

S&P Global
Market Intelligence

BARK, Inc. NYSE:BARK

Earnings Call

Monday, November 10, 2025 1:30 PM GMT

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Call Participants

EXECUTIVES

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Chief Financial Officer

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Jefferies LLC, Research Division

Maria Ripps

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Ryan Robert Meyers

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Presentation

Operator

Thank you for standing by, and welcome to the Bark Second Quarter Fiscal Year 2026 Earnings Conference Call. [Operator Instructions] I'd now like to turn the call over to Mike Mougias, VP of Investor Relations. You may begin.

Michael K. Mougias

Vice President of Investor Relations

Good morning, everyone, and welcome to Bark's Second Quarter Fiscal Year 2026 Earnings Call. Joining me today are Matt Meeker, Co-Founder and Chief Executive Officer; and Zahir Ibrahim, Chief Financial Officer. Today's conference call will be webcast in its entirety on our website, and a replay will be made available shortly after the call.

Additionally, a press release covering the company's financial results was issued this morning and can be found on our 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. A reconciliation of our non-GAAP financial measures is contained in this morning'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 morning, everyone. Midway through the year, we're on track with expectations and gaining confidence and momentum as we go. But first, I'm happy to start this call with an important update. Last week, we paid off our \$45 million convertible note using cash from our balance sheet. Bark is now debt-free.

We're proud of our decision and our ability to pay this off in cash rather than refinance it, which reflects our long-term confidence in the business. In addition, we extended our \$35 million credit line with Western Alliance Bank, continuing a nearly decade-long partnership that gives us added flexibility on competitive terms.

Together, these actions strengthen our balance sheet and position Bark to grow and create long-term value even in a volatile macro environment. Our confidence comes from how well we've executed on the plan we set at the start of the fiscal year to drive revenue diversification and maintain bottom line discipline.

This quarter reflects that progress with total revenue of \$107 million, above the high end of our guidance range and adjusted EBITDA of negative \$1.4 million within our guidance range. Adjusted EBITDA would have been stronger, but we chose to invest roughly \$1 million in incremental efficient growth during the quarter, an investment we expect will pay off as the year goes on.

So let's talk about our progress this quarter on diversification and the bottom line. First, our Commerce segment delivered another standout quarter with \$24.8 million in revenue, up 6% year-over-year and representing 24% of total revenue and all-time high revenue mix contribution. Year-to-date, we're seeing strong traction across key partners, including Walmart, Chewy, Amazon and Costco, where our popular advent calendar is already sold out for the holiday season.

And speaking of Chewy and Amazon, you can now find our BARK in the Belly kibble on both of their digital shelves following its August launch. Second, when it comes to diversification, Bark Air continues to exceed

expectations, delivering \$3.6 million in revenue this quarter, up more than 138% from last year and 54% from the prior quarter.

We also maintained a 99% 5-star review rate, which speaks volumes about the quality of experience we're delivering. This quarter, we achieved our highest gross margin driven by a 93% seat fill rate. Spark Air continues to validate the incredible demand for dog-first travel and reinforces our belief that we're solving a real problem for dog parents.

And finally, as a reminder, we received the green light from the Girl Scouts to participate in their annual cookie program and will begin shipping products next summer. This partnership represents a huge opportunity, not just for revenue but for awareness. Millions of families will see Bark alongside one of the most iconic brands in the country, and we're thrilled to partner with the Girl Scouts. Each of these are initiatives that only Bark can do.

When we do Bark things, we excel. So we made great progress on diversification this quarter. Now let's talk about our bottom line performance. This has been a challenging year with tariffs, changes at the U.S. Postal Service and a volatile macro environment.

But as planned, we're emerging stronger. A meaningful milestone this quarter was moving our last-mile delivery to Amazon. That means your BarkBox now arrives on those Amazon Blue trucks. We're off to a great start with this partnership, which reduces our last-mile delivery costs and gets packages to customers about a day faster.

That's a meaningful improvement to the customer experience. In addition, this quarter marked the lowest customer acquisition cost we've seen since fiscal 2023. And with that efficiency, we saw an opportunity to deploy an additional \$1 million beyond our plan at a highly efficient rate to drive both short- and long-term growth. And for the second quarter in a row, 2/3 of our new subscribers opted into our more premium Super Chewer and combo box offerings.

On top of that, we've seen 6 consecutive months of improvement in subscriber retention as we continue to capitalize on the Shopify platform. One driver of that progress is finding new ways to deepen our relationship with dog parents and strengthen our core offering.

Last month, we launched Bark Subscriber Perks, a new membership benefit that gives BarkBox subscribers access to exclusive discounts and offers from Bark and our partners, delivering up to \$1,500 in annual value at no additional cost. It's another way we're rewarding loyalty and adding everyday value for our most engaged customers.

Bringing all of that together, we acquired more new subscribers than planned at our most efficient rate in several years. Those subscribers are retaining longer and with partnerships like Amazon for last-mile delivery, they'll generate higher margins for us while enjoying an even better customer experience.

Our brand now extends well beyond subscriptions with strong sales across 50,000 retail locations and record passengers and revenue for Bark Air. Finally, we feel so good about our performance that we paid off our convertible debt in cash ahead of schedule without refinancing or selling equity to do it.

Our strategy is working. We're balancing growth and profitability, expanding into new categories and channels and doing it with a debt-free balance sheet. I'm excited about what's ahead in the second half of the fiscal year.

And with that, I'll turn it over to Zahir.

Zahir M. Ibrahim
Chief Financial Officer

Thanks, Matt, and good morning, everyone. We've made solid progress executing our plan through the first half of fiscal 2026. We're diversifying revenue beyond our subscription business. Our profitability discipline remains strong. And as Matt highlighted, Bark is debt-free for the first time as a public company. A tremendous milestone for our team and our shareholders.

Let me walk you through the quarter in more detail. Total revenue for the second quarter was \$107 million, above the high end of our guidance range. This outperformance was driven by stronger-than-expected DTC performance and a modest timing benefit in commerce. Excluding Bark Air, DTC revenue was \$78.5 million, down versus last year, primarily from entering the year with a smaller subscriber base and our decision to moderate marketing spend in light of tariff and macro uncertainty.

However, as we saw stronger new subscriber momentum in the quarter at highly efficient acquisition costs, we leaned in and invested an incremental \$1 million on marketing spend. Even with the incremental spend, total marketing expense will still be down 18% versus last year, and we expect H2 to decline at a greater pace.

While total subscribers were down year-over-year, retention remains strong and the customers we are acquiring today are higher value. This improvement reflects our deliberate shift away from discount-driven acquisition toward higher-value loyal customers supported by ongoing Shopify enhancements and initiatives like Amazon last mile delivery.

Our Commerce segment delivered another strong quarter with \$24.8 million in revenue, up 6% year-over-year and reaching 24% of total revenue. This segment continues to be a highlight, and we expect sustained growth in the years ahead as we expand both retail distribution and product assortment over time.

Bark Air also continued to outperform expectations, contributing \$3.6 million in revenue, our strongest quarter yet. Consolidated gross margin was 57.9%, down 250 basis points year-over-year. Two primary factors impacted the quarter. First, revenue mix as commerce and air represented a larger share of total revenue, 26.5% versus 20% last year; and second, higher tariff-related costs.

Through the first half, we've incurred roughly \$7 million in elevated tariff-related costs, and we expect to incur between \$12 million and \$13 million for the full year. Vendor pricing, productivity improvements and the move in DTC from box to bag have partially offset these costs.

In addition, in the second half of fiscal '26, we'll further mitigate these headwinds by sourcing products from other geographies and implementing a price increase in commerce. As a result, we expect gross margins in both DTC and commerce to improve in the balance of the year.

Turning to operating expenses. Marketing was \$15.4 million, down 18% year-over-year, reflecting continued discipline and a focus on efficient customer acquisition. Shipping and fulfillment expense was \$31.5 million, down about 8% year-over-year, driven by lower DTC volume. G&A expense was \$25.7 million, down over 11%, benefiting from lower headcount and ongoing cost management.

Adjusted EBITDA for the quarter was negative \$1.4 million, within our guidance range. As I mentioned, this includes the additional \$1 million investment to acquire customers more efficiently, which we expect will contribute to near-term and long-term growth.

We ended the quarter with \$63 million in cash, down \$22 million sequentially, primarily due to working capital timing, including higher receivables tied to stronger commerce sales and inventory build ahead of the holiday season. We expect to exit the year with lower inventory than the prior year-end despite carrying the impact of added tariff costs.

As mentioned, we also repaid our \$45 million convertible note in cash days ago, which will be reflected on our balance sheet next quarter. With the debt fully repaid and our \$35 million credit facility extended, we've strengthened our financial flexibility and simplified our balance sheet.

Turning to guidance. We're continuing to maintain a cautious stance as many external variables remain fluid, including supplier transitions and tariff developments. As such and consistent with previous quarters, we'll only be providing this quarter's guidance.

For the fiscal third quarter, we expect total revenue between \$101 million and \$104 million and adjusted EBITDA between negative \$5 million and negative \$1 million. In conclusion, we're in a strong position entering the second half of fiscal '26. Revenue is tracking well to expectations.

We're maintaining strong cost discipline. We're building strong momentum across each segment, and our gross margin should improve, thanks to a number of measures we have taken this year. We're proud to be debt-free and with our ongoing focus on profitability and diversification.

We're confident that Bark will exit fiscal 2026 as a stronger, more resilient and more diversified company. And with that, I'll turn the call over to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question today comes from the line of Ryan Meyers from Lake Street Capital Markets.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

First one for me, congrats on getting the convertible debt paid off. So I'm just curious, what kind of flexibility do you think that now provides you guys with? Are you able to go out and invest more in the business, drive more subscriber growth, drive more of the commerce business? Just kind of at a high level, now that you guys don't have to worry about that potential overhang, how does that really change things for you?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Ryan, it's Matt. Thanks for the question. And I think you heard some of it. We ended the quarter, ended September with \$63 million in cash on the balance sheet, pay off \$45 million. That gives you a sense of where the cash is right now, which -- as we've executed through the year, that's been our plan all along was to not dilute the shareholders any further by issuing equity to raise capital and pay off that debt to pay it off the balance sheet as we did.

Not to burden our financials with interest payments in order to service it by refinancing it. So that's played out exactly as we hoped or even better than we hoped. And that kind of carries forward into the answer here, which is keep going, keep executing because we're just -- as the year goes on, we're executing well and a little bit ahead of the plan in a pretty tumultuous environment.

So we're happy about that, but not yet because of the external environment in a place to take really big swings or risks because you never know where -- like in -- I think in the past 30 days, the tariffs from China were 30%, 130% and 20%. So we really have to look around those corners and not get too far over our skis.

So the simple answer is keep delivering, keep executing our plan, get the bottom line stronger and stronger, reinvest that back into growth as we go on, but it's keep executing.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

Okay. Got it. And then I just want to circle back to commentary that you guys had provided last quarter as far as for the full year, expecting to be profitable on an adjusted EBITDA basis by the end of the year. I know you guys gave the third quarter guidance. But what's your level of confidence or comfortability in kind of that full year profitability that you guys communicated last quarter?

Zahir M. Ibrahim

Chief Financial Officer

I'm sorry, Matt. So yes, that's our goal still, Ryan, and we expect to be in that ZIP code. But as Matt just said, obviously, there's a lot of volatility out there, a lot of unknowns still particularly in respect to tariffs, but also the broader consumer sentiment.

So we're just bearing that in mind in terms of goal is still to deliver EBITDA positive, and we expect to be somewhere in that ZIP code.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

Okay. Got it. And then lastly, the commerce growth for the quarter, obviously, nice to see that business now roughly 25% or so and growing. But can you unpack kind of the growth within the commerce business? Is that just increased demand at the retailers that you are selling? Is it more products? Is it more stores? Just so we can get a sense of that business?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes. It's a combination of factors, right? We continue to expand our toy distribution across existing customers as well as some new customers, but primarily existing customers. Example, we increased our footprint within Walmart in the quarter, and that will continue to benefit us in terms of growth. We continue to grow on Amazon and Chewy for the year-to-date. And that's just a function of product being available online, level of reviews increasing and therefore, you continue to grow in terms of your momentum on those channels.

Overall, quarter benefited slightly from timing as well from a couple of million of orders that shifted into Q2 from Q3. But yes, we feel really good about the growth year-to-date on commerce and expect growth in the second half of the year to continue.

Operator

Your next question comes from the line of Maria Ripps from Canaccord.

Maria Ripps

Canaccord Genuity Corp., Research Division

So Matt, you talked about acquiring more new subscribers at an efficient cost and seeing improved retention. Can you maybe give us a little bit more color in terms of what's driving that? Are there any specific media channels or tactics that you would highlight?

And then secondly, can you maybe talk about retention within your existing subscriber base? And at what point would you expect that to stabilize sort of given all the improvements that you've outlined?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Let me take the first one, and I wasn't quite sure I heard or understood the second. But the first is there is a bit more of a favorable mix on channels and more so towards organic channels, so direct customers, those that we're acquiring via our e-mail and SMS list. So anything that would be more on the organic or brand side.

So as we've ramped up some of our brand activities, we've shifted those dollars away from the meta channels from Google channels, and that seems to be paying off. Instead of paying those very high rates to acquire a customer, you pay very, very little for someone who just shows up on the platform.

So it's a more favorable mix, and that seems to be pretty sustainable and should grow as time goes on. But we're happy that the rate has come down to the level it has and that there seems to be good momentum in customer acquisition. On the retention side, I wasn't quite sure I heard or understood the question properly.

Maria Ripps

Canaccord Genuity Corp., Research Division

Yes. I was just trying to see if you can talk about retention within your existing subscriber base. And you've talked about sort of all the improvements on the platform. So that are driving sort of high retention, at least within the new subscriber base. So I was just wondering if you can talk about retention within your existing subscriber base.

Matt Meeker

Co-Founder, CEO & Executive Chairman

Sure. I mean, overall, we've seen retention improve each month throughout the year as a whole. Some of the newer cohorts, they're still fairly new. Obviously, if we start at the beginning of the fiscal year in April, they're maybe 6 months in here at most.

What we see is certainly higher quality in terms of they are opting more for our Super Chewer line, which has a higher AOV. On a pretty similar retention, they are upgrading into higher-value plans like adding an extra toy to their plan, prepaying at higher rates. So instead of paying their 6- or 12-month commitment month-to-month over that term, pay it all at once upfront for a discount.

All those things are really, really good. And we seem to be making just bits of improvement each month. As you mentioned, some of that is platform related. Some of that is returning value to the customer and making them happier with what we're delivering.

And we still see a lot of possibility in that, especially as some of these trends continue out over time. As I said, the newer customers who are in their first 6 months are showing pretty good signs, but they're certainly coming in at a different environment right now. So we want to see how that plays out before getting too excited about it.

Operator

Your next question comes from the line of Kaumil Gajrawala from Jefferies.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

Congratulations on being debt free. Can you maybe just talk about are there areas of investment or things that you may want to do now that your balance sheet is in a different place? Or are you thinking about buybacks as it relates to cash that you'll generate in the coming periods?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes. Similar to what I had said to Ryan, really looking at continuing to execute the plan as Zahir was talking about, our aim is still to be EBITDA breakeven for the year. And in a year like this, that's a real challenge, but that's still the goal.

That's still the aim while we invest in the diversification. So more of the business moving over to commerce as it has, the air business more than doubling revenue this year on a similar level of investment and adding more services and new products into the mix.

All of that has been part of the plan, and then we are meeting with our Board next week. And we'll be talking about our long-range plan and the new state of our balance sheet and our investments and our plans for capital.

So I'd say over the next 6 months or the rest of this year, execute the plan, keep -- try everything we can to keep this company on the positive side of EBITDA and gear up and really understand what our long-term investments need to be.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

Okay. Got it. You said something very interesting answering the last question on churn reducing. Is there something specific about those customers? Or is there something related to your marketing or your execution that sort of driving that?

Matt Meeker

Co-Founder, CEO & Executive Chairman

I think it's a combination of factors. One is we've spent basically the last year, getting our Shopify tools, the subscription-oriented Shopify tools or platform to do what I would call a lot of little blocking and

tackling things, put those in place that each one of them might contribute 1/10 of point, but you add up all of those and all of a sudden, you've got like 1.5 points or 2 points of monthly retention.

And they're either like silent wins or silent killers depending on how you look at it, but it's a lot of platform gains that we've made throughout the year. And there are still more of those in front of us, but we've made great progress. So that's one element of it.

Another is as we've had really good wins over the years in our supply chain and getting our costs into a much better place. We're now able to -- and we've started to return some value to the customer that makes them happier and therefore, leads to better retention.

And then I'd say finally is when we're not -- I guess that favorable mix of an organic customer coming in, hearing about Bark from word of mouth because we return value because the customer is just happier with us overall versus reaching to the furthest customer we can reach to on Meta with the most aggressive offer we can, the organic customer is going to return better.

So as we've shifted that mix, we've also brought in higher-value customers that have a better retention profile and a better profile overall. So it's kind of a mix of all those elements.

Operator

And that concludes our question-and-answer session and today's conference call. We thank you for your participation, and you may now disconnect.

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