ALLBIRDS Q3 PREPARED REMARKS

Katina Metzidakis, VP Investor Relations and Business Development

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

Before we start, I'd like to remind you that we will make certain statements today that are forward-looking within the meaning of the federal securities laws, including statements about our financial outlook, 2022 and medium-term guidance targets, impact and duration of external headwinds, our simplification initiatives, 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, for a more detailed description of the risk factors that may affect our results.

Also, during this call, we will discuss non-GAAP financial measures that adjust our GAAP results to eliminate the impact of certain items. These non-GAAP items should be used in addition to and not as a substitute for any GAAP results. Unless otherwise noted, we will be speaking to adjusted net revenue, which is a non- GAAP financial measure, when referring to net revenue during today's call. During today's call we will also be referring to our Active Customers. Active Customers are defined as the total number of unique customers who have made at least one purchase in the preceding 12-month period, measured from the last date of such period. 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'll turn the call over to Joey to begin the formal remarks.

Joey Zwillinger, Co-Chief Executive Officer

Thank you Katina and good afternoon everyone.

I'd like to start us off today by taking a moment to commemorate the one year anniversary of our IPO, which was a critical step in building Allbirds into a defining global brand for this century. And what a year it's been! Despite the external headwinds and uncertainty, it has been a year full of wins, including cutting edge materials innovations, a deep pipeline of new style introductions, the addition of our new third party channel, and the launch of our ReRun program to enable a circular economy for our products. And through it all, we remain on track to deliver on <u>all</u> commitments from our Sustainability Principles & Objectives Framework that we outlined in our S-1, and we continue to lead the conversation on sustainable in the footwear and apparel industries. I could not be more proud of what our brand stands for, the incredibly passionate team and culture we have built, and our fiercely loyal customer base. Needless to say, Tim and I remain tremendously optimistic about the future of Allbirds.

Before digging into the quarter, I want to provide a bit of context on the consumer environment as I see it. Back in Q2, thanks to our direct relationship with our customers and sophisticated data platform, we believe we were early to identify changes in demand signals. Our diagnosis of the market is playing out as we expected and we entered the third quarter prepared for the demand environment. Thanks to these insights, coupled with some great work from our team, I am proud to report that we exceeded our Q3 adjusted net revenue and adjusted EBITDA guidance targets, while taking market share *and* delivering on our sustainability goals.

Since we last spoke, we are seeing increased choppiness in the external environment, in addition to worsening FX headwinds and extended COVID lockdowns in certain areas of China. We expect Q4 to be negatively impacted by persistent inflation and high levels of promotional activity, which will impact our US business, along with a weaker consumer backdrop in Europe, and worsening FX headwinds. In fact, we are preparing for a scenario in which consumer headwinds worsen in the coming months, as the full impacts of these myriad market dynamics are fully digested by consumers.

We have taken this complex operating environment as an opportunity to streamline processes and optimize our cost structure, and continue to execute against the Simplification Initiatives announced during Q2 while also investing in a customer experience that we believe best positions our business for continued growth with meaningful adjusted EBITDA improvement in 2023 and beyond. On the balance sheet, the high quality, evergreen nature of our inventory has allowed us to tighten our open to buy - something we'll continue to do going forward, targeting increased turns to free up working capital and increased margin from lower holding costs. Despite a cautious outlook consumer demand given the economy, we expect a meaningful increase to inventory turns in 2023 as these initiatives fully take hold. These points validate my belief that the actions we took last quarter were the right things to do at the right time.

Looking ahead to this Holiday season, we expect the external environment to be the most promotional we have experienced since launching the company in 2016. Despite that, we have prepared a great product roadmap alongside the right mix of inventory, and we've coupled that with a strong holiday marketing campaign. Taken together, I feel confident as we head into this all-important season despite the noisy external environment.

While we are taking a more conservative approach to planning our business, we continue to prudently invest behind our three Growth initiatives:

1. expanding and energizing our product portfolio;
2. growing our store fleet; and,
3. scaling our international business

Starting with product, we are incredibly proud of our recent launch of plant leather, a first of its kind innovation, performing similarly to bovine leather but with a 100% plastic-free material. This is a key point of differentiation from other leather alternatives. Our first product with Plant Leather was on a new silhouette called the Pacer, which provides our customers with an elevated sneaker style, expanding the use occasions where consumers can select a pair of Allbirds. We also have good product flow for Holiday that we expect our customers to love.

Moving to stores, our owned retail channel grew net revenue 49% year-over-year. We opened 8 new stores during the quarter, including 6 in the US. It's important to note that nearly half of our current store fleet is still in the ramp up phase, which has historically taken around 4 quarters to reach revenue maturity – however, that sales ramp up is taking longer right now given the macro headwinds. Our stores remain a powerful acquisition tool, allowing us to gain leverage on marketing spend to lower customer acquisition costs, increase the penetration of valuable omni-channel repeat customers, and are ultimately the best expression of our brand. Our US stores maintain an impressive NPS score of above 90, which we believe positively correlates to repeat purchase and the health of the Allbirds brand.

That said, we continue to be negatively impacted by traffic levels that remain below pre-COVID levels. The slow traffic recovery appears to be consistent across our industry, and though we believe that we will recover the majority of this traffic, the timing of that recovery is unclear given the operating environment.

Wrapping up on retail, even in a choppy environment, we continue to see an overall uplift in omni-channel sales in markets with stores, above what we see in e-comm-only regions.

Turning now to third party, I am happy to report that we are tracking ahead of our expectations with strong early sell-throughs. We are thrilled to have added REI as our most recent retail partner, along with their 20 million-plus co-op members. REI's belief in the transformational power of nature and their dedication to climate action aligns perfectly to our goal of making better footwear and apparel products in a better way. I am also pleased to announce that we will be furthering our partnership with Dick's Sporting Goods beyond the company's Public Lands banner. In the coming weeks we will enter DSG's newest House of Sport format – which delivers a fantastic customer experience – in three doors, and intend to expand to other DSG core format stores beginning in Q1. We are taking a methodical approach to develop unique and compelling stories for customers with each of our marquee partners. Our Center Stage activation at Nordstrom was a great example, as is the holiday activation that we currently have in REI flagships. At just over 100 doors, we have a long runway of potential growth ahead of us in third party.

Similar to our direct retail strategy, a key tenet of our third party strategy is to use the channel to meet consumers who have not yet heard about our wonderful brand and fantastic products. We believe that our third party footprint is already increasing new customer acquisition and brand awareness. In fact, we have found very little overlap between our direct-channel customers and those of our third party partners - providing a fantastic runway and opportunity for brand discovery.

As we noted last quarter, the journey we take to achieve our strategic and financial goals may shift but the destination looks the same. In a time of significant volatility we continuously evaluate our channel strategy to determine the optimal balance between third party and owned retail stores. As we plan growth across our channels, including digital, stores, and third party, we will be conscious of and deliberate on the balance between topline growth, profitability, and capital efficiency. I look forward to providing more updates on upcoming calls as we continue along our journey and methodically grow the marketplace for our products.

Turning quickly to our international business, revenues grew nearly 11%, despite an approximate 1,500 bps YoY headwind from FX. Though we remain confident in the long-term demand in our international markets, as we mentioned last quarter, we are primarily focused on 5 key geographies as we continue to navigate this choppy macro environment: the UK, Germany, Canada, Japan and China. As an example of this focus at work, we are experiencing strong momentum in the U.K. despite the overall environment being challenged in Europe. During Q3, we saw over 20% growth in local currency – driven by solid comps in our established Allbirds stores in London, and positive initial response to our new Kings Road store. We also opened our Selfridges shop-in-shop, which is increasing brand awareness and driving sales.

In closing, I am proud of the work we are doing to build Allbirds into a generation-defining brand, and remain confident we can simultaneously drive efficiency into the business. Thank you for taking the time to be with us on the call today – with that I'll turn it over to Tim.

Tim Brown, Co-Chief Executive Officer

Thanks Joey, and good afternoon everyone.

As we look at what's happening in the world, never has it felt more important to emphasize our sustainability goals. We recently published our 2021 Sustainability report and I'm proud to highlight that while growing our revenue by 27% in 2021, we actually reduced our average product carbon footprint by 12%. Our teams are energized by our goal to cut our already low per product carbon footprint in half by 2025 and drive it to near zero by 2030. In support of this long term plan, we are proud to have made ground-breaking, tangible progress and set a new industry standard for others to follow.

We've done this by focusing on three key areas – regenerative agriculture, renewable materials, and responsible energy use – which have helped make 2021 a banner year towards meeting our brand promise for consumers.

- In Regenerative agriculture, we partnered with supplier New Zealand Merino and other brands to pave the way for regenerative wool in New Zealand through the ZQRx framework. To date, nearly 500 growers have signed up - representing 15% of New Zealand's farmland - committing to work with nature to continuously improve human, animal and environmental outcomes.
- In Renewable materials, we introduced our Tree Dasher 2 running shoe, reducing its carbon footprint by 5% by introducing a midsole that was 21% lighter and removing unnecessary components.
- And on renewable energy, in 2021 we procured 100% of our energy from renewable sources to meet our electricity use at manufacturers in the US and Vietnam. And across the globe, our manufacturing partners worked to install on-site solar at their facilities.

In addition, we increased our share of ocean shipping - which has a significantly lower carbon footprint than shipping by air - from 80% in 2020 to 84% in 2021 to over 90% this quarter . In addition to carrying a lower carbon footprint, ocean shipping has real benefits for our gross margin. This signifies the essence of our model - the more sustainable we are, the better our business is.

These are just a few of the many things we are up to and I encourage all of you to take a look at our latest sustainability report to see how we continue to lead the conversation in sustainable footwear.

Turning to product, Q3 was a big materials innovation quarter for Allbirds. We launched plant leather, a first of its kind leather alternative that is 100% plastic-free, 100% vegan, and exclusively contains natural materials like plant oils and agricultural byproducts. We also launched two lighter weight materials: woven wool and canvas, which make up a growing and robust suite of materials that we have worked hard to build. Moving forward, we will continue to inject these into our new and existing product franchises to expand and enhance the Super Natural Comfort experiences we offer.

Looking across our broader product portfolio, we have made meaningful progress in both performance and lifestyle this quarter.

- We remain very happy with our performance footwear portfolio. In fact, the Flyer was just recognized by Men's Health as a top running sneaker for 2022. We continue to see the Flyer franchise as another important step forward in building our performance credibility.
- In lifestyle, our new Pacer silhouette, which is available in limited supply in plant leather - broadens our lifestyle repertoire with a true court style shoe, providing additional use occasions for our consumers. We intentionally launched the Plant Pacer with limited supply and we are encouraged by the media and consumer reaction. We will continue to invest in growing this new franchise moving forward.

Continued style innovation will be paramount to our next phase of growth and play a key role as we move more into third party. I am also excited about our strong product pipeline going into holiday - including our recently launched cold weather run collection which combines our best-selling water repellant mizzle material and performance footwear, as well as our new fluff wool collection which is perfect for gifting and at the heart of our recently launched Holiday campaign focused on our core brand offering of Super Natural Comfort.

In closing, amidst all the volatility, we are continuing to do the hard work in material innovation and product creation and remain focused on leading the conversation on sustainability in the footwear space with great products made from Super Natural materials.

With that, I'll turn it over to Mike.

Mike Bufano, Chief Financial Officer

Thanks, Tim and good afternoon, everyone. I'd like to start by adding my thanks to our teams for focusing on controlling what we can control. Their execution led to a solid financial outcome in the quarter.

Adjusted net revenue increased 15% to $72 million, 19% when excluding the impact of FX. Let me break down the growth drivers:

- Starting with geographies, we saw balanced growth, with the US up 17% and International up 11%, 26% when adjusted for FX.

- Looking at channels, third party was a significant growth driver and represented a middle-single digits percent of revenue mix. We continue to expect third party to be an EBITDA accretive growth driver in 2023.
- Looking at revenue growth through a customer lens, in our direct business, orders increased 16% and average order value was up 2%.
- I'd like to go deeper and provide some granularity on active customers, which we view as a good indication of the health of our brand and business.
    - In Q3, active customers increased 12% on a year over year basis, roughly in line with the trend we saw in Q1 and Q2. In addition to strong growth in active customers, we have seen steady increases in spend per customer.
    - We saw gains across active customers in both digital and retail. As you'd expect with more stores in 2022, retail was the bigger driver. As Joey noted, our stores build brand awareness, efficiently acquire new customers, increase repeat rates of existing customers, and drive omni-channel customer LTV.
    - We view our consistent growth in active customers as a strong indicator of brand health and an important proof point that our growth pillars are helping us build a durable business for the medium and long term.

Moving on to adjusted gross margin, Q3 came in consistent with expectations, at 47.6%. Business segment mix away from our gross margin accretive international business, an increase in third party sales, and COVID-related cost headwinds were partially offset by increased ocean shipping and a modest early benefit from our Simplification Initiatives. We also experienced modest pressure from our previously discussed strategic increase in promotional activity, which partially offset some of the benefit of our price increase. We continue to believe that we need to respond to this highly competitive environment and meet customers where they are. Importantly, customers that we have acquired through promotions continue to behave similarly to prior cohorts.

Finally, our adjusted EBITDA was negative $12.7 million. We benefited from tight SG&A control tied to the Simplification Initiatives, as well as lower marketing spend. Marketing decreased both sequentially and on a year over year basis due to increased efficiencies in our digital channels and the shift of some marketing spend from Q3 into Q4.

Again, we feel really good about delivering this result in Q3.

Moving to the balance sheet, we ended Q3 with $127 million of Inventory, which was up 3% from the end of Q2. In transit inventory accounted for over 1/3 of that inventory but has come down slightly compared to Q2. Included in that $127M is about $5M of end of life products that we are continuing to liquidate as part of the Simplification Initiatives. We feel good about the makeup of our inventory, the vast majority of which is core, evergreen footwear.

As mentioned during our last call, we have begun to buy tighter on core footwear as we plan for a more uncertain consumer demand backdrop into 2023. Tighter buying, coupled with our selective promotional strategy, is expected to reduce inventory levels and improve turns.

With mid-teens revenue growth this year, a structural slowdown in SG&A spending due to the Simplification Initiatives, and improved inventory turns, we expect free cash flow to improve and and believe our Q3 ending cash position of $181M is more than ample to fund our growth initiatives for the foreseeable future.

Before leaving Q3, I would like to provide an update on the Simplification Initiatives announced last quarter. These initiatives have set us up to continue delivering top line growth while keeping us on a path to reach our profitability and cash generation targets. I'll walk through the initiatives and provide updates on each:

- The first initiative is investing in our supply chain to reduce both costs and our carbon footprint.
  - Later this year, we will commence production with a new factory partner. The full impact of this change will flow through the P&L in 2024 but we expect to significantly decrease our landed product cost on a run rate basis in early 2023.
  - I am also pleased to report that just last week, in the US, we successfully transitioned to our automated distribution centers and new dedicated returns processor. Taken together, these changes have already provided greater logistics cost predictability for Q4 and we would expect to see a positive impact on gross margin in 2023.
- The second initiative is streamlining our organizational structure and reducing SG&A to free up resources to continue to invest in areas that are critical for demand generation. We are on track to deliver the previously communicated corporate SG&A savings targets of $4 - $5M in 2022 and $13M - $15M of annualized savings starting in 2023.

- The third initiative is the one-time liquidation of end of life inventory, which is proceeding as we expected.
- Overall, we are on track with the Simplification Initiatives and continue to expect the total non-recurring net costs associated with them to be $(18) - $(24)M. To echo what Joey said earlier: It is clear to us that these actions were the right thing to do at the right time.

I'd like to now turn to our guidance targets for the rest of 2022, which exclude any non-recurring revenue and costs associated with the Simplification Initiatives.

Our 2022 annual guidance target ranges remain unchanged.

- We continue to expect Adjusted Net Revenue of $305 to $315 million, up 10% to 14% vs 2021, 13% to 17% excluding the impact of FX.
  - This implies a Q4 range of $92 to $102 million, which when compared to Q4 2021, is a range of (5)% to +5%.
  - We expect the US and International to grow at roughly similar rates in Q4.
- For Adjusted Gross Profit, we continue to expect a range of $150 to $157.5 million. The midpoints of our Revenue and Gross Profit targets represent an Adjusted Gross Margin of 49.6%.
- We also continue to expect adjusted EBITDA of negative $42.5 to $37.5 million.
- One model update is that we are now expecting to open 22 net new stores, up from 16-17, as a few projects finished faster than anticipated. By the end of 2022, we expect to have 57 total stores, 42 in the US and 15 Internationally. These additional openings will modestly pressure Q4 adjusted EBITDA.

Speaking of Q4, like everyone else leading a consumer business right now, we're parsing through all the crosscurrents that are impacting spending this holiday season. I'd like to share a few thoughts on how we're viewing Q4 and what we're doing in response.

In our business, Q4 is historically the highest sales volume quarter of the year, with November and December alone accounting for over 25% of full year sales in 2021. So far in the quarter, consumer spending habits and traffic have been notably choppy, especially in the US. Our read is that the impact of high inflation and recession fears is creating more cautious behavior and we believe consumers will buy closer to need as they wait for promotions this holiday season. This is different than last year when spending started earlier because of headlines about supply chain delays.

Our Q4 guidance targets assume an improvement versus our quarter to date trends. We feel confident in that improvement because we have what we believe to be our best holiday marketing and product campaign in our company's seven year history. We have to meet consumers where they are right now and factor in the competitive environment, so our broader marketing strategy for the season includes an enhanced promotional calendar. Depending on how the season plays out, we could end the year at full price sell through of 80-85%. That remains much better than industry peers but below the 85-90% we communicated on the Q2 call. I'd also like to remind everyone that in the retail channel, we will begin lapping weeks that were pressured by Omicron later in the quarter.

Finally, there are several additional external macro factors we are considering as we look at the quarter:

- One, we continue to see increasingly negative FX headwinds. Indeed, our current Q4 estimate is that the year over year FX impact is now $4M - $5M, which is a couple million worse than what we factored into guidance last quarter. Given the volatility in rates, there is potential for further headwinds in the next two months.
- Two, we continue to see volatility in our China business due to the consumer spending ripple effects of rolling COVID lockdowns.
- And, three, there is risk that US consumer spending does not bounce back and could moderate further.

Taken together, we believe all of these factors create increased risk of our Q4 results coming in at the lower end of our guidance target ranges.

In closing, while this is a really tough operating environment, we continue to feel confident about how we are positioning our business for the future and our ability to become better operationally, deliver on our sustainability initiatives and take share. Through our thoughtful approach to our supply chain, operating structure, and processes, we have built a stronger and leaner infrastructure. We believe these actions, coupled with our three growth pillars and our intense focus on cash management, position us to drive the business toward our medium term profitability targets and create shareholder value.

Thanks for your time. Operator, please open the line for Q&A.