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YETI Holdings, Inc. (YETI)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the YETI Holdings Q1 2023 Earnings Conference Call. All participants are in listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Tom Shaw. Please go ahead, sir.

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

Good morning and thanks for joining us to discuss YETI Holdings first quarter 2023 results. Leading the call today will be: Matt Reintjes, President and CEO; and Mike McMullen, CFO. Following our prepared remarks, we'll open the call for your questions.

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 details 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.

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Unless otherwise stated, our financial measures disclosed on this call will be on a non-GAAP basis. We use non-GAAP measures as we believe they more accurately represent the true operational performance and underlying results of our business. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in this morning's press release, and can be found in the Investor Relations section of our website at YETI.com.

And now, I would like to turn the call over to Matt.

Matthew J. Reintjes

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

Thanks, Tom, and good morning, everyone. YETI is off to a good start to 2023 as we continue to drive demand globally for our brand and product. We delivered top and bottom line results that put us on pace for our full year financial commitments. Our team did a tremendous job driving focus on our brand and innovation.

In addition, we are pleased with the design improvements on the products impacted by our voluntary product recall, solidifying our plans to return new and improved versions of these products to the market in Q4 of this year.

Looking at a few of the financial highlights, sales increased 3% for the quarter, which, as previously highlighted, were negatively impacted by both the voluntary recall and the expected slow pace of orders in the North American wholesale channels. Mike will provide more color on the sales impact of the recalled products. But we were pleased overall with our ability to post growth for the period in Coolers & Equipment, supported by the performance of our portfolio of products, including are non-impacted soft coolers and the success of our expanded GoBox cargo line.

On the Drinkware side, sales met our expectations with 3% growth, led by sustained strength in Rambler bottles and the expanded introduction of newer products, including our Tumbler straw lids and our new Yonder water bottle.

By channel, DTC was up 7%, as we saw growth across both customer acquisition and retention. Wholesale declined just 1% for the period. As we communicated in our Q4 call, wholesale inventory within our North American partners was above expectations to start the year and continued to improve as we progressed through the quarter, paced by sell-through. However, upcoming quarters will have some continued sell-in headwinds, particularly given the introductions of the two very successful soft coolers introduced last year that are part of the active recall.

We started to see positive year-over-year gross margins for the first time since the second quarter of 2021, reflecting the initial impact of lower container costs flowing through the income statement. We also remain committed to investing in YETI during the period and will do so throughout 2023, leaning into strategic areas of growth as we see continued global opportunity for the brand and our products.

Before a deeper review of our strategic priorities, I wanted to highlight three areas of the business that demonstrate both how we are executing in the near term, while also setting the foundation for how we continue to scale over the long-term. First, and as mentioned, we are on track to re-introduce improved versions of the three voluntarily recalled products back to market in the fourth quarter. The team worked tirelessly to redesign and validate a new solution.

We officially started production of finished goods this month and will spend the coming months ramping production and delivery of these new products. In parallel and importantly, we are also planning to expand the

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range of offerings of these incredibly well-received products, and we expect these will also be introduced later this year. I'm incredibly proud of the diligence of our collective team, who prioritized the safety of our consumers and the quality of our products in developing the solution.

We've also used this experience to positively impact our overall processes to inform future product development. Second, we continue to make significant progress against our strategic efforts to drive supply chain diversification across our categories.

Drinkware has historically been a challenge to this progress, as the vacuum insulated stainless steel industry has been highly concentrated in China. Over the past few years, we have worked closely with our existing partners to find ways to streamline and automate steps in the production process to create supplier portability. The result of these efforts is that we have recently begun production of some of our core volume SKUs, the Rambler 20, in a new advanced factory outside of China.

These moves are thoughtful, well-planned and evolutionary, demonstrating both the strength of our supplier partnerships and the willingness to invest in more transformative supplier solutions.

Finally, we continue to drive circularity of more YETI products, with over 70% of our product portfolio now in the scope of circularity programs. Last quarter, we mentioned the introduction of YETI RESCUES, our pilot resale program on YETI.com to extend the life of returned or slightly used coolers. In April, we debuted our Rambler Buy Back program, exclusively at our YETI retail locations, where customers can trade in and recycle their drinkware for in-store credit.

We will continue to learn from these pilot programs to understand how they can extend deeper across our omni-channel over time. These are directly supporting our ongoing efforts to keep the wild, wild. And we believe these programs can be additive to our customer acquisition and retention efforts.

Now, shifting deeper into our strategic growth priorities, our focus on global partnerships in new and existing communities was on full display in Q1. As we mentioned during our last quarterly update, we kicked off our partnership with the World Surf League in Oahu and have since supported the league across the globe at the Rip Curl Pro Portugal in March and the 60th anniversary competition at the Rip Curl Pro Bells Beach in Australia in April. This partnership remains an incredible opportunity to engage with new global customers, while helping to protect and conserve the world's oceans through our support of the WSL's We Are One Ocean initiative.

In March, YETI headline the second leg of the 2023 Natural Selection Tour at Revelstoke in British Columbia, creating engagement opportunities, both on and off the mountain, including events benefiting two of our conservation partners, SeaTrees and Protect Our Winters. The event culminated with a sold-out YETI film night hosted by our Snowboarding Ambassador Travis Rice, fresh off his win at the competition.

Later that month, the team headed to Switzerland, to the Freeride World Tour, where YETI was the headline sponsor for the series final event in Verbier. This year, our activation included onsite product engraving, hosting the welcome party and bringing YETI Culinary Ambassador Nick Western to cook in a live event for the crowd.

To end Q1, the Formula 1 champion, Oracle Red Bull Racing team, announced YETI as their team's official cooler and drinkware, capping an incredible quarter of global engagement and activations.

We remain committed to how we serve both new and existing communities locally. For instance, we continue to drive impactful interactions in our heritage fishing communities at core events, like Bassmaster Classic in

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Knoxville. We also supported newer communities such as Skate, as we served as a hydration partner for the second year in a row at the Phoenix Amateur in Arizona and supported the USA Climbing Team Olympic trials in our hometown of Austin, Texas.

We also recently kicked off support for a specialty VIP program with Metallica, as they begin their M72 World Tour. This is classically YETI partnership of organic integration and support, utilizing our Alpine Yellow Drinkware to match the key color of the tour. The tour opened with a show in Amsterdam this month and will tour in Europe before coming to the US and then back to Europe over the next two years.

In addition to executing these engaging brand initiatives, impactful product marketing remains key to differentiating our premium portfolio. Our cohesive multi-medium execution of the expanded GoBox collection is a great example here. Anchored by our overarching What Goes Here Goes Anywhere tagline, we leveraged a [ph] 30 second Hero film and our packed Ambassador social series (9:21) to show how pros use our products.

Then, we launched our Craigslost Campaign, which helped turn Craigslist gear losers into surprise and delight GoBox winners. After combing Craigslist for stories of items lost in the wild, we enlisted our Ambassadors to help replace lost gear, while promoting the durability and organizational capabilities of our GoBox line.

As we shift to our product focus for the first quarter, we prioritized launching our normal cadence of new products, while executing on the solution for the voluntary recalled products. Though the recall removed two of our key soft coolers from the market for most of the quarter, strong performance in our Hopper Flip line supported overall Coolers & Equipment category growth and reinforced our leadership position. As Mike will discuss, this comparison will be more difficult in the second and third quarters, as we lap the bulk of last year's introduction of our anchor M20 and M30 soft coolers.

In hard coolers, revenues were down for the period, primarily reflecting less sell-in at wholesale, even as sell-through remained positive. As we move into cooler season for moms, dads, grads and the beginning of summer, we have amplified our on-the-go storylines now that the Roadie 48 and Roadie 60 Wheeled Coolers are available across our omnichannel.

Regarding cargo, I've already mentioned the success of the GoBox launch, where early demand exceeded expectation. This is a category where we will continue to invest in product innovation and build out across our wholesale footprint.

Rounding out the highlights in Coolers & Equipment, we continued to see solid growth in bags, where we remain focused on paced distribution decision to continue building awareness and consideration.

In Drinkware, we saw growth for the period within the range of our expectation. The hydration story has emerged as a key driver of the broader category this year, which we believe is supported by our continued strength and performance across our Rambler bottle line and straw lid Tumblers. We have also supported this trend with the recent full channel expansion of our straw lid mugs and our Yonder water bottles. The mugs have already become some of our top-performing SKUs at wholesale and our Color Customization for Yonder just launched for the first time on YETI.com last month.

Drinkware innovation will continue throughout the year and includes more premium category offerings, expanded bottle options and newer entries that will extend how we think beyond individual use products. This kicked off with the recent debut of our Rambler Beverage and Ice Bucket, expanding YETI into new categories of outdoor entertaining and group dining occasions.

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We will continue to push the innovation story in 2023 and beyond, as we bring additional product to market and set up future product family expansion underneath the YETI brand halo.

Brand and product come together in our go-to-market and how we reach consumers around the globe when and where they want to shop. This is central to our belief in the importance and balance of wholesale and DTC channels to market.

To support this direction and elevate our responsiveness to consumer needs, we recently announced the full alignment of our commercial channels under our Chief Commercial Officer. This allows for the uniqueness of each channel, but also the incredible opportunity for knowledge sharing. We are already seeing the benefits of this new structure. At the highest level, this ensures we are positioned to deliver consistent, high impact experiences wherever we interact with our customers or consumers.

This starts at YETI.com, where we are elevating the consumer experience and amplifying product positioning. We are growing how we merchandise our product categories in even more relevant and effective ways. As an early example, our all-day drinkware positioning provides the perfect YETI solution as customers wake up, set out and wind down. We'll continue to build upon this storytelling format in more categories and geographies.

We also further differentiated our site through better visibility of our used gear offerings, as well as the debut of the Yonder Color Customization. Overall, we are seeing balanced acquisition and retention growth of our e-commerce customers, but believe we can build upon these trends as we continue to differentiate this experience.

In our other channels, Amazon remains strong, particularly with improved inventory positioning. Corporate sales continued to post solid growth on top of a very strong gain throughout 2022, as we continue to leverage the range and diversity of our account base. And in YETI retail, we opened our first location of the year and 14th overall just outside of Omaha, Nebraska, which is already off to a fantastic start.

On the wholesale side, we have seen positive sell-through, despite the more tepid sell-in environment, resulting in inventory levels that have improved since the start of the year. Some caution remains in the channel, combined with the tougher soft cooler comparison, that will keep growth pressure in the near-term. But we continue to have positive and productive conversations with our accounts and remain encouraged with our success in elevating our positioning and merchandising with our partners.

Switching to international, mix reached a new high of 16%, up from 13% last year. This increase was partially attributed to the outsized domestic impact of the recall and wholesale sell-in. Strong growth was once again posted in our big three international markets.

We remain on track with some evolutions in on our global supply chain, as we transition our distribution centers in Europe, Australia and the UK. Each of these locations will position the brand for scale and speed to market, while also beginning to expand our still nascent, but high demand, customization efforts outside the US.

In Canada, we are continuing our efforts to build out broader customization capabilities in the market. We see the potential to drive strong growth in this market and see ongoing opportunities to sharpen how we go-to-market and localize our engagement.

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Australia growth remains outstanding, as the brand continues to be supported by some of our newer partnerships, including the two WSL events we hosted this quarter and a launch activation at the Australian Grand Prix to highlight our new partnership with Oracle Red Bull Racing.

Finally, we continue to see tremendous opportunities and excitement in Europe. From launching YETI product at a skate store in the UK with ambassador Geoff Rowley, debuting our YETI European Instagram page at the end of the quarter, or launching our newest sales channel with Amazon Europe, we're creating a foundation to unlock the brand across the continent.

Before I turn to Mike for the financial details of the quarter, as you may have seen, Tracey Brown has elected to step down from our board of directors. I'm incredibly grateful to Tracey for her three years of impact serving YETI. And on behalf of everyone at YETI, I want to thank her and wish her well on the amazing opportunity she has in front of her at Walgreens.

In closing, YETI remains well-positioned for 2023. And I'm proud of how we have collectively rallied to execute on our growth agenda. We have already expanded the scope of our product assortment, driven global brand awareness through new partnerships, made steps to scale our international foundation, and established circularity programs to drive our long-term commitment to the wild. On top of this, we are excited to have the soft coolers coming back in the market later this year and how these build upon the innovation story to be a platform for future growth.

With that, I would now like to turn the call over to Mike.

Michael McMullen

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

Thanks, Matt. I'll begin with a review of our first quarter performance, followed by some additional thoughts on our full year. While our full year, top and bottom line outlook remains unchanged, I will provide some additional color on the sequencing of the quarters ahead. Following these details, we will then open the call for your questions.

Our GAAP results reported in today's press release are inclusive of adjustments and charges associated with the voluntary product recall. While there were some minor adjustments to our GAAP results due to recall activity in the first quarter, we would note that we remain early in the claims and returns process and any adjustments relative to our original accruals will be reflected in future periods. As a reminder, the impacts of these recall-related costs are added back to our adjusted non-GAAP results. To better focus on the operational performance during the period, all of the financial details that I will discuss on today's call are adjusted non-GAAP metrics.

Now on to our results. First quarter sales increased 3% to $303 million compared to $294 million in the prior year period. This was slightly above our expectations and inclusive of several discrete factors that impacted our growth rate in the first quarter. First, the stop sale of recalled products impacted our first quarter growth rate by approximately 600 basis points. Some of this impact was offset by higher demand for other soft coolers that remain in the market. While difficult to quantify, we believe that we recaptured about half of the 600 basis point stop sale impact.

Going forward, we do not expect to see as much offsetting demand, as the first quarter benefited from the refilling of our wholesale channel with soft coolers not impacted by the voluntary recall. Second, as we have discussed previously, we saw more cautious ordering in our wholesale channel in the first quarter. We did see sell-through growth outpace sell-in growth for both Coolers & Equipment and Drinkware in Q1. And we continue to believe we are in a healthy overall channel inventory position.

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And third, we did have a challenging compare within customized drinkware in Q1, where, in the prior year quarter, we saw a significant number of orders shipped that were actually placed in the previous peak holiday quarter. Prior to this Q1, this had been a consistent dynamic for us over the years, but due to our investments in custom capacity in 2022, we did not experience the same level of order carryover in the first quarter of this year.

While offering shorter lead times and, therefore, a better experience for our customers is clearly a positive for our business, it did lead to a dynamic in Drinkware and in DTC, where growth on a demand basis was higher than our reported growth. When you view our results with all of these factors in mind, it gives us confidence that demand for the brand is much stronger than the 3% top line growth that we reported this quarter.

Now, for some commentary on our sales by channel and category. From a channel perspective, direct-to-consumer sales grew 7% to $167 million, reaching 55% of total sales mix. This performance was led by growth in our Amazon and corporate sales businesses, which both saw strong growth in Coolers & Equipment and Drinkware. Wholesale sales decreased 1% to $136 million, with the decline in Coolers & Equipment partially offset by growth in Drinkware. Soft cooler growth was positive in this channel, reflecting the continuation of demand for products such as our Flip and Daytrip lines, which were not impacted by the voluntary recalls.

Conversely, hard coolers were down year-over-year, as they faced a difficult comp in the prior year period when the channel was refilling after several periods of below target inventory levels. Nonetheless, we were pleased with the sell-through growth that we saw in hard coolers in the first quarter.

By category, Coolers & Equipment sales increased 1% to $104 million. In addition to the strong demand for soft coolers not impacted by the voluntary recall, other areas of strength included: cargo, supported by the successful expansion of the GoBox family; and bags, which continues to gain traction and distribution.

Drinkware sales increased 3% to $190 million. Demand for Drinkware outpaced reported sales growth in both: wholesale, where sell-through growth outpaced sell-in growth; and DTC, where, as discussed, shipment growth was impacted by the timing of customization fulfillment this year versus the prior year period.

With rising awareness around the importance of hydration, our bottles business remained a great story for the brand, with growth across a range of sizes, including our new lighter-weight Yonder water bottle. In addition, we continued to see good traction by our newer straw and travel mugs.

Finally, we were excited to debut Yonder Color Customization to our corporate sales channel late in the first quarter and then further expand that capability to YETI.com in the second quarter.

Internationally, sales grew 33% to $50 million, representing approximately 16% of total sales and led by strong growth across each of our three regions, Europe, Australia and Canada. Gross profit increased 4% to $161 million or 53% of sales, compared to 52.7% in the same period last year. We were pleased to return to gross margin expansion for the first time since the second quarter of 2021, which was primarily supported by a 220 basis point benefit from inbound freight.

Our gross margins are starting to benefit from the lower container rates that we began paying last year. So, as a reminder, we also lapped a comparable 220 basis point impact from one-time freight true-ups during the prior year period. The overall freight tailwind was partially offset by 100 basis points from higher product costs, 50 basis points from unfavorable foreign currency exchange rates, and 40 basis points from all other impacts.

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SG&A expenses for the quarter increased 19% to $139 million or 45.9% of sales, compared to 39.8% in the same period last year. Non-variable expenses increased 400 basis points as a percent of sales. As planned, increased investments were broad-based across areas, such as global talent, demand creation and our supply chain footprint.

Variable expenses increased 210 basis points as a percent of sales, primarily reflecting higher distribution and logistics costs, including higher Amazon Marketplace fees. Operating income decreased 43% to $22 million or 7.2% of sales, compared to 13% during the same period last year. Net income decreased 46% to $16 million or $0.18 per diluted share, compared to $0.32 in the prior year period.

Turning to our balance sheet, we ended the first quarter with $168 million in cash compared to $100 million in the year ago period. Inventory decreased 16% to $347 million year-over-year. Inventory declined sequentially for the third straight quarter, down another $24 million for a cumulative reduction of over $140 million from peak levels. Total debt, excluding unamortized deferred financing fees and finance leases, was $84 million compared to $107 million at the end of last year's first quarter. During the quarter, we made principal payments of $6 million.

Now, turning to our fiscal 2023 outlook; first, we wanted to acknowledge that we are giving more color than we have in prior years, due to the unusual nature of this year given the voluntary recall. We continue to expect full year sales to increase between 3% and 5% compared to fiscal 2022's adjusted net sales. We also continue to expect roughly flat sales over the first three quarters of the year, in aggregate, including a low single-digit decline in sales for the second quarter, followed by an approximately flat growth rate for the third quarter.

While we continue to feel confident in our ability to deliver the full year, there are some dynamics that will impact our growth rate on a quarter-to-quarter basis. First, the impact of the stop sale of recall products will have a bigger impact on our growth in the second and third quarters, as those products became more widely distributed in the prior year periods. We estimate that impact to be approximately 900 basis points in both quarters.

In addition, we expect more normalized fourth quarter buying patterns for the holiday season, after some of the earlier ordering that we saw in the third quarter last year. As a result of these factors, we expect the following as it relates to growth by channel and category for the rest of the year. We expect low double-digit declines in the Coolers & Equipment category for the second and third quarters and then for strong growth to reemerge for the category in the fourth quarter.

Drinkware growth is expected to improve as we move into the back half of the year, supported by a healthy slate of planned product introductions. By channel, wholesale is also expected to decline low double digits the next two quarters before returning to growth in the fourth quarter. Again, this partially reflects the increased negative impact from the voluntary recall and the expected timing of the replacement products.

On the DTC side, we expect growth to build stronger as we move through the year and continue to see DTC mix reaching approximately 60% for the year. Importantly, these combined factors keep us on track to return to double-digit growth during the fourth quarter, supported by the launch of a newly designed slate of soft cooler products.

Looking at margins, we are increasingly confident in delivering our 2023 gross margin target of approximately 55%, up from 52.7% in fiscal 2022. With container rates down nearly 80% from peak levels, we continue to see the favorable impact of lower inbound freight costs working through our income statement and driving sequentially higher year-over-year margin expansion throughout the balance of the year.

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In addition, while product costs were unfavorable in the first quarter, we expect their impact to be neutral to slightly positive for the full year. With SG&A, we remain resolute in investing across our business in 2023. We continue to expect SG&A dollar growth in the mid-teens range, equating to approximately 400 basis points of deleverage for the year. As we laid out last quarter, this impact is driven by areas such as variable costs and ongoing investments in our business.

In addition, the voluntary recall is also having an impact on SG&A leverage, due to lower sales growth. With regard to timing, we expect a higher growth rate of SG&A in the first half of the year, as opposed to the second half. And we'll continue to evaluate incremental investment opportunities in the event of gross margin upside.

We reiterate our operating margin range of 15% to 15.5% for the full year. In the second quarter, we expect a year-over-year margin decline that is slightly less than what we saw in the first quarter. However, we continue to expect over 20% operating margin in the fourth quarter due to both an expected return to double-digit revenue growth and continued gross margin gains.

Our assumptions for interest and tax expense are unchanged, yielding full year adjusted earnings per diluted share of between $2.12 and $2.23, compared to $2.36 in fiscal 2022.

This is inclusive of a $0.30 to $0.35 estimated impact from the stop sale of products included in the voluntary recall.

Looking at cadence, we expect adjusted earnings declines to ease year-over-year the next two quarters before returning to strong growth in the fourth quarter. On the cash side, we feel good about our inventory balance and how we have managed it down over the past three quarters. We expect to end the year close to where we ended Q1, but we'll also be opportunistic with our purchases as we go through the year.

Our capital expenditures target remains at approximately $60 million, given incremental investments across a number of key initiatives, including technology, expanded customization capabilities, retail openings and product expansion. These factors contribute to an unchanged free cash flow assumption of $100 million to $150 million for the year.

Overall, we are off to a good start to the year, particularly as our team continued to diligently manage the voluntary recalls, while still making progress on our underlying strategic priorities. This focus on execution keeps us well-positioned to deliver our financial outlook for the year, even as we continue to be prudently cautious in this uncertain environment.

We remain excited by our product lineup, including our ability to bring back, and even expand, on the products impacted by the voluntary recall. Our visibility to gross margin improvements remains strong, as we drive sequentially better results throughout the year. And we continue to make key investments that support our global expansion in the year ahead.

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

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Sharon Zackfia from William Blair. Please go ahead.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good morning and thanks for taking the question. I guess, you know, there's been concern about the health of the Drinkware business, particularly given its competitive activity. And certainly the rate of growth was the slowest we've seen, really since kind of the peak pandemic quarter. So can you talk about the Drinkware business and how you feel the brand is faring there, relative to some of the competition that's expanding distribution rapidly? And talk about essentially your customer demographic and whether – or, I guess, how the Drinkware segment is doing with a younger female demographic? Thank you.

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

A

Thanks, Sharon. Good morning and thanks for the question. I'd take it from a couple of different perspectives. Obviously, we mentioned on the call, that we've seen the market expansion that's happening in Drinkware and in the growth. And we think all those dynamics and that focus on the category, it actually plays really well into our Drinkware portfolio strategy. And when you think about kind of how YETI goes to market, we go-to-market with a broad-based portfolio of drinkware. We combine that with our customization personalization business. We continue to address more drinking occasions and more drinking moments, as we talked about on the call, the all-day drinkware. We want to be with people when they wake up until when they go to bed and we want to be with them every day.

And so, when you watch how we've built out our product portfolio, we're addressing multiple use cases, multiple consumer groups. We're leveraging form factors, sizes, colorways. And then, the global opportunity; and we think about the success we've had in building this Drinkware business in the United States since 2014. And the global growth opportunity, not only the one that we're realizing, but the opportunity in front of us. We think it's an incredibly exciting category.

It's also, as we mentioned on the last call, as something that offers an opportunity for us is a platform for expansion. So you noticed the recent [ph] gen Ice Bucket (34:09) that fits along with the use occasions, along with our – what we would call our individual kind of drinkware consumption. And then, within Drinkware, the expansion into hydration and further expansion into hydration in bottles, further expansion into tumblers, further expansion into different straw lid formats. So we feel good about the business and we feel good about where we're going with our Drinkware portfolio and Drinkware strategy.

Operator: The next question comes from Joe Altobello from Raymond James. Please go ahead.

Joseph Altobello
Analyst, Raymond James & Associates, Inc.

Q

Thanks. Hey, guys. Good morning. I guess, first question, you mentioned sell-through was up in the quarter. Could you quantify for us how much it was up maybe overall and excluding the recall products?

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

A

Hey, Joe. So we don't typically give specific color around sell-through, other than to say we were pleased with the growth that we saw across both categories. The other thing I'd say is we have to remember that the sell-through reporting, we have good sell-through reporting in the US, but we have less so outside the US, so. And to sort of like quantify the impact of our business would be mixing sell-through and sell-in, so little difficult to quantify how big of an impact that it did have. But, other than to say we were pleased with the growth that we saw, we feel like it's put us in a good channel inventory position and that it was really across the portfolio, despite what was going on with the recall.

Joseph Altobello
Analyst, Raymond James & Associates, Inc.

Q

Okay. Well, that was my follow-up question, which is it sounds like you're in a good spot from an inventory standpoint. So are we done with the destocking, at least at this point?

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

A

Well, I don't know that I would have characterized it so much as a destocking and more about just caution from our wholesale channel partners that we saw coming out of the holidays. But, and we expect some of that to continue as we head into Q2 and a relatively peak period for us. But, I think the key message is, is we feel good about where our channel inventory is. I mean, you're always going to have some parts where you've maybe got too much of some product and not enough of others. And we've got – we'll see that. And right now is no different. But, we feel good about where we are. And we're continuing to work with our wholesale channel partners on – as we go through the year.

Joseph Altobello
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thank you.

Operator: The next question comes from Benedict Peter (sic) [Peter Benedict] (36:50) from Baird. Please go ahead.

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

Q

Hi, good morning, guys. Thanks for taking the question here. Mike, it sounded like, obviously, very confident around the gross margin, but a willingness to maybe reinvest some of that upside if it accrues over the year. Just curious kind of what you would do. You're already spending on initiatives this year. Just curious where you might turn up the dial in investment, in the event that you had some profits to do that with.

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

A

Yeah. Good morning, Peter. Thanks for the question. I – so like you said, we feel good about where gross margins landed in Q1. We feel like we're on the right track to land the 55% that we guided for the year. In the event that we do see upside to there – or to that, I think you'll see it'll just be more of the same types of things that we've talked about. It's really about setting us up for growth next year, given the opportunity that we see in front of us, particularly outside the US.

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And so, I think it'll be in things – it'll be in areas such as raising brand awareness outside the US, our global teams' technology to take some of the capabilities we have here in the US and expanding them globally. So I don't know that it'll be anything widely different. It'll be just further investment in the things that we've already talked about.

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

Q

Okay, that makes sense. And then, I guess with respect to the reintroduction of the recalled items and then the two new items, I mean, production is already underway, just not sure how that compared to maybe your expectations when you embarked on this. Just curious if you can give us a little more color in terms of the timing of when you expect to have these products back in the market, how you expect to support them with your marketing, et cetera, just so we kind of have an idea of how this is expected to play out in the back half of the year.

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

A

Good morning, Peter, Matt here. What I think I would kind of take this from a couple different perspectives. One is we're incredibly excited to be back in production and have literally completed some finished goods, so that we're starting to build that capacity and that inventory back up. And then it'll – we have all the logistics in getting it and getting it ready to be back in the market. What we said on the call was we're still committed to being back into the market in Q4. That's as of today, what we're sticking to. But we feel good about the work that's gone into building the solution by an incredibly focused team in really a short amount of time to go from problem identification or opportunity identification to being back into production and finished goods rolling off – rolling off the line.

As we think about the reintroduction, our intent today is that we'll reintroduce it with the marketing levers that we usually do when we kind of promote a product or get a product out in front of the consumer. We don't intend, because this was a component change to a product, to reintroduce it like it's a new product, but really just turn up the YETI marketing dials, the incredible stuff our marketing a brand team does to create awareness and find interesting ways to get it in front of consumers to reintroduce the product, almost as if it went from out of stock to back in stock. And where we can kind of put our hand on the lever a little bit to create that awareness, makes us feel good about the opportunity not only in Q4, but really building into 2024, as we think about not only is the product coming back to market, but it is coming back to market with new sizes. And then, over time, we'll bring additional colorways in and be back up and rolling in a really important strategic category for us.

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

Q

Okay. Great. Thanks so much. Good luck.

Operator: The next question comes from Robby Ohmes of Bank of America. Please go ahead.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Oh, hey, Matt. I actually have a couple of questions. The first was just the – on the wholesale channel, you mentioned some caution in the channel. What are you hearing back from the wholesale partners right now? Like what are – what's their outlook on the customers?

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

A

Good morning, Robby. You know, I think it's – and we said this on the last – in kind of our last conversation. It's – when we think about the wholesale channel, one of the unique things about YETI is the breadth and diversity we have within our wholesale, from small independents to some of the best large nationals in the United States, and similarly around the globe. And then, within those groups, a real range of diversity of partners, so we get a pretty broad-based look at how they're operating.

And one of the things that we've talked about is there's no sort of common YETI theme within the caution or not. We have some partners that are really leaning hard into the year. And we have other people who are taking a kind of a more cautious look at Q2, Q3 as the year goes on. I think the most positive evidence is what – what Mike said, which is overall demand for the brand is strong. And we're hearing that from our wholesale partners.

We have great relationships. We have from – at all levels and very regular weekly, if not daily, conversations with the majority of our regional and national accounts. So a very close relationship, we're in constant communication about merchandising, product sorting, what's working in the channel and make sure we take advantage of those opportunities as the consumer continues to show up and show up with demand for the brand.

I think we'll turn, as we go through the year, to more conversation, to Peter's previous question, about the reintroduction of the new and improved soft coolers and how we get those out in front of consumers and use that as just another sort of springboard for YETI awareness, but also demand for that product category.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

That's helpful. And then, just a clarification. On DTC, you called out Amazon and corporate sales. What are you seeing at YETI.com? Was the customization shift the big impact on YETI.com? Like if you excluded that, is there any change with the momentum at YETI.com or have you changed the digital marketing spending you're doing to drive to YET.com or anything like that?

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

A

Hey, Robby. So you hit on a couple things. One, we had a good quarter from Amazon and corporate sales. And even just to round out the rest of the DTC channel stores, we opened up our 14th location in Omaha. And we're pleased with the results so far of that store. On YETI.com, you hit on the big point in that. Growth on a demand basis was – we were pleased with. And the challenge that we had with YETI.com really was a unique issue to this Q1.

And typically, in prior Q1s, really since we've been public, we exit Q4 with this – with a backlog of custom orders that we weren't able to fulfill in Q4. But due to the investments we've made in customization that we talked to you all about, we were able to reduce lead times and fulfill all those orders in the quarter. And while that's obviously a good thing from a customer experience standpoint, it left us with a tough compare in Q1. But on a demand basis, we were pleased with the results that we saw on YETI.com, both in C&E and Drinkware.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

That's really helpful.

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

A

Robby, one thing I would just – I'm sorry. One thing I would add is we mentioned on the call and think it's important is the fact we said we saw acquisition and retention across all of our DTC channels was positive in the quarter, and included in that is the increase in value with those. So the work that we're doing to acquire customers, retain customers, drive value is a real positive.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Got you. And then, one just last one, the product costs, the up 100 basis points. Is that a product cost landed from China? And sort of what is the product cost outlook? You mentioned moving production out of China, or starting to. Is that going to help? Is that going to reduce product costs as you do that or – and then, are you having to – should we expect more price increases to offset the product cost pressures?

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

A

Yeah. Just so here's what I'd say about product costs. I would say that the comments around the transition out of China really didn't play a role in anything we're thinking about product costs for this year. It's just it's early in that process. The impact that we saw in Q1 was really just a continuation of what we saw in the second half of last year. It was largely planned and really nothing has changed with regard to how we're thinking about product costs for the year. We expect it to be relatively neutral for the year, to slightly positive, is what we said in our prepared remarks. And so no real concerns on that. It's just what we saw in Q1 was sort of the continuation of some of the dynamics we talked to you all about in the second half of last year.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Thanks so much.

Operator: The next question comes from Peter Grom from UBS. Please go ahead.

Peter Grom
Analyst, UBS Securities LLC

Q

Thanks, operator. And good morning, everyone. So, Mike, you mentioned towards the end of your prepared remarks, greater visibility to margin expansion beyond this year. And just kind of looking at the phasing of the guidance, particularly from a gross margin perspective, you're kind of exiting the year with gross margins closer to the high 50% range. And, I guess, how should we think about the implied exit rate and the ability to return to 57% to 58% gross margin looking out to next year? And then just kind of building on that, you're clearly stepping up investment this year. So to the extent that we have another year of outsized gross margin expansion, would you expect more of that to flow to the bottom line or would you continue to reinvest looking out next year? Thanks.

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

A

Yeah. Thanks, Peter. So, a couple things. One thing, just – so you're correct, in that if you look at what we said about margins, we expect to land the year at 55%. We expect as we step through the year, we expect the sequential, the year-over-year increase to increase sequentially as we go through the year. So, that would imply

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an exit rate in the range that you mentioned. But what I'll say is, Q4 is always our highest gross margin quarter, given the mix of DTC. So, you have to take that into account.

I wouldn't necessarily look at that 57%-ish rate and assume that that's going to be the rate going forward. So, but that said, we're not – obviously, we're not recapturing all the inbound freight benefit this year. There will be more to capture next year. As it relates to investments, we're going to have to – as we go into the planning for next year, given the opportunity that we believe is in front of us, we're going to continue to invest both in product as well as in other parts of our business, be it head count, demand creation, brand awareness, technology, et cetera. So, no real specific guidance to give on FY 2024 right at this point. We'll obviously have more at a later time, but we're going to continue to invest and we're going to continue to evaluate things that we think can really set us up for the future.

Peter Grom
Analyst, UBS Securities LLC

Q

That's really helpful. And then, just maybe one quick follow-up. International performances has been, very, very strong. I guess just as it becomes a bigger piece of the business, are there any margin mix implications that we need to be aware of as we look out or is the margin profile kind of similar to what we would see here in the US?

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

A

Yeah. From a gross margin standpoint, it's really similar to what we see in the US. There's differences across the regions, based on sales mix, but you once you normalize by channel, it's the gross margins across all the three regions are similar to what we see in the US.

Peter Grom
Analyst, UBS Securities LLC

Q

Great. Thanks. Thanks so much and I'll pass it on.

Operator: The next question comes from Xian Siew from BNP Paribas. Please go ahead.

Xian Siew
Analyst, BNP Paribas Exane

Q

Hey, guys, thanks for the question. I just wanted to ask maybe about the wholesale trends in US versus international. In US, was down about 1% overall. So was it down maybe double digits in wholesale? Maybe can you help us frame that? And then, based on the guidance for 2Q, 3Q, is it the declines are kind of stepping up? Is that how we should think about it in US wholesale?

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

A

Yeah, Xian, so to your point, wholesale down 1% in total. International was up. And we don't generally guide to the specific growth rate of international wholesale within that broader wholesale channel. But suffice it to say it was a similar growth rate to international in total, implying that wholesale in the US was down. Again, not going to give specific numbers on what the business in the US grew. But when we talked about sort of the spread from sell-through to sell-in, the sell-through reporting we have is generally all in the US. We were pleased with it. It was positive. And so it kind of speaks to the to the delta between sell-through and sell-in when you consider that the US was down, obviously more than that minus 1%.

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[indiscernible] (51:23)

Michael McMullen
Senior Vice President, Chief Financial Officer & Treasurer, YETI Holdings, Inc.
A

Sorry, Xian, the other thing I'd say is we...

Xian Siew
Analyst, BNP Paribas Exane
Q

Yeah.

Michael McMullen
Senior Vice President, Chief Financial Officer & Treasurer, YETI Holdings, Inc.
A

That soft cooler impact that we're seeing from the stop sale, that's almost entirely a US dynamic. Because there were several regions where the M-series had not fully been distributed. And so, when we talk about the impact, the stop sale, it is primarily a US impact. And so, when we go into Q2 and Q3, the double – down double-digits that we talked about, that's going to primarily be a US dynamic as well.

Xian Siew
Analyst, BNP Paribas Exane
Q

Okay. Very helpful. And maybe just quickly, on the 300 bps or the recapture, the rate that you mentioned in 1Q – I know you mentioned it's probably [ph] higher in 1Q (52:11), but was that much better than you anticipated? Just any frame on how you thought about that capture in the quarter?

Michael McMullen
Senior Vice President, Chief Financial Officer & Treasurer, YETI Holdings, Inc.
A

Yeah. I mean, we knew that – we knew there would be some demand shaping. We just – we didn't know how much. And so we – when we talked about it earlier, we – and that's basically what we said, is that we knew there would be some offset, but weren't sure how much. We do believe that that 300 basis points of offset is – we don't expect to see that as we go through the year into Q2 and Q3. We expect the impact from the recall in those quarters to be the roughly 900 basis points that we talked about, just because a lot of that was wholesale dealers refilling their shelves with Flips where they had M series products before.

Xian Siew
Analyst, BNP Paribas Exane
Q

Understood. Thank you for the help.

Operator: The next question comes from John Kernan from TD Cowen. Please go ahead.

John Kernan
Analyst, TD Cowen
Q

Good morning. Thanks for taking my question. Mike, can you talk to the confidence in visibility in the return to double-digit top line growth in the fourth quarter? What do you think are the key drivers in that acceleration that we should be looking for?

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Michael McMullen
Senior Vice President, Chief Financial Officer & Treasurer, YETI Holdings, Inc.
A

Yeah. So a couple things that I would think about. I mean, first and foremost, is going to be the planned reintroduction of the products that we – that are currently on stop sale. So we'll get the – not only the launch in the DTC, but we'll get to sort of refill back into the channel where, given all the product that we've taken back from the wholesale dealers. So I think that's the first thing.

The second thing is, we do – we are – when we look out over the year, even in Drinkware, we're excited about the planned reintroductions that we have – or the planned product introductions that we have. We feel like we've got an opportunity to continue to [ph] go drinkware (54:25) and that Drinkware growth will build throughout the year. And so, it's the recall is obviously the biggest piece. But even if you normalize for that, we feel like we've got a good opportunity to continue to grow other parts of our business as well.

John Kernan
Analyst, TD Cowen
Q

Got it. Maybe just one follow-up on freight. I think over 600 basis point headwind to gross margin over a two year period, what do you think the ultimate recapture is on that freight cost? And we obviously can understand some of the timing of it you're expecting this year, but how does it stretch into 2024?

Michael McMullen
Senior Vice President, Chief Financial Officer & Treasurer, YETI Holdings, Inc.
A

Well if you look at – so you're correct. We've, over time before, through 2022, we gave up 600 basis points of gross margin due to freight; obviously, not capturing all of that this year. So when you look at where rates are today, I mean, they've largely come back down to the sort of pre-pandemic levels that, over time, we should be able to capture the majority of that back in our gross margin. However, we also are looking at this as an opportunity to reinvest back into the business. And so, and that's going to be both on the product side or within COGS and, therefore, gross margin, as well as on the SG&A side. So I do think we have more tailwinds to come as we exit this year, but we're going to have to measure that against what opportunities we see to grow our business over the long term.

John Kernan
Analyst, TD Cowen
Q

Understood. Thank you.

Operator: The next question comes from Peter Keith from Piper Jaffray. Please go ahead.

Peter Keith
Analyst, Piper Jaffray
Q

Hey. Thanks. Good morning, everyone. On the wholesale channel, there's clearly some concerns in the investment community that you guys might be losing some shelf space, particularly with some of the larger nationals. Maybe just give us a view, if you think about the next 12 months, as you're relaunching a lot of the recall products, sounds like sell-through is good. Where do you think your shelf space will be, in aggregate? Do you think it'll be holding steady, it'll be up or even down a little bit?

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

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Morning, Peter. Thanks. Thanks for the question. I would say in the conversations I have directly, in the conversations that our teams have regularly, shelf space loss is not a conversation we have. We talk about merchandising, how we're going to make shelf space for additional products that we discuss with the channel that are coming. So I think the shelf space kind of movements that we tend to see are – we just took some really large products off the shelf in our soft coolers. We expect those to be back in Q4.

The conversations with our wholesale partners are timing related and when on the bringing those new products, that new category of family, back to market. So I don't – we don't see and don't have conversations around shelf space reduction. It's really more productive. And as recently as this week having conversations over what the next two to three years looks like versus the next two to three quarters.

Peter Keith
Analyst, Piper Jaffray

Q

Okay. Helpful. And then, lastly for me, I was just hoping you could touch on the ongoing launch and, I guess, ramp-up in Europe. I know we've been talking about it for a couple of years. Sounds like you maybe hit the accelerator here now that the COVID concerns are fading. Could you just give us some updates on how the positioning is there, if it's more DTC versus wholesale and any green shoots you might be seeing with UK or Germany?

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

A

Peter, a couple of things there, lots of green shoots. And the benefit of Europe is Europe being not – not a single entity, but lots of individual countries that have their own uniqueness and opportunities for YETI. Our DTC business had the distinct advantage during COVID of we were able to focus on that business while wholesale was a little slower, due to the nature of what was happening. What we're seeing now is the benefits of that is that we have a really nice DTC business across a number of markets throughout Europe. Wholesale door openings continue at a good pace. The replenishment we're getting as the brand awareness grows and as the consumer demand grows within our established stores has been good.

We really like what we're seeing in the UK. And we like both what we're seeing, but also just the significant opportunity that is Germany and the German speaking countries and regions, but also what we're seeing come out of Northern Europe in the Nordics. And so we love what we're seeing there. I think there's some fun things going on between our brand awareness activations that are very endemic, as we talked about a lot of the on-mountain activations, and then some of the broader based partnerships that we have through some of the major sports. And then, the fact that the Metallica tour kicked off in Amsterdam and is doing the first leg of its tour throughout a number of stops in Europe, I think all those give us really YETI-like opportunity to build on this broad-based introduction of the product portfolio over this broad-based brand awareness attack.

Peter Keith
Analyst, Piper Jaffray

Q

Okay. Sounds great. Thank you very much, guys.

Operator: The next question comes from Jim Duffy from Stifel. Please go ahead.

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

Q

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Thank you. Good morning. Hi, Matt. Hi, Mike. Two questions around DTC consumer engagement. Can you comment on what you're seeing with performance marketing thus far in 2023 and your strategies for marketing dollar allocation to top of funnel versus more performance marketing spend?

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

A

Hello, Jim. Yeah, I'll touch on a couple of things at a high-level. We historically haven't spoken specifically to the performance of our individual marketing channels. What I would say is we actually have a very integrated approach to how we build the funnel from top to bottom. And with the work we've done with our advanced analytics team and learning more about consumer and consumer behavior, particularly in the United States, it is affecting and impacting, in a positive way, how we allocate our performance marketing dollars.

And so, the work between our Chief Marketing Officer and Chief Commercial Officer is really almost a weekly, and sometimes daily, evolution of what we put towards top of funnel versus where we invest in the mid-funnel, versus where we invest in kind of the closer in to the transaction.

We had some great things come out of our advanced analytics team in looking at demographics in geographies with affinities for categories and then applying things in front of consumers at that point. And the results we're seeing in those, we're now expanding those results more nationally. We're learning some things around certain products, in certain product categories, how different groups have affinities for them, and how that changes how we apply our, not only our performance marketing, but also how we think about creating brand awareness in those geos and demos.

And so, we're excited by what we're seeing. And it's not always – the answer has not always been intuitive. And so, seeing sort of a data-driven focus on that, I think is going to lead to some really nice opportunities for us.

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

Q

Okay. And then, the US market, I'm curious the engagement trends you're seeing with new versus existing customers. And specifically, I'm curious, is the Yonder water bottle and its more approachable price point bringing a new consumer to you into the mix?

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

A

I would say a couple things. As we expand the portfolio, it does two things. It gives us a chance to re-engage existing customers and to acquire new customers. Interestingly, we see that with things like the Yonder, but we also see that with soft coolers and what soft coolers have brought from an acquisition perspective. But in an area that may not be as intuitive, even in our hard coolers, in our wheeled Roadie 48 and Roadie 60, some our newest additions to our hard cooler category. Those have actually brought in some different geos and demos that may not have been as kind of naturally thought of.

So I actually think it's every time we bring innovation to market, it gives us kind of two opportunities. It gives us an opportunity to drive deeper within our own customer base. And it also gives us the chance to acquire. And I think that's why you hear some of the results of broad-based acquisition, really balanced acquisition and retention in the quarter.

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

Q

Thank you.

Operator: We have time for a last question from Brian McNamara from Canaccord Genuity. Please go ahead.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Good morning. Thanks for squeezing me in here. So we've noticed recently that YETI is being co-marketed with Traeger at Dick's. Is that new? What drove that decision and will that kind of partnership, for lack of a better term, be expanded? Thanks.

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

A

Thanks, Brian, for the question. I think I would say we have a lot of brand friends in the active outdoor consumer lifestyle space. And so we do, we – our product gets positioned alongside a lot of different brands in a lot different categories, in fact, multiple brands in multiple categories. And then, we have a lot of retail or wholesale partner overlap.

From a direct co-marketing kind of national, we don't have anything active in that way. I think the positioning that happens inside stores sometimes is really focused on merchandising to the consumer at certain times of year, when they're in the – when they're in that kind of that mode. The beginning of summer, moms, dads, grads is an opportunity for people to start thinking about summer. They start thinking about barbecues, started thinking about outdoor gatherings. So I think it's natural that you'd see products like YETI and Traeger and many others being positioned together or merchandised together within a store.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Great. That's all for me. Thank you.

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

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

Thanks, everyone, for joining us this morning. And we look forward to speaking to you as we return for our Q2 call.

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

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