05-Nov-2020

YETI Holdings, Inc. (YETI)

Q3 2020 Earnings Call

Copyright © 2001-2020 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

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

Sharon Zackfia
Analyst, William Blair & Co. LLC

Camilo Lyon
Analyst, BTIG, LLC

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Randal J. Konik
Analyst, Jefferies LLC

Matthew Koranda
Analyst, ROTH Capital Partners, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the YETI Third Quarter 2020 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] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Tom Shaw, Vice President of Investor Relations. Please go ahead, sir.

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

Good morning and thanks for joining us to discuss YETI Holdings' third 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 related 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 risks 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 September 26, 2020 filed with the SEC earlier this morning. We undertake no obligation to revise or update any forward-looking statements made today as a result of new information, future events, or otherwise, except as required by law.

Copyright © 2001-2020 FactSet CallStreet, LLC

During our call today, we'll be discussing YETI's adjusted EBITDA and certain other non-GAAP measures pertaining to the 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 and connecting with you from different locations today, so please bear with us should we experience any delays during the call.

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

Matthew J. Reintjes

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

Good morning, everyone. We appreciate you joining us today. YETI had a great quarter highlighted by excellent performance across our four strategic growth drivers. Our quarter was punctuated by 29% sales growth with balance across Coolers & Equipment and Drinkware, coupled with strong sustained margin expansion. Thanks to the incredible work of our YETI team and amazing support from our customers and partners, YETI crossed $1 billion in net sales for the trailing 12 months.

In the quarter, our direct-to-consumer business continued to lead the way with 62% growth. We drove mid-single digit wholesale growth for the period as we continue to flex our supply chain and work to replenish channel inventories. Importantly, sell-through in the wholesale channel performed in line with our overall top line results leading to the aforementioned demand for channel replenishment.

Our international business also performed very well, posting triple-digit growth to reach a YETI high of 7% of sales, showing broadening demand in Canada, Europe, the UK and Australia. Gross margin expanded 670 basis points to reach a record 59.1% while our adjusted SG&A rate decreased 200 basis points.

Finally, we ended the quarter with $235 million in cash on the balance sheet following a voluntary debt payment of $50 million. Overall, we saw excellent demand for our products in all our channels. Importantly, we're continuing to invest in evolving our business to support our long term growth ambitions.

Now, let's discuss our strategic growth priorities. We continue to deepen the connection of our brand with our customers. This is highlighted by our breadth and depth strategy where we extended to new customers across diverse pursuits while also deepening ties within our existing active outdoor communities. As we have discussed, the pandemic has focused us on digitally relevant engagement and we have further supported this trend with accelerated investments to build out our in-house content and creative teams. We're seeing impact of this investment with our ability to drive geographic growth and the evolving diversity of our customer base.

[ph] When we are in our (00:04:35) most effective, we tell powerful brand stories and inspire our customers, connect through product storytelling, and extend a positive impact on our communities. Let me give you a few recent examples. In August, displaying the broadness of our appeal and audience, culture aficionados Highsnobiety published an article titled, How YETI Beat Streetwear at the Business of Making Things Cool. While driving awareness will continue to be a priority, we also balance a focus on the depth of engagement with our longstanding customers which keeps us centered.

Copyright © 2001-2020 FactSet CallStreet, LLC

From a storytelling perspective, the pandemic created a unique opportunity to launch our latest collection of YETI Presents films. After the pandemic caused us to cancel our in-person YETI Film Tour in March, this summer, we released the eight new films through a YouTube live premiere featuring video introductions from our ambassadors, filmmakers and film subjects. This event showcased the power and reach of the YETI community. To complement YouTube, an extension of the virtual tour was aired in partnership with Vice Media and CBS. In September, we also launched a socially distanced drive-in film tour across eight stops from LA to Montauk to Central Texas, creating a safe, uniquely YETI experience for our fans.

From the product introduction side, we partnered with our ambassadors for our Caffeine and Cocktails campaign, where our brand partners shared their favorite drink recipes to help introduce our newest tumbler, the 10-ounce Rambler. From Conrad Anker's classic coffee pour over to Hilary Hutcheson's Huckleberry Whiskey, these short social videos are a tremendous example of how we use our internal content creation ambassadors to showcase our product in real and engaging ways.

Our efforts to positively impact the communities we reach often matters most when those communities face adversity. As we mentioned on our last call, in July we launched our One for the Roadies campaign in partnership with Crew Nation to benefit out of work touring and venue workers. After securing 37 music artists to customize 42 of our Roadie 24 coolers for our online auction, the program raised $135,000. The campaign was an incredible success and attracted interest from additional top tier artists who were eager to support future efforts.

We have also focused on finding ways to ensure the wild is open welcoming and accessible to all. We continue to support our relationships with both Thrive Outside and Big City Mountaineers, two organizations committed to driving diversity in the outdoors. We also launched a new partnership with Black Outside, an incredible organization based out of San Antonio, Texas which connects black youth to the outdoors.

Moving to YETI innovation, we continue to see sustained strength across Drinkware, Coolers & Equipment. The underlying demand for YETI was strong before the pandemic and we are now seeing the strength continue through the third quarter as a result of more fully open channels plus positive trends in digital engagement, outdoor pursuits, a focus on hygiene and individual use and people taking near home vacations. These dynamics support the robust demand we are seeing across the product portfolio and particularly both hard and soft coolers.

In Drinkware, we have seen the success with the performance of our bottles business where we included the popular Chug Cap as the standard lid in our expanded Colster can insulator line where we now offer broader products for hard seltzers and large cans. While currently limited to D2C, we're also encouraged by the early success of our Rambler 10-ounce tumbler, which as mentioned earlier was supported by our Caffeine and Cocktails digital campaign.

Color remains an important part of our innovation mix. Following the July launches of Northwoods Green in Drinkware and Sagebrush Green in Coolers, we launched our third second-half color, Ice Pink, in mid-September. Demand for this extremely popular color extended into our breast cancer awareness initiatives. Throughout October, we're excited to once again support Boarding for Breast Cancer and Casting for Recovery, our fourth year with both of these incredible organizations. We also expanded our Rambler Elements' metallic collection to the Colster and Lowball and extended Sagebrush from Coolers into Drinkware.

I would like to take a moment to address the voluntary recall which was announced yesterday in partnership with the US Consumer Product Safety Commission of the Rambler 20-ounce travel mug with our stronghold lid. We launched the travel mug on October 1 as our newest travel-ready product. However, shortly after our limited initial launch on yeti.com and in our retail stores, we discovered a potential safety issue with the stronghold lid and out

Copyright © 2001-2020 FactSet CallStreet, LLC

of an abundance of caution decided to pull the product from these channels and voluntarily began work with the CPSC. To-date, there have been no reports of injuries from customers.

To put this recall in perspective, we sold less than 15,000 units during the nine days it was available in the direct channels of the approximately 242,000 total produced mugs mentioned in our release. In addition, we did not ship the product to our wholesale partners. Customer safety is our priority, which is why we took such an aggressive stance addressing this issue. We are actively engaged in working on an enhanced design that will continue to meet the high standards that our customers place on each and every product carrying the YETI brand. This delay, while disappointing in the near term, is fully contemplated in our outlook and will continue to make us better.

In addition to our lineup of new products launched this year, we are continuing to energize some of our existing categories as part of our marketing strategy to drive broadened awareness. This includes the come hell or high water campaign in early July that showcased the versatility and performance of our Panga fully submersible bags. More recently, our built for generations YETI V Series films launched digitally on YETI Social are centered around our innovative premium stainless steel cooler which is designed to be passed down through the generations. Expect continued targeted product storytelling through the holidays with our holiday gift guide and upcoming YETI Dispatch magalog which will begin to drop mid-November.

We also remain laser focused on working towards rebuilding in-stock levels. As a reminder, to protect our balance sheet in late Q1 we initially reduced purchase orders at the start of the pandemic and as demand recovered, we have worked to flex our supplier capacity to meet rising demand. With demand accelerating in the third quarter coupled with some pandemic-driven supply disruptions through the summer and early fall production, we expect inventory will remain tight through the holidays. We have taken additional action to mitigate risk and increase visibility of our supply chain during the holidays, but do expect our overall restocking initiatives will extend into early 2021. As we look at the balance of the year, we remain focused on driving deeper engagement across the YETI portfolio and executing in-stocks across all channels.

Looking at our omnichannel efforts, consumer dynamics are clearly accelerating the digital shift and building upon the activities we have been driving for the past five years. Along with the heightened focus of our brand team and delivering amazing highly relevant digital content, we're taking additional action to drive greater consumer acquisition and conversion through our investments in incremental consumer insights and behavior work and enhanced product customization experience, new digital tools and talent additions to our team. This is work that will evolve as we match the speed of our customers' purchasing habits and the rapidly evolving consumer expectations.

The biggest proof point of our success here is our direct-to-consumer business which grew 62% and reached 51% of total sales this period and year-to-date. Our strong third quarter DTC performance was led by yeti.com due to excellent traffic and conversion on the site. We continue to see a great mix of new versus existing customers and have maintained great engagement as a result of our targeted and relevant content. Rounding out our online presence, the Amazon Marketplace continued to post solid growth through the quarter.

On the corporate sales side, revenues turned slightly positive for the quarter as healthy demand was limited by inventory availability. Increased capacity and delivery for custom is our focus as we ramp through the holiday season. In YETI Retail, we added our eighth location in West Palm Beach in August. We continue prioritizing operational excellence in all our stores while also monitoring the real estate environment for opportunity as we evaluate store expansion potential for 2021.

Copyright © 2001-2020 FactSet CallStreet, LLC

Turning to wholesale, demand and channel sell-through remain robust. Retailers were able to support demand with in-store inventory. However, they did end the quarter with inventory down double digits compared to the prior year. We have opportunity to drive stronger in-stocks, particularly in high demand areas such as hard coolers and soft coolers which had significant sell-through during the quarter. As the wholesale business evolves, we're working to support the expanded omni capabilities of our wholesale partners through their own e-commerce, curbside and in-store which combined are expected to be an important part of this holiday season.

We had a very strong performance in our international business this quarter with international wholesale more than doubling while our international e-commerce quadrupled in size. Still off a low base, but showing great potential. Overall, international grew 165% to reach 7% of sales. The highest mix YETI has registered to-date. The biggest factor in the growth was the reopening of our Canadian wholesale which delivered significant year-over-year growth this quarter. Importantly, the D2C side of the Canadian business including both e-commerce and corporate sales also registered exponential growth during the period.

While Canada still drives the majority of our current international business, we continue to be highly encouraged with demand we see in other markets. Australia showed more than a threefold increase in both the wholesale and e-commerce businesses due to the extraordinary performance and execution of our Australian team. As we hit the one-year mark in our UK and Europe expansion, we're seeing this business build larger each quarter and we continue to see a meaningful opportunity to drive performance as retail reopens. We remain highly focused on building the brand internationally in a thoughtful manner while developing the infrastructure to support smart sustainable growth.

Outside of our strategic priorities, we were excited to announce earlier this week the next step in our board evolution as our board of directors appointed Alison Dean, former CFO of iRobot, as an Independent Director and a member of our Audit Committee. Alison brings over 30 years of financial leadership experience including 15 years with iRobot and 7 years as the company's CFO before stepping down earlier in 2020. Alison's addition corresponds with the resignation of Mike Najjar, who returns to his role managing Cortec.

Additionally, our Chair in Cortec, Co-President Dave Schnadig, has informed the board that he intends to step down as Chair of the Board and the Nominating and Corporate Governance Committee effective at the 2021 annual meeting of shareholders. Dave has indicated that he would be willing to stand for re-election to the board if so nominated in May. We appreciate the many contributions Dave and Mike have made to YETI through the years.

With these moves, one of our nine current board members is affiliated with our original private equity sponsor, seven are now Independent Directors and one third are women. We are proud to continue adding diverse thought and incredible experience to our board as we further build out the long-term opportunity for the brand.

As I pass the call over to Paul, I would again like to reiterate how thrilled we are with the holistic performance during the third quarter, and I would like to thank our YETI team for their exemplary efforts and ability to adapt and thrive so well against a very challenging backdrop. To our customers and partners, who have continued to show their confidence in our products and our brand, thank you. While challenges remain pervasive in the headlines, we are fully focused on our people and what we do best, driving passion for the YETI brand and delivering innovative product. We look forward to building upon the strength of our 2020 to-date performance with strong execution through the holiday season and Q4. Paul?

Paul C. Carbone

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

Copyright © 2001-2020 FactSet CallStreet, LLC

Thanks, Matt, and good morning, everyone. I'll begin with a review of our third quarter results followed by some high level thoughts as we look at the business during the holiday period. We'll then open up the call for your questions. Starting with the third quarter, net sales increased 29% to $294.6 million compared to $229.1 million in the prior year period, representing our highest growth rate as a public company.

The momentum that built throughout the second quarter accelerated into the third given what we believe is a sustainable shift in consumer behavior towards outdoor leisure activities and related products. This trend was highlighted by balanced growth across our product categories and continued DTC momentum even as our wholesale channel returned to growth and experienced either – even stronger sell-through during the quarter.

Looking at our channels, direct-to-consumer net sales grew 62% to $150.4 million compared to $92.9 million in the same period last year driven by strength in both Coolers & Equipment and Drinkware. Within DTC, the yeti.com business continue to lead the way. The Amazon Marketplace posted strong growth and corporate sales increased slightly for the period. Overall, DTC reached 51% of net sales for the period compared to 41% in last year's period.

Wholesale net sales increased 6% to $144.2 million compared to $136.2 million last year. Strong gains in Drinkware helped offset declines in Cooler & Equipment which were largely driven by inventory constraints. Channel sell-through was up double digits for the quarter, though channel inventories exited the quarter down double digits on a year-over-year basis.

By category, Drinkware return to strong growth during the quarter with net sales increasing 31% to $165.9 million compared to $126.4 million last year. We are very pleased with the continued strength of our original Drinkware SKUs even as we introduce new products to address additional use cases for our customers. Our expanded Colster lineup and updated bottle styles with Chug Caps remained big winners this year. And we are also excited to see the early receptivity of our 10-ounce Rambler during the period.

Coolers & Equipment net sales increased 27% to $124.2 million compared to $97.8 million during the same period last year. Our overall Coolers business remains vibrant, led by our new Roadie 24 and the Tundra Haul in hard coolers and our Flip and BackFlip lines in soft coolers. We also saw strong results in our outdoor living category led by our Trailhead Camp Chair which we believe supports the broader opportunity of the brand as we develop and expand deeper into new categories.

Gross profit increased 45% to $174 million or 59.1% of net sales compared to $120.1 million or 52.4% of net sales during the same period last year. The 670 basis point year-over-year expansion was driven by the following favorable impacts; 290 basis points from channel mix, 110 basis points from product cost improvements, 90 basis points from lower tariffs, 70 basis points from lower inbound freight, 70 basis points from higher inventory reserves in the prior period and lower warranty expenses in the current period and lastly, 40 basis points from all other impacts.

Adjusted SG&A expenses for the third quarter increased by 22% to $101.6 million or 34.5% of net sales as compared to $83.5 million or 36.4% of net sales in the same period last year. Variable SG&A expenses deleveraged 150 basis points driven by the significant shift in channel mix towards our faster growing DTC channel primarily with higher outbound freight. Non-variable SG&A expenses leveraged 350 basis points driven by the overall strength of the company's top line results. We continue to invest prudently to grow our business with higher year-over-year spending across most key expense categories including marketing, while we also resumed hiring more broadly across the organization.

Copyright © 2001-2020 FactSet CallStreet, LLC

Adjusted operating income increased 98% to $72.4 million or 24.6% of net sales compared to $36.6 million or 16% of net sales during the same period last year.

Our effective tax rate was 24.4% during the quarter compared to 24.9% in last year's third quarter. Adjusted net income more than doubled to $53.5 million or $0.61 per diluted share compared to $23.2 million or $0.27 per diluted share during the prior year period. Adjusted EBITDA increased 84% to $80.2 million or 27.2% of net sales compared to $43.7 million or 19.1% of net sales in the same quarter last year.

Now, turning to our balance sheet. As of September 26, 2020, we had cash of $234.8 million compared to $34.6 million in the year ago period. Our strong cash balance in part reflects our lower inventory position as we ended the quarter with $134.6 million in inventory compared to $209.2 million during the same quarter last year. Inventory declined 36% year-over-year, reflecting both the comparison to a 33% growth in the year ago period, as well as ongoing efforts to match supply with the above forecasted demand we have seen across the business. Going forward, our focus remains on flexing our supply chain to not only match the strong demand we are seeing for the brand, but also rebuild a more consistent in-stock levels across our channels. As such, we expect to be in a constrained inventory position across certain products as we work through the fourth quarter.

Total debt excluding unamortized deferred financing fees and finance leases was $238.8 million compared to $298 million in last year's third quarter. During the quarter, we made principal payments of $53.8 million inclusive of a $50 million voluntary pre-payment. And with our strong cash position for the quarter, the ratio of total net debt to adjusted EBITDA for the trailing 12 months was essentially 0 times compared to 1.6 times in the prior year quarter.

Overall, we couldn't be prouder of how our business and our team has responded since the beginning of the pandemic. Nonetheless, we know there is more work to be done to navigate the ongoing uncertainties of the current environment, to execute on our holiday plan, and ultimately to continue our momentum into 2021. Given the incredible performance of our third quarter, let me give you some high level thoughts into how we see the balance of the year playing out.

We expect fourth quarter net sales to increase between 15% and 16% year-over-year on top of a strong 24% growth rate in last year's fourth quarter. As a reminder, the fourth quarter includes the impact of an extra week which extends the fiscal period to January 2, 2021 and is expected to benefit revenues by approximately $7 million. With our strong outperformance in the third quarter contributing to lean inventories across our channels, we expect demand for the YETI brand will continue to exceed available supply during the fourth quarter. As we focus on rebuilding our inventory position, we are also actively and aggressively managing all aspects of our supply chain to navigate real and potential disruptions from supplier capacity to holiday logistics. We expect our ongoing work here will provide opportunities for growth as we continue to restock the channel into early 2021.

Turning to the bottom line, GAAP earnings per diluted share for the fourth quarter are expected to be between $0.55 and $0.58 compared to $0.05 in the year ago period. We expect adjusted earnings per diluted share to be between $0.57 and $0.60, reflecting a 31% to 38% year-over-year growth.

Before turning the call over for Q&A, I want to reinforce three themes we are seeing in the business. First, we are seeing incredible demand for the YETI brand with growth evenly balanced between our two main product categories and supported by our omnichannel evolution. Second, we are focused on delivering profitable growth, highlighted by record gross margins and disciplined SG&A management. Lastly, we continue to build more financial flexibility to support strategic opportunities and drive future shareholder value. We believe these themes

Copyright © 2001-2020 FactSet CallStreet, LLC

are the hallmarks of a strong enduring brand and position the company incredibly well as we look to achieve our long-term goals.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Your first question comes from the line of Peter Benedict with Baird. Please proceed with your question.

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

Q

Hey, guys. Good morning. Thanks for the questions. First, just on the inventory. Paul, I don't know if you can give us maybe a better sense of where you hope to have this sitting at year-end. And then, assuming that demand pace remains I guess similar, when would you realistically expect to be back kind of in the stock at levels that would allow you to kind of grow with sell-through? Is that something that you think you could get early in 2021 or if this demand level continues you're going to be chasing for quite some time? And that's my first question and I have one follow up.

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

A

Great. Thanks, Peter, and good morning. So we expect to end the year still down on inventory but we will make sequential improvement from where we are in the third quarter. So while down year-over-year we do expect to - the percentage to lessen on a decrease year-over-year. And then as we look into 2021, it's probably the first half of the year where we continue to ramp up our inventory and it's really – it's all about demand and what we're seeing today is demand is very, very strong and we hope that continues. But we think as we go through 2021 we'll get to a more normalized level.

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

Q

Okay. That's helpful. And then I guess related to that, just Matt, maybe talk about the innovation cadence in the business. And I know you guys adjusted some of the new product introductions this year just in response to COVID and whatnot, but now we've got supply constraint dynamic out there. So maybe just, how has your planning evolved for 2021 in terms of what maybe you were thinking a year ago you would introduce versus what now you think the cadence will look like?

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

A

Peter, thanks and good morning. I would say our planning and roadmap for 2021 as it relates to the product has not changed significantly. So the changes we made in 2020 early in the year when we didn't have great visibility on the back half of the year and as we've previously communicated shifted some things to the front half of 2021, we don't expect those to get caught up in the inventory rebuild, in the kind of capacity that we're putting on or the pressure we're putting on our suppliers for capacity.

Copyright © 2001-2020 FactSet CallStreet, LLC

So we expect that, that shouldn't have a substantial impact on our product roadmap and the introduction of products next year. It's really, as Paul indicated, it's really rebuilding the current product portfolio, [ph] recurrent (00:33:29) inventory backup. So I feel good about the innovation cadence being intact and the plan for innovation in 2021. In parallel, we'll be rebuilding and ramping up our supply capacity for our existing product portfolio.

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

Q

Okay. That's helpful. If I could sneak one more and then I'll turn it over. I apologize. Just with respect to the recall, I'm not sure how much you can say about it, but I'm just curious what's different about that MagSlider on the travel mug versus the others. I mean, you've got your MagSliders on a lot of different products. So if you're at liberty to say? And then, you said any impact is in your fourth quarter [indiscernible] (00:34:07) a little bit more specific behind what you think the impact is going to be? Thank you.

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

A

Yeah. Peter, I'll take the front of that. We did a voluntary recall in an abundance of caution and didn't have any – we had a report of a dislodging of our magnetic lid. And so we quickly moved nine days into the launch of this product through our own direct channels and took a decisive action quickly to make sure we fully understood and fully wrap this. The difference between the two products is in the legacy product, there is one magnet on the top and on the new one there's a magnet on the bottom and a magnet on the top, and that's what can – they can dislodge from each other. And so we put incredible importance on consumer safety, and when we saw this report, we had an opportunity to quickly wrap it and get it off the market and put our team back to work on making sure that we had the product out in the market that we thought was deserving of the YETI brand.

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

A

And then Peter, on the sales impact, while I won't share kind of what our plan was, and as you can imagine there are a lot of puts and takes there as we introduce a new product, how does that impact current products, so when we pulled the travel mug, the perceived cannibalization of other products goes away. So as we said, it's fully contemplated in the top line guidance that we gave in the 15% to 16% and excited too as the team is reworking that lid and looking forward.

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

Q

[ph] Okay (00:35:52). Fair enough. Thanks. Thanks, guys.

Operator: Your next question comes from the line of Camilo Lyon with BTIG. Please proceed with your question.

Camilo Lyon
Analyst, BTIG, LLC

Q

Thank you. Good morning, guys, and great job on the quarter. I wanted to drill down a little bit more on the inventory comments you're making. I think you had some inventory constraints also during the middle of the quarter and obviously continued here in the fourth quarter. Maybe if you can help us understand what categories you're feeling particularly light on and how you're thinking about – is there a favoring of a channel that you'd prefer to supply over one over the other? So are you going to feed your DTC first when supply comes back or is coming through? And also, are you seeing – where in the supply chain are you seeing the disruptions? Is it on the

Copyright © 2001-2020 FactSet CallStreet, LLC

production side, is it shipping times, is it at the ports? Just curious to understand where the bottlenecks exist and where we could see some alleviation of that inventory flow.

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

A

Sure. So let me start with the kind of how we got here or kind of just – kind of going back a few months. So if you remember back at the end of first quarter – and this is where do we see the bottlenecks. Because there really aren't true bottlenecks in the normal sense. But if we go back to the first quarter, at the end of the first quarter, last two weeks of the first quarter, first two weeks of the second quarter, we cut back forward POs as we were seeing those demand signals. We had some supply chain disruption there, but it's really us cutting back, looking at the current demand signals at that point.

And then demand started to – in the back half of second quarter, started to take off and we began placing forward orders, and then as we came into Q3. So, it's really about – a lot of this impact is kind of going back to the end of first quarter, beginning of second quarter where we weren't producing at a capacity – or we weren't producing at a level to support the 29% in Q3. And back I never would have expected to drive 29% top line growth in the third quarter.

So it is really – we have all our factories working full capacity and producing. So it's not a bottleneck in the sense of ports and things of that nature. That being said, and you've seen it in the headlines, the port coming into the US on the West Coast and then certainly just logistics and getting the goods to our DCs. But it really is about kind of the progression of rebuilding the inventory.

From an allocation, here's how we think about it is, we want to meet consumer demand across channels. And if we think about our wholesale channel, right, so our sell-in was plus 6%. And we talked about wholesale demand being close to what our top line was, in line with what our top line was as a company. So we knew we had inventory in the channel, so we used that inventory to satisfy demand, and then we used the inventory we had to satisfy our DTC. So we're constantly looking at satisfying consumer demand and that's kind of how we allocate the inventory and we continue to do that into the fourth quarter.

Camilo Lyon
Analyst, BTIG, LLC

Q

Got it. Okay. Great. And then just on the categories, is there a specific under inventoried position that's more grave? Maybe that's too strong a word, but that's of greater focus, Coolers versus Drinkware or is it equally balanced in terms of where you'd like to be?

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

A

Yeah. Good question. I'm going to come at it from the other angle of, we had the benefit of all last year building up my Drinkware inventory. So even as I came into the first quarter, second quarter, and I did the same thing here, I cut forward POs, but I had a lot of Drinkware inventory in my DC. So as demand came back, I was able to put forward POs in. So I had the benefit of having a lot of Drinkware inventory which again as we talked about was a tariff mitigation and turned into a coronavirus mitigation. So I benefited from that piece.

Camilo Lyon
Analyst, BTIG, LLC

Q

Copyright © 2001-2020 FactSet CallStreet, LLC

Got it. That's clear. Thank you. And then maybe, Matt, as you think about this, the balance of the excess demand, demand outstripping supply with maintaining the brand heat that you're clearly benefiting from, are you at all seeing anything on the competitive landscape where a customer is leaving the brand just to fulfill some sort of purchase need? And how are you trying to mitigate that potential lost sale or that lost customer that maybe organically coming to you but not seeing that demand fulfilled.

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

Camilo, we've seen through time and through different points in YETI's history, when we get into supply constrained environments or where demand is outstripping supply, is that we don't tend to see a lot of leakage of the customer. And part of it is because we focus a lot on making sure we're continuing to drive engagement. And even if it's engagement in between purchases or it's engagement while someone is waiting for something to come back in stock or we present alternative products that I think is our – one of the benefits of our in-house internal creative and content team, combined with our e-commerce team, is that we're able to identify more smartly where consumers are and where they are in the shopping journey and what we can put in front of them as an alternative.

So we tend to see – we tend not to see that leakage. And as a reminder, this business pre mid-March and pre the pandemic shut down here in the US was growing 20-plus percent. We just grew 29% in the third quarter. We provided some outlook on the fourth quarter. So expect the back half of the year to return to that 20% growth. This is a business that was driving performance and consumer demand as we went through that time and we'll continue to do it right now and we'll work hard to make sure we keep consumers engaged while we get our in-stocks back at the level both in wholesale and our own DTC channels in the way we want it.

Camilo Lyon
Analyst, BTIG, LLC
Q

Fantastic. Good luck in the holiday season. Thanks, guys.

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

Thanks, Camilo.

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

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC
Q

Good morning. Thanks so much for taking the question here. My first question is on e-commerce. E-commerce of course growing very, very strongly in the quarter. And you mentioned that was – you saw growth across channels. Could you talk about the discrepancy in growth that you're seeing between yeti.com and Amazon Marketplace? What's the mix of the e-commerce business today between those channels and how would you expect that to trend going forward?

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

Hey, Alex, good morning. So yeti.com and – I mentioned this in my prepared remarks, yeti.com definitely led the way. So if I think about the DTC business, yeti.com was the leader, then the Amazon and then corporate sales.

Copyright © 2001-2020 FactSet CallStreet, LLC

And I'm leaving retail out just because of the year-over-year comparison with new stores, it doesn't make the percent growth relevant. So, yeti.com is still the strongest. We like what we're seeing across those channels and are really happy with the engagement we're driving with yeti.com. The Amazon Marketplace is an important business for us. We saw – this is going back to the end of Q1, a slight disruption as people were really focused on more essentials, but that has come back nicely and is growing very, very well. But clearly, the standout was yeti.com.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Great. And any plans – so, which of those are you prioritizing as you move forward in the coming quarters and years?

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

A

So, prioritizing and – I mean, you can ask – you can come back at me and I'm going to step away from prioritizing inventory. But really, if you think about the coming years, we really like the yeti.com business. It's the fullest expression of our business, it's where we get the most information from a customer and being able to interact with a customer. So if we could wave – if I could wave a magic wand, I'd have everyone go to yeti.com. That being said, the Amazon Marketplace is really important. If people choose for now $119 a year, if they're a Prime member and they go to buy something and they want to put a Rambler 20 in their cart, we want to be where the customer wants to shop. So that's kind of how we think long term is – and that goes as far as wholesale too is being where the customer wants to access the brand is the most important thing to us.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Super clear. I appreciate you sharing your thoughts on that. Maybe one more from me, I wonder if you could update us on the business with Lowe's. How many doors are in now, how that's trending and what the next step and the opportunity is there?

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

A

Yeah. Alex, Matt. I'll take that one. Thanks. Thanks for the question and good morning. We continue to really enjoy the relationship that we've built with Lowe's and the partnership. And that's as important to us as we think about what a methodical paced rollout looks like. We said that from the very beginning that the rationale for why we add additional wholesale is that they bring a relatively new consumer, a new buying occasion or they augment, support the rest of our existing wholesale. And I think Lowe's has continued to do that and been a good partner as we have evolved and learned together.

This year, we're incredibly pleased with our partnership. We made some decisions as the year [ph] paced on (00:47:04) to moderate our rollout, considering the environment and considering our inventory constraints and it gave us an opportunity to really focus on the execution and performance. So what we really like is we continue to see the incrementality of that relationship. And we look at it as a piece in a puzzle of our overall wholesale and our overall wholesale as a piece in a puzzle of our overall omnichannel. So we're pleased with how that's performing. And as we said in the prepared remarks and we've reiterated here, we're pleased with the overall performance on our wholesale. And our job now is to thoughtfully rebuild the channel inventory so that we continue to address more and more of the consumer demand.

Copyright © 2001-2020 FactSet CallStreet, LLC

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Fantastic. Thanks so much, and all the best.

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

A

Thanks, Alex.

Operator: Your next question comes from the line of Randy Konik with Jefferies. Please proceed with your question.

Randal J. Konik
Analyst, Jefferies LLC

Q

Yeah. Good morning, everybody. Clearly, the strong revenue numbers, the growth of revenue, is indicative of acceleration of new customer growth and existing customers buying more. And I remember, I recall numbers – a number of quarters ago, you guys were starting to track the purchase behavior or kind of track customers on what they're doing. So is there any kind of color you can give us when you analyze the DTC business of what proportion of the revenues are coming from new, brand new customers versus existing customers right now?

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

A

Randy, good morning. This is Matt. What I would say is we haven't – as you pointed out we haven't shared the specific numbers. It is something that we continue to get smarter and have better insights to. I made a comment a little bit earlier that we're focused on understanding those customer cohorts and how they perform and how they perform differently, and as our product portfolio expands, what that sequencing of purchases and what that recurrence of purchase looks like.

What I can say is, interestingly, through this year-to-date, as we have seen elevated demand and has channel shifts have occurred during different points of shutdown in wholesale, is our new to yeti.com versus existing or repeat purchase on yeti.com has all lifted, and that ratio between the two hasn't shifted materially. And so, we really like the new customer acquisition that we're seeing and the percent of new customers we're seeing. And along with that, we like the returning customer and the repeat purchase rate. And what we're really focused on is, what is their behavior after that first purchase, within those first 30 days, within those first 90 days and within that first year.

And so, those are all metrics we're paying a lot of attention to. And then below that, what does that basket of expansion look like. So, while we aren't reporting the numbers, it is something we're paying a lot of attention to, it's something we're taking action on and it's something we like the trend that we're seeing. And it's a big area of investment for the business in 2020, and that'll continue to be a big area of investment in 2021 as we drive deeper consumer insights and behavior understandings to really target those distinct audiences.

Randal J. Konik
Analyst, Jefferies LLC

Q

That's great. And then last question, you mentioned I believe the international penetration is at 7% of total. I believe it was only 4%, only a few quarters ago. So can you give us some extra depth of color on what you think is happening in terms of rising awareness or what have you? Just trying to get a sense of the acceleration you're

Copyright © 2001-2020 FactSet CallStreet, LLC

seeing because it seems like that business is now starting to kind of really come into its own, that geography if you will, the international. I just wanted to get some color on what you think is starting to really continue to accelerate that business going – that part of the sales geography going forward? Thank you.

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

Yeah. We're – Randy, we're super excited about the opportunity internationally. We have been. But what we're excited about now is our enthusiasm is being matched by the activity and results. And I say that fully knowing that wholesale or retail in Europe, in the UK, in Australia and Canada until Q3 was really disrupted by the pandemic. And I would say disrupted in some cases even more than the US wholesale market.

So what we saw in the quarter was a really strong recovery in our international business and it came back, it came back alive. What we liked was we saw strong performance out of our wholesale led by the Canadian wholesale which is a market that we've been actively and directly with YETI employees operating in since 2017. But balanced with that wholesale is strong e-commerce performance. And I think that is indicative of the rising awareness of the brand. I think that things like social media, the content we create, that type of information has been more and more democratized globally. And so the awareness of our brand and the awareness of our products, and in many cases in some of the markets we enter internationally, leads our official entry or leads the distribution we have in those markets because social media is such a globally democratized and available.

So we continue to focus on – we see the demand signals, we believe the brand is bigger than the revenue, our focus continue to be on building our brand in the right way. So we're not rushing out just to chase short-term placement or short-term growth. We really want the sustainable growth. And we're seeing that in Canada and Australia in particular where we've been operating for three full years. And we're seeing the early signs of it in the UK and Europe.

And what we like about the UK and Europe in the early days is even with the disruption through the summer in the wholesale channel, that e-commerce continues to be a strong opportunity. So I think you look for us to go into 2021 with a heavy focus around international, a heavy focus around brand building and driving ultimately the question you ask, which is driving the awareness, which we think ultimately drives the consideration in the purchase.

Randal J. Konik
Analyst, Jefferies LLC
Q

Very helpful. Thanks, guys.

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

Thanks Randy.

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

Thanks.

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

Copyright © 2001-2020 FactSet CallStreet, LLC

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. So a question on the operating margin. You've obviously had a couple of quarters in a row where operating margin [ph] has started with a 2 (00:54:11) and it looks like the imputation is that, that will continue in the fourth quarter and it looks like for the full year. I guess I'd be interested, Paul, in how 2020 has changed any of your thoughts about the long-term sustainable margin of the company. And also, if there are any areas where you feel like you're over earning this year because you've pulled back on marketing or travel or other dynamics, so if you could kind of dimensionalize those for us.

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

A

Yeah. Good morning, Sharon. So the performance in the operating margin expansion and the performance has been fantastic. So as I think about that and then thinking about going forward, obviously that's driven by the significant increase in direct-to-consumer and the shift that we've seen both in the second quarter and the third quarter. But even if we go back to the first quarter in the whole algorithm of the company of DTC growing faster than wholesale. So a lot of that margin expansion is driven by gross margin expansion.

As we look to the future, I've couple of thoughts. The first is, we expect gross margin with mix shift in cost improvements to continue to expand. I don't expect it to expand to the level it did this year because of the significant outperformance of DTC. And then, and as you know just the law of larger numbers, as my DTC becomes a bigger percent of the business, every incremental 1% mix gives me less on the mix. But we do believe gross margin will continue to benefit from mix shift cost improvements.

And then I will say, we talk very often internally about where do we want to – are there things we want to invest at the gross margin levels, are there things we want to invest in the product? And I think you saw that and we've talked about this when we put the Chug Cap on the bottle and didn't change the price. So we delivered value to the consumer and held to the price and we used some of that gross margin expansion to fund that.

From a over earning in the business, I think the most obvious one, and you called it out as T&E, right, so we're still working remotely and not traveling. So certainly T&E is down. We continue and even though we saw significant leverage on non-variable expenses, we continue to invest – in absolute dollars, we continue to spend more in marketing, we've resumed hiring, so we continue to bring great talent into the business and things of that nature. So the expense leverage is really about kind of the top line growth. But other than T&E, we are running the business and investing in the business for the future. So I don't feel like we're over earning, to use your word, based on cutting back on expenses.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Thanks. That's very helpful.

Operator: Your next question comes from the line of Robbie Ohmes with Bank of America Securities. Please proceed with your question.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Copyright © 2001-2020 FactSet CallStreet, LLC

Thanks, guys. Great quarter. Actually, just two quick questions. You mentioned sort of some new drivers of growth to the brand, outdoor, near home vacations, things like that, here at the beginning of the call. I guess, Matt, is there any – when you get beyond the inventory constraints and you look out the next year or two, are you looking at – are there some new wholesale type customers that you guys are thinking about now because of these new drivers of demand for the brand that you maybe weren't thinking about a year ago?

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

A

Robbie, I would answer that, and good morning, in a couple of different ways. The drivers that have become kind of the headlines through the summer and some of the drivers we mentioned, I would say for our brand had been dynamics that we've been experiencing for the last handful of years. That movement towards being active outdoors, adventure-based vacations, car camping, all those dynamics, we think what's happened this summer is it's just – it's accelerated exposure of a trend that we were seeing. And obviously, our business was benefiting from strong growth pre pandemic and as those trends get highlighted and people try those things, we're right in that slipstream to continue to sustain that momentum.

If it were different and we were zero growth in realized growth because of a trend, it would be a different dynamic and that's not the situation we're in. I couple that with because we were – we think we were well positioned pre pandemic in previous trends being highlighted, we believe we've got really good representation from a wholesale perspective domestically, and we think that between the Amazon Marketplace and yeti.com, we've got good representation.

That said, as we've said in the past, we constantly monitor the wholesale market. We look for everything from independent partners who help us identify a certain region or a certain customer group that we may not be accessing all the way up to larger national. But as you know, having followed us for a while, we're really thoughtful when we bring on a big partner. We were thoughtful when we added Lowe's to the suite of wholesale partners we have. So we feel good where we are today, but we also pay attention to the market.

I think internationally it's a different situation because that's a little more greenfield for us when it comes to wholesale exposure. And, so far, we've been following a similar playbook to the US, which is building strong relevant independent relationships and identifying regional players or in some cases national players that we think will represent the brand and the business well.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

That's helpful. And then, Paul, just quickly, shipping surcharges, anything – any impact to you guys you see for the fourth quarter or next year?

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

A

Yeah. So, from a dollar perspective, it's – we are seeing the surcharges that UPS has announced, all contemplated in the fourth quarter outlook. And Robbie, what I would say is, what we're really focused on and not to play down the dollar piece of it, it's really the capacity and making sure that we secure and we work with UPS. I think our guys probably talk to them, if not every day, three times a week, we have secured our capacity for the fourth quarter and that's really our biggest focus. And again, not to downplay the dollars, but making sure we have – making sure they're coming to pick up the trailers is absolutely critical. And we have a very good relationship with them and our ops team is very focused on that.

Copyright © 2001-2020 FactSet CallStreet, LLC

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Terrific. Thanks so much.

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

A

Thanks, Robbie.

Operator: The next question comes from line of Peter Keith with Piper Sandler. Please proceed with your question.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hey. Thanks. Good morning, guys. I want to follow up on a prior question I think from Camilo just regarding the inventory of out of stocks at wholesale. So it seems like kind of a good news, bad news situation; remarkably strong sell-through, but inventory constrained. And now you go into the holiday season. It seems like there could be some risk where your wholesale partners might bring in some alternative competitors to fill in some of those cooler out of stocks. What actions can you take in order to prevent that type of activity and do you see that as any risk in the coming months?

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

A

Peter, I would say a couple of things to that. One, we have great wholesale partnerships and have very open dialogues as we've gone through this. And as we've seen challenges to the supply disruption, one of the things that we've worked very closely with our wholesale partners is how do we fill in either with other YETI products or make sure that we're represented as well as we can as we rebuild that space. Now, one of the conversations we have is, as we rebuild that inventory we want to make sure that we have the right space to merchandise the products the right way, in the way that we did pre pandemic and the way we would expect of all of our wholesale partners as at any point, but as we rebuild that inventory.

And so, I would say the conversations have been great. We're in full alignment with our partners, so we don't see risk from something changing because of this moment in time. We also don't see risk as far as – as I mentioned earlier on the call, demand leakage. We want to continue to drive demand for our product. We continue to bring innovation to market. We've started previewing our spring products with our wholesale partners. And there's a lot of excitement about what we continue to do with the brand and what we continue to do from an innovation perspective.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Thanks, Matt. I'll ask the next question to Paul, just around the structure of the guidance. So with the 15% to 16% growth, it does imply a notable acceleration from Q3 and we know there's a lot of uncertainty in the economic environment, but is there anything identifiable that you can see that would cause that slowdown? And then, maybe on a related note, the EPS growth guidance of 31% to 38% is certainly above normal for sort of your normal mid-teens revenue growth. So what are the margin characteristics that's driving that above-average EPS growth?

Copyright © 2001-2020 FactSet CallStreet, LLC

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

So a couple of things, on the top line, and as we think about this, if you step back to the end of second quarter where we said the back half of the year would be 14% to – between 10% and 15%. And now the back half of the year is going to be on – if you look at what we've talked about for the fourth quarter, call it 20%. So as we look from where we were three months ago, the business has certainly performed and it's really about a very strong Q3.

So the deceleration – I think about a little bit differently of the back half of the year from where I thought about it three months ago is actually stronger than what I was thinking three months ago. As we think about the fourth quarter in particular, a couple of things. The first is, we're up against our strongest comparison from last year at a plus 23% in last year's fourth quarter. We talked about the inventory constraints. So that's what kind of shaped our thinking on the current outlook. But again, as I think of the back half of the year, strongly outperforming what we thought the back half of the year was going to be just three months ago.

From an EPS perspective or a margin, it's going to be, and I'm happy to say it, much of the same. We're going to see expanding gross margins. Now we're rolling over, as fourth quarter always is, our biggest DTC quarter every year. So the hurdle certainly gets higher. But when I think about gross margins, I'm going to expect some gross margin, I'm going to expect gross margin expansion from the channel mix shift, costing improvements and then tariff tailwind.

And then if I think about SG&A kind of come down the P&L, it's going to be a similar story overall of deleveraging on the variable because of the mix shift, so really driven by mix shift. And then I expect the non-variable to be roughly, from a leverage perspective, to be roughly flattish year-over-year from a leverage not a dollar, obviously the dollars will increase.

So that's what's driving the operating margin down to – if you talk about – you get down to EPS obviously my lower interest both from a – and [ph] this will be (01:07:11) the last one that I hit the balance of debt, and then because I have a – it's floating rate debt, as you well know, interest rates are just in my favor. And as I delever my pricing I go down on the grid of less expensive spreads.

Peter Jacob Keith
Analyst, Piper Sandler & Co.
Q

Okay. That's all very helpful. Keep up the good work guys, and good luck with the holiday.

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

Great. Thanks.

Operator: Your final question comes from line of Matt Koranda with ROTH Capital Partners. Please proceed with your question.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC
Q

Yeah. Hey, guys. Thanks for sneaking me in here. Just wanted to touch on 2021, again, if I could, and that's been covered a little bit. But wanted to see, did we get any new categories that add to growth as we look out into 2021

Copyright © 2001-2020 FactSet CallStreet, LLC

or is it still the existing Drinkware and Cooler categories and just replenishment in the wholesale and then sustained strength in DTC? Just wanted to get your take on that first.

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

[ph] Matt, we – yes, Matt (01:08:17).

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

[ph] So we haven't – I'll get it, Paul (01:08:17). Matt, we haven't communicated any kind of forward category expansion. We tend not to talk about a [ph] forward prog (01:08:30) roadmap. What I would say is, we continue to look for expansion opportunities within our existing products and in our existing product families. And if you look at our history of [ph] pacing (01:08:39) over the last few years, we continue to kind of push the edge of new product families. And I would expect as we go into 2021 that that's going to continue. We want to keep reinvigorating our longest standing product families and introduce new families and continue to expand underneath the permission the YETI brand and the YETI consumers have given us to bring more products to market.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC
Q

Got it. And it sounded like – Paul, did you want to add anything because it sounded like you were jumping in there as well?

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

No. No, that was it.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC
Q

Okay. Great. Good. Good. Good. Very helpful. And then just a lot of the other stuff has been answered, but on the balance sheet, what I was curious about is, I mean as we sort of get into a very high quality situation where you've got essentially zero turns of leverage, how do we think about cash deployment going forward? Obviously, we're going to see plenty of investment in organic growth. We understand that. But when we think about sort of return of cash versus M&A and the prioritization there, just curious to get your thoughts going forward.

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

Yeah. Matt, it's really – we think about it in three buckets right now for what we would spend our cash on. First and foremost is rebuilding our inventory to level that we believe is the right level to support the growth across our omnichannel. So number one is inventory. The second one is CapEx investments, and the CapEx investments fall within a couple of different categories. They fall within our – the continued digitization of the business and our technology investments and they fall on the product side, and the product side splits into two things. It's investment in capacity as we continue to ramp legacy products and its investment in new product development.

And then the third thing is, and we've communicated this in the past that as we contemplate strategic M&A, one of the things that I like to always say is we like the YETI brand a lot. We think there's a lot of expansion opportunity underneath the YETI brand, but as we look at M&A we look at it across really two fronts. One, R&D investment in

Copyright © 2001-2020 FactSet CallStreet, LLC

technologies or materials that help accelerate our existing product roadmap or strategic acquisition that helps accelerate entry into relevant categories. And that can bring category expansion, it could bring customer base expansion, it could bring geographic expansion.

So that's really the way we look at it internally. We also feel very fortunate to be sitting here with $235 million in cash in a highly – coming out of a highly uncertain summer. So we feel good about the opportunities in front of us to return value to shareholders, but first and foremost through growth.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC

Q

Great. Thanks for that, Matt. And I'll jump back in queue.

Operator: Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would like to turn the call back to Mr. Matt Reintjes for closing remarks.

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

Thanks everybody for joining today. I just want to reiterate the incredible quarter we had at YETI. Demand continues to be strong for the brand. We love the receptivity we're seeing to our continued innovation. The brand was strong and the business was strong before the pandemic. We're thrilled to be sitting here at the end of the third quarter and looking out to the fourth quarter with a business that continues to perform and deliver. I want to wish everybody a safe and happy end of the year and holiday season. Look forward to speaking to you as we wrap up the fourth quarter. Operator?

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

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

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

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.