Northern Star Acquisition Corp. and BARK Announce BARK's Preliminary Fourth Quarter and Fiscal Year 2021 Results

Conference Call Transcript

May 18, 2021

Operator:

Thank you. Good morning everyone and thank you for joining us on today's call to discuss BARK's fiscal fourth quarter and full year 2021 financial results. A press release covering the Company's financial results was issued this morning and a copy of that press release can be found on the Company's investor portal – investors.bark.co – or the SEC Edgar site under the ticker S-T-I-C or company name "Northern Star Acquisition Company.

Before we begin our prepared remarks, I would like to remind you that various statements we make during this call about BARK's future results of operations and financial position, business strategy, and plans and objectives include forward-looking statements. These forward-looking statements are based upon current expectations that involve risks, changes in circumstances, assumptions, and uncertainties, which could cause Bark's actual results to differ materially from those contemplated in these forward looking statements. These risks are described in Northern Star's Registration Statement on Form S-4 which is on file with the SEC, as well as in the press release. All the information we provide on this conference call is provided only as of today, and we undertake no obligation to update any forward-looking statements we may make on this call on account of new information, future events, or otherwise.

Presenting on today's call with be Manish Joneja, BARK's Chief Executive Officer and John Toth, Chief Financial Officer. With that, I will turn the call over to Manish. Please go ahead.

Manish Joneja - CEO:

Good morning everyone. I'll begin today's discussion with an overview of BARK's mission and some highlights from our fiscal year. Next, I will discuss why we believe BARK is uniquely positioned for continued long-term growth, and share perspective on our outlook and growth strategies. I will then turn the call over to John to take you through our fiscal year 2021 financial performance in detail.

Since BARK was founded in 2012, we have consistently grown our subscriber base and delivered BARK products to more than 6.5 million dog parents. We are the only vertically integrated, data-driven, omnichannel brand that serves dogs across four key categories of play, food, health and home. And we do it with a high level of personalization and high touch service.

Our fiscal 2021 results reflect the outstanding momentum in our business, as we further deepen engagement with our existing customers, expand the BARK brand to dog lovers nationwide, and broaden our product offerings across play, food, health and home. The growth we have achieved is a testament to our unique business model and the strong and disciplined execution our team delivered, despite COVID and its challenges, as we continue to capitalize on the fast-growing pet industry.

Illustrating our strong performance, during the fiscal year, New Subscriptions, which we define as the number of subscriptions with their first shipment occurring in a given period, increased 91% versus last year to 1.2 million. Subscription Shipments, which is the total number of shipments of subscription products in a given period, increased 52.5% versus last year to 11.6 million. Our net revenue increased 68.8% to $378.6 million, driven by the continued strength in our direct-to-consumer segment. We exceeded our Adjusted EBITDA expectation and reported an adjusted EBITDA loss of $7.9 million, an improvement from negative $17.8 million in the prior year. This represents an Adjusted EBITDA margin of negative 2.1% compared to an Adjusted EBITDA margin of negative 7.9% in fiscal 2020.

We are incredibly proud of our fiscal 2021 results, but what is most exciting is the tremendous growth opportunity ahead. For perspective, out of the 63 million households with dogs in the United States, we served only 1.8 million dogs this past year, reflecting the immediate opportunity we have to significantly extend our customer base just within the U.S. And importantly, the dog product and service market continues to grow in the U.S. and nationwide. The humanization of pets - and dogs in particular - has been fueling market growth for years, and was accelerated further this past year as families chose to adopt dogs for comfort and companionship. These dogs may remain part of the family for more than a decade. We believe that these strong pet industry dynamics will fuel growth for years to come and we are uniquely positioned to capitalize on this momentum with our powerful business model.

All of this starts with our mission to make all dogs happy. We believe that dogs and humans are better together, and we aspire to be the world's favorite dog brand. Our strong track record of growth gives us great confidence that we are just scratching the surface.

Now, I'd like to highlight some of our key strengths and why we are well positioned to capitalize on the strong industry dynamics and further our journey to be the world's favorite dog brand.

First: We value and build deep customer relationships, which drive retention and lifetime value.

We build lasting relationships with our customers, strengthened by real human connections with our Happy Team, which allows us to gain insights and enables us to deliver a personalized experience leading to strong retention and high Life Time Value. We have an incredible asset in the form of our customer relationship Happy Team. This dog obsessed team aspires to make our customers happy, and the 95% average customer satisfaction or CSAT score they achieved in fiscal 2021 is evidence of their success. In addition, we use the power of analytics to personalize the experience and

develop products that align with our customers' needs. The strong connection with our customers and their dogs result in a strong subscription-based model with great retention and provides a high level of predictability for our Direct to Consumer business segment, which makes up 87% of our revenue.

Second: We leverage these relationships and data to achieve personalization at scale

The relationships we build with our customers and their dogs allows us to better understand their needs and wants. We personalize our subscriber's experience by collecting product and customer data. We are able to utilize our machine learning technology and first party dataset to compare dogs' attributes against our available inventory. As a result of our tailored suggestions for a dog's attributes, such as size, breed, allergies and play style, as well as the dog parent's needs, we customize over 200,000 monthly subscriptions. We have significantly expanded our customization initiatives with our recently launched Eats subscription, which personalizes our food offering for each and every dog. I will talk more about this exciting opportunity in more detail shortly. At our core, we are a digitally-led, data driven, direct to consumer brand that delivers a high level of personalization at scale.

Third: Our relationships and data support cross-selling across our strong platform of new and existing products.

The trust we earn through our customer relationships not only allows us to better understand both dog and their human needs, but improves our ability to cross-sell products and expand into other dog categories, such as food. We also leverage our data analytics capabilities to personalize suggested purchases through our Add-to-Box program for subscriptions. This program allows existing customers to add products to their subscription shipment, including toys and treats, as well as BARK Home and BARK Bright products. These enhanced cross-selling opportunities, drive higher average order value, and are margin accretive, and also enhance the overall customer experience.

Fourth: We are a vertically integrated proprietary brand.

By vertically integrated, I mean that all of our products made exclusively for us; everything we sell is designed by BARK, developed by BARK, and branded BARK, which drives our higher margins. By leveraging data and insights from our 1.8 million active subscriptions, our world-class team of product developers are able to create a collection of high-quality and unique products that address the needs of our customers and dogs. These items are built to have a strong brand association and, as a result, have a higher profitability potential.

And fifth: Our omnichannel distribution creates more selling opportunities and drives brand awareness.

Today we offer our products through a wide variety of channels and partners, including our direct to consumer subscription lines, BarkShop website and online marketplaces such as Amazon, as well as major retail partners across pet specialty, mass, club, home, DIY, and department store channels, totaling over 22,000 partner retail locations. Our goal is to make all dogs and their people happy. Selling through multiple channels and across new markets allows us to reach a broader audience. To further grow our retail presence, we have expanded our relationship with Costco to include select international locations, and entered into a new partnership with Lowe’s which started shipping this month.

Overall we are excited about our future. We operate in a fantastic segment with significant growth opportunity. It's huge, with over half of all U.S. households having dogs as pets. This, combined with the humanization of dogs, continues to drive strong growth trends in the dog industry.

As we look to the next year and beyond, we remain focused on our four growth strategies in service of the wants and needs of our customers and their dogs:

- **First: Expand into new product categories.** As part of our effort to maintain our customer relationships throughout the dog's life, we expanded into consumable product categories with our Bark Bright and Bark Eats offerings. Given the frequency of use, the dog food category can be a highly attractive subscription model. Our nutritionist designed food offering is high quality, as well as personalized and proportioned for each dog, all at a highly attractive mass premium price point. We are encouraged by our product positioning and believe we will win big in the dog food category for the following reasons:
    - First, our customers trust us. Using minimal outreach to existing customers, we are highly encouraged by the early response to our pilot with Eats. We are pleased with the results our early tests and with 1.8 million subscriptions, we see significant opportunity to cross-sell Eats.
    - Second, our proprietary data provides us with the unique ability to personalize our Eats products. Through a mixture of kibble, toppers and supplements, we can cater to dogs of different ages, sensitivities and breeds, among others.
    - Third, personalization powered by our dog obsessed Happy Team relationship drives loyalty. We are able to personalize the food offering for each dog, evolving the proportioned meals with each of the dog's life stages. As the dog ages and their needs change, we are informed and prepared to evolve the food assortment to their evolving needs. We do this without the luxury pricing points of other subscription models making us even more attractive to our customers.
    - Eats is ready to ship to approximately 20 markets, with plans to expand the offering nationwide by the end of 2021. We have built the sourcing capabilities, as well as the distribution network so we can deliver an exceptional experience for our customers.

- **Second: Continue to grow our toy and treat subscription business.** Our growth objectives are to maintain a high level of retention among customers, as well as to attract new customers to BARK. We have powerful levers to drive both

initiatives. As I spoke to earlier, we leverage our data to align our offerings with the needs and wants of our customers. We gain valuable insights into approximately 250,000 customers per month through our passionate Happy Team. They learn important facts about each dog to deepen our customer connection and inform product innovation. Led by world class talent, our customer obsessed Creative Team uses this data to inform product design and development decisions. As a result, we deliver themed toy offerings and treats every month that are driven by our customers, allowing us to deliver a party in a box for owners and dogs to enjoy together.

- **Third: Enhance cross-selling opportunities.** In addition to product development, we utilize our data centric model to drive cross-selling opportunities, which leads to higher AOV and is margin accretive. We have been extremely encouraged by our success in effectively creating cross-promotions of new or add-on products and services to subscribers. This includes our add-to-box feature, which is a monthly prompt for the subscriber to add another product to a shipment. ATB products include toys and treats, BARK Bright, and BARK home products. They can be a one-time purchase added to a BarkBox or Super Chewer order, or an automatically renewing shipment bundled with the subscription. We plan to continue building upon our machine learning and artificial intelligence capabilities to effectively cross-sell these products to our existing subscribers.

- **Fourth: Expand our retail distribution and marketplaces presence, drive brand partnerships, and reach more dogs and their people.**
  Being true to our objective that we want to serve ALL dogs, we plan to further expand our presence in existing and new retail channels, across online marketplaces, and with select branded partners. With this growth, we will establish a formative platform to drive brand awareness and introduce new products.

- We have been successful in building our presence with retail partners, which drives both incremental sales, as well as brand awareness. At Target, where we distribute to all 1,800 stores, our products are featured on end cap throughout the year, creating a high level of visibility for our brand. Our end cap collections are matched by a growing always-on in-line assortment. We will continue to establish new opportunities with new retailers, as well as expand existing relationships.
- We have been successful at mobilizing various brand partnerships to reach to new audiences. These include licensed partnerships, such as the Scoob! movie, as well as in store partnerships, such as Dunkin' - all of which allow us to boost brand awareness and reach more dogs.

In conclusion, we remain extremely excited about our future opportunities within the industry, as trends toward the humanization of dogs are sustained. We believe that our differentiated business model and the advancement of our strategies will enable us to drive strong profitable growth well into the future.

Now I will turn the call over to John to review our full year financial performance in detail.

John Toth - CFO:

Thank you, Manish and good morning everybody. I'm truly pleased to bring you our earnings for the first time as an "almost public" company.

As a quick reminder, the shareholder vote to approve our merger with Northern Star is scheduled for May 28th and transaction close for June 1st. The ticker will then change from S-T-I-C to BARK, B-A-R-K.

We began this journey towards becoming a public company over one year ago, well before our transaction with Northern Star began. And the team could not be more ready or excited to launch BARK as a publicly traded company. With the capital expected to be provided by Northern Star and the expert support of our sponsors - Jon Ledecky and Joanna Coles - we are confident in our ability to generate strong results for years to come as we continue to penetrate the enormous addressable market ahead of us.

Turning to our numbers, today we filed our preliminary financial results for the fiscal fourth quarter and full fiscal year ending March 31, 2021. I encourage you to download the full release from our investor portal – investors.bark.co – or the SEC Edgar site under the ticker S-T-I-C or company name "Northern Star Acquisition Company." In that release, we provide more detailed information than I will be able to cover during this call. We expect to include our audited financial statements for the year ended March 31, 2021 in future filings with the SEC assuming a successful merger vote.

With regard to our financial results themselves, BARK had a very robust Q4 to conclude a strong fiscal year. Revenue for the quarter was $112 million resulting in $379 million in revenue for the year. This represents 69% year over year growth on an annual basis. Our strong top line growth was driven by both our Direct to Consumer as well as our Commerce segments.

In our Direct to Consumer segment, we profitably acquired new customers while simultaneously retaining existing customers to further fuel our growth. The $334 million in DTC revenue, a 64% increase over fiscal 2020, was driven by a combination of increased Subscription Shipments as well as an increased Average Order Value. Subscription shipments for the year were 11.6 million, a 53% year over year increase. And Average Order Value for the year was $28.74, an almost $2 increase over last year's AOV of $26.80. In addition, Average Monthly Subscription Shipment Churn was a healthy 5.9%.

In our Commerce segment, we increased revenue to $45 million, a 121% increase over the prior fiscal year. This growth was driven in our Retail channel as well as increased sales of our BARK Home products. The increase in Retail was due to the introduction of BARK products into new retail chains including Petsmart and was supported by increased sales with existing partners. Further, we expanded our BARK Home product offerings, and further developed our penetration in online marketplaces.

This strong revenue growth flowed through our P&L with disciplined management of our Gross Margin. Our full year Gross Profit increased 67% year over year to $226 million while our Gross Margin for the year was 59.7% versus last year of 60.4%. The 70 basis point difference between the years was primarily due to a "mix shift" in revenue as lower gross margin Commerce segment sales were a greater portion of consolidated revenue. Note that although the Commerce segment has a lower Gross Margin, we continue to manage it to a contribution margin comparable to the rest of our business lines. In addition, we saw at the tail end of fiscal 2021 increased freight rates due to the congestion in the global shipping network. We are responding to these challenges by investing in more "owned and managed" warehouse and fulfillment assets to help manage this secular cost headwind.

In addition to maintaining our high Gross Margin, we continue to be very disciplined in our Marketing and Advertising spend to acquire new customers. We acquired 1.2 million New Subscriptions in fiscal 2021 versus 627 thousand in fiscal 2020, a whopping 91%

year over year increase. However, our Advertising and Marketing expenses increased only 45% - half the rate of New Subscriptions growth - to $67 million versus prior year. We were able to achieve this efficiency as a result of a decrease in our customer acquisition cost or CAC from $55.44 in 2020 to $47.55 in 2021. The result was a very healthy 6.3x LTV:CAC ratio for the full year.

This reduction in CAC versus prior year was due largely to decreased pricing for social media advertising in the first half of the year as a result of the COVID-19 pandemic. We have already seen CAC increase, however, we continue to maintain our disciplined “return based” approach to our Marketing spend. In this most recent quarter ending March 31, our CAC was $51.47 and our LTV:CAC was 6.6x. By managing the efficiency of our marketing spend, we are able to balance strong growth with building the foundation for long term healthy margins and giving us the operating cash flow to invest in building our new business lines.

To that end, General and Administrative expenses increased 55% year over year to $180 million. The increase was driven primarily by two factors. First by higher operational expenses including warehouse, fulfillment, shipping and payment processing fees resulting from the increased sales volume during the period. Secondly, we continue to grow our headcount and related expenses in support of BARK Eats, BARK Bright, and the cross-selling initiative Manish described earlier. We also absorbed some transaction costs during Q4 as well as sales and use tax expense from historical sales which are not normal course operating items. Ultimately G&A as a percent of revenue declined 430 basis points year over year. We are very pleased with this result as the leveraging of our G&A expenses in our more mature businesses was offset by the G&A investments we are making in our new business lines and the creation of the platform Manish described.

To complete the review of our P&L, Interest expense for the year increased to $11 million compared to $5 million last year. This increase was due to cash and non-cash

interest related to our convertible notes as well as to fees for paying down existing debt ahead of maturity.

Ultimately, our Net Loss as a percent of revenue improved year over year. For the full year 2021 our Net Loss was $31 million on $379 million of revenue or negative 8.3% versus a Net Loss as percent of revenue last year of negative 14.0% of revenue.

In addition to these GAAP measures, Adjusted EBITDA is an important measure of profitability we use internally to manage our business. For the fiscal year 2021, our Adjusted EBITDA was negative $7.9 million , or negative 2% of revenue versus last year of negative $17.8 million or negative 8% of revenue.

Taking our performance to date into consideration, we are providing revenue guidance for the first fiscal quarter of the year ending June 30. While we expect our strong New Subscriptions growth to continue, we also expect to see an increase in Subscription Shipment Churn as we pass the anniversary of the commencement of the COVID-19 outbreak in the US. The net result is we expect to continue strong revenue growth with revenue in the first quarter to be in the range of $116 million to $118 million. This represents an approximately 56% year over year increase at the mid-point of the range.

In addition, we are reaffirming our outlook for fiscal year 2022. In particular, we anticipate full year fiscal 2022 revenue to be $516 million and an Adjusted EBITDA of negative $31 million or negative 6% of revenue. As we invest in our new product lines to provide long term aggressive, but disciplined growth.

As I conclude today’s call, I want to acknowledge that reporting on the numbers is not the same as generating them. I want to sincerely thank our incredible team for their commitment and hard work over the past year and half as we navigated this unprecedented period, both for the world and for BARK. The dedication of our employees is what drives our business and we are incredibly proud of the team’s performance leading up to our public trading debut. These results in this difficult

environment further demonstrates the strength and flexibility of our unique business model.

Thank you for your time and for your joining today's call, and we look forward to continuing to update you on our further progress.

Operator

Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.