

Allbirds
Q1 2025 Earnings Call Prepared Remarks
Thursday, May 8, 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.

During this call, we will be making comments of a forward-looking nature. Actual results may differ materially from those expressed or implied as a result of various risks and uncertainties. For more information about these risks, please review the company's SEC filings, including the section titled Risk Factors in our Report on Form 10-K for the year ending December 31, 2024, for a more detailed description of the risk factors that may affect our results. These forward-looking statements are based on information as of May 8, 2025, and except as required by law, we assume no obligation to publicly update or revise our forward-looking statements.

Additionally, we will be discussing certain non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for measures of financial performance prepared in accordance with GAAP. A reconciliation of our non-GAAP measures to the most directly comparable GAAP measures can be found, 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 everyone, thanks for joining us today.

We're pleased to report another quarter of progress on our path to growth and profitability. Our first quarter results were in line with our expectations on the top line and exceeded guidance on the bottom line.

As we move through 2025, the foundational work we've done over the past year—including reducing our retail footprint, transitioning international markets to a distributor model, right-sizing inventory, and lowering costs—is now coming together with our efforts in Product, Marketing and Customer Experience.

Together, we believe these workstreams will build momentum toward a meaningful inflection point in the back half of the year. Our refreshed product line will begin reaching the market in late summer and is expected to support our anticipated return to top line growth in the fourth quarter. Early reads on our product and marketing initiatives give us confidence that we're on the right path.

While our teams remain focused on executing our 2025 plans, we're also navigating an evolving macro environment driven by shifting global trade policies. Annie and I will speak to that more directly in just a few minutes.

Before we get to that, I'll walk you through updates on each of our three key focus areas - making great product, telling great stories and creating an engaging shopping experience.

First, product is our most important growth driver. Our product engine is now fully staffed, sharply focused, and operating at a high level. When the first results of our work reach the market in the back half of the year, you'll see a mix of reintroduced icons, refreshed favorites and entirely new categories that position us for long-term growth.

Our fall lineup is the strongest and most diverse we've ever assembled. It spans casual, elevated, and relaxed silhouettes – brought to life with modern design, unique materials, and the signature Allbirds comfort our customers expect from us. Call-outs include updates to our Runner franchise and the debut of the Cruiser, a new court-inspired silhouette made from recycled wool and offered in nearly 20 colors. Next will be the introduction of a new subcategory called Remix – products that feature materials made with ingredients otherwise destined for landfill. It's a strong expression of our ongoing commitment to sustainability, delivered through versatile design for everyday wear. Another first for Allbirds is a fully waterproof collection that looks amazing. We've designed a beautiful, versatile and functional collection of shoes our customers have been asking for.

We're also planning to introduce two new collections that we believe represent significant long-term growth opportunities. The first is what we are calling "Elevated" – shoes that bring sneaker-level comfort to more dressy and professional settings. Through carefully considered silhouettes, materials and color choices, we're tapping into a clear and growing trend that will be represented in sneakers for men and flats for women. At the other end of the spectrum, we're responding to the rising desire for extreme comfort at home with a collection we are calling "Relaxed," with styles that feel so great around the house that you can't help but wear them around town. This introductory collection will be distinctly Allbirds in aesthetic and material.

We're deeply committed to bringing new products to market because we believe it's essential to unlocking growth. Early validation in our Q1 results reinforces our conviction that when we deliver what our customers want, it can drive meaningful and sustained momentum. A recent example is the Canvas Piper, a subtle variation on a silhouette we introduced last year, which quickly became one of our top sellers. Its success underscores the demand for clean, versatile everyday sneakers. As well, our new Utility pack, a more rugged, functional design, has performed well right out of the gate. Even with a relatively light flow of new launches, the percentage of sales from new products has grown steadily, rising from the high-single-digits in January to over 20% in March. We look forward to introducing a broad range of new assortments to consumers this fall, and believe they can be a meaningful driver of growth for our business.

With all the new products coming it is important that we keep a sharp eye on our inventory. We've taken steps to optimize our inventory position ahead of our upcoming launches. Initial buys have been conservative, and we're maintaining a disciplined approach to inventory management given the current macro environment. This posture allows us the flexibility to read consumer signals in real time and lean into areas of momentum as we move through Q3 and Q4.

Earlier this year, we began reintroducing the Allbirds brand through a mix of brand-building, traditional, and performance marketing. At the top of the funnel, our Cards on the Table series – hosted by Stanley Tucci – has been a standout. When we spoke to you on our year-end earnings call, the series had just launched. Since then, it has generated over 25 million Instagram views, including 15 million unique viewers, and more than 1 million views on YouTube. On social, collaborative posts from partners like Stanley Tucci, Rolling Stone and Carlos Sainz have outperformed benchmarks – generating up to 100x our average reach. This early success confirms the power of storytelling and the cultural resonance of the diverse voices featured. Just as importantly, they reflect Allbirds' core values and help re-anchor the brand with purpose and relevance.

Building on that momentum, we're increasing the volume and range of content to support our hero products and seasonal launches in the months ahead. Still under the Allbirds by Nature banner, our messaging will reinforce four key attributes: comfort, style, quality and sustainability. Comfort remains foundational, but we'll also help consumers see how our products fit into a variety of real-life occasions – responding to a clear desire for more styling inspiration. Layering on strong proof points around durability and sustainability helps create a well-rounded story – one that can be told consistently over time.

As we talked about last quarter, we have been focused on optimizing our performance marketing strategy, and those efforts are beginning to show tangible results. In the initial four weeks, key e-commerce metrics improved meaningfully versus the prior year: CAC was down, New Customer Acquisition accelerated, and conversion rates were up.

Together, all these efforts reflect a marketing strategy that's both emotionally resonant and commercially effective – designed to build long-term brand equity while delivering measurable impact.

The final piece of the puzzle is creating a standout experience, whether customers shop with us online or in-store. Our efforts to elevate that experience are well underway. On the digital side, our website redesign is on track for a summer launch, featuring richer storytelling, more dynamic product detail pages and a smoother, more intuitive shopping journey. In retail, we've been piloting a refreshed store concept at our Hayes Valley location in San Francisco. Updates to layout, fixtures, navigation and visual merchandising have created a space that's warmer, more welcoming and much easier to shop. These improvements require minimal investment but deliver outsized impact. Early results have been strong, driving increased engagement and

higher daily sales. We're now rolling out this new format to two additional locations ... our SoHo store in New York City and the Stanford Shopping Center store in Palo Alto. We plan to build on our key learnings and expand the concept across more stores in the coming quarters.

Now, turning to the macro environment. While the current tariff landscape adds complexity, our team is well-equipped to navigate these dynamic conditions, drawing on years of industry experience. With the majority of our manufacturing based in Vietnam, we're proactively managing potential cost-of-goods pressures through tighter inventory buys and ongoing evaluation of future pricing opportunities. At the same time, our growing international distributor business helps mitigate exposure to U.S. tariff impacts.

Meanwhile, traffic and conversion across the consumer landscape have been reported as choppy since early April, and we've seen similar trends. Near-term consumer behavior is difficult to predict and supply chain disruptions may occur as the broader market adjusts to new tariffs. Despite this, we remain cautiously optimistic – mindful of the burden on consumers, yet encouraged by our strong execution and the positive early indicators I just talked about.

Assuming we do not see a material shift in the macroeconomic environment or broader consumer demand in the coming quarters, we believe we are positioned to return to top line growth in the fourth quarter of this year.

We are grateful to our teams across the company for their resilience and commitment; we simply would not be approaching this next chapter without their contributions. We also thank our shareholders for their continued support and remain focused on building long-term value.

Now I'll turn the call over to Annie to review the financials.

Annie Mitchell, CFO:

Thanks Joe and good afternoon everyone. We continued to deliver strong execution in Q1, with top line results that were in line with our guidance and Adjusted EBITDA that exceeded our expectations.

Net revenue for the quarter totaled \$32 million, slightly above the midpoint of our guidance. Similar to what we've seen across the consumer landscape, the quarter was generally choppy with some improvement in sales trends in March compared to the first two months of the year.

Q1 gross margin was 44.8%. That's down 210 basis points to last year but ahead of our expectations. Let me unpack that for you. First, as we expected, there was notable pressure on Q1 gross margin due to a higher mix of sales from our international distributors and the sunsetting of product as we prepare for our new assortments in the second half. In addition to these factors, gross margin was also impacted by higher per unit freight costs in our direct business. These drags on margin were partially offset by approximately \$2 million of gift card breakage, which translated to a benefit of about 400 basis points in the quarter.

From a tariff perspective, we have multiple levers we can pull to protect gross margin. Based on the assumptions in our baseline scenario, we continue to expect that we can deliver gross margin in the mid-40s for full year 2025. This assumes a continuation of the 10% incremental tariff on Vietnam goods following the 90-day pause. We're confident that our scenario planning and the mitigation tactics we've developed leave us prepared to navigate the evolving tariff landscape.

- First, we've reduced our initial inventory purchases for fall '25, as well as our buy plans for spring '26, where we will have the flexibility to chase into goods as needed.
- Next, because the majority of our product offerings will be new starting this fall, we have the ability to go to market with modestly higher prices.
- Lastly, in addition to these factors, over-performance on the bottom line in Q1 provides us with added flexibility to navigate the current environment.

Turning now to expenses, our teams continued to exercise strict cost control. SG&A was down more than \$14 million versus Q1 2024. The year-over-year improvement is attributable to lower occupancy and payroll costs and our transition to international distributors. During Q1 we closed five retail stores and had one additional closure subsequent to quarter end. That brings us to a current US store count of 24.

Marketing expense in the first quarter totaled \$12 million or 37% of revenue. That's up year-over-year on both a dollar basis and as a percentage of revenue. The increase is primarily due to planned investments related to our upper funnel marketing initiatives. Hopefully you have all had an opportunity to enjoy our Cards on the Table series! As Joe mentioned, we're quite pleased with the initial traction we're seeing, including lower customer acquisition costs and higher returns on spend. We continue to expect that marketing expense on both a dollar basis and as a percentage of sales will increase on a full year basis compared to 2024, with variances quarter to quarter.

Q1 Adjusted EBITDA loss of \$19 million reflects a year-over-year improvement of 11%. This exceeded our guidance range by about \$5 million, primarily reflecting better than expected gross profit and strict cost control.

Moving to the balance sheet, at quarter end we had \$39 million in cash and cash equivalents and no outstanding borrowings under our \$50 million revolver. We are pleased to be operating from a strong financial position, with the runway to continue executing against our product and marketing plans.

We ended the quarter with \$43 million dollars in total inventory, down 29% versus the year ago period. We are pleased to be in a healthy position and remain focused on carefully managing inventory as we prepare for our new assortments arriving in late summer. As we navigate the tariff landscape and ongoing macro challenges, we are maintaining the flexibility to read and react.

During the quarter, operating cash use totaled \$28 million, reflecting peak seasonal working capital needs, as well as strategic investments to support the launch of our marketing campaign.

Turning now to guidance.

Given the evolving global trade policy and how that may impact consumer sentiment and spending, the outlook we're providing today assumes two key factors: 1) the 10% incremental tariff rate on Vietnam continuing through the end of the year and 2) no material worsening of the macroeconomic environment or broader consumer demand trends.

We continue to expect the year to be second half weighted, driven by the lineup of new product offerings coming to market beginning in late summer, supported by our full funnel marketing initiatives. We are reiterating our full year 2025 outlook as follows:

- We expect net revenue in the range of \$175 million to \$195 million, which includes approximately \$18 million to \$23 million of negative impact associated with our distributor transitions and store closures. For added perspective, we anticipate the impact will be spread roughly evenly across the first three quarters, with slightly less impact in Q4. Stripping out the impact of those structural changes, net sales are expected to grow approximately 10% at the midpoint versus 2024.
- 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.
- Full year Adjusted EBITDA loss is expected to be in the range of \$65 million to \$55 million.

We're also introducing guidance for the second quarter.

- Net revenue is expected to be in the range of \$36 million to \$41 million, down 25% at the midpoint versus prior year.
- U.S. net revenue is expected to be \$26 million to \$30 million and international net revenue is expected to be \$10 million to \$11 million.
- Adjusted EBITDA loss is expected to be in the range of \$19 million to \$16 million.

We are continuing to watch the consumer and will respond accordingly. Importantly, we remain on track to bring our updated assortment to the market beginning in late summer and look forward to keeping you updated on our progress.

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