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# YETI Holdings, Inc. (YETI)

Q1 2019 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to YETI First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to Tom Shaw, Vice President of Investor Relations. Thank you. You may begin.

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Tom Shaw

*Vice President, Investor Relations, YETI Holdings, Inc.*

Good morning, everyone, and thanks for joining us to discuss YETI Holdings' first quarter 2019 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](http://investors.yeti.com).

We undertake no obligation to revise or update any forward-looking statements or information. During our call today, we'll also reference certain non-GAAP financial information, 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. We use non-GAAP measures as a 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.

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## Matthew J. Reintjes

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

Thank you, Tom. And good morning, everyone. We appreciate you taking the time to join us on our call today. As you can see from our numbers this morning, YETI is off to a great start in fiscal 2019. First quarter revenues were up 15% and gross margin expanded 700 basis points. We're pleased with the continued strength and balanced performance we experienced across categories and channels during the period.

Our gross margin expansion demonstrates a combination of high quality growth, brand strength, and execution of our supply chain strategy. While we continue to expand our marketing reach to drive awareness, consideration and purchase, we also meaningfully move the bottom line forward with adjusted operating margin up 370 basis points year-over-year and 870 basis points on a two-year basis.

Shifting to our product portfolio, we have sustained the momentum we generated in 2018. Well, I will discuss our approach to innovation in a moment. Our products continue to be well-received by customers and recognized across both our historical media partners and increasingly broader lifestyle outlets.

For example, Outside magazine dubbed our Rambler 14-ounce mug the best mug ever made. Tech focused WIRED Magazine named our stackable pint The Best Overall travel mug. Gear Patrol wrote, "Who Needs YETI's Massive New Mug? Everyone." And Condé Nast Traveler named our Rambler 26-ounce bottle as one of the best water bottles for taking on the road.

Importantly, the recognition of our brand and products was not limited to the Drinkware category. The addition of our wind blocking, waterproofed and machine washable Lowlands blanket to Popular Mechanics Ultimate Camping Gear Guide validates our approach to innovation. And you will see more evidence of this in the upcoming seasons.

Recognition is also beginning to expand beyond the United States, with Australia's popular homeware magazine Inside Out highlighting the Hopper Flip 18 soft cooler as part of a chef's kitchen essentials. These examples of media recognition are indicative of the strength of our products and the balanced reach of our brand.

The response to our marketing and products continues to inform and support our four strategic growth drivers; expanding our customer base, introducing new products, accelerating direct-to-consumer, and expanding internationally. We see tremendous runway across each of these strategies ultimately driving the overall growth profile and opportunity for YETI.

We have a lot to look forward to. So let me give you a few updates on the progress we are making across these growth strategies. Let's start with expanding our customer base. As we look ahead, the path forward in brand awareness will include continuing to open the aperture of what and who embodies the spirit of YETI. Our legacy customers remain central to YETI, but our brand efforts will also continue to broaden the reach.

We are doing this through media partners, brand activations, new ambassadors, new partnerships such as the James Beard Foundation, and through events such as the Charleston Wine and Food Festival. We aim to

balance the new with our successful past. Our Spring YETI Dispatch magalog that went into 1 million homes is a great example, showcasing John John Florence on the cover.

Now, while some of you on the call today may not have heard of John John, he is recognized as one of the best surfers in the world. We chose to forgo the obvious surf profile and showcasing the dispatch of other passion for racing catamarans around his native Hawaii, highlighting our focus to bring the depth and character of our ambassadors and brand to life for our customers. We want to ultimately show our customers a new and different angle much like we do on our products.

We also extended our successful television and digital brand campaign from the 2018 holiday season into the first quarter with an expanded focus on new audiences, as we think more broadly about lifestyles, pursuits and the intersection with the YETI brand. This campaign expansion included connecting with the DIY crowd through HDTV, the health and wellness audience through mindbodygreen, broader lifestyle pursuits through Sunset Magazine and Bon Appétit, and the technology and innovation fans through WIRED.

And then we have the YETI Falcon. While our take on an urban scooter may have come a little short of being a reality, the customer reaction to our April Fools buildup and delivery was exceptional. The Falcon generated a total of 5.5 million social media impressions, approaching 2 million video views, garnered nearly 5,000 social comments, and drove traffic to our website that was at Cyber Monday levels. As we continue to find ways to creatively broaden our customer engagement, we're thrilled by the Falcon results. 60% of the traffic to yeti.com on April 1 was from new visitors. This shows it's not just the brand loyalists who were in on the fun and willing to engage.

Now turning to our second growth driver, introducing new products. Our product innovation agenda is predicated on three things; thoughtful channel strategy, excitement through category extensions and color, and new product introductions. When we think of our channel strategy and how we get YETI in front of the customer, we have products that stay exclusively on our direct-to-consumer channels, products that launch on yeti.com and YETI retail to help inform how and when we move to distribution more broadly, and full omni-channel launches.

Leveraging insights and customer buzz on our direct-to-consumer channel has been key to how we've introduced new products to wholesale, including the Tundra Haul in the third quarter of 2018, the Rambler Wine Tumbler in the fourth quarter of 2018, and most recently, the Camino Carryall tote in late first quarter 2019.

We are also supporting product reach with enhanced storytelling through in-store merchandising and across our social platforms. The Camino Carryall I mentioned on the fourth quarter 2018 call is a great example here. At retail, our built wild campaign highlights the product construction built and use cases wild.

We've also combined powerful lifestyle and use case creative to bring our product to life across a range of social channels, including Facebook, Instagram, YouTube and Pinterest. This includes our what's inside campaign, which visually displays the versatility of the Camino across multiple use occasions, including an afternoon on the boat, packing for a day at the beach, or trips to the farmers' market.

When you add the support to our own direct email efforts, this approach is yielding some of the best results we've seen from a product campaign across each channel, as we measure engagement through click-through rates and ultimately conversion to sales. This is setting the playbook for future product launches.

Color continues to play an important role in our innovation, particularly when told through bold stories brought to life under our marketing efforts in-store, online, and through social. Most recently, we found the vibrancy of Reef

Blue and Canyon Red with the subtleness of sand to add dimension to our product color range. We see value in how this can excite both existing customers and those that may be new to the brand.

Additionally, the introduction of charcoal in our Hopper line of soft coolers was well received during the quarter. As we think about using color going forward, we remain disciplined and intentional in how we utilize this part of our innovation strategy.

Turning to category product extensions, we debuted our Rambler 24-ounce mug on yeti.com in early March. Also known as the YETI beer mug, this product created a strong buzz on social media, including 20,000 Instagram likes and full sell-through of initial inventory in the first three weeks.

Next up this month, we are launching what we believe will be the go-to-product for the on-the-move coffee drinker. The Rambler 12-ounce bottle with an all-new HotShot lid, a great personal size offering with all the technology you expect from YETI, this product adds an insulated 100% leak-proof cap that securely rotates and clicks into place to create a drinkware combination that we believe will set a new standard in both hot and cold beverages. Continuing the versatility of our Drinkware portfolio, the new lid is also designed to work across the existing lineup of YETI bottles.

Finally, we are also designing entirely new products that are logical extensions to the YETI brand. Many of our existing products are naturally being used beyond their intended use case. So we took the YETI approach to product design and innovation and developed our take on the classic storage box with the new YETI LoadOut GoBox.

In typical YETI fashion, we made the box waterproof and dust proof to protect from the elements. Emphasizing utility and durability, the GoBox includes three separate tools for internal organization, including a caddy for easy access, a divider to create separate departments, and a pack with three separate pockets that securely fits in the lid of the box.

We're excited to have the GoBox as well as many of our other products currently being put to the test on Mount Everest with a key ambassador. This is in addition to our products supporting International Mountain Guides on Mount Everest. IMG are leaders in global climbing adventures with over 35 years' experience navigating the world's largest peaks.

Shifting to our third growth driver, accelerating direct-to-consumer. While our omni-channel strategy starts with our great wholesale partners, including our independent specialty account and our large established national and regional accounts, consumer expectation of a frictionless shopping experience highlights the importance of our investment in our direct-to-consumer business.

We believe we have delivered on these expectations so far with our D2C business reaching 40% of our sales mix during the first quarter across yeti.com, yeticustomshop.com, corporate sales, our own YETI retail stores, and the Amazon Marketplace. Even with the success to date, we have more opportunities ahead.

Let me give you two quick examples. First, in early April, we successfully completed the integration of YETI Custom Shop into yeti.com with a clear benefit of removing the natural friction of having two different web properties and customer experiences. This unification creates greater customization awareness directly and the customers purchase back. Second, we are in the early days of leveraging our data analytics, the build-out of our customer database, and the drive to deepen engagement across our broad customer base. We expect to build upon our strong customer loyalty to expand the lifetime value of our owners.

Looking quickly at our retail strategy, we made great progress during the quarter as we look to create iconic brand experiences for our customers. Two years after opening, we continue to be very pleased with the growth of our Austin store. We're learning and refining both retailing and storytelling in our Austin store to inform how we will position our future stores. For instance, we added new elements designed to educate and inspire the customer about product, adding dimension to the YETI brand and amplifying the personality of the store.

We also continue to use our Austin store as a gathering place. During the cultural showcase that is South by Southwest Festival in March, we were joined by thousands of people to see over 40 bands across four days at YETI. It was an incredible experience driving social engagement with 3.5 million total impressions, 1.4 million total views of video from the event, including over 400,000 views of our Live Lounge sessions, and most importantly, served as an authentic way to reinforce what we are and what we stand for as a brand.

Up next for retail, we're excited to open our store in Charleston early this summer. Build-out is well underway. It'll be followed by Chicago, which we expect to open in the third quarter. We've also signed a lease in the Cherry Creek district just outside of Denver with a late-2019 target opening. As we have indicated, we remain thoughtful and balanced in selecting these locations, ensuring community and fit are right for the customer and our brand.

And finally, our fourth growth driver, international. While our international business represented just 2% of our sales in fiscal 2018, we doubled that rate to 4% in the first quarter, a strong early proof point for us that the brand continues to translate incredibly well in Australia, Canada, and Japan. We are continuing to focus on expanding our efforts in these three markets this year, including an enhanced yeti.ca later this summer, which will improve our cost, delivery, and experience for customers in Canada. At the same time, we're making strong progress with our entry strategy in Europe, with Asia to follow, and we hope to have more to share on upcoming calls.

Before turning the call over to Paul, let me just reiterate that we are proud of the strong start to the year, we're committed to investing in and executing against our strategic growth drivers, and we remain laser-focused on driving strong profitable growth over the long-term. As always, my thanks goes out to our incredible YETI team and the passionate loyal customers that continue to support and build our brand.

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

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## Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

Thanks, Matt, and good morning, everyone. Let me begin with an overview of our strong first quarter results, followed by our updated fiscal 2019 outlook and some of the quarterly nuances for the balance of the year.

Starting with the first quarter, net sales increased 15% to \$155.4 million compared to \$135.3 million in the year-ago period. Sales reflected strong demand overall that was ahead of plan and also benefited from some originally planned second quarter wholesale orders that came through in the final weeks of the first quarter. These orders represented approximately \$5 million in revenue and contributed approximately 400 basis points to growth in the period. Additionally, and as expected, our sales growth included an approximate 300 basis point unfavorable impact from the change in revenue recognition related to the Amazon Marketplace. I'll discuss this dynamic shortly as it relates to our outlook.

Turning to net sales by channel, direct-to-consumer net sales for the first quarter increased 28% to \$61.7 million compared to \$48.3 million in the same period last year. Channel performance was led by our Drinkware category,

and we were pleased with the strong performance across yeti.com, YETI Custom Shop, and Amazon Marketplace.

Wholesale net sales for the quarter increased 8% to \$93.6 million compared to \$87 million last year, with the increase largely coming from growth in our Coolers & Equipment sales. By category, first quarter Drinkware net sales increased 20% to \$91 million compared to \$75.8 million in the prior-year quarter, primarily driven by the continued expansion of our Drinkware product offerings, including new colors that Matt mentioned and strengthen our customized business. For those of you keeping track, the new Rambler 24-ounce mug is back in stock after quickly selling out during its March debut on our website.

Coolers & Equipment net sales increased 11% to \$59.7 million compared to \$53.7 million during the same period last year, primarily driven by color updates across several of our hard and soft cooler lines as well as the wholesale introduction of our Camino Carryall bag.

We also made the decision in the quarter to reclassify our initial pet product, the Boomer 8 Dog Bowl from the Other category to Coolers & Equipment. This change is more consistent with how we think about our ongoing incubation of new product lines and better fitted overall coolers and equipment by approximately 200 basis points during the quarter.

Gross profit increased 34% to \$76.6 million or 49.3% of net sales compared to \$57.2 million or 42.3% of net sales during the same period last year. The 700 basis point increase in gross margin was primarily driven in order of magnitude by cost improvements across our product portfolio, a favorable shift in our channel mix led by an increase in our direct-to-consumer net sales, the absence of an inventory charge taken for a fire at one of our vendors facilities in the year-ago period, and lower inbound freight expense. These gains were partially offset by higher tariffs.

Adjusted SG&A expenses for the first quarter were \$61.9 million or 39.9% of net sales as compared to \$49.4 million or 36.6% of net sales in the same period last year. Approximately 290 basis points of the 330 basis point increase was attributable to higher selling expenses, including both brand and performance marketing as well as higher outbound freight expenses.

Adjusted operating income increased 89% to \$14.7 million or 370 basis points to 9.4% of net sales compared to \$7.7 million or 5.7% of net sales during the same period last year. Our effective tax rate was 22.1% during the quarter compared to 33.4% in last year's first quarter, in range of our full-year guidance in a quarter where seasonally low pre-tax income creates some volatility in the reported rate.

Adjusted net income grew to \$6.6 million from \$0.3 million last year, resulting in an \$0.08 per diluted share. Adjusted EBITDA increased 58% to \$21.3 million or 380 basis points to 13.7% of net sales compared to 9.9% in the same quarter last year.

Now turning to our balance sheet, as of March 30, 2019, we had cash and cash equivalents of \$19 million compared to \$60.4 million in the year-ago period. Notably, we expected this to be in the lowest level of the year for our cash balance, given the normal seasonality of the business coupled with the \$9.1 million purchase of international IP rights related to the YETI brand that we outlined in the subsequent events section of our 10-K.

We ended the quarter with \$164.3 million in inventory compared to \$158.5 million last year. The 4% increase in inventory represents a more normalized year-over-year level following the declines experienced throughout fiscal 2018, given our efforts to improve our overall demand forecasting in our inventory management across our

portfolio. Consistent with our messaging from last quarter, we expect inventory growth to remain below sales growth for the full year.

We ended the quarter with total debt, excluding unamortized deferred financing fees, of \$321.8 million compared to \$473.3 million in last year's first quarter. During the quarter, we made mandatory payments of \$11.1 million using cash on hand. Including our cash balance, the ratio of total net debt to adjusted EBITDA for the trailing 12 months improved to 1.9 times compared to 4.0 times in the prior-year quarter. We remain on track for fiscal 2019 for debt repayments of approximately \$80 million, resulting in a ratio of net debt to adjusted EBITDA of approximately one times at the end of the year.

Now, switching to our 2019 outlook. With a strong first quarter in the books, we remain on track and confident with our existing top-line guidance while raising the bottom line outlook on stronger margin expectations. Let me provide some additional color on the year and quarterly timing.

We continue to expect full-year 2019 net sales to increase between 11.5% and 13% led by higher growth in our direct-to-consumer channel. This also includes full-year growth in both our product categories within our long-term growth rates of 10% to 15%.

Within this sales guidance, there are several moving pieces impacting growth in the first quarter and second quarter, netting to an overall first half growth rate that remains consistent with our original plan. This includes the early delivery of approximately \$5 million of planned second quarter wholesale orders into the first quarter as well as the approximate 300 basis point expected benefit in the second quarter from the revenue recognition change with Amazon Marketplace.

As a net result of these two factors, we now expect our second quarter to represent the lowest growth rate of the year. Our expectations for the second half of the year have not changed, as we continue to expect double-digit growth rate led by new product launches and expanded capacity in our Drinkware customization capabilities.

Now moving onto margins. We now expect operating income margins between 14.2% and 14.5% of net sales, reflecting margin expansion of 110 basis points to 140 basis points and adjusted operating margin of between 16.2% and 16.5% of net sales, reflecting margin expansion of 30 basis points to 60 basis points. Adjusted operating margin expansion is primarily driven by gross margin expansion, as we continue to benefit from lower product cost and the favorable shift in channel mix to our direct-to-consumer business.

In addition, as List 3 tariffs continue to remain steady at 10%, we have some margin upside to our original forecast while at the same time showing meaningful progress on our sourcing strategy to move the majority of our soft cooler and bag production out of China by the end of the year. As discussed on our last call, partially offsetting the gross margin gains, we continued to expect SG&A deleverage, as we increased our marketing investments to support our growth plans.

Earnings per diluted share is now expected to be between \$0.87 and \$0.90, reflecting 25% to 31% growth. Assuming a normalized tax rate of 24.5% in 2018, we expect earnings growth would be between 38% and 44%. We expect adjusted earnings per diluted share of between \$1.02 and \$1.06, reflecting 13% to 17% growth. Again, if we are assuming a normalized tax rate of 24.5% in 2018, expected adjusted earnings growth would be between 21% and 26%. Adjusted EBITDA is expected to be between \$171.9 million and \$176.3 million, reflecting growth of 15% to 18%, and margin expansion of 70 basis points to 90 basis points.

Capital expenditures for the quarter at \$8.4 million compared with \$2.2 million in the first quarter of last year. We expect capital expenditures for the full year to remain within the range of \$35 million to \$40 million. The year-over-year increase is driven by investments in molds and tooling to support both our sales growth and new product launches and the strategic expansion of our retail stores.

In summary, we are very pleased with the strong start to fiscal 2019 and our early execution to exceed our initial full-year commitments.

With that, we will now open the call for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question is from Randy Konik with Jefferies. Please proceed.

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Randal J. Konik  
*Analyst, Jefferies LLC*

Q

Thank you. Good morning. I have a number of questions. But Matt, I want to start off with, thinking about the comments you said around international, the penetration rate double already what it was last year. So maybe if you could just expand upon those comments or just about initial learnings from the new markets that you penetrated, what's different about them maybe perhaps from what you're seeing in the U.S. And then give us a little bit more color on what you talked about with Europe. That was – that's my first area.

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

A

Yes. Thanks, Randy. Good morning. The – international remains an incredibly important part of our long-term growth strategy, and we're approaching it with that mindset, which means we're not – we're not rushing headlong in the markets and in trying to chase it quickly. What we're trying to do is build a similar playbook that we built in the U.S., which is really a balanced focus around direct-to-consumer and wholesale building out our ambassador roster so we have those enthusiasts that create the influence halo driving event activations.

The early reads continue to be very strong in Canada, Australia and Japan. Product receptivity has been very high. I would say the similarities we see in the U.S. are greater than the differences. We tend to see the product portfolio represented pretty balanced and consistent with what we're seeing in the U.S. We're seeing a strong receptivity to our direct-to-consumer efforts in Australia and Canada. In particular, we haven't started those direct-to-consumer efforts in Japan yet, and good placement at what I would consider a diverse wholesale partners. And so the U.S.'s experience is actually informing a lot of how our teams in Canada, Australia and our partner in Japan are expanding.

One of the things that we continue to work on as – and it's – it's part of the build-out as we think about broadening in Asia and broadening in Europe – is building out our supply chain support to be able to ready access those markets and putting in that infrastructure. But overall, we feel very good about where the business is.

One other thing that you'll see later this year is we're going to be launching, as I mentioned, the yeti.ca. So we have a – we're putting in a more efficient website and a more efficient fulfillment structure in Canada to be able to satisfy the growing direct-to-consumer demand in Canada. We have that in place in Australia.

As we think about broadening to Europe and Asia, in fact, we have two people on the ground in Europe right now looking at the European market, building relationships with ambassadors and partners there, in a little bit of the putting-the-ground game in an advance of rolling out fully in the market.

Randal J. Konik

*Analyst, Jefferies LLC*

Q

Got it. Thank you. That's very helpful. The second kind of topic area I wanted to explore is, one thing we talk about that's unique about the brand is this – the brand kind of resonates with Pros & Joes, if you will. On the Joes side, which I guess I'm a Joe, a normal person, how do you think about that when you – that those – when you think about design philosophy and/or marketing, as an example, like the Tundra Haul, I personally wouldn't want to just carry one of your coolers, but with the Haul, it makes it very easy for myself and my wife to take it to the beach. You get a – you change your marketing. It looks like for Mother's Day, we showed mom working in a garden or something like that with so many different use case for the product. So maybe give us some perspective on how you're thinking about the design philosophy and/or marketing philosophy around meeting this brand just resonating with Pros and Joes, if you will?

Matthew J. Reintjes

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

A

Yes, absolutely. When you think about our products, whether you are putting our products to use in a professional capacity or you're putting our products to use in a recreational capacity, that same product translates between those two environments. It's the cooler that's used by the hunter or the angler, and the ones used in the backyard barbecue perform the same or similar function. And so it's really around creating the moments and creating the resonance with the consumer. I think when we think about that delineation is most of our consumers, even those who professionally take it, do one of the more enthusiast pursuits. They also have another half to their life.

And I think what you see in our marketing, a number of our – you mentioned the Mother's Day advertising and marketing. Those are people whose – their professional life is actually the enthusiast sports that we pursue. They just have another side to their life.

And so when we think about our products following the consumer through the different stages of their life, whether it's on the weekend being pursue-driven and during the week going to work or going to the week – during the week and through the weekend being a parent, we want our products to surround that consumer's life. And so we continue to think about our innovation in that way. We continue to think about our product that way. And the more we can keep YETI as part of your life, as you move through those different phases of who you are, we think that's the best way to build a long-term success of the brand.

Randal J. Konik

*Analyst, Jefferies LLC*

Q

Thanks. And last question. DICK'S Sporting Goods said on their call, it sounded like they're pretty excited about your brand and your products and also talk to some of the apparel – the T-shirts coming into the store that they are excited about. Not that you're going to be in a trial company by any means. But it kind of speaks to me that the brand is just wanted in any capacity from a trucker hat to a T-shirt to the products you're built on around the cooler. So what is that telling you around what you're seeing? Let's say, DICK'S Sporting Goods or consumers trying to buy products that you wouldn't normally think they would want to buy from you. What does that telling you about the brand?

Matthew J. Reintjes

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

A

Yes. We've believed for a really long time that the brand halo and the brand reach and the consumer permission to expand the product portfolio under the brand is much bigger than the portfolio we have today. I think the hats and tees and the desire to engage in that way in the more wearable and apparel has been obvious to us as we've built up from the very beginning. And you mentioned DICK'S Sporting Goods has done a very nice job of displaying that apparel. What we're seeing is that the reaction from the market has been very positive and very receptive to the expansion of our portfolio, whether that's in hard goods, soft goods, or bringing some vibrancy into our apparel business.

Randal J. Konik

*Analyst, Jefferies LLC*

Q

Very helpful. Thanks, guys.

Matthew J. Reintjes

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

A

Thanks, Randy.

**Operator:** Our next question is from Jim Duffy with Stifel. Please proceed. Jim, are you there? Please check and see if your line is muted.

Okay. We will move on to our next question from Sharon Zackfia with William Blair. Please proceed.

Sharon Zackfia

*Analyst, William Blair & Co. LLC*

Q

Hi, good morning. Hopefully, you can hear me.

**Operator:** We can.

Matthew J. Reintjes

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

A

We can.

Sharon Zackfia

*Analyst, William Blair & Co. LLC*

Q

Okay. Perfect. Perfect. So two questions. I guess, first on tariffs, if you could quantify – are you expecting an increase at all this year or did you kind of take that out of the guidance? And if so, what was the benefit, if you could quantify that? And then secondarily, is there any way you can measure kind of the pace of new customer acquisition for YETI and how that's trending or what percent of your sales at this point are new versus repeat customers?

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

Great. Let me start. Good morning, Sharon. So, on tariffs...

Sharon Zackfia  
*Analyst, William Blair & Co. LLC*

Q

Good morning.

Paul C. Carbone  
*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

Good morning. Our original guidance that we talked to you about in February had tariffs starting – picking up to 25% in March 1. Our revised guidance that we put out this morning, our updated guidance, has tariffs going up to 25% in the beginning of June. So it's unknown, withheld the 10% for May, and obviously March that we actualized through it. Tariffs continue year-over-year to be a negative, and in the first quarter, impacted gross margin by about 70 basis points to the negative at the 10%, and we would see that continue, and then increase when we go – if we go to 25%. But right now, our outlook assumes they go to 25% in the beginning of June.

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

A

And Sharon, this is Matt. I'll take the second question. As we think about understanding our evolving customer base, we – because of our balance between direct-to-consumer and wholesale, we have a bit of our business that's an anonymous purchase through the wholesale channel, so whether it's repeat customers or new customers.

What we do are a number of things. Our twice-a-year brand study and our once-a-year owner study gives us some window into that. Those studies will be coming out of the field collectively in the second quarter. And so we'll have some further insights into what we see in the mix and the shift in our customer and some information that we've shared in the past. We continue to see healthy growth in our e-mail database of unique buyers. So that gives us some window into the balance we're seeing.

We obviously have the direct purchases on yeti.com and YETI Custom Shop. We continue to like the balance of receptivity we're getting. As I mentioned on the call, the Falcon results and the traffic that we drove with heavy traffic to yeti.com and the balance of new to yeti.com versus existing, all those things lead us to believe we're continuing to not only cultivate the brand fans but that we're continuing to acquire and expand.

I think as we think about geographic expansion, we continue to see very good growth in the markets that we're targeting that happened to be the most urban dense -- population dense markets in the U.S. So we're continuing to see all the dynamics that we'd like to see as far as that balance of stoking and fostering our legacy in historical customers and acquiring new.

Sharon Zackfia  
*Analyst, William Blair & Co. LLC*

Q

Okay. Thank you.

**Operator:** Our next question is from Robbie Ohmes with Bank of America Merrill Lynch. Please proceed.

Robert F. Ohmes  
*Analyst, Bank of America Merrill Lynch*

Q

...guys.

Matthew J. Reintjes

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

Hey, Rob.

A

Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

I actually had – I actually wanted to see if I could get you guys to talk a little bit more about the 2019 revenue outlook. And just maybe to give us some color or how to think about a couple of things. So the – when I take the \$5 million out, it looks like wholesale grew about 2% in the first quarter. And then I want to check, Paul, the Amazon was 300 basis points unfavorable to D2C in the first quarter. Did I – is that correct?

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

Good morning. So you're right on the \$5 million. If you take that out, that would give you wholesale at about plus-2%. The Amazon Marketplace accounting shift or revenue recognition was approximately 300 basis points to the total company.

A

Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

Got you. And does that flow through – is that a wholesale or a D2C impact?

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

That would be D2C impact.

A

Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

So D2C grew – if I take that out, so D2C grew 31% if I add back that 300 basis points in the first quarter?

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

I would add back D2C was 60% – 40% of the business. So you would have to actually gross that up.

A

Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

Got you.

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

So I have D2C, if you would add that back about growing about 34%.

A

Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

Got it. That's great. And then, so – so my question is just any color you can give us on how to think about the rest of 2019? Some things going on in – on the wholesale side, you're lapping strong growth at DICK'S Sporting

Q

Goods. Should we be thinking – you kind of mentioned that you're going to lead with – the 2019 is going to be led by D2C. Maybe some color on how much D2C is going to lead it relative to wholesale? Should we be thinking low-single-digit wholesale growth for this year? And some color on lapping the strong growth at DICK'S Sporting Goods. And another question would just be, the Camino Carryall – so kind of a separate question – is that more of a wholesale product for the independent channel or is that a big DICK'S Sporting Goods item or is that really mostly a driver on D2C?

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

Great. Robbie, let me start with the sales and then Matt will give a little bit more color overall and then on the Camino. So let me start by saying, we feel really good about how we started the year, particularly with our top-line performance in margin expansion. We also recognized it's early in the year. And in absolute dollar terms, it's the smallest quarter. So we are maintaining our full-year top-line outlook at 11.5% to 13% growth while raising the bottom line and the EPS guidance, as you saw this morning.

With that, our expectations of the first half and the second half haven't changed. So we still continue to expect double-digit sales growth in the second half of the business in the year. And overall, with the shifting between Q1 and Q2, as we talked about with the wholesale orders, we expect to be on our original plan for the first half. That's how we think about the balance of the year.

From a direct-to-consumer versus wholesale, while we don't give an outlook at that level, I would turn everyone back to our long-term guidance of direct-to-consumer in the mid-20s and wholesale in the mid-single digits, which is in line with what you would express.

Matthew J. Reintjes

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

A

And then, Robbie, let me take the – let me take the Camino topic. It remains a product and a category or family of products that we're really excited about. We just moved that product into the wholesale channel in late Q1, including at our largest national accounts and at select of our specialty retailers. It continued to be a product that we like the performance in our direct-to-consumer channels.

And it's early in the – early days in the wholesale channel. But it's something that we spent about a year really building up momentum in our direct-to-consumer channels, built it up, as I've talked in the past, north of 1,000 4.9-star reviews on it and then are just now bringing to the channel, and it's something that we're excited as we move into the gifting season in Q2 and the beginning of summer. A product that – a product that not only the specific product we feel very good about, but what it opens up for YETI as we move forward.

Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

Q

Great. Thanks, Paul, and thanks. It was really helpful. And I already – I just ordered my Carryall. So I'm looking forward to get it.

Matthew J. Reintjes

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

A

There you go. Thank you.

Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

Thanks.

Q

Matthew J. Reintjes

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

We appreciate it.

A

**Operator:** Our next question is from Alexandra Walvis with Goldman Sachs. Please proceed.

Q

Good morning. This is [ph] Brokroch (43:14) on for Alex. Thank you so much for taking our question. I wanted to ask a quick clarifying question on the wholesale timing shift that occurred in 1Q. Can you provide some color on which product lines that that delivery over index to between Coolers & Equipment versus Drinkware versus Other?

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

It was evenly spread between Coolers & Equipment and the Drinkware. The Other was a small. There was some of that, but it was a small piece, but it was evenly spread between the two categories.

A

Q

Great. Thank you. And if I could just ask a quick follow-up. Can you comment on sell-through trends at wholesale? How comfortable are you with the level and quality of inventory in the wholesale market by category?

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

While we don't comment directly on sell-through trends at retailers, we watch it every single week. We're very comfortable with the inventory levels and it's something – as we've talked about, we have visibility to approximately 75% of our business with direct sell-through, either between the direct-to-consumer business or where we see it in POS. So we're very happy with sell-throughs and certainly going into our busiest time of the year. Moms, dads and grads in the beginning of summer are comfortable where inventory is in the wholesale channel.

A

Matthew J. Reintjes

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

Yes. I would just add that most of our conversations this time of year are around inventory levels, do we have enough and are we ready for – or are we ready for those mom, dads, grads in beginning of summer.

A

Q

Thank you so much, and best of luck into the next quarter.

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

Thank you.

A

Matthew J. Reintjes

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

Thank you.

A

**Operator:** Our next question is from Dan Wewer with Raymond James. Please proceed.

Dan Wewer

*Analyst, Raymond James & Associates, Inc.*

Thanks. Can you – perhaps I missed this. But can you let us know how much the \$5 million of revenues that shift to 1Q? How much did that benefit operating profit or earnings per share?

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

Thanks for the question, Dan. We didn't bring it down to that level, but I would say you can imagine at our gross margin rate the incremental cost of that because it was wholesale, didn't have a lot of outbound freight. So I would take a relative flow-through of probably 30% of that \$5 million after the gross margin piece.

A

Dan Wewer

*Analyst, Raymond James & Associates, Inc.*

So you're saying after the extra gross profit, there was a 30% flow-through?

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

I'm sorry. 30% flow-through on the top line, inclusive of gross margin.

A

Dan Wewer

*Analyst, Raymond James & Associates, Inc.*

Inclusive of gross margin. Thank you. And then – so that will be a challenge then on the 2Q, that one?

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

Correct.

A

Dan Wewer

*Analyst, Raymond James & Associates, Inc.*

Okay. Great. Second question I have is regarding the retail store rollout with the extra store opening in Denver late this year. If the retail store rollout grew successful, what would you say is the [indiscernible] (46:33) the possible on store openings in 2020 and 2021?

Q

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

So we've talked about opening four to six stores a year with investors in this group. I would say, our point of view today hasn't changed. We're excited about our opening in Charleston. We're excited about the opening in Chicago. And really, we'd say that's a question, as we round out the back half of this year, have those two openings, work on Denver. So I wouldn't say we have any different point of view today, but we are excited about the retail rollout and look to get those stores open.

Dan Wewer

*Analyst, Raymond James & Associates, Inc.*

Q

And then just a final question I have. As retail over the next few years becomes a larger part of the business, what kind of change is either in supply chain and/or IT will be needed to support the retail store network?

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

Well, our supply chain continues to evolve even with our growing direct-to-consumer business. So we will continue evolving that piece of it. From an IT perspective, we look to this POS and there is really in-store technology that we are testing a little bit. You'll see some of it in the Chicago store, some of it in the Charleston store. But we have the team here focused on that. And overall, as we build up our team to support the retail rollout in marketing, supply chain, IT, store operations, that's all on our roadmap as we continue to open more stores.

Dan Wewer

*Analyst, Raymond James & Associates, Inc.*

Q

Okay. Great. Thank you.

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

Thanks, Dan.

**Operator:** Our next question is from Kimberly Greenberger with Morgan Stanley. Please proceed.

Kimberly Conroy Greenberger

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you so much. Good morning. And please excuse the cold. I sound like a frog this morning. Matt, I wanted to ask about marketing. It's obviously ramping and it seems to be having a really nice knock-on effect to your revenue growth. If you think about the trajectory of marketing expenditures here over the next several years, I would imagine you continue to expect to ramp it. Ultimately, if you look out several years, ideally where would you like to see marketing expense settle as a percentage of revenue?

Matthew J. Reintjes

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

A

Thanks, Kimberly, for the question. And I – this is one of those questions where I hope our CMO is not on the call and listening in. We – your observations are right. We continue to ramp our marketing. What I would say is, we are becoming and continue to be laser-focused on being more and more efficient and more and more direct with

our marketing spend and targeting the audiences that we want with Melisa coming on board. She's been on board for about four months. A big part of what she's done over the last four months is to look at all of our historical spend. And we're – before we start to think about ramping spend, we're thinking about the efficiency, effectiveness and the productivity of the spend we have.

As Paul has mentioned previously, in the next couple of years, we'll see a little bit deleverage as we continue to spend into it and grow in these new markets. But as we continue to drive the long-term guidance of 10% to 15% top line, we believe that that gives enough air cover for us to continue to spend and expand our marketing absolute dollars while also keeping our long-term marketing spend around 8%.

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**Kimberly Conroy Greenberger**

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Great. Okay. Perfect. And then I wasn't sure if there are any other product launches that you've got coming this year that you feel comfortable previewing for us. If not, obviously we understand that. And I just have one other question for Paul.

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**Matthew J. Reintjes**

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

A

Great. We're going to continue to be coy about future product launches. And I know it remains top of mind for everybody. We're excited about how the markets receive products. You may have seen this week we launched our LoadOut GoBox. The early receptivity and in our notifications on our yeti.com website, the early reviews on the product that we're seeing from the media have been very strong. So we feel good about both the cadence with which we launch products, how we're evolving into creating awareness and buzz and momentum around it. And I think if you stay tuned to the rest of 2019 and into 2020, we're excited about what we have in the pipeline.

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**Kimberly Conroy Greenberger**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you so much. And then, Paul, given that tariffs are – I think in your plan starting June and going forward, you've got tariffs, I think you said, going to 25%. If the tariff rate does not move higher to 25% and they remain at 10% for the rest of the year, could you – is it fair to assume that the 70 basis points – or actually I guess it would be bigger. It'd be more like 100 basis points of benefits in that go-forward plan. Is that the right way to think about it or is there a better way to think about it?

---

**Paul C. Carbone**

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

I think that's the right way to think about it. We do – you are correct. We do have tariffs going to 25% in the beginning of June in our plan. If they stay at 10%, relative to the plan, we will have favorability. The 70 basis points that I mentioned was actually the year-over-year negative impact at 10%. So, in theory, that would continue if it stays at 10%, but it won't tick up. So there will be gross margin benefit, as we've talked about, if it stays at 10%. And then we will internally discuss, does that all flow, can we invest some of that to drive the business? And that will be on a month-by-month decision that Matt and I, as we go through the entire business and P&L, as we talk about how do we continue to invest in the business to drive the top-line.

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**Matthew J. Reintjes**

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

A

I would add a couple of things to that. One, the push-out of the 25% or the maintenance of the 10% hasn't changed anything about our strategy to move our bag in soft cooler supply chain. That's a process and project

that's well underway. In fact, in April, I was visiting factories outside of China that are producing already in production with our new products. So that project – that strategic project is well underway and continues to be happening and going at a quick rate regardless of the tariff settle-out.

Kimberly Conroy Greenberger

*Analyst, Morgan Stanley & Co. LLC*

Got it. Great. Thank you for the color.

Q

**Operator:** Our next question is from John Kernan [ph] Green (53:47) with Cowen & Company. Please proceed.

John Kernan

*Analyst, Cowen & Co. LLC*

Yes. Good morning, guys, and congrats on all the momentum.

Q

Matthew J. Reintjes

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

Thanks, John.

A

John Kernan

*Analyst, Cowen & Co. LLC*

Wanted to talk customer acquisition and marketing spend and what you're seeing there in non-heritage markets. If you can talk to how the brand is evolving in some of the non-heritage market, that would be great.

Q

Matthew J. Reintjes

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

John, as we continue to think about with Melisa on board and as I just mentioned a few minutes ago, she's been with us about 120 days now, which I think almost makes her a pro at YETI. She's – we continue to look strategically at how we honor, respect the core of what has made the YETI brand over the last 12 years and continue to open the aperture of the brand to bring more audiences in.

A

So, as we've shifted over the last number of years from being heritage over-indexed to more balanced nationally, we've also continued to invest in our heritage markets, heritage pursuits and then add on our non-heritage markets. Some of that's through media outlet selection, some of it's through messaging and imagery, some are through how we position the same products to different consumers for different end use cases or different end-use environments. So we've seen really good – as I mentioned on the call, really good receptivity to our products in our non-heritage markets. We're continuing to see the dynamic of the consumer embracing YETI even if they're coming into the brand newer versus some of our legacy.

And as we get through the second quarter and get through our owner study and our brand study, we'll get more information on the evolution of our consumer base, the impact on our awareness. But what we have seen is good growth in our unaided awareness in our non-heritage market, particularly in some of the targeted markets. So we're excited about where that's going in the brand receptivity.

John Kernan

*Analyst, Cowen & Co. LLC*

Q

Excellent. My final question is just – can you talk about some learnings you had so far with the store in Austin. Obviously, you're not talking about a store in Denver. Just anything you've been learning as kind of refine that brick-and-mortar model?

Matthew J. Reintjes

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

A

Yes. John, as we think about – when we opened that store two-plus years ago, we thought about it as a brand showcase. We built a quintessential flagship store. It was sparsely populated with product. It was long on storytelling. It represented all the things that are the YETI brand in the history of YETI. But it wasn't a retail space. And that was intentional at that time. Our business was 90-plus% wholesale. We were thinking about this as a showpiece or a touch-and-feel museum for all things that are YETI.

What's interesting is the consumer quickly told us we want to buy things from you. And to the point, I've used the story in the past. We didn't have price tags in the store when we opened it back in 2017. So, one of the things that over the last couple of years that's really helped inform as we think about new stores is how to merchandise a store appropriately, how to tell products, the balance between product stories and brand stories, how to use the store even if it's just to create consumer awareness around your assortment that then benefits our omnichannel, which is something we've seen here in Austin to broadly benefit our omnichannel, both our wholesale partners and our direct-to-consumer channels.

So there are a number of learnings. We've also built out a purposeful retail team that's helping lead that rollout. And so I would say if we were ignorant three years ago, we're significantly more, more informed, and that information is actually making a material difference in how we think about the store rollout.

John Kernan

*Analyst, Cowen & Co. LLC*

Q

Excellent. Thank you.

**Operator:** And our final question is from Brett Andress with KeyBanc Capital Markets. Please proceed.

Brett R. Andress

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hey, good morning. Thanks for squeezing me in. Paul, first just a housekeeping. You talked about the tariff favorability, but can you maybe quantify the amount of favorability if it stays at 10% for the remainder of 2019?

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

So if it stays at that level for the balance of the year, so in the second quarter, it would be – it would stay at the 70 basis points. I would say, for the full year, it might be \$4 million to \$5 million. Then there is the offset of what happens, and we've talked about this extensively. What happens if currency changes – so there are these pieces of the offset as well and then the decision if we take that to invest it or flow it through to the bottom line.

Brett R. Andress

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Understood. And then if I could follow up on a question that was asked earlier on the new products that you kind of do so far in 2019, obviously the beer mugs sold out already at one point. But if you look at the success of those

products, does it look like they're going to meet your criteria for wholesale distribution at some point later in the year?

Matthew J. Reintjes

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

A

I think if you look at our recent track record, we've selectively launched things on yeti.com and kept them on yeti.com. We've put things, as I mentioned on the call in 2018, the three examples of products that we brought to market on yeti.com and then ultimately turn them into omnichannel products, the wine tumbler, the Camino Carryall, and the Haul.

We like that – the approach we've seen, there are also some things that we will launch like the GoBox that that will go broadly into omni-channel right away. So I think the – I think we're going to continue to be thoughtful about the product family, what the product is, where our current assortment is in the wholesale channel, and how it fits into that, both match with the wholesale channel and also the ability to merchandise story-tell and represent the brand. So it's a pretty dynamic process that our team goes through with every product launch. We think about how it fits into the storytelling in the direct-to- consumer channel, how it fits into the storytelling from a wholesale channel perspective.

Matthew J. Reintjes

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

A

Got it. And the last one, on the YETI Custom Shop integration that you guys did in early April, I guess the shutdown... Is that going to have any negative impact in 2Q? And then conversely, I guess how has that integration played out? I mean, have you seen any uptake or higher conversion rates towards custom product from that? Just any color there.

Paul C. Carbone

*Senior Vice President and Chief Financial Officer, YETI Holdings, Inc.*

A

Sure. We are very excited about the conversion and having a single purchase path for the consumer. So it's really a consumer-facing project. The shutdown over the weekend is all incorporated in our full-year outlook, as it was when we gave it in the beginning of February as well. We are seeing nice conversion with the one path, the one purchase path, and Drinkware customization has increased along the lines of the way we planned it. So we – with this project, we planned an increase and we are achieving our internal plan of what we expected this project to deliver. So we're very, very happy, and I would say that we would like to thank the teams. This is yeoman's work on a lot of YETIsans to merge these and bring it together into a single path, really for the consumer. This was a consumer-facing project. It was a very, very long weekend of business teams here, IT teams and I know I shared that with Matt, thanking everyone for their efforts and the consumer is responding very positively.

Brett R. Andress

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. Thank you.

**Operator:** This concludes our question-and-answer session. I will now turn the call back over to Matt for closing remarks.

Matthew J. Reintjes

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

Thank you. Thank you all again for joining us. We continue to be very excited about the future of YETI and look forward to speaking to everyone in August. Have a wonderful week.

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**Operator:** Thank you. This concludes today's conference. You may disconnect your lines at this time and have a wonderful day.

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