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BARK, Inc. (BARK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for attending today's BARK's Fiscal Fourth Quarter and Full Year 2022 Earnings Call. My name is Hanna, and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Mike Mougias, Vice President, Investor Relations. Please go ahead.

Michael Mougias

Vice President-Investor Relations, BARK, Inc.

Good afternoon, everyone, and welcome to BARK's fiscal fourth quarter and full year 2022 earnings call. Joining me today are Matt Meeker, Co-Founder and CEO; and Howard Yeaton, Interim CFO. Today's conference call is being webcast in its entirety on our website, and a replay of the webcast will be made available shortly after the call. Additionally, a press release covering the company's financial results was issued this afternoon and can be found on our Investor Relations website.

Before we begin, I would like to remind you the following information regarding forward-looking statements. The statements made on today's call are based on management's current expectations and are subject to risks and uncertainties that could cause actual future results and outcomes to differ. Please refer to our SEC filings for more information on some of the factors that could affect our future results and outcomes. Also during today's call, we will discuss certain non-GAAP financial measures. Reconciliation to our non-GAAP financial measures is also contained in this afternoon's press release.

With that, let me now turn the call over to Matt.

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

Thanks, Mike, and good afternoon, everyone. This past year was significant for BARK. Our customer base grew rapidly. We became great at cross-selling more products to our customers, and we launched new and innovative products that expanded our addressable market by at least 10 times to over \$40 billion. We also took the company public and bulked up our balance sheet, ending this year with \$200 million in cash, putting us on solid footing for many years ahead.

Over the past two years through the pandemic, we nearly doubled our customer base and the number of orders we shipped, and we increased the value of our customer by nearly \$5 per unit shipped. While this growth is exciting, it also challenged us to scale in an unprecedented way. We made significant hires across our leadership team, we invested in our infrastructure, we upgraded our supply chain, and we enter this next fiscal year on a solid foundation with a path to profitability. We are now in position to become the preeminent dog company of the 21st century, so our best years are yet to come.

This year, we are focused on three priorities. Our first priority is to sell more food to BARK customers and to all dog parents. Our second priority is to become BARK. This means breaking down the silos between our five individual websites and serving our customer holistically. And our third priority is to make significant strides towards profitability. We believe that making meaningful progress across these three priorities will drive sustainable, long-term value creation for BARK, its customers, and its shareholders.

Before I discuss our strategy and roadmap for the year ahead in more detail, let me begin with our results in fiscal year 2022. Howard will then discuss our financial results in more detail. During fiscal year 2022, total revenue increased 34% to \$507 million, while our adjusted EBITDA loss came in at \$57.8 million. Our gross margins came in at 55.6%, which is four points lower than fiscal year 2021. Bringing our margins back to a fiscal 2021 levels of 59.7% is one of the most straightforward opportunities for us to improve as we aim for being a more profitable company.

On today's call, we'll talk about the purposeful actions we took which led to these results, and lay out the actions our team is taking to show improvement. We ended the year with 2.3 million active subscriptions, a 25% increase compared to fiscal 2021. Subscription shipments increased 28% to 14.9 million, while the average order value per shipment increased year-over-year by \$1.32, or nearly 5%, without a base price increase. That AOV gain was powered by the enhancements we made to our machine learning and cross-selling capabilities.

Cross-selling, which includes add to box, drove over \$30 million of revenue, a 66% increase over the prior year. Over the past five years, our cross-selling revenue grew at a 100% compound annual growth rate. We are also happy with the efficiency with which we acquired new customers. Our CAC last year was \$53.43, which is in line with the pre-COVID periods of fiscal 2019 and 2020. Compared to those years, we spent only \$0.07 more to acquire a customer this year, but today's customer is spending nearly \$6 more per unit.

Simply, we are acquiring much more valuable customers at the same cost. Our ability to efficiently acquire new, more valuable customers in an environment of rising CPMs illustrates the differentiated nature of the BARK platform. Specifically, we have millions of highly engaged customers who love and promote our products, over 9 million social media followers who provide significant reach at a low cost, and a brand that consistently delivers 95%-plus customer satisfaction scores, which fuels awareness through word of mouth.

Moving on, we also scaled our Commerce business in a meaningful way. We signed 23 new retail partners last year, including Walmart, Old Navy, and REI amongst others. BARK products are now available in over 40,000

retail doors across the country. In addition to expanding the number of retail partners and customers we serve, we also increased the number of SKUs and the types of products we sell through these partners. For example, we began selling BARK Bright at Petco and PetSmart last year. These partnerships significantly broaden our customer reach and awareness for the BARK brand. Millions of customers walk through these stores every day, and with BARK often on the end cap or prominently displayed in the pet aisle, we get valuable exposure to new customers. In fiscal year 2022, this business delivered \$59 million of revenue, a 32% increase versus the previous year.

Let me circle back to the items that impacted our gross margin and adjusted EBITDA last fiscal year. Since I stepped back into the CEO role in January, I've spent much of my time analyzing our business, looking for areas where we can improve revenue, reduce costs, focus our efforts, and make the business more efficient overall. One area I've been looking at is our inventory. There were some inventory that was no longer aligned with our strategic plans going forward, and I made the decision to write that off. We don't expect this to happen again in the foreseeable future.

In addition, as with any business, we experienced [ph] an account for (07:37) shrink and other inventory-related charges. Our charges were too high last year, and we've implemented additional controls in our planning function to better manage inventory going forward that we believe will reduce future levels of shrink. Altogether, we incurred charges of \$13 million in the fourth quarter and \$16 million for the full year 2022 related to these inventory-related adjustments, which adversely impacted our gross margin for the year. I'm highly focused on ensuring that our inventory remains current, tightly managed, and aligned with our current strategy.

Additionally, we incurred \$2.4 million of G&A expenses related to our donating 120,000 dog beds as part of our ongoing efforts to improve the lives of dogs around the world, including in Ukraine. Collectively, the charges related to inventory and donations pushed us below our EBITDA guidance for the year. Overall for the year, we built on our solid foundation, revamped our supply chain operation to accommodate future growth, rounded out a fantastic team, efficiently acquired over 1 million new high-value subscribers, and ended the year with roughly \$200 million in cash on hand, all of which sets us up for a strong future.

Let me now discuss our strategy and road map for the year ahead. Since our founding over 10 years ago, BARK has redefined an industry. We serve dogs and their people directly with products made specifically for their unique needs. And in the process, we acquired a substantial share of the \$3 billion dog toy market. Along the way, we created a category defining brand with millions of unparalleled customer relationships and unique data points on dogs and their people. We know the names, age, breed, weight, birth dates, play styles, allergies, and more for roughly 10% of the US dog population. This is a major competitive advantage for BARK, and it affords us an amazing opportunity to take the same approach to win market share in our newer categories.

We capture this opportunity by continuing to treat each dog as an individual, and by customizing the experience across every category. For BARK, customization at scale is possible as our data and technology enable us to get to know every dog, their preferences, and then reflect that in the assortment or offering we send to them. But just because it's possible doesn't make it easy. BARK has proven this capability at a meaningful scale, which is a real competitive advantage now that we are applying it in these new categories.

This year, our primary focus is on serving our over 6 million current and former customers. We know them, we know their dogs, and we can sell to them efficiently. They're also teaching us how to sell our new products. Selling food is different from toys or dental products. Until we experiment and learn the most effective ways to consistently cross-sell food to our existing customers, it isn't prudent for us to invest marketing dollars targeting a new food customer. Spending media dollars to grow food will happen, but it will only happen after we've learned

the most effective and engaging ways to cross-sell customers within our existing base. And that is what we are doing today.

When it comes to acquiring new customers, this year we are making a choice to target higher value customers who purchase across multiple product lines, and we are giving them an incentive to do so. For example, we recently started charging new BarkBox and Super Chewer customers \$3.99 for shipping. However, if you add our beef food topper, our BARK Bright Dental chews, or extra toys or treats at checkout, each of which sells for \$9 per month, your shipping is free.

We added these cross-selling opportunities in early May, and to date, we are thrilled with the results. It's not only accelerating our growth in the food and dental categories, but the incremental revenue and margin we're seeing from these sales are changing the unit economics of a BARK customer in powerful ways, as we hoped would happen. While it is still early days, these are very promising results. This is a small shift, but an important shift that extends the lifetime of a BARK customer and improves the margin contribution of each new customer.

In summary, we believe this strategy will drive sustainable growth for the business long term. We will convert more BarkBox customers to BARK customers, who are more likely to subscribe to multiple products. These customers produce a higher average order value, better customer retention, and stronger margins. We expect the evolution of our customer base to slow our revenue growth rate in the near term. However, we expect the customers we have this year to deliver higher lifetime value and serve as a tailwind to the business for years to come.

Let's now dive into the progress we have made across the three key priorities that we discussed in our previous earnings call: food, becoming BARK, and profitability. Let's start with food. We are approaching food with the same playbook that made BarkBox so successful, by viewing each dog as an individual and creating customized magical experiences for each and every customer. With BarkBox, this allowed us to build lasting relationships with millions of dog parents. And while it is still early days, our food business is following a similar path, which is encouraging.

This year, our focus is on tightening the product-market fit amongst our current and former subscribers and improving the unit economics. To that end, we are now close to rolling out a revamped food experience, informed by the feedback from customers over the past year. We'll have new packaging and a new format, a new website design, a greatly simplified sales process, an exciting new way to customize the product for individual dogs, and a timely pricing offer for customers. Look for all of that very soon.

To prepare for this upcoming release, over the past few months, we've been targeting different subsets of our customer base with different campaigns and products. One example of what's to come is we've recently launched breed-specific marketing campaigns. We created meal plans targeted at customers with Pit Bulls, Labs, and Chihuahuas, based on the dietary needs of these specific breeds, and the early results are very encouraging.

The conversion rate for the Pit Bull campaign was over five times higher than campaigns where we didn't target by breed. Once again, we're learning that people are more likely to engage with content if the message speaks to them personally. We also began selling our food toppers as a standalone product, which provides our customers with a low-cost entry point into our food category. These toppers can be purchased as a standalone product, through add to box, added to a food subscription, and now as an add-on to a BarkBox or a Super Chewer subscription. These are just a few examples of how we were learning and iterating our customer acquisition strategy and bringing more customers into our food category, and we're excited with our progress.

Food appears to be following a similar trajectory to our dental product, BARK Bright, which launched about 12 months before food. Over the past year, we have learned a lot about how to sell a dental product with consistent results. These efforts resulted in a significant improvement in conversion. BARK Bright orders grew 121% year-over-year to 236,000 orders, not including sales in retail stores. Along with the order growth, gross margins grew by over 11 points year-over-year and are now trending over 50%.

We believe that Bright is positioned to scale in a meaningful way. As I mentioned before, Bright started a year before food, which is following a similar trajectory. Currently, our Net Promoter Scores in food are in the 70s, and the average order value is roughly 60% greater than we see in the play category. We also expect retention to be much greater for food than for our play customers due to the necessity of the product. Food is entering its second year, and I'm confident that it will become a significant long-term driver of the BARK business.

Moving to our second initiative, be BARK, historically, BARK operated five siloed businesses and customer experiences: BarkBox, Super Chewer, BARK Bright, BARK Eats, and BarkShop. Each of these businesses has distinct websites, dashboards, and logins. Becoming BARK has focused on unifying our brand and customer experience. This will ensure that all of our current and prospective customers are made aware of our full suite of products. We also expect it to materially improve our cross-selling capabilities and ultimately enhance the overall experience that customers have with BARK. We also anticipate it will grow our average order value at an even faster pace.

To put this initiative in perspective, BarkBox.com gets over 2 million unique new visitors per month. Previously, we told none of these visitors about our offerings in food or health. Similarly, out of the 250-plus million email impressions that we sent last quarter, only 13% featured food or health products. Clearly, this is a significant opportunity for BARK. We will continuously adapt and improve our user experience, and we launched the first iteration of a more unified shopping experience last month. The visitors going through the BarkBox.com funnel are now across all food and dental products during the signup process. Not only are they made aware of the full suite of products, but in addition we are incentivizing them to purchase one of these products with an offer of free shipping. This is working well. It's early, but we're seeing 35% of new customers upgrade to a premium offering over the base BarkBox. And of those, 40% are upgrading to products outside of the toy category.

All of the upgrades are being purchased on a recurring basis, so these results will compound. An additional benefit is that customers who choose a premium offering are converting at a 24% higher rate than those who only choose the base offering. This is a simple and meaningful step towards becoming BARK. Throughout this year, we expect to build in more opportunities to cross-sell products into these new categories at higher rates.

The last initiative I'd like to discuss is profitability. As I discussed earlier, we incurred certain charges related to inventory and donations. Excluding these items, our adjusted EBITDA loss would have come in at roughly \$43 million. Looking ahead, we have made notable improvements to our inventory management across our people and processes, and we believe that the business is in a much healthier position and would enable us to get to profitability much more quickly. From here, a path to profitability can be found by comparing our results in fiscal year 2022 to fiscal year 2021.

Starting at the gross margin line, our gross margins decreased by 4.1 points year-over-year. In addition, G&A expense increased by 11.8 points, roughly half of which related to shipping and fulfillment expenses. In total, that's 15.9 points of difference from fiscal year 2021 to fiscal year 2022. By just maintaining those same margins, we would have been EBITDA positive for fiscal year 2022. In other words, we know what it looks like and just need to get back there, quickly. Here's how we'll do that.

On the revenue side, we are increasing our average order values by cross-selling more products to more customers, adding shipping charges to new customers, and incentivizing premium purchases by offering free shipping when a customer upgrades. Overall, we aim for these initiatives to increase our customer AOV by 10% year-over-year. We're also aiming to lower our supply chain costs. As I mentioned, from the cost of goods sold through to the fulfillment costs, we lost nearly 10 points of margin in fiscal year 2022 versus fiscal 2021. We won't recover all of that this year, but we'll aim to gain more than half of it.

As we think about our guidance for the year, we are fortunate to serve dogs in the pet industry, which has been resilient and expanded every year through every recession, going back for over 30 years. However, we still see potential risks in the macroeconomic environment; rising inflation, recessionary risks, COVID risks in Shanghai, the potential for more war in Ukraine, and so on. And we are taking these risks into consideration with our planning for the year. It's impossible to predict how all of these issues will impact us and the world, and thus we want to ensure we factor this uncertainty into our revenue and EBITDA guidance this year.

As a result, on the top line, we are forecasting full year revenue of \$556 million. For the first quarter of fiscal year 2023, we expect total revenue of \$130 million. On the EBITDA front, we expect an adjusted EBITDA loss of \$36 million, which represents a 38% improvement compared to last year's loss of \$57.8 million. For the first quarter of fiscal year 2023, we expect an adjusted EBITDA loss of \$18 million or roughly half of the full year loss in the first quarter. From there, we expect many of the operating and performance improvements we've made to the business will begin to materialize.

While we are living in unpredictable times, I'm highly confident in our ability to execute and deliver sustainable growth long term. We will remain laser-focused on capital efficiency; and with \$200 million of cash in the balance sheet, we believe that we have more than enough cash to get us to profitability.

And before I turn it over to Howard, I'd like to welcome our new Chief Marketing Officer, Cindy Gustafson, to BARK. Cindy spent the previous four years at WW, formerly known as Weight Watchers, where she served as CMO. Prior to WW, she held senior marketing and strategy roles at Mindshare, Unilever and American Express. Cindy brings valuable digital, consumer and subscription business experience, and will play a key role in taking BARK to the next level.

I would also like to welcome our newest Independent Director, David Kamenetzky, who was appointed to the BARK board last week. David is a seasoned executive in the consumer and technology space, having served in senior leadership roles at AB InBev and Mars, the parent company of Pedigree Petfoods, IAMS and Royal Canin. David's knowledge and expertise will be a great asset as we build our business.

Overall, it has been an incredible year for BARK. We saw significant growth in areas that are fundamental to the long-term success of the business. We greatly improved our cross-selling capabilities. BARK Bright more than doubled its order volume in the last 12 months, while food is following the same promising trajectory. And we've created a clear path to profitability. We've been there before, and I'm confident we can get there soon. We have a tremendous runway ahead and we have hit the ground running in fiscal 2023. I look forward to sharing our progress with you throughout the year.

With that, I will turn the call over to Howard.

Howard R. Yeaton

Interim Chief Financial Officer, BARK, Inc.

Thanks, Matt, and good afternoon, everyone. Fiscal 2022 was a productive year for BARK. We significantly expanded our customer base, we increased the average spend per customer, and we made exciting progress in our newer categories. And while we did incur some incremental expenses, we believe that the business is in a much better place. As a result, we are entering fiscal 2023 with scale, exciting cross-selling opportunities, a sensible path to profitability, and a very healthy balance sheet.

Let me take you through our fiscal fourth quarter and full year 2022 results in more detail. Fourth quarter revenue was \$128.9 million, up 15% year-over-year. For the full year, revenue came in at \$507.4 million, up 34% compared to last year and above our guidance of \$505 million. Looking at our revenue in more detail, direct-to-consumer revenue increased 16% to \$117.8 million in the fourth quarter. For the full year, DTC revenue was \$448.1 million, up 34% versus last year.

Several factors contributed to our healthy growth in this segment. First, subscription shipments increased 28% to 14.9 million last year, largely driven by a 24% increase in total active subscriptions. And second, we have become more effective at cross-selling and upselling our customer base, which helped drive a \$1.32 increase in our average order value per shipment. We also saw healthy growth in our commerce business last year. Last quarter, this segment contributed \$11.1 million of revenue, up 1%. For the full year, commerce revenue was \$59.3 billion, up 33% compared to fiscal 2021. As a reminder, this is a lumpier business for us, and year-over-year comparisons, particularly for a given quarter, can be impacted by the timing of orders from our partners.

Nonetheless, we signed 23 new retail partners last year, which resulted in BARK products now being available in over 40,000 doors nationwide. Overall, we were pleased with our top line performance last year as we saw healthy growth in areas fundamental to our long-term success.

Moving along, fourth quarter gross profit was \$64 million. Our resulting gross margin came in at 50% in the quarter as compared to 61% in the same period last year. The lower margin was largely the result of the \$13 million charge that Matt discussed related to shrink, slow moving inventory, and inventory that was no longer aligned with our strategic plan going forward. Today, we believe we are in a much better position to manage our inventory, and we have optimized our inventory controls to enhance utilization and reduce shrink in the future. Excluding the impact of this charge, our gross margin would have been 59% in the quarter. For the full year, total gross profit was \$282.1 million as compared to \$225.9 million in fiscal 2021. Our resulting gross margin last year was just under 56%, down roughly 4 points year-over-year. Looking ahead, we believe the improvements we have made to our inventory management, coupled with our focus on higher value customers, will improve our gross margins in the current fiscal year.

Looking at our fourth quarter on a segment basis, DTC gross profit was \$61 million or 52% of revenue, while commerce gross profit was \$3 million or 28% of revenue. For the full year, DTC gross profit came in at \$260.1 million or 58% of revenue, while commerce gross profit came in at \$22 million or 37% of revenue.

Moving to operating expenses. Total G&A was \$85.5 million in the fourth quarter, an increase of roughly \$30 million compared to the same period in fiscal 2021. For the full year, G&A was \$301.9 million, an increase of \$122.4 million compared to fiscal 2021. Looking at the full year, our G&A increase was driven by several factors. First, we shipped 28% more subscriptions in fiscal 2022 versus fiscal 2021. Second, we experienced higher shipping and fulfillment charges related to COVID and other macro factors impacting the supply chain. For the full year, G&A expenses increased by 11.8 points, roughly half of which were related to shipping and fulfillment expenses. And third, we made investments in head count and technology over the year as we ramped up our food and health businesses. We also incurred additional expenses associated with becoming a public company.

Looking ahead, we expect to see operating leverage on the G&A line in fiscal 2023 as we do not expect to grow head count materially, and the team has done an excellent job negotiating favorable contracts with our freight and shipping partners, thus our comps this fiscal year should be favorable.

Moving on, we added 242,000 new subscriptions last quarter, bringing our total active subscriptions to roughly 2.3 million, a 30% increase year-over-year. For the fourth quarter, advertising and marketing expense was \$13.4 million, roughly \$3 million below the same period in fiscal 2021. Our resulting customer acquisition cost last quarter came in at \$44.36 (sic) [\$44.37], which was \$7.11 (sic) [\$7.10] below the same period in fiscal 2021. These figures are encouraging as the customers we acquired cost us less, but spent more. For the full year, advertising and marketing expense was \$74.4 million, up roughly \$7 million compared to fiscal 2021.

Other income net was relatively insignificant in the fourth quarter. However, it came in at \$31.3 million for the full year. This is largely related to the \$33.2 million change in the fair value of our outstanding warrants, which is a non-cash item. Net loss was \$36.7 million in the fourth quarter compared to a net loss of \$7.1 in the same period last year. Our adjusted net loss, which excludes stock-based compensation, the impact of our outstanding warrants, and other onetime items, was \$25.9 million in the fourth quarter, compared to \$3.1 million in fiscal 2021. For the full year, our net loss and adjusted net loss came in at \$68.3 million and \$67.7 million, respectively, which compares to fiscal 2021's net loss and adjusted net loss of \$31.4 million and \$21.2 million, respectively.

And lastly, adjusted EBITDA was negative \$23.1 million in the fourth quarter as compared to positive \$182,000 in Q4 of fiscal 2021. For the full year, adjusted EBITDA was negative \$57.8 million as compared to negative \$7.9 million in fiscal 2021. Excluding the inventory and donation items discussed previously, fourth quarter and full year EBITDA would have come in at negative \$8.7 million and \$43 million, respectively.

Turning to the balance sheet, we ended the quarter with total inventory of \$153.1 million. We brought in \$2.4 million of additional inventory last quarter to de-risk our exposure to the COVID situation in China. We are confident that our plans will enable us to progressively cycle through our inventory over the coming quarters, which we expect will result in a reduction of our inventory levels. We ended the year with roughly \$200 million of cash on the balance sheet, which we believe is more than enough cash to get us to profitability.

In summary, we made meaningful improvements to the business in fiscal 2022, which we believe will accelerate growth in our new categories and enable us to move meaningfully towards profitability. We have hit the ground running in fiscal 2023, and we look forward to sharing our progress with you throughout the year.

With that, I will turn the call over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. The question-and-answer session will now begin. [Operator Instructions] The first question is from the line of Maria Ripps with Canaccord. Please proceed.

Maria Ripps

Analyst, Canaccord Genuity LLC

Q

Good afternoon, and thanks for taking my questions. First, I just wanted to ask about your revenue outlook. So, your guidance implies about 10% growth for the year. I guess, what is embedded in your outlook from the standpoint of macro headwinds and product repositioning or maybe asked another way, where do you see sort of a more normalized growth rate for the business over time?

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

A

Sure. That's a great question, Maria. And as we said there, it is somewhat of a conservative outlook given just all those macro possibilities that you're talking about, the conflict in Ukraine, and supply chain issues with Shanghai so far this year, the recessionary or possible recessionary pressure and inflationary pressure the consumer is feeling. So just without visibility as to how those things will play out. We took a more conservative view to that. So that's one part of it.

The second part is the focus is really about the path to profitability and getting ourselves organized around that. So, if you think about the long-term, it's – we need to build from a very solid, strong, sustainable and profitable foundation, which means, as I said in the call back in February, there's going to be a period here we have to slow down in order to speed up. And so that's what you're seeing there is reflected, is we will slow down in order to speed up. That means part of that is a rotation of lower value subscribers into higher value subscribers who are then giving us greater margin at the same cost of acquisition, continuing to invest in our cross-selling capabilities, continuing to invest in our new categories like food and dental. And once you have that rotation and it takes a bit in a subscription business, as you know, but once that rotation happens, we'll have a much more sustainable, profitable model underneath us, off of which we can then grow. So, those factors led to our slower revenue growth guidance for this year with the, going to the second part of your question, the anticipation that we see that accelerating off of that strong foundation in the years to come.

Maria Ripps

Analyst, Canaccord Genuity LLC

Q

Got it. That's very helpful. And maybe my other question is on your Eats progress. Sort of broadly speaking, how is your new offering there is different from what was originally launched there last year? And then, can you maybe talk about your geographical presence for Eats? And is there anything you can share about Eats' sort of upsell to your existing customers at this point?

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

A

Sure. So, I mentioned some of it within the remarks there. There's really good progress in terms of getting feedback from the existing customers on what their experience is like, what they like, what they don't like. On the whole, they like what we're offering them, with Net Promoter Scores in the mid-70s, but there's still really good feedback about how we can improve it, or we're fortunate that some of those improvements align with a better

margin profile. So, again, really tightening up the unit economics. So when we hit the gas that we're hitting on a model that has tighter unit economics, just like we did with Bright last year at that 11-point jump in year-over-year gross margin. And so that's what you're going to see in terms of a revamped format very soon here.

In terms of the cross-selling, the cross-selling has been almost entirely the new customer acquisition into that product this year or this calendar year. It's been almost entirely cross-selling. Now, if somebody wanders in there and buys, of course, we serve them, but we're not out there advertising and bringing people into it new to the BARK ecosystem. In addition, we've broadened that beyond offering food to our – in our Add-to-Box program to what I mentioned, we're now offering toppers for food as part of the onboarding funnel. When you're buying a BarkBox or a Super Chewer subscription, you're coming in, we offer you toppers in addition to Bright Dental, in addition to an extra toy, but people are really selecting it, and we found that the toppers tend to be a gateway product to lead you to a more fulsome food relationship.

So it's been really, really great, where we see, on the whole, 35% of customers who are upgrading to a premium product, or subscribers who are coming into BarkBox or Super Chewer, 35% are upgrading to a premium relationship with us, and 40% of those are choosing products outside of play, so in dental or food. So, again, broadening our cross-selling opportunities or channels, learning a lot about food, have a new format coming very soon, pretty enthusiastic about our progress there.

Maria Ripps

Analyst, Canaccord Genuity LLC

Q

Great. That's very helpful. Thanks, Matt.

Operator: Thank you, Ms. Ripps. The next question is from the line of Steph Wissink with Jefferies. Please proceed.

Stephanie Wissink

Analyst, Jefferies LLC

Q

Hi. Thank you for taking our questions. We have two really quick ones. The first is just to understand the scope of the inventory write-down. Was it the full scope of what you have lingering and not expecting to take any further write-down? And I think you mentioned shrink, and I'm just trying to understand a little bit about how shrink evolves in your business if you could talk a little bit about that, that would be great. Thank you.

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

A

Yeah. To the first question, yes, I think that characterization is correct. It's where I came back in, in mid-January here, stepped back into the role, really taking a look at the business, analyzing it across the board. One of those key areas is inventory, and it had expanded a lot in fiscal 2021. And so, we spent this time really diving deep and understanding what's there, how it aligned to my strategic plan, and taking the quick actions that we needed to take in order to be more efficient and set ourselves up for profitability going forward. So I think the way you characterized it is correct. And then on the second half of the question, I think I'll hand it to Howard.

Howard R. Yeaton

Interim Chief Financial Officer, BARK, Inc.

A

Sure. So in terms of shrink, so in our business, we're – for the most part for the play business, we're purchasing components, bringing them in and to our warehouse and facility and fulfillment partners locations, and building kits for the most part, and coordinating the shipment both of the outbound kits and for our retail business. And so,

throughout that process, there are – there have been places where there's been some slippage in terms of the build-out of the kits, and where we weren't quite as tight as we would like to be, and the way we worked with our partners.

And so as Matt has spoken about earlier, so we're working with each of those partners to really tighten up both the tracking and the accountability as we work with those partners to make sure that things like this slippage or shrink become a kind of de minimis part of our process going forward.

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

Howard, if I may, I'd just add to that. It's – we've mentioned it in February, I mention all the time that part of that process is we brought in a couple of great leaders last year, who have been, I'd say, auditing that entire process, the supply chain end-to-end. And this is the – this is another reflection of their work in tightening up as Howard said.

Howard R. Yeaton

Interim Chief Financial Officer, BARK, Inc.

Yeah, agree.

Stephanie Wissink

Analyst, Jefferies LLC

Okay, that's helpful. And then I wanted to just isolate the margin – or excuse me – the sales guidance one more time and just make sure we understand. Are you seeing this as a temporary setback to allow your business to grow on a higher quality basis and building a foundation for future growth that's accelerated? Or do you see this more as a more normalized rate of growth, and you would prefer to have slower higher quality versus faster lower quality?

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

The former, the former. So, again, it's a slowdown to speed up, and there is a portion of that which is a rotation of a lower value customer for a higher value customer, but again bringing that to a foundation that's a more profitable, sustainable foundation on which we then can accelerate and grow much faster off of that. But I don't want to hit the gas as hard as we can until we really have that solid foundation in place.

Stephanie Wissink

Analyst, Jefferies LLC

Very helpful. Thank you very much, both of you.

Operator: Thank you, Ms. Wissink. That concludes the Q&A session as well as today's call. Thank you for your participation. You may now disconnect your lines.

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