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Allbirds

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Alex Straton: Great. Good afternoon, everybody. I'm Alex Straton. For those of you who don't know me, I'm the co-lead for branded apparel, footwear and soft lines retail, alongside Kimberly Greenberger here at Morgan Stanley. We're super happy to have you guys here at the conference Day 1, but even more delighted to welcome Joey and Mike to the stage here with us. Before I go through their backgrounds, I'll just start with a quick overview of Allbirds.

Allbirds is a roughly $400 million market cap global lifestyle brand focused on sustainable footwear and apparel. You guys can see them showcased here on the stage. And when they went public in late 2021, it uniquely became the first ever company to commit to a sustainability principles and objectives framework for assessing performance against a set of ESG criteria. So I think you guys were the first ever, a really great accomplishment.

Since the IPO, BIRD has delivered about 20% average quarterly revenue growth, expanded its performance assortment and store presence and continued its strong, sustainable product innovation, like their recent launch of the first ever plant leather. This year, the business is on track to generate over $300 million in revenue, about 20% of which is international and about 70% of which is e-commerce.

So today, we're joined by Allbirds co-CEO, Joey Zwillinger. Zwillinger, did I get it? Yes, we practiced beforehand. And CFO, Mike Bufano. Starting with Joey, Joey cofounded Allbirds in 2015 alongside Tim Brown, and they have both served as co-CEOs since then. Prior to founding Allbirds, Joey served as Vice President of Industrial Products at TerraVia Holdings, a biotech company.

Moving to Mike, you guys might notice some of the familiar face, formerly a Panera CFO, covered by John Glass. So that was skipping to the end, the headliner of it, but he joined Allbirds in January 2021 and has served as CFO since April of the same year. So thank you both for joining us today, and welcome.

Joseph Zwillinger: Thanks for having us. Hello, everyone.

Michael Bufano: Excited to be here.

Alex Straton: Great. So we're going to spend today's session in a fireside chat format, which is basically question-and-answer. We're going to floor some of the recent investor questions that both Kimberly and I have heard on the business. And then we've also reserved some time at the end to take your questions.

Before we dive into that, I do need to protect myself and remind everyone that for important disclosures, please see the Morgan Stanley disclosure -- or research disclosure website at www.morganstanley.com/researchdisclosures. So with that all that covered, a mouthful of disclosures, let's kick off the fireside chat.

So Joey, maybe we start with you. Given BIRD is relatively new to the public markets, let's just start with how you think about Allbirds compared to the other major footwear players. Who do you view maybe not only as your biggest competitors, but also perhaps role models or aspirational type players in the space? I think understanding where Allbirds sits, the differentiators would be helpful to start.

Joseph Zwillinger: Okay. To do that best, I'll just take 30 seconds to kind of back up before we started the company, because I think it's really important to understand what we sell when we founded -- Tim and I came together in 2015. We launched in 2016 to customer. You mentioned TerraVia and biotechnology, which is -- it was an odd name, and many of you have not heard of it. But my background was in material science. And I was in a synthetic biology company looking to replace petrochemicals with micro algae, using a bunch of different tools in biotechnology. Tim, my cofounder, was actually design background and was a professional athlete.

And so when we came together, what my experience had borne out was there's a lot of brands -- there's a lot of consumers, first of all, that want to connect values, particularly values around the environment with their purchase decisions. And there was a lot of brands that were the gatekeepers to providing goods, consumer products to these people, doing a lot of greenwashing. That's true in our industry today, and it's true in lots of other industries that I experienced where I was selling into.

And so Tim and I wanted to come together, and we thought there was an opportunity, why does the world need another shoe. And we thought that a couple things were really important. First all, we had the opportunity in 2016 to create a real purpose-native company. And when we think about what that is, it's that we have intrinsically aligned our impact model. So every time someone sells a -- we sell a shoe, it does something positive for the planet and it's good for our financials. So our financial incentives and our environmental aims are uniquely aligned in a way that no other business model in our industry, at least, can deliver on that. So we can really have this authentic purpose and can strain our creativity muscle to be better everyday for both our financials and for the environment.

And so second, we take that and we use some of my background, a bunch of colleagues and expertise that we've brought in to well surpass what I could have done individually since 2015, to take that constraint and find unique materials that are born from nature to create unbelievably comfortable and differentiated products. And that R&D muscle is not just true from my background and from that area of material science, but it's also from the design background. So we couple design and amazing and unique materials to create this product engine that delivers a relentless flow of goods that our consumer wants and believes is the most comfortable shoe in the world, as we were called when we launched in 2016.

And then lastly, if you think about in 2016 when we started the business, historically, all the brands in our space started with a wholesale distribution model. When we started in 2016, we had an opportunity to connect uniquely with our customer. We'd always envisioned being an omnichannel brand, but we wanted to start the brand to be the best expression of who we could be, both from a digital perspective and from a store perspective. And do that as we slowly but surely expand the product assortment. And then eventually go to a point where we could get into a wholesale channel, and we could have enough breadth of assortment that we could segment and create a really nice, clean channel and grow an omnichannel model and drive all the value that you get from this omnichannel shopper showing up significantly.

So I'd say those are, to answer your question a little bit longwinded and backing up, that is what sets us apart, makes us really unique. Where we aim that product engine is kind of at the casual end of the athletic brands product lines and a little bit more of the athletically inspired end of a causal comfort brand. So, stealing share from a whole bunch of people, and we've been fortunate to steal a ton of share from the industry in the last 6 years.

Alex Straton: That's a great overview. I think one thing you touched on was kind of the store expansion strategy. And we all kind of know here that BIRD started as an online business, so that seems to be a bit of a pivot that you guys took. And now I think you're at nearly 60 stores, which is really exciting. Can you talk a little bit more about the rationale behind that store pivot and perhaps kind of the financial implications on profitability as you make that transition?

Joseph Zwillinger: I would tweak the word pivot to it was always the plan, and it's been evolving. Even back to -- I fondly look back at our 2016 investor deck to our first venture capital investor where we walked through what I just described, really, with that evolution from digital, digital with pop-ups, digital plus vertical retail, and then adding wholesale. As we do that, we would reach a different consumer. We would build our awareness. So 6 years in, we're about 13% aided awareness in the U.S. And we thought as we would expand into third party in particular, very capital efficient model with good profit flowthrough for our financials and great awareness lift for us. So we kind of think of it as a very profitable marketing vehicle, and we're fortunate to now have entered in with a number of really premiere partners, a couple of which are here today. So that has kind of been the plan.

So why have we done that? When we have our stores, they're the best expression of our brand. They give the best customer experience. Our NPS in our stores averages above 90. So world-class experience from the customers. We think NPS is the best leading indicator for future purchase intent. And we also find that the huge growth in our omnichannel customer, from buying in physical brick and mortar, have a great experience, don't return the product because your fit's right on the first time, you then come back and you replenish, you know your size and you buy digitally. Those omnichannel customers are spending 50% more than a single channel repeat customer.

So real apples to apples comparison. The LTV of that customer is substantially higher. So we know that that works in terms of developing those customer economics. And we can actually -- over time, we can actually afford to get a lot more customers that way, given how strong the LTV is. So when you layer in third party, again, that's another means to gain awareness, and for our direct channel, can be a new customer acquisition vehicle, even if they've had the product from one of our premiere partners.

So that's the path we've gone. I think we can get a significant amount of what we get from stores and third party and some of that curation added benefit without any of the capital intensity. So we think that that model really works well together. We look at our customers on a geographic basis. A little bit less on a channel basis because of how that interplay happens and the value that's created.

Alex Straton: You've mentioned this new kind of third party wholesale piece of the story a few times here. Maybe can you talk about -- and we had Nordstrom mention you guys this morning as well, so it's on all ends here. But can you just talk about what inning you're in in terms of executing that strategy? How big you think that opportunity could be over time? And maybe also a third one here is how do you evaluate partners as you're going through this process?

Joseph Zwillinger: Yes, good questions. I'd say we're in batting practice, if you want to go with baseball. We just started for the first time this year was our first entre into wholesale. And the way we've looked at it, to answer your last question first maybe, is really from a consumer lens. So we're trying to identify our customers, our core segment. We kind of target like let's call it 50 million U.S. consumers is our core, core, core customer that we think resonates very strongly with our offering and our message. If you take those, we have pretty little, small penetration in that, like a couple, 3 million, somewhere in that range. So we need partners that interact with that core group of consumers that don't know about us yet. 13% aided brand awareness, that's a great vehicle for us to do that. That's a really good example in Nordstrom that does that for us.

And then you get someone that's maybe a little bit -- it's close to that core consumer, but a little bit adjacent, and they're shopping maybe for a different use occasion. Maybe it's a little bit more performance oriented and can give credibility through what they deliver to their customer. So that's examples of like DSG who's here. We just started. We're in the three doors in their House of Sport format for the DSG banner and their Public Lands, and we're also in REI.

So again, credibility for what we've been able to deliver from this amazing technology that we pack into shoes that happen to be incredibly comfortable and happen to be born from nature, all of that is aided. And those consumers who love those retailers start to fall in love with us as well. So that's how we've thought about it. We tried to keep it slow, methodical, very clean and hygienic channel. Start with four premium accounts and get great sell-through, and then start to expand those doors and eventually we can go into a couple of new accounts as well. But really take that strategic account, build deep partnerships and make sure that we're delivering great value for those consumers. And just taking it slowly but surely and measuring the benefits into that omnichannel effect as we do it.

Michael Bufano: What's next to that, too, is in 2023, it's a channel that'll be adjusted EBITDA accretive for us. We already have done a lot of the heavy lifting. It's not a very OpEx heavy channel for us. So that's nice. You were sort of touching earlier on the path to profitability question, which is obviously a bigger one. Part of the nice thing about third party, it certainly helps for that as having a growth lever in that regard. And on the stores, to the part of your question earlier, our stores themselves are gross margin accretive for us because there is lower returns and no outbound shipping. So the more growth we get out of stores, that helps the overall gross margin story.

And we underwrite the 4-wall economics of the stores to about a $3.5 million to $4 million gross sales target and about a 20% 4-wall EBITDA, and we don't factor in any of the lift in the market or brand awareness raising. So pretty efficient use of capital. So to Joey's point, you always want to balance it a bit. But it's nice to have now another growth lever between stores, digital, third party, things that have really good flowthrough, especially with a bunch of stores that are now in their first 12 months of life right now. So it's a good balance for us to have, this tool with these great partners and third party.

Alex Straton: That's a great overview of the wholesale piece. I think maybe one thing that might be helpful for everyone is I know you guys went into wholesale I think maybe in the early -- or you at least partnered maybe with Nordstrom. Maybe this was 5 years back or something. Maybe tell us what was different then versus what you're doing now, just so we have the lay of the land.

Joseph Zwillinger: Yes. We've done a couple partnerships with retailers. So in that instance, we did a partnership with Olivia Kim, a designer at Nordstrom. Did a pop-in in their main flagship stores. Still to this day, we get customers that say like, oh, I first learned about you at Nordstrom from the Olivia Kim thing. I fell in love with you guys, came back to your store. Like anecdotally, we knew that the strategy over time would work, but we did want to wait until we had a base of business and a product engine that could really deliver something new and fresh and unique for each of the channels we wanted to be in. That was how it was a little bit different.

Now we're focused on a little bit more of a traditional wholesale model as we go with them, as we go, although a very partner-like and deep focus on a couple of strategic accounts. And that means that we're investing significant dollars in marketing to support some of those. It's not OpEx heavy to serve as a sales perspective. It's not, frankly, on a relative basis very expensive from marketing. But we want to support it with great fixtures, end caps, and they're doing the same. So these partners are really delivering value because they know they're getting something so unique.

If you think about the rest of the industry, most of the business is done, let's call it, 70% as wholesale, 30% direct, something in that shape. We're low-single digit wholesale right now, so we're going in the opposite direction. Everyone's kind of fighting to come in the direction that we've started our business in. So now that gives us a nice opportunity to come and be very selective with these partners and have a really nice exchange of value. When we're giving them something really unique from a new brand entre perspective for their consumer, they can give us something really substantial.

We showed up in Nordstrom in a wonderful activation in Center Stage on their 57th flagship. REI you can see it still this month. It's a Q4 activation in their flagships where I think it's the biggest thing they've ever done in their footwear pad, so it's really special. And it's a great example of what these retailers see in a business like ours that's just now starting to be introduced to their consumer. While we already have a base, it's pretty unique and a special opportunity.

Alex Straton: Okay. That's clear, the difference between then and now. Maybe just zooming out, you described the business, I think the word that stuck out to me was casual footwear brand, but you have made some inroads into performance. So talk to us about where you are in your journey there, and then Mike, if there's any financial implications. I think at the time of IPO, you may have given us a mix of what you thought performance versus lifestyle was. So if you have any update there, that would be helpful.

Joseph Zwillinger: Sure. I'll let you jump in on that, but maybe I'll start on just how we're looking at that landscape. We certainly see ourself more as a lifestyle footwear brand. We have a good chunk of our business is now within the category we would define as performance. Now we're not trying to compete on technical performance characteristics the exact same way that a technical running brand would do it. We're taking our own approach, which is adding versatility and a really runnable lifestyle approach to the footwear offering that we have, delivering amazing versatility. If you guys are going to a financial conference in a town that's not in your -- near your home, you can wear one pair of shoes. You can go to dinner, you can go to the conference, and you can possibly go do a quick workout if you squeeze in time. So that's the kind of use occasion and place in the life of our consumer we think we best fit today. And then we can selectively add in additional performance things as we go in a unique Allbirds way, delivering something special. Looks a little bit different from the industry. If you just compete against the way they do it, it generally doesn't work.

So I think that's the focus. It's a span of a lifestyle shoe. It's not fashion. And it's athletic, but it's not high performance. So it's really in that crossover place around athletic and lifestyle. And we're really focused on the core of footwear with a little bit of add-on in apparel. The apparel's going to be really focused on our material science, that comfort next to skin, underwear, socks, t-shirts. And then we can slowly add other accessorized items that can be great for add to cart, can be great to lift UPT in the stores, get frequency to come back and purchase, and celebrate the best of what we can deliver from comfort and natural materials to the customer. So that's sort of a little bit of the lay of the land of where we are and where we're heading.

Michael Bufano: Yes. Joey hit a lot of the key points on the customer economics part. So if you think about performance footwear has generally a higher price point. So like our average offering, Tree Runner, Wool Runner, $105, $110 here in the U.S. A lot of our performance product is higher than that. So that helps us drive up and increase customer economics. Same role of apparel and basics as well. We see that as drivers of add to cart. And you see it in this last quarter, our active customers grew 12%. Our total revenue is up 15%. So we increased our spend per customer by 3% in a tough economic environment where there's more promotion happening out there. That's a number to -- indicator to us that that's a good sign of the growth and how the innovation helps drive a lot of that.

One other thing I'd kind of share with you is in the split in the footwear space between performance and lifestyle, we're at 25% of the shoes we sell today are performance footwear product. If you went back 2-plus years now to when we launched the Tree Dasher in March 2020, I don't think many people would have bet 2 years later we'd be at 25%. So I think we're right around the expectation we had as a percent of mix and really feel like we're building that credibility on the performance side.

Alex Straton: Great. That's a helpful overview of performance. I think one thing you both have mentioned numerous times is just kind of the material innovation that you have delivered in the last 5 years of your existence. Maybe can we drill down into what you've done in the last year, what you have upcoming in terms of not only material innovation, but bigger innovation aside from that, what kind of launches you're excited about as we head into next year?

Joseph Zwillinger: Yes. So we have on the tops of our shoes, and we call them the uppers in our biz, we've got wool, tree, canvas. This year we introduced a plant-based leather. It's the first plant-based leather alternative to bovine leather that has zero plastics and is a wonderful performing product and great economics on it, too. So that's the top part.

On the bottom, we've done a couple of really interesting innovations. 2018 we launched a foam that was a super comfortable premium foam derived from sugar cane that we codeveloped with a company in Brazil. And then this year, we delivered a new one. We call it SwiftFoam -- not with SweetFoam. SwiftFoam is another one from plant oils that we launched on the Flyer this year.

So you think about that set of tools. We now have about four unique materials from wool, tree, canvas, plant leather on the upper and two really compelling foams on the bottom units that are really differentiated, deliver unbelievable comfort. That is a set of tools that we have now that can manifest into products that are really special.

So I think we've done an enormous amount of material innovation. And the next, let's call it 12, 18, 24 months, it's really about using all of those materials in that toolkit to lean into design to manifest into our existing franchises, embellishing them, adding beauty, adding desire for our consumer who already loves those products, and new silhouettes that utilize that toolkit. Of course we'll constantly add innovation along the way, but we don't need too much more material innovation to captivate our consumer, given how much work and heavy lifting we've already done in the first 5 years of the company.

Alex Straton: I think you've collaborated with a number of bigger brands because of these materials you've innovated. Can you talk about those? I know it's an important part of the story, too.

Joseph Zwillinger: I think we get influencers and celebrities that love us because of what we've done related to the environment and the material innovation. We've done design collaborations with people. Had some really successful ones. Some really surprising ones. This guy named [Brawley Omodo] is a great designer, but no one had really heard of him. Just did absolutely phenomenal when we told the story in a compelling way.

And we do partnerships. Like you mentioned, we did one with Adidas where it was this proactive idea of competitors collaborating on sustainability while still competing vigorously for market share. And a brand like Adidas, we were looking to get a little bit of performance credibility. They were looking to get a lot of sustainability credibility. So it was an interesting partnership. It was a short time window, and we moved on from that one, but very successful partnership for us.

So those are the examples of how our authentic purpose-driven values around the brand bring amazing opportunities to partner with a whole variety of people in the ecosystem that are critical to build desire with consumers.

Alex Straton: That's great. I think one more bigger picture type question, and Mike you touched on it, the path to profitability. Everyone's favorite question. I'm sure that's changed so much in the last couple of years and how you think about it with COVID, the supply chain disruption. So maybe just walk us through those levers, how you're thinking about timeline.

Michael Bufano: Yes, absolutely. So at a high level, it's obviously a challenged demand environment for everybody right now. We're still gaining a lot of share in the industry, but our growth at the moment is definitely lower than we expected at the start of the year. So the way we think about path to profitability is the destination has not changed, but the path to get there has. And part of that path to get there is really being heavily focused on the things we can control, especially in the middle, the P&L.

So Joey and I both touched a little bit on gross margin. But the reality is, the improvement in our unit economics that will happen over the next few years, it's going to be the single biggest driver on that path to profitability. Our estimate is on the manufacturing and supply chain side, we've had about 450 to 500 basis points of headwinds related to COVID. We've made a little bit of that up, but we think we can make up a lot more of that just as things get back to normal.

But in this challenged demand environment, we put a lot of effort behind what we're calling our simplification initiative. So accelerating some manufacturing transitions, which will generate real cost savings, and a little bit of automation with our partners on the supply chain side, especially in the U.S. on the logistics piece, that's all going to drive a fairly significant improvement in gross margin over time as well as growth in stores and these gross margin accretive channels. So that's the first lever.

The second lever is we've really gotten a lot of leverage on our marketing line. We'll continue to do that, especially as the shape of the business adjusts. Some of the stuff Joey mentioned on the benefits of third party, raising brand awareness, getting the great products on people's feet. One of the things we're incredibly proud of is we have an 86 Net Promoter Score overall. We have over 40% repeat rate from customers. So our thing is today, once someone find Allbirds, they tend to fall in love with Allbirds. So doing that in a marketing efficient way is going to be really important.

And then the last part on SG&A as part of this simplification initiative is we did what a lot of companies are doing now. We made some hard decisions on the headcount side. Never easy to do. But that's generating a run rate basis of about $13 million to $15 million of savings, some of which we're investing back in brand and the product team. And we also have a bunch of stores, as I referenced earlier, that are still in their first 12 months of life. So they're in that ramp-up period. So they're not at that full flow through stage. When you get those stores into flow through, that'll do a lot of lifting on the SG&A line as well.

So those are really the three levers: significant improvement in gross margin, continued marketing efficiency and leverage on the SG&A side, both corporate and the stores.

Alex Straton: Great. That's a helpful kind of building blocks for us. So maybe turning more to the near term, you guys beat your expectations on revenue, were able to reiterate the full year guide on sales. Maybe talk to us about what put you in a position to do that in the latest quarter, and what gave you the confidence going forward to be able to reiterate in this type of uncertain environment.

Michael Bufano: The story in Q3 and Q4 both, as we do think this direct-to-consumer model we have gives us a pretty good advantage on the data side. We're able to read things a little bit earlier than we think than some brands that are going through wholesale are. So for example, in our case, we really started to see after Father's Day that there was a shift in late June in consumer spending in the U.S., at least in our categories. And some of that was travel and experiences not being -- some of it I think was category specific. That led us already start to think through the plans we wanted to have if we were moving into a slower growth environment potentially in the U.S., which was what ultimately ended up playing out in Q3.

So I think one is we called the ball for Q3. But then that let us put in place something like we got -- for the first time, we did a Labor Day back to school promotion, something we historically haven't done. We still have 80% to 85% full price sell-through, which was kind of off the charts in a category like this compared to most of the big players. But we were able to build that muscle and build that tool quickly. And that was a big part of the reason why we beat in Q3, in addition to the UK business being a little bit stronger than we anticipated. That market's proven to be very resilient for us. And then the third piece was we did see a little bit more sell-through in third party and a little bit higher orders in the third party channel in the quarter versus what we expected. So those are all the drivers of what drove us there in Q3.

In terms of our ability to kind of hold the confidence for the guide for Q4, a big piece of it is we're able to, again, kind of read on a day-to-day, week-to-week basis all the different cross currents when it's coming to demand right now. And the call we made going into the quarter was it looked like what was happening was this holiday season was reverting back to more of a pre-COVID spending pattern where folks were waiting until Black Friday, Cyber Monday. In this environment, they were looking for a little bit of discount, looking for a little bit of promotion. We also knew we had a great product calendar, a great marketing calendar. I did go by one of our stores here in New York. The windows look amazing, especially the Flat Iron store. Really kind of this idea of bring -- give the gift of comfort seems to be really resonating with our customers.

So we were pretty confident in the plan that we had going forward. And look, there's still, whatever it is, 20 shopping days left. You can't call victory in any retail business until you get through the rest of the shopping days. But we feel like the team's doing a phenomenal job of executing in the U.S.

And then other factor just in this year has been the international environment has been rocky, to say the least. FX headwinds have been pretty real and pretty painful for a company our size. And then most the businesses on a local currency basis are performing fairly well. Though, to be candid, obviously from the time of the earnings call on November 8 to today, the situation in China has gotten a lot less predictable. And I think like every company, we're reading that. Our team on the ground we think is going a good job. But that is certainly something we're conscious of right now as we try to wrap up the year.

Alex Straton: Okay. Now, we can't talk about revenue without addressing inventory as well. I think you guys did take an apparel related write-down earlier in the year. But you ended the quarter with inventory only up about I think a little under 30%, which was a nice improvement quarter over quarter. Maybe talk to us about how you feel about the current composition of inventory, what your goals are as you kind of exit the year. Maybe just highlight the apparel piece, kind of what happened there for those that aren't as familiar.

Michael Bufano: I'll cover the numbers of the inventory. Then you maybe can talk some of our learnings on performance apparel. So yes, we ended the quarter with $127 million of inventory. That was up 27% year-over-year. Only up about 3%, though, Q2 versus Q3. So you usually see a much larger build in a category like ours like at the end of Q3 into 4. So we feel like that early read on demand in late June was helping us tighten up even a little bit of last minute buy and shipping decisions heading into the fourth quarter.

The composition of the inventory we have today, there's about $5 million remaining of product that we are going to liquidate as part of the apparel stuff Joey will tell you about more in a second. That remaining $122 million, you're talking primarily core footwear, core colors, core sizes. I joke but not really, people will always buy a men's size 10 gray Wool Runner. We're pretty evergreen in a product like that. We feel okay about having that. And what that lets us do as we head into 2023, be a lot tighter on the open to buy on the core product especially, and give us room to be smart about the buys around a lot of the innovation Joey talked about, especially because that's innovation around materials and silhouettes that we already have a lot of familiarity with so we can manufacture it pretty quickly and feel pretty good about it. But you may want to cover a little bit the learnings on the perform apparel.

Joseph Zwillinger: Sure. Yes. Part of it was just we took a bet on some performance apparel that we thought our customer would embrace and love, and we bought pretty deep. And it didn't work out in that way. So what we learned from that was not to go too too fast into performance and particularly on the apparel side.

On apparel, people are looking at other brands that are famous for doing that with leggings and a few other things. And we decided it would be best to take our medicine, pull it back, take out any confusion in the marketplace for our consumer and deliver what we know they love from us and keep them focused on footwear. So that was the main thrust of it.

There's also, as part of the moment when we made that decision, we also introduced a few different initiatives around the company, one of which is this manufacturing transformation. And so Mike alluded to it, but there's a lot of savings in cost of goods that we're generating from this. So that has already started production. That'll start rolling through the P&L in 2023. Takes a little while based on how we do accounting to get through the inventory, but on a run rate basis, it's already starting to improve in Q1 2023.

I was just over there. It's in Vietnam. It's a Taiwanese company. But probably the best footwear group in the world. One of the top three in terms of volume. And just sensational quality improvement. Sensational cost savings. Great engineering. So all of this in tandem with that moment means we're going to have a better, more healthy set of inventory that we can roll through get these transitions when we're buying new product from this manufacturer, getting that into commerce, getting that into flow and getting it through the P&L. So that's a little bit of the part of that.

Michael Bufano: And what's exciting about them is we can go to them now that we have scale. Now that we are a scale company that we sell millions of shoes a year. And it's also nice because I think -- what was the number you told me? They're like 57% I think was the number of their energy is renewable energy. North of 50% of their energy is renewable energy, which for us is great because it reduces the carbon footprint of the product and it just only helps our sustainability initiative. So when we find something that is good for the carbon footprint of the product, and it improves the gross margin, reduces the cost, that's a win-win. So when we say the more sustainable we are, the better our business is, this project and the folks Joey met with are like a shining example of that for us.

Joseph Zwillinger: Maybe I'll just last add in. When you think about what I described earlier --

Michael Bufano: We have a lot of passion.

Joseph Zwillinger: But what I described earlier about that kind of evolution with different product assortment breadth going into different channels, I think the important thing to remember is also we're finally at a place where we're making millions of pairs of shoes. We now can use that volume, particularly when you add something like 3P to get scale-up, which is a little lower gross margin but really highly accretive for EBITDA, we use that volume to put into a new manufacturing base, and that just accelerates the cost of the economies of scale that we get out of it. So it's a pretty exciting and transformative moment for us. We're getting the cost, but the quality, the sustainability, everything is coming through in a way that makes it a really great moment for us.

Alex Straton: That's a great overview. I know we only have a couple minutes left, so I do want to be aware that we might have some audience questions. So if anyone has a question, feel free to raise your hand. Otherwise, I can keep it going. Anybody? Well, if none, we can always wrap it up with a question we're asking everyone at the conference, which is essentially trying to get a pulse on kind of how the consumer is shaking out so far. How you measure how healthy they are. Have you seen any signs of strain or stretching? Any color you can give there would be super additive.

Joseph Zwillinger: I would say -- Mike mentioned we started seeing a different change in the trend lines in June. Since that moment, I don't think we've seen a whole bunch change, particularly in the U.S. consumer. We've been able to call the ball pretty accurately on what's happening. International has so many different dynamics to it and so many different geographies. That's just too much of a unique situation per region, so let's not go there. But in terms of the U.S., I think we're reading all what you guys read. You guys are smarter about this than we are. So we're looking at the trends, they haven't changed much. We're still taking a fairly cautious outlook for 2023. That's just I think prudent to do the business. We can chase pretty quickly in terms of inventory, should we make that wrong and things pick up dramatically, particularly in the second half. So that's the way we're kind of looking at it. But overall, we haven't seen a huge movement in change in what we see.

Obviously in our industry, the inventory levels, as you noted, ours are pretty low in terms of sequential growth. Other companies have been very significant in their growth, which has created a little bit more of a promotional environment. So from that perspective, we've seen a little more discount orientation for consumers, but nothing too crazy.

Michael Bufano: And that's the way we've tried to be surgical. We're not a brand that people associate with 70% off or doorbusters. That's not us in customers' eyes. And we're very conscious of that. So there's not really a race to the bottom. But like an example at retail is we're doing a buy one pair, get 30% off the second pair. Not the deepest discount, but the behavior it's meant to drive is you've already walked into the store. You've already showed your purchase intent. It's going to increase your odds of conversion. It's going to increase your order size. And it arms our retail team with one more tool to go and sell during a busy time. So that's when we talk about surgical promotion, one example of that.

Alex Straton: Great. So we are up on time. Thank you so much for joining us. This is super helpful.

Joseph Zwillinger: Thank you.