14-Feb-2019

YETI Holdings, Inc. (YETI)

Q4 2018 Earnings Call

Copyright © 2001-2019 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Tom Shaw
Vice President of Investor Relations, YETI Holdings, Inc.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

OTHER PARTICIPANTS

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Sharon Zackfia
Analyst, William Blair & Co. LLC

Robert A. Friedner
Analyst, Piper Jaffray & Co.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Randal J. Konik
Analyst, Jefferies LLC

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the YETI Holdings Fourth Quarter and Full Year 2018 Results. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that this conference is being recorded.

And I'll be turning the conference over to Tom Shaw, Vice President of Investor Relations. Please go ahead, Mr. Shaw.

Tom Shaw
Vice President of Investor Relations, YETI Holdings, Inc.

Good morning, everyone. Thanks for joining us to discuss YETI Holding's fourth quarter and full year 2018 results. Before we begin, we would like to remind you that this conference call will include forward-looking statements, which are subject to various risk and uncertainties that could cause our actual results to differ materially from these statements. These statements are detailed in our risk factor discussions that can be found in this morning's press release as well as our filings with the SEC all of which can be found on our website at investors.yeti.com.

We undertake no obligation to revise or update any forward-looking statements or information. During our call today, we will also reference certain non-GAAP financial measures, including adjusted items. Reconciliations of GAAP to non-GAAP measures as well as the description limitations and rationale for using each measure can be found in the supplemental financial tables included in this morning's press release and in our filings.

Copyright © 2001-2019 FactSet CallStreet, LLC

We use non-GAAP measures as the lead in some of our financial discussions as we believe they more accurately represent the true operational performance and underlying results of our business.

Today's call will be led by Matt Reintjes, President and CEO of YETI and Paul Carbone, CFO. Following our prepared remarks, we'll open the call for your questions.

So with that, I'll turn the call over to Matt.

Matthew J. Reintjes

President, Chief Executive Officer & Director, YETI Holdings, Inc.

Thank you, Tom; and good morning, everyone. Thanks for joining us for our call today. Let me begin by welcoming Tom Shaw to the YETI family as Vice President of Investor Relations. We look forward to Tom's contributions as he draws from his experience with exceptional brands most recently at Starbucks and prior to that at Under Armor. I would also like to thank ICR for their significant efforts to help guide our company through the IPO process to where we stand today.

Now turning to our results. We ended a great year on an exceptional note as the YETI brand and product portfolio continued to resonate with consumers through the fourth quarter and the holiday season. Total revenue grew 19% in the fourth quarter and 22% for the year, with broad-based growth across channels and categories. These outstanding results reflect the power of our omni-channel strategy. We were very pleased with the performance of our wholesale segment, which grew at 4% in the fourth quarter and 10% for the full year.

Our direct-to-consumer business continued to be our standout, growing 45% in the fourth quarter and 48% for the full year 2018. We believe expanding our omni-channel capabilities enables an enhanced consumer experience with the brand. I will elaborate further on this initiative when I discuss our four strategic growth drivers.

From a product standpoint, we had a number of successful new product launches during 2018 across both our Drinkware and Coolers & Equipment categories. We also experienced strong performance in our legacy products as brand awareness continued to build. We were particularly excited about the exceptional growth in our Drinkware business as we believe this category broadens our reach and creates a great entry point into the YETI brand. The customer passion for our products continues to be displayed across social media and through product reviews with YETI earning numerous product and brand awards in 2018.

For example, USA Today awarded the Hopper Two, our portable leak-proof soft cooler with its 2018 Readers Choice Award for Best Gift for Road Trippers. And as we sought to create the most durable and comfortable outdoor chair on the market, GQ recognized our new Hondo Base Camp Chair in their Best Stuff of 2018. These are just a few of the many accolades earned over the year. Our focus on high-quality growth led by these great products drove a strong double-digit revenue increase as well as operating margin expansion.

Our top line performance translated into gross margin expansion of nearly 700 basis points in the fourth quarter and over 300 basis points for the year. We also grew adjusted operating income over 60% for each of these periods. Paul will discuss overall financial results in more detail shortly.

Now, let me turn briefly to several updates within our four big strategic growth drivers: expanding our customer base, introducing new products, accelerating direct-to-consumer and corporate sales and expanding internationally. The ongoing focus and commitment on these is central to our success and sets us up to deliver consistent profitable growth in the years ahead.

Copyright © 2001-2019 FactSet CallStreet, LLC

First, beginning with expanding our customer base. We're extremely pleased to see the growing reach of the YETI brand. We have a number of initiatives in place to further drive brand awareness, including multi-layered marketing programs, word-of-mouth referrals, experiential brand events and YETI Ambassadors. Word-of-mouth has been one of our most powerful tools as our customers are passionate about our products and brand and actively share their experiences with others.

Continuing our efforts to build our brand awareness, we delivered our first national TV and digital brand campaign, which started in October and ran through December. Actual reach numbers exceeded our expectations, generating over 200 million household impressions in the fourth quarter. We then complemented this effort with our YETI Dispatch catalog, where we tripled the distribution over last year's comparable mailing.

These initiatives helped drive significant growth in both unique users and total traffic to YETI.com in the fourth quarter, realizing the highest growth rates of the year, while also lifting aided and unaided awareness across geographies and product categories based on our most recent brand survey. These brand-building initiatives are also being recognized more broadly with Fast Company naming YETI one of the World's Most Innovative Companies in 2018. Next week in Banff, Canada, YETI will be one of eight honorees at the gathering, an annual coming together in recognition of some of the world's most coveted brands.

As we continue to evolve our marketing efforts to deepen engagement with YETI customers and further expand our customer base, we're thrilled to have added Melisa Goldie to our management team in early January as our first Chief Marketing Officer. Melisa brings tremendous depth of knowledge and leadership in brand strategy, digital, and experiential consumer engagement and innovative product marketing. She knows how to manage multiple products and categories across price points, channels, and geographies. We believe that her experience in dynamic brands will be instrumental in amplifying our global marketing reach.

Turning to our second growth driver, introducing new products. We're extremely proud of our product development track record as this is the cornerstone of our brand. In the fourth quarter and throughout 2018, we continued to see traction of our legacy products, while also generating strong enthusiasm for newer introductions. For example, within Drinkware we launched our Rambler 20 oz Tumbler in 2014 and it continues to be a leading seller for us. More recently, we extended the Rambler family with the 10 oz Wine Tumbler, which expanded distribution throughout 2018.

Moving from YETI.com-only at the beginning of the year to a broader wholesale and direct-to-consumer starting in the fourth quarter. Overall our Drinkware has appeared on multiple best-of and best gift ideas lists in publications as diverse as Refinery29, Esquire, Popular Mechanics and Gear Patrol.

2018 also marked our expanded efforts into a newer category for the brand, bags. We first introduced the Panga in the back half of 2017, a highly technical, fully submersible waterproof duffel bag followed by the equally functional high-performance Panga Backpack. Now the global opportunity for this degree of technical performance may not be huge, but it showcased our capability to leverage our design knowledge and our supply chain to develop a product worthy of the YETI name. And we're extremely pleased with the accolades we received ranging from Women's Health highlighting the Panga Backpack in their Editor's Choice of Best Fitness and Outdoor Gear at the 2018 Outdoor Retailer Summer Market to Field & Stream naming Panga among the Best Hunting and Fishing Gear of 2018.

Importantly, this movement into a new category was a proof point that our brand can extend further. As we looked at how we could broaden the market opportunity of our bags while upholding the YETI expectation, we developed the Camino Carryall. Introduced in early 2018 with a $150 price point, this multiuse product at its most basic is

Copyright © 2001-2019 FactSet CallStreet, LLC

designed to be the best tote bag you will ever own. But the real magic begins when you start to imagine the possibilities of having the ability to halt anything in any environment. Its thoughtfully designed waterproof capabilities, and you could take it to the beach, set in a sand wash it off in the surf with all your contents inside and nothing will get wet.

What can also be used for a routine trip to the grocery store as a disposable replacement, it holds up to 300 pounds. It works equally well as a storage for a wetsuit, snow cover ski gear or muddy soccer cleats while keeping your car from getting wet and dirty. At the end of it all, simply wash it out, dry it, and you are back to the most durable, high-designed tote bag.

Currently sold only on YETI.com, the Camino Carryall has quickly become a highly-rated product, averaging 4.9 stars and crossed almost 1,000 reviews, while also landing on Shape Magazine's Best Of awards list last summer. So between using your cooler on the weekend, using the Camino Carryall for everyday life and using your Drinkware almost anywhere, we're surrounding the customers' life with YETI.

Looking ahead, we'll continue to find places where the YETI brand belongs and where we can change the nature of the consumers' engagement with a product. As an innovator, that mindset is incredibly important to us. That's what keeps us authentic and what keeps our customers excited to come back for more. We have a great pipeline of products for 2019 and beyond. And we look forward to sharing more details as we progress throughout the year.

Turning to our third growth driver, accelerating direct-to-consumer. A key tenant of our omni-channel strategy is that we want to be where the consumers shop, leveraging our wholesale accounts and then extending the brand through our own direct efforts across the YETI.com, yeticustomshop.com, Corporate Sales, the Amazon Marketplace and our own retail stores. Our direct-to-consumer business in particular gives us the enhanced ability to directly communicate with the customer, create greater brand visibility, gain new customer insights, and use our learnings to deepen our engagement with existing customers, and importantly, reach new ones.

The performance we have experienced across our direct-to-consumer channel illustrates the growing appeal of the YETI brand, building loyalty and engagement of our existing customers, while providing a unique opportunity to capture new customers.

As you would expect, we're working to leverage our data and analytics, deepen our engagement with customers and drive higher traffic and conversion across our digital ecosystem. YETI.com has evolved to be an immersive e-commerce experience with overall site traffic growing 33% to nearly 35 million visits in 2018. Later this year, we'll be combining our YETI.com and yeticustomshop.com web properties into a single site to create a stronger customer experience under YETI.com for customized and non-customized product. This will go hand-in-hand with our expanded efforts in the corporate channel where a sales team is focused on establishing new relationships to grow this customization business.

Finally, the Amazon Marketplace serves as an additional platform to further reach potential customers and drive buying occasions. Our retail strategy provides a pinnacle opportunity for customers to experience YETI first hand. The goal is to showcase our products, provide education on what they can do, share the YETI experience and engage with the local community.

In addition to our current flagship store and corporate store here in Austin, we have two YETI retail store openings planned for summer of 2019, with one in Charleston and the other in Chicago. Both locations are on high traffic streets and represent a cultural fit with the brand. We're also actively identifying future locations that we hope to

Copyright © 2001-2019 FactSet CallStreet, LLC

share with you as the year progresses. Importantly, while these stores are designed to engage customers and showcase the brand, they are planned to be profitable.

With our focus on our omni-channel strategy, I would like to take a moment to welcome the newest member of our Board of Directors, Mary Lou Kelley. We look forward to drawing upon Mary Lou's broad professional experience, including her prior tenure as President of E-commerce at Best Buy as well as her diverse board experience.

And finally, our fourth growth driver, international. While our international business currently represents less than 2% of sales, demand signals remain strong and we believe that we have an incredible opportunity over time to expand our brand globally. Following our successful 2017 introductions in Canada and Australia, we entered Japan in late 2018 through a wholesale partner. Japanese consumers are considered early adopters of leading international brands and their demand for design-driven and outdoor-focused products positions us for success as we build distribution and awareness. Going forward, we will continue to be methodical with our international expansion approach as we explore additional markets in Asia and look toward the European market.

In conclusion, we attribute our strong performance across our product portfolio and channels to the power of the YETI brand, our innovative product assortment and the continued execution of our strategic initiatives. We're attracting new customers to the brand, providing exceptional product that resonates with consumers, growing our D2C presence and expanding into international markets. As we continue to build upon the momentum in our brand and focus on executing these multiple growth drivers, we're confident in our ability to drive double-digit annual growth over the long term. I want to thank the YETI team and our customers for their passion and commitment to building YETI.

With that, I'll turn it over to Paul to review our Q4 and full year financial results.

Paul C. Carbone

Chief Financial Officer, YETI Holdings, Inc.

Thank you, Matt, and good morning, everyone, and thank you for joining us. I too would like to welcome Tom to the YETI team and share my thanks to the entire ICR team. I will begin with the review of our fourth quarter and fiscal 2018 financial results followed by our fiscal 2019 outlook.

Starting with the fourth quarter, net sales increased 19% to $241.2 million compared to $202.1 million in the fourth quarter last year.

Turning to net sales by channel, direct-to-consumer net sales for the fourth quarter increased 45% to $110.5 million compared to $76 million for the same period last year with strong performance in both product categories, particularly Drinkware. Direct-to-consumer growth was driven by increased purchases on YETI.com, Amazon as well as increased consumer and corporate customized Drinkware sales.

Wholesale net sales for the quarter increased 4% to $130.7 million as compared to $126.1 million with the increase largely coming from growth in Coolers & Equipment sales. By category, fourth quarter Drinkware net sales increased 24% to $143.5 million compared to $115.9 million in the prior-year quarter, primarily driven by the expansion of our Drinkware product offerings, new Drinkware accessories and the introduction of new Drinkware colorways during fiscal 2018.

Coolers & Equipment net sales increased 10% to $91.2 million compared to $83 million during the same period last year, primarily driven by the expansion of our hard cooler and soft cooler products such as the Tundra Haul, as well as the introduction of several new bags and outdoor living products during fiscal 2018.

Copyright © 2001-2019 FactSet CallStreet, LLC

Gross profit increased 37% to $127.8 million, or 53% of net sales, compared to $93.1 million, or 46.1% of net sales during the same period last year. The 690-basis-point increase in gross margin was primarily driven by cost improvements across our product portfolio, the non-reoccurrence of inventory reserves taken last year and an increased mix of direct-to-consumer channel net sales. These were partially offset by price reductions taken earlier in 2018 on select hard and soft coolers in anticipation of new product introductions as well as higher tariffs in the quarter.

Adjusted SG&A expenses for the fourth quarter was 34% of net sales as compared to 32.2% in the same period last year. As a percentage of net sales, adjusted SG&A expenses increased 180 basis points, primarily due to increased marketing investments and employee expenses to support the growth of our business. Adjusted operating income increased 63% to $45.9 million, or 510 basis points, to 19% of net sales, compared to $28.1 million, or 13.9% of net sales during the same period last year.

Our effective tax rate was 15.7% during the quarter compared to 72.9% in last year's fourth quarter. The unusually low tax rate was primarily driven by a significant tax benefit from the exercise of stock options in connection with our IPO as well as the reduction in the U.S. corporate tax rate enacted as part of the Tax Cuts and Jobs Act.

Adjusted net income grew 379% to $32 million or $0.38 per diluted share. Adjusted EBITDA increased 58% to $52.2 million, or 530 basis points, to 21.7% of net sales compared to 16.4% in the same quarter last year.

Now let me turn to our full-year results. For the year, net sales increased 22% to $778.8 million compared with $639.2 million during the same period last year. Direct-to-consumer channel net sales increased 48% to $287.4 million compared to $194.4 million in fiscal 2017. Wholesale net sales for the year increased 10% to $491.4 million compared to $444.9 million in the prior-year period.

Gross profit increased 30% to $383.1 million to 49.2% of net sales compared to $294.6 million, or 46.1% of net sales during the same period last year. Adjusted SG&A expense increased 18% to $258.9 million, a reduction of 100 basis points to 33.2% of net sales, compared to $218.6 million, or 34.2% of net sales in the prior-year period. Adjusted operating income increased 63% to $124.2 million, or 400 basis points to 15.9% of net sales, compared to $76 million, or 11.9% of net sales during the same period last year.

Our effective tax rate was 17% for the year. Similar to the fourth quarter, this full year tax rate reflects an unusually low effective tax rate, which was primarily driven by the significant tax benefit from the exercise of stock options in connection with the IPO and the reduction of the U.S. federal income tax rate in 2018.

Adjusted net income grew 227% to $75.7 million, or $0.91 per diluted share, compared to adjusted net income of $23.1 million, or $0.28 per diluted share in fiscal 2018. Adjusted EBITDA increased 53% to $149 million, or 390 basis points, and represented approximately 19.1% of full year net sales compared to 15.2% last year.

Now let me turn to our balance sheet. As of December 29, 2018, we had cash and cash equivalents of $80.1 million compared to $53.7 million at the end of fiscal 2017. We ended the year with $145.4 million in inventory as compared to a $175.1 million last year. The 17% decline in inventories compared to last year is the result of improved demand forecasting, effective inventory management across all product categories and fourth quarter sales exceeding our expectations. We are pleased with both the level and composition of our inventory as we entered fiscal 2019.

Copyright © 2001-2019 FactSet CallStreet, LLC

We ended the year with total debt excluding unamortized deferred financing fees of $332.9 million in a ratio of total net debt to adjusted EBITDA for the trailing 12 months of 1.7 times compared to 4.4 times at the end of the prior fiscal year.

During the fourth quarter of fiscal 2018, we voluntarily paid down in full the $47.6 million outstanding balance of our Term Loan B and made voluntary and mandatory payments of $2.4 million and $11.1 million respectively to Term Loan A using the net proceeds from our IPO plus additional cash on hand.

Now, I'd like to turn to our 2019 full-year outlook. For fiscal 2019, we expect net sales to increase between 11.5% and 13% compared to fiscal 2018. We expect growth across both channels with higher sales growth in the direct-to-consumer channel relative to the wholesale channel. As you think about the quarterly cadence, we expect our first quarter to represent the lowest growth rate of the year as a result of the change in revenue recognition related to the Amazon Marketplace.

We had previously booked revenue when inventory reached the Amazon warehouse. Beginning in the second quarter of last year, we began to recognize revenue once we shift the order to the customer. We do expect double-digit growth rates throughout the balance of 2019, driven by new product launches as well as expand the capacity of our Drinkware customization capabilities. We expect operating income margins of between 13.9% and 14.4% of net sales, reflecting margin expansion of 80 basis points to 130 basis points.

We expect adjusted operating margins of between 15.9% and 16.3% of net sales, reflecting margin expansion of flat to 40 basis points, primarily driven by gross margin expansion as we continue to benefit from lower product costs and the favorable shift in channel mix partially offset by SG&A deleverage as we increase our marketing investments to support our growth.

We expect an effective tax rate at a more normalized level of approximately 24.5%. We expect earnings per diluted share of $0.84 to $0.89, reflecting 22% to 29% growth. Assuming a normalized tax rate of 24.5% in 2018, we expect earnings growth would be between 34% and 42%.

We expect adjusted earnings per diluted share of between $0.99 and $1.4, reflecting 10% to 15% growth. Again, if we were assuming a normalized tax rate of 24.5% in 2018, expected adjusted earnings growth would be between 18% and 24%. We expect diluted weighted average shares outstanding to be approximately 86 million, adjusted EBITDA is expected to be between $169 million and $174.3 million, reflecting growth of 13% to 17% and margin expansion of 40 basis points to 70 basis points.

Capital expenditures for 2019 are expected to be between $35 million and $40 million with the year-over-year increase driven by two main factors. The first is investments in molds and tooling to support both our sales growth and new product launches and secondly the strategic expansion of our retail stores. We expect debt repayments of approximately $80 million yielding a ratio of net debt to adjusted EBITDA of approximately 1 times at the end of fiscal 2019 compared to 1.7 times at the end of fiscal 2018.

In summary, we are delighted with our fourth quarter and year-end results. We're excited about our future potential and look forward to reporting our progress in quarters to come.

And with that, we will now open the call for questions.

Copyright © 2001-2019 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is coming from the line of Robby Ohmes with Bank of America Merrill Lynch. Please proceed with your question.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

[audio gap] (00:27:23) guys, and I'd also like to welcome Tom Shaw. Great to see you join YETI. I actually have two questions. I think you guys know what the first one is going to be. Paul, I guess, for the 2019 guidance, could you give us some color on how we should think about the relative growth of Coolers versus Equipment?

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Yeah. Good morning, Robby. So as we think of both Coolers & Equipment and Drinkware, we expect them to grow in 2019 within our long-term guidance of 10% to 15% of the top line growth. And then, I'd just say as you think about that throughout the year, now quarter-to-quarter, we will see variations based on product launches and things of that nature. But overall in 2019, we would expect both categories to grow in that 10% to 15% range.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

And the wholesale D-to-C split that we should be thinking about for 2019 growth?

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Yes, yeah. So what I would say there is if we go back to what we've talked about even in our long-term guidance is, we would expect D-to-C to grow in the mid-20s. And we would expect wholesale to grow in the mid-single-digits. And we would expect that also to be true in 2019 as well.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

And then, just one last question. I was hoping – could you guys talk about the customized Drinkware business and remind us how large it is, and then expanding capacity like what are you actually – what goes on there, how expensive is that, are you running way behind on capacity, so could this drive a big acceleration in the customized business as you bring on capacity? Any help on that would be great.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yeah. Thanks, Robby, and good morning. I'll touch on the capacity piece and then let Paul come back on how we talk about customization within our with our D-to-C business. It's something we continue to build capacity over the last two years is a reminder. We acquired our exclusive customization partner in the first half of 2017 and we did that really so that we could make the investments to derive the capacity.

We continue to see very good organic demand for customization, particularly on the corporate side. And we've just in 2018 started to build out our outbound prospective efforts. So as part of bringing on additional capacity,

Copyright © 2001-2019 FactSet CallStreet, LLC

we're working on process improvements and capacity increases in our current facility and then continue to look for other capacity outside of that facility. And you'll see that come on line throughout 2018. It's contemplated in the guidance that we have in 2019. But we feel really good about where that business is.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.
A

And then, it is an important part of the business and where customization plays in, its' really two pieces. So it is in our web property that Matt talked about in his prepared remarks that we're merging into one web property of YETI.com and then also our corporate sales piece is mostly customized. So if you think about going back when we talked about the direct-to-consumer business, we said that corporate sales piece was about 20% overall of the direct-to-consumer. And then, the YETI.com which was both the customized and non-customized was a little bit less than half of the direct-to-consumer business. So that kind of puts it, kind of frames it up as we don't break out the customized in particular, but it's a big piece and an important piece of the business.

Robert Ohmes
Analyst, Bank of America Merrill Lynch
Q

Great. That's really helpful. Thanks, guys.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.
A

Thanks, Robby.

Operator: The next question comes from the line of Alexandra Walvis with Goldman Sachs. Please proceed with your questions.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC
Q

Good morning. Thanks guys for taking the question. I wanted to ask on gross margins. So the gross margin expansion in the quarter was stronger than we'd expected. Can you talk us through what the major drivers were in there? In particular you mentioned product cost improvements where are those coming from that exiting plan? And then, just perhaps as a follow-up on the gross margin guide, can you talk to us about the magnitude of gross margin expansion that you're expecting next year? And any color on that core drivers of that?

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.
A

Yeah. Good morning, Alex. So thanks for the question. So on gross margin in the fourth quarter, I think, if you go back we were originally expecting about 600 basis points of improvement and that 600 basis points of improvement was from the factors that we talked about in the press release of mixed D-to-C, cost improvements, and then the non-reoccurrence inventory reserves from last year that we booked those – we took reserves last year, we didn't take them – we didn't have as many this year. And that was offset by map changes, so price changes that we took earlier in the year.

The 690 basis points – so it's about 100 basis points above our expectations. And that 100-basis-point delta was from higher direct sales in the fourth quarter. So if you look at it our direct-to-consumer mix in the fourth quarter was 46%. So very strong direct-to-consumer above our expectations. And so that helps drive that. And then cost

Copyright © 2001-2019 FactSet CallStreet, LLC

improvements were also a little bit ahead of where we were expecting in the fourth quarter. So that added to – those two added up to the 100-basis-point [ph] beat (00:33:24) to our expectations.

As we look to 2019 – and on an adjusted operating income basis, we said we would be flat to up 40 basis points, the guide relative to 2018. And most of that coming from gross margin offset by some SG&A deleverage. So we do expect gross margin to expand in 2019. Those same factors, the mix shift, the product cost benefit offset, we are totally offsetting tariffs in 2019 as we've discussed several times. So we do look for gross margin expansion.

And then the last piece, I would say, on gross margin expansion just as we think about it throughout the year, the greatest gross margin expansion will occur in the first quarter as we roll over first quarter of last year that had the highest product costs, right? So last year, so we have a year of lower product costs, but the biggest gross margin expansion will come in Q1. And that's very in line with what we shared in our modeling during the IPO as well.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. And then, one more from me on innovation. So I'm sure you've got lots of new innovation coming in 2019. Anything you can share with us on the cadence of that or where that's likely to be focused?

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yeah, Alex, we do. Innovation is obviously a central part of this business and brand. We're also extremely pleased with how our legacy products continue to perform. As I mentioned in our prepared remarks and we talked both at ICR and some of the things those who saw news out of the Outdoor Retailer's. So innovation is a big part of what we have. What we have announced for the first half of the year is a number of new colorways as I mentioned. We're going to be bringing some products that were direct-to-consumer only and to more broad channel distributions as we built up brand awareness momentum behind those products. And we'll continue to do that throughout 2019 and 2020 and beyond.

From a cadence perspective, I think you'll see products continue to flow out throughout the year. They'll be concentrated a bit in the first half and then concentrated a bit in the second half. That's a cadence that we've picked up over the last couple of years. And I think you'll – as we've talked about, you'll continue to see a similar rollout from us as we roll through 2019 and really start to plan towards 2020.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Fantastic. Thanks so much, guys. All the best.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Thanks, Alex.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Thanks.

Copyright © 2001-2019 FactSet CallStreet, LLC

Operator: The next question comes from the line of Sharon Zackfia with William Blair. Please proceed with your questions.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. I guess a follow-up on the gross margin question. Could you give us an update on what the anticipation is for tariffs this year given I think there's still a moratorium in place on part of the tariffs that you were originally including? And then, secondarily, just as it relates to the Amazon accounting change impact in the first quarter, is there any disproportionate impact on one category that we should be aware of and how that might affect the revenue growth in the first quarter?

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Yeah. Good morning, Sharon. So on tariffs, our thoughts on this are consistent as we talked about in January. So overall, full-year impact approximately $13 million to $15 million. I would say, from a mitigation standpoint, we are well on track with the strategic project of moving sourcing out of – many of the items out of China. And then some of the other offsets that we've talked about, ongoing cost negotiations across the product portfolio, and then specific cost negotiations on impacted items, and then FX tailwinds that we see this year is – currency in as we pay for product in U.S. dollars.

I would say as far as the current negotiations, that assumes that the List 3 goes to 25% on March 1 and we'll see what happens. If it stays at 10%, certainly that will benefit us to a certain degree. But like we've talked about in the past, we certainly believe that the FX tailwinds are interrelated with the proposed tariff. So maybe that's a little bit of an offset the other way. But we hope that it stays at 10% but we're planning for it to go up to 25%.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

And then, Paul, on the Amazon...

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

The Amazon.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Yes.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Yes, thanks. So it will impact us in Q1. And it's approximately about 300 basis points of impact negative in Q1. In Q2 it actually comes back the other way about 300 basis points. It benefits us, right? So it offsets each other similar to it did in the third and fourth quarter. And then product-wise, Amazon, their product mix is similar to the entire company although a little bit more Drinkware than the overall company if you look at the balance between Drinkware and Coolers & Equipment. So they're a little bit more Drinkware.

Copyright © 2001-2019 FactSet CallStreet, LLC

So based on that, you would see it in the Drinkware numbers more than the Coolers & Equipment. But overall, as we look at it for the total company, I mean, is the way we look at it internally, there's about 300 basis points of drag in Q1 and about 300 basis points of tailwind in Q2.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Thank you.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Thanks.

Operator: The next question is from the line of Peter Keith with Piper Jaffray. Please proceed with your questions.

Robert A. Friedner
Analyst, Piper Jaffray & Co.

Q

Hey, good morning. It's actually Bobby Friedner on for Peter. Just wanted to first ask about marketing ,and congrats on the success you've been seeing with your initiatives in 2018. Just wondering if you could give a little more detail, just some of the marketing initiatives you have set for 2019 and how you plan to introduce new customers to the brand. Thanks.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Thanks, Bobby. Yes, we are pleased with what we saw from 2018 as we both continued some of our legacy marketing programs, our experiential, our brand building through our ambassadors, our event-driven activations and strong, deep, endemic roots. We also with the brand anthem and the expanded YETI Dispatch, the brand anthem in the fourth quarter driving 200 million plus household impressions, the tripling of our dispatch and the results we saw from that both in our prospect list and in our existing list. We like those – how those more broad-reaching marketing programs are coming together.

With Melisa joining the team, one of the things we're focused on in 2019 is the combination between a focus on product marketing and also top of funnel brand building. And so we look at the entirety of our multi-layered marketing and start with building out the top of the funnel, building out the mid-funnel and then driving – and using performance and product marketing to really drive the conversion. So I would say we continue to invest across the spectrum and invest across the consumer, from consumer to customer.

As we think about going into new markets, one of the shifts we've seen over the last two to three years is that shift from the non-heritage market to the heritage markets. And the heritage markets as we've spoken in the past now being the larger proportion of our business. That also coincides with 60-plus percent of the U.S. population being in our non-heritage market. So we fundamentally believe we're moving into and having success in the larger portion of the market opportunity domestically before we start to think even – and start adding in international opportunity.

So we're seeing success with running a similar playbook that we've run last three or four years augmented with very deep endemic augmented by a broad-based brand awareness. And that's really what Melisa brings to the

Copyright © 2001-2019 FactSet CallStreet, LLC

table that linkage between product marketing, direct marketing, direct customer and consumer engagement, all the way up to broader-based brand building.

Robert A. Friedner
Analyst, Piper Jaffray & Co.

Q

All right. Thanks, Matt. And just separately on commodity and input costs, can you give a recap on the impact of commodities in 2018 and any outlook you have for 2019 considering what looks like lower commodity prices in recent months?

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Yeah. So part of the product cost overall in commodities wrapped into that, we have reflected in the 2019 guide. And as we talked about expanding gross margins from product cost negotiations, and part of that is as we talked about having should cost models as we go to negotiate with our manufacturers and then we also reset pricing every three months based on FX and currency and input pricing. So it is baked in with the guide of margins expanding due to the product cost negotiations or lower product costs. Our outlook is positive on that.

Robert A. Friedner
Analyst, Piper Jaffray & Co.

Q

All right. Thanks a lot and good luck.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Thanks.

Operator: The next question is from the line of Peter Benedict with Robert W. Baird. Please proceed with your questions.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

How are you, guys? Thanks for taking the questions here. First question just on the international markets. You mentioned Europe and Asia is places where you're going to be expanding too. But any sense for the timing of when you might be moving into similar markets? Is one of those regions more likely than the other in terms of what's on tab near term? That's my first question.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yeah. Peter, thank you. It's Matt. Good morning. We're actively looking at both the European market and certain Asian markets, the most near end would be continuing to accelerate our brand awareness and penetration in Japan, because we've established an early footprint through a dealer-partner in Japan in late 2018. As we've gone and used our Google Analytics and what's hitting our website from a demand perspective, it's really helped establish a roadmap of the markets where we're seeing natural demand, the kind of inbound natural inquiry and natural demand. And that's setting up our international expansion strategy. I think as we get through the year, we'll update you all on the progress towards that. But it is – as part of one of our four big strategic growth drivers, it is a focus area for the business in 2019.

Copyright © 2001-2019 FactSet CallStreet, LLC

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

I'll take it. Thanks for that, Matt. And then, how should we be thinking – or how are you guys thinking about the level of your cash flow in 2019? You talked about the $80 million of that pay-down. Does that assume you're going to dip into the cash balance, or just curious on the cash flow view for 2019. Thank you.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Hey, great. Thanks, Peter. So as you know, the company based on the asset-light model generates significant free cash flow. And certainly, in 2018 we paid down over $150 million of debt from free cash flow. As we look to 2019, and call it, a more normalized level, I think, of free cash flow in $60 million to $70 million range. So if you look at that to your point of the $80 million pay-down of debt, it's mainly from free cash flow; maybe another $10 million cash on hand. We ended the year with $80 million of cash on the balance sheet, which we're comfortable using some of that to pay down debt as well.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

All right. Thanks, Paul. It makes sense. Last question. Just the pace of retail expansion. You called out the two stores coming this summer. Is that all we should expect this year? Just thinking about what the cadence – or how are we thinking about kind of longer term in terms of new stores and how quickly you will open them? Thank you.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yeah. So the two that we called out and we've talked about those, those are the ones we have signed leases for. We are actively continuing to look at sites in lease negotiations. So I wouldn't say, those are the only stores you'll see in 2019. And as you know, as we're in lease negotiations, the exact timing of that, but I would expect more than those stores in 2019, and obviously, those would be post the summertime. But the Chicago and Charleston are the two in near-end stores that will get opened.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

All right, fair enough. Thanks a lot, guys.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Thanks, Peter.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Thanks, Peter.

Copyright © 2001-2019 FactSet CallStreet, LLC

Operator: Jim, you're live for questions. Mr. Duffy?

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Oh, thanks. Good morning. Great finish to the year, guys. Welcome, Tom. To start, can you guys talk in more specific terms about what you saw in the Amazon Marketplace, Corporate and Custom Shop in the fourth quarter? And then, maybe some thoughts on expectations for growth in those channels for 2019?

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Yeah. So thanks for the question. So Amazon, and we don't talk below specifically the direct-to-consumer in wholesale. But let me give you some color on the fourth quarter. So Amazon had a very strong quarter as the entire DTC channel at plus 45%. So Amazon was in line with that number. So there's no significant outperformance, but was in line with the overall DTC growth.

And as we talked on color on product to Sharon's question, Amazon does skew a little bit more towards Drinkware. On customization, we had another strong fourth quarter in customization both through our own web property and then through our corporate sales, and to Matt's earlier comments about adding capacity in the later part of this year. And that's really a differentiator for us of us being able to customize our products.

It is mainly Drinkware, but we also do just for the group, we also customize hard coolers and some soft coolers as well. So it's not just Drinkware. But overall that corporate sales business is heavily skewed to Drinkware. But they also customize the coolers as well, but very, very strong fourth quarter.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. And then, can you just help on the benefits of consolidating the customization in YETI.com platforms. Does that simply just make it more accessible for general consumers to buy the customized offerings?

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yes, Jim. That's exactly right. There are some – obviously some operational efficiencies. There's a consolidation of demand creation in driving consumers to one to one location versus two locations. In part it's a significant awareness of capability – a high level capability that we have around customization and bringing it to the main YETI.com property. So we're excited about what that will bring for our customers and their ability to customize and personalize product directly from YETI.com.

Copyright © 2001-2019 FactSet CallStreet, LLC

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. That's all I have. Before I go, I'll just say, Matt, great pitch on the Camino Carryall. That was very convincing.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Thanks, Jim.

Tom Shaw
Vice President of Investor Relations, YETI Holdings, Inc.

Operator, next question, please?

Operator: Tom, if you have questions, you can read them into the call.

Tom Shaw
Vice President of Investor Relations, YETI Holdings, Inc.

Q

All right. Well, let me read a question here from Kimberly Greenberger at Morgan Stanley. You have hired a number of new executives into the management team in 2018. Any positions you are looking to fill? So we'll start with that one.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Thanks, Kimberly. Good morning. Apologize for the technical difficulties this morning and the delay. Hopefully, we get this resolved quickly this time. Kim, it's a great question. We have and we brought in a number of new executives in 2018 that we're really excited about culminating with Melisa Goldie, our Chief Marketing Officer. Our team is complete, what I'd call substantially complete. We continue to look for opportunities to enhance and add to the talent within YETI. It's part of what we do and part of continued excellence here.

Copyright © 2001-2019 FactSet CallStreet, LLC

As we expand internationally, as we continue to grow that part of the business, we'll look strategically to add the right kind of – and right level of talent into that organization. But I would say our team, my team is complete with the addition of Melisa Goldie.

Tom Shaw
Vice President of Investor Relations, YETI Holdings, Inc.
A

And a second question here. Inventory is down $30 million year-over-year. Understanding there was some inventory cleanup in 2018, how do you feel about current inventory levels? Are they appropriate to support your rapid growth? How should we think about modeling inventory levels going forward?

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.
A

Yeah. So great question. And we did end the year down 17%. And that really was relative to – or similar to all year working down our inventory. As we look forward, Kimberly, I would say two things. The first is I would expect inventory to grow slower than sales overall. And then secondly, as we go into 2019, you will see it begin to grow year-over-year versus the big declines that we saw in 2018.

And then, the second part of that question of how do we feel coming into 2019 with the inventory levels. We actually ended the year slightly below where we expected. And that was really two pieces. We actually accelerated some shipments in, as we talked about, pre-tariff and before the tariff increased to 25%. So we thought we were going to be a little bit above where our original thinking was. But then we overdelivered against our sales plan, which brought our inventories below where we expected. And they were about $4 million below where we expected vis-à-vis with the model that we shared with all of you.

So we feel great with the level of inventory and the composition of inventory, both between product categories and then inside of product categories. And then, we do look for inventory to grow – again, slower than sales as we begin to grow that piece and it will grow with the business.

Operator: Thank you, Tom.

Tom Shaw
Vice President of Investor Relations, YETI Holdings, Inc.
A

And operator...

Operator: Yes. I'm sorry. Please go ahead.

Tom Shaw
Vice President of Investor Relations, YETI Holdings, Inc.
A

We have time for one more, operator.

Operator: Okay. Thank you. That question will be coming from the line of Randy Konik with Jefferies.

Randal J. Konik
Analyst, Jefferies LLC
Q

Hey, can you hear me?

Copyright © 2001-2019 FactSet CallStreet, LLC

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yes.

Randal J. Konik
Analyst, Jefferies LLC

Q

All right. This is good. I guess Paul mentioned that on the Amazon Marketplace, there's a little bit more of a skew towards Drinkware. That kind of tells me that given Amazon is low friction or very easy to use, it seems like that's a place where consumers can start to – or tend to begin their journey with the YETI brand. I guess what I'm asking is do you see any evidence or if there's any data analytics to show you that once the consumer is ingrained in the YETI brand that they tend to migrate or not migrate to YETI.com from the Amazon Marketplace? Reason I ask is because I'm sure that the gross margin on the YETI.com platform is higher than obviously Amazon Marketplace. So it seems to me that if more consumers come into the brand, start at Amazon then migrate, there is a long-term gross margin benefit that can occur in the business model. So I'm just curious on your thoughts on that first.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yes, Randy, thanks. It's a great question. And it is something we – as we talked about on the last call, where we are and continue to invest heavily in our data analytics and our capabilities to understand the consumer basket, the lifetime value and what their shopping pattern is. We believe as we've talked about that Amazon along with our wholesale channel, along with YETI.com are truly part of the omni-channel strategy and being where the consumer wants to shop when they want to shop.

As Paul indicated, we see some slight bias on Amazon towards Drinkware versus YETI.com and what we see in the channel. And we do believe that from a customer introduction, from a reach perspective that creates a really interesting opportunity for us. We believe that as you want a more immersive YETI experience, as you want to learn more about the product, as you want to make a more considered purchase, and in some cases, a higher ticket item purchase, that traffic does flow to YETI.com. And I think we're excited about what we saw from YETI.com in 2018. We think the combination of YETI Custom Shop and YETI.com, to the question that Jim asked earlier, we think is another powerful tool to drive reason to come to YETI.com.

So with the combination of what Melisa brings to us and the buildout capabilities in our e-commerce business plus the overlay of what we're doing in the analytics, that's absolutely something that we're driving and focused on.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

And then, Randy, let me just add one piece to that. So your pull-through of the question is absolutely right. But just from a P&L geography, so the gross margins of Amazon and our YETI-owned properties are actually similar, right? The fees – and this is the pull-through of your question, the Amazon fees fall into OpEx. So your question of it is – or your inference, which is correct, it is more profitable for us, gross margin and OpEx to transact on one of our own web properties versus Amazon, but just overall the gross margin are similar to that line item.

Randal J. Konik
Analyst, Jefferies LLC

Q

Copyright © 2001-2019 FactSet CallStreet, LLC

Understood. And then, a question on again the corporate sales or when you look at the B2B opportunity, have you done some benchmarking on what you envision other – what you see in other companies that have a B2B presence in terms of the ability or what you shoot for your organization. And just curious, what does the margin structure of the B2B sales look like if we're looking at like custom things, et cetera, just curious of what you're seeing there. Thanks.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yeah. Randy, I'll take the front end of the question, and then Paul can address the margin and how it relates to the overall margin within our D-to-C business. We haven't pegged a benchmark number to the market. We know that that corporate gifting market is a large and highly fragmented market that covers a lot of different price points. We think it is part of the reason we call it out as a meaningful contributor to D-to-C and a meaningful opportunity for us in the future is because we think in that highly fragmented market that has traditionally been fairly price-sensitive and driven down that we're seeing really good response to premium price points, premium product for brands that want to associate and use that corporate gifting or the corporate reward channel. So we continue to be positive on the corporate sales and continue to invest behind going after that opportunity.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

And then, from a margin profile so inside of the direct-to-consumer channel, corporate sales is slightly below on the margin profile than YETI.com, for instance, or our web properties. But if you compare it to the other channel of wholesale, it's above the wholesale margins. So it is high margin business, but slightly below YETI.com.

Randal J. Konik
Analyst, Jefferies LLC

Q

Understood. I guess, last question for Matt. You've got a lot of, as you mentioned earlier, some good additional executives into the organization. Just curious, just to give us some perspective on strategic direction over the next 12 months to 18 months, what you would say the top three things you're personally focused on for the organization to try to accomplish in the next balance of 2019 and into 2020, high level? Thanks.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Yeah. If we lean back on those four strategic growth drivers and I talked about some of the talent we brought in the organization, some of the focus we brought really continuing to expand and evolve the brand in conjunction working with Melisa and getting her on-board up-to-speed and leveraging her outside in-perspective as we talked in the past about opening our brand aperture, keeping our legacy and our heritage in the middle of that and then continue to expand the outward nature of that. And that's that both domestically and internationally, which ties into the fourth of our growth drivers international.

International is a big area of focus for me in 2019 in setting up the business for long-term sustainable success internationally. We started that effort as we talked about in Canada, in Australia in 2017 early days that effort in 2018 in Japan, and then to a question earlier around Europe and Asia. So combining that brand growth domestically and then internationally.

And then, the third one would be continuing to work with the team and talent we brought in operationally and infrastructurally to build the business to support the growth that we believe is coming and the growth that we see on a global scale. We've made incredible progress since 2016 on getting a number of things in place, in control of

Copyright © 2001-2019 FactSet CallStreet, LLC

getting the right systems, getting our footprint and now we're in that, moving on to that next phase of operational excellence.

Randal J. Konik
Analyst, Jefferies LLC

Q

Very helpful. Keep up the great work. Thanks, guys.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

A

Thanks, Randy.

Paul C. Carbone
Chief Financial Officer, YETI Holdings, Inc.

A

Thanks, Randy.

Operator: Thank you. At this time, I'll turn the floor back to Matt Reintjes for closing remarks.

Matthew J. Reintjes
President, Chief Executive Officer & Director, YETI Holdings, Inc.

Thank you. Well, I would be remiss to not wish everyone a Happy Valentine's Day. Thanks for joining us today. We look forward to 2019 and we look forward to updating you all in early May on our progress.

With that, we wish everyone a wonderful rest of the day. Thank you.

Operator: Today's conference has concluded. You may disconnect your lines at this time. Thank you for your participation.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2019 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.