



5/11/2021

Investment Insight

# Backing BIRD to fly

The investment case for Allbirds

3 key points to know

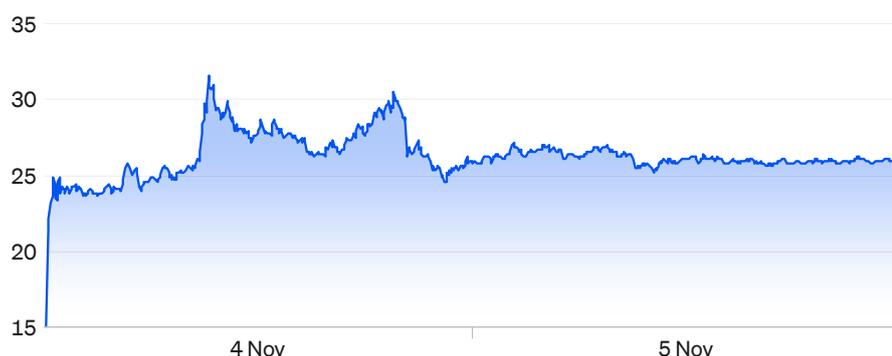
- 1** Allbirds, which has strong connections to New Zealand, has achieved a hugely successful listing on the NASDAQ, with a market cap of US\$3.1 billion.
- 2** The size of the global apparel market is enormous. Allbirds is fast gaining market share and establishing itself as a purpose-driven disruptor committed to sustainability.
- 3** Allbirds' corporate values are consistent with our own commitments to responsible investing across all our funds.

**NZFunds**

At NZ Funds, we're constantly looking for innovative companies to invest in, particularly at the IPO (Initial Public Offering) stage. Investing at the "ground floor" level gives our clients the greatest chance of benefiting from long-term growth in company share prices.

It's rare to be presented with the opportunity to back a new NASDAQ listing that also has strong New Zealand connections. This is one of the reasons we were delighted to make a successful bid for shares in Allbirds (NASDAQ: BIRD), which has grown from a Kickstarter campaign by its Kiwi co-founder to a global footwear and apparel company with a US\$3.1 billion market capitalisation.

Allbirds Inc  
NASDAQ: BIRD



Return 2 days after listing

**+73%**

IPO price

**\$15.00**

Day 2 price close

**\$25.95**

### All White to entrepreneur

Allbirds co-founder Tim Brown is a former professional footballer who represented New Zealand. As someone who regularly received free footwear from sponsors, he was struck at how often the shoes were made from low-quality materials, which often came with a heavy carbon footprint.

With a small research grant and a successful Kickstarter campaign, Brown launched Allbirds. Teaming up with renewables expert Joey Zwillinger, the pair developed a high-performance material from superfine merino wool. They then worked with leading Kiwi product designer Jamie McLellan to create what would become Allbirds' iconic product: the Wool Runner. Just a year or so later, *Time* declared it "the world's most comfortable shoe".<sup>1</sup>

### The scale of the global apparel market

The global footwear and apparel markets are worth around US\$1.8 trillion per year. However, the huge expansion of mass market clothing and "fast fashion" in recent decades has come at significant environmental and human labour costs.

Allbirds aimed to do something different from the start: create a mass market product without compromising on ethical standards, by placing sustainability at the core of the business. While merino wool is its signature material, it has also made breakthroughs in the use of eucalyptus fibre and sugarcane, among other sustainable materials.

As a result, Allbirds has already established itself as a sustainability "disruptor" in the apparel industry. Though it is already valued at US\$3.1 billion, it has significant potential to grow. Lululemon, which is a similarly disruptive purpose-driven activewear brand, has grown to a current market capitalisation of US\$60 billion.

### The investment case for Allbirds

Allbirds' growth has been remarkable over the past six years, driven by a combination of word of mouth, popularity with Silicon Valley entrepreneurs and US celebrities, and a direct-to-consumer, digital-first distribution model.

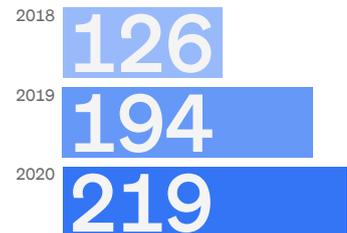
Given its track record, sustainability credentials, ability to disrupt an established market and strong culture of materials innovation, we believe Allbirds has the potential to follow Lululemon and become a major player in the global footwear and apparel industry. We expect the company to grow at a rate of 20 to 30% per year. Despite being a relatively young company, it already has good gross margins, which will only improve with scale. Importantly, it is achieving success in leading consumer markets such as the United States and the European Union. The average American, for example, buys seven pairs of shoes per year, which represents an enormous market opportunity for Allbirds.<sup>2</sup>

Total global footwear and apparel market

**US\$1.8tn**

#### Allbirds Inc

Annual revenue (US\$m)



#### Lululemon

Annual revenue (US\$m)

**4,402**

Allbirds' growth in established markets is being supported both with expanding its digital sales channel and increasing the number of physical stores in key cities. So far, there are 27 Allbirds stores around the world. This is likely to grow significantly. By way of comparison, Lululemon has over 500 stores.

### **Building success around brand awareness and product innovation**

At the moment, Allbirds has brand recognition among 11% of Americans. This is a significant number for such a young company, but it also demonstrates that there is substantial scope for growing brand awareness.

The company has a clear communications plan to achieve this. Growing the number of physical stores will also increase its brand presence.

Allbirds' existing customer base is extremely loyal, with a net promoter score of 86% and strong repeat business. It is also a rare consumer brand that appeals across demographic groups, with strong showings in the 25-34 age bracket, all the way through to 65+.

Allbirds broke through as an innovator, so continued innovation will be key to its success. This is why its research and development of new materials is so important.

It has recently launched high-performance running shoes alongside its lifestyle footwear. And it is using the same materials to develop new lines of sustainable, high-performance activewear.

### **Allbirds' ESG credentials seal the deal**

It is clear from its IPO prospectus that Allbirds is actively committed to achieving carbon neutrality and leading by example in the footwear and apparel industries.

So while the investment case is strong from a financial point of view, Allbirds also aligns with our values as a responsible fund manager.

At NZ Funds, we don't just offer specific responsibly invested funds. Every dollar invested with us is invested responsibly. This gives all our clients the reassurance that they're investing in a more sustainable future.

To make sure that we're keeping up with international best practice, we partner with ISS-ESG, a fully independent global leader in responsible investing research.

ISS-ESG provides us with extensive reports about companies we think about investing in. These reports cover all the norms and expectations of good business conduct and the UN Sustainable Development Goals. If the reports raise any red flags, we won't buy shares in the company.

Allbirds clearly meets our responsible investment criteria. The fact that it is also a global success story with strong Kiwi roots makes our investment in it feel even better.



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James began his career at NZ Funds in 2000, becoming an Equity Analyst in 2004. Following a deployment with the New Zealand Defence Force in 2009, he relocated to London. Following a senior role at Macquarie Bank, James returned to NZ Funds in 2017.



**Andrew Curtayne**

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Andrew joined NZ Funds in 2020 as a Portfolio Manager responsible for the Absolute Return strategy. Prior to that Andrew worked at London based hedge fund Melqart Asset Management for four years specialising in Absolute Return strategies.

For the Allbirds IPO prospectus, see: <https://www.sec.gov/Archives/edgar/data/0001653909/000162828021017824/allbirdss-1.htm>

1. <https://time.com/4243338/allbirds-wool-runners/>
2. <https://www.commonobjective.co/article/the-size-of-the-global-footwear-market>



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