Q3 2022 Earnings Call

Company Participants

- Ben Lu, CFO
- Karen Tan, Director of IR
- Shane Torchiana, President & CEO

Other Participants

- Eric Sheridan, Analyst
- Tom White, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Bird Global Third Quarter 2022 Earnings Call. (Operator Instructions)

As a reminder this conference is being recorded.

I would now like to turn the call over to Karen Tan. Please go ahead.

Karen Tan {BIO 18010772 <GO>}

Good afternoon, everyone. Welcome to Bird's Third Quarter 2022 earnings conference call.

Before we begin, I need to remind you that all statements made on this call that do not relate to matters of historical facts to be considered forward-looking statements under the U.S. federal securities laws, including statements regarding our current expectations for the business and our financial performance.

These statements are neither promises nor guarantees and are subject to risks and uncertainties that could cause actual results to differ materially from the historical experience or present expectations.

A description of the risks and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements on this call can be found in the risk factors section of our Form 10-K for the year ended December 31, 2021, filed with the SEC on March 15, 2022, in the risk factors section of our quarterly report on

Form 10-Q for the quarter ended June 30, 2022, filed with the SEC on August 15, 2022, and in our other filings with the SEC.

This call will also reference non-GAAP measures, including adjusted EBITDA, adjusted operating expenses, ride profit margin and free cash flow that we view as important in assessing the performance of our business.

A reconciliation of these non-GAAP measures to the nearest GAAP measure is available in our earnings release on the company's Investor Relations page at ir.bird.co.

The growth percentages that follow are in comparison to the same period of the prior year, except as otherwise specified.

I'll now turn the conference over to Bird's President and CEO, Shane Torchiana.

Shane Torchiana {BIO 22683979 <GO>}

Thank you, Karen. Thank you, all for joining us today for our Third Quarter earnings conference call.

Before I begin I want to take a minute to thank the Board and our employees for putting their trust in me to lead our exceptional company in our next chapter as CEO.

Over the last four years here, I have gained a solid understanding of what drives our business. This experience, coupled with my prior experiences as a management consultant largely spent taking out costs of large companies and as an investor looking at asset valuations, have been instructive as I thought through what we can do to drive profitability and create long-term shareholder value.

Today we are at an inflection point in our business. Looking ahead, we will prioritize cash generation against near-term growth. Through 2021, Bird stood out in an investment ecosystem that provides companies with high growth potential with less of an emphasis on the cost of achieving that growth.

Given our strong product market fit, an annual revenue growth rate of 48% from 2018 to 2021, we thrived in this environment. However today's macroeconomic environment and accordingly different market sentiment, have caused us to revisit the strategy to tilt the focus more towards self-sustainability over growth.

To be clear, we remain bullish on the long-term prospects of the category but prefer a path that proves profitability before capturing the full market opportunity. We've had to adapt quickly, taking aggressive steps to accelerate our path to achieve profitability.

Specifically, we have: one, sharpened our geographic product focus; two, enhanced the structure of our leadership team to fit to our strategy; and three, initiated a 40% to 50%

overall reduction in our central cost structure versus Q2.

Looking ahead, we see 3 pillars to drive our path to self-sustainability. The first of these pillars is to be the trusted partners that cities deserve. Recently, we've doubled down on putting cities at the center of everything we do. Building on progress made this year, we plan to continue to work closely with and listen to our city partners to understand their pain points deeply.

Against these transportation pain points, e.g., safety, clutter, equity of access and sustainability, we expect to continue to work diligently across direct technology, operations and government partnerships teams to build our offering. Recent examples include sidewalk detection and virtual parking in collaboration with Google in order to be at the forefront of city innovation. This, we believe, is essential in building (inaudible), trust and a sense of partnership with our cities, which, in turn, is key in retaining our existing permits and growing our footprint with new cities.

Our second pillar is to continue to improve our asset efficiency. You could think of this as improving the return on our assets. The 3 legs of this stool are: one, improved supply/demand matching for our new demand-based vehicle drop model; two, increasing our vehicle deployment rate; and three, extending the average life of our vehicles.

As previously referenced, we're investing in our model for street-level vehicle supply and demand matching. This supply and demand-based local optimization combines leveraging our deep local expertise from our team and fleet manager partners, and the data-driven (inaudible) is captured by the over 175 million rides we generated.

Currently, far too many of our vehicles are being dropped in locations every day where we know they won't drive incremental trips. Correcting this is a complex but exciting area of vast opportunity for Bird and our fleet manager partners.

We are currently in the process of optimizing the balance of utilization lift from optimal drop locations with the incremental additional efforts required for those drops. Based on testing in 100-plus markets over the last several months, this initial optimization is expected to significantly improve the rider experience, i.e., the likelihood of approximate vehicle being available, our seasonally adjusted utilization rates and ride margins. Specifically, we expect that we can increase our vehicle utilization by 10% to 20% in the near term, perhaps even more in the longer term.

Second, we can be more efficient with how many vehicles our fleet manager partners need at any given time to support the vehicle caps in the local market, the clear path to deploy more of our vehicles at any given time versus having them sitting in a warehouse, charging or awaiting repairs. The primary benefit of this is that we can capture incremental growth opportunities without having to spend more capital on new vehicles.

Lastly, by continuing to improve our inventory management products, investing in new methods, tools and training for repair and refurbishment, better aligning our fleet manager partners' profiles and incentives and rolling out ever more efficient vehicles, for instance, with (inaudible) batteries and better trucking devices, we should expect to see not only a higher percentage of our fleet out on the road at any given time but also continue to extend the useful average life of our vehicles.

Even longer average useful lives, we'll continue on our strong historical trends of reducing capital expenditures, expanding gross margins by decreasing depreciation per trip and reducing Bird's greenhouse gas impact as the carbon from vehicle creation is (inaudible) for most trips.

The third major pillar is aligning our cost structure with inflows. Our last strategic pillar is to ensure our cost structure is aligned with the cash margin our business generates. Our number one priority for our business is to be free cash flow positive and ultimately self-funding. We have made great progress in reducing our costs, and we'll seek to ensure that discipline remains part of our DNA going forward.

Earlier this year, we announced our profitability-focused strategy to evolve our business to be self-funding, including: one, focusing on our profitable core Sharing business; two, adjusting our city footprint to focus on our higher-margin markets; and three, streamlining our fixed cost structure. Our team has worked diligently to execute on each of these new initiatives, which we believe will continue to flow through our financial performance as we progress into early fiscal 2023.

As we noted last quarter, we have slowed the expansion of our retail product sales business and prioritized our core Sharing business. In doing so, we expect to reduce the drag from a lower-margin, capital-intensive business.

We plan to continue to sell a minimal amount of retail products and support our channel and retail partners, but the revenue and profit contribution is expected to become immaterial as we head into fiscal 2023.We looked at the performance data closely in all markets and regions, and it has become clear that some markets are still too far from supporting a vibrant, self-sustaining micromobility industry.

In some cases, this is a result of underregulation, e.g., no vehicle caps that leads to an oversupply of vehicles and operators alike, some of whom don't behave rationally financially. For instance, we recently captured the leading position in some large German markets, but learned in the process that it's unlikely any operator will be turning a profit in those markets anytime soon.

As a result, we made the tough decision to entirely exit from Germany, Norway and Sweden as well as wind down operations in several dozen additional smaller to midsized cities across Europe and somewhat in the U.S. Going forward, we expect that our EMEA footprint will look materially different, focusing on markets where we are a market leader and where our asset productivity, as measured by margin per vehicle per day is attractive.

We don't believe selling $2 for $1 is a viable business strategy and do not plan to (inaudible) markets where that's a requirement. While this change is expected to reduce top line revenue by $20 million to $25 million on an annual basis, we expect these market exits will actually increase our gross profit dollars by approximately $10 million on an annual basis. This is on top of the additional operating expense savings that fall below gross margin.

Transitioning to operating expense reduction initiatives, in Q3, we executed on our $80 million annualized cost savings target and achieved an annualized operating expense run rate of approximately $160 million. But as we look ahead to fiscal 2023, we're taking on a more aggressive approach to cost optimization efforts and have uncovered opportunities to drive an additional set of efficiencies.

Along with our market footprint adjustments, we are taking in additional cost savings actions and expect to bring our annualized adjusted operating expense run rate to $120 million to $130 million, reducing central costs by 40% to 50% from Q2.We expect to see these savings mostly completed in Q4 2022 and to realize the full benefit in early 2023.

As noted above, our number one priority is for our business to be free cash flow positive and secondarily, to turn adjusted EBITDA positive on a full year basis even if we have to sacrifice some growth to achieve that.

I will now turn the call over to Ben to review our financial performance and outlook in more detail.

Ben Lu {BIO 15184293 <GO>}

Thanks, Shane. I also want to start by recognizing the incredibly talented Bird management team and employees that I now have the privilege of working with.As an outsider, I was impressed by what this company has accomplished over the past five years. And two months into the role, I'm even more impressed by the resiliency, hard work and dedication that the entire organization puts forth each day.

More importantly, our operations and finance teams have been nimble and adaptive to change as we work diligently and collectively to evolve our business to one that is profitable and self-sustainable. While we are prioritizing profitability in the short term, we remain optimistic about the mid- to long-term prospects of the industry. We are committed to being a leader in an environmentally friendly electric transportation around the world.

Now before I talk about the quarter, let me briefly address the accounting restatements disclosed in our earnings release today. During the evaluation of our rider wallet subledger, we found the design error within our internal back-end IT systems. The systems do not capture some fail payments occurring after the completion of a ride that were incorrectly booked as revenue, resulting in the overstatement of revenue and understatement of deferred revenue.

As a result, we expect to restate our historical revenues by $12.5 million in the first 2 quarters of fiscal year 2022, $14.6 million in fiscal year 2021 and $4.5 million in fiscal year 2020. More specific details will be included in our amended 10-K and 10-Qs when filed.

For context, we have been evaluating our rider wallet subledger for the purposes of recording breakage revenue. By way of background, breakage revenue is akin to companies with gift card programs. Companies estimate the amount of gift card balances that they expect not to be redeemed and record this as estimated breakage revenue.

At Bird, many customers have created preload wallet deposits that are available for future redemption via rides. We are evaluating the probability that a portion of the U.S. wallet balance, which currently sits at $67 million, will not be redeemed.

While the restatement will reduce our historical revenues, we are in the process of completing an analysis of preloaded wallet balances against historical redemption patterns, which we expect to be completed in the next quarter. Upon completion, we expect to record recurring breakage revenue going forward and also anticipate booking a onetime true-up that would increase our revenues next quarter. It is also important for you to note that there is no impact on our cash position or cash flows as a result of these 2 accounting changes.

Now on to our Third Quarter financial results. We reported our First Quarter of positive adjusted EBITDA and cash flow from operations to the tune of $200,000 and $2.2 million, respectively. With minimal CapEx of $3.5 million in the quarter, our free cash flow was just slightly negative $1.2 million, demonstrating strong progress against our target of turning the business to positive free cash flow.

Of course the seasonally colder winter months will be more challenging for free cash flow.But we are continuing to align our structure and prudently managing our CapEx spending to put us on a path to self-sustainability.

For the quarter, we reported revenues of $73 million, up 19% against Q3 last year, consisting of a 15% increase in sharing revenues and $2.7 million increase in product sales. The 15% increase in sharing revenues was driven by a 9% growth in rides.Our Q3 rides reached a record high but did come in below our expectations, while the deployed vehicles were up 49%.

Lead times for our vehicles were exceptionally long last year and had reached up to 12 to 18 months. When we placed our vehicle orders in the first half of 2021 in the midst of a challenging global supply chain environment, we had overcommitted on our vehicle orders, which led to the near-term mismatch between ride volume and vehicle deployment. Going forward, you can expect us to be much more disciplined around our vehicle CapEx spending as we focus more on improving our asset deployment strategy, as Shane had mentioned earlier.

Now let me talk briefly about our margins. Consolidated gross margin reached a record of 38%, up from 13% last year, benefiting from lower depreciation, operational efficiency from greater scale and a onetime benefit from retail product sales that were booked as contract COGS.

Ride profit margin before vehicle depreciation also reached a record 55% with 5percentage points of the year-over-year improvement driven by operational efficiency as we scaled across larger fleet manager partners. Including depreciation, sharing gross margin was 37% compared to 14% last year due primarily to asset impairments from last quarter and tariff adjustments.

By region, North America's sharing gross margin was 39% compared to 24% a year ago. And EMEA's sharing gross margin was 32% compared to a loss of 11% last year.

Q3 adjusted operating expenses increased 9% year-over-year to $40 million, (inaudible) than 19% increase in revenues and decreased nearly 30% from $56 million in Q2, achieving our annualized run rate cost savings of $80 million. As Shane had mentioned earlier, we expect to further reduce our adjusted operating expense to an annualized run rate of $120 million to $130 million versus our prior guidance of $160 million.

We ended Q3 with total cash and restricted cash of $88 million, including $39 million of unrestricted cash. Additionally, as of September 30, 2022, we have 48.5 million shares of equity financing available through our standby equity purchase agreement with (inaudible), which we may seek to use depending on market conditions.

In October, we amended our existing $150 million Apollo vehicle financing facility to align amortization payments with seasonal peaks of the business in the summer months when vehicles generate the most cash and provide greater financial flexibility in the winter months. Additionally, we paid down $45 million of the facility loan balance using a restricted cash, which will significantly reduce our future interest and amortization payments. We estimate that our CapEx next year should be fairly minimal as we focus more on improving our vehicle utilization and deployment strategy.

Now as a result of the 2 accounting changes I mentioned earlier, we're withdrawing our previous fiscal year 2022 revenue guidance of $275 million to $325 million. As I had noted earlier, we're working to estimate a onetime true-up to breakage for Q4 and on a go-forward basis as well as refining our near-term forecasting as we implement these 2 accounting processes. We remain focused on achieving our cost reduction plans that will better position the company to reach full year EBITDA profitability.

For some context, however our current ride trends thus far in the quarter are tracking in line to slightly below normal seasonality, which is that both total rides and rides per deployed vehicles tend to be seasonally softer as we head into the winter months. In addition, we will see some modest revenue reduction due to the announced exit from several unprofitable markets though this should positively benefit our overall gross profit dollars.

And with that, I'll turn it over to Karen to go over questions from our investors using our new Q&A platform before opening the session to our analysts.

Questions And Answers

A - Karen Tan {BIO 18010772 <GO>}

Thank you, Ben. We are very excited to partner with (inaudible) Q&A platform this quarter to provide increased transparency and engagement with our shareholders. Based on interest and as shown by votes, we have preselected 4 questions to answer.

The first question is one that touches on several investor questions and it reads, "The stock price has been below $1 for over five months now. The risk of delisting is now very high. What is your plan to cure the stock price efficiency and to return to compliance with the NYSE?" I'll direct the first one to Ben.

A - Ben Lu {BIO 15184293 <GO>}

Thanks, Karen. That is a great question from our shareholders. Let me clarify what we had stated in our press release that we issued back in June. We have 2 options to cure the listing efficiency.

First, we can gain compliance at any time within the 6-month period after we received NYSE notice in late June, if 2 things happen: one, our closing share price is $1 on the last trading day of any calendar month; and two, our average closing share price is at least $1 over the 30-day period ending on the last trading day of that month.

The other option is that we can do a reverse stock split, which will be subject to Board and shareholder approval. The timeline for this is any time up until our next AGM, which is expected to be in June 2023. Both of these options will allow us to remain listed on the NYSE.

A - Karen Tan {BIO 18010772 <GO>}

Okay. Great. Our next question asks, "What actions are you taking to generate more profitable opportunities for the company? As an investor, I am concerned about the company never being able to become profitable."

A - Shane Torchiana {BIO 22683979 <GO>}

Thanks, Karen. This is Shane. I can take that one. So a little bit as previously mentioned in this call, we've done 3 specific things already and have 3 focus areas as we look ahead to drive profitability.

In terms of what's already been done, streamlining our product and geographic footprint was critical for us. I won't restate the details there, but that's number one.

Number two, very much related, upgrading and streamlining our senior management team, both for public company readiness also to reduce costs. Then three, quantitatively taking those as well as the additional cost reduction steps across our central cost base to reduce OpEx by 40% to 50% from our Q2 levels.

Looking ahead, the 3 strategic pillars that we're focused on somewhat walking through our P&L. Number one is continue to be the trusted micromobility partner that we think our cities deserve is primarily going to impact our top line revenue. Number two, continue to improve our fleet efficiency. Not going through all the details, that means better matching of supply and demand, improving our deployment rate of our vehicles, so taking them out of warehouses more often and putting them on the street and number three, continuing to extend the average useful life of the vehicles. That primarily -- asset efficiency point primarily flows through our gross margin, although you see a little bit on the top line as well as you think about utilization.

Then number three, looking ahead, keeping costs that we've already talked about reducing in line with the cash that we expect our business to generate. So keeping a very tight set of controls and regular checks in on our central cost base and not letting, if you want, the weeds to grow back from a cost perspective. That mostly is going to impact our bottom line.

So those are the 3 things that we've done and the 3 things that we're keeping our eye very closely on as we look ahead as we think about getting to EBITDA positive and ultimately, free cash flow positive.

A - Karen Tan {BIO 18010772 <GO>}

Thank you, Shane. I'm going to direct the next question to you as well. Any future partnerships or collaborations with companies like Apple or Amazon?

A - Shane Torchiana {BIO 22683979 <GO>}

Yes, that's a great question. I suppose to give you one example that ties back to our pillar number one, city trust and growing with cities, we do continue to work with Google on visual parking solutions, which is something cities care quite a bit about and commonly ask for.

We utilize Google's vast knowledge base of data and (inaudible) images in real-time help riders after they're done with their ride to find the approved parking location for the scooter or something or by something we call virtual docs. It's near (inaudible) and results in a very precise centimeter level geolocation detail that prevents improper parking and ensures that folks park essentially in approved areas without actually having to build (inaudible) there. As you might imagine, that's very important to cities and something we're super excited to keep working with Google on.

We're always going to be open to opportunities to partner and collaborate with other companies, certainly, including Apple and Amazon, but not limited to them. But at this time, we don't have any other partnerships to announce publicly at the moment.

A - Karen Tan {BIO 18010772 <GO>}

Okay. The last question from our investors. Why are we not in all major cities in a particular state? There are plenty of close untapped markets not being utilized. What is Bird's plan for city expansion? And are there any supply issues? I'm going to give that to Shane again.

A - Shane Torchiana {BIO 22683979 <GO>}

Yes. Thanks. Thanks, Karen. So we think the opportunity for city expansion is vast, both in our existing regions in North America and EMEA, but perhaps even more so outside of these in the longer term. So we remain very optimistic in that regard around our growth prospects.

And maybe I'll give a little bit more detail here. So we do see a few main drivers of market growth. Number one would be growing in new and existing cities in our core regions, again North America and EMEA. Number two, the growth prospects outside of our core regions and the rest of the world, which I can talk more about. Then number three, the expansion of our rider base as the service becomes more mainstream in the industries that we're in.

So to give more detail on number one, we're only beginning to scratch the surface just in North America and EMEA. To give you some stats on that, we're present in about 1/3, actually slightly less of the addressable cities in those markets. The bulk of the remaining 2/3 are cities that don't yet have a mobility program. To give you some examples, Dallas, Houston, Boston, Philadelphia or think about EMEA, Barcelona and Amsterdam.

That's interesting because when you look at voter polls, micromobility and the public right-of-way electric scooters and electric bikes, 75, 25 voter (issue).So it's only a matter of time until the political leaders in those cities that are moving more slowly catch up and embrace the sustainable transportation options that their constituents are demanding in the 3:1 ratio.

Then even within those cities that we're in, take New York City as an example, we also still only have partial coverage. So there's quite a bit of room to grow our supply to match the demand there as we expand our vehicle supply over the course of time.

On the second of those points, looking outside of our core regions, we're just launching in the Middle East, in Doha in time for the World Cup. We actually just launched there and are (inaudible) to expand in Australia, New Zealand and Korea, which we see as very promising and cash flow positive market as well.

There are other large and open markets, particularly in Asia, Japan, Singapore, et cetera. I'm thinking longer term in Latin America that we really haven't touched as well and see as a strong long-term opportunity but not necessarily a near-term priority.

Then last of the sort of 3 subpoints that I talked about, we're still in the early adopter phase for rider demographics. Currently, they skew younger and tend to be more male, although that changes as cities increase their like an e-scooter infrastructure with protected lanes.

So ridership cases are starting to trend more towards commuting, especially in city that we've been in for several years but still, in many markets include a large portion of leisure and tourism riders. We believe as the category matures and the city infrastructure matures to make the services safer, usage will continue to grow in the cities that we're in agnostic of any vehicle caps. And again as I mentioned, we've seen that in some of our most mature markets, both in the U.S. and EMEA.

Last point on this one, I think for the sake of clarity, while we do see significant growth opportunities ahead of us, the current priority is on profitable growth.Where we need to make any trade-off decisions between growth and profitability, we're going to seek to prove out the profitability of this model before we capture the full potential in the market.

A - Karen Tan {BIO 18010772 <GO>}

Okay. Great. Thank you for taking those questions, Shane and Ben. Thank you, to our investors for submitting your questions this quarter.

With that, I'm going to turn it back to our operator to take any questions from our analysts.

Operator

(Operator Instructions) Our first question is from the line of Tom White with D.A. Davidson.

Q - Tom White {BIO 18036521 <GO>}

Great. A few maybe if I could. I guess just first off, can you -- on the city exits, can you maybe just help us better understand kind of the scale of the impact of those exits on your financials, revenue, gross profit, EBITDA? Then also the impact on CapEx, I'm just curious what happens to the vehicles in those cities that you're exiting. Do you kind of reposition them to other markets? Is that maybe why you're -- I think you mentioned kind of minimal CapEx next year? Then I had a follow-up.

A - Ben Lu {BIO 15184293 <GO>}

Tom, thanks for asking the question. This is Ben. So the cities that we announced are part of a strategic review that we did to help really achieve our goal of becoming self-sustainable and EBITDA positive. So one of the things we looked at is we looked at which cities do not have a clear path to profitability. That included a full exit from some countries in Germany, Norway Sweden as well as a couple of dozen of smaller midsized cities.

Now these exits, Tom, are more weighted towards EMEA, where we trim back from cities that have not really matured in terms of their regulatory framework. What I mean by that is we're seeing unhealthy unit economics in some of these markets.

But in the U.S., these exits to be somewhat of a small handful of our long-tail cities. So what I would say is after this global footprint realignment, the more profitable North America regions, you probably account for over 75% of our go-forward revenues.

And what I noted on our earnings call, which Shane also noted is that the most important thing to take away from this is that these market exits are estimated to increase our gross profit dollars by about roughly $10 million on an annualized basis. In addition to that, there's also additional OpEx savings that will come from consolidating our EMEA operations.

So -- and this is just part of the incremental $30 million to $40 million annualized run rate cost savings that we have just announced as -- on earnings.

And to your other question, Tom, about some of the vehicles and CapEx, you're right, we're going to reallocate some of the vehicles that we have from those markets that we're exiting. We're going to hibernate some of those both during the winter months and also move them to other new market opportunities like in the Middle East ahead of the World Cup over there.

You also heard about our strategic pillar. I think Shane talked a bit about that and how we're focused on improving our vehicle fleet efficiency through better supply demand matching, higher deploy rates and extending the life of our vehicles.

So when you think about that context, I would say net-net, we should have enough vehicles on hand to support our remaining city portfolio and capture near-term opportunities. So you can expect that we're going to be much more prudent with our CapEx spending going forward and that our focus will be more on driving greater asset efficiency and balancing that with CapEx for new vehicles. I hope that helps, Tom.

Q - Tom White {BIO 18036521 <GO>}

Yes. That's good. Maybe one more follow-up for you. Just I want to make sure I understand the breakage revenue stuff. So this is deferred revenue that, I guess the accounting rules say that you can recognize some of that over time even if consumers don't actually kind of take the rides.

But thus far, you haven't been recognizing any of that as revenue, but you're now going to start doing that. I don't know maybe help us like understand like how much could that potentially offset the negative restatement to revenue kind of going forward from the wallet issue you talked about?

A - Ben Lu {BIO 15184293 <GO>}

Yes. Sure. Sure, Tom. This is actually a rather technical accounting question that you've provided. So I'll try not to be too technical with it.

The way I tend to characterize this to folks who are not familiar with breakage revenue is think of it as a gift card, right? If someone gives you a $50 gift card, you want to purchase $45, you have $5 remaining in a gift card. There's a probability that whether you or others just never use that remaining balance, whether it's because you lost it, you threw it away or you forget to use it, but probability is that there's a significant portion of those people will never redeem the remaining portion of their gift cards.

This is very similar to what we have. We have what we call preloaded wallet balances. So when you do a ride, you want to put in $5, $10, et cetera. Then we run probability across our wallet balance to see what's the probability that someone is ever going to make a transaction within their wallet.

And over time, whether we do it one year or 2 year, et cetera, you look at cohort data and you start realizing that we have $67 million wallet balance here in the U.S. The probability of that is and you said, what's the chance that someone is going to make a transaction within that wallet balance? And if the probability suggests that a portion of it will never be touched, that's what we booked as what we will call a -- what I called a onetime true-up to our revenue.

So you'll see a pretty meaningful bump up in our revenues next quarter because of this true-up. We're obviously working with our auditors to estimate what that magnitude would be, but you can think it's a pretty meaningful portion of that $67 million.

Then on a go-forward basis, just like in that gift card analogy I mentioned, we're going to continue to book a certain percent of our revenues as breakage revenues, meaning the revenue that we can recognize from the wallet as part of our deferred revenue balance. It's a little early for me to say what that number is because that's something that we're still working with our auditors, too.

But I would say high level, Tom, industry average is that breakage revenues are somewhere in the, I would say maybe 5% to 8% range on a go-forward basis. But we still need to finalize that with auditors. So don't hold me to that yet.

Q - Tom White {BIO 18036521 <GO>}

Okay. That's helpful. I appreciate the direction there. Maybe just one last one, if I could maybe for Shane. Shane, you talked a little bit about kind of the initiatives around optimizing vehicle placements.

I mean I guess can you help me understand, is that mostly a technology thing? Is it kind of optimizing or fixing some part of the fleet manager model? Because I sort of thought that was kind of one of the things that the fleet managers were supposed to be incentivized to do and be nowhere to put them just given that they're kind of in market, et cetera?

A - Shane Torchiana {BIO 22683979 <GO>}

Yes. That's actually an excellent question. So look, both pieces are pretty important, and I recall one you could call it technology or maybe just a complex analytical problem is sort of piece number one. Then piece number two is what I call change management and getting folks on board to follow the recommended locations.

On the first piece, that effort is done, at least version 1 of it is done. No doubt there will be a version 2 and a version 3 in the future. I would say that's about 1/3 of the effort. 2/3 of the effort is the actual change management to get folks to adopt the recommendation, whether they be the small percentage of cities that we're doing inhouse or the majority percentage of cities that are managed by fleet managers where we can obviously make suggestions to them. But given they're independent contractors, can't tell them exactly what to do.

And we're deep into that. The analytical process is done, and then we're deep into that change management process right now. I think I may have alluded to this last quarter, that's why this overall evolution should be measured in quarters as opposed to in weeks or in months. So it takes a few quarters to fully roll out that change management process.

Operator

Our next question is from Eric Sheridan with Goldman Sachs.

Q - Eric Sheridan {BIO 22465717 <GO>}

Maybe a few, if I can. Any update on cohort behavior or existing more mature market sort of customer growth, so we can better understand some of those core markets that are going to be around for the longer term and sort of make the base of revenue going forward and how they may behaving. That's number one.

Number two would be elements of the cost run rate you gave. Is that the right cost run rate to think about remaining flat through all of '23?Or is that really just highlighted as an exit rate for '22 as opposed to illustrative of how should we think about cost for '23?

Then the last one, if I could squeeze a third in. Obviously when you put something out like going concern over the next 12 months, investors are going to ask a lot of questions about what the underlying assumptions are.

So in terms of burning through the remaining cash if something doesn't present itself on the financing front, can you give us a little bit better sense of what assumptions you're making over the next 12 months in terms of what the business model looks like to get from point A to point B?

A - Shane Torchiana {BIO 22683979 <GO>}

Yes. This is Shane. I'm happy to take the first 2, and maybe I'll let Ben talk about the third one. So on the run rate cost question, that 1 20, 1 30 number is not just our exit rate for the year but what we would expect to be able to achieve for the full year in '23.So we don't see that creeping on materially next year. I think that's actually a very, very important focus for me and the rest of the management team, as I mentioned, not letting that number get higher.

Then on the cohort data, the retention data, look, same-store sales continue to be healthy if you want to think about it that way. Retention data, rider retention data, I think has improved slightly, although I think publicly disclosing that, that seems to be healthy.

Then I think the most important thing as we think about our sort of existing markets is, one, what we're actually seeing in New York City right now, where there was just an RFP released where they're only operating the Bronx right now. They're extending that to 4 out of the 5 boroughs everywhere but Manhattan. That trend continues to be the case in almost every major market that we're in. Very rarely are folks shrinking their footprint.

Certainly, the average trend is to increase the vehicle supply or cap in those cities. Then, of course as we roll out the technology that I was just talking about for vehicle placement, we do see upside, as I alluded to, of higher rides per vehicle per day as we think about our vehicle locations and not just putting them in the same place in the center of the city, but spreading the field out a little bit to match that very, very local supply at the street-corner level to the very, very local demand. But Ben, maybe I'll kick it back to you on the kind of cash question and going concern question.

A - Ben Lu {BIO 15184293 <GO>}

Yes. Sure. Thanks, Eric, for the question. So if you think about what going concern is, it's basically a downside stress test that orders perform over a go-forward 12-month period. I would say that we're continuing to explore multiple levers to reduce costs and to preserve capital.

And as we noted earlier, we're exiting unprofitable markets that should provide a positive benefit to gross profit dollars. So we're further reducing our OpEx you heard by another $30 million or $40 million on an annualized run rate basis. That should be realized by early 2023.

And we're going to be much more prudently managing our CapEx spend such as, for instance, converting some of our vehicle deposits into cash control vehicle purchases so that we don't need to outlay any additional CapEx dollars. We also have, as I noted in my script, about 48 million shares from our (inaudible) that we can issue to raise capital as the market conditions dictate.

And so we continue to explore various other capital fundraising opportunities, and we'll obviously provide updates if that ever happens. What I would say Eric, is that we believe these actions are necessary and will -- going to best position us to achieve our goal of becoming EBITDA positive and to be self-sustaining.

Operator

And Mr. Torchiana, there are no further questions at this time. You may continue with your presentation or closing remarks.

A - Shane Torchiana {BIO 22683979 <GO>}

Well thank you. Thanks, everyone, for dialing in to our call, and definitely love to hear from everybody again next quarter.

A - Ben Lu {BIO 15184293 <GO>}

Thank you, all so much. (inaudible) talking next quarter.

Operator

That does conclude the conference call for today. We thank you all for your participation. We kindly ask that you please disconnect your lines.

Have a great day.