REFINITIV STREETEVENTS

Q&A

Q2 2022 Allbirds Inc Earnings Call

EVENT DATE/TIME: AUGUST 08, 2022 / 9:00PM GMT

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

Joseph Z. Zwillinger *Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director*
Katina Metzidakis -
Michael J. Bufano *Allbirds, Inc. - CFO*
Timothy O. Brown *Allbirds, Inc. - Co-Founder, Co-CEO & Director*

CONFERENCE CALL PARTICIPANTS

Alexandra Ann Straton *Morgan Stanley, Research Division - Research Associate*
Ashley Elizabeth Helgans *Jefferies LLC, Research Division - Equity Analyst*
Dana Lauren Telsey *Telsey Advisory Group LLC - CEO & Chief Research Officer*
Dylan Douglas Carden *William Blair & Company L.L.C., Research Division - Analyst*
Edward James Yruma *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*
James Vincent Duffy *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*
Krista Kerr Zuber *Cowen and Company, LLC, Research Division - VP*
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*
Noah Seth Zatzkin *KeyBanc Capital Markets Inc., Research Division - Research Analyst*
Robert Scott Drbul *Guggenheim Securities, LLC, Research Division - Senior MD*

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) The first question will be from Alex Straton from Morgan Stanley.

Alexandra Ann Straton ***Morgan Stanley, Research Division - Research Associate***
I just wanted to touch on the demand evolution in the quarter. It sounds like you guys saw a slowdown to that mid-teens rate in the back half of June, and that continued through July. So I just want to understand, first, is that right, you didn't see further deceleration? And then second, could you guys just talk -- you mentioned you had some data points that told you about the slowdown earlier. So maybe tell us what were those data points and how are you monitoring them now and going forward.

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. Alex, yes, thanks for the question. So that's correct. We saw the slowdown really start to hit. Back part of June, kind of after Father's Day, it just seemed like people's behavior just started to change especially on the balance of goods spending versus services spending. We primarily started to see that in some of our own direct data, but there's also a few other like data points that we look at. So Joey, do you want to jump in and talk a bit more about that?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Yes. I mean, Alex, thanks for the question. Most of it is just related to our business model and the

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

investment we've made in a really rich data ecosystem. So we see virtually all of our transactions happen between us and the consumer, and we've developed and invested in significant data ecosystem such that we can compare on a huge number of KPIs what we should expect to see from a trend perspective and what we are seeing. And that gives us a speed and agility to understand what's happening with the consumer, and any deviation we can usually pivot quite quickly. And that might pertain to marketing spend or a whole bunch of other actions that we're taking.

And that one persisted, and we saw it pretty consistent across a number of metrics. And I'll say it was true in our digital trends, and it also happened in physical retail. So that's why we wanted to reflect that and make it clear.

Michael J. Bufano ***Allbirds, Inc. - CFO***
And then for the first part of your question, Alex, yes, that same rate continued in July, so it didn't further deteriorate in July. And then it's obviously only a few days into August, but it stays consistent with what we've seen thus far.

Alexandra Ann Straton ***Morgan Stanley, Research Division - Research Associate***
Great. That's super helpful. Maybe just one quick follow-up on your answer. When you guys had this agile response to the change in trends, maybe what was like the top 1 or 2 things that you immediately did that you saw proved super effective?

Michael J. Bufano ***Allbirds, Inc. - CFO***
It's a whole host of things. I mean this is the kind of execution that we do every day, Alex. And it's about the messaging to the consumer based on what they're responding to, whether that be a surge in travel spending, and we know people are on the road. We know we're great shoes to use on the road, and so we might position some of the product messaging around that, to something as simple as just watching our return on ad spend and flexing up in demand, the marketing that's a bit more performance oriented in a way that's responsive to the trends that we're seeing.

Operator
And the next question will come from Bob Drbul from Guggenheim.

Robert Scott Drbul ***Guggenheim Securities, LLC, Research Division - Senior MD***
Yes, 2 questions for you. I think on the first one, when you look at the store base and the new stores you're opening, but in aggregate, how many of the stores -- if you could wave a magic wand today, how many stores would you like to exit if you could? And do you have any flexibility to get out of some of those stores given the environment without major cost to you?

And the second question, Mike, in terms of the cash burn or the end-of-year cash, your expectations, can you just talk through -- you said you don't really think you'll need any additional cash, but can you just help us understand your expectations on the next few quarters and maybe even in '23?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes, thanks, Bob. So I'll start on the back end of that question, and then I'll answer the first part of your question and turn it over to Joey maybe for some more thoughts on the store side.

So in terms of the cash expectations, really not a whole lot more to add beyond what we said earlier in the call, we are taking these practice steps especially around tighter buying, better inventory management. So we feel really comfortable with the cash position we're sitting at. We think that our operating cash flow will continue to improve. And we're not, at this point, really getting into any kind of detail on 2023. So that's how we hold the cash question. But again, really just kind of wanted to convey to folks we feel great about having the cash on hand that we do to able to continue to grow the business.

On your question on stores, I'll answer the specific question, but I'd love it if Joey could share a little bit kind of more broader details on how we're thinking about the store fleet. I would say there's no stores we would exit today, right? And even leases we have coming up, there's a reason we reaffirm the 16 to 17. In fact, there might even be a chance to pull a couple into Q4 this year. We'll see how Q4 goes.

So for us, we're not looking at it as any sort of slowdown in what we've already opened or what we have in the media pipeline. Our real estate team has done a great job of picking great sites in our operations, and retail teams did a good job getting those stores opened.

But Joey, why don't you maybe share a little bit more about kind of how we're still holding retail overall?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Yes. I think maybe just helpful to recap how we think about retail and how that creates this omnichannel impact for us. So first and foremost, when we see the NPS that we do in stores, we understand the customer experience, speaks to a higher repeat rate. And we often see -- as I noted in my prepared remarks, we often see now it's up to 15% of our repeat customers are coming back and buying digitally, and they're spending over 50% more than single-channel repeat customers. So that's a really big impact on the profitability profile of a single customer that we can acquire. And that's really important for us driving the health of the business.

And of course, these stores operate as billboards and generate awareness within the region that we're in. So all of that is incredibly important for the business model overall. But when we do real estate, we do this very conservatively. And we only underwrite these leases to the 4-wall economics, and we build in cushion to make sure that we can hit our 4-wall EBITDA profitability target, and we're very payback and ROIC centric when we make these decisions.

So when we look at this, what we expect is a quick payback, and we expect to be good capital allocators. So even in the demand environment like we're in today, where there's drop-off in store traffic across the industry, we can still feel confident in the long-term performance of each of these stores and the fleet overall and, of course, how that haloes into the cross-channel commerce dynamic.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator
The next question is from Lorraine Hutchinson from Bank of America.

Lorraine Corrine Maikis Hutchinson ***BofA Securities, Research Division - MD in Equity Research***
I wanted to understand how you're thinking about the profitability. Obviously, the cost cuts, but are you also considering levers to pull on the top line to build scale like a quicker wholesale rollout or more new stores?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes, Lorraine, thanks. Yes, I think there's a couple of pieces here. I think the first thing, just keep in mind with some of the stuff we're doing with these Simplification Initiatives, we're really shifting some dollars and resources around to continue to invest in marketing spend and continue to invest in resources across the product team and the brand teams.

So really investing in the customer, we know that investment to customer we've made historically, that's driven these durable competitive moats that we see today. So please don't take the comments as we're slowing down investing in the customer, and it's all just about kind of getting to the cost side. That's not the message certainly at all.

Joey, in terms of Lorraine's specific question around would we accelerate store openings, would we accelerate on the third-party side, maybe you can share some thoughts to that part of the question.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Well, yes, I think the way we're thinking about this, Lorraine, is as we've mentioned before, this year is quite slow and methodical and not particularly material on the financials. And then we do expect to continue to roll it out. And the reason we do think that is we know it's going to do well for awareness. And when people -- we get maybe 1,000 eyeballs on a pair of shoes in one of our marquee partners for every one pair that we sell through that channel. And we do expect that halo to really positively impact our direct channel.

So we want to do that. We also want performance credibility, and we're not going to lose discipline over the approach to make sure that we maintain a really clean marketplace. But as Tim mentioned, we have great performance products that have come out, and you can see how that interacts within our business and drives a lot of new customer acquisition with over 40% of the customers who bought that shoe in the first 30 days being new to our business.

So when we augment that and we scale that with third party in a location where it gives us credibility in terms of the performance aspects of the product, that's going to supercharge it. So I think that's the approach we want to maintain. And of course, we'll continue to look at data as things go and make sure that we maintain a really thoughtful and healthy set of relationships.

Operator

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

The next question will come from Mark Altschwager from Baird.

Mark R. Altschwager ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***
I guess, first for Mike, can you provide a bit more detail on the magnitude of the cost of goods savings you're expecting in '23 related to the simplification plan? And then just as we sort of think about that path to profitability, adjusted EBITDA loss guidance this year, about $40 million at the midpoint. You have some of these savings on tap for 2023. Obviously, sales, we're talking of this right out of the environment. But could you maybe speak to the level of sales or range of sales that would be needed to achieve breakeven adjusted EBITDA with all the changes you're talking about today?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. Thanks for the question, Mark. So when you think about that, the cost savings piece, over the course of the last 2 years, the COVID-related headwinds on logistics costs and distribution center costs have been about 450 to 500 basis points. So a big part of what we're looking at here is we know we're not going to make all of that up in 1 year. But by accelerating some of these initiatives and taking these steps now, we should be able to put a pretty good dent into that in 2023, something by the end of 2023.

So that kind of helps you about how to size it. We're not going to get into super detailed 2023 guidance like certainly today. And look, in terms of your question about is there like a magic sales number when it gets to adjusted EBITDA breakeven, I think the reality is, kind of going back to part of what we shared earlier, this idea that the destination has not changed for us. We're focused not just on getting to adjusted EBITDA breakeven, we're focused on the medium-term targets and getting to that mid-teens adjusted EBITDA as a percent of sales.

And there's lots of levers we can pull to get there. Obviously, continued top line growth, which is why we invest in the brand and invest in the customer even during this economic downturn, that's a big part of it. But a lot of these proactive steps we took today on the cost of goods structure and the $13 million to $15 million of SG&A savings, those things combined really help us along the way in the path, Mark.

Mark R. Altschwager ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***
And maybe for Tim or Joey, just given the learnings in apparel and the adjustments you're making to that strategy, can you give us some broader perspective on how you're thinking about the revenue opportunity there, where do you think apparel contract as a percentage of your sales in the medium term?

Timothy O. Brown ***Allbirds, Inc. - Co-Founder, Co-CEO & Director***
Yes. Thanks. I'll take a first crack at that one. Look, apparel at the moment is about 10% of the business. We don't see that materially changing. The innovation and product focus remains vastly on footwear. We've got some really exciting sort of stuff coming with the new material platform in the next short period of time, a new lifestyle franchise that we're really, really excited about.

But apparel has got a really important role to play. We know that consumers want from us socks,

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

underwear, classic T-shirts, sweats, all articulations of our supernatural comfort. And part of the strategy there is to focus on that. Shifting from a lineup of Gen 1 apparel that was less than half evergreen to the vast majority of evergreen servicing these classic items, leveraging our deep, deep knowledge in these natural material platform.

So that's the plan going forward. And again, footwear is where we've started. It's central to our product and innovation efforts going forward.

Operator
And the next question will be from Matthew Boss from JPMorgan.

Matthew Robert Boss ***JPMorgan Chase & Co, Research Division - MD and Senior Analyst***
So Mike, relative to your inventory position today and incorporating actions from the Simplification strategy, what are you targeting for inventory to exit this year relative to revenue growth? And then for Joey, larger picture, what are you seeing in the competitive landscape today? Or what do you believe is driving the change in the backdrop relative to 3 months ago in footwear?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. So on the first one, I really think of inventory as a forward-looking metric, Matt. And I kind of look at where will we be really not just at the end of this year and by the end of 2023. I think with the steps we're taking to buy tighter on the core products that we have in stock now, that we know is evergreen, that we know our customer loves, that's going to do a pretty dramatic improvement when it comes to turns. So I'm kind of looking out further to where we want to be by the end of '23. And we think we're going to see the inventory positions certainly come down by the end of 2023 and have a big improvement in turns next year.

So Joey, I'll turn it to you for the second piece on your thoughts on the competitive dynamic.

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Yes. I mean I think I'm sure you're all over that, but I think the inventory situation in the industry is one that's quite notable, where a lot of companies had difficulty navigating the supply environment for quite a long time during COVID. And those shipments are now just catching up, and that happens to be simultaneous with a slowdown in the overall appetite from consumers.

And while maybe some of their spending is staying the same, the shift from goods and particularly discretionary goods over to travel and other things in the economy clearly is making a notable impact particularly on footwear. And so that's kind of the demand shift that we're seeing. And I think what we're seeing in the environment is already a much more dramatic promotional environment than I think we had anticipated for the industry-wide going on at this part of the year. We might have expected it in the holidays, having lived through what we've lived through in the past couple of years, but it's happening earlier now in a much more significant fashion than I think we would have predicted earlier.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Good -- fortunate situation is that, well, with any kind of slowdown, we're, of course, going to be a little heavier on the inventory than we might otherwise plan for. It's all really good quality inventory at evergreen. And while we make sure to be competitive in the environment with some smart promotion and smart end-of-season markdowns, we're going to -- well, we don't need to do anything dramatic and can keep a really good discipline and make sure that we keep tracking against both the top line and margin expectations.

Operator

And the next question will be from Dana Telsey from Telsey Advisory Group.

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

As you think about the new product introductions that are coming up, are you making any adjustments to pricing for these new products than you would have before this downturn? And what does that imply for the margin also?

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

Thanks, Dana. So on price, I can give back to Tim for a little color on the actual products and the innovation we're focused on. But we talked about this earlier in the year. We really established a pricing architecture that signaled a few different things that we wanted to convey to consumers when we made our pricing adjustment in March. What we did was that we established a framework where we were material centric. So supernatural comfort deriving from materials is what the brand stands for. We really want to make sure that we orient the customer around that key value proposition.

So where we might introduce something in Tree, that might be a lower price point than Wool, which might be a lower price point than our newest innovation in plant leather. So that architecture speaks to the quality and the delivery and expectations we would expect from the consumer.

And then similarly, on lifestyle versus performance, when you get into the higher technical offering that we have, something like a Flyer, we would expect that consumers would be able to understand that the technology that we're investing in something like the midsole with SwiftFoam is of the highest quality in the industry and, hence, would be willing to pay more.

And fortunately, we priced that at the highest price point, I think, we've ever sold any mainline product that we have at $160 in the U.S. and sold very well and also sold very well while delivering all of that plus 40% of the mix being from new customers. So we're pretty enthusiastic about that and are happy with the architecture that we've set up. And I think the rest of the year is going to fit right into that model.

Timothy O. Brown ***Allbirds, Inc. - Co-Founder, Co-CEO & Director***

Yes. Joey covered that really well. I just -- I think the key point to underline is that natural material innovation is at the core of our growth engine. We've invested in that from the beginning. We continue to invest in it, recently opened a Portland design and innovation hub. And that ability to continue to bring new and sustainable materials to market that meet this consumer demand, we see it in our

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

research every day. This increasing consumer demand for natural and sustainable materials allows us to take price and to enhance the value for our consumers. And we'll keep doing that across performance and lifestyle. And like I sort of said, again, in the short term, we have a big new material platform and a new lifestyle franchise coming that we're excited about, which will be a good example of that.

Dana Lauren Telsey ***Telsey Advisory Group LLC - CEO & Chief Research Officer***
And then just lastly on the promo...

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Fire away, Dana. Was there a follow-up question there?

Dana Lauren Telsey ***Telsey Advisory Group LLC - CEO & Chief Research Officer***
Yes. Yes. Just lastly, on promotion. What type of promotions are you thinking about as we head into the third and the fourth quarter compared to -- and particularly, you haven't been promotional, how are you thinking about promotions? What should we be watching?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Sure. I think -- so we have done some, and I don't think it's going to be inconsistent with what you've already seen from us. You can look on our digital platform today, and you can see that we have some end-of-season markdowns. And these are really -- these are styles that were a little bit slower moving, highly seasonal in terms of the color way or the style and may have broken sizes.

So that we're starting to move to kind of an end-of-season markdown cadence. And that's just really going to be helpful in terms of managing the expanding breadth of our assortment. So that's really aligned with what we've been expecting to do.

And then I think in terms of the holiday cadence that we're doing, that's pretty typical. Pretty typical, we did a nice Black Friday event last year, which worked quite well, and we're going to do something similar again here. And these things are all aligned around the idea that we're a premium brand and we don't want to habituate customers to think that they can get products on discount.

If they want the best, if they want the newest, if they want the most core, that's going to be full price from us. And so maintaining discipline around that is really critical to us. And it's helpful to have an inventory base that really is so heavily focused on core and a little bit more evergreen styles. That allows us to do what we're just describing remain competitive in the marketplace and still keep full price yield at 85%, 90% for the year even in such a promotional environment. So we're quite pleased with the execution there.

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes. One last thing I'd add to that too, Dana, is we know in our experience, well limited so far with like promotions. What we see it does is it increases awareness for the brand and we're still, remember, in the mid-teens, aided brand awareness today. And it definitely drives demand to help us bring in some

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

new customers. So that's part of the reason why we want to meet the customer where they are on some of the stuff right now.

Operator
And the next question will be from Ed Yruma from Piper Sandler.

Edward James Yruma ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***
Two from me. I guess first, you guys told a really good story about performance, so congrats on the early success there. I wanted to click that a little bit on the lifestyle business. What kind of performance trends are you seeing within your legacy platforms, particularly Wool Runner? And I know that's not seasonally the hottest during the summertime?

And then as a follow-up, I want to confirm that the write-down in apparel was $12 million to $14 million. And I just want to kind of understand a little why should we treat that as a onetime given that companies in your space kind of create new product discontinue all the time. Is that really appropriate as a onetime charge? And kind of how would you like us to treat that?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes, Ed, happy to follow up in more detail on the second question. We have a callback with you later. But the reason we think of that as a onetime is it's a pretty big move in this generational change on the apparel side of things. That's the biggest driver in sync then with some of these changes we're making on the logistics side.

So truly is onetime in nature, and that's why we've chosen to liquidate as opposed to trying to move through our own direct channels. We do a pretty good job with what Joey was just saying with something like end of life and markdowns. So it's a bit of a different beast, but happy to talk you through that a little bit more on the follow-up call.

In terms of your question on the performance versus lifestyle trends, we continue to be happy with the overall growth across each side of the footwear category. There are certainly times during the year where the focus is a little heavier on performance, where it's a little heavier on lifestyle. There's times it is a little heavier on Tree right now, but then we're getting into Wool season. So we continue to feel pleased with the overall growth we see. I think, credits to Tim and the product team, the expansion that we've had across the whole product portfolio, especially on the footwear side, gives us the ability to have things that are top of mind for customers at every given time of year. And that's how we see it sort of flow all the way through the year on our end.

Operator
And the next question is from Jim Duffy from Stifel.

James Vincent Duffy ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***
So my questions are on the digital business, more challenging environment here, not unique to Allbirds.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Trying to understand how this plays forward. Can you maybe speak to differences in what you're seeing with repeat customer engagement and your yield on new customer acquisition efforts and then, from a tactical standpoint, how that's steering your allocation of performance marketing spend?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Jim, good question. So I wouldn't say that at this point we're seeing any deviation really in trends between new customer acquisition and repeat. And in fact, we're seeing really positive trends in terms of LTV growth and repeat engagement. We track that on a number of different periodic basis. And we're seeing absolutely no falloff in the number of repeat purchases that people are making. And when you couple that with the AOV growth that we're seeing, generally, that's quite a positive sign for us particularly in an environment like this.

And Mike alluded to this. Even despite the fact of what we're seeing on the demand side, this isn't going to be a knee-jerk reaction to a downturn. We're going to continue to invest not just in marketing as a line item but really specifically around brand and really emphasize to the -- we know we're aligned with what the customer wants, and we're going to double down.

And our biggest opportunity is in the fact that we still have low to mid-teens awareness -- aided awareness, people who have heard the name Allbirds before. We can increase that number and connect with people around the values orientation that we know they're aligned with, with our brand. That's where we're going to win. And so that's -- it's something we're not really letting off. And we haven't seen any data to suggest that, that would be a prudent move at this point.

James Vincent Duffy ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***
Okay. Joey, you guys aren't the only ones with a strategy like that. I'm trying to understand in that context what's the margin impact for the business and what's the long-run prospect for the margin of that business. Are we going to look back at 2018 to 2021 as the halcyon days for digital engagement? Or is there a reason to believe the economics on that business can improve?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Well, it doesn't exist in a vacuum, Jim. I would really think about the model that we're building as a little bit more than just a channel-by-channel segmentation. When we invest in our retail footprint, we see the digital business rise, and we know we can attribute that back to awareness being lifted in that geography. When we have fantastic organic brand marketing activations, we see that come through an aided brand awareness, and then we can double-click on that on more performance-oriented ads.

And I would say, despite the fact that CPMs have been rising across the industry, I think that's a well-known trend that everyone has faced over the last 5 years, we've done such a good job of early diversification of the media spend that we have, that we come back to a place where our overall business can still have leverage on the marketing line item while we're investing and doubling down in brand. And that to us is the right long-term formula so that we can be adaptive and dynamic to the current situation while not sacrificing any of the long-term possibility that this brand has.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator
The next question is from Dylan Carden from William Blair.

Dylan Douglas Carden ***William Blair & Company L.L.C., Research Division - Analyst***
I know you guys think about the channels holistically, but in kind of understanding trends through the quarter, any additional color you might provide on was the slowdown more concentrated in U.S. online, was it pretty even between the 2 channels and kind of what you're expecting go forward between online and retail?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Dylan, we say it's been pretty consistent across the channels. That's why we talk about it as a broad-based slowdown. We don't think it's just us certainly, and it seems to be both brick-and-mortar and digital.

Operator
And the next question is from Ashley Helgans from Jefferies.

Ashley Elizabeth Helgans ***Jefferies LLC, Research Division - Equity Analyst***
Just a quick one, Mike, for you. You mentioned the gross margin is expected to be down in Q3 and a nice rebound in the fourth quarter. What's driving that rebound?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes, there's a couple of components there. Ashley, thanks for the question. We're glad to make sure we have time for you on the call. So the first thing is it is our highest seasonal quarter of the year. Sales was -- that gives us a little bit of leverage on a few parts of gross margin that are fixed.

The second thing is we're starting to lap some of the absolute highest levels of inbound shipping. We're also lapping pretty high fuel surcharges and outbound surcharges last year. So we'll still have some of that stuff built in, in Q4 this year. We're just starting to lap some of the real ugliness of some of the COVID headwinds, and that's going to be the big driver there.

Operator
The next question is from Noah Zatzkin from KeyBanc.

Noah Seth Zatzkin ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***
Just on the cadence of gross margin, I know you mentioned that you're through the bulk of inventory write-downs. But just in terms of the mix of inventory on the balance sheet, it's still up quite a bit ending in the second quarter. Could you just give a little more color on kind of the mix of the inventory balance and what gives you confidence that you won't be taking further write-downs on what you've guided to in the back half of the year?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

And then just very quickly on the international business. Guidance implies a slight uptick there versus the second quarter so just any color there would be helpful.

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes, on the international piece, I'll answer that first because that's quick. We are saying on the local currency side, things really are playing out very much in line with what we expected at the end of last quarter. It's really just kind of the move in FX. And look, it's a pretty volatile environment out there in some of the international geos, but our teams are doing a great job of executing the product, and the brand are resonating well with those customers.

So that you are kind of reading the guidance right there, Noah, on that part of it, the first part of the question, Noah, was about the inventory piece of it. So after the part that's anticipated to be liquidated, so we have $122 million today, $10 million more coming on the liquidation side, so that $112 million that we have left after that. Again, we think of that as healthy evergreen product, largely footwear. This is stuff that we know our customers are going to continue to buy. These are the things that are sort of the timeless classic Allbirds products that people know and love. So that's why we're confident we'll be able to continue to move through that inventory.

It's also nice for us because these are products we can be tighter buying on going forward, especially over the next several quarters, because we know we have the inventory in place to meet demand. And then finally, where we do some of this selective promotion that Joey is talking about around a Cyber Monday or that sort of thing, we know those types of things do help us move through inventory as well.

So that's why we're confident that the stuff that's going on primarily around apparel is sort of unique onetime thing. We're going to move through that. We thought it was important to take the quick and decisive action now that we made some adjustments to the apparel side. And we're -- being able to do this now, we'll be able to accelerate some of those logistics cost savings as well. And we're happy to talk to that a little bit more on a follow-up call as well.

Operator
And the next question is from John Kernan from Cowen.

Krista Kerr Zuber ***Cowen and Company, LLC, Research Division - VP***
This is Krista Zuber on for John. Most of our questions have been answered. Just one here. In relation to the Simplification Initiatives, how should we think about your capital allocation and CapEx run rate over the next few years?

Michael J. Bufano ***Allbirds, Inc. - CFO***
Yes, look, again, we really believe the cash position we have now is in a great spot. We're going to see improvements in our operating cash flow because a lot of the stuff we talked about on the call today. We have more-than-enough cash to be able to like fund our growth and have no cash needs. In terms of the exact pace of CapEx and how that's spread across different projects, we'll get into that detail a little bit

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

more when we start to give 2023 guidance, but no change on anything on the CapEx side for us tied to what we talked about today.

All right. Thank you. And with that, I think, Joey, you're just going to close this out with a closing thoughts?

Joseph Z. Zwillinger ***Allbirds, Inc. - Co-Founder, Co-CEO, President, Treasurer, Secretary & Director***
Yes, thanks. Thanks for everyone's time today and all the great questions. I think we've tried to do a good job here. Hopefully, we conveyed it, particularly that the love that we're seeing from our customers and that they're demonstrating through repeat purchase, I think it's a testament to the strong health of the brand. And there's probably no more important indicator than that. And it's underpinned by new footwear products like the Flyer that we talked about and the energy moments within our existing franchises.

So we're confident that these proactive steps that we've taken and that we've detailed today will ensure that we can still deliver on the medium-term commitments to the financial and environmental stakeholders. And as Mike said a couple of times, the destination is still the same. The path that we might use to get there may adjust a little bit on the way. So thanks again. We appreciate all your support. We look forward to talking next quarter.

Operator
And thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

DISCLAIMER
Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022 Refinitiv. All Rights Reserved.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.