new stores versus plans that's said this year...

Robert Scott Drbul ***Guggenheim Securities, LLC, Research Division - Senior MD***

Yes. Just how the new stores have been performing so far...

Joseph Zwillinger

Yes, really positive. I think we've obviously recalibrated expectations. We're in this kind of, what we would call, the kind of messy middle zone of COVID, where we're neither in the shelter-in-place nor are we completely emerged from COVID. And so we've recalibrated just to take a conservative approach when we underwrite our stores in these new leases. And what's happening is we're getting really attractive lease terms, given that we're looked at as a tenant that is a traffic driver to multi-property owners. So we're getting great terms, and we're still underwriting conservatively for sales calls on these leases, and we're outperforming them significantly. And that's really encouraging.

And I say that in particular because some of the news on physical retail traffic is that it's still not coming back in the way that people have hoped. And as travel bans lifted and people -- the border for the U.S., in particular, opened up in the early part of November, we kind of expected to see a bunch of traffic recover, particularly the key metro areas, and we really haven't seen that as much. And despite all that, the stores are performing fantastically, and we're really encouraged with it. And that was a big driver of some of the growth you're seeing in this past quarter, and we would expect it to continue into Q4.

Operator

Our next question comes from the line of Erinn Murphy from Piper Sandler.

Erinn Elisabeth Murphy ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Can you hear me okay?

Joseph Zwillinger

Yes. We can. Hi, Erinn.

Erinn Elisabeth Murphy ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

2 questions for me

(technical difficulty)

trend in international in Q3, some -- Asia was a little bit weaker, but talk about Europe? And then into the fourth quarter, are you seeing any change in trend with the new variants, particularly in the European market? And then if I can ask one follow-up to Bob. Any price increases planned in your 2022 preliminary guide of $350 million?

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

So Erinn, we definitely heard the second question. I think I picked up on the first question. Let me attempt just to say it back to make sure I followed it. I think you're asking the trend we saw international, Q3 into Q4, are we seeing any impact from the latest COVID variants? Is that the first question?

Erinn Elisabeth Murphy ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

You got it. I apologize for my receptivity. Yes.

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

No worries. No worries at all. The short answer is we felt, like I said on the call, we felt a little bit of choppiness in international because of COVID in Q3. So we haven't noted anything right now in the business in the last, like week or 2, different than what we were kind of feeling in Q3. I think, overall, we feel pretty good about the momentum, especially when you look at the 2-year stacks on the international side of the business. So we're not overly concerned right now. But clearly, we're monitoring it very closely.

Like Joey said, like when you're talking about we're in this middle point of COVID, that's certainly true kind of in the U.S. and it's even a little bit different in other parts of the world. So if there's material updates to give there, we'll obviously kind of follow up and let you know as we get into end of the quarter and into the beginning of next year.

The second question is easier to answer, which is, is there any additional price increase built into the $350 million estimated 2022 net revenue? The short answer is no. No move above the $98. But some of what Joey was talking about, about the new product launches and how we've been able to take more price on these more technical products, some of that will continue into 2022 with some of the new product launches. And you'll see that come as we launch the items, and that's factored in now into how we're thinking about the overall revenue growth for next year.

Operator

Our next question comes from the line of Edward Yruma from KeyBanc Markets.

Edward James Yruma ***KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst***

And congrats on the IPO. 2 quick ones for me. I guess first, some other shoemakers are complaining that they're going to miss some of the key running selling season because their core products are getting delayed, that would normally drop in January and February. I guess are you seeing some of those delays? And does that factor into the guidance?

And then second, it seems like you guys did a great job clearing out some of the dead stock shoes you had during the Black Friday, Cyber Monday sales. I guess any sense on how clean inventory is and kind of how those promotions went?

Joseph Zwillinger

Yes. Thanks, Ed. I appreciate the questions. So the good news on your first question is we just don't see any issues with the product drop cadence. We've taken the kind of -- we've had some foresight early on this year to really buffer all lead times. So that is why we noted a big increase in inventory in Q3. That's not just for Q4 inventory. That's also for stuff happening in H1 '22. So we feel like we're in a fantastic situation, and everything that we have planned for the road map for the first half of next year and frankly, into the second, we feel really good about and the position very strong. So no issues to report on there and no complaints. So we feel good there.

And then on the second question, yes, I'll take the opportunity just to talk about this past weekend. We obviously don't have everything in quite yet given the recency of it. But it was a really, really good holiday shopping season for us in the first part, in Black Friday, Cyber Monday. And we've always had a very premium brand attitude around pricing. We also, because of the vertical retail model that we have in terms of distribution, we control how we show up. There's no leakage in pricing. So we really have the opportunity to show up in a premium way every time we do something.

So we know as we grow and we expand the assortment, we really need to have an escape valve for our designers to take risk and to innovate and really push the boundaries because our product is what is going to win in the long run. And so we want our team and our product team to take risks. And we want to give them an outlet to -- if there's anything slow moving, that we can sell it to consumers and do that in an attractive model, that's also mindful of margin.

And so previously, we built the muscle with -- we started to build the muscle with an outlet store in the Bay Area. That's one aspect of how we reach a different set of consumers with that. And then in this case, we were really surgical, looking at inventory and looking at slow-moving inventory, where we have odds and ends on sizes and whatnot. And we put those on the digital offering for Cyber Monday.

And the response from consumers with relatively shallow discounts was quite exceptional. And so we're really encouraged at how we're kind of toning this muscle as we go forward, which will be something that's important as we start to take risk and broaden the assortment.

Operator

Our next question comes from the line of Sharon Zackfia from William Blair.

Sharon Zackfia ***William Blair & Company L.L.C., Research Division - Partner & Group Head of Consumer***

I guess a question on marketing. You got a lot of leverage in the quarter on marketing. I mean how are you thinking about leaning into marketing during the holiday season? Is that something where we should see meaningful leverage again? And then secondarily, on the performance apparel launch, I know you've had it for like 3 minutes. But are you finding that to be a good kind of customer acquisition tool, bringing new customers into the brand? Or is that really, at this point, kind of further monetizing and getting more share of closet of your current customer base?

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

I think we'll do a 3-person weave to answer. I'll start on one comment on the marketing, then turn it to Joey to talk about the holiday piece, then I'll share a little about the consumer behavior that we started to see and how it shows up in the numbers on the performance apparel, and Tim may want to talk a little bit more about the target customer there.

So on the first part, on the marketing leverage, just remember, a part of what's driving that as a percent of sales and what we saw in Q3 and will continue into Q4 is the fact that we have more stores on a year-over-year basis. We have 10 more stores in Q3 this year than we did Q3 last year. Right now, with the 4 more stores we've opened in Q4 thus far, we'll end this year with 35 stores. We ended 2020 with 22 stores.

So a pretty significant increase in the number of stores, great vehicle for acquiring new customers with no like marketing dollars kind of going against it. So that's sort of the macro, I would say, on the leverage we're seeing, with marketing as a percent of sales. Then there is a second part of that question, and I'll let Joey answer. That was about, specifically, like how are we thinking about the marketing spend, maybe more on the digital side, Joey, into Q4.

Joseph Zwillinger

Yes, I would say, but broader than digital, to get to it, Mike, I would just point to one of the comments that Tim made earlier in the call. We've taken a really methodical approach to diversifying the media mix, and we're trying to balance the right portion of spend with the right portion of the funnel. Meaning, are we generating awareness, are we generating consideration or purchase, or are we focused on reengagement? And we've really tried to balance, particularly at that upper edge of the funnel, and diversified the spend, and we continue to see great value out of the varying channels within the media mix.

And part of the reason we're able to do that and also understand what's happening within our media mix and as that relates to output from a sales perspective is because of the data orientation of the company. And so we take every dollar that we spend and we analyze that in multiple different ways. And because we have every transaction happening between the consumer and our company, we are able to do a fairly sophisticated multi-touch attribution model, and that really helps us inform where to spend the dollars.

And that ranges from off-line spend, like TV on a linear broadcast basis, all the way down to the really highly trackable bottom-of-funnel things on search and social. And so I think we're in a really good place. We feel like that leverage is going to continue. And we're going to have a really effective return on ad spend throughout the rest of this year, and we hope that continues.

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

Great. Thanks, Joey. I'll just touch one piece really briefly, like performance apparel, and then turn it over to Tim to answer that part, Sharon. So I mentioned on the call that we saw a 13% increase in average order value in Q3. Part of what drove that was apparel broadly, not just performance apparel. But we are seeing larger order sizes now as people -- whether we relaunch some stuff on shirts or the performance apparel sells, that's one of the ways that's showing up in the metrics that we saw in the quarter.

And certainly, that type of behavior, while apparel is still a small percent of the mix overall, that type of behavior is part of what we've considered when we think about 2022 guidance. But Tim, maybe you want to talk a little more broadly about the consumer and what we're seeing there.

Timothy Brown

Sure. I mean I think, in really simple terms, I think when you make a pair of shoes, people trust you to make the apparel that goes with it. And connecting our performance footwear offering to our performance apparel is at the core of the strategy. And we're also able to leverage material platforms, that in some cases have taken a long time to create, Wool and Tree, and then offer them up in apparel products, we think are very differentiated.

Again, one of the founding principles of the whole brand, quite frankly, is that we're in the early stages of a transformational shift in the category from synthetics, cheap synthetics and plastics derived from oil, to natural materials. And Allbirds was founded on the idea that we can do this well differently and better than the competition. And before, apparel was just the start of really understanding how to do that in apparel. We'll continue to focus on footwear, but we see apparel as another asset in our journey to kind of fully realize Allbirds as a lifestyle brand.

Operator

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

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

And congrats on the IPO and the strong quarter out of gate. And just on the confidence in the high end of the revenue targets, those medium-term targets, 20% to 30% next year, it's great to hear. Any detail on how we should think about channel mix, geography and even at a category level on getting to that 30%-type growth next year?

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

Yes. I would say the stuff that you've seen drive the north of 30% the last couple of quarters. Those are the types of things that will continue into 2022, right? So when you think about the biggest drivers, we know the retail recovery in the U.S., both within existing stores and opening new stores, that's a huge driver of it. The white space we see internationally and the ability, most of those markets, as you know, John, don't even have a clean non-COVID year. So we see a lot of opportunity kind of within those markets.

And then it's a lot of the stuff the guys have both been talking about when it comes to new product launches and our ability to acquire new customers and grow LTV with those. Those really are the big drivers of what we expect to see. So for us, what will give us real confidence in it is we know that stuff is working really well right now. And we believe it will continue to work as we kind of go into next year.

And just remember that $350 million is in the high end, is a preliminary number. We'll give a little bit more color and a little more -- a little more info on that once we get through Q4 here, which, again, is our peak season. So we're happy to talk a little bit more with it -- more with you about it on the Q4 call in February.

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

Got it. My follow-up is just maybe on the medium-term margin targets, the adjusted EBITDA margin reaching mid- to high teens. Like what's the biggest driver of gross margin expansion as we go forward?

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

Yes. So the biggest drivers of the gross margin expansion, there's really 3 things that are going to get us there over the medium term. So the first is our biggest sources of growth, like I just referenced, physical retail and international. Those are also both gross margin-accretive. So that's a big factor. About half of the improvement we expect to see over time is going to come from that.

The second piece that's going to come is we just assume, over the course of the medium term, which, again, we're defining as 5 years here, we think what we're going to see is some sort of normalization of logistics costs. So I'm not saying we'll go all the way back to 2019 or pre-COVID levels, but we don't think we'll be at the exceptionally elevated levels we are in today. So we'll get the normalization there.

And then the last piece of it is we're going to get it through some of the stuff we talked about on the call, right, launching new products that come at a higher gross margin, that really warrant that higher price and have the great technical features that customers are looking for and then getting it sort of the old-fashioned way. I mean if you think about it, that's another 25 to 50 basis points from that third category. And we've proven the track record to be able to do that over the last few years. Like I said on the call, we'll have seen over 600 basis points if we hit the midpoint of that 2021 gross margin guidance.

Operator

Our next question comes from the line of Dana Telsey from Telsey Advisory.

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

As you talked a little about in the gross margin portion about decrease in product costs, can you expand on that a little bit? And what are you seeing there? How long do you see that lasting? And with physical retail, what do you think is the appropriate size of the store as you grow your product assortment? And how do you think of the cadence of store openings going into next year?

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

Yes. So I'll start on the first one, and then Joey can take the physical retail one. So on the gross margin, again, a lot of it really is coming as we get bigger, as we have more size, as we have more scale. I think that's the big part of it. And then a lot, like it's really a lot like engineering the products and continuing to improve them. So that's really what the story is there.

And honestly, things like scale and this continuous improvement, those will only grow, and we'll have more power with that as we go forward. So it's definitely one of the contributors. It's part of that third bucket that I was just walking John through, Dana, the improvements in the gross margin over time. So Joey, do you want to cover more our physical retail?

Joseph Zwillinger

Yes, on retail, yes, physical retail, we -- I mentioned earlier, we're in the fortunate situation of just being viewed as a great traffic driver for multi-property landlords. And what we've done as a result of that is really work to take the right size and learn throughout this past 18 months about how we fit -- how we do the retail layout between footwear and apparel and how we create a service model that's really exceptional for our customers.

And so we have found a really nice space where we can have great fitting rooms and fit all this service layout into a box that's around 2,500 feet. That's kind of the go-forward. And you may see flagships that are bigger, in the 4,000-plus, and you may see smaller markets with slightly smaller stores, of course. But you can think generally in that 2,500, maybe up to 3,000 square feet, as the right size.

And then in terms of pacing, we'll give numbers annually on that. And we expect to give everyone here a figure for 2022 when we reach the call in February. But I would say, just at a high level, we're going to be more than we did this year. This year, we did 13 new openings. We will be more next year. And we're trying to be thoughtful about maintaining what we think is just an exceptional customer experience. Our retail stores in the U.S., but really broadly across the fleet, is over 90 in NPS, and that reflects the fantastic customer experience. And the way that we keep that is with great people.

We treated our people fantastically during COVID, and our employer brand has improved significantly as a result of that. The word of mouth does spread, and we're a very attractive company to come work for in retail. And what we've seen is it's the human capital that drives that fantastic experience, and we need great assistant store leaders to get promoted up to store leaders. And that human capital consideration is something that we work on pretty hard.

And that's probably the most significant limiting factor. It's not whether we can get the right deal. There's plenty of deals out there for us to do on the real estate side. It's about picking the right ones, being smart about the markets that we go into and then being opportunistic on the specific deals that we pick up based on what comes available and making sure we have the human capital to support it. So that's kind of the high level on how we think about it.

And again, we'll give more when we get into that in the next year. And one thing, maybe just to remind you, not you specifically, Dana, but everyone, the model that we're working on and the reason why we think this is so powerful is that when we go into these markets, it's the store halo that creates something so powerful. I mentioned, in my earlier remarks, but it's important enough to mention again, when we get in there, the marketing efficiency improves.

We often find that customers come in for the first time, they have lower return rates because they get to try it on in the store and make sure it fits right there. And then they often go home and because that experience is so good, they buy a second time on digital. And those omnichannel repeat customers are spending 1.5x what our digital-only repeat customers are. So you can see what happens when you translate NPS into -- and great product experience, what that turns into in terms of repeat engagement.

And I would just say that's, in a nutshell, I hope everyone walks away from the fact, understanding from this -- from our earlier remarks, we still think we have roughly around 10%, 11% aided awareness in the U.S. And the NPS is exceptionally high. And when people come and meet the product, meet the company, they love us, and we just need to meet more people. So that's the journey that we're on. And I think this is -- that's why the future is so bright, what we're really optimistic about '22 and beyond.

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

All right. So operator, we're out of time. I know Joey has a closing comment. I just want to cover one very quick thing while we're all still on the call just for a second. Kyle and I have gotten a couple of questions even while we've been on the call about the share count that is in the earnings release. So just to be clear, remember, this is the share count as of 9/30, so the end of Q3, which is the pre-IPO share count.

So we're happy to answer any model questions or clean-up questions from analysts or investors, kind of tied to that. But we did get a couple of questions kind of offline about that, but then I would just kind of say that on the call, just so we're on the same page, looking at that the same way. All right, that's the last of my boring finance stuff. Joey, why don't you take us home and then close out our first earnings call?

Joseph Zwillinger

Sure. Thanks, Mike. Well, thanks, everyone. And as we've mentioned, we're thrilled to be on this stage and to continue along to grow alongside you all, our investors, analysts and other stakeholders. And we couldn't be happier with this foundation we've built in the last 5 years. And we just wanted to take this opportunity to close with a note of congrats to the Allbirds team that created the business and just a big kudos and to take this stage to thank everyone. So thank you all. I look forward to speaking with you next quarter.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.