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YETI Holdings, Inc. (YETI)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Q2 FY 2022 Earnings Conference Call of YETI Holdings. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Mr. Tom Shaw. Thank you, and over to you, sir.

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

Good morning and thanks for joining us to discuss YETI Holdings second quarter 2022 results. Before we begin, we'd like to remind you that some of the statements that we make today on this call 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. 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 completed fiscal periods. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are included in this morning's press release, as well as in the supplemental reconciliation, both of which are available in the Investor Relations section of our website at yeti.com. 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

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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 now, I'd like to turn the call over to Matt.

Matthew J. Reintjes

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

Thanks, Tom, and good morning. YETI posted a 17% sales increase for the period, strong growth in what continues to be a challenging and dynamic environment. While results fell slightly short of a high bar we continue to set, these results in the three-year compounded annual growth rate of 22% continue to show the durability of demand and the strength of the brand. On the bottom line, our near-term performance saw further pressure from several gross margin factors, including higher inbound freight costs, a shift in product and channel mix towards our lower gross margin Coolers & Equipment and wholesale business, as we continue to support the channel sell-through and build back of inventory.

As we consider our execution for the balance of the year and set up for our growth in 2023 and beyond, it is important to understand and acknowledge what we are seeing in the marketplace. First, our brand remains strong and continues to support the domestic and global reach we have discussed over the past few years. Second, growth in demand are proving durable due to our product innovation and diversified channels to market within DTC, wholesale and globally, even as the battle for digital traffic continues to escalate. Third, elevated supply chain costs continue to pressure margins, but we are seeing decreasing forward rates in our heavily impacted inbound freight costs, which we believe has potential to set up as a tailwind for 2023.

Turning to our brand, the second quarter displayed the power of YETI as we returned to connecting with customers through in-person events, combined with incredible brand storytelling, product marketing and digital brand awareness. From the GoPro Mountain Games in Vail, Colorado to Jackson Hole Food & Wine, coupled with international ambassador activations with skateboarder Louie Lopez at the Copenhagen Open and Chef Lee Tiernan in London, enthusiasm and engagement with customers is where we excel.

With strong in-person activation, combined with the broad reach of our Mother's Day, Father's Day and summer essential campaigns, we have a multifaceted and differentiated connection with consumers even in today's world where getting attention is at a premium. As it relates to demand, our wholesale, corporate sales and YETI retail performed very well in the quarter, while our owned e-commerce and Amazon Marketplace were challenged by very high year-over-year comps, and importantly, an increasingly competitive market for digital traffic, including the broader digital slowdown being seen in the market.

YETI's improved inventory position across key wholesale accounts is contributing to growth in sell-through in this channel. It also reinforces how important our full omni-channel approach continues to be. On the YETI e-commerce side, the investment to build out our analytics capabilities to target, convert and retain customers is proving central to improved retention and conversion, while acquisition continues to remain a focus for the rest of this year.

On the product side, we are executing breadth and depth across our portfolio. Year-to-date, we have introduced new products in soft coolers, hard coolers, bags and new apparel. As we build awareness and full channel distribution of these new products, we believe this sets up well for both near and long-term growth. Even though we are starting to see heightened promotional activity in the market, including more aggressive performance marketing tactics and deeper and more sustained discounting, we are focused on conveying the power of our brand and product through innovative product marketing to cut through the market noise.

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Finally, we are staying nimble by taking appropriate actions across our supply chain and operational management of the business, given the rapidly changing landscape. This started in the second quarter with active management of our inbound supply to match our global demand outlook for the rest of 2022 and into 2023. While we are starting to see some signs of cost relief, particularly in the transportation area, this is expected to have a more significant impact across our income statement and balance sheet as we move into the next fiscal year.

In total, YETI is responding thoughtfully and realistically to balance the opportunity we see in the market, and just as importantly, what we do not fully know in the quarters ahead. As Paul will discuss, we have prudently adjusted our full-year outlook to both reflect some of these ongoing uncertainties and our commitment to making the right near, mid and long-term decisions for the YETI growth story. While not a decision we take lightly, this revised outlook reflects both what we believe are the controllable and the unknowns in the back half of 2022.

Now to our strategic growth priorities, as I mentioned, driving brand relevance remains as important as ever. Consumers are making thoughtful decisions on a daily basis about where and what to buy, and it is our job to continue driving high consideration through great product and brand storytelling. This is the hallmark of our brand and integral to how we differentiate ourselves in the market. Let me give you three examples here.

We recently wrapped up our 13-stop YETI Presents Film Tour. These intimate celebrations of our human stories represent a unique approach and philosophy to brand-building and incorporate ambassador interaction, stories spanning the diversity of the wild, and support for conservation partners and organizations. We enjoyed the opportunity to host some of you during our Brooklyn Stop.

In June, we highlighted a collection of YETI customer product experiences through a new user-generated content series that features video and content submitted by our fans and followers, showing YETI products surviving incredible moments. This included a Tundra that kept ice and drinks cold even after a raging boat fire and a Rambler Jug retaining ice after a truck fire. These videos have been among our most successful and most engaged content to-date.

Finally, we continue to connect with a widening demographic through TikTok and are seeing momentum both on our own content, as well as that from the user community. One recent post highlighting a fan's vast collection has captured nearly 10 million views, and our response to the video received over 200,000 likes. We're still exploring opportunities on many social channels, but TikTok remains an important opportunity for the brand.

Turning our focus to product innovation, the clear highlight of the quarter was soft coolers. Launched on yeti.com in the first quarter, our Hopper M30 and Hopper M20 backpack expanded across wholesale in Q2 and have been an active part of our seasonal color strategy. The combination of innovation, portability and color have proven to be a powerful proposition for the active on-the-go customer. Hard coolers also grew in the quarter, despite uneven wholesale inventory in core colors and certain SKUs such as our original wheeled cooler, the Haul.

Given the vitality in our [ph] Coolers (00:08:59) & Equipment portfolio, which was up 23%, we are particularly excited to introduce our two new wheeled hard coolers. The Roadie 48 and Roadie 60 offer all the performance you'd expect from YETI with enhanced mobility. These products debuted in July and will move more broadly across our channels in the months ahead, corresponding with healthier in stocks of other core hard cooler offerings.

As indicated last quarter, we've begun testing select distribution for our bags portfolio. With this thoughtful roll-out underway, we're planning to add additional doors to better capitalize on fall outdoor and back-to-school timing.

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Beyond these efforts with our Crossroads line, we also introduced a new tan colorway in our Panga bags last week, which is the first new color for this successful line since 2017.

In Drinkware, second quarter growth was 12%, comping 69% growth in the year-ago period, and up 23% on a three-year CAGR basis. We continue to see good momentum with our travel mugs. The Rambler Straw Cap and across our inventory constrained bottle line. Finally, we're working on several additional product introductions as we move towards the holidays to both extend our product families and bring limited release products for year-end.

Looking at our channel strategy, wholesale growth outpaced DTC growth in what was our largest wholesale quarter to-date. Wholesale strength was supported by an improved inventory position off a heavily depleted level last year, as well as solid sell-through trends with our major partners. To reiterate, our inventory position is still below pre-COVID levels, which we continue to actively address with our focus and optimization efforts.

In addition, we continue to see progress in our work to drive merchandising consistency across our accounts. We believe customers are increasingly intentional in these e-tail and physical store purchase occasions, and we remain encouraged by the positive sell-through rates we are capturing. At the same time, the battle for digital traffic and mindshare has intensified, which we believe underscores the importance of our advanced analytics efforts. As we look at YETI e-commerce, our analytics work is giving us greater clarity into the impact of our acquisition and retention efforts, which is increasingly critical in today's challenging environment.

We continue to be very effective in our retention efforts, particularly as we reengage older cohorts and drive quality transactions. While our acquisition effort resulted in roughly flat new customer growth year-over-year after two years of significant acquisition growth, this will be an area of heightened focus as we deploy tools and strategies to drive the most relevant and targeted engagement. We also believe our new e-commerce platform launched in early Q2 will enable many of these efforts as we move forward.

We saw strong results in our corporate sales business with excellent inbound demand as companies continue to look for ways to engage their employees and customers. YETI retail remains a bright spot, including the debut of our first West Coast store in Carlsbad, California. With enhancements to our merchandising and layouts of our legacy stores and the performance of newer locations, we believe this business is positioned to accelerate in the years ahead, providing not only a place of commerce, but a place of brand discovery and community. Later this year, we plan to open a store in Southlake, Texas, and we are working on one more potential opening later in the year, which would bring our total to 13 stores.

Finally, the Amazon Marketplace remained a challenge, facing significant comps in the prior year period and reflecting some of the same online traffic and demand trends we were seeing broadly in the digital marketplace. With a healthier inventory position across the Fulfilled by Amazon distribution network, a strategic utilization of fulfilled by merchant and significantly easier comparisons, we are optimistic this business is positioned to improve in the second half.

Our international business grew 35% in the second quarter, quadrupling the size of the business from two years ago. Growth was balanced across our core markets of Canada, Australia and Europe, and we remain bullish on our opportunities as we continue to execute our global playbook in both our existing markets and as we look to future expansion opportunities. Nonetheless, we are closely watching the global economic headwinds beyond the US and the varying levels of impact across our three non-US regions.

Let me start with Canada. Our wholesale performance in the market remains solid. While e-commerce traffic has been a bit slower than planned, we remain optimistic about the growth opportunity of this channel in Canada. We

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are encouraged here as the country fully ramps back to in-person events, and we have a full slate of brand activations planned, including the most recent return of the widely attended 10-day Calgary Stampede.

Australia has proven very resilient with strong growth across wholesale and DTC. Following a challenging 2021 with closures in various states and cities, we continue to make progress with organic growth at our existing wholesale accounts and expansion with our first national account. This is a core strategy for the brand this year, as we look at increasing penetration of the urban coastal markets.

Finally, in Europe, the opportunity remains vast even amidst some of the most severe consumer headwinds in the markets in which we operate. While e-commerce has been the lead channel in the market, we remain laser-focused on opening excellent wholesale doors across Europe with a particular focus on the UK and Germany. We were excited by our introduction at Sport Schuster, a Munich institution in the world of mountaineering and outdoor activities. This six-week street-front installation was a powerful way to educate customers on the brand.

More recently, we also installed a six-city feature with Globetrotter, a German store group known for delivering premium products to the outdoor enthusiasts. As we look at servicing our international customers, we are rounding out our product line-up with key third quarter introductions. We will be launching new Drinkware and soft coolers in Europe in the third quarter, which we see as a significant opportunity to build the brand and show the versatility of our products and their use cases. Broadly, we expect our strategy will remain focused on driving a global and full assortment of our products across our distribution. But when needed, we will take care to address high value, local customer nuances and preferences.

As we continue to focus on our global growth and the digital evolution, I'm pleased to announce that Faiz Ahmad has joined YETI in the newly created role of Chief Commercial Officer. Faiz brings extensive global leadership experience through his most recent role as CEO of Direct to Consumer as part of UnitedHealth Care at Optum. Formerly, Senior Director and Global Head of Apple's Online Store and Retail Market Development and various digital and technology roles at Delta Air Lines during their digital transformation. Faiz will drive strategic direction and execution across our international, direct-to-consumer and technology functions while partnering closely with our well-established wholesale sales organization.

In closing, I'm thankful for the execution by our incredible team and the support from our customers in an environment that has presented constant challenges over the past two years. There's been nothing easy and certainly nothing taken for granted in the current operating environment. But we've been steadfast in our commitment to stoke demand for the brand, invest in strategies that execute in the short-term and support actions that will realize the long-term potential for YETI.

With that, I would now like to turn the call over to Paul to review our financials and outlook.

Paul C. Carbone

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

Thanks, Matt. Let me start by reviewing the details from the quarter, followed by our updated outlook, and then open the call for your questions. Second quarter sales increased 17% to $420 million compared to $357.7 million in the prior year period. This growth comes on top of the impressive 45% growth in last year's second period, although performance was just shy of our plan to perform within the 18% to 20% full-year growth range.

Looking at channels, wholesale sales increased 21% to $195.2 million compared to $160.8 million last year. Our wholesale performance was driven by strong results in Coolers & Equipment, including soft coolers, hard coolers and bags, as our inventory position has improved and we were better able to satisfy channel demand. Direct-to-

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consumer sales grew 14% to $224.8 million compared to $196.9 million in the same period last year. Direct-to-consumer performance included particular strength in corporate sales and was led by our Drinkware category. Overall, direct-to-consumer mix eased slightly to 54% of sales for the period compared to 55% last year.

By category, Coolers & Equipment sales increased 23% to $193.4 million compared to $157.8 million during the same period last year. Our overall soft cooler business led the way, supported by strong consumer reception of our new tote and backpack offerings across both sales channels. In addition, we steadily made progress throughout the quarter in improving availability of hard coolers, which will further be supported in the back half of the year with the roll-out of our new wheeled Roadies.

Finally, our Camino tote and Crossroads backpacks continued to drive strong growth in our bags business. Drinkware sales increased 12% to $216.1 million compared to $192.9 million last year. This growth comes on top of the impressive 69% growth in last year's period. Our travel mugs, chug cap bottle offerings and 26 ounce straw cup remain standouts in the category. Overall customization in the category continues to be a strong differentiator and growth driver for the company.

Internationally, sales grew 35% to $48.1 million compared to $35.6 million in the prior year quarter, representing approximately 11.5% of total sales. International growth was relatively balanced for the period across Canada, Australia and Europe. Gross profit increased 5% to $219.1 million or 52.2% of sales, compared to $209.1 million or 58.5% of sales in the same period last year. The margin rate came in below our outlook, primarily given the magnitude of higher inbound freight, higher product cost and the negative impact of channel and product mix.

Looking at the specific margin drivers, the year-over-year contraction was primarily driven by a 630 basis point impact from higher inbound freight. Additional headwinds included 150 basis points from higher product cost and 40 basis points for an unfavorable channel and product mix. These headwinds were partially offset by a 170 basis points from pricing and 20 basis points from all other impacts. Adjusted SG&A expenses for the quarter increased 10% to $145.3 million or 34.6% of sales compared to $131.7 million or 36.8% of sales in the same period last year.

Non-variable expenses decreased 280 basis points as a percent of sales, primarily driven by the strong top line growth and disciplined spending. Variable expenses increased 60 basis points as a percent of sales, primarily reflecting higher distribution and logistics costs. Adjusted operating income decreased 5% to $73.8 million or 17.6% of sales, compared to $77.4 million or 21.6% of sales during the same period last year. Our effective tax rate was 24.9% during the quarter compared to 20.4% in last year's second quarter, with the higher rate reflecting a discrete income tax benefit in the prior year period.

Adjusted net income decreased 10% to $54.8 million or $0.63 per diluted share, compared to $60.7 million or $0.68 per diluted share in the prior year period. Of note, these adjusted bottom line figures now exclude other income and other expenses, which substantially consist of foreign currency gains and losses on intercompany balances. The vast majority of these gains and losses are unrealized with no impact to cash. We believe this change provides better clarity and focus on the underlying operating performance of our business. These changes have been applied retrospectively and a summary of the recast results can be found in the supplemental information section of our Investor Relations website, as well as our quarterly investor relations deck.

Turning to our balance sheet, we ended the second quarter with $92 million in cash compared to $233.8 million in the year-ago period. The lower cash position primarily reflects the completion of the share repurchase during the prior quarter, as well as ongoing investments in working capital. Inventory increased 121% to $490 million compared to $221.7 million during the same quarter last year. Excluding capitalized freight, inventory grew

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approximately 90% to $370 million compared to the prior quarter, representing approximately 70% growth on a unit basis for our two main product categories.

A closer look at our inventory position shows 44% of total is on-hand product inventory, 30% is in-transit inventory and 25% is inbound freight cost. While we have not seen overall transit times improve, we are seeing improving port to port times, though this is being offset by increased times while at the ports and transfer to rail yards. Total debt, excluding unamortized deferred financing fees and financing leases, was $101.3 million compared to $123.8 million at the end of last year's second quarter. During the quarter, we made principal payments of $5.6 million.

Now turning to our fiscal 2022 outlook, we now expect full-year sales to increase between 15% and 17% compared to fiscal 2021. This range reflects prudent expectations for the back half of the year, as we factor in the impacts of a more constrained spending environment. We continue to expect Coolers & Equipment growth to outpace Drinkware, but we now expect balanced channel growth between DTC and wholesale. By quarter, we currently plan for third quarter growth to modestly outpace the fourth quarter, incorporating greater overall uncertainty into our historically highest DTC mix period.

On gross margins, we now expect the full-year to be in the range of 52% to 53%. Several factors are contributing to this new outlook, mainly driven by the impact of our revised sales outlook, less favorable channel and product mix, and the near-term challenges with the inbound freight cost. Looking at margin components, the overall freight headwind is now expected to be slightly less than 500 basis points impact for the year, driving the majority of the overall year-over-year decline. While now a larger near-term challenge, we remain encouraged that the ongoing signs of softening ocean rates can be a positive gross margin driver as we look ahead to 2023.

Our expectations have not changed regarding input costs and GSP duties this year, totaling approximately 160 basis points of headwind, which includes some recent stabilization in commodity cost. Other impacts, including sales and product mix, are now expected to be a modest drag, primarily factoring in the revised expectations of our DTC channel. Finally, we see our pricing work providing a partial offset to these headwinds of approximately 200 basis points. From a cadence standpoint, we expect third quarter margin contraction to be slightly less than what we experienced during the first half of the year, followed by less overall headwinds in the fourth quarter.

Our overall approach to disciplined SG&A spending is unchanged, and we still expect low double-digit dollar growth in both the third and fourth quarters. We expect variable expenses to grow faster than sales, now reflecting higher distribution and logistics costs. We also continue to expect non-variable expenses to grow below sales even as we continue to make strategic investments to support our long-term global opportunities. Overall, we expect year-over-year expense leverage to continue for the balance of the year.

Together, we are updating our adjusted operating margin rate to between 17% and 17.5% for the year. Below the operating line, we now expect interest expense of approximately $4.6 million, reflecting the recent increases in rates in the market. In addition, we now expect an effective tax rate of approximately 24.6% for fiscal 2022, above the prior year's 20.8% rate that benefited from discrete income tax benefits each quarter. This increased tax rate is in and of itself an approximate $0.11 impact to adjusted EPS versus the prior year period.

Based on full-year diluted shares outstanding of approximately 87.3 million, we now expect adjusted earnings per diluted share between $2.34 and $2.46 compared to $2.60 in fiscal 2021. For capital expenditures, we continue to expect approximately $60 million of spending, with roughly two-thirds of these expenditures focused on investments in new innovation and expanding capacity for existing products.

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I also want to provide some additional color on inventory. We continue to believe that the vast majority of our inventory consists of high quality goods with extended and even flexible shelf lives. On a unit basis, which grew approximately 70%, we see higher relative growth in Coolers & Equipment, including areas that have been the most inventory constrained and which have a higher rate of new innovation this year. While we are comfortable with the make-up of and level of inventory, we are actively managing our purchase orders with our suppliers to reflect updated demand expectations. Thus, we expect the second quarter will be our peak inventory period in dollars, and we expect sequentially lower year-over-year growth starting in the current quarter.

In summary, we are adapting our business, focusing on our strategies and providing prudent expectations in the face of the many challenges in the economy. While our outlook is clearly not where we plan to be, we think it is important to highlight that achieving these results would still support a compelling story compared to 2019. This includes an impressive three-year sales CAGR of 20%-plus and an expansion of operating margins. Importantly, this performance comes despite 800 basis points of total gross margin and SG&A headwinds in just the past two years from cumulative logistic pressures across freight and distribution. We will continue to work diligently through the near-term pressures, make smart decisions to protect the brand and set the company up to succeed over the long-term.

I would now like to turn the call back over to the operator to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. I guess a question with a follow-up. The digital landscape has obviously been challenging for a lot of brands lately. Can you talk about, of the kind of initiatives that you're going to use to combat that, have you seen any success with those thus far? And whether there's kind of, I guess, an increased volatility in the digital business or whether you've seen that just stabilize kind of at a lower rate? And then, it sounds as if you don't think you're seeing anything brand-specific, but I wanted to ask if you're seeing any price sensitivity or consumers kind of trading down within the YETI brand's framework.

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

A

Hey, Sharon. Good morning. Great questions. I would say on a couple of fronts, and I'll touch on the second part, the brand piece. We continue, through our brand studies, our owner studies, the sell-through performance we're seeing in wholesale, the reaction we're getting in our YETI owned stores to continue to see the brand and the product portfolio really resonate. And that's kind of continues to give us the encouragement of delivering 17% growth in the second quarter and our outlook as we go into the rest of the year. As it ties into the digital side of the business, what we have seen is that the more kind of casual shopper is the one that really has fallen off, and we've seen that through traffic.

When we look at where the strength is we're incredibly pleased with our retention efforts. And you think about the acquisition we've done over the last four or five years as we've grown our DTC business and really accelerated over the last two years, we're really pleased with the growth we've seen in the retention and the quality of that

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customer. So, when you think about in uncertain times, the strength of your base is a really powerful tool. And that retention has really been driven by the marketing efforts, the brand-building efforts, the enhancements in our advanced analytics, the way our marketing interplays with – our performance marketing interplays with our acquisition and conversion.

I think the area where we've seen, as we mentioned on the call, a slowdown is on the acquisition side, the new customer acquisition side, and that we're seeing broad-based in the market as we look at the breadth of the market and what's happening around traffic and the competition in the performance marketing world. So, we feel good about – very good about where the brand is positioned. We feel very good about how the product portfolio is resonating. We feel great about our omni-channel strategy and our ability to be where the customer shops, and we've said that's been a hallmark of our strategy.

And when we think about on the digital side, we're going to continue to drive the relevance that drives the retention with our installed base, and we'll continue to look at ways to stay in front of those new consumers and drive that acquisition and work our way through this time. So, it's coming in in a different way than we anticipated as we went into Q2, and that's why we prudently looked at the rest of this year and said, you know, we feel strong with a strong high-teens growth business and continue to drive that omni-channel strategy.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Okay. Thank you.

Operator: Thank you. The next question is from the line of Camilo Lyon with BTIG. Please go ahead, sir.

Camilo Lyon
Analyst, BTIG LLC

Q

Good morning and thank you. Just kind of following up on maybe how you're thinking about the wholesale to DTC back half unfold, is there a – clearly, you're talking about the deceleration in that casual shopper and the tougher acquisition efforts on the DTC side. But on the wholesale side, are you seeing your wholesale partners become a little bit more skittish with orders that they have placed? It's a little bit of a unique situation for you in the sense that you've been under-inventoried in that channel for quite some time. And then, secondarily to that, you talked about in your prepared remarks – I think, Matt, you mentioned it – the increased promotionality in the marketplace. Can you just update us on your current thinking on what your propensity is to follow suit along those promotional – the promotional triggers that some of your competitors may be using more to drive traffic?

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

A

Thanks, Camilo, and good morning. I would say a couple of things. As you think about, we talked in the past consistently about the incredible wholesale partnerships we have and the very close relationship we have. So, those are daily, weekly understandings of where our inventory is positioned, what's selling through, what needs they have, where they are from a merchandising and a product perspective. And that hasn't changed. And when we look at the year-to-date performance, particularly on our wholesale business and our own stores, as I mentioned, I think that we feel good about – very good about where the inventory is positioned.

In the wholesale channel, we feel good about the opportunities to continue to fill that in. As we said, we're still below pre-pandemic levels from an inventory position in the channel. As we continue to distribute innovation that we launched in Q2 through the channel for the rest of the year and continue to stay in front of the consumer, what

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I think happens and what we've seen in the past happens is in more challenging times, we found that our wholesale partners get behind brands that churn and things that flow. And our job is to stoke demand for the brand. Our job is to bring innovation to the market and have great partners that can present that to the consumers.

I think the – on pricing and the promotional environment, I think that's just a reality. We've seen those before. Our prices have held up this year even with some of the changes that we made, and we feel good about the price changes, as we talked about as no regrets price changes. They would work in this time and in any other moment. As we think about what the promotional environment could look like for the rest of this year, our philosophy has always been we're very thoughtful about how we use promotion. We're very purposeful in how we do it. Traditionally, it's related to new product transitions or particular times of year where we're trying to drive – or working to drive traffic and kind of rise above the noise. So, I wouldn't expect anything from us that would be markedly different than the way we have historically very tactically and very strategically used promotion. So, no changes in philosophy around that.

Camilo Lyon
Analyst, BTIG LLC

Q

Got it. Thanks very much. Good luck.

Operator: Thank you. The next question is from the line of Brooke Roach with Goldman Sachs. Please go ahead.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Good morning and thank you so much for taking our question. As you balance the strength of the brand and new innovation, as well as the incremental wholesale sell-in that you have given light inventory levels in the channel, with the macro headwinds that you're currently facing, can you help us frame the range of outcomes that you've embedded in your updated guidance? Specifically in your DTC channel, how are you thinking about yeti.com and Amazon versus corporate and stores for the rest of the year with the updated DTC outlook for the year? Thank you.

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

A

Hey. Good morning, Brooke. So, what we've said in the prepared remarks – I'll start high level on the channels – is that wholesale and DTC will be balanced as we look to for the full-year based on the 15% to 17% top line. We have seen strength in corporate sales. So, inside of the DTC channel, while we don't break out the exact numbers, we have seen strength in the corporate sales business, as we talked about, in the second quarter and expect that to continue.

And some of this is the story of compare. So, Amazon, where that business had a very hard compare in 1H, faced much lighter compares in 2H. So, we expect significant performance out of it in the second half based on the easier compares and the struggles we had with getting product into the FBA warehouses. On the retail side, we have opened some additional stores. So, we expect retail to grow again, and we've said this in the past, off a small base, it's going to grow a much higher percentage because of the new stores. But we do expect growth there as well. And again, I'll finish with where I started of balanced growth between wholesale and DTC as we look to our updated outlook of 15% to 17% for the top line.

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Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, Paul. And then, maybe a question for Matt. One of the key initiatives into the back half appears to be driving that new customer acquisition. Would love to hear a little bit more about how you're thinking about marketing spend and any other pivots in your strategy to drive that as you think about the YETI brand relative to some of the other competitors in the back half. Thank you.

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

A

Good morning, Brooke. Great question. I'd say a couple of things. One of the benefits we have of having created an incredible in-house creative and marketing team that sits closely with our e-commerce and our performance marketing group is that we can be pretty dynamic. And you couple that with our advanced analytics investments, we test a lot of different things from the mid funnel, the top of funnel, all the way down to conversion. And so, that – when I think about our marketing spend, we don't talk about it in we're going to go away from broad-based brand awareness to go all-in to performance marketing. It's really more dynamic than that. And you look at things that we did with our UGC and some of our highest performing UGC that drives traffic and drives awareness, and then all the way to things where we activate our ambassadors and we do tips and learning, and then we have new product introduction tucked in there.

So, I think we are being more proactive across a lot of different channels to go out and find where those consumers are and make sure that we're driving the consideration. We mentioned the utilization of a number of social platforms. They've been performing very well. We called out TikTok, but there are a number of other social platforms that continue to perform very well for us. And we're a content-rich company. So, we create the engagement, we create the awareness, get the eyeballs, and then work through – work the consideration and the conversion funnel. So, I think the thing that's different this year than over the last couple of years is that we've been out in the market more, on the ground running events, whether it's attending events in the United States or attending events around the world. We're seeing really good reaction when we have consumers live again. And so, I think the – it gives us a good pulse of the product resonance, the brand resonance, and the acquisition and filling the top of the funnel that our team will then work through the funnel to conversion.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much. I'll pass it on.

Operator: Thank you. The next question is from the line of Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning, guys. You commented on kind of just the promotional environment. I think the question is just more specifically on kind of some of your competitors and whether there are certain categories where you think competitive pressure is playing more of a role or are you seeing them kind of promote just because they have too much product or they're lagging behind you? I'm curious just about kind of the competitive environment generally.

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

A

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Good morning, Brian. What I would say on the broad environment, inclusive of the competitive environment, is what we were seeing – and we see this in – I mentioned in the prepared remarks, we see this in the competitiveness for search terms, non-branded search terms in particular. There's a more competitive environment for non-branded search terms. What that tells us is that there is a bigger battle for traffic out broadly in the market, and we're seeing more people go after those search terms, which I think ultimately benefits established brands. It benefits brands that are in demand. It benefits brands that resonate with consumers in a market backdrop like that.

I think that's why we were seeing the retention levels that we're seeing and the value of the customers that we retain, that we're seeing through our digital channels. The other side of that is while acquisition is not where we planned it to be on the year, we are seeing really good conversion of the consumers that we are acquiring and we're seeing really good value increase on those consumers. So, we're getting high quality, highly considered purchases. So, I don't know that there is a category or – I think there is a broad-based market battle for attention right now, and I think we're seeing that flow through in the cost of customer acquisition broadly in the market.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. And then, just on sell-through trends at some of your wholesale partners, were those materially different kind of at the end of the quarter or even into July versus what you saw at the beginning of the quarter? Do you think that they've kind of improved as some of your inventory levels have improved? What are you seeing just in kind of their sell-through trends?

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

A

Yeah. I would say a couple of things. It's been our history to not kind of comment intra-quarter on July, but maybe a little bit of color. We haven't seen in July – or June, excuse me, didn't see a market change through the quarter. We like the performance that we continue to see in sell-through as we went through those moms, dads, grads type holiday seasons that we get – or buying seasons that we get in Q2. I think that as we look towards the rest of the year, as inventory continues to improve, and wholesale, the tight, the relationships and the planning that we're doing very closely with our key wholesale partners from the independents to just some of our wonderful national accounts, I think that our focus is making sure we get them the product, that it gets merchandised and that it continues to sell through at a positive rate regardless of what the rest of the market or environment does.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Thank you. The next question is from the line of Kaumil Gajrawala with Credit Suisse. Please go ahead.

Kaumil S. Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys. Good morning. If we could take maybe a step back or maybe look at things at the group level, you gave a lot of details on the puts and takes on cost. But when we think about it, the top line is growing quite nicely in the high-teens, bottom line or operating profit is declining maybe mid – or expected to decline maybe mid single-digits. That's quite a significant spread. It looks like some of the costs might be abating from a gross margin perspective and then maybe offset by consumer – customer acquisition costs. But what's in your control to try to

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bring those two closer together? Because the demand does seem to be there, but getting – delivering that down to the profit line is maybe where the issue is. What can you control to get those to be closer?

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

Yeah. So, let me start with, if I look at the midpoint of our guide this year versus last year, there are two main pieces there. The first is the gross margin pressures that we've talked about, and then the second year-over-year is – and then offset by some OpEx leverage. And then, the second is the tax rate and going up from approximately 20% – or 20.8% to 24.6% is our current outlook. So, those are the two big buckets. If I look at year-over-year, sales down to profit that our top line at the midpoint at 16% and bottom line seeing earnings go down.

Then, to your question of what we can control, obviously, the tax rate is driven by the benefit we saw last year on the benefit we get with stock comp, and that's directly related to the price of the stock. On the gross margin – so, coming back up to the operating of the business. On the gross margin, we're seeing signs certainly in container prices coming down, which will be a tailwind benefit of – as we go into 2023. So, that is something we can control. We – well, it will impact us. I don't know if we can control it. Input pricing, we're seeing commodities stabilize and come down some in some key categories. So, we're hopeful on the input pricing to get a little bit of benefit there.

And then, as we go into next year, where this year the mix shift and product shift has worked against us, that that neutralizes and gives us a little bit of a tailwind. So, that's probably – the last one is probably the one we control the most. But we do see signs looking into next year, and again [indiscernible] (00:51:45) come through the balance sheet, we do see signs of lower inbound transportation, product cost or commodity cost stabilizing, channel shift not being – channel and product shift not being such a drag, and then the last one in the SG&A is on outbound freight, as all companies are seeing, fuel surcharges are really hitting the P&L, and if that moderates going into next year. So, we see some signs of moderation. And then, with the tax rate not increasing next year, the dynamic of sales growing and earnings declining, we don't expect to continue.

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

The thing I would just add to the back of exactly what Paul said is we do thoughtfully and will continue to thoughtfully manage our SG&A costs. We're also – as we've talked many times in the past, when we grow top line in this business, good things happen in the rest of it. This is an interesting time where those costs effects that Paul was talking about, we believe we're seeing signs of the other side of those. So, as a growth-oriented company, as a mid and long-term growth-oriented company, with the demand that we're driving with consumers, we want to take advantage of some of these opportunities to keep growing the business while also thoughtfully managing the SG&A.

Kaumil S. Gajrawala
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. Got it. And then, on inventory quickly, you talked about being low on inventory at wholesale. You obviously have a bunch coming over the ocean, but you're managing where you expect demand to be. How long do you feel like you'll have inventory at wholesale at the level at which you like it to stay?

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

Yeah. So, as what Matt was saying in his – it was either a question or his prepared remarks, wholesale inventory today is below 2019. But we are building back the inventory. And as we bring in these new products – so, we

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launched the Hopper M20 and the Hopper M30, those started going into wholesale in the second quarter. I'm sure you've seen we launched our new Roadie wheeled cooler, the Roadie 48 and the Roadie 60. Those will make its way into the wholesale channel into the fourth quarter. So, we continually build back. We like where the channel is. But we are, again, rebuilding in the Coolers & Equipment. Bottles overall, even on our own dot-com have been constrained, it's been a great grower, and we feel like we'll be in a better position – inventory position as we go through the back half of the year in both my DTC business and in our wholesale business.

Kaumil S. Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Thank you.

Operator: Thank you. The next question is from the line of Robby Ohmes with Bank of America. Please go ahead.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Well, good morning, guys. Thanks for taking my question. I was hoping to clarify, just for the back half guidance, what is the assumption for the consumer or your customer? Is sort of the back half based on demand remaining sort of where it is now or are you baking in some further deterioration? And I think also same thing on the customer acquisition costs and that battle for digital traffic, is the assumption that it's kind of peaking now or is that something – or do you sort of plan for that to get worse in the back half? And then, just one more for Paul maybe, can you remind me why the fourth quarter gross margin is going to be better than the third quarter gross margin? Thanks.

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

A

Sure. So, I'm going to start on the first one and then I'll hit your follow-up, and then turn it over to Matt. So, what does the second half look like, like what are we expecting? And I would say, Robby, we are expecting current trends within the range of the back half is 13% to 16%, call it, just in the back half of the 15% to 17% top line. It gives us some range of if things step down, but we are expecting things to be similar or we have a big fourth quarter which is a big DTC quarter for us. We are not expecting them to get better. And if you look at the first half, we were plus 18% in the compare with plus 44%. In the second half, again, that implied range of 13% to 16% on a compare of about 20%.

So, those are – that's kind of how we're thinking about it. So, I'd say similar to – given ourself being prudent on if things get a little bit tougher. And then, on your question on gross margin in the fourth quarter, it will – so, we expect gross margin to decline overall, so still have contraction in the fourth quarter. It will be less just as we roll over the impacts from last year. So, for instance, last fourth quarter was our most contraction from inbound freight. So, we're rolling over that. So, gross margin contraction gets better in the fourth quarter because compares ease, because I had some of that contraction in last year's fourth quarter.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Got you. That's helpful. And Matt, maybe – because we get this question even in less challenging environments for this. So, when you talk about new customer acquisition costs, new customer acquisition being a little more challenging, like how should we think about that versus potential saturation of the customer?

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

A

I would say a couple of things, Robby. The new customer acquisition cost piece is really a dynamic that we hadn't seen in the same way before Q2. And it's why I make the comment that all of our data points to it's not acutely related to our brand, that it's a broad market thing, because it's – where we're really seeing the largest portion of that is in unbranded. So, it's not necessarily directly a YETI thing. It's a broader market. And we're hearing it outside of our universe.

I think when we think about things like saturation, I think I'd point to – or that concern, I'd to point to things like our customer retention, which is – was extraordinarily strong and saw fantastic value increase. So, when we get high quality customers into the fold, our ability to retain them and grow them is very good. And I think that shows the power of the brand. It shows the power of the portfolio. It shows the power of what our team's doing to keep customers engaged during purchase and in between purchase.

And when you're in an environment where there's a lot of distractions and a lot of different ways to spend, the game becomes how do you drive attention. As we go into the back half of the year, our expectation is that we're going to continue to focus heavily on deploying our advanced analytics team and our dynamic marketing and performance marketing to go after acquisition, while also taking care of that incredibly valuable, incredibly powerful cohorts of customers that we've retained.

I think the – we were hitting it from innovation that still hasn't fully played out into the market. We're going into a back half of the year that is an easier compare than the front half of the year, particularly on the digital side in the way 2021 laid out. So, we've got a lot of different levers that we're pulling to make sure that we stay in front of the consumer as the world at large probably distracts spending and kind of tugs at the consumer and particularly the newly acquired or potential consumer.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Got it. Thanks so much.

Operator: Thank you. The next question is from the line of Xian Siew with BNP Paribas. Please go ahead.

Xian Siew
Analyst, Exane BNP Paribas

Q

Hi, guys. Thanks for the question. Maybe two quick ones. One on wholesale. It's a little bit better than consensus expected. Were there any shifts to consider in terms of the supply chain, maybe you got some products in earlier than expected? And then, on DTC, you talk about kind of the slowing of the digital traffic. Maybe could you help us – give some color on how that evolved through the quarter maybe by month or any trends exiting the quarter? Thanks.

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

A

Great. Let me start. No major shifts in the wholesale business. It did perform well, to your point, it did perform well in the quarter. And we also as – I think to answer a question earlier, we also liked what we saw in sell-through as well. So, it wasn't just sell-in. It was the product moving out of our retailers' doors. So, we were really happy with that. But no major shifts. We brought in the Hopper M20 and the Hopper M30 into the wholesale channel. It

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launched late in Q1 on DTC. That started coming into the wholesale channel. We launched Nordic. So, no major changes.

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

Traditionally – obviously, we don't traditionally do a month-by-month sort of talk. I would say in general, traffic we saw pretty consistent through the quarter, both the strength of the retained customer and the balance of the acquisition customer. I think the one thing, as we called out, that we saw a softening in the quarter was in the Amazon Marketplace, and as we said in our prepared remarks and Paul alluded to earlier, that's a place where we expect to see improvement in the back half of the year. And that is a broad-based reach platform for us. And so, you combine that broad-based reach with the very targeted brand experience of yeti.com combined with our retail stores, our wholesale accounts and then our corporate sales, I think that's where you're really going to see the – and have seen this year that the power of the diversity of our channels to market really plays and plays in YETI's favor, which allows us to drive high-teens growth in a market that I think could qualify as uncertain.

Xian Siew
Analyst, Exane BNP Paribas
Q

Great. Very helpful. Thank you, guys.

Operator: Thank you. The last question is from the line of Peter Keith with Piper Sandler. Please go ahead, sir.

Matthew Egger
Analyst, Piper Sandler & Co.
Q

Hi. Yeah. This is Matt – Matt Egger on for Peter. Just one quick one from us. Can you help us understand why freight was so much more than you expected and I guess what changed from Q1 that [indiscernible] (01:04:01) much more of a pressure in Q2?

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

Yeah. So, I think one of the big things was product mix. So, as Coolers & Equipment were a bigger piece of the business than expected, that has – that attaches a higher inbound freight. So, that was a piece of it. We talked in the first quarter about the catch-up of – where we had these [ph] missed invoices. There was (01:04:29) some of that trailing. So, those are the two main items that have impacted kind of – to your point of where second quarter we expected it to come in and where it did come in compared to our expectations.

Matthew Egger
Analyst, Piper Sandler & Co.
Q

Okay. Thanks. And then, maybe just one last one. Is there any updated expectations around GSP renewal?

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

No. Nothing that we know. It has been – it was in a couple of bills. It was stripped out of those bills. So, one of the few things that both sides – and I feel like we've said the same story. One of the few things both sides agreed on, but it was stripped out of the bills as they were racing to an August recess. So, no update. We're hopeful in the back half of the year, maybe after midterms. But unfortunately, no update sitting here today.

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Matthew Egger
Analyst, Piper Sandler & Co.

Q

All right, thanks. Appreciate it for taking our questions.

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

A

Great.

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

A

Thanks, Matt.

Operator: Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Matt Reintjes for any closing remarks.

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

Thanks everyone for joining us this morning. We look forward to speaking with you with our Q3 results. Have a wonderful day.

Operator: Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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