

Allbirds
Q4 2024 Earnings Call Prepared Remarks
Tuesday, March 11, 2025

Christine Greany, Investor Relations:

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

Before we start, I'd like to remind you that we will make certain statements today that are forward-looking within the meaning of the federal securities laws, including statements about our financial outlook, including cash flow and adjusted EBITDA expectations, 2025 full year and Q1 guidance targets, impact, duration of external headwinds, strategic transformation plan and related planned efforts, go-to-market strategy, transitions to a distributor model in certain international markets, anticipated distributor model arrangements, expected profitability, cost savings targets, gross margin estimates, product plan timelines and expectations, marketing strategy and investment, product and brand strategy, and other matters referenced in our earnings release issued today.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please also note that these forward-looking statements reflect our opinions only as of the date of this call, and we undertake no obligation to revise any statements to reflect changes that occur after this call. Please refer to our SEC filings including our Report on Form 10-Q for the quarter ending September 30, 2024, for a more detailed description of the risk factors that may affect our results.

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

Now I would like to turn the call over to Joe to begin the formal remarks.

Joe Vernachio, CEO:

Good afternoon. Thanks for joining us today.

We're happy to share that our fourth-quarter results came in as expected on the top and bottom line.

It's been a year since I stepped in as CEO, and from day one, we've been focused on rebuilding the company for future growth and profitability. Over the past year, we've made real progress - strengthening our operating model, bringing together a team of experienced, talented, and motivated people, and most importantly, reigniting our Product and Marketing engine. We believe this puts us on a path to reclaiming our place in the market while also strengthening our foundation for long-term success. With our new assortments starting to hit the market this fall, we expect to return to top line growth in the fourth quarter of 2025.

Before we dive into our plans for the new year, I want to take a few minutes to highlight what we accomplished and the key building blocks we've put in place as part of our brand transformation. First, we laid the groundwork to strengthen our gross margin profile through two major initiatives - reducing our cost of goods with strategic sourcing and product development, and a focus on full-price selling, which is critical for the long-term health of our brand. Next, we streamlined our cost structure, reducing our SG&A by over \$20 million in full-year 2024. We also reduced our U.S. store footprint, closing 15 locations. Since the start of this year, we've closed another five, and we'll continue to take a strategic approach to improve the productivity of our store portfolio. And finally, we successfully transitioned to a distributor model in all our targeted international regions while expanding into new markets. With this shift, our international business is now set up for profitable, scalable growth.

Looking at our Q4 performance, we wrapped up 2024 with another quarter of strong execution. During this period, we took a focused approach by limiting new product introductions, making sure that our select launches aligned with our long-term strategy. As planned, we scaled back year-over-year marketing spend in Q4, prioritizing investments in lower-funnel tactics while setting the stage for top-of-funnel brand marketing in 2025 - I'll get into that more in a bit. On the promotional side, we stayed competitive during the holiday season, driving strong conversion on key days while also reducing our overall days-on-promotion by nearly 20% compared to last year. Most importantly, we maintained financial discipline, putting us in a strong position heading into 2025 with the flexibility we need to execute our plans.

With that in mind, we have a lot for the consumer to look forward to in 2025. Our teams are fully aligned on what matters most - making great products, telling great stories, and creating an engaging shopping experience for our customers. Their dedication to this turnaround is truly inspiring. We all want to win, and they're putting in the hard work to make it happen.

When I started in this role a year ago, my top priority was igniting our product engine - and we've made faster progress than I anticipated.

Overhauling a product engine takes time. You need the right team, a clear strategy, and the discipline to execute. We have moved quickly to get our product engine humming. Our new design studio in San Francisco is turning out design after design, while our development center in Vietnam is delivering new concepts, materials, and prototypes every day. It's an exciting time at Allbirds, and the work we're doing now will come to life in the back half of 2025 and into 2026.

This fall, we're planning to launch a refreshed lineup of core products, headlined by an updated Runner - our brand's most iconic franchise. At the heart of this refresh is our signature gray heather wool, reinforcing our ownership of the Runner silhouette and celebrating a color our customers know, love, and buy in high volume.

Shortly after the Runner launch, we expect to introduce a new court-inspired shoe, designed for all-day comfort and versatility, available in more than 18 colors. Then, as the weather turns cold and wet, we'll roll out our first fully waterproof collection, alongside a cozy lineup of slip-ons - perfect for at home and holiday gifting.

In total, our Fall '25 lineup will bring a much broader range of products and colors than the year before, and we can't wait to get them on people's feet.

As we gear up for the Fall '25 season launch, we'll be deploying a multi-tiered approach to marketing to bring the Allbirds brand back to the forefront by actively engaging in the cultural conversation.

At the top of the funnel is our new brand campaign, *Cards on the Table*, created in collaboration with Academy Award nominated actor Stanley Tucci.

We developed a four part, long-form series intended to create narratives that pull in our customers and make them feel connected to our brand in a way that lasts. The series brings together a carefully curated mix of unexpected guests - each known for their curiosity, creativity, and authenticity - values at the heart of our brand. Hosted by Stanley, these "dream dinner parties" spark personal, unscripted conversations that offer our audience a rare glimpse into the lives of a diverse group. From a Formula 1 driver and a Michelin Green Star chef to a world-renowned physicist and an Emmy Award-winning comedian, the lineup is as dynamic as the stories they share.

The first episode aired March 4, featuring television host and designer Tan France, Formula 1 driver Carlos Sainz, and pop icon Melanie C. This series reflects the warmth, authenticity, and creativity we want people to associate with Allbirds. In addition to running this on Allbirds' social channels and sites, we've partnered with Rolling Stone for distribution on their YouTube channel, bringing the series to an even wider audience. Initial results around consumer sentiment, engagement and reach have been extremely positive. In week one, our organic social reach exceeded 5 million viewers, and earned media coverage of the series had a combined potential reach of over 1 billion.

We're also running a more traditional marketing campaign throughout Q2, spotlighting three seasonally relevant shoes under the *Allbirds by Nature* platform. One example features chef and Emmy-nominated *Top Chef* host Kristen Kish wearing our Tree Runner Go. As a longtime fan of the brand, Kristen embodies our ethos of drawing inspiration from nature while also offering broad consumer appeal.

And finally, to complement these brand investments, we're refining our performance marketing strategy to drive stronger returns. By aligning our upper-funnel efforts with both traditional and performance marketing, we expect to expand brand awareness, increase traffic, and boost conversion.

That brings us to the customer journey - creating a shopping experience that's easy, enjoyable, and seamless, whether online or in stores.

At the center of this effort is a redesigned website, which we expect to launch in the back half of the year. The new site will more effectively showcase our updated brand language and product architecture, making it easier to navigate and more inspiring to shop. We'll be improving landing and product pages to highlight key features while also offering styling inspiration - something our customers have been asking for. With one-step checkout, faster load times, and a major content upgrade, the experience is being designed to feel frictionless from start to finish. We expect these improvements to drive a meaningful increase in conversion.

Next, we've started prototyping an updated Allbirds store presentation at our San Francisco location, making the space feel more engaging to shoppers. The updates will give us the flexibility to tell different stories - whether it's about use occasion, materials, or color - providing customers new ways to experience and connect with our products. Our store team has seen a notable shift in how customers interact with the space, and we expect to finalize the prototype by the end of Q1 and start rolling out the new concept to select locations throughout the year.

We have a lot to look forward to in 2025, but there is no question we're operating against a challenging macro backdrop that is pressuring consumer behavior. This is reflected in our Q1 sales guidance. The full year outlook we're providing today anticipates a return to top line growth in the fourth quarter of 2025 as our initiatives take hold. As our three key focus areas of product, marketing, and experience come to life, the changes we have made will be impossible to miss. Those who already know Allbirds will see a sharper, more focused brand, and for those discovering us for the first time, they'll find a modern lifestyle footwear brand that connects on a rational, emotional, and cultural level.

I have tremendous confidence in our teams to execute our plan, and take the bold actions needed to claim our position in the market. We believe the work done to strengthen our operating model over the past two years and the plans we're actioning around product, marketing and experience, have us on a path to long-term profitable growth. We have the bench strength and balance sheet to continue advancing our strategies, and remain committed to building lasting value for our shareholders.

With that, I'll turn it over to Annie to walk us through the financials.

Annie Mitchell, CFO:

Thank you Joe, and good afternoon everyone. We are pleased to conclude 2024 with Q4 results in line with our expectations on the top line and slightly above on the bottom line.

Net revenue for the fourth quarter totaled \$56 million, at the mid-point of our guidance. As planned, we reduced the number of days on promotion versus a year ago, while remaining competitive during the holiday season. Our Q4 sales decline also reflects international distributor transitions and retail store closures. The full year impact of these actions was just over \$22 million.

Gross margin of 31.3% can be traced to several factors - most of which are having an outsized impact on margin due to the smaller sales base in Q4. Let me unpack these for you. The first impact is coming from inventory adjustments, which were isolated to Q4. Next, although we lowered our year-over-year promotional levels, conversion on sale days was stronger than we anticipated. Third, we incurred incremental air freight. And lastly, we had our highest mix of international distributor sales to date. As a reminder, these sales carry a lower gross margin, however they have a higher flow through to the bottom line.

Turning to expenses, our teams did an exceptional job of controlling costs throughout the year. Q4 SG&A dollars, excluding stock based compensation and depreciation and amortization, totaled \$24 million. That's down 24% versus a year ago, driven by lower occupancy costs and personnel expenses. We closed 1 additional store in Q4, bringing the total number of US closures to 15 in 2024. Subsequent to quarter end, we closed another five retail doors. We are pleased with our progress on this front and will continue to opportunistically evaluate our fleet going forward.

Fourth quarter marketing expense totaled \$12 million, or 22% of net revenue. As planned, this was down 17% on a dollar basis compared to prior year and reflects our strategic decision to hold back top of funnel spend until the first quarter of 2025. More on this shortly when I discuss our financial guidance.

Q4 adjusted EBITDA was better than our expectations, coming in approximately flat to last year at a loss of \$19 million.

Turning now to the balance sheet and cash flow. The Company remains in solid financial condition with cash and cash equivalents of \$67 million and no outstanding borrowings under our \$50 million revolver. We ended the year with inventory totaling \$44 million dollars. That's down 24% versus a year ago and allowed us to enter 2025 with healthy overall levels. Q4 operating cash use of \$11 million was approximately flat on a sequential basis. Given our inventory and cash balances, we are well positioned to execute against our plans. We expect improvement in operating cash use in 2025. From a working capital perspective, I would point out that consistent with prior years, we anticipate that Q1 will be our seasonal peak. That reflects the combination of normal course payables in our smallest sales quarter, as well as our strategic decision to invest in upper funnel marketing ahead of our second half product launches.

Moving now to financial guidance.

For full-year 2025, we expect the following:

- Net revenue of \$175 million to \$195 million, which includes approximately \$18-23 million of negative impact associated with our distributor transitions and store closures. Stripping out the impact of those structural changes, net sales are expected to grow approximately 10% at the midpoint versus 2024. For added perspective, we anticipate the impact will be spread roughly evenly across Q1 to Q3, with slightly less impact in Q4. Looking at the top line by region, we expect U.S. net revenue of \$145 million to \$160 million and international net revenue of \$30 million to \$35 million.
- Adjusted EBITDA loss is expected to be in the range of \$(65) million to \$(55) million.

From a cadence perspective, we expect the year to be second half weighted - returning to top line growth in the fourth quarter driven by our product and marketing initiatives, which Joe discussed. For modeling purposes, a few areas to highlight.

- As you think about our gross margin profile, we expect to achieve year-over-year improvement in 2025. On a full year basis, we anticipate that gross margins will be in the mid-40s but there will be some phasing, which I'll unpack for you. First, there will be notable pressure in Q1 due primarily to channel mix and the sunsetting of product as we prepare for our new assortments in the second half. Following Q1, we expect gross margin to ramp throughout the year, as our second half product has been designed with better margins.
- Looking at opex, we're very pleased with the work our teams have done on the cost side and view our Q4 2024 levels as an appropriate run-rate going forward.
- Lastly, after two years of reduced marketing spend during our transformation, you can expect to see increased investments in 2025. We plan to be up both in dollars and as a percentage of sales on a full year basis, with variances quarter to quarter. Most notably, Q1 will have a disproportionate amount of spend due to the brand campaign we just launched.

Turning now to our first quarter guidance, net revenue is expected to be in the range of \$28 million to \$33 million, down 22% at the midpoint versus prior year. U.S. net revenue is expected to be \$22 million to \$25 million and international net revenue is expected to be \$6 million to \$8 million. Adjusted EBITDA loss is expected to be in the range of \$28 million to \$25 million, reflecting the puts and takes I just described.

When thinking about 2025, this really is a tale of two halves. We are confident that our investments in the first half will support second half improvement in trend and position Allbirds to return to top line growth in the fourth quarter of this year, setting us up to deliver long-term profitable growth.

We appreciate your time this afternoon and will now open the call to questions.