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YETI Holdings, Inc. (YETI)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the YETI 2Q 2020 Earnings Conference Call. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Tom Shaw, Vice President of Investor Relations. Thank you, Mr. Shaw. You may begin.

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

Good morning, everyone, and thanks for joining us to discuss YETI Holdings' second quarter 2020 results.

Before we begin, we'd like to remind you that some of the statements that we make today on this call, including those statements relating to the impact of the COVID-19 pandemic on our business, may be considered forward-looking. And such forward-looking statements are subject to various risk and uncertainties that could cause our actual results to differ materially from these statements.

For more information regarding these forward-looking statements, please refer to the risk and uncertainties detailed in this morning's press release, as well as the risk factors discussed in our Form 10-Q for the quarter ended July 27, 2020 filed with the SEC earlier this morning. We undertake no obligation to revise or update any

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forward-looking statements made today as a result of new information, future events, or otherwise, except as required by law.

During our call today, we'll be discussing YETI's adjusted EBITDA and certain other non-GAAP measures pertaining to completed fiscal periods. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in the press release issued this morning, as well as in the supplemental reconciliation, both of which are available in the Investor Relations section of the YETI website.

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. We're also working remotely in connecting with you from different locations today. So please bear with us, should we experience any delays during the call.

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

Matthew J. Reintjes

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

Thanks, Tom; and good morning, everyone. YETI had a remarkable second quarter, driven first and foremost by the agility and perseverance of our employees, our customers and our partners. As we consider our evolution over the past few months, amidst all the challenges, I'm tremendously proud of how we responded and how well the brand has resonated. We were incredibly pleased to see the resilience of demand for YETI through this unprecedented period, driven by people's interest in being outside, be it near home or in the backyard. YETI's product performance, durability and versatility are key as customers rely on and invest in brands that help them enjoy outdoor activities.

For our second quarter results, revenues increased 7% year-over-year, while showing substantial growth recovery throughout the period, improving each month, often April decline in the high 20s, primarily driven by the impact to our wholesale and our corporate sales businesses.

The inter-quarter growth trend reflects strong sustained e-commerce growth, improving wholesale as stores reopened, rebounding corporate sales and a successful execution of Mother's Day through Father's Day. We were particularly pleased to see both our US wholesale and corporate sales businesses return to growth in June. Significant feats given the impacts felt on these businesses at the beginning of the quarter.

YETI generated a 550-basis-point improvement in gross margins for the period, benefiting from the ongoing mix shift to e-commerce, strong price point integrity, as well as continued product cost improvements.

Overall adjusted operating margins also expanded 300 basis points, absorbing the cost of servicing our e-commerce business, and benefiting from our cost management efforts that we outlined last quarter. With our improving operating performance, we also repaid the $50 million we drew down on our revolver last quarter, underscoring the financial strength of our business.

Before I provide an update on our four strategic priorities, it is important to understand how we are approaching the opportunities and challenges for the second half of the year and investing for the future. We continue to actively build out our talent to address the needs of an evolving YETI, particularly within creative, digital, product

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development and ESG. We're excited by the progress of our talent acquisition through the quarter, even with the pandemic and work-from-home.

Within our supply chain, we're actively tracking near-term demand and aligning our supply. As you can imagine, the visibility and forecast has changed substantially over the course of the last four months, shifting from very stringent working capital management to driving supply chain flexibility to fulfill demand. This will remain active work for the balance of the year as we watch the demand signals.

Financial discipline, operational excellence, and a focus on growth will continue to guide us as we navigate the uncertainties related to the COVID-19 pandemic. While these uncertainties continue to inform our decision to withhold financial guidance, as Paul will discuss, we do see the opportunity to return to our long-term sales target range of 10% to 15% for the balance of the year.

On to our strategic priorities, starting with brand. Early in the pandemic, we shifted our marketing strategy to digitally engage our customers, while they adapted to the new normal of social distancing, working-from-home and establishing their own backyard base camps.

Sustaining our heightened efforts to drive positive distractions for our customers, in May, we continued to provide original digital content through efforts such as The Midnight Hour, a three-part film series hosted by Academy Award-winning singer/songwriter and brand friend, Ryan Bingham. The films follow Bingham as he explores the path and the truth behind the music of fellow artists, Jack Johnson, Margo Price, and Terry Allen. To further drive reach of the films, we've partnered with Rolling Stone Magazine on their first live Instagram virtual event.

In conjunction with National Barbecue Month in May, we joined several of our culinary ambassadors and friends of the brand as they shared their own tips from the pits, including Heath Riles, Baby Back Ribs episode, which garnered the most views of any YETI Instagram video to-date with nearly 190,000 views. Moreover, one of our biggest successes we had this quarter was the effectiveness of our multi-pronged strategy to drive a strong customer experience, leading up to Mother's and Father's Day. Spanning more than three weeks, we created a gift-giving journey that showcase the brand in a consistent and impactful way for these important occasions.

At the start of each holiday period, we highlighted a range of gift ideas, including our customization capabilities. We further displayed the breadth of our brand by offering a targeted gift with purchase that created exposure to products, such as the GoBox with our stackable pints, driving deeper interest and awareness across our product portfolio.

During the final week of each holiday, we offered guaranteed delivery. Our final touch included a spotlight on mom-and-pop shops, promoting a last minute gift destination to support our incredible retail partners. In support of these initiatives, earned media impressions for Mother's Day increased from 100 million last year to nearly 400 million this year. While Father's Day increased from 500 million to over 900 million. We believe this demonstrates the relevancy, reach and strength of the brand for new and existing customers.

From a community marketing perspective, we expanded our surfing lineup by adding Australian Mick Fanning to our ambassador roster. Fanning is a three-time Association of Surfing Professionals World Tour champion.

Also in mid-July, we began promoting our new Major League Baseball customization program. This licensing deal now connects YETI Drinkware and Coolers with all 30 MLB teams. And this week we introduced our One for the Roadies giveback campaign.

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In partnership with Crew Nation, the charitable arm of Live Nation, we've joined with 37 artists, such as Leon Bridges, the Avett Brothers, and the Zac Brown Band to auction off signed and customized Roadie 24 coolers to benefit the out-of-work touring and venue crews. You can see more about this on YETI's Instagram page.

Shifting to innovation, a highlight of our product story during the second quarter was our Coolers & Equipment business. Demand across the Coolers & Equipment family was up 18% year-over-year as customers looked to YETI to support their focus on outdoor pursuits. In the quarter, we brought our next generation Roadie 24 hard cooler to market. The Roadie 24 has performed ahead of expectations, even before marketing support and joined the balance of our hard cooler and soft coolers with strong and consistent performance through the quarter. Enhancing demand, the brand was once again highlighted prominently in the media.

In June, Condé Nast ranked three YETI coolers on its list of 12 Coolers You Can Take Anywhere, including best for leisurely family road trips with the Hopper Flip 12, best for hot summer days at the beach with the Tundra Haul, and best of camping out in your backyard with the YETI V Series. Magnifying our own Father's Day efforts, Gear Patrol recommended the Hopper M30 soft cooler as one of its 20 best Father's Day gifts for outdoorsy dads. And Fast Company selected the YETI V Series as one of the seven most well-designed Father's Day gifts of 2020.

Rounding out the Coolers & Equipment side of the business, we saw strong early demand for our new Trailhead Camp Chair. Forbes Magazine reviewed the beach chair category in late spring, naming the Trailhead as the best heavy duty chair.

On the Drinkware side, results were modestly negative for the quarter, reflecting the early quarter disruption of wholesale and corporate sales. However, the category demand remained very robust in our own e-commerce channel, and overall results were strong in May and June. Our new Slim Can Colster has been a great early success for us.

As we look at our product lineup for the second half of the year, our priority is to continue extending the energy and excitement from our first half launches, particularly with the limited customer access across our wholesale channel for much of the second quarter, and given the late quarter wholesale debut of the Roadie 24 and the [ph] Elements Calloway Drinkware (00:10:54).

This quarter, we're also focused on executing new colors and several new form factors in our coolers and drinkware business. We recently launched Sagebrush Green in our hard and soft coolers and Northwoods Green in select drinkware, both new colors, inspired by adventures in the wild. We also debuted the Rambler 10 oz Tumbler with a caffeine and cocktails launch campaign, which adds to our drinkware lineup with a great size for both our domestic and international customers. Expect additional innovation as we move deeper into the second half.

As demand continues to evolve and increasingly focuses on digital engagement, we continue to invest in a balanced omni-channel strategy. The impact of our commitment to a digital future over the past five years has never been more evident as the second quarter challenges drove a true digital acceleration.

This supports our continued investment in our own digital capabilities, how we continue to optimize our wholesale network, and how we support the rapidly ramping omni capabilities of our retail partners.

Our YETI direct-to-consumer business grew 61% and reached 54% of total sales this period, reflecting the sustainability of triple-digit YETI.com growth throughout the quarter, strong Amazon Marketplace growth after a

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disruptive April, sequential monthly improvements in our corporate sales business, the emergence of our non-US e-commerce, and the reopening of YETI Retail late in the quarter.

On YETI.com, we continue to see strong traffic and conversion and a healthy balance of new and existing customers on the site. Importantly, the triple-digit growth trajectory in this channel held true as our wholesale partners steadily reopened throughout the quarter. In corporate sales with many businesses focused on remote operations, we quickly shifted our focus early in the quarter towards building a funnel of business that helped revenue later in the quarter. We also kicked off a sustainability outreach program in June, seeing strong wins even with the work-from-home environment.

Starting in late May, we reopened six YETI Retail stores followed by the debut of our Denver store in early June. We also implemented Reserve Online, Pickup In-Store functionality during the quarter. While already on our roadmap, this is a great example of our ability to emerge from the pandemic even stronger. Despite little initial awareness of the initiative, ROPIS has been well-received with growing utilization and sets us up for future capabilities expansion.

Looking at wholesale from our independents to our large national accounts, we have seen our partners in this channel adapt with nimbleness and grit. We saw growth with our dealers that were deemed essential and remained open through the quarter to support local communities. We also saw our large national partners quickly implement their own omni capabilities, including curbside which is shifted to a mainstay retail offering.

As we look at the overall international business, despite recording a year-over-year sales decline in the quarter, that it was driven by the outside impact of our Canadian wholesale shutdown, we continue to see strength in our international e-commerce business. With a much more conservative and restrictive reopening cadence than what we saw domestically, the Canadian wholesale business was down nearly 70% for the quarter as key markets such as Toronto remained in Phase 1 through most of June, allowing curbside pick-up only for nonessential retailers.

Nonetheless, appetite for YETI is strong where the customers can access the brand. With YETI.ca now just hitting its one-year anniversary, the local site has significantly outperformed expectations. Outside of Canada, Australia had a phenomenal performance, driven by strong customer demand supported by both wholesale and e-commerce. We're continuing to develop our footprint in the UK and Europe, where we initially led with our own digital efforts last year, but are now supported by retail partners in nine countries. While the cumulative numbers here are small, we're excited to begin accelerating the process of bringing the YETI brand to more global customers with authentic local partners.

Before Paul discusses our results in more detail, I wanted to provide a few thoughts on how our organization is evolving. As you saw earlier in the second quarter, our private equity sponsor wound down their ownership to 1 million shares, representing just over 1% of total shares outstanding. Cortec's support through from my five years with YETI has been steadfast and is greatly appreciated. This change is also meant a continued evolution of our board of directors, with directors affiliated with Cortec now only holding two of nine seats.

We also appointed Tracey Brown, the current CEO of the American Diabetes Association and former SVP of Operations and Chief Experience Officer of Sam's Club to the board in May. I've personally known Tracey for 20 years and I'm excited for her experience and perspective on the consumer as we continue to build the depth of our customer relationships and broaden the reach of our brand.

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In addition to the evolution of our board, we also hired our first Vice President of ESG in June. This is an important role that will be integral to our long-term success and will tether ESG to our brand story and our evolution, including our work in diversity, equity and inclusion. We will continue to nurture our powerful, innovative and lasting brand, and make a positive impact on our customers and the YETI community. We're proud of the progress we've made during this fluid and challenging time, and we'll work to remain financially strong, innovative and positioned for long-term sustainable growth.

Now let me turn it over to Paul to run through the financials.

Paul C. Carbone

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

Thanks, Matt; and good morning, everyone. I'll begin with a review of our second quarter results followed by some high-level thoughts as we look at the business in the back half of the year. I would also like to echo Matt's comments on both the continued strength of demand for the brand, as well as the incredible resilience of our team. Their collective efforts in this ongoing work-from-home environment have been instrumental in supporting the strong results we are reporting today.

For the second quarter, net sales increased 7% to $246.9 million, compared to $231.7 million in the prior-year period. While not our normal go-forward practice, we will again provide some select intra-quarter trends during my commentary. As we mentioned on our Q1 earnings call, total net sales were down high-20% range in April, net sales then turned positive in May and sequentially improved in June. This incredible progression in part represents a shift in consumer behavior towards outdoor leisure activities and related products, areas that YETI excels at and that will remain a core focus as we go forward.

By channel, direct-to-consumer net sales surged 61% to $133 million, compared to $82.5 million in the same period last year, driven by strength in both Coolers & Equipment and Drinkware. The overall channel benefited from the broader outdoor leisure trends, as well as the shift to online spending, given the sheltering in place.

Total DTC reached 54% of net sales for the period, compared to 36% in last year's period. YETI.com led the DTC channel with triple-digit growth in each month of the quarter, even while the wholesale channels steadily reopened. The Amazon Marketplace had growth across all months with particular strength in May and June as the platform's focus on essential items normalized. Unsurprisingly, corporate sales declined for the period, given the disruptions in the corporate workplace and events calendar. However, our focused efforts help drive a return to positive growth in the month of June.

In YETI Retail, sales were down as most stores were effectively open only one month of the quarter.

And lastly, international DTC is becoming a more meaningful channel for us, helping offset some of the international wholesale softness that was heavily impacted by the significant store closures in our Canadian business.

Wholesale net sales decreased 24% to $113.9 million compared to a $149.2 million last year. Declines were registered in both our Coolers & Equipment and Drinkware categories with the former performing relatively better during the period. With wholesale doors steadily reopening and strong overall customer demand for the brand results improved significantly throughout the quarter, including positive growth in June. In addition, based on point-of-sale reporting that we received sell-through was positive for the quarter and channel inventories exited the quarter down double-digits year-over-year.

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By category, Coolers & Equipment net sales increased 18% to $128.6 million, compared to $109.1 million during the same period last year. Contributing to our largest Coolers & Equipment quarter, we saw strong growth across our major products in both hard and soft coolers, as well as strength in our outdoor living category.

Drinkware net sales decreased 2% to $114.3 million, compared to $117 million last year. We saw a great and negative impact to this business at the onset of the pandemic, but performance returned to positive growth in the last two months of the quarter. Results were also impacted by the sales decline in corporate sales, which is heavily weighted to this category.

On the positive side, we saw strength with our expanded Colster lineup and updated bottles with Chug Cap, demonstrating our ongoing ability to penetrate deeper into our customers' cabinets.

Gross profit increased 18% to $137.5 million, or 55.7% of net sales, compared to $116.3 million, or 50.2% of net sales during the same period last year. The 550-basis-point year-over-year improvement was primarily driven by the following favorable impacts. 430 basis points from channel mix, 120 basis points from product cost improvement, particularly in Drinkware, 70 basis points from lower tariffs, and 20 basis points from lower inbound freight and other costs. These gains were partially offset by a 90-basis-point increase in inventory reserves related to noncore samples and products.

Adjusted SG&A expenses for the second quarter were $88.2 million, or 35.7% of net sales, as compared to $77 million, or 33.2% of net sales in the same period last year. Variable SG&A expenses de-levered 380 basis points, driven by the mix of our faster growing DTC channel, including online marketplace fees and outbound freight.

Non-variable SG&A expenses leveraged 135 basis points, driven by decreased professional fees, lower marketing expenses, and overall cost savings initiatives, partially offset by higher non-variable third-party logistics fees. Adjusted operating income increased 26% to $49.3 million, or 20% of net sales compared to $39.3 million, or 17% of net sales during the same period last year. Our effective tax rate was 25.2% during the quarter, compared to 24.3% in last year second quarter.

Adjusted net income grew 40% to $35.6 million, or $0.41 per diluted share, compared to $25.5 million, or $0.30 per diluted share during the prior-year period. Adjusted EBITDA increased 24% to $57.9 million or 23.5% of net sales, compared to $46.6 million, or 20.1% of net sales in the same quarter last year.

Now turning to our balance sheet. As of June 27, 2020, we had cash and cash equivalents of $127.5 million, compared to $38 million in the year-ago period. During the quarter, we repaid the $50 million outstanding balance on the revolver that we drew down in the first quarter and ended the second quarter with no borrowings on the revolver.

We ended the quarter with $138.8 million in inventory, compared to $181.4 million during the same quarter last year. Inventory declined 23%, driven by our actions to reduce purchase orders early in the second quarter to provide enhanced financial flexibility in the midst of the pandemic.

In addition, inventory levels were also impacted by the demand surge we experienced, led by our DTC business as we moved throughout the quarter. As a result, we began to work with our suppliers to chase inventory mid-quarter, a process which we expect will continue throughout the third quarter.

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Total debt excluding unamortized deferred financing fees and finance leases was $292.5 million, compared to $309.1 million in last year second quarter. Including our cash balance, the ratio of total net debt to adjusted EBITDA for the trailing 12 months improved to 0.9 times, compared to 1.7 times in the prior-year quarter.

While we had a great quarter, particularly given our prudently conservative planning early in the pandemic, we continued to balance our own optimism for the remainder of the year with the broader uncertainties facing the economy and the consumer landscape. The rapid changes experienced in just the past few months underscore the challenges in planning and forecasting the business, and we remain diligent as we navigate the unpredictability of the balance of the year.

With a multitude of factors at play, we will continue to withhold the detailed full-year outlook. Though it is important to share how we were thinking about the business trajectory, exclusive of the potential impact of another significant COVID disruption, we do see the opportunity to return to our long-term sales target range of 10% to 15% in the second half of the year, led by strength in our DTC channel and better stability across our wholesale channel. Now, understand a larger range of outcomes and month-to-month volatility may persist during the balance of the year.

Before turning the call over for Q&A, I want to reinforce three themes we see in the business currently.

First, demand for the brand and products remain incredibly strong, underscored by the heightened outdoor leisure participation, which we believe, is a sustainable trend for this foreseeable future. Second, our powerful omni-channel approach is working, fortified by the customer shift to online shopping and our expanded content creation to drive highly relevant digital engagement. And finally, we remain highly focused on managing the business with discipline to continue fueling growth during the pandemic.

We would now like to open the call for your questions. Operator?

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We have a first question from the line of Randy Konik from Jefferies. Please go ahead.

Randal J. Konik
Analyst, Jefferies LLC

Q

Yeah, thanks. Good morning, everybody. Quick question. I guess, Matt, can you elaborate a little bit more on the perspectives you gave on in the direct-to-consumer channel new versus existing customer growth? And any differences in buying behavior of – by product category within those two buckets of customer sets in the quarter? Thanks, guys.

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

A

Good morning, Randy. As we mentioned on the call, we really like the strength that we saw both from new and existing customers through our D2C channel and continue to see that through the quarter. And we saw a little strength from our existing customers coming back and buy more in our new innovation. But I would call it marginally different between new and existing. So both were really tracking well and driving that elevated growth which continue the trend that we've been seeing quarter-over-quarter.

From a mix perspective, our mix – obviously, we had a very strong quarter in C&E broadly and a good quarter in Drinkware, albeit a little slower as we said, held back a bit by the corporate sales disruption and the wholesale disruption. But in our D2C channel, we feel very good about the strength and performance across both C&E and Drinkware.

Randal J. Konik
Analyst, Jefferies LLC

Q

And then, how about in terms of thinking through – you said – I think it sounded like you got some really nice demand for the products in the quarter, despite your timing on some of the marketing. Why don't you give us a little bit more of an elaboration on what you're seeing there? It sounds like, I guess, the theme is awareness of the brand is picking up dramatically. Maybe give us some perspective on where awareness sits today.

And then, as you think about marketing strategies for the back half of the year and into next year, how should we be thinking about those marketing strategies? I think you're going to be more digital. And then, any changes in your product launch patterns that we should be thinking of for the next six quarters? Thanks, guys.

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

A

A couple things on that. One of the things we mentioned on our last call and continued through the quarter was our marketing strategy with the disruption and the work-from-home and really the full digital acceleration is we've really turned our efforts towards driving digital engagement, both from a product marketing perspective and also from a brand marketing perspective.

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Early in the quarter that was leveraging a lot of assets that we had, it was being thoughtful about our OpEx and how we spent into that unknown early period in the first half of the quarter. And then as the quarter started to – and continued accelerate, we continued to lean into both the product marketing and the brand marketing.

One of the muscles that I think we had been building and really got to flex in the second quarter that you'll continue to see us flex into the future is driving original content and digital engagement both around existing products but also new products, and then, as we drive broader brand awareness. We have a program – as we mentioned on the call out right now, One for the Roadies, which was really a nice way of driving giveback in a community that's highly disrupted right now in the music and venue space, while also combining it with one of our new products.

And so you're seeing those things. And when we mentioned investment in creative and digital, a lot of those results are from the investments we've made in people and in technology within our business. So you'll continue to see us do that. Awareness, we believe, continues to rise. We haven't reported our latest awareness numbers, and we'll update those in future calls. But we like the balance that we're seeing of growth in our longer standing markets and the growth we're seeing in the geographic distribution in the US, and as we mentioned on the call, the e-commerce and digital acceleration we're seeing around the world.

From a product launch perspective, I'd refer back to our last call, where we said we made certain decisions on products that may have come in the back half of 2020 that we would move out into 2021. That makes me think that time and the environment will be better suited for those product expansions. But that's a dynamic process that we do all the time. We gauge where the market is. We gauge how product receptivity is and as we ramp into new product launches.

Randal J. Konik
Analyst, Jefferies LLC

Q

Really helpful. Thanks, guys.

Operator: Thank you. We have next question from the line of Sharon Zackfia from William Blair. Please go ahead.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi, good morning. Congratulations on the nice rebound in trends. I guess, one thing that really stood out on the balance sheet was just your inventory levels. And, Paul, you mentioned you'll be chasing inventory. But can you give us any idea of where you might be constrained relative to demand here in the third quarter? And how quickly you expect inventory to be, I guess, back where it should be to meet that demand?

And then, I just wanted to ask a question, too, on DTC, it sounds like it's maintained a very healthy level. I just want to confirm if it's been consistent at that 60% level as the wholesale channel has reopened?

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

A

Good morning, Sharon. Thanks. So I'd say, we are actively and aggressively but thoughtfully ramping to meet demand. And as we talked about in our prepared remarks, we took a defensive position ahead of the tariffs – earlier which led us leverage during early supply chain disruptions, we managed inventory closely during the early part of – late part of Q1 and the early part of Q2. And really, what we're doing now is flexing capacity to meet

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demand throughout the balance of the year. So we will continue to flex capacity to meet that demand. Your question about is there one area, particularly – if we think about hard coolers and soft coolers, and if you look at our website, you see sporadic outages by color as we have new merchandise coming in. So that's really where we're trying – we are flexing capacity to bring in more product.

And then, on inventory levels through the balance of the year, we will continue to increase inventory levels, but now expect to end the year down year-over-year versus previously we thought we would be up slightly. So we will continue to build even into 2021.

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

Sharon, this is Matt. I'll take the D2C question. As I said in our prepared remarks, one of the things that we saw and we reported this in the last call was early in the quarter, really strong growth in our e-commerce business. One of the things we were most pleased with is as the world started to settle out, as wholesale started to reopen, that business and that trend continued. And so we feel good about the strength that we saw in our e-commerce business and the continuity of it.

Sharon Zackfia
Analyst, William Blair & Co. LLC
Q

Thank you.

Operator: Thank you. We have next question from the line of John Kernan from Cowen. Please go ahead.

John Kernan
Analyst, Cowen & Co. LLC
Q

Hey, good morning, guys. Congrats on a phenomenal quarter.

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

Thanks, John.

John Kernan
Analyst, Cowen & Co. LLC
Q

Paul, obviously, very impressive to be able to return to the long-term targets, the 10% to 15% top line growth. As we think about that for the back half of the year, how should we think about the margin profile of business between gross margin and SG&A? And I have a follow-up question. Thank you.

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

Sure, thanks. So we will continue to see gross margin expansion, really driven by mix shift as we saw in the second quarter. So we expect gross margin to expand. On the SG&A piece, the OpEx, we think about that in two buckets the way we report it. So with DTC growing faster than the balance of the company, we would expect variable cost to continue to deleverage due to mix.

And then, we will continue to spend into the non-variable part. So we haven't cut back on – as we look in the back half of the year, we're going to invest in marketing, or invest in things like that. Of course, something like T&E, we

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will see reductions in T&E, just because of travel restrictions. So long in short, I'd say, we expect gross margin to – key expansion in the back half of the year with the top line and the mix shift to DTC. Variable expenses will delever, and we will continue to spend to drive the business and the variable piece. But that's how we think about the back half.

John Kernan
Analyst, Cowen & Co. LLC

Q

That's helpful. Thanks. And maybe just a quick follow-up. In Drinkware, obviously, you faced a lot of exposure with the – on the corporate side of things. How do we think about the mix of Coolers & Equipment and Drinkware in the back half of the year as you're returning to those robust top line targets?

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

A

So I would say, as we talk about Drinkware, and in my comments, we returned to positive Drinkware growth in May and June. So it was really April with a disruption of wholesale, and then the corporate sales. In corporate sales, we talked about them being positive, exiting the quarter positive in the month of June. So as we look forward, I see growth in that top line 10% to 15% in the back half of the year. We see growth across these both categories.

John Kernan
Analyst, Cowen & Co. LLC

Q

Excellent. Thanks, guys. Best of luck.

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

A

Great. Thanks, John.

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

A

Thanks, John.

Operator: Thank you. We have next question from the line of Peter Benedict from Baird. Please go ahead.

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

Q

Oh, hey, guys thanks for taking the question. First, I guess, Paul, with respect to the 10% to 15% top line over the second half of the year, is there anything within the inventory situation that would have either of the quarters at this point envisioned to be below that range? Or do you think [ph] you can have them both there (00:40:29) given the tighter inventory?

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

A

I would say, both should be in that range is what we're looking at today.

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

Q

Okay. And then, just I know you don't have the guidance for this year, but given the shifts you've seen in the channel mix, how are you thinking longer term about how the structural profitability of YETI has maybe been impacted by what's been going on here. And I know there's a lot of uncertainty still out there, but maybe just talk about how you guys thought about the profitability opportunity pre-COVID? And then, maybe what are the key things that may or may not stick as we try to compare what you're seeing today to what might be out there a couple of years from now?

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

A

So, Peter, what I would say is the profitability makeup of the company in the shift to DTC is where we were expecting it, but for it just accelerated. So we like where it is going. We like where it's transitioning. And it's just going faster. So the DTC piece continues to be gross margin – very gross margin accretive. It has higher variable cost. And then, as we come down, it is operating income positive. So it's really just an acceleration versus significantly different than where we were thinking the business was moving to.

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

Q

Okay. No, that's fair. And my last question would just be around the international expansion and supply chain plans that you guys had coming into this year, and maybe how has that evolved to actually look out over the next couple of years. What are the key, I guess, entry points and supply chain opportunities that you have to go after in order to grow that business over the next couple of years? Thanks.

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

A

So I think when we look towards international, we're going to continue developing that supply chain. Right now, we are – in the US, we added a node in Salt Lake City, for instance, but looking at international, we will continue to expand shipping directly from manufacturer to those locations at international locations. And just as the international business increases, we will continue to build the supply chain muscle and processes to support that growth.

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

Q

Okay. Thanks a lot guys. Good luck.

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

A

Thanks, Peter.

Operator: Thank you. We have next question from the line of Camilo Lyon from BTIG. Please go ahead.

Camilo Lyon
Analyst, BTIG LLC

Q

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Thank you. Good morning, guys. Great job on the quarter. Wanted to get your thoughts on what you're seeing from the competitive landscape during the volatility of the pandemic? Have you seen competitors start to pull back or subside, or become more promotional?

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

A

Hey, Camilo, this is Matt. Thanks for the question. Well, we would say largely our focus in Q2 was on delivering the demand that we were seeing from YETI with – as we talked about on call a high level of price integrity. We haven't seen any significant shifts in the competitive landscape either new entrants or any behaviors that I would say haven't been historically consistent in those channels. We continue to like the strength that in the doors where we are open or the doors that are open. The strength we're seeing in consumer demand, the strength we're seeing in our retail partners, e-tail or e-commerce business, and then through our own D2C. And so we feel really good about where we're positioned. And I would say, largely, we haven't seen significant shifts in the overall competitive landscape.

Camilo Lyon
Analyst, BTIG LLC

Q

Got it. Thanks. Paul for you, would you be able to share how your July momentum has progressed. It seems like business has accelerated, certainly in the wholesale side throughout the quarter, has that continued into July? And does the strength from a category perspective, should that change as we go through the balance of the year? Coolers obviously getting the benefit from a lot of the outdoor activity surge that you've talked about, how should we just think about the components of those two category trends into the third and fourth quarter?

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

A

So thanks for the question. This will be an unsatisfying answer. We are going to return to our practice of not commenting on intra-quarter results in the quarter that we're in. But I will say for us to at this point to be able to say in the back half of the year that we're going to return to the 10% to 15% growth. With all the caveat of another disruption, or something else that may happen, but as we're looking at the business today, we feel good about returning to that 10% to 15% growth. And then both categories growing as well in the back half of the year as we had answered earlier. So I can't give you any color on July.

Camilo Lyon
Analyst, BTIG LLC

Q

Okay. So the components of your long-term growth, DTC, and wholesale, I think, it was 20% to 25% DTC and wholesale mid-single-digits that's – if I remember correctly. So that's how we should think about the normalization of the channel growth?

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

A

Yeah. I wouldn't go down to – so we were – we toggle back to the 10% to 15% of long-term growth to give you all a way of thinking about how – or share the way we're thinking about the back half of the year. I think below that, I think there are – it's going to be the variability of what could happen. And it's going to change month-to-month. So I would say, we toggled or we anchored to that 10% to 15% to get everyone back to how we're thinking about the business in the back half of the year. But certainly, the DTC business – and the mix between DTC and wholesale, it was significantly different in the second quarter obviously. So I wouldn't look into anything below top line from our outlook.

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Camilo Lyon
Analyst, BTIG LLC

Q

Got it. Okay. So basically, the strength that you've been seeing, maybe said it different way, the April performance of the weaker parts of the business, Drinkware and wholesale, the continuation of that, the improvement of that throughout the quarter. No reason to believe that that's changed going forward. And you want to keep the high level 10% to 15% intact despite the fact that DTC was up 60% and wholesale was on an improving trajectory?

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

A

Correct. And as we said on the Drinkware, it really was driven by April and then it did turn positive in May and June, but yes.

[indiscernible] (00:48:27)

Camilo Lyon
Analyst, BTIG LLC

Q

Yeah. Got it. Okay. Perfect. Good luck with the balance of the year continued success. Thanks.

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

A

Thanks.

Operator: Thank you. We have next question from the line of Robbie Ohmes from Bank of America Merrill Lynch. Please go ahead.

Robert F. Ohmes
Analyst, BofA Merrill Lynch

Q

Oh, hey, guys. Matt, Paul, nice quarter. Great execution. Bit of a – and Paul, love the three themes, maybe a bit of a follow-up on Camilo's question. Just you guys called out the demand surge for outdoor recreation. I know you're not giving guidance on the back half, but what activities correlate the most with YETI in Drinkware and Coolers. And how would you tell us to think about the activities in the fall/winter season that might have – be driving this similar surge, and how do we think about YETI in the back-to-school period? Historically, what might be different in this environment?

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

A

Robby, this is Matt. I'll take that one. There's a few dynamics at play. And one of the things that we've talked thematically about YETI and YETI products from the very early days is our products are pursuit-agnostic, meaning, they get used in all kinds of different environments and all kinds of different use cases. And so one of the things we like about the flexibility we have with the business is if large group gatherings are disrupted that same cooler you use in a large group gathering is used in a small backyard gathering, we're seeing as broadly reported in the market, a lot of more near-in activities, people getting out to parks, looking for open spaces, taking nearcations versus going to the airport, and flying places.

And we think that lends really well to our Drinkware, it lends really well to our Coolers & Equipment, it lends well to our emerging bags category. And so there's a lot of dynamics we really like. With things like back-to-school, in-

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person school still up in the air in much of the country, there are still dynamics at play there that we like around Drinkware. And we just recently wrapped up a short run awareness campaign around individual single drinkware with the customization message on getting ready for school, not necessarily needing to be physically in person.

And so we have a lot of flexibility in how we continue to keep our products, and our brand in front of the consumer, whether that's on bigger adventures like going often on a fishing trip, or being in your local park, or your local neighborhood. And so there's a lot of flexibility there. And from a messaging perspective, from a product relevance perspective, from a keeping consumers as they continue to stay close to home. This is also an evolution of a trend that we had seen well before the pandemic, which is that interest and focus around being active and outdoors, and from a fitness, and a lifestyle perspective. And so we think this much like the digital acceleration, this has been a little of an acceleration in people getting out and adventuring. And so we like both the near-term and long-term dynamics that it's creating.

Robert F. Ohmes Q
Analyst, BofA Merrill Lynch

That sounds great. Just a quick follow-up. When you look at your larger wholesale partners, how are they thinking about YETI percent of business they're going to do going forward digitally versus in their stores? And does that change any dynamics for you guys? Are you seeing more demand for inventory on your wholesale partners websites? And how does that change how you guys think about the business?

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

Yeah. I think as we said on the call, I think for our wholesale partners, the acceleration they've seen in their e-commerce business has created some new opportunity for them and also some evolutionary opportunity. And one of our tenants of our omni-channel strategy is to help them evolve and partner closely with them much like we did at retail as we think about things like point-of-sale and merchandising. It's the same in the digital space for them.

So we continue to like that trend. I think that – they're training consumers in a different way of buying. We mentioned on the call. And it's obviously talked widely about curbside, but also just that idea of when there is a an affinity or a loyalty for a wholesale partner and their e-commerce site, we want to be there and make sure that YETI shows up and supports them in that.

Robert F. Ohmes Q
Analyst, BofA Merrill Lynch

Great. Thanks so much.

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

Thanks, Robbie.

Operator: Thank you. We have next question from the line of Joe Altobello from Raymond James. Please go ahead.

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

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Thanks. Hey, guys. Good morning. So you mentioned you saw strength in both existing [indiscernible] (00:53:37) customers in the quarter. But I was curious if you noticed any perceptible shift in the demographics of your customers during the pandemic. Are they scaling younger or more female, anything noteworthy from a geographic standpoint as well? Thanks.

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

Thanks, Joe. A couple of things. Geographically, we like the continued strength and evolution that we've seen over the last four or five years, which is that evolution from being a well-known brand in the South and Southeast to being a national and emerging international brand. That trend continues. And it's a positive one. And we like both the repeat purchase we're getting broadly geographically and from existing customers and also the new customer acquisition.

I would say from a demographic perspective, the period we've just gone through and the period in many ways we're still in, we're still measuring that. We are seeing some trends we like as we touch other age groups and as we expand geographically. But we've always really been positive on our demographics. And I would say the things that we're seeing only continue to strengthen that.

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

That's helpful, Matt. Thanks. Just secondly, on the corporate side, you said you delivered growth later in the quarter. Curious what helped to drive that. I think working from home is still pretty prevalent at this point.

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

There's a couple of dynamics. When you think about in the middle of March, most businesses have their snow globe shaken pretty hard and had to learn what all of a sudden running a remote workforce is. So things that were in progress all of sudden were thrown in the air. And so you had to get that part of running a business settled. We all experienced it, and get your business settled and get back on track.

What we like about the corporate sales business is the focus around sustainability, the focus around elimination of single-use hasn't changed. And what we see is opportunity to continue to use our corporate sales business for companies that have a remote workforce and is a way for them to stay engaged with that remote workforce. So that the near-term dynamic, we continue to be very positive on that business. And we think the long-term thesis in the long-term dynamic for corporate sales growth remains intact.

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

Got it. Okay. Thank you, guys.

Operator: Thank you. We have next question from the line of Jim Duffy from Stifel. Please go ahead.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thank you. Good morning, guys. A terrific execution. Congratulations on the team effort to adapt so quickly. So we understand you're chasing inventory. Can you speak to lead times on different product types? And then, if I'm

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interpreting you correctly, your comments seem to suggest you're planning inventories to be back in balance with demand by the end of 3Q, is that correct?

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

A

So yeah, let me take that Jim. I'm going to start on the second one. So we are flexing capacity to meet demand throughout the balance of the year. I would expect to see inventory levels down year-over-year throughout the back half of this year. So to your question of, will I get back to meeting demand, we've said sales 10% to 15% in the back half, but we expect the inventory to be down. So I don't think I in that sense catch up.

From a lead time perspective, we are working with our suppliers to flex capacity. And we have some options – there's actually faster boats, there's air – air is still very, very expensive. But we have the option of faster boats to get product here faster. And we have deliveries coming in obviously daily – and that's why as you look at YETI.com, one day the Navy Tundra 65 may be out, and then two days later, it's back in. And then what we're also doing is, we're thoughtfully allocating inventory across our omni-channel, right? So that's both our channels, our wholesale channels to meet that consumer demand. So it is something that we work on, on a daily basis to meet that demand and do the best we can to meet that demand. But we will be working at this all through the second half of the year.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Understood. And then, Matt, I had a question on the digital marketing, the step-up in digital engagement was really impressive. I'm curious how much of that was in the works entering the quarter versus accelerated in a pivot from previous plans? Did you pull forward some campaigns? And given the backup of the pandemic, are you able to produce content at such a pace that you have a pipeline?

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

A

Great question, Jim. I would say, we didn't pull forward campaigns that were ready to go in the natural sense of you pull some forward, then you got to go back to it. A lot of the content you saw was truly some of the exceptional efforts of our team to go create content from pieces, or elements of things we had in our digital library, films that we had shot and found ways to put those to work. It was leaning back into our library of content and putting it back out in front of the consumer.

But really, things like this One for the Roadies campaign we have going right now, some of our new color campaigns that you're seeing right now, those things were all created in the midst of this pandemic and shows the power and commitment we have to investing in our in-house creative and then partnering with content makers outside of YETI to make really engaging both brand storytelling and product storytelling. So I expect our team to continue to produce incredibly high quality, high production value work, and continue to push the edge of what brand marketing and what product storytelling is.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Very helpful answers. Thank you, guys.

Operator: Thank you. We'll take our last question from the line of Kimberly Greenberger from Morgan Stanley. Please go ahead.

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Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. Matt, I wanted to ask you about distribution. How's the Lowe's partnership coming along? And are you looking at any new distribution? And then I just had two follow-up questions for Paul.

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

A

Thanks, Kimberly. From a distribution perspective, obviously, we started the Lowe's partnership late 2019 and continued that expansion in early 2020. I would say, the partnership continues to go very well. As we said from the very beginning, even before the disruption, we're going to be really thoughtful with how we roll out Lowe's, how we partner with them. They've been very engaged and a good partner as all of our wholesale has during an incredibly unprecedented time.

Lowe's was deemed in many, if not all, of their stores largely essential. And so they remained open through this period. And we feel good about the balance and strength of our omni-channel. As far as opening additional wholesale, obviously, with what we've seen for the last four months with a newer partnership in Lowe's and with the continued great relationships we have with the rest of our wholesale partners, we really like the omni-channel base we have today. And we'll continue to evolve and drive. And as I've said in the past, we look at new wholesale if it delivers really one of three things. It's a new customer to YETI, a new buying occasion or augments and supports our existing wholesale. And so we'll continue to have that mindset and mantra as we move forward.

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Great. Perfect. And then, Paul, I just wanted to follow up on SG&A. Is there a way for us to think about if we look back to 2019, what percentage of your SG&A was variable with sales and what percentage was fixed? And I assume that ratio changed a lot in the second quarter with the surge in DTC. So if you could just help us understand if – how those percentages may have looked in the second quarter that would be super helpful.

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

A

Yeah, thanks, Kimberly. I'd say, in the second quarter with the DTC surge variable and with our cost initiatives, which obviously we're focused on non-variable, our variable became a bigger percent than historical, both because of the DTC surge and some – the beginning of the quarter where we took some cost containment.

I think from a percent of sales – and if you go back, you can do the math of what piece of our total SG&A is variable from our filings, and I would – as a percent of sales, I would expect that to continue to be relatively flat as a percent of DTC sales. It is really about where we're getting the deleverages, where the – and I'll use second quarter as an example. The enterprise is growing at 7% and DTC is growing at 61%. So deleveraging at the enterprise level, but inside of our direct-to-consumer, that variable is relatively flat as a percent of sales.

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks, Paul.

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

A

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Thanks, Kimberly.

Operator: Thank you. That was the last question. I would like to turn the floor back over to Matt Reintjes for closing comments. Over to you, sir.

Matthew J. Reintjes

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

Thank you. Thanks everyone for joining us today. We look forward to updating you as we come back together for our Q3 results.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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