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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

Call Participants

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Presentation

Operator

Good afternoon, and welcome to the BARK Fiscal Fourth Quarter and Full Year 2024 Earnings Conference Call. Please note that this call is being recorded. [Operator Instructions]

I will now turn the call over to Mike Mougias, Vice President, Investor Relations. Please go ahead.

Michael K. Mougias

Vice President of Investor Relations

Good afternoon, everyone, and welcome to BARK's Fiscal Fourth Quarter and Full Year 2024 Earnings Call.

Joining me today are Matt Meeker, Co-Founder and Chief Executive Officer; and Zahir Ibrahim, Chief Financial Officer. 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 the Investor Relations website.

Before I pass it over to Matt, I want to remind you of 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. We will also discuss certain non-GAAP financial measures on today's call. Reconciliations of our non-GAAP financial measures is contained in this afternoon's press release.

And with that, let me now pass it over to Matt.

Matt Meeker

Co-Founder, CEO & Executive Chairman

Thanks, Mike, and good afternoon, everyone.

Today's call marks a meaningful milestone for BARK. Just over 2 years ago, when I returned to the CEO role, the company was burning significant cash, had poor unit economics, a bloated organization and did not have growth momentum. Today, I'm proud to share that BARK is back. The team should be proud, and I'm proud of them for putting BARK on a solid path to profitability as we improved margins through chain, mix and organizational changes. Collectively, this has resulted in a strong balance sheet as we improved our working capital while driving towards profitability. We're now positioned to accelerate growth supported by an A+ senior management team.

Let me dive a bit deeper into some of the specific business improvements over the past 2 years from fiscal 2022 to fiscal 2024.

Gross margin improved by 600 basis points to 61.6% this year with notable gains in product quality and safety. Shipping and fulfillment expenses decreased by nearly 300 basis points with impressive improvements in delivery, speed and accuracy. Collectively, that's a 900 basis point improvement in 2 years, on approximately \$500 million in revenue, that's about \$45 million of savings. All those improvements led to adjusted EBITDA improving by \$47 million from a loss of \$57.8 million to a loss of \$10.6 million, along with 2 quarters of positive adjusted EBITDA in fiscal 2024, including the most recent quarter.

To strengthen our balance sheet, we cut our inventory balance by 45%, releasing \$69 million of cash without impacting customer satisfaction. Free cash flow improved by over \$190 million to negative \$2.8 million this year. We ended this year with \$125 million of cash on hand, and that's after repurchasing \$6 million of our own shares and \$45 million of our long-term debt.

Two years ago, we said getting to profitability would be our focus. We focused on improving our operating discipline and invested in great leaders like Zahir and James, our CFO and Chief Supply Chain Officer to

get us there. Our investments paid off as we delivered 2 adjusted EBITDA positive quarters this year, and we're guiding fiscal 2025 to be our first EBITDA positive year in history. More on that shortly.

Before we get into the results for our most recent quarter, let's talk about some exciting developments regarding the growth side of our leadership team with 4 new additions reporting to me. Michael Black joined us as Chief Revenue Officer to lead our move from 11% of revenue in our commerce channel to 1/3 of revenue over the next 5 years. His experience as a pet buyer at Walmart and the CEO and Board member of other successful pet companies makes him perfect for this role.

Michael Parness joined us as Chief Marketing Officer to take us from being solely driven by bottom of funnel digital marketing to a more comprehensive approach to building our brand, expanding our awareness and driving growth. He joins us from JustFoodForDogs and before that, Outward Hound, where he was CMO of both.

Meghan Knoll joined us today as Chief Director Consumer Officer. Meghan is returning to BARK after taking some time to lead another pet company to a successful acquisition as their CEO. Meghan knows BARK as well as anyone due to her 7 years with us previously. She is a strong product and tech leader who's been leading a Shopify powered company, and she will complete our move to a unified bark.co platform.

And Christina Donnelly was promoted to Chief People Officer to round out our leadership team. Christina has been with BARK for 10 years and is the right person for this job. And she knows our team better than anyone and will lead us in building and retaining the best talent for our future.

I've never been more excited about the senior team at BARK. This team and our second half momentum are why I'm so confident and enthusiastic about our future.

With all that said, and even before this team came together, we delivered another strong quarter. Last quarter, we delivered \$121.5 million revenue, the midpoint of our guidance range. This landed us at \$490.2 million for the year with strong acceleration in the back half of the year. We improved our gross margin to 62.7% this quarter, our fourth consecutive quarter of sequential growth and 580 basis points higher than the same quarter last year.

Our leverage on the cost side will continue to deliver strong gross margins in the year ahead. We also delivered \$2.2 million of adjusted EBITDA, our second positive EBITDA quarter of the year, as we promised we would at the start of the year. Returning to profitability was our core focus when I returned as CEO 2 years ago, so we're all especially excited about this milestone. We ended the quarter with \$125 million of cash and \$84 million of inventory on hand. We achieved year-over-year growth in new customer acquisition for the second consecutive quarter. And towards our goal of expanding in the wholesale channel and our consumables products, our new cereal treats are now available nationwide at 2,400 Target and PetSmart stores. The initial customer feedback has been great, and we are excited to expand further this year.

That's a great quarter to end the year and build momentum into next year. Zahir will share our formal guidance, but at a high level, we are guiding to being adjusted EBITDA positive for the fiscal year, which would mark our first adjusted EBITDA positive year in our history. And in order to do this, this year and every year in the future, we need to grow. But let me share how we plan to grow now that we've invested in the leadership team to deliver it.

It's easy to think of BARK as a subscription dog's company or a company that sells dog toys. We have served over 7 million customers directly and millions more via retail partners. So what sets us apart and frames our growth to date and for the future? BARK doesn't just sell dog toys. We sell emotional experiences with your dog. The relationship people have with their dogs is filled with passion and emotion and we're great at understanding that relationship and reflecting it in otherwise mundane products. We apply this approach to dog toys, treats, food, toppers, partnership with the Girl Scouts and others and now travel experiences with our new launch of travel experience, BARK Out. The possibilities for us are endless. This approach has led to our strong brand relationship with millions of customers and that emotional appeal and strong brand lead to the great margins we're now enjoying.

These relationships also lead to valuable data. We believe we have more first-party data on this than anyone. This is valuable because we can process it and learn which product each person and dog wants to buy, which products will sell well in retail outlets and what routes people want to fly with their dog next. Our ability to understand and use this data is getting amplified by the rapid development of AI-based tools that allow us to turn this data into actionable insights. When we have a question, we can ask and get clear answers from millions of customers. This is an advantage we've spent 12 years building and we're starting to use that leverage for growth.

One way we're leveraging that is the launch of BARK Air. This is an initiative I thought about for over 10 years due to being unable to fly with my Great Dane, Hugo. Hugo, who also inspired BarkBox wasn't well served as a large dog living in New York City. One of the biggest hurdles I and millions of other dog parents face is travel. More often than not, dogs are denied travel confined to a duffle bag, are forced to endure the stress and potentially life-threatening conditions of flying as cargo. Since launching BARK Air, it's become even more obvious how much of the service is needed with an outpouring of supportive messages from all over the world cheering us on.

Since its announcement in April, the response has been incredible. BARK Air has garnered more coverage than anything in the 12-year history of BARK. Here are some numbers from the first month before the first flight even took off. BARK Air has over \$1 million of bookings, already selling out several of our flights. As we are only a few days into actual flight operations, we'll need more time to report on results here. However, the impact on awareness is clearly amazing. BARK Air Instagram has over 100,000 followers, which unsurprisingly has had a halo effect on our core social channels. The engagement level on every post is 65%. We had over 15,000 requests for destinations and routes in the first week. And prior to our first flight, we had over 4 billion media impressions around the world, and this continues today as our first flights take to the sky.

This is also great marketing for BARK. The visibility has had a noticeable halo effect on our core business at bark.co. And this was accomplished with an investment smaller than what we normally spend in 5 days of direct-to-consumer marketing. So early, however, I'm thrilled with the early results, the strong consumer interest and demand and the positive feedback from all over the world on how important this service is.

Moving on, another category we started selling these experiences with your dog is consumables. 2 years ago, 1 of our retail partners said to us, we want you to bring BARK fun to the treat aisle, the same as you've done with our toy aisle. That was a start of a brief that led to our cereal treat line. Today, I'm thrilled to share that our new cereal treat experience is now available nationwide in over 2,400 Target and PetSmart stores. Like with our first retail toy agreements, we ask for exclusivity with these launch partners, allowing us to test, learn and grow more effectively. The initial customer feedback is great, and we will leverage our early learnings to bring this experience to many more retail partners in the future.

This approach has been highly effective for us selling our toy experiences to retailers, and we anticipate similar access with these cereal treats and ultimately all our consumable products. This is step 1 of our consumables expansion in retail. And now with Michael Black on board, we're more confident than ever that we have a significant runway for growth in this category and the retail channel.

In addition to traditional retail, partnerships are a growth engine for us as they've always been. In recent years, we've partnered with big brands, including Dunkin', Subaru, Disney, many more. One exciting partnership we're expanding on this fall is with the Girl Scouts. When I talk about an experience, this is it. Millions of Girl Scouts across the country are funding our organizational activities in part by selling BARK products. Anyone who has ever had a Girl Scout come to their door selling cookies knows this is a channel with a high success rate.

We're also seeing continued strong growth in consumables revenue via our direct-to-consumer channel. Excluding consumables revenue from our subscription boxes, which is a 9-figure revenue number on its own, consumables drove over \$20 million of DTC revenue in fiscal 2024, a 28% increase versus last year. Again, this excludes consumables revenue from BarkBox and Super Chewer. This growth is encouraging as the category represents one of the most important long-term revenue drivers, and we anticipate this growth to continue, particularly as we migrate all of our sites under the bark.co platform later this year.

Zahir will cover our guidance in more detail shortly. But with all these recent wins and positive momentum, I wanted to offer some context for the Q1 and fiscal '25 guidance. First, we are guiding to our first EBITDA positive year. That's the most important thing and something we've been working towards for 2 years. On the revenue side, we're guiding to a year of flat to low single-digit revenue growth. For Q1, we are guiding to \$113 million to \$116 million, which is down from last year. So if we have all of this positive momentum, then why are the growth results not reflecting it yet? Keyword is yet. Please remember these key growth hires have been on the team for between 1 and 60 days. They need a bit of time to make an impact. But more so, this is about the timing of BARK's business model.

On the retail wholesale side, great action today takes time to show up in the results. Sales meetings with most retailers happen in the spring or orders that will come the following spring. The strong performance from Michael Black today will yield results in fiscal 2026. That's just the natural cycle of the business. And yet, we're still expecting this part of the business to grow roughly 20% this year with the bigger growth coming into fiscal '26 and beyond.

On the direct-to-consumer side, we are catching up on the compounding effects of the subscription business for entering this year with fewer active subscribers than we entered last year. The good news is we started turning that corner 2 quarters ago, and we're gaining, but filling that hole will take the next 2 to 3 quarters with solid performance. Great performance today will lead to compounding results over time, but we must first lap the prior year. We're confident in our team and our plans to deliver that growth and profitability. And to that end, let me summarize with 1 final development.

At the top, I said BARK is standing on a solid path to profitability with a fully formed management team and gaining momentum across the board. We feel more confident than ever about our future and we will continue to evaluate deploying our cash into buying back stock. In fiscal 2024, we repurchased \$6 million of stock in BARK and last week, our Board authorized the purchase of up to an incremental \$15 million of stock. We will buy more of this great company while we consider it to be undervalued.

In conclusion, this was a great quarter to close out the year with momentum building, closing with an EBITDA positive quarter, \$125 million of cash on hand and a strong and complete leadership is a great launch pad for the year ahead. This year, for the first time in our history, we expect to deliver positive adjusted EBITDA for the full year. And for the many growth engines I have mentioned today, I expect it to accelerate meaningfully.

And with that, I will turn it over to Zahir.

Zahir M. Ibrahim
Chief Financial Officer

Thanks, Matt, and good afternoon, everyone.

I'll start by providing additional color on our fourth quarter financial performance and then expand on Matt's comments regarding our outlook for fiscal 2025. Overall, we executed the strategy we laid out at the beginning of the year. We delivered healthy gross margin improvement, gained operating leverage in the P&L and significantly reduced our inventory levels and cash burn. For fiscal 2025, we are focused on driving long-term topline growth and now have the cost structure to enable it. Beginning at the top of the P&L, total fourth quarter revenue was \$121.5 million, down 3.6% compared to last year. To put this in perspective, last quarter, the toy industry and retail for dogs was down 10% year-over-year according to Nielsen data. So we're continuing to improve our execution relative to industry headwinds.

From a segment perspective, direct-to-consumer revenue was \$109.3 million, down 5.9%. The year-over-year decline in B2C revenue is primarily due to carrying fewer total box subscriptions into the current period. Total shipments in the quarter declined 3.3% to \$3.5 million, while average order value was down roughly 2.5% to \$31.25. Total commerce revenue was 12.1 million, up 21% compared to last year. The large uptick in this line is driven by incremental revenue from our new treat line in Target and PetSmart along with Girl Scouts revenues.

Total revenue for the year was \$490.2 million, down 8.4%. On a segment basis, DTC was down 7.5% to \$436.4 million. As Matt mentioned, we faced headwinds in our more discretionary toy category,

particularly in the first half of the year. Nonetheless, we have been encouraged by our second half customer acquisition trends, and we'll look to build on this momentum in the quarters ahead. It is also worth reiterating that our consumables category excluding consumables in our subscription boxes, grew nearly 30% to \$20 million in fiscal 2024. This is encouraging, and we expect this category to become an increasingly important revenue driver in the future.

Moving on. Commerce revenue was down 15% to \$53.7 million. As I noted on our Q4 call last year, we expected softness in commerce in fiscal 2024 as our retail partners were focused on managing down their inventory levels and remain cautious throughout the year given the macroeconomic environment. And that's how the year played out. Nevertheless, we are excited to introduce our new treat line in over 2,400 doors nationwide and plan to broaden our retail offerings over the next 12 to 24 months.

From a margin perspective, we delivered an impressive 580 basis points increase in our fourth quarter gross margin. DTC gross margins improved 590 basis points while commerce gross margins improved 990 basis points in the quarter. For the full year, our consolidated gross margin was up 410 basis points to 61.6%, while DTC and commerce gross margins came in at 63.9% and 43.4%, respectively, reflecting a 340 and 730 basis point improvement, respectively. We have made significant improvements in delivering productivity savings in our cost of goods. Looking ahead, we anticipate our consolidated gross margin to remain strong in fiscal '25 driven by new vendor contracts on the consumables side of business, although these will be partly offset by channel mix dynamics.

Turning to G&A. Shipping and fulfillment expense was down 6.6% to \$33.6 million in the fourth quarter. For the full year, shipping and fulfillment expense was \$139.8 million, down nearly 11% compared to last year. While lower order volume was responsible for some of the decline, we also drove efficiencies through our network. In Q4, we entered into new long-term agreements for both shipping and fulfillment, which will continue to bring meaningful benefits for FY '25. Other G&A in the fourth quarter was down \$2.9 million to \$30.2 million and down \$17.2 million for the full year to \$128.6 million. The \$17 million full year savings were driven by the 2 cost reduction initiatives we instituted in February and July 2023.

In fiscal 2025, we will have some run rate benefits from the July '23 initiative. Furthermore, as we move all of our sites to the bark.co platform later this fiscal year, additional efficiencies will flow through the P&L. Total advertising and marketing expense was \$18.8 million in the quarter and \$79.3 million for the year. The full year figure represents a 14.7% increase compared to last year. As we discussed in previous calls, our improved profitability profile deliver stronger LTV from new subs and affords us more flexibility to invest in marketing to drive the topline. We will continue to balance this investment with profitability. However, we anticipate increasing our marketing spend in the current fiscal year, although not to the extent we did in fiscal '24. This includes traditional marketing as well as new initiatives just as BARK Air, where we'll be investing \$1 million to \$1.5 million in marketing this year.

Moving on. We delivered fourth quarter adjusted EBITDA of \$2.2 million, a \$5.7 million improvement compared to last year. For the full year, adjusted EBITDA was negative \$10.6 million, an almost \$21 million improvement compared to last year and \$48 million better than 2 years ago, driven by our significant margin and cost improvements. We also reduced our total cash burn to just \$2.8 million for the year and nearly \$14 million improvement compared to last year and over \$190 million better than fiscal 2022. The profit improvement has been a major component of this as is the reduction in our inventory levels, which ended the period at \$84 million, reflecting a \$14 million reduction to fiscal Q3 and a \$40 million reduction during fiscal 2024. We ended the quarter with a total cash balance of \$125 million.

In addition to repurchasing \$45 million of our convertible note in Q3 ahead of schedule, the cash balance reflects purchasing \$2 million of common stock in the fourth quarter and over \$6 million throughout fiscal 2024. We ended the year with a cash position net of debt of approximately \$86 million, which affords us ample opportunities to invest in growth, continue repurchasing shares or pay down the balance of our convertible note. To that end, we also announced that our Board of Directors authorized a \$15 million share repurchase program, which we plan to use opportunistically in the periods ahead. As we deliver year-over-year improvements in our profitability profile in fiscal 2025, this will allow for further flexibility in the future.

On that note, let's turn to guidance, beginning with the full year. Overall, we're seeing encouraging trends across several indicators. Year-over-year, we've grown new place subscriptions for 2 consecutive quarters. In addition, consumables are growing across the DTC channel, and our new cereal treats are available nationwide at Target and PetSmart. Like Matt said, it's early days, and we would like to err on the side of caution, particularly given our play subscription business is more susceptible to macroeconomic trends.

On that note, we anticipate total revenue of between \$490 million and \$500 million, reflecting year-over-year growth of flat to up 2% compared to fiscal 2024. From a profitability perspective, we currently expect an adjusted EBITDA range of \$1 million to \$5 million for the year, reflecting a strong improvement of between \$12 million and \$16 million year-over-year. This is a pivotal moment reflecting BARK's first year of profit delivery in our history.

For the first quarter, we expect total revenue between \$113 million and \$116 million. This reflects a year-over-year decline between 6.3% and 3.8%. The anticipated first quarter decline is primarily from carrying fewer total box subscriptions into the current period compared to Q1 last year due to lapping our first half new subs performance last year. Nevertheless, on the back of our second half fiscal '24 new subs performance, coupled with anticipated momentum building through fiscal 2025, we anticipate year-over-year growth in DTC in the second half of this year. From an adjusted EBITDA standpoint, we currently expect first quarter loss between \$4 million and \$2 million, reflecting a \$4.4 million year-over-year improvement at the midpoint of that range.

Relative to Q4 fiscal '24, our profit is down \$4 million to \$6 million, driven by topline, which is impacted mainly by commerce seasonality and partly from the promotions calendar in DTC in Q1. All in all, we are seeing encouraging trends across the business. We expect our topline to accelerate out of Q1, while our gross margins in DTC and commerce will continue to perform strongly, and segment profitability will largely show improvement over each quarter versus fiscal 2024.

As I mentioned earlier, we also expect 2025 to be our first full year of adjusted EBITDA profitability, improving approximately \$60 million since fiscal 2022 demonstrates great progress in the financial health of the business over a relatively short period of time. And as our consumables category gains momentum, we believe there is a lot of ongoing growth potential across the P&L. In addition, our balance sheet is in a strong position. And so we will have ample opportunities to invest in growth and deliver long-term shareholder value.

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

Question and Answer

Operator

[Operator Instructions] Our first question comes from Ryan Meyers with Lake Street Capital Markets.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

First one for me. I'm serious, the continued softness in the discretionary categories. I mean, is that largely what you have been expecting and there's really been no changes there? And then do you bake in any sort of improvement in those categories into 2025 guidance?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Ryan, thanks for the question. I think overall, we're monitoring those macro trends and the signs. And maybe there's some positive signals that we're seeing. But I think for us, it's a little too soon to call it an industry turnaround given the past couple of years of significant pet food inflation and where does that go. And maybe some uncertainty around like election and just the economy overall.

As you may have heard from Chewy last week, they reported that calendar Q1 was the first time since 2022 that adoptions were greater than relinquishments within shelters. So that's a positive signal. On the flip side, Nielsen is showing that dog toys in retail were down 10% in Q4. But relative to that, BARK toys were only down 1.5%. So while we're still down, we're gaining some share there. We're taking all that, factoring it into the year ahead and making the best assessment that we can and maybe just to add to that a little bit because you're asking of how does that factor into the guidance. There's a -- it's obviously, as I mentioned, the retail sales cycle is a long lead sales cycle. So adding someone as amazing as Michael Black, it's not going to pay off with big results this year because he could be the best salesperson in the world, and you're never going to change the way Target or Walmart or any retailer runs their business.

That's another way of saying we have a lot of visibility for the year in that channel. It will be affected positively or negatively to some extent by the macro, but a lot of this is baked already.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

Okay. Got it. That's helpful. And then just thinking about sort of the cadence and seasonality. You said on the topline, you expect revenue acceleration coming out of Q1. So I think that makes sense. But then on the EBITDA side, I mean, do you guys plan to follow kind of similar seasonality that you did here in 2024 as in investing more in marketing in Q3, and that's kind of how sort of the EBITDA will shake out? Just any commentary on kind of the cadence of the guidance would be helpful.

Zahir M. Ibrahim

Chief Financial Officer

Ryan, this is Zahir. Yes, the general shape of the P&L from an EBITDA perspective will kind of follow a similar sort of cadence to what it did in fiscal '24. Just from an EBITDA perspective, for each of the quarters, you'll see a stronger performance, and therefore, a stronger performance for the year overall. In relation to marketing, Q4 -- Q3, sorry, is always going to be our biggest quarter because of the holiday season. But given where we are from a profitability perspective, we'll continue to look at opportunities to invest to drive topline growth. We have that flexibility now given the fundamentals of the business and the finance -- but sure health of the business is in a much stronger position.

Operator

Our next question comes from Kaumil Gajrawala with Jefferies.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

Sorry about that, guys. I'm speaking to myself on mute. On guidance, can you maybe dig down a little bit further on your EBITDA guide is positive. Does that also mean free cash flow should be positive for the year?

Zahir M. Ibrahim

Chief Financial Officer

This is Zahir. Yes, the EBITDA is a good proxy for free cash flow, for our business for the coming year. So yes, similar sort of zip code from a free cash flow positive perspective for fiscal '25.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

Okay. Great. Yes. So nothing strange in the figures, it should be aligned?

Zahir M. Ibrahim

Chief Financial Officer

Yes.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

I guess, Matt, you've been cautioning us at how quickly -- or may be cautioning us not to be -- not to add revenue growth from some of the new retail -- some of the new retail opportunities too quickly. But what should be the incremental contribution maybe for that year 2026 when we're past the sort of shelf restacks and that sort of thing?

Matt Meeker

Co-Founder, CEO & Executive Chairman

I don't know that I have a numerical answer for you. I think I can give you sort of a directional answer in terms of activity. Again, we've got like new talent in the revenue driving side of the house, and that gives us a full year of working with Michael and his team, developing products for that channel and then taking those into retail and selling them, and we wouldn't have bet on him if we didn't feel very bullish about his ability to do that given his background.

In addition to that, we've -- this year, with the treat line that we put into Target and PetSmart, we purposely put exclusivity in with those 2. So we have time to learn and get feedback from them and our customers and get the right assortment and learn how to market it. So then we can take it out and get a much wider and more effective bang, if you will, across all retail channels. So that should help. And then hopefully, we're expanding more into the...

Zahir M. Ibrahim

Chief Financial Officer

Toppers and dental.

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes, toppers and dental categories but also from a channel perspective into the e-commerce side of things or the marketplace side like an Amazon Marketplace and including internationally. So I think those are some directional indicators of why we think this might accelerate significantly in '26.

Zahir M. Ibrahim

Chief Financial Officer

Yes. I mean, Kaumil, just on that point, this year, commerce was about 11% of our revenue in fiscal '24. We expect next year for it to be about 12% to 13% of our revenue. And then looking beyond fiscal 2026

over the next 3 years, we expect commerce to be about 30% to 35% of our business. So clearly, that gives you a signal of the growth over those following couple of years.

Operator

Our next question comes from Maria Ripps with Canaccord.

Maria Ripps

Canaccord Genuity Corp., Research Division

First, I just wanted to follow up a little bit more on marketing spend. Can you maybe just talk about sort of how your incremental marketing spend performed in Q4? Are you still sort of seeing healthy ROI sort of efficiencies after some of the sort of restructuring or optimizing some of the marketing functions late last year? And I guess, can you just tell us again, how should we think about sort of your marketing spend as we move through this year and as revenue sort of returns to growth?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes. The good news is what we started in Q3 last year continued right through Q4. It was very steady, very solid. Our number of new subscribers acquired was up significantly year-over-year. The quality of those subscribers or all of them are up significantly our lifetime -- reflected in our lifetime value being up. I think the opportunity to further improve our customer acquisition and our marketing overall, again, comes from our new CMO, Michael Parness, joining the team.

And in spite of these past 2 quarters being very strong in terms of customer acquisition and the payback that we're getting from those customers, our weakness that we know we have is that we are very focused on the bottom of the funnel or only direct response and digital tactics to acquire a customer. And that's just not good enough. That leaves a huge amount of opportunity when it comes to upper and mid-funnel activity, creating awareness, working across all of our sales channels together, not having them siloed.

So now we have a leader who's got great experience in 2 great companies in the pet industry over the last 12 years joining the team, leading that function, taking that approach. And I think what we've seen with BARK Air in particular, is a fairly modest investment, especially relative to what we spent on direct-to-consumer marketing, giving us this enormous, outsized awareness benefit, shows that some smart investment in upper and mid-funnel can have big gains for us and actually aid the bottom of funnel activity that we've got. So we've got some change there to do. We've got the right leader to do it. We just got to give him a little time to roll that through.

Maria Ripps

Canaccord Genuity Corp., Research Division

Got it. That's very helpful, Matt. And then secondly, if I heard this right, I think, Zahir, you mentioned sort of -- you said that sort of carrying a little bit fewer boxes in the quarter contributed to sort of slower DTC revenue growth. Just can you maybe talk about how you're thinking about sort of your inventory levels here and especially can you work towards returning your DTC business back to growth?

Zahir M. Ibrahim

Chief Financial Officer

Sure. I think if we go back in time, we drove our inventory levels up during -- around the time of COVID, supply constraints and concerns about supply continuity. And the reality is that we overbuilt inventory. So what we've been doing over the last couple of years, and the supply chain team has done a great job of it is managed down inventory levels over that period of time.

Where we're at now, we're carrying a healthy level of inventory. We still see opportunities over the next 18 months to pay that inventory back further, but not anywhere near the extent that we've done in the rearview mirror. There will be more modest incremental improvements. But from a customer service level perspective, and all of those metrics, our inventory level is more than adequate, and we carry appropriate levels of safety stocks.

Operator

Our final question comes from Ygal Arounian with Citigroup.

Unknown Analyst

You have Max [indiscernible] on for Ygal. I just want to maybe start off with the unified platform. You're expected to finish that this year. Maybe just help us walk through what's left -- what's left to do there? And then understand it should help with the cross-selling by bringing the different brands under the same platform. But are there other added benefits from going to the Shopify platform that you're expecting, I don't know, maybe better data, better ability to engage with marketing? And then maybe just help us understand some of the cost benefits too from that.

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes. Thanks for the question, Max. I think the most exciting thing when it comes to that is Meghan Knoll joining the team today to lead direct-to-consumer and she's the perfect person for it. We know that from her experience at BARK in the past and her learning as the CEO of direct-to-consumer brand over the past 1.5 years. So that's -- it will be her to lead us there. The -- maybe surprisingly, the easy part of this or the easier part, none of it's easy, but the easier part is the technical integration.

The bigger thing that's I don't want to say standing in the way, but the bigger thing for us to accomplish here is that we don't -- in moving our BarkBox and Super Chewer customers over that we don't have deceleration in their activity that we maintain our retention rate, which is very good. We maintain our add to box revenue and that we're able to acquire the same number of customers at the same rate or better. And as soon as we have comps that look that we're comfortable with, then it's moving the full base of subscribers over.

The benefits are, as you mentioned, certainly, the cross-sell and upsell opportunities we're not limited -- there are so many ways we are not limited. We are not limited by the product set, the timing, when we can ship, having all of our products in a shared warehouse or shared fulfillment centers. There are so many ways that we benefit there.

Another is from the marketing overall. And I was just talking about upper and mid-funnel and driving awareness. Right now, we got in the world and we talk about our BARK product. That BARK product drives to barkbox.com or superchewer.com, not one place. And so flash forward to a unified platform, there's one home. You might hear about BarkBox but you come into a unified platform and you discover the full universe of all of our products at that place.

So it gives -- it makes our marketing just a lot more both effective and efficient in doing that. Certainly some consolidation benefits with the team. But really, it's something we're very eager to get there. We just want to make sure that as we get there, the business is accelerating as we go into it.

Unknown Analyst

Okay. Great. Super helpful. And then maybe just hit on BARK Air a little bit. It looks like you guys may have sold out some flights, but just curious on how this is kind of progressed compared to your expectations? And then maybe a bigger picture with it seems like the demand has been pretty good. Our interest has been good. How does this kind of change or impact your thoughts on expanding to other kind of services tangentially related to dogs going forward?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes. I think relative to the expectations, it has blown away our expectations or at least mine. We're just so encouraged and so grateful for the response that we've had and seeing it really everywhere and the notes we get from people about how meaningful it is to their lives, to their dogs. So it's a really, really special product, and you see that. And the nice thing is that the bookings are following that, and you see a lot of opportunity that comes with it.

When it comes to services that follow, I'd say at this point, we have a load of ideas and a lot of opportunities, but getting this one right -- we're not taking a victory lap at all. We put 4 flights in the air, so there's a lot more work to do. We have to continue to make this a great experience, then continue to make it a great business. And once we get that and we get some infrastructure built around it and we really know how to run the thing, then I think we can start talking about what's the next service that we pile on, but we're not close to that yet.

Operator

There are no further questions at this time. With that, this will conclude today's call. Thank you all for your participation. You may now disconnect.

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