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YETI Holdings, Inc. (YETI)

Q3 2019 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Randal J. Konik
Analyst, Jefferies LLC

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

Sharon Zackfia
Analyst, William Blair & Co. LLC

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

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

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Joseph Nicholas Altobello
Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to YETI 3Q 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 your host, Tom Shaw, Vice President of Investor Relations. Please go ahead.

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

Good morning and thanks for joining us to discuss YETI Holdings' third 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 risks 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 reference certain non-GAAP financial information, including adjusted items. Reconciliations of GAAP to non-GAAP measures, as well as a 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.

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

Matthew J. Reintjes

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

Thanks, Tom, and thanks, everyone, for joining us today, and Happy Halloween. First off, we're pleased to report another strong quarter for YETI, one that was highlighted by growth across the portfolio and excellent progress against our strategic growth drivers.

Our third quarter results were punctuated by overall revenue growth of 17%, with 21% growth in our Drinkware and 13% growth in our Coolers & Equipment categories. Our direct-to-consumer business delivered 31% growth, while wholesale drove 9% growth. We also continue our trend of posting strong gross margin expansion, which underscores the effectiveness of our strategic initiatives and the investments we have made.

All told, these results powered 24% growth in adjusted earnings per share. When combined with our strong product lineup and overall execution against our strategic growth drivers, we're confident in raising our full-year targets. Paul will discuss the results and outlook in more detail, but suffice it to say, we are pleased with where the business is nine months into fiscal 2019.

Now let me provide some updates across our four strategic growth drivers: expanding our customer base, introducing new products, accelerating direct-to-consumer, and international. As we look at expanding our customer base, one of our constant themes is the focus on depth and breadth marketing, including the interplay between brand stories and product stories. We're hyper focused on deepening the connection within our existing communities, while establishing authentic new communities.

We continue to lean heavily on building strong relationships, leveraging the support of relevant ambassadors, rich content, endemic media, and powerful partnerships. The YETI brand was built on the real and the relevant, and we believe among our brand fans and those newer to our brand, there remains significant growth opportunity and engagement and product expansion.

In late Q3, we released our year-end brand and product ad campaign. The first episode featured our soft coolers with professional snowboarder, Robin Van Gyn, and the second episode highlighted our recently released bags with fly fishing pro, Oliver White. We continue to test the mix of broad-based awareness campaigns and direct-to-consumer engagement activities, including events, ambassadors, and partnerships.

Our objective is to stoke brand passion and our incredibly high 95-plus percent peer-to-peer referral rate. Quality of engagement and interaction is of paramount importance to us. As we look at amplifying how and where we speak to our customers, we're finding balance between the art and science of engagement. We recently selected a new global media agency, which will allow us to leverage increased sophistication and resources to drive brand depth and reach.

We're also partnering with them from a data analytics perspective, leveraging their expertise in tandem with our internal investments and capabilities around customer insights and metrics. Our focus on finding the right partnerships was also on full display this quarter.

In September, we announced our multi-year partnership with the PGA TOUR, making YETI the Official Insulated Cup and the Official Insulated Cooler of the PGA TOUR and PGA TOUR Champions. We will have the exclusive right to self-designated product at 32 TPC golf courses, as well as product at 12 TOUR-run merchandise venues and Signature cups at 13 TOUR and TOUR Champions tournaments.

From green grass to snow, we expanded our on-mountain partnerships and activations to 10 mountain resorts following the three recent additions of Telluride, Snowball, and Purgatory. We would be remiss to not acknowledge National Breast Cancer Awareness Month and the amazing efforts of our partners in the fight. We continue in our third year of support for both Casting for Recovery and Boarding for Breast Cancer. These incredible groups partnered with two of our ambassadors, Hilary Hutcheson and Robin Van Gyn, to bring the joy of the outdoors to the recovery process. We're honored to stand with Hilary and Robin and these two great organizations.

On product, we had a great flow of new offerings and color throughout the quarter. Drinkware was strong across the board, including a very positive response to our strategic seasonal color offerings. Our Drinkware has been a highlight this year and is indicative of the growing consumer trend away from single-use. Our latest bottle offering, the Rambler Jr., was a huge success during the period, designated as a TODAY Show Back to School must-have. We're very pleased with how we're positioned in Drinkware.

Within Coolers & Equipment, color also contributed to the strong performance, including the return of charcoal hard coolers late in Q3. Our latest product in the soft cooler line, the Hopper M30, continues to receive positive accolades from the likes of Men's Journal, Golf Magazine, and Gear Patrol. We like the early performance here.

Rounding out the cooler side of the business, we also had the strong debut of the Daytrip, our first insulated lunch bag. Forbes selected the Daytrip in its Best Hiking Gear for 2019 list, and we see an opportunity to leverage this momentum as a holiday item.

On the equipment side, we launched our two newest styles in the bag family, the Crossroads tote and backpack. Customer interest in the category is building supported by our recent brand campaign, demonstrating the all-day functionality and versatility of our bags. While these products are only available in our own direct channels, this is an exciting long-term opportunity and natural expansion for the brand and we're excited to build out this family in the future.

These examples showcase the strong product foundation that gives us confidence in driving customer engagement throughout the holidays. In the fourth quarter, we will also debut a pinnacle YETI hard cooler product that demonstrates our commitment to push the edges of innovation, design, and performance. We look forward to sharing more about this unique addition to our hard cooler family later in the quarter.

Our focus on meeting consumers where they shop continues to drive results, with 31% D2C channel growth this quarter with total D2C mix at 41% of overall sales. Growth remains balanced across D2C, with YETI.com, corporate sales, YETI retail, and the Amazon Marketplace all performing and all well-positioned for the upcoming holidays.

We're also prepared to better serve our own direct business this holiday, including the addition of our Salt Lake City 3PL, which will reduce shipping times to the West Coast, as well as the recent expansion of our customization capability to drive order fulfillment through the gift giving season. This incremental capacity began ramping in October.

Beyond online, we continue to test and learn from our own YETI retail footprint. In Charleston, we're encouraged after our first full quarter in the books and are excited about the unique activations at the store, such as fly tying competitions and oyster shucking events. We see numerous opportunities to engage both the community and those visiting the low country.

Our Chicago store opened in late September. Similar to Austin and Charleston, Chicago combines local partnerships, including with the [ph] Great Lake Alliance (00:28:43) and our in-store collaboration with local artist, Kate Lewis. We are similarly enthusiastic about the response from the local community in our early weeks in Chicago.

We have recently announced retail expansion plans here in our home state of Texas, starting with the recent opening of a pop-up store at The Domain, Austin's preeminent shopping destination. Operating through the holidays, this is a small, nimbler footprint. We're also adding a short-term spot next month with our first Dallas location in the Knox/Henderson area. The store will feature 1,700 square foot size and provide a great access point to a vibrant community that aligns well with our brand and bridges us to a longer-term location.

Finally, on our previously discussed opening in Denver, given the projected timing of this full-size store open amidst the holidays, we've shifted our open day to Q1 in favor of focusing on the two temporary locations just discussed. In addition to the work on our D2C business, we're also focused on delivering an optimal omni-channel experience by evolving and enhancing our wholesale footprint. First and foremost, this means continuing to invest in our great wholesale partners to build deep, consistent assortments, as well as more informative point-of-sale. We know this approach resonates with our customers, drives traffic, and improves velocity.

As we have said since our IPO last year, we will continue to target new distribution points that support one or many of the following criteria: creates a new buying occasion, reaches a new consumer, or augments or enhances our existing portfolio. A few examples of the first two criteria that we've discussed in the past include our expansions into Williams-Sonoma, Whole Foods, and more recently Total Wine. Each of these destinations brings the customer and buying occasion that complements our historical distribution. We have taken a thoughtful and measured approach to expansion within each.

With the third criteria, we've worked to align our various wholesale segments over the past four years. Our leadership positioning with relevant category leaders, such as DICK'S Sporting Goods in broad line sporting goods, REI in outdoor, Bass Pro Shops and Cabela's in hunt fish, and West Marine in water-based activities, to name a few, strongly complements our independent specialty channel's unique power to build deep and authentic customer engagement.

Since 2016, we've focused on consolidation and strengthening of our wholesale partners. During that period, on a net basis, we've eliminated nearly 1,400 accounts totaling roughly 3,000 rooftops. While we've enjoyed the success of this strategy, we do continue to see opportunities to round out our current wholesale footprint.

For example, as we look at the large do-it-yourself home improvement and professional market, we have a longstanding and successful heritage with Ace Hardware and other independent [ph] specialists in this (00:12:10) channel. It is an area of continued investment for us. What we identified was a lack of full reach when considering the high traffic, large format DIY and professional stores.

After a strategic evaluation, we targeted Lowe's Home Improvement as both a strong rounding out within the DIY space and a broader extension with the Pro customer for the YETI brand. We will start a paced rollout program in late 2019 in a couple hundred doors and, based upon our learnings and success, continue a store rollout through early 2021. Our store plan over the next year plus will be methodical to ensure success for YETI and Lowe's.

Beyond the opportunity to intersect with additional consumers within home improvement, we were attracted to Lowe's strong position in Pro, outdoor, and seasonal categories, areas that align with many of the pursuits that we support, as well as a strong collaboration displayed during the planning of this opportunity between our two brands. We're excited to complement our existing wholesale presence with the reach of Lowe's.

Now to our fourth strategic priority, international. We continue to be methodical in the early stages of our global rollout, including a focus on one-step distribution and building the brand through a combination of D2C and authentic wholesale accounts. We are off to a good start in the UK and Europe. As we mentioned on our last call, we launched our local e-commerce sites in July and have sold YETI products directly in 31 countries across the region to-date. Overall, assortment availability continues to grow as we ramp-up our regional 3PL.

In addition, we were excited to open our first wholesale account during the quarter with Farlows. Located in the heart of London, Farlows has been an outdoor institution for fishing and country sports enthusiast since 1840 and has been granted a Royal Warrant from His Royal Highness the Prince of Wales for meeting the standards and patronage of the royal family. It is a great shop and a fitting launch partner for YETI.

In Canada, our focus during the quarter is centered on growing our wholesale relationships, continuing to ramp YETI.ca, and expanding our marketing and PR. These efforts to tighten our connection with the Canadian consumer will continue to support and unlock our growth across the country.

Australia continued to see fantastic results and we were pleased to officially enter New Zealand during the quarter through a combination of our own e-commerce site and a local dealer network. Complementing this New Zealand's launch, the South Island will be the storyline of our upcoming YETI Dispatch magalog. The Dispatch will land in 1.5 million homes in the US in November. New Zealand epitomizes adventure like no other and we were able to bring to life a small part of it through stories of snowboarding, surfing, and native Maori cuisine. This showcases the intersection of the lifestyles and experiences of our YETI ambassadors and friends in a way you would expect from us.

Looking across our four growth drivers, we're excited about the excellent progress we continue to make to reach consumers in meaningful ways and ultimately to deliver long-term sustainable growth. Our leadership team remains focused on what we can control, being thoughtful and disciplined in our strategy and action. This includes our approach to tariffs, where we have now been actively mitigating the fluid scenarios across our product portfolio for the last four quarters. Paul will provide a few more details on our positioning into 2020, but we're confident in the multiple levers that we will use to mitigate tariff and support our growth.

In summary, we remain energized by the ongoing efforts of our employees, who have been instrumental in driving our strong performance year-to-date and positioning us to win during the holiday season ahead. I want to thank our customers and partners who continue to stoke the YETI brand and our collective success.

With that, I'll hand the call to Paul to review our financial results and updated outlook.

Paul C. Carbone

Senior Vice President & Chief Financial Officer, YETI Holdings, Inc.

Thanks, Matt, and good morning, everyone. I'll begin with an overview of our third quarter results, followed by updates to our fiscal 2019 full-year outlook and a few thoughts on how we're positioned with tariffs as we look beyond this year.

During the third quarter, net sales increased 17% to $229.1 million compared to $196.1 million in the year ago period. As expected, growth in the quarter accelerated from the first half of the year, driven in part by our new product offerings. We are pleased with both the product demand and our overall execution during the quarter.

By channel, direct-to-consumer net sales for the quarter increased 31% to $92.9 million compared to $72.2 million in the same period last year. Performance remains strong across our three largest direct channels of YETI.com, Amazon Marketplace, and corporate sales. We also had strong performance in our two primary product categories, with Drinkware leading the way.

Wholesale net sales for the quarter increased 9% to $136.2 million compared to $125 million in the year ago period, with strong performance delivered in both product categories. We continue to be pleased with the overall health and sell-through rates across our wholesale channel.

From a geographical standpoint, our international business grew 58% for the quarter, continuing to show strong progress, though off a low base. And on a year-to-date basis, international represented 4% of our net sales.

By category, third quarter Drinkware net sales increased 21% to $126.4 million compared to $104 million in the prior-year quarter. As Matt mentioned, customers responded to both the introduction of our new colorways, as well as deeper penetration of these colors across the Drinkware portfolio. The expanded lineup of Drinkware, like the Rambler Jr. kid's bottle, resonated with customers and we remain encouraged by the demand we are seeing for customization as our capacity expansion ramps up.

Coolers & Equipment net sales increased 13% to $97.8 million compared to $86.7 million during the same period last year, led by strong performance in soft coolers, including the next generation Hopper M30 and the Daytrip lunch bag.

Gross profit increased 23% to $120.1 million, or 52.4% of net sales, compared to $97.5 million, or 49.7% of net sales, during the same period last year. The 270 basis point year-over-year gross margin expansion was primarily driven by a positive 240 basis point impact from cost improvements led by Drinkware category, as well as a positive 210 basis point impact from channel mix, led by the increased mix of a higher margin direct-to-consumer net sales. These gains were partially offset by 150 basis point impact from higher tariffs.

Adjusted SG&A expenses for the third quarter were $79.7 million, or 34.8% of net sales, as compared to the $65.9 million, or 33.6% of net sales, in the same period last year. Selling expenses deleveraged 190 basis points, driven primarily to higher variable expenses tied to our faster growing DTC business, including online marketplace fees and outbound freight, as well as higher marketing expenses.

Offsetting these increases, G&A expenses leveraged 70 basis points, primarily driven by lower professional fees and other cost savings. Adjusted operating income increased 27% to $40.4 million, or 17.6% of net sales, compared to $31.7 million, or 16.2% of net sales, during the same period last year.

Our effective tax rate was 24.9% during the quarter compared to 15.5% in last year's third quarter and roughly in line with our full year outlook. Adjusted net income grew 29% to $26.1 million, or $0.30 per diluted share, compared to adjusted net income of $20.2 million, or $0.24 per diluted share, last year. Adjusted EBITDA increased 24% to $47.5 million, to 20.7% of net sales, compared to $38.4 million, or 19.6% of net sales, in the same quarter last year.

Now turning to our balance sheet. As of September 28, 2019, we had cash of $34.6 million compared to $52.1 million in the year-ago period. We ended the quarter with $209.2 million in inventory compared to $157.7 million last year. Similar to the actions we began in the second quarter, the 33% increase in inventory for the period largely represented the strategic buildup of Drinkware inventory in advance of List 4 tariffs, which the vast majority of these tariffs are planned to be implemented on December 15.

This Drinkware investment included both in line colors and core Drinkware product, as well as the earlier receipt of some spring 2020 seasonal colors. Excluding this investment, inventory growth remained below our reported sales growth for the third quarter. We continue to see a healthy overall inventory position for the company and remain well-positioned to support our new product introductions and related growth expectations for the balance of the year and as we enter 2020. We ended the quarter with total debt, excluding unamortized deferred financing fees, of $298 million compared to $394 million in last year's third quarter.

During the quarter, we made debt repayments 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 1.5 times compared to 2.6 times in the prior year quarter.

Now turning to our updated 2019 full year outlook. We are pleased to be able to once again raise our overall full year net sales and earnings outlook. We now expect full year 2019 net sales to increase between 14.5% and 15%. This implies a strong fourth quarter with similar dynamics as year-to-date results across product categories and channel mix.

As mentioned in last quarter, we remain bullish on both our product lineup, as well as our ability to fulfill growing customization demand during the holidays, with our recent investment in expanding our capacity. Importantly, this guidance does not include our initial shipments to the couple hundred Lowe's locations later this quarter as we begin our strategic rollout. We feel it is prudent to give a more consistent measure of our financial trends relative to our year-to-date outlook.

On the margin side, we now expect reported GAAP operating income margins between 14% and 14.2% of net sales, resulting in margin expansion of 90 to 110 basis points versus last year. Adjusted operating margin is now expected to be between 16.8% and 17% of net sales, reflecting margin expansion of 90 to 110 basis points versus the prior year period. Higher adjusted operating margin continues to be supported by gross margin expansion, largely driven by lower product cost and the favorable shift in channel mix to our direct-to-consumer business.

Partially offsetting these gross margin gains, we continue to expect full year adjusted SG&A deleverage led by higher marketing investments and variable costs associated with our faster growing direct-to-consumer channel.

Adjusted EBITDA is now expected to be between $178.2 million to $181.2 million, reflecting growth of 20% to 22% and margin expansion of 90 to 110 basis points. Based on diluted weighted shares outstanding of approximately $86.3 million, GAAP earnings per diluted share are now expected to be between $0.90 and $0.92, reflecting a 29% to 33% year-over-year growth.

We expect adjusted earnings per diluted share to be between $1.12 and $1.14, reflecting 23% to 26% year-over-year growth. We now expect capital expenditures to be between $30 million and $35 million, below our prior forecast of $35 million to $40 million and compared to $21 million in fiscal 2018. We continue to expect the ratio of net debt-to-adjusted EBITDA to be approximately 1 time at the end of 2019.

Before turning the call over for questions, I wanted to provide a recap of how we're positioned in regards to tariffs as we move into 2020. As you know, we have been working through various tariff impacts for over a year now, starting with our List 3 efforts last fall. At that time, we also began developing a similar mitigation playbook around our Drinkware business.

In addition to our ongoing costing initiatives that have resulted in higher Drinkware margins this year, our tariff playbook includes cost sharing negotiations and further reductions in non-product COGS, like marketing inserts and packaging. Other mitigation levers include FX tailwinds, the ability to preposition inventory, which we're doing now, and finally, the ability to take pricing actions as we look across the entire portfolio going forward. Longer term, we're also working with our suppliers to explore both efficiency and other operational improvements in how each can play into the supply chain equation for our brand.

With nearly all of our Drinkware falling into List 4B, which is proposed to be in effect on December 15, we expect essentially no P&L impact this year. As I mentioned, we have and continue to strategically pre-position Drinkware inventory as a tariff mitigation lever, which is expected to result in year-end inventory growth in the same range as we have experienced at the end of the third quarter. We expect to return to more normalized levels throughout the first half of 2020.

Regarding the impact in fiscal 2020, we will give specific quantitative commentary on our fourth quarter earnings call. However, please note that our strategic inventory positioning as we exit 2019 and the average costing of inventory will help mitigate the financial impact of tariffs in fiscal 2020. As Matt mentioned, we are focused on the execution of our long-term strategy, not only as we manage through this dynamic environment, but also as we continue to support the tremendous opportunities we see ahead for this brand.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Thank you. Your first question comes from Randy Konik, Jefferies. Go ahead, please.

Randal J. Konik
Analyst, Jefferies LLC

Q

Yes, thanks. Good morning, guys. Quick question. You had some encouraging commentary around response to new products that you've launched recently both in type of product and color as well. Any kind of granularity or perspective on the amount of what the proportion is of sales coming from new products and how that's changed or not changed over the recent past? Just trying to get some perspective on seeing new products as an additional demand catalyst for the brand.

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

A

Yeah, great. Thanks, Randy. Good morning. As we think about our product portfolio and evolution we've undergone the last few years in the business, one of the things we focused on is continuing to drive our historical products and driving vitality in those through color. We mentioned color a number of times, so color continues to be a meaningful part of the driver in that mix, both the in line colors that we've added over the last few years, and then the seasonal and some of the shorter run color drops we've done.

As we think about new products, we've talked consistently about new, new product families being building into the growth in those and not looking to launch blockbuster products that need to be comped year-after-year. So, we like the growth as we expand within product families and as we expand in those product categories the growth and contribution we're seeing. But as we think about our Coolers & Equipment category, for example, every subfamily within our Coolers & Equipment category was a growth driver in the third quarter. And so, we like the broad-based response we're getting from both our existing customers and new consumers.

Randal J. Konik
Analyst, Jefferies LLC

Q

That's very helpful. And then one thing that seems to be very noticeable of late is more callout or attention to the custom opportunity or the custom offering the brand provides to consumers. And it seems like a logical way to kind of drive gifting, whether it's Christmas, Father's Day, Mother's Day, Graduation, et cetera. Can you give us some perspective on how big that business is? And, more importantly, what's the capabilities and capacity of the business and turnaround times that you're improving upon where they are today, where they've been? Because it just seems like an area of the business that'll continue to kind of drive brand affinity and love going forward; just curious there.

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

A

Yes. Thanks, Randy. We really like our customization and personalization business. And over the last few years, we've been continuing to invest behind driving up capacity there. As we've talked in the past, historically, about this time of year, we're running out of capacity for the holidays and we turn to just order fulfillment. What we particularly like about it is it gives a – whether it's a consumer or a corporate customer, a way to really personalize a YETI product. So you take something that's a highly valued purchase and add a personalization element to it.

We expect it to continue to be a growth driver for us. It's a meaningful part of our D2C business. We haven't broken out the size of it, but we like the opportunities, the reason we made the investment in the additional capacity going into Q4 this year and we'll continue to do that. And we're driving capacity not only through investments, but through process improvement, some of our logistics, as we talked about, the Salt Lake City 3PL, some things to be able to get product to consumers more quickly and keep those lead times down. So we're open for the holidays right now.

Randal J. Konik
Analyst, Jefferies LLC

Q

Awesome. Thanks a lot. Thanks, guys.

Operator: Thank you. Your next question comes from Peter Benedict, Baird. Go ahead, please.

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

Q

Hey. Good morning, guys. My first question, Matt, maybe talk about the assortment that you're planning to go into Lowe's with at least initially, and how you kind of see that maybe evolving. That's my first question.

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

A

Yeah, Peter, good morning. As we think about all of our wholesale partners, we look to provide the assortment that we think makes the most sense for the way they're displaying the product, their store footprint, and the consumer that comes through the door. That will be very similar at Lowe's. There are products within our portfolio that we think make complete sense to the opportunity with the Pro consumer that's coming in there – or the Pro user and the consumer.

As we think about our channels, we don't overly assort across our wholesale channels, but there are certain products that make more sense in the sporting goods channel than they would in the DIY home improvement, and so we'll be thoughtful about how we place the products in there. But there will be a core assortment. We continue to believe in multi-category, multi-product family at all our retail point-of-sale.

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

Q

Okay, great. Thanks for that. And then just on the international, some of the cost opportunities that Paul was talking about, the last one, kind of the longer-term efficiencies and whatnot, can you talk about maybe where your international supply chain is right now, how you're fulfilling that demand, and how that might change over the next year or two? And I'm asking because I'm curious about the longer-term gross margin opportunity here. I mean, your plan has been kind of 50% to 52%. Just curious if there's any limiting factors that prevent you from potentially going beyond the high-end of that as we think out over the next few years. Thank you.

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

A

Yeah, Peter, I'll take the front end of that, and then have Paul step in, and I want to separate the international supply chain, the inbound part of that versus the outbound or fulfillment to customers piece. One of the things on the outbound side, we announced that we added a 3PL partner in the Netherlands to be able to support our growth aspirations in the UK and in Europe.

We've added a small 3PL in New Zealand to support the entry into that market that works in conjunction with the 3PL partner we have in Australia to create better outbound efficiency. We also expanded the capabilities and the size of our 3PL in Canada to support the growth in Canada. We're also looking at the inbound components of our 3PL. And as products leave our global factories, whether those factories are in the US or whether those factories are around the globe, how we optimize good movement to make sure we're putting it into market as efficiently as possible.

And so our team continues to focus on the operational excellence elements of that. There's work to do as a business that a couple of years ago had one 3PL in Dallas, Texas and supported our global needs out of there, to a multi kind of nodal 3PL.

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

A

Good morning, Peter. So overall, we are very pleased with our performance in Q3 with gross margin expanding 270 basis points. Year-to-date we're at 51% and entering our historically strongest quarter, and we believe this is a measure of strength when evaluating the health of the brand.

As you mentioned, our long-term target of 50% to 52%, we're bumping up against that and, again, year-to-date slightly – or in the quarter slightly above that. There are no structural limitations on margin as the combination of ongoing cost improvements in DTC mix shift can support further expansion. Tariffs remain a bit of a moving target, as you know; and we're mitigating those costs with a series of actions as we've talked about and I talked about in my prepared remarks.

So, as we think about 2020, we'll get more color at the end of our fourth quarter and with our fourth quarter earnings call. But there's nothing structurally in the business that says we get capped at 52%. We believe ongoing cost improvements, ongoing DTC mix, offset by some tariff pressure, is the mix as we go into next year, but we feel really good about expanding gross margins.

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

Q

Great. Thanks so much, guys.

Operator: Thank you. Your next question comes from Sharon Zackfia, William Blair. Go ahead, please.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Paul, I just want to clarify that I heard something correctly. Did you mention that guidance for this year does not include any of the Lowe's initial infill? And if it doesn't, could you give us some kind of color on what that infill might look like in terms of revenue or profit?

And then secondarily, just a question on international, because I was a little surprised to see it slow in the quarter in terms of the pace of growth, although obviously still growing really strongly. I don't know if that was something that had to do with the timing of different launches, but maybe if you could touch on that.

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

A

Sure. Good morning. So let me reiterate. Lowe's is not included in our updated full year guidance and we did that because we wanted to provide all of you and investors with a comparable outlook as we've gone through the year. So that's number one. To dimensionalize that, we are finalizing rollout plans. We've said it's a couple hundred stores, but we are finalizing store rollout plans, less so the merchandise.

I think we have locked on that really the size of it and the exact number of the stores. So that will be in addition to our outlook, can't dimensionalize that today. But certainly as we go through and as we talk on the fourth quarter call, we'll help you understand that. But, again, it's not included in the 14.5% to 15% top line growth.

You asked about profitability. It's similar to our wholesale business. So, Lowe's will maintain MAP pricing and they fall into a normal cadence of wholesale sales, so there's no difference in that than the rest of our wholesale business.

On international, I'll touch on, and then Matt may want to speak a little bit more. It's really, Sharon, just timing throughout the year and the quarters, we had – and our international business is driven by Canada today. We had a big Q2. It's just really the lumpiness of a given quarter. Year-to-date we are plus 4%. As I mentioned, overall international is up 58% in the quarter, although off a low base, but it's really just the lumpiness of any given quarter.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

That's helpful. And just one other question. I know you mentioned for the full year gross margin expansion partly offset by the SG&A growth. Is that a similar story for the fourth quarter as well? I mean, you have a really tough year ago gross margin comparison in the fourth quarter, so I don't know if we should be expecting that to be a positive in this quarter or maybe a slight negative.

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

A

So we continue, as we look in the fourth quarter, to expect gross margin improvement and cost improvements and DTC mix shift offset by tariffs. We believe overall, it will be a positive for the quarter, to your direct question, and then offset by some SG&A deleverage both in marketing and some of the variable expenses with the faster growing direct-to-consumer business.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Okay. Thank you very much.

Operator: Thank you. Your next question comes from Robbie Ohmes, Bank of America. Go ahead, please.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Oh! Thanks. Good morning, guys. I had a couple of follow-up questions. I guess the first one, can you remind us that the – I know you're not going to give us tariff guidance for 2020 today. But can you just remind us the strategy for sourcing long term, assuming tariffs stay in place? And so what percent of your sourcing is in China? And then, do you expect to move a lot of your production out of China during 2020? Can you just remind us what the strategy is in general?

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

A

Yeah, Robbie, Matt. I'll take the beginning of that, and then let Paul weigh in. As we think about our strategy, going back a year plus has remained the same regardless of what products were either included or rumored or proposed to be within the tariff, which is we, first and foremost, focus on our continued cost negotiation. We also work with our suppliers in the cases where they are tariffed on a cost sharing program. We continue to drive and focus on driving efficiency and productivity within our supply chain. And then, in certain cases we look at the relocation of that supply chain.

Obviously, we've communicated consistently that our soft coolers and bags, we made the decision to move that supply chain out of China. What I will say about moving a supply chain is, we are going to make decisions that we believe are in the best long-term strategic interest of YETI. The short-term moves have a significant amount of complexity to them and potential risk; and we think there's a lot of ways across those levers to mitigate and manage tariffs; and, as I said on the prepared remarks, the fluid tariff environment.

And then the last lever, which we did not use in our soft coolers and bags, was pricing. And as we look at contemplating consumer pricing or channel pricing, we look across the entirety of our portfolio and not necessarily just the things that may be tariff. So we by the end of this year will have successfully moved all of our soft coolers and bags materially out of China, and so we'll have successfully executed the strategy that we communicated a year ago.

On Drinkware, Drinkware we look at differently. There is a very well-established and large supply chain in China. There isn't as ready a global supply chain outside of China for those products. So, that lever, the moving maybe a little lower with Drinkware. But when we look across the other levers we have, it gives us confidence that we can continue to execute and drive and support the growth of the business.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

And related to Drinkware and just on the cost improvements that are driving your great gross margin expansion, what are you doing? Can you give us more color on what you're doing and is there a deviation? Now, I think Drinkware, historically, had similar gross margins to coolers. Is that changing now? Are Drinkware margins moving up pretty dramatically here?

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

A

So let me start with your last question. Drinkware margins are moving up above Coolers & Equipment, so they're about 500 basis points better than Coolers & Equipment. And just to make sure there's no confusion, Coolers & Equipment have not gone down. Drinkware margins have just increased. To your point, most of the cost improvement have been in the Drinkware category.

I would say the cost improvements fall into a couple of buckets. The first is, and we've talked about this, of having should cost models – and when our supply chain team negotiate with our manufacturing partners, they know what an R20 Rambler should cost and come from a position of information and are able to negotiate.

The second piece of that is the increase in the volume, right? So Drinkware being up 21% in the third quarter as an example, so the sheer volume that we're driving, which allows the contract manufacturers to spread or get efficiencies on their fixed cost is the second. And then the third, and this is – I talked about this in my prepared remarks, more as we think about 2020, just any efficiency gains and things of that nature that the supply chain team works in conjunction with our manufacturing partners to take cost out of the product from efficiency and things of that nature.

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

A

Yeah. And one thing, Robbie, I'd add to that, we're not taking any quality or any performance out of the product to drive cost. What we're doing all this around building the same high-quality YETI products in a more efficient and effective manner.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

That's really helpful. One last quick question, you're encouraged with Charleston and Chicago with the stores themselves. Can you give us any color what happens to the dotcom business in the ZIP Codes that those stores are opened?

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

A

What we've – and I'll caveat this with, it's early days in Charleston and very early days in Chicago. What we have seen is really positive, really positive as it relates to our e-commerce dotcom business. Those stores serve a number of purposes and we said at the very beginning, we plan to and intend to open profitable stores. They're not a marketing expense, so we expect them to as a standalone contribute to the overall of YETI. But what they do do is they provide a real intangible embodiment of the product portfolio that consumers can come in and see.

So, even if the transaction doesn't happen in that moment, we do like what we're seeing from an e-commerce perspective and we like what we're seeing from introducing consumers to products in the portfolio that they may not have seen before. We've also really focused in the stores in continuing to optimize both how we engage with consumers and introduce them to the ship to anywhere concept from the store. So even if they're in the store, we have the ability to fulfill to wherever they are from, whether local or visiting.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

That sounds great. Thanks so much, guys.

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

A

Thanks, Robbie.

Operator: Thank you. Your next question comes from Kimberly Greenberger. Go ahead, please.

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. Good morning. I wanted to just ask about the pop-up shop strategy. And I think, Matt, you said you're working on a full-time spot in Dallas. I'm wondering how pop-up stores fit into your long-term D2C strategy. Are you looking at these as sort of holiday-specific opportunities or do you see additional opportunities in the pop-up shop side of the equation?

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

A

Good morning, Kimberly. No, actually we look at the pop-ups as part of our overall retail strategy. And as we test in the markets and we test in the locations, we like the pop-up concept from understanding the local market. So, in Austin, it is truly a holiday pop-up, but it's in a location that we have thoughts and an eye towards long-term. In Dallas, it's a little bit different. Dallas, it's a multi-year temporary location. As the area that we moved into in Dallas is undergoing a significant transformation and a number of well-known brands and retailers are moving around within this district; and we have our eye on a couple locations that will come available as that transformation continues.

And so, it's really different flavors of things, but what we like about this pop-up or temporary space is it's a very effective way of getting into a market in a cost effective way is anyone who would visit the Austin domain or visit our Dallas location, we'll see it still feels very YETI. It feels like it fits within our portfolio and our design. So, we're excited to see how this works and use it as part of our ongoing retail strategy.

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then I just had a follow-up on your operating margin opportunity. It sounds like you're confident operating margin can continue to march higher from here. In terms of GAAP EBIT margin, it looks like hitting around 14% this year. As you look out over the next, let's say, three years or so, what are your long-term aspirations for that operating margin and the key levers to get you there?

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

A

Good morning. What we've talked about long-term is adjusted EBITDA margins as we launched the IPO, so I'll use that framework. And we've talked about 19% to 22%, we'll end close to that at the end of this year. Really over the remainder of 2019, and then as we think about 2020, the drivers of expanding op income margin or adjusted EBITDA margin is going to be gross margin offset by some SG&A deleverage. I mean, we've talked about that SG&A deleverage driven by added investments in marketing. And as we saw this quarter the variable cost, and we've talked about this with a faster growing DTC channel, growing faster in the overall business.

We see a couple years out, obviously, getting some G&A leverage as well, as we continue this march of between 10% and 15% top line growth. So, in the near-term, 2019/2020, I would say the margin expansion at the bottom line is driven by gross margin, offset by some G&A deleverage, and then further out it is gross margin expansion with some G&A leverage. But again, the variable cost of that faster growing direct-to-consumer business, just by the math of that growing faster, will continue to deleverage and we're happy with that, as we are with this quarter's 31% growth in direct-to-consumer.

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Terrific. Thanks so much.

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

A

Thank you.

Operator: Thank you. Your next question comes from Jim Duffy, Stifel. Go ahead, please.

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

Q

Thank you. Good morning. Matt, I was hoping you could comment just on the state of channel inventories out of holiday and maybe give us a preview of marketing and promotional strategies in the holiday.

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

A

Yeah, Jim, thanks. As we think about channel inventories, and we've talked a lot about this over the last year, we're very focused on where channel inventories are both in what they are, what the composition is, and that they are in an appropriate place as we go into these buying occasions and seasons. Similar to as we walked into our Q2 buying with moms, dads, and grads, we're similarly prepared and positioned for year-end. We feel good about where channel inventory is.

We continue to work with our great wholesale partners on making sure that the right assortment is there and available and on the floor. We know that when our products are well assorted out front and well merchandised that they perform well through these holiday season. So, we feel really good about where they are.

As we think about promotional activity and at time of year when it is highly promotional broadly in the market, and we expect to continue to see a broad market highly promotional, not necessarily a YETI dynamic, but a general market dynamic, largely what we would expect is that it'll be in line with prior year. What you'll see from YETI directly our dotcom and our direct properties is that we are very limited in promotional activity during the holidays.

We tend to do things around the big gift giving seasons that are complementary to our products. As you've seen in our past, things like gift with purchases. So we don't tend to use price as a promotional lever through our own direct properties. And I think the channel will be very similar to what we've seen through prior gift giving seasons.

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

Q

Great. And then I'm intrigued by this flexible retail concept. I recognize you're testing in core markets like Austin and Dallas. It seems like even in the summer months, it could be a great low-risk opportunity to introduce the brand in non-heritage markets. Is that how you're thinking about pop-ups? And are you exploring more pop-up market opportunities?

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

A

Yeah, exactly, Jim. I mean, that's why we're doing it. We picked Austin and Dallas for a couple reasons. First and foremost, they're great markets that are near and dear to YETI's history and to our heart. They also logistically gave us a chance to test and learn into the difference in supporting smaller format stores and pop-ups. Dallas is close to our 3PL in Dallas and Austin, obviously, is close to our headquarters and, so the ability to see and learn.

What we really like about the pop-up strategy, and as Kimberly asked, pop-up is a wide definition for us. Pop-up can be for a number of months and in Dallas' case it's more of a temporary location. But it gives us a chance to lean into a market and learn. We absolutely see those opportunities as we move outside of these first two in Texas into more exploratory markets or newer markets to YETI and a brand. So, we like the speed to set up. We like the cost. We like the muscle we're building operationally as a team to support it.

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

And I think in the past you've even had mobile locations around brand relevant events. Has that proven to be a effective strategy and a strategy that merits more capital?

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

That is a strategy that we continue to support and it's one we will do. I think as it merits more capital, we look across those things as both marketing and also the retail opportunity. We have one coming up with the National Finals Rodeo in Las Vegas in December. They have an event called Cowboy Christmas. It's an incredible event. We show up every year, create in that case a true pop-up location. We'll continue to do more and more of that.

I think as this focus around elimination of single-use and sustainability trend happens, we'll look for opportunities whether to pop-up or to partner. The PGA partnership we announced is a great example that someone that we've been partnering with in a smaller way the last few years and we formalized it and take on the bigger opportunity. So, it really is that range of showing up at events where we can directly engage with consumers, and then showing up in locations where we're testing into a market.

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

Great. Last one for me, Paul, leverage ratio coming down nicely. Can you speak to target leverage ratio and use of cash flow in coming years?

Paul C. Carbone
Senior Vice President & Chief Financial Officer, YETI Holdings, Inc.
A

So in the short-term and by that I mean fourth quarter and then going into 2020, we'll continue to use cash flow to delever the balance sheet. As a new public company, we have these conversations with our board on optimal capital structure. And what we're focused on as a management team of using excess cash flow to drive shareholder returns, and be that in many different levers that are out there. Right now, we're focused on delevering the balance sheet to drive that. But as we continue into 2020, we have those conversations with our board on a regular basis.

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

Thanks.

Operator: Thank you. Your next question comes from Alexandra Walvis, Goldman Sachs. Go ahead, please.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC
Q

Good morning, guys. Thanks so much for taking the question. I think you mentioned in the prepared remarks that you're planning to launch a new product in the hard coolers category in the fourth quarter. I wonder if you could share a little bit more color on that, where it might come from a price point perspective. Is this included in the guided growth rate for the fourth quarter? And anything else that you can share, that would be great.

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

A

Sure. So let me start with – and I'm going to let Matt do the fun stuff to talk – to give you some pieces of it or what your thoughts on this, but it is included in the fourth quarter or the full-year outlook. It is a limited release, and it will be, hopefully, very scarce. So, it's not to our business in the fourth quarter – the product we're very, very excited about; and again, I'm going to let Matt talk about that, but relative to our fourth quarter, it's immaterial in that sense, from a financial sense. So I would say it's included in what we shared this morning.

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

A

So, Alex, Paul gave me a great setup for something that we're not actually going to disclose it. What I would say is, in my prepared remarks, I mean, we really focus with this product and it will be a premium price product focused around innovation, technology, and design. And I think when it's released, you'll understand. It's something we're excited about. We're excited about the halo effect of putting a pinnacle product out there that continues to drive focus on a category that drives growth for us.

It's a continuation of a category we entered 13 years ago and we continue to enjoy and see growth, and we thought we would top it off with something. As I mentioned in my prepared remarks, when we launch our YETI Dispatch, which will land in homes in mid-November, it will be featured in that and you'll see timing of the release of this in mid-November. So, there won't be too long a wait. But it is a incredible melding of the technology across our product portfolio that we think really both shows what we can do from a design perspective and also creates incredible value for the consumer.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

[ph] I'm certainly clear (01:02:28) we look forward to hearing more on that. Maybe one more for me here. You mentioned one of the tariff mitigation strategies is pricing actions, and I believe that you said that you'd consider that across the entirety of the portfolio. Can you spend a little bit more time talking about how you're thinking about where it makes the most sense to increase prices, and whether there are implications from where you sit from a competitive standpoint, or indeed you're expecting similar types of actions across the competitive set in different categories?

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

A

Yeah. I think as we think about pricing, we would get to pricing as the last lever. We believe – and we have been consistent for years, and believe me there's a lot of value to consistent pricing to the consumer. I believe that if the tariff List 4B goes into effect, I think there's going to be a lot of pricing noise and a lot of pricing pressure in the channel across many, many categories unrelated to YETI. So, we want to be – we always endeavor to be a little bit of the calm in the storm from a pricing perspective.

That said, when we think about all the levers chipping away at any tariff risk, including the strategic positioning of our inventory, as we think about the efficiencies we'll drive with our partners, as we think about the cost negotiations, once we knock all those things down and if there's a remainder that we need to address, we expect that to be a relatively manageable thing from a pricing perspective that when I say across the portfolio, we may have select products that we bring to market at a slightly different place. We may look at some legacy products and some things we can do around that. But once we knock down those first few things as it relates to mitigation, we believe we'll be in a manageable price or no price situation.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Brilliant. Thanks so much, guys, and all the best.

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

A

Thanks, Alex.

Operator: Thank you. Our final question will come from Joe Altobo (sic) [Altobello] (01:04:31), sorry, Raymond James. Go ahead.

Joseph Nicholas Altobello
Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you. Good morning, guys. So first just a quick question on the pop-up stores. Does that impact your expectations for four to six new retail stores annually or was that just a way to understand the market better before making the investments in a retail door?

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

A

Yeah, I think it's a – as we get through and we're new, we've been open with our pop-up in Austin for a handful of days and we'll officially open in Dallas here in the next couple of days. Based on the performance of those stores, based on as we build up our operational support forum, as we drive awareness and demand creation in those markets, it could affect the four to six to the positive. We could potentially do accelerate some of that.

That said, we're sticking to our four to six for now, because we think it's the right number for what we can manage as we roll out. We'll end this year in the five to six store range, including those pop-ups, which is a little ahead of the numbers that we thought we – from a rooftop perspective, we thought we'd be in 2019. So, we like the strategy, we like the early indicators of it, but we'll provide more outlook if that changes on the four to six.

Joseph Nicholas Altobello
Analyst, Raymond James & Associates, Inc.

Q

Got it. Okay. And just secondly, in terms of the wholesale door count in the US, it's been relatively flat. We're stable for some time now, though this morning you talked about Williams-Sonoma, Whole Foods, and now Lowe's sort of being a part of that. How should we think about the US wholesale door count going forward? Is that something where you see potential growth? And in the past, you talked about partnering with retailers that embrace the entire lineup. Has that strategy changed a little bit?

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

A

Yeah, I'll take the second part of that. That strategy has not changed. As I said earlier, we want people who are multi-category carriers. We know our product performs when you have a breadth of the category and a breadth of the assortment. That doesn't mean everything goes to everybody, and that doesn't mean there aren't specific things underneath those categories that may be more relevant in one type of door versus another. And we will be thoughtful about that, but we are not looking for mono products wholesale, because we just don't think that's the best representation of the brand or the most impactful way.

As we think about the additional wholesale doors, I'll point back to my comments in the prepared remarks. Over the last three years, we've eliminated 1,400 accounts and roughly 3,000 rooftops, net of the additions prior to the announcement of Lowe's this morning, and that's early. The other thing I would say is that when we think about full rollout of a national partner, the last national partner that we fully rolled out was in 2012. So, seven years ago was the last full rollout of a national partner.

And I think the takeaway from that is we show incredible discipline and we take time to make sure it's going to work for our partners and for us and for the composition of our wholesale account. And then I think what you would expect from us from Lowe's is that we're going to take that same measured and paced approach, and they've been a great early partners as we planned this.

Joseph Nicholas Altobello
Analyst, Raymond James & Associates, Inc.

Q

Okay, great. Thank you, guys.

Operator: Thank you. We have reached the end of our question-and-answer session, and I will now turn the call over to Matt for closing remarks.

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

Thank you. I'll wrap with a quick, we're very pleased with our first year as a public company. Thank you for joining us today. Once again, Happy Halloween. We look forward to speaking during our fourth quarter call.

Operator: This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation today.