11-Feb-2021

YETI Holdings, Inc. (YETI)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the YETI Holdings' Fourth 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, Tom Shaw, Vice President of Investor Relations.

Tom Shaw

Vice President-Investor Relations, YETI Holdings, Inc.

Good morning everyone and thanks for joining us to discuss YETI Holdings' fourth quarter and full-year 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, please refer to the risk factors detailed in our most recently filed Form 10-Q and the Form 8-K filed with the SEC today, along with the associated press release. 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.

During our call today, we'll be discussing certain 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 the lead in some of our

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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; and Paul Carbone, CFO. Following our prepared remarks, we'll open the call for your questions.

And 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. 2020 was an incredible year for YETI, punctuated by a very strong fourth quarter. As we look back at our original 2020 full-year outlook, we exceeded the high-end of our net sales forecast and the high-end of our adjusted EPS. We're proud of this performance and execution given the constant series of challenges we successfully addressed throughout 2020.

I would be remiss to not take a moment to acknowledge the passion and dedication of our team at YETI, plus the amazing support of our partners and customers throughout the year. At the same time, our hearts continue to go out to those within our communities that are suffering through the hardships of the ongoing social, economic, and pandemic challenges.

Before getting into the details of our results and our strategic priorities, I want to highlight two themes we believe are central not only to our success in 2020 but also how we will continue to resonate with customers over the long-term. This starts with our brand's innate ability to connect with customers in meaningful ways. For years, we've been part of the shift to a more active lifestyle and a greater appreciation for outdoor activities and recreation. The pandemic furthered these behaviors including a well-documented increase in vacations closer to home. As a brand that lives to deliver performance, durability, and versatility across all of our products, we are positioned well at the intersection of these trends.

As the world changed dramatically during the pandemic, many of the observed consumer shifts I outlined gained further traction, supporting the tremendous results we are sharing here today and building upon our legacy of growth. However, a world of distancing also meant that many other activities of high YETI relevance were curtailed or eliminated. Many events and gatherings including weekend tailgating, backyard barbecues, standing on the sidelines at sporting events, or something as simple as a hot drink for a morning commute were disrupted. Moving forward, we expect attraction of outdoor and active pursuits to endure. At the same time, our brand is uniquely positioned as people begin to return to certain elements of work life, social gathering, and travel further afield.

Over the past five years, we have adapted our business to drive impact in a rapidly evolving digital consumer environment. Supported by our breadth and depth marketing strategy which has been a consistent hallmark of our brand engagement and awareness push, we believe has been a true differentiator for YETI. As we have previously communicated, we evolved to even stronger digital engagement and reach in 2020. The success of this transition as well as other lessons from the pandemic have helped inform and prioritize how we will invest across our strategic priorities. Most notably, you will see an added focus this year in digital brand and product storytelling, product development, data analytics, e-commerce, and our international infrastructure. We believe this focus will help YETI build upon its leadership position in the market and ultimately capitalize on our global potential.

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Now turning to our results, unwavering customer demand and incredible execution by our team resulted in fourth quarter net sales growth of 26% and delivered full-year growth of 19%. DTC continued to lead the way growing 46% for the quarter and 50% for the full-year. Wholesale posted a 6% increase for the fourth quarter and despite the massive channel disruptions throughout the year, ended the full-year down only slightly.

Product strength was balanced between Coolers & Equipment and Drinkware for the quarter with both posting approximately 20% growth for the full-year. Finally, our international business which remained at a YETI-high 7% for the second straight quarter delivered 81% growth and ended the year at 6% mix, exhibiting growing demand and even in the face of large-scale disruption to retail partners outside of the US.

Equally as strong as the top line, our adjusted operating margin expanded 440 basis points in the quarter, highlighted by gross margins approaching 60%. Similarly, full-year adjusted operating margin expanded nearly 500 basis points to reach 20.5%. These results yielded adjusted EPS growth of 70% for the quarter and 76% for the year while also supporting the voluntary debt paydown of $100 million during the fourth quarter resulting in our year-end cash balance of $253 million, a strong and consistent performance top to bottom.

Now shifting over to our strategic growth priorities which have remained consistent since our IPO in 2018 and will continue to guide our focus and our investment in 2021, first, our fourth quarter brand and product storytelling efforts were perhaps our strongest, most consistent and most integrated culminating in YETI as a holiday must have. Supporting these year-end efforts, in November we broadened distribution of our YETI Dispatch magalog to over 1.8 million homes while also extending those stories digitally to expand reach and duration of the impact.

As an example, we developed Ambassador content that was featured in our Wild Thanksgiving digital campaign, which was also highlighted in a print copy of the Dispatch. We also reinforced the overall YETI brand through a focused, strategic television placement in key sports and entertainment slots in Q4, alternating between a product showcase and a YETI brand spot.

Throughout the quarter, we continued to look for ways to impact our community. We supported incredible organizations such as Captains For Clean Water, Black Outside, Billion Oyster Project, Heroes and Horses, Conservation Alliance (sic) [The Conservation Alliance] (00:07:46), The Nature Conservancy, The LEE Initiative, Southern Smoke, Outreach Alliance (sic) [Outdoor Alliance] (00:07:51), and Memphis Rox. In November, the limited edition Veterans Day tumbler we introduced to benefit Folds of Honor and Lieutenant Colonel Dan Rooney's mission of educational scholarships for families of fallen and disabled service members quickly sold out and raised $50,000 for this worthy cause.

As we shift to 2021, we have three areas of focus for our brand: First, we will continue to build our breadth and depth strategy for both the digital and offline world, primarily created by our very talented in-house team. This is a key pillar of consumer engagement and acquisition with us alternating between brand and product stories. Music is a great example of a reach platform where we are focused on expanding our audience and driving a unique YETI form of engagement. For example, we continued our work with highly talented artists to create curated Spotify playlists including the Beastie Boys, Leon Bridges, and most recently the Foo Fighters. Expect additional impactful initiatives here in music and our other communities as we move throughout the year and bring expansive and creative reasons to connect with YETI.

Another focus will be to continue leveraging the depth of our existing US market efforts while also establishing our international routes. This includes the inaugural season of Major League Soccer's Austin FC with YETI as their jersey sponsor, as well as supporting our partners such as USA Climbing and surfer John John Florence at what

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we hope will be the Tokyo Olympics this summer. It will also mean expanding our global roster of ambassadors and partnerships, digital brand building and developing international-focused content and stories.

Finally, we have a thoughtful approach to sustainability in YETI. This begins with acknowledging what we are already doing, driving a strategy that is impactful and communicating appropriately across our channels and products. More to come on this journey but to be clear, we expect ESG to continue to be an integral part of the YETI business brand and our overall story of durability.

On the innovation side, we saw broad-based strength from both new products launched in 2020 as well as our legacy products. Our successful fourth quarter was led by sustained demand for coolers even as the inventory remained challenged across our channels due to COVID-related supply disruption. Growth in Drinkware was excellent as receptivity to our expanded Colster line, continued interest in our bottle offerings, and ongoing vitality across our both new and existing tumblers continue.

Importantly, we also earned product recognition and validation across a wide range of media. Men's Health highlighted the Roadie 24 Hard Cooler as the best cooler in its 2020 Outdoor Awards. Gray's Sporting Journal honored the LoadOut GoBox in its Best Accessories List. And Time Magazine selected the YETI V Series cooler as one of the 100 Best Inventions of 2020. These accolades not only recognize our latest innovations but also support continued healthy consumer discovery across our portfolio.

One way we extended product vitality in existing YETI products was by highlighting favorite heritage picks through our Q4 Gear Garage Finds campaign that featured limited quantities of discontinued items or colors. In new offerings, we added the popular ice pink color to the 10-ounce tumbler and introduced our second YETI Presents coffee table book with Wild Sheep. As part of our new sponsorship of Austin FC, we also offered their official club jersey on our website. Combined with the aforementioned brand and product initiatives, there is no shortage of energy around the YETI innovation during the quarter. As we continue into 2021, our product lineup will showcase investment in product, continued expansion through color and line extensions, elevated go-to-market product storytelling and category expansion. This holistic approach will support the vitality of demand we expect this year.

Let me give you a few details. We are standardizing our innovative MagSlider Lid solution across our Drinkware lineup. This includes both replacing standard lids that historically came with a product such as our Lowball and also adding lids that were sold separately for a product, for example, the Wine Tumbler. We are also in the process of transitioning many of our lids to utilize a new material containing 50% post-consumer recycled content. While adding to our product costs, we believe these types of actions make an impact, continue to deliver value to our customers, and sustain our premium positioning. We will also debut three new colors: Aquifer, prickly pear, and granite. In Drinkware, we will also add line extensions that reflect the customer demand for larger capacity, single-person Drinkware. And next week we will launch a new collection of bags consisting of backpacks, duffel bags, and wheeled luggage.

Originally planned for the second-half of 2020, we postponed the introduction and believe now is the more optimal time to introduce our Crossroads collection to the market given the continued focus on short excursion road tripping and the expectation of buildup to traditional travel and daily commutes. Each piece in the collection has been constructed with durability, performance, and design in mind. From our material choices to accessibility, storage, and comfort, the collection is perfect for weekend travel or adventures far from home. Leveraging our prior learnings in this category, we see a tremendous opportunity to offer a collection positioned at the center of premium, outdoor-ready, and daily use. We are launching DTC-only as we build into the product family, build awareness, and ramp our supply chain through 2021.

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Shifting to our omni-channel strategy, 2020 was a strong year for our Direct-to-Consumer business with a record 53% mix for the full-year, continuing the shift from less than 10% DTC only five years ago. This underscores the focus and importance we have discussed of meeting customers where they want to shop. YETI.com showed outstanding growth, extremely strong, consistent price integrity, and execution in the face of holiday small-parcel capacity challenges. Our team did a phenomenal job focusing on end-to-end service this year including our work to position inventory, balance our distribution center productivity and secure carrier capacity.

Our corporate sales business also had a great quarter. Throughout the pandemic, we have seen YETI remain a go-to choice for employee engagement, corporate rewards, and brand partnerships. At the same time, we continue to succeed in our targeted efforts to engage corporations who are outbound, focused on sustainability messaging.

At wholesale, even with the challenging inventory position, our wholesale partners did a phenomenal job addressing customer demand as we worked to replenish supply. Entering 2021, we have visibility into restock needs and the expected replenishment cycle across accounts as we move throughout the year. We remain encouraged as our wholesale partners continue to evolve their own models, leveraging digital to drive increasing relevance with customers while brick-and-mortar rebuilds traffic. Going forward, we will continue to invest to build broad channel strength. At YETI.com, this includes recent hires to drive expertise and discipline across digital and analytics, further developing our consumer data platform, investing in our enhanced e-commerce shopping experience and continuing to drive seamless customization.

In corporate sales, we will prioritize executing against a strong order pipeline and optimizing our service structure to be even more productive in our sales efforts. At YETI Retail, we remain focused on implementing strong operations across our young fleet of eight stores while evaluating very select openings in the back-half of the year. Finally, on wholesale, our clear focus will be on thoughtfully getting inventory repositioned, fully rebuilding YETI merchandising on the floor and working with our partners on the success of their overall omni-channel efforts.

On the international side of the business, we continue to build upon momentum of our international sales with mix growing from just 2% in 2018 to 6% for 2020. As the largest driver of our international business today, Canada showed strong growth despite significant lockdowns and restrictions that impacted the local wholesale market. Our Canadian DTC business grew triple-digit as we built awareness and executed on strong demand. Across the rest of our markets, Australia continues to raise our expectations with triple-digit overall growth in the quarter. In Europe and the UK, we continue to see receptivity build with stronger-than-planned DTC offsetting the impact of our disrupted wholesale rollout this year given the pandemic.

We are putting additional capital and resources behind our international efforts in 2021 as we look to extend DTC and targeted wholesale strategies across each region. In Canada, our focus will be on demand creation and inventory resets. In addition, we are putting a heavier focus on DTC execution and are excited about the prospects of our National Hockey League license Drinkware launch. In Australia, we are adding resources to drive additional brand awareness and make a push deeper into the large urban markets.

In Europe and the UK, we're developing new local language e-commerce sites and accelerating our wholesale push beyond the approximately 125 doors at the end of 2020. In Asia, we are focused on unlocking growth in Japan from the limited wholesale reach we have today while also setting the infrastructure to support additional Asian markets. Holistically, we believe that international remains a massive opportunity for the brand and we are more formally aligning our organization to drive our potential here.

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As I hand the call over to Paul to review our detailed results and outlook, I want to again thank our YETI team for the incredible work, resilience, and dedication that made 2020 the success that it was. Moving forward, we will undoubtedly need to address unknowns that will have varying degrees of impact on the economy, consumers and those associated in some way with our brand. What is never in doubt is that we take any challenge as a chance to get better and strengthen our business. We remain incredibly optimistic about the opportunity for 2021 and the long-term sustainable growth opportunity of YETI. Thanks again and now I'll turn it over to Paul.

Paul C. Carbone

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

Thanks, Matt, and good morning. Before providing the full details of the quarter and fiscal year, let me begin by also adding my thanks for the incredible resolve of our team during a truly one-of-a-kind year. Their efforts were instrumental in delivering the incredible results for the year, including 19% net sales growth, adjusted operating margin expansion of 490 basis points, 76% adjusted EPS growth, and the voluntary paydown of $150 million in debt.

Now onto the fourth quarter, net sales increased 26% to $375.8 million compared to $297.6 million in the prior-year period. This growth was on top of the 23% increase posted in the year-ago period. Results were above our expectations and reflects the continued strong demand for the brand. For the full-year, net sales increased 19% to $1.09 billion, an incredible achievement while looking back at our initial full-year outlook of 13% to 15% sales growth. As previously discussed and contemplated, both the fourth quarter and full-year results include the impact of the 53rd week which added approximately $7 million to net sales for both periods.

By channel, Direct-to-Consumer net sales grew 46% to $217.8 million, compared to $149 million in the same period last year. Overall, DTC reached a new quarterly high of 58% of net sales for the period compared to 50% in last year's period. DTC performance was driven by strength in both our Coolers & Equipment and Drinkware categories. We were encouraged to see all DTC channels posting at least 20% growth across YETI.com, the Amazon Marketplace, YETI Retail, and corporate sales. For the full-year, DTC net sales increased 50% to $580.9 million, representing 53% of the overall sales mix which increased from a 42% sales mix last year. While not an update we will provide quarterly, the fiscal 2020 mix within DTC consisted of approximately 50% from our global YETI websites, high-20s from the Amazon Marketplace, approximately 20% from corporate sales, and the remaining low single-digit portion from YETI Retail.

Wholesale net sales increased 6% to $158 million compared to $148.7 million last year. Wholesale performance was driven by balanced growth across both our Coolers & Equipment and Drinkware categories despite ongoing inventory constraints in the channel. Full-year wholesale net sales decreased 3% to $510.9 million, primarily driven by the effects of the COVID-19 pandemic on temporary store closures during the first-half of 2020.

By category, Drinkware net sales increased 23% to $235.7 million, compared to $192 million last year. Demand was strong across our Drinkware portfolio and we continue to see momentum from our more recent introductions led by the expanded and improved Colster lineup and updated bottle styles with chug caps. In addition, the expansion of our customization capacity allowed us to better capitalize on the tremendous demand for personalized products by both consumers and corporate accounts. For the year, Drinkware grew 19% to reach $628.6 million.

Coolers & Equipment net sales increased 31% to $134.3 million, compared to $102.3 million during the same period last year. Demand across our Coolers business remained strong despite limitations on inventory availability particularly in hard coolers. The ongoing success in our outdoor living category also gives us confidence in our broader category expansion opportunities in 2021 and beyond.

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For the full-year, Coolers & Equipment net sales increased 21% to $446.6 million. Gross profit increased 39% to $224.8 million or 59.8% of net sales compared to $162.3 million or 54.5% of net sales during the same period last year. The 530 basis points year-over-year expansion was driven by the following favorable impacts: 210 basis points from product cost improvements, 200 basis points from channel mix, 60 basis points from lower tariffs, 60 basis points from lower inbound freight and 80 basis points from all other impacts. These gains were partially offset by 80 basis points from higher inventory reserves, including the unfavorable impact of recall-related expenses associated with the previously announced voluntary travel mug recall as well as new product transitions. Full-year gross profit increased 32% to $628.8 million, expanding 560 basis points to 57.6% of net sales. Adjusted SG&A expenses for the fourth quarter increased by 30% to $140.3 million or 37.3% of net sales as compared to $108.3 million or 36.4% of net sales in the same period last year. Variable SG&A expenses increased as a percentage of net sales by 140 basis points, driven by the shift in channel mix towards our faster growing and higher gross margin DTC channel, primarily related to outbound freight. Non-variable SG&A expenses decreased as a percentage of net sales by 50 basis points, driven by the overall strength of the company's top line results.

Full-year, adjusted SG&A expenses increased 22% to $404.5 million, increasing 70 basis points to 37.1% of net sales, driven by variable expenses increasing 210 basis points and partially offset by non-variable expenses decreasing by 150 basis points as a percentage of net sales.

Non-variable expense leverage was driven, in part, by our strong top line results as well as cost curtailment efforts implemented during the second quarter in reaction to the onset of the pandemic. Adjusted operating income increased 57% to $84.5 million, expanding 440 basis points to 22.5% of net sales, compared to $54 million or 18.1% of net sales during the same period last year.

Full-year adjusted operating income increased 57% to $224.3 million, expanding 490 basis points year-over-year to 20.5% of net sales. Our effective tax rate was 23.1% during the quarter compared to 29.7% in last year's fourth quarter. For the full-year, our effective tax rate was 24.1%.

Adjusted net income increased 73% to $65.2 million or $0.74 per diluted share compared to $37.8 million or $0.43 per diluted share during the prior-year period. Full-year adjusted net income grew 79% to $164.2 million or $1.87 per diluted share.

Now, turning to our balance sheet, as of January 2, 2021 we had cash of $253.3 million, compared to $72.5 million in the year-ago period. Inventory declined 25% to $140.1 million compared to $185.7 million during the same quarter last year, a sequential improvement from last quarter but slightly below plan given our stronger top line performance. We expect to continue our supply chain efforts to rebuild in-stock levels throughout the first-half of the year. Total debt, excluding unamortized deferred financing fees and finance leases, was $135 million compared to $300 million in last year's fourth quarter. During the quarter, we made principal payments of $103.8 million, inclusive of $100 million voluntary prepayment. At the end of the quarter, we were in a net cash position as cash on hand exceeded total debt.

Now turning to our full-year 2021 outlook, I would like to provide more color than our historical practices given the unique comparisons from 2020. We expect full-year net sales to increase between 15% and 17% compared to fiscal 2020, above the high-end of our long-term target and supported by both our innovation pipeline and ongoing work to replenish our wholesale channel. As a reminder, fiscal 2021 is also comparing to the 53-week period in fiscal 2020. Within the sales outlook, we expect wholesale growth to be above our long-term target of up mid single-digits as we continue to focus on driving improved stock levels across the channel. We also expect growth

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in our Direct-to-Consumer channel will continue to outpace wholesale for the year. By category, we expect Coolers & Equipment to slightly outperform Drinkware.

Looking at cadence, we expect the highest growth rate during the first quarter with double-digit growth in each of the following quarters. On the margin side, we expect flat gross margins from a record 57.6% level which reflected nearly 600 basis points expansion in 2020 and over 800 basis points expansion since 2018.

Despite the continued favorable impact from channel mix, our ongoing efforts to drive product cost improvements will be more limited in 2021 for two reasons: First, we are taking strategic action to invest back into our products to further elevate our value proposition, enhance the consumer experience and widen the consideration gap. A great example is our decision to add MagSlider Lid across all our Drinkware starting in 2021, effectively upgrading approximately 20% of our Drinkware assortment. In addition, the strengthening of the Chinese RMB since last summer will factor into our product cost negotiations. From a cadence perspective, we expect positive year-over-year gross margin trends during the first-half of the year, some contraction during the third quarter where we face an exceptionally strong comparison from the prior year, and expect fourth quarter to be flat to the prior-year period.

In SG&A, as we have discussed in the past, we have planned SG&A in 2021 growing slightly faster than sales. We expect full-year variable expenses tied most directly to our faster growing and higher gross margin DTC channel will grow slightly faster than total sales. We also expect full-year non-variable expenses to be flat as a percent of sales as we continue to focus on our strategic growth initiatives, investing behind our current momentum to support our sustainable long-term growth and strengthen our competitive advantage, including areas such as data analytics, international, and product development. The combination of these factors will drive the highest year-over-year expense growth in the second quarter with growth rates then easing throughout the balance of the year.

Overall, we expect a slight decline in adjusted operating margin to approximately 20% for the year following the nearly 500 basis points improvement we generated last year. Adjusted operating margin expansion in the first and fourth quarters is expected to be offset by contraction in the middle quarters given the expense factors I have just outlined.

Below the operating line, we expect an effective tax rate of approximately 24.5% for fiscal 2021. Based on full-year diluted shares outstanding of approximately $88.6 million, we expect adjusted earnings per diluted share to grow 13% to 15% to between $2.11 and $2.14, compared to $1.87 in fiscal 2020. From a timing perspective, we expect adjusted earnings per share growth during fiscal 2021 to be heavily weighted to the first and fourth quarters. We expect an increased level of capital expenditures of $55 million to $60 million, primarily reflecting technology upgrades to support our business growth including continued enhancements to SAP, website optimization and enhanced data analytics capability, as well as spending to support our commitment to new product development and innovation.

In summary, I'd like to reiterate the broader themes that Matt mentioned at the beginning of the call. First, we believe YETI is well-positioned to capitalize on changes in customer behaviors. Recent trends that have been accelerated during the pandemic which I would broadly categorize as outdoor pursuits are expected to continue. At the same time, we are well-positioned to capitalize on post-pandemic opportunities as consumers gradually return to pre-pandemic activities that have been disrupted for nearly a year now.

Second, we are investing in strengthening and adapting our plans to match the rapidly changing environment we operate in. This ultimately will drive greater brand relevance both at home and abroad while also ensuring we are

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delivering on our long-term opportunity to shareholders. We will do this in a thoughtful way to ensure we are prioritizing our initiatives to drive focus and disciplined execution while also taking a holistic approach to ensure strong bottom line growth.

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

QUESTION AND ANSWER SECTION

Operator: At this time, we will be conducting a question-and-answer session. [Operator Instructions] One moment, please, while we poll for questions. Our first question is from Sharon Zackfia with William Blair. Please proceed with your question.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. So, a couple of questions for Paul and they're semi-related so forgive me, Tom. On the gross margin outlook, I understand the abatement of the product cost improvements. I think you expressed that well but I'm trying to figure out what else offsets the channel mix benefit if DTC continues to outpace wholesale which just sounded like that was going to be the case.

And then a second, probably easy question, is just what do you view as the right level of leverage for the company? You have very little debt at this point. I mean when does the board think about returning cash to shareholders?

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

A

Hi, Sharon. Good morning. So, on gross margin, as we think about it going into 2021 being flat there is, as we mentioned in the prepared remarks, about reinvesting back into the product. The second piece is while DTC will continue to outpace wholesale there's two real factors in there and that is, number one, DTC is a higher percent, so every additional mix point gives me less on a channel mix. And then secondly as we rebuild the wholesale channel inventories, it will be above our long-term guidance where we said wholesale will be mid-single digit. So that's the other factor playing into that.

And then lastly, again, as I mentioned in my prepared remarks, the strength of the – or the change in the RMB impacts or comes into factor when we are talking about product cost negotiations going forward as our supply chain team and operations team are talking with our manufacturers so those are the pieces. And then we talked about the cadence of them, gross margin expanding in the first-half of the year in the third quarter where we're rolling over a 59.1% gross margin from third quarter of 2020 there being some contraction and then flat in the fourth quarter.

As far as leverage, we've talked about this often, as we think about this we think about this holistically as use of cash. We're going to continue to pay down debt. We are in a net cash position. We will use cash to rebuild inventory as we go into next year and I also see with the growth in wholesale, our accounts receivable increase. So we'll use some for net working capital. But we continue to talk to the board about what is the optimal capital structure and those are ongoing conversations.

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Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Thank you.

Operator: Our next question is with Peter Benedict with Baird. Please proceed with your question.

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

Q

All right, guys. Good morning. A couple of questions. First, just, I guess, Paul on the inventory rebuild, can you give us your best guess on how you feel like that might progress? Is there a reasonable target for the end of the year if things kind of play out as you see them right now, understanding there's a lot of uncertainty there. That's my first question and then I'll have a follow-up.

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

A

Great. Good morning. So, we see inventory ending – getting sequentially better, although at the end of first quarter still being negative, similar to my commentary last quarter and then we see it turning positive as we go into second quarter and the balance of the year as we roll over the significant decreases from 2020. So sitting here today, we see second through the fourth quarter as positive growth. And I would say as we think about the end of the year, Peter, and a lot of this goes into sales, et cetera, we see inventory ending the year approximately $200 million. And that actually takes us back to slightly above 2018 levels. So we do expect certainly in the back-half of the year to get in a much stronger inventory position.

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

Q

Yeah. Okay. Good. That's helpful. And then I guess maybe for Matt, nice to hear the bag innovation stepping up here in 2021. Just curious what you learned from the prior everyday items that you guys had out there that you discontinued and obviously replacing with this new batch. How do you think about – what did you learn from that and how do you think about sizing that opportunity? Because certainly the bag market is a large one, but just trying to understand how you guys are framing that up internally? Thanks.

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

A

Peter, good morning. There's a couple things as we said, as you know we've been in bags since 2017. We launched our revolutionary and evolutionary Panga bags, fully submersible, and those bags have been a wonderful product for YETI. And then we started to evolve from taking that, the design ethos for those Panga bags; made it incredible; tote, carryall bags that I've talked about before; it's probably one of my favorite YETI bags and YETI products.

And what we learned in those early products have led into this Crossroads collection of backpacks, duffels, and wheeled luggage is the interplay between material construction and design, and what we were really aiming for was how do we take the best materials we can find in the market which has been a hallmark of how YETI designs products, put those into a construction that builds upon the durability and performance that YETI's been known for and package them in a design that brings a simplicity and cleanliness of look but with all the robustness of the construction and the materials. And our team has spent the last couple of years really searching for what we

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thought was YETI quality and YETI-worthy and then worked with various vendors and partners to make sure that those materials lived up to the durability and reliability and performance with an incredible design wrapper.

So we're excited. We're excited about it. We've talked about the bags category in the United States and globally is very likely the largest category that we've operated in. So we think that there's a lot of room to roam, a lot of room to grow. We're going to do it in a thoughtful way. Like YETI does, we come out with a tight assortment, we've put a lot of emphasis behind it, and we talk to the consumer about why it should be important to them. And I think over the next couple of weeks, you'll start to see that in a very robust comprehensive launch campaigns supported by the collection that we're putting out there.

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

Q

Okay. Great. Thanks so much. I look forward to seeing what's on [ph] tap (00:44:33). Thanks.

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

A

Thanks, Peter.

Operator: Our next question is with Randy Konik with Jefferies. Please proceed with your question.

Q

Hi. Good morning. This is [ph] Anna (00:44:51) on for Randy. Thanks for providing an update on the DTC breakdown. Could you maybe provide an update on how corporate sales performance has been recovering?

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

A

So – good morning. So, overall, while not giving the specific number, as we talked about across DTC in the fourth quarter, everything was above 20%. And we have seen, as we saw in the third quarter coming into the fourth quarter as well, a nice recovery in the corporate sales business. Q2 was the most difficult quarter and then the business really came back, and part of it was supported by added capacity that we brought online over last year. So that also supported that growth both in consumer personalization and customization on the website and then also corporate sales.

Q

Got it. Great. Thanks. And then piggybacking on a previous question on the Crossroads launch, maybe could you talk about the opportunity to attract new customers and how you're planning on marketing that accordingly? Thanks.

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

A

Yeah. It's a great question. And as we think about the continued expansion of the YETI brand and we've talked in the past that we believe the brand halo is even larger than the product assortment we have today which gives us, we believe, a lot of opportunity to expand but also encourages us to find a disciplined way to do it. We think the

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Crossroads collection gives us the opportunity to speak to a wider and wider audience, not just domestically but globally. It is a – as I've said in the prior question, it's a huge global market, highly fragmented with price points all over the place. And we think that intersection between everyday use, outdoor-ready, and high performance is really fitting for our brand.

And so when we think about the colorways, the sizing, and even how we introduce the product and the balance between some of the traditional channels that we've used to launch products and some new channels, and so as we, over the next couple of weeks, start the beginning of our bag rollout and our bag build-up, you're going to see what we believe is the most comprehensive YETI product launch in addressing new and expanding audiences that we've done in our history, so we're excited to start that process.

And like many things we talk about at YETI, we build into new product and we build into innovation. And this, as we said in the prepared remarks, this is a build through 2021 as we build up the sustainability of this product family for YETI.

Q

Great. Thanks so much.

Operator: Our next question is with Camilo Lyon with BTIG. Please proceed with your question.

Camilo Lyon
Analyst, BTIG LLC

Q

Thanks. Good morning, everyone. Great job on the quarter and the year. On wholesale, you gave some great color on what you're expecting from an overall basis and clearly the restocking should help recharge that segment. Can you just update us on how you plan to restart your door expansion and maybe more specifically where you're at with Lowe's assuming that a bunch of the – or bulk of the growth in wholesale will come from a more restocking effort in your existing doors, but I'm curious to see where the door expansion effort lies.

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

A

Yeah. Camilo, thanks. Great question. As we have shown in the past, we're disciplined about door expansion and we've been much more focused over the last five years or so on making sure we're in the right points of distribution and that we bolster and build up our partners. The first-half of this year is really going to be focused on working with our wholesale partners as they continue to evolve their omni-channel approach and take advantage of the digital evolution while traffic is still disrupted in brick-and-mortar.

So, in the first-half of this year, we don't expect meaningful door, rooftop expansion. There's always some puts-and-takes as doors open or doors close. But in the broad sense, we wouldn't expect door expansion to be a big part of the front half of the year.

As we go into the back-half of the year, you mentioned Lowe's. We continue really good dialogue on Lowe's on a paced, thoughtful rollout. We said that from the very beginning. It was disrupted a bit with the pandemic and so we'll work with them to get back on that thoughtful way of expanding. And I think broadly we continue to look for opportunities in wholesale where it either brings a new buying occasion to us, a new consumer or augments or supports our existing wholesale and we're going to stick true to that. But this is a year really of, as Paul mentioned, getting our getting our inventory in the channel right, getting our merchandising right, helping our

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exceptional wholesale partners really focus on their digital offerings and digital efforts as the consumer returns to more normal traffic flow.

Camilo Lyon
Analyst, BTIG LLC

Q

Great. And then for Paul, just going back to the gross margin outlook with specific focus on the product costs and the rising RMB, it would suggest that with the growth that you're seeing, the accelerated growth that you're continuing to see throughout your business that that would be an offset to the negotiations you would have on the RMB cost front. Are we thinking about that incorrectly? It would suggest that there's a lot of room for continued cost savings from that perspective alone, just the scale increase that you're seeing with your factory partners?

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

A

Yeah. So, that has always been part of our focus with our negotiations with our manufacturing partners of our sheer scale and growth of our business. And if you think about Drinkware, it was up 19% for all of 2020, so that is the balance offset by the RMB. So this is something that, as we look into it, we believe that that is an offset. We still challenge our ops teams to go negotiate and see if we can share in some of that fixed cost leverage and things of that nature.

The other piece is adding more into the product and we talked about the MagSlider. We talked about – as you know, we have a full-year of the chug cap. So, these are things that – full-year of the Colster, the new Colster. So these are things where we have made very, very deliberate decisions to reinvest in the product to keep that differentiated product mindset and that we feel is a good use of those gross margin dollars.

As I said, Matt and I said in our prepared remarks, the MagSlider Lid upgrade is affecting 20% of our portfolio, and some of it like our Lowball is going from a traditional cap to a MagSlider, something like our Wine is going from no-cap to a MagSlider, and then we are transitioning all our MagSliders to a new composite that has recycled material in it, so that as well. So that's our investing in the products. So those are the puts-and-takes inside of gross margin. But I will say we still challenge our ops and – operations team and supply chain team to continue those product cost negotiations with never giving up durability or quality in the product.

Camilo Lyon
Analyst, BTIG LLC

Q

Great. If I could sneak one more in. Matt, when you think about the repeat purchase rate you're seeing on your DTC, can you talk about how that's trended between your customer mix evolution between you and existing customers?

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

A

A couple things in that regard. We continue to see obviously our DTC business performed really well through the middle of summer in the pandemic and continued through the end of the year. We really continue to like the balance we're seeing between new to YETI.com and returning customers to YETI.com. As that growth rate continued to go up, we saw both of those groups continued to trend with it. So we're seeing a really nice balance of what I would call new customer acquisition to YETI.com and existing customer repeat purchase.

We are seeing positive trends in frequency. And one of the things that Paul and I both mentioned and is a big part of this year, we really started this journey, in earnest in 2019 during the pandemic last year, kicked it into higher

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gear, and it will be a big part of 2021 is our data science and data analytics, and it's a significant area of investment for us in talent and capital. As we built a large DTC business and ramping our intelligence to match to that, we think there are continued opportunities in front of us as we effect conversion rates, repeat purchase rates tied between purchases. And so we're excited about what's to come as we continue to learn more.

Camilo Lyon
Analyst, BTIG LLC

Q

Thanks so much for the color. Good luck, guys.

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

A

Thanks, Camilo.

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

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Good morning, guys. Great quarter. Matt, a question I get a lot is just on how much did YETI benefit from kind of the COVID-related solitary leisure trend and was that a pull-forward of demand from 2021? Your guidance implies probably not, but I thought your commentary at the beginning of the call was really interesting. I mean how should we think about – how important or did you track how much YETI lost in commuting and tailgating and sports events and backyard barbecues and kind of compare that with what you got maybe from COVID-related business being driven for YETI?

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

A

Robbie, there's – it's – to be able to dissect what was lost directly from what was gained is difficult because sometimes – and some of those consumers flow between those things. What I would say that we really looked at and we've spoken about is pre mid-March last year or pre-pandemic, our business was growing 20-plus percent. We had the moment in time early Q2 or late Q1 when the world was really upside down and then what we saw from then is a reacceleration in business and you look at a business that exited the year with Q4 growth at 26%, had 19% on the full-year. We really think we saw a resumption of the demand and the growth that was happening at YETI.

And while those behaviors changed and we saw that, and we think we were able to pivot our marketing messaging and our brand messaging and our relevance to both the stay-at-home ; when people were stuck at home and providing compelling digital content when they were there and also supporting the solo or small-group near occasion leisure. And so when we looked at it, we liked that trend a lot. But it's a trend that we've been watching for years, and we've seen over the last five years, we believe it's contributed to engagement with YETI as people get outside more and realize the health and wellness benefits of it. So we actually liked both trends.

And while the group gatherings and backyard barbecues obviously have been highly disrupted, we've been able to pivot the business and really make sure that we're communicating to the consumer in the way in which they can operate today. And as the world comes back to normal or whatever normal is will, we'll reconnect with them in those relevant ways. So, I feel good about where we are at the intersection of both those trends.

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Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

That's great. That's helpful. And then Paul just a quick one for you, when you isolate DTC what does the profitability look like? How did it look overall? Was the profitability of DTC up year-over-year? How are you thinking about that for 2021? Is the DTC overall profitability changing or is it pretty consistent? And maybe do you guys see yourselves reaccelerating store growth as we get away from COVID?

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

A

Yes. So, to your question and when we talk about profitability, we think about contribution margin because we don't allocate all the corporate expenses, just to say that. Year-over-year, if I look at a YETI.com and the DTC profitability and the contribution margin overall, it's increasing and purely as we're leveraging the strong top line, leveraging the payroll expenses in there and things of that nature, so it did increase year-over-year.

And then as we've talked about often from a dollar perspective and this is now comparing to wholesale from a dollar per unit perspective, the profitability is significantly higher in our DTC business versus our wholesale channel.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

That is great and really helpful. Thanks, guys.

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

A

Thanks, Robbie.

Operator: Our next question is with Jim Duffy with Stifel. Please proceed with your question.

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

Q

Thank you. Good morning, guys. Really great year, terrific execution by the team. Matt, I wanted to start with the following question related to your discussion of consumer insights. Do you guys have any statistics on new consumers you've welcomed to the brand during 2020? And I'm curious did the new customers added in 2020 looked different from prior-year customers or does the data suggest it's just kind of more of the same?

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

A

Hey, Jim. A couple of things there. We haven't wrapped up our full analysis of our kind of 2020 cohort. What we have communicated in the past is that as we've tested it throughout the year, we saw pretty good consistency in the consumer between the age groups, household income, so largely consistent. We've picked up a little bit on the lower or the younger age demographic. But I would say, meaningfully, we've stayed pretty consistent.

What I think is most interesting is that as you look across our regions of growth, all of our – or look across all of our regions, all of our regions showed significant growth in 2020. Growth was led by the markets where we've historically been the least penetrated. But even in our longest standing, what we've referred to in the past our heritage markets continued to grow strongly through 2020, so we like both the penetration we're continuing to get

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in our most established markets and the reach with newer consumers or consumers that are newer to the brands. And we've talked about penetration in the coastal communities and we're really seeing the effect of that but with opportunities still in front of us.

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

Q

Great. And then, Matt, in your prepared remarks, you did a little bit more than wave a hand to ESG. I know you guys hired a new VP of CSR last June. There's a lot that you've already been doing maybe that hasn't been advertised. Any updates on the foundation of your CSR platform where we might see a formal ESG or CSR report and stated objectives for improvement?

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

A

Yes. Jim, as you said and it wasn't accidental, we mentioned it in a more fulsome way it is critically important to us as you also said we believe it's been central to our brand is naturally, and with the addition of an incredibly talented of VP of ESG who's highly experienced in building these programs, we want to make sure that when we come out that we're as robust in both taking kind of command of what we have done and where we are and also where we want to go. And so it's a big area of focus in 2021 to get those things lined up so that we can communicate them in a more fulsome way. But as you said, it is important to us. We don't look at it as a function or a thing within YETI. We look at it as part and parcel to who we are as a brand and it has that level of importance and that level of focus inside our building.

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

Q

Thank you.

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

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Oh, great. Thank you so much. Good morning. I wanted to ask about CapEx, the CapEx outlook for 2021. I'm wondering is there any distribution center CapEx included in that budget, Paul? And then as we look beyond 2021, would you expect this new higher level of CapEx to be your normal on a go-forward basis?

And then sort of a different but similar question on SG&A, it sounds like there's a little bit of SG&A deleverage in 2021. Would you expect to get back to a leveraging position starting in 2022 and beyond? Thanks so much.

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

A

Great questions, Kimberly. So, I'll start with CapEx on the $55 million to $60 million range, and about 45% of that is technology-related. And we've talked about data analytics; we're developing a new mobile-optimized website, things of that nature. Another 45% is really [ph] to support (01:03:35) the product roadmaps.

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To your direct question on 3PLs or distribution centers, we use 3PLs, so we don't have a lot of capital tied up in the 3PLs. We are moving from Dallas to a new location in Memphis. We have some – actually it's an expense, a one-time charge in our outlook to actually move goods back and forth. So that's kind of the makeup.

To your question of is this the new normal level, I'm not going to – I don't want to give a long-term outlook or an update on our long-term outlook. What I would say is 2020 was materially lower than our past. It was $15 million. So if you look at the combination of 2020 and 2021, they're – and you average them out, it's more of a normalized level. So, part of it is a lot lower spending in 2020 as we took actions during the COVID pandemic. From a SG&A perspective, what we've said for this year is we would see slight deleverage. I mean with flat gross margins and op income approximately 20% and OpEx, say, 50 basis points of deleverage and that's really on the variable side as DTC continues to grow faster.

Now, as that business gets bigger, the counter of what I was talking to Sharon about is the mix doesn't impact as much. That's a much smaller impact from DTC growth. In 2020, it was 210 basis points of deleverage, so now it's down to – again in the zip code of about 50 basis points, non-variable being flat. And a lot of that is we're investing in the growth initiatives. We're going to continue investing in those data analytics, things of that nature, the product pipeline.

And then also we, like most companies in the second quarter and as we went into the third quarter, did a lot of cost curtailment. So we're rolling over some of that as well when we get back to normalized spending. And that's why we talked about OpEx growth being biggest in the second quarter and then normalizing or decreasing from there as we get to the third and fourth quarter.

Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

That makes perfect sense. And if I could just sneak a quick one in for Matt. Matt, I'm wondering if you can look at your product portfolio which is clearly positioned to expand outside of Coolers and Drinkware. So, if you take those two categories out, can you share with us the growth rate in the other categories, non-Coolers, non-Drinkware? What size of the portfolio or what size of sales do those categories represent? And I'm imagining that those categories are growing faster but I'm wondering if you can just give us a little bit of color on how that's performing? Thanks so much.

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

A

Kimberly, a couple of things. We don't break out beyond Coolers & Equipment and Drinkware from a growth rate perspective. What I can say is as we continue to add new planks of product families and new planks of expansion obviously coming off a small base they have a high rate of growth. What's been consistent at YETI though, in our 15 years, is we continue to drive growth through our legacy products and we continue to drive strong growth both in those legacy product families but also by driving innovation through them.

So what you'll continue to see this year and have seen in the past is we'll drive innovation in Coolers, in our historical Coolers business; we'll continue to drive innovation in our Drinkware business while we build up these other product families. And so while they based off their smaller jumping-off point grow quickly, we'll also have very strong growth and high contribution from our Coolers, traditional coolers; and Drinkware business. And we'd expect that to carry through in 2021 while we build into these new product families.

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Kimberly Conroy Greenberger
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Our next question is with Joe Altobello with Raymond James. Please proceed with your question.

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

Q

Great. Thanks, guys. Good morning. Just a couple of questions. First on your sales guidance. What's baked-in in terms of when you finally put these supply chain issues behind you and what's the lift that you're expecting from the retail inventory rebuild in that 15% to 17% number?

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

A

Hey, good morning, Joe. So what we have talked about and I think it was Peter's question, from an inventory perspective we expect Q1 again to be negative year-over-year, and then as we get into Q2 and the back-half of the year to be positive. We believe that it's going to take us at least through the first-half of the year and we're doing this very deliberately and methodically of refilling the channel and it's going to take us over the first six months to really get the channel where we want it to be.

We haven't broken down or dissected how much of it is from increased inventory but we feel good about the 15% to 17%. As we said, wholesale will grow faster than our long-term of mid-single digits but DTC is still going to grow faster. So it's through consumer demand driving our business, not just a wholesale reload.

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

Q

That's helpful, Paul. Thank you. And just maybe a second follow-up in terms of advertising, maybe it's just me but I definitely noticed a lot of commercials on NFL Network over the playoffs. So I'm curious what the advertising budget looks like maybe as a percentage of sales in 2021 versus 2020?

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

A

Yeah. So we did. And if you think about our – what we call demand creation spending throughout the year, again we absolutely curtailed it in the second quarter. We moved very digitally but we curtailed some of it as you would expect us to do and then ramp back up in Q3 with some great exposure in Q4. We would expect that to come back to about 8-ish percent of sales is what we've always talked about. We're a little bit under that as we finished 2020. Part of it is the strong – even though, to your point, we had great exposure in the Q4, the strong top line, so we ended up kind of below that percent. So we would expect that to go back to that approximately 8% in 2021.

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

Q

Perfect. Thanks.

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 Matt Reintjes, Chief Executive Officer, for closing remarks.

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Matthew J. Reintjes

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

Thank you and thanks everyone for joining us today. We look forward to speaking when our Q1 2021 results come in. Have a wonderful day.

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

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