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YETI Holdings, Inc. (YETI)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the YETI Holdings First Quarter 2024 Earnings Conference Call. 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.

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

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

Good morning and thanks for joining us to discuss YETI Holdings' first quarter fiscal 2024 results. Leading the call today will be Matt Reintjes, President and CEO; and Mike McMullen, CFO. Following the 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 detailed in our most recently filed Form 10-K. 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 discussed 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 the press release or in the presentation posted this morning to our Investor Relations section of our website at yeti.com.

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 delivered a great start to 2024 as evidenced by our strong first quarter results. We saw positive global demand for our brand and our broadening range of products. And we had great execution across multiple fronts driving double-digit growth in both our wholesale and DTC channels as well as our Coolers & Equipment and Drinkware categories.

Our wholesale performance was supported by sell-in and sell-through relative to the year-ago period, while our DTC business showed continued growth across e-commerce, corporate sales, Amazon and YETI retail. In Coolers, with our new innovation and expanded awareness campaign, we believe we are well-positioned for the upcoming seasonal demand. In Drinkware, our range of bottles and tumblers continued to deliver strength within the category. By geography, international growth exceeded 30% year-over-year to reach a YETI high of 19% of total sales even as our domestic growth was nearly 10%.

Behind the strength of the brand, the growing product portfolio and global expansion, we are on track to deliver on our full year top line outlook. Given the combination of inbound freight recovery, product cost improvements driven by outstanding work by our supply chain and operations team and strong price discipline, we're pleased to report profitability to build upon our historical strength, delivering a 450-basis-point improvement in gross margins. Following our top line performance and gross margin strength, our adjusted operating margin also expanded by 440 basis points for the period.

In the quarter, we also delivered on our capital allocation priorities, starting with the completion of our Mystery Ranch and Butter Pat acquisitions. Our integration of these businesses is on track as we accelerate our mid and long-term opportunities in bags and cookware. Finally, we announced about $100 million accelerated share repurchase plan in late February, which was fully executed last month.

From a top line perspective, we remain optimistic on our demand drivers for the full year. We expect sales performance consistent with our original guidance as we balance performance against anticipated ongoing conservative purchasing at higher price points, balanced channel sell-in and demand and our compare against headwinds as a result of last year's recall-related gift card redemptions.

Looking at our bottom line, we are raising our outlook to reflect our margin strength and the execution of our ASR. As previously indicated, we will continue to evaluate thoughtful and strategic capital allocation opportunities in the quarters ahead.

Turning to our growth strategy in 2024 and beyond, our priority remains to extend brand reach and engagement, drive product diversification across our portfolio, leverage our powerful omni-channel to reach customers and build our global business. Shifting to our brand reach, Q1 highlighted the ongoing evolution of YETI's breadth and depth brand strategy.

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In the early months of 2024, we have activated alongside some of our larger global partnerships. In the second year of our partnership with the World Surf League, we became the presenting partner for the first event in the season, the YETI Pro Pipeline in Oahu. On the mountain, our activation included continued events such as Natural Selection. Finally, in Formula One racing, our partnership with Red Bull Racing is proving to find creative ways for YETI to integrate and support the team.

We also established a new partnership in the world of professional soccer with a club looking to disrupt the status quo. In March, the Kansas City Current debuted the world's first stadium built specifically for a women's pro sports team. We're incredibly proud to support Current, their visionary ownership and the team's efforts to elevate the profile of both the sport and these incredible professional athletes. We look forward to the many innovative ways we will connect our brands.

Our community marketing efforts combined with the amazing work our team does on the brand side showed how we grow, develop and connect our global audiences. Fitness was a natural place to start the year, highlighting the work our ambassadors put in before heading out to the wild and the YETI gear that gets them through it all. We expanded our health and fitness efforts this year with brand placement in nearly 1,300 gyms across the country.

Next, we focused on highlighting our expanded Drinkware offerings in coffee, driving awareness, reach and relevance for new and existing global customers. As you may have seen, this week, we added to the portfolio a new YETI French Press that can double as a beverage pitcher as we look to release the standalone pitcher later this summer.

YETI also received two incredible brand accolades during the quarter that speak to the passion, talent and creativity of our team. Ad Age's 2024 In-House Agency of the Year and Fast Company's most innovative companies in PR and brand strategies. These affirmations, while not the goal, are a testament to the energy, realness and humanity that the team puts into our brand. This is what creates the emotional connection and sustainable passion for what we do. This isn't about a moment. It's about a movement towards reconnection of people and community to the wild.

I want to thank the entire YETI team for their belief and pouring themselves into this against a market backdrop that at times is more focused on buzz. This brand has been built on consistently and sustainably engaging customers and communities, showing up in real ways and staying true to the spirit of what YETI is, all while growing and evolving globally.

To that end, in the current quarter and throughout 2024, we will find moments to engage new and existing customers from spring travel to gift giving occasions to the start of summer, with incredible stories to tell of people and places that support our expanding product assortment.

As we shift to product, there are three key themes this year, a focus on growth in our Cooler family, the evolution of YETI into broader food and beverage and the product expansion potential under the YETI brand umbrella and brand building playbook. Across our product range, we're in a great position to capitalize on warmer weather and the beginning of summer travel and outdoor activities. We're leveraging a few key demand drivers as we head into the season, innovation, awareness and conversion.

We're excited about the next wave of hard cooler innovation in 2024, building upon our legacy dating back to our first hard cooler in 2006. Recently, we debuted our Roadie 32 cooler, our smallest and most portable wheeled cooler to-date. The Roadie was designed to pull up to a campsite, move through a tailgate or handle weekend tournaments. Later this summer, we plan to introduce a personal side to our cooler, which will anchor at the entry

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price point for YETI hard coolers at $200. Think of this as a good day out type cooler that will work well on a side by side, on a golf cart or on the job.

On the Drinkware side, we're seeing a great response to our deep portfolio of 50-plus offerings across our premium range of bottles and tumblers. This is part of our growth and expansion strategy as we support more moments in their day. We are evolving this category and building out solutions to address what we see as consumer needs and opportunities.

For instance, the previously announced French press and pitcher complement last year's beverage bucket and wine chiller and are a sign of the evolution and the opportunity. Additionally, after years of requests from our customers, we will launch a couple of highly giftable barware items in limited supply in time for Father's Day.

To round out the 2024 offerings, we also plan to introduce our first YETI cast iron cookware later this summer. Outside of Coolers and Drinkware, we're excited by the prospects of what we see as possible in bags, cargo and the expanding group of offerings under our Coolers & Equipment family. We expect to deliver innovation across its entire range, starting with our flagship dry bag expansion earlier this year, following last year's addition of new waterproof dustproof cargo boxes. There's more to come around this.

We continue to be focused on driving awareness and top of mind for YETI. We're deploying a range of brand efforts across TV, digital, print and out-of-home to keep the brand and product in front of the consumer. This includes an incredible partnership with our wholesalers to drive awareness during those important moments as we launch new products. Additionally, we're using a broad range of direct performance marketing programs focused on driving consumers towards conversion.

Through these expanded efforts in innovation and marketing, we will continue to deliver integrated storytelling that connects people and products highlighted at times with color inspiration from the wild. As we see opportunities to reach more customers, engage them in impactful ways and tell powerful brand and product stories; we're also focused on strengthening our global go-to-market. Our strong and diverse channels to market are a key contributor to the balanced growth achieved in the first quarter and speak to the consistency and power of YETI.

Turning to our DTC performance. We saw the benefits of customer value and UPT against a more challenging traffic and customer count as we lapped the start of last year's recall and our selective end-of-life transitions. Our Amazon Marketplace remained consistently strong as we see that customer loyalty to the channel further supporting our strategy of diverse channels to market. Corporate sales delivered strong order volume and inbound demand. The addition of more efficient and cost-effective printing technology for hard coolers underscores our continuous improvement efforts delivering value for the customer and YETI.

We opened the newest locations of our YETI retail stores in The Woodlands outside of Houston and in New York City's Flatiron District. Our stores continue to provide a singularly unique opportunity to see the depth and breadth of YETI's product offering, engage with product experts, learn and shop. We are targeting to open six total locations this year, including the upcoming openings in Kansas City and Calgary, which would bring our fleet total to 24.

In our wholesale channel, we saw positive demand across categories further supported by better sell-in compared to last year's period. Channel inventory is in good shape as our partners continue to lean into seasonal colors and remain bullish on product releases we have planned throughout 2024 and into 2025. As previously outlined, we are thoughtfully expanding our global wholesale reach, including the already announced partner in Tractor Supply

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in the US combined with new partners in Canada, Australia and Europe. In addition, we also continue to cultivate new wholesale partnerships that align with our increasingly diverse product assortment.

As we shift to our non-US business, I'd like to provide some color on how we're building out our global leadership to support our focus and growth in these areas. Naoji Takeda joined YETI recently as our new Managing Director, Asia. Naoji most recently comes from KEEN, the outdoor footwear brand, where he held a variety of global and regional roles including leading the brand's growth in Japan and throughout Asia Pacific. With his experience and passion based in innovative brands, I'm excited to see him take on the immense opportunity we have in the region.

Looking at the overall international business, we continue to see strong momentum for the brand and incredible opportunity in undeveloped markets. In addition to solidifying our regional structure, our near-term focus is on growing brand awareness and building our successful omni-channel approach.

In Europe, overall brand traction is outstanding as we see strong results in the UK and Germany as well as other markets throughout Europe. It has been increasingly fun to see YETI show up from the countryside to the city streets as we activate the brand. Supporting this momentum, we're making key investments in our team, the brand and processes to scale the business. This includes the transition of our UK 3PL this month, which will support future growth while also driving improved speed to market and operational efficiency.

In Australia, we had another incredible quarter. Our team in Australia continues to show that the YETI growth playbook travels even as they contribute to making it stronger and nuanced to the market. We really like the balance we have in Australia with powerful independent retailers all the way up to our partnership with outdoor leader BCF. We also began testing a new partnership with a sporting goods retailer as we focus on reaching customers deeper into urban markets. From a product offering perspective, we see great traction across the portfolio with customization capabilities in demand much like we have seen in North America.

In Canada, growth was supported by strong wholesale sell-through despite some of the same channel caution that we have seen domestically. Within wholesale, we're beginning to test several new targeted relationships that will complement our channels to market and allow us to reach new consumers in different buying moments. On the DTC side, we've seen strength in our emerging corporate sales business and are excited about the opportunity to scale customization to support both the customer and corporate demand.

In closing, I want to take a quick moment and highlight a particularly important event for the company, our recent YETI roundup in April. Once a year, we bring together our global team at our Austin headquarters for a week of immersion, learning and connection. It is a powerful way to stoke the brand and keep connected to our growing global team. I always come away from this week energized and with an incredible appreciation for our team and what they are creating here at YETI. Importantly, it solidifies my unwavering conviction in the long-term untapped growth opportunities ahead for this brand.

Before handing the call over to Mike to review our financials and outlook, I want to thank our outstanding customers, partners and friends who show up for YETI every day at every launch and in every new market we enter. This is what drives us forward.

Now, I will turn the call over to Mike.

Michael McMullen

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

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Thanks, Matt, and good morning, everyone. I'll start with a few comments on the impact of certain strategic actions on our GAAP results, which are excluded from our non-GAAP results. I'll then provide an overview of our performance in Q1 across our non-GAAP measures. Finally, I will give some details on our updated fiscal 2024 outlook before opening it up for your questions.

Our GAAP results for the first quarter of 2024 include the impact of two items that I would call out for you all this quarter. One, transition costs associated with our recent acquisitions including the impact of purchase accounting on our gross margins. And two, costs associated with the closure of our Vancouver design center.

While we were pleased with the work that our team in Vancouver was delivering, the acquisition of Mystery Ranch provided an opportunity to consolidate this work into one location in Bozeman, Montana. The impact of these and other items is excluded from our non-GAAP results. Per our normal practice, our results discussed on this call will be on an adjusted non-GAAP basis in order to better focus on the operational performance of the company during the period.

Now moving on to the details of the quarter. First quarter sales increased 13% to $341 million. As Matt detailed, our strong performance was balanced across categories, channels and geographies. These results include the initial contributions from Mystery Ranch and $2 million of gift card redemptions related to remedies offered to customers impacted by the product recall. We are pleased with the progress we have made to integrate our recent acquisitions and they are on track to generate approximately 200 basis points of top line growth for YETI in 2024.

By category, Drinkware sales increased 13% to $215 million. Our performance was driven by a number of factors including a portfolio of over 50 products that we continue to expand, exceptional growth outside the United States and continued strong customer demand for color and customization on a global basis.

Here are a few specific examples of products that drove our growth in Q1. We launched a new lineup of three stackable tumblers that offer our customers the same great performance with added functionality such as improved space saving, handfit and cupholder compatibility. The products that we launched last Q4 continued to gain traction, including our smaller coffee specialty sizes, our 42-ounce straw mug and our cocktail shaker. We had a great quarter in bottles driven by the wide range of sizes, materials and lid options that we offer our customers. And we remain excited by the growth of our tabletop and barware offerings such as the beverage bucket and wine chiller.

Coolers & Equipment sales increased 15% to $120 million. Both hard coolers and soft coolers posted growth for the period. We are excited to now have our full assortment of products available in the market, including in seasonal colors. And we continue to add to this product lineup with the recent innovation in hard coolers that Matt mentioned. While we do continue to expect to see some pressure on higher price point items as we go through this year, we believe we are in strong position to win in Coolers as we head into the peak summer months.

Beyond Coolers, we saw strong organic performance from our legacy YETI bags lineup led by our Panga waterproof line and the expansion of our SideKick Dry gear case line. The category also benefited from the inclusion of Mystery Ranch, which was on plan for the quarter. From a channel perspective, direct-to-consumer sales grew 12% to $188 million representing 55% of total sales driven by growth in both Drinkware and C&E. Additionally, we drove solid growth across each of our D2C channels during the period including e-commerce, corporate sales and Amazon.

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While still a relatively small contributor, we were also pleased with the growth of YETI retail. As Matt mentioned, we are modestly accelerating our new store plans this year as we look to expand our reach and provide more opportunities for consumers to experience the full breadth of our product assortment. Wholesale sales increased 13% to $154 million driven by growth in both C&E and Drinkware. Importantly, sell-through for both product categories was positive and our channel inventory levels remain in good position.

Outside the US, sales grew 32% to $66 million representing 19% of total sales driven by outsized growth in Europe and Australia. The opportunity outside the United States remains significant as we look to drive brand awareness, expand our wholesale footprint and leverage our full set of D2C capabilities.

Gross profit increased 22% to $196 million or 57.5% of sales compared to 53% in the same period last year. Positive drivers of this 450 basis point increase include 370 basis points from lower inbound freight and 190 basis points from lower product costs. These gains were partially offset by 60 basis points from higher customization costs given the continued growth of our custom business, 20 basis points from strategic price decreases on certain hard coolers that we implemented during the quarter and 30 basis points from all other impacts.

SG&A expenses for the quarter increased 13% to $157 million and remained flat at 45.9% of sales. Non-variable expenses increased 10 basis points as a percent of sales, offset by variable expenses decreasing 10 basis points as a percent of sales. Within non-variable, higher employee costs and marketing expenses were offset lower warehousing costs.

Operating income increased 82% to $40 million or 11.6% of sales, an increase of 440 basis points over the 7.2% that we reported in the prior-year period. Net income increased 89% to $29 million or $0.34 per diluted share compared to $0.18 in the prior-year period.

Turning to our balance sheet, we ended the quarter with $174 million in cash compared to $168 million in the year-ago period. The decline in cash on a sequential basis was driven by our accelerated share repurchase agreement, the acquisitions of Mystery Ranch and Butter Pat and the normal seasonality of our cash and working capital.

Inventory increased 5% year-over-year to $364 million. We expect yearend inventory to generally grow in the range of sales, but there may be quarters this year where it grows at a faster rate than sales as we build inventory ahead of new product launches. Total debt, excluding unamortized deferred financing fees and finance leases, was $81 million compared to $84 million at the end of last year's first quarter. During the quarter, we made a principal payment of $1 million on our term loan.

Now, turning to our fiscal 2024 outlook. We continue to expect full year sales to increase between 7% and 9% compared to fiscal 2023's adjusted net sales, inclusive of approximately 200 basis points of contribution from our two acquisitions. As we previously indicated, we expected the stronger growth rate in the first quarter. Looking ahead, we continue to expect relatively balanced growth across the upcoming quarters with Q2 planned slightly below our growth rate in the second half of this year.

There are a number of compare dynamics to consider this year, including gift card redemptions, which we will start to compare against in Q2. The largest impact from prior-year gift card redemptions will be in the second quarter when we saw $12.5 million worth of redemptions in the prior-year quarter.

We are reiterating our expectations for growth across channels, categories and geographies. By channel, we expect balanced growth between wholesale and D2C. By category, Coolers & Equipment is expected to outpace

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Drinkware, given both the return of our full soft cooler lineup and the incremental sales of Mystery Ranch products. And we expect international growth of between 20% and 25% compared to domestic growth in the mid-single-digit range.

As a final comment on sales, consistent with last quarter, we continue to take a prudently conservative approach to how we plan the remainder of the year.

Moving down the P&L. Supported by our strong performance in the first quarter, we are increasing our 2024 gross margin target to approximately 58% compared to our original target of approximately 57.5% and up from 56.9% last year. This increase is due to slight benefits across a number of drivers within our gross margin line versus one single factor. The ongoing recovery of inbound freight costs remains the largest driver of our year-over-year gross margin expansion this year. But we do continue to see some offsetting rate pressure due to the Red Sea conflict.

From a phasing perspective, we expect margin expansion to start to ease in Q2 versus the significant increases we have seen over the past four quarters. As we move into the second half of the year, we expect to have largely comped the benefit of lower inbound freight costs. Thus, our gross margins in the second half will be much more in line with the prior year. But over the long term, we still see opportunities to continue to expand our gross margins through drivers such as sales mix, product cost savings and other supply chain efficiencies.

With the increase in our gross margin outlook, we are also raising the high end of our operating income outlook. We now expect adjusted operating margin of between 16% and 16.5%, up from our prior outlook of approximately 16% and compared to 15.6% in fiscal 2023. On a quarterly basis, we expect operating income growth to be roughly in line with sales growth.

As we have discussed previously, we will continue to use a portion of our gross margin upside to incrementally invest in our business. These investment areas include our global expansion efforts, our D2C business and support for inorganic opportunities. Therefore, while full-year SG&A is expected to grow at the high end of our sales range, the timing of investments may drive some variability in our SG&A growth rate on a quarter-to-quarter basis. More importantly, our focus is on delivering our top and bottom line outlook for the year and on driving top line growth over the long term.

Below the operating line, we continue to expect an effective tax rate of approximately 25.3% for the year, slightly above the 24.8% rate in 2023. As we disclosed in an 8-K filing, we entered into $100 million accelerated share repurchase agreement during Q1. That contract fully executed as of April 22. And thus, we expect full-year diluted shares outstanding of approximately 86.1 million. Due to this lower share count and raising the high end of our operating income range, we now expect adjusted earnings per diluted share to increase 11% to 16% to between $2.49 and $2.62 compared to $2.25 in fiscal 2023.

As for cash, we continue to expect capital expenditures of approximately $60 million and free cash flow of between $100 million and $150 million this year. We will remain opportunistic going forward as we look to deploy cash between M&A and further share buybacks. As a reminder, we have $200 million remaining on our most recent share buyback authorization.

In summary, we were pleased with our first quarter execution. We delivered balanced top line growth across the business, continued to improve our profitability, made progress on the integration of our recent acquisitions and delivered on key pieces of our capital allocation strategy. At the same time, we are mindful of the relative size of the first quarter and some ongoing uncertainties in the overall market. Thus, some caution continues to be

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reflected in our updated full year outlook. But we will also remain opportunistic as we go forward, making investments and taking actions that support our long-term growth ambitions and drive value to our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will begin the question-and-answer session. [Operator Instructions] At this time, we will take a question from Joe Altobello from Raymond James. Joe, please go ahead.

Martin Mitela
Analyst, Raymond James & Associates, Inc.

Q

Good morning. This is actually Martin on for Joe. I was wondering if we can get an update on overall demand trends, particularly in hard coolers, and just any explanation that might be driving them, whether it's affordability, competition, saturation or some combination of all of the above.

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

A

Yeah. Good morning, Martin, and thank you for the question. So I think, first of all, we were pleased to return to growth in both soft and hard coolers. And soft coolers, obviously, was related to having the recalled product back in our lineup. But in hard coolers, there was an element of a sell and compare in wholesale. But at the same time, during Q1, we were also comping against the EOL transition promo that was an issue in Q4 that we called out.

But like we mentioned in our prepared remarks, we saw growth in C&E on both a sell-in and a sell-through basis. But I think the key point is that Q1 is our smallest quarter and there's a seasonality aspect in Coolers to consider. But as we look forward, as we enter the seasonally higher period, we think we're in a really good position to win in Coolers. We've got our entire assortment back in the market of soft coolers and we've got new innovation coming in hard coolers.

We do believe there's some sensitivity to higher price point items in the market that still exist. But for the demand that is in the market, we believe we're in a really great position to go win it. From a competitive standpoint, I think like we've said all along, we've had competitors in all categories for years. We believe we've got the best products in the market and we're in a good position to win.

Martin Mitela
Analyst, Raymond James & Associates, Inc.

Q

Great. And just kind of on a last thought about softness on high end items, has the targeted price cuts on certain Roadie and Tundra products helped to spur demand? And should we anticipate any additional pricing actions as well as any future innovation? Will that be at a lower price point just to combat affordability?

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

A

Yeah. So just to touch on the second question, we introduced, as Matt called out – we talked about two new products, a lower price point or our lowest price point wheeled cooler and then a new entry point hard cooler for the category. I wouldn't say that's being done in response to anything happening in the market. This is us just

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completing what we believe is a full portfolio of the products that meets a number of use cases out there. So I wouldn't characterize this as being done in response to anything that's happening in the market.

And I think the same thing goes for the price reductions. What we did in Q1 was – and we talked about this last quarter. It was really in response to the new innovation that was coming and making sure that our pricing stack made sense, that the price to value as you go up the portfolio makes sense in the consumer's mind. So in terms of what happened in Q1, it was a select number of SKUs. It wasn't the entire portfolio, but it was largely in line with what we expected. We saw the elasticity on a unit basis that we expected. And we were pleased with the results.

Martin Mitela
Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you and congratulations on a great quarter.

Operator: Our next question comes from Randy Konik from Jefferies. Randy, please go ahead.

Randal J. Konik
Analyst, Jefferies

Q

Yeah, thanks. Good morning, everybody. Matt, I want to ask a question around innovation. When I think about, let's say, the last couple of years; I've thought about incremental growth being derived a lot from, let's say, additional colorways to the assortment. But more recently, it appears to me and I could be wrong that there has been a sizable impact from form factor changes in innovation as it relates to, let's say, the French press, the cocktail shaker, coffee, ceramic products, et cetera, on the Drinkware side.

Can you maybe give us your perspective there on that innovation as it relates to form factor changes versus color? Because I think what would be interesting there is if in fact a lot of the incremental growth is coming from form factor changes, it just provides a lot more opportunity and changes for existing and new customers to buy into more and more YETI products. Just want to get your perspective there. Thanks.

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

A

Good morning, Randy. Thanks for the question. I think it's a combination of things. You're correct. And as we have continued to scale, as we've continued to draw new audiences domestically and globally into the brand, we've seen opportunity to expand our product portfolio within our two big groups. Drinkware has expanded, we think, in a really thoughtful, powerful way, as you know from following our story. We focus on our productivity and the leverage we get on each SKU we launch. And the same with C&E. We've driven innovation within hard coolers, within soft coolers, the expansion of our cargo business, the expansion of our bags, the addition of M&A to drive an accelerant there. And so we do think that it gives us the opportunity to address more consumer needs and more points in time or more points in their day.

So that form factor change, I think you're going to continue to see a rhythm of us doing that as we expand and diversify the product portfolio. And we think that's a really impactful way to grow the business. Color does play an important role in not just customer acquisition but also repeat purchase. As people build out their YETI ownership, what we see is that people want more color. They want to add into their portfolio and that's not just a Drinkware thing. That's actually across the range.

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What we really work to do is find a balance in those things. We don't want to chase smaller and smaller opportunity and more and more bespoke. We want to continue to put big consumer-relevant items out there in form factor, big consumer-relevant items out there as it relates to color. And that's a formula that's worked for us. And as we continue to grow and scale the business, it's a formula we're seeing work not only in the US but around the world.

Randal J. Konik
Analyst, Jefferies

Q

Yeah, very helpful. And then last question and related to that. Just give us your long-term vision then around how you think about the Mystery Ranch acquisition and product set and then also your ambitions around cookware. Just give us your thoughts there again on the long term. That'd be very helpful. Thank you.

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

A

Thanks, Randy. Two things. We said this before. We think those are two very large, highly fragmented categories, very global in nature, both bags and cookware. We think there is an opportunity to leverage YETI's commercial go-to-market the way we tell brand stories, the way we do our product marketing, the way we cultivate our consumer base, that we think it's a really attractive opportunity in both of those to drive further ownership of YETI, repeat purchase, further use cases.

So I think what you're going to see in both those instances and I talked about this on the call, we'll have our real first entry into cookware, the kind of top end of cast iron later this year. In bags, as we look at taking some of the ingredients and the capabilities and the talent that came along with the Mystery Ranch acquisition and we combine that with some of the materials and talent and designs that we had at YETI is bringing that together and really building out our bags portfolios as we think about the opportunity in active and every day and in travel.

And so with the team that we put in place around both of those things, we're really excited about what that can mean underneath the YETI brand umbrella. And we talk all the time. Our focus is on what the TAM is for the YETI brand. And we think both of those categories fit really well underneath that.

Randal J. Konik
Analyst, Jefferies

Q

Very helpful. Thanks, guys.

Operator: And now we have a question from Anna Glaessgen from B. Riley. Anna, please go ahead.

Anna Glaessgen
Analyst, B. Riley Securities, Inc.

Q

Hi, good morning. Thanks for taking my questions. I think last year you noted that the introductions of tumblers brought a lot of new customers into the fold. Can you talk about how these new customers are engaging with the brand? Are you seeing repeat purchase behavior? Any color on that would be great.

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

A

Hi, Anna. This is Matt. Good morning. A couple of things I would say and a little bit to the prior question from Randy. As we keep expanding the product portfolio in what I would call useful ways for the consumer and

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thoughtful ways for them to engage, we've also continued to diversify our consumer base. As we said in our prepared remarks, the value of our customers continues to go up, the returning and newly acquired customers from a value perspective. And we like that dynamic where we can give them more product that's useful to them.

I think when you look at the expansion, what we're seeing is people diving deeper into our product portfolio, people coming back and repeat purchasing their favorite product. And that's part of our marketing efforts. It's part of our product marketing efforts. It's also part of how we're advancing some of our analytics and how we put the right offer or the right opportunity at the right time in front of the consumer. But we really like the customers that we've acquired over the last three to four years to complement the customers that we've had longstanding with YETI. And we think that's the opportunity to keep bringing innovation in form factor, keep bringing excitement and color and then keep that emotional engagement with YETI.

Anna Glaessgen
Analyst, B. Riley Securities, Inc.

Q

Great. And could you expand a bit? You noted that you're reinvesting in the brand and not flowing through the full gross margin expansion. Can you talk a little bit more about what the key priorities are with that investment?

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

A

Yeah. Good morning, Anna. So I'd say it's a couple of areas. Number one, it's really around what we're doing to grow YETI outside the United States. And you're seeing the results of that, including this quarter where we grew international over 30% and it's now 19% of our business. So I think within international, it's building out the teams we need. It's growing the brand, building brand awareness, building the technology tools that we need, the supply chain infrastructure we need, et cetera, number one.

And number two is we look to build out our inorganic opportunities and be able to support inorganic opportunities. There's obviously a need to build out a team internally to do that. And we talked about that last year in terms of the first steps that we were making there. And then I think, third, even domestically, as we look to expand the portfolio into new areas that are focused on new communities, there's an element of really driving brand awareness in those new areas and in those new product categories. So, those are just some of the areas that you'll see us continue to invest in and hopefully see the results as we go forward.

Anna Glaessgen
Analyst, B. Riley Securities, Inc.

Q

Great. Thanks.

Operator: And our next question comes from Peter Benedict from Baird. Peter, please go ahead.

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

Q

Hi. Good morning, guys. Thanks for taking the questions. So, first, kind of a follow-up on one of the earlier questions. Just curious around Mystery Ranch. I mean, Matt, you've mentioned it as being an accelerant to your bags innovation. I'm just curious around the timing there. Is 2025 too soon to think that you could see an acceleration in your bags innovation, leveraging some of what you've gotten with Mystery Ranch? Or is it going to take longer than that or is 2025 a good time to eye for some initial innovation? That's my first question.

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

A

Hello, Peter. Thanks for that. I would say almost, frankly, before we even closed with Mystery Ranch, we started to work with the teams on how we bring sort of the best ingredients together of both businesses. And so, they are active and well down that path. I think as we go into 2025, we'd look to bring out some additional products that will have the results of the work of those two teams coming together. And that's what they're racing towards. This is not something where I think we're years out from seeing the benefit. And it's the result of partnering with a great group of people who have the talent combined with the talent we have at YETI that we can move really quickly on this. So, we're excited to get going and kind of put our first products out together.

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

Q

Great. And then, I want to pivot over to the international business. Nice to see kind of the management or the addition for the Asia region. Just remind us kind of how you're viewing the org structure now internationally, how you plan to build that out and support the growth. And then, is there any margin difference we should be thinking about with the international business relative to the US as that business continues to improve its penetration? Is there any DTC to wholesale mix to think about or anything else from that angle? Thank you.

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

A

Thanks, Peter. I'll take the front end of that from a structural perspective. Then, Mike can step in on the margin. As we think about the opportunity internationally, one of the things we've shifted our go-to-market structure to have commercial organizations focused on each of the major regions, so the Americas, Europe and Middle East and then Asia Pacific. And the reason being all three are at different stages of their maturation and their development and their growth and their needs.

And so, to have a team that is focused on taking advantage of those opportunities, taking advantage of the opportunity we have in the Americas and taking advantage of the burgeoning opportunity we have in Europe and Middle East and then the opportunity we have building off the strength of an incredible business in Australia as we called out on the call, but in North Asia and in Greater Asia. And so I think that's where we're excited to get a leader in Naoji over that region to start really kind of stoking what we think is opportunity underneath the surface.

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

A

Hey, Peter. It's Mike. And so, a couple things on your question. First, at a sales mix level, it really kind of differs by region. But I would say that in the international, we haven't given specifics. But what we have said is that we don't have our full D2C model outside the US. And in several cases, we've said that corporate sales is underpenetrated. We haven't had customization at scale.

And so, that would imply that maybe wholesale is a slightly bigger piece of the mix internationally just because of not having the full D2C model. But we certainly believe that we're in a position to drive that going forward. And you'll see the D2C mix internationally continue to increase.

From a margin perspective, what we said – once you normalize for channel, the gross margins are relatively the same as in the US. There are some differences by region. But for the most part internationally versus the US, they're pretty similar.

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Where you see the difference is on the operating margin line. So some of the more – the regions where we've been in market for longer, Canada and Australia; we see really strong operating margins that are accretive to YETI. In newer regions that are still emerging like Europe, we're still investing. And so, we've still got some room to sort of drive operating margins up in those countries. But as Europe continues to grow, we'll see that benefit. That just may be offset by new regions that we enter like Asia where we're going to be going through a similar dynamic that we've been going through in Europe, where the first few years are really about investing and building out the region.

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

Q

Got it. So, as we scale internationally, there's nothing structural that keeps the margins below it other than just investments in growing new markets. So perfect, all right. Thanks so much, guys. Good luck. Thank you.

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

A

Thanks, Peter.

Operator: And we have a question from John Kernan from TD Cowen. John, please go ahead.

John Kernan
Analyst, TD Cowen

Q

Good morning. Thanks for taking my questions. Just a couple questions here. The Drinkware business accelerated the last two quarters over 12% growth, close to 13% this quarter. Maybe talk to some of the drivers of that. There has been some new entrants into the marketplace. You've obviously had some category expansion. Just curious, how should we think about Drinkware versus Coolers & Equipment for the remainder of the year?

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

A

Yeah, thanks, John. I'll take kind of the dynamic piece and then Mike can help out and take the back end of that. I would say, as Mike said in an earlier comment, we've always lived in a competitive market for our products. I think what YETI has done consistently is drive innovation, tell consumers why it's relevant, put relevant products out in front of the consumer and be thoughtful about not only our form factor innovation but also color. I think that the success that we're seeing is both new and returning YETI customers responding to the product offering. And I think when you think about our product portfolio and the reason we call out the 50-plus SKUs is in Drinkware, that diversification, giving consumers more reasons to engage with YETI products throughout the day, I think, is a key part of our strategy and I think it's a key part of the success that we've had.

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

A

Yeah. And the only thing that I'd add, John, is that talk about innovation, just the growth opportunity outside the United States that we have. And then as we look forward and what we expect for the year, we said we expect C&E to outpace Drinkware growth. But we do expect to have to grow Drinkware this year at kind of a similar rate that we saw last year. And we think we're off to a good start to deliver that based on Q1.

John Kernan
Analyst, TD Cowen

Q

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Got it. Maybe then just a follow-up on to two partners, DICK'S and Amazon, obviously, Amazon being on the DTC side and DICK'S on the wholesale side. I think the two channels account for almost a quarter of the company sales at this point when you gross up the wholesale dollars it takes. Talk about, I guess, the wholesale channel shelf space there, particularly at DICK'S, and then also Amazon growth there continues to outpace the company average. I'm just curious, what you're learning on Amazon and how much more you can do with them.

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

A

So I'll take the DICK'S question, maybe kind of expand out to wholesale broadly. And then Mike will talk about the DTC dynamics in the overall for YETI. As you think about our wholesale and we said this before, we feel great about the wholesale footprint we have. We feel great about the reach we have with consumers and how we're intersecting. As you know, we've been very thoughtful at how many doors and how rapidly we expand because we continue to invest in the productivity at the stores in which we operate and we invest in the productivity and the performance for our partners. And that's been a hallmark of YETI.

We commented before that our shelf space remained the same. Our mix on the shelf as we launch new products and as we innovate, our wholesale partners continue to find ways to merchandise us, find the space for our products. So the biggest change we've seen in recent is how much of the total space within stores is committed to our categories. And I think that's the dynamic of the consumer interest particularly around Drinkware and particularly around hydration, which we think the attention to the category, as you've seen in the results from YETI, only continue to benefit the strong product offering that we have there. So I'd say as we look across our wholesale landscape in the US, we feel very good about the footprint we have. We feel very good about the support we have from our wholesale partners. We feel great about the receptivity to our innovation and the things that we have coming. And they continue to be a really important piece of YETI's performance.

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

A

And on Amazon, John, obviously, with our disclosures and the 10-K, it would imply we had a really strong Amazon year last year from a growth perspective. We called it out as we went through the year. It was a driver not only on our growth but also from an SG&A standpoint. What we said this quarter is that we saw good growth across all of our D2C sub-channels, Amazon included. And that's on top of having a really strong year last year. So we didn't give specific color on Amazon or haven't given specific color on Amazon from a guidance or outlook perspective other than to say we think it's a really important channel for us. It can continue to be a really important channel for us. But it's going to be, I think, balanced with our other D2C sub-channels this year.

John Kernan
Analyst, TD Cowen

Q

Understood. Thank you.

Operator: Sorry. Now let's take a question from Peter Keith from Piper Sandler. Peter, please go ahead.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hey, thanks. Good morning, guys. Nice results here. Sticking on international, you've gotten a couple of questions. But with the acceleration you've seen in the last two quarters, I was hoping you could just maybe highlight where some of that acceleration is coming from. And then, Mike, also with the acceleration, why would the full year guide still be 20% to 25% for international? And finally on international, I think you've talked about a

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30% sales penetration target long term. Is there any thought that that might be higher as we go forward? Thank you.

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

A

Thanks, Peter, and good morning. I'll take a bit of that and then Mike will weigh in a bit too. When we look at where that acceleration is coming from, we called out on the call Australia continues to perform extremely well. We have an incredible team down there. They have a great wholesale footprint that is getting the brand out in front of consumers throughout Australia. We have a strong e-commerce business. We identified and called out the opportunity and the growing customization or personalization capabilities, the building a really nice corporate sales business. And then we're a little earlier in New Zealand. But New Zealand is a great market for us. It's a market that's a perfect fit for YETI. So I think that's a market where we've got a lot of things in place to be able to build on top of the momentum and the success of that business going back to 2017. So I think that business is in the kind of build strength on strength mode.

In Europe, we called out the UK and Germany. It's been broadly in Europe that we're seeing the brand awareness grow. We're seeing product placement, our partnerships, our marketing, our ambassadors, our event activations. So running the classic YETI playbook is really starting to pay dividends. And we launched that business in late 2019 right before the pandemic. So it had a little bit of slower start with the wholesale disruption during that period. I think now we're in a mode where wholesale partners are starting to grow. We're getting the right kind of and thoughtful additional doors. We're driving a strong e-commerce business. We've got a corporate sales business that's really starting to turf up some really interesting opportunities that are really on brand, brand-right and exciting ways to get that kind of first handshake of product into the consumers' hands. So we feel really good about those growth platforms.

And Canada, as our longest standing international market, continues to diversify their channels to market, continues to grow the corporate sales, continues to drive the customization, has great wholesale partnerships. So overall, I think we're at the mode where that accelerant is something we're putting some energy into to the previous question and putting smart dollars behind it. I think as far as the target of where it can go, when we first – when we were kind of talking about zero international sales, we put illustrative examples of brands that were US-based that had grown internationally. And that's where the 30% came. It was never necessarily a target. But as you look at the opportunity that we're proving is out there and then the opportunity that we haven't yet tapped, we haven't put a cap on what we think international can be as far as a contribution to YETI.

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

A

And hey, Peter. This is Mike. The only thing I'd add is in terms of why we didn't adjust the guidance, I think it comes down to just it's one quarter. It's our smallest quarter. Still have a lot of the year left to go. If you take the full year guide and kind of back out the Q1 results, you're still in that range that we talked about of 20% to 25% growth for the year. But obviously, we think there is a lot of momentum here. We think there's opportunity here for us not only this year but long term. But for now, we're going to sort of hold our guidance for the year. We're just focused on delivering the 7% to 9% for the company overall. And we feel like international is going to be a big piece of that.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Thank you very much and good luck.

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Operator: And now we have a question from Brooke Roach from Goldman Sachs. Brooke, please go ahead.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC
Q

[Technical Difficulty] (00:59:32-00:59:40) you think a sustainable long-term margin path might look like for the brand as you increasingly diversify your business into new categories and geographies relative to the prior rates that you achieved in 2021?

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

Hi, Brooke. I think the front end of your question, at least on our line, cut out. So I apologize, but could you repeat the question?

Brooke Roach
Analyst, Goldman Sachs & Co. LLC
Q

Yeah, sure. Can you hear me now?

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

Yes.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC
Q

Great. I was just hoping you could help us understand where you think the sustainable long-term operating profit margin path might look like for the brand as you diversify your business into new categories and geographies relative to the 2021 prior peak.

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

Hey, Brooke. It's Mike. Thank you for the question. So as we've talked about, we believe that as we've – now that we've recaptured a lot of the inbound freight cost peak that we saw in the 2021 and 2022 timeframe, we're at a point that now we've recaptured that. And we believe we can start to build back operating margins over time. I think you're going to see that in two ways. Obviously, one would be continue to drive up gross margins through sales mix, supply chain efficiencies, product cost efficiencies. And two, we believe that over time we will start to get leverage on our SG&A. There's going to be quarters here or there where you may not see that just quarter to quarter variability. But over the long term, that is absolutely our goal and it's absolutely what we believe we can deliver.

We talked about the international piece a bit earlier. Two of our regions, from an operating margin standpoint, are absolutely accretive to the company. They're at a point where they've got a good piece of the infrastructure they need. Europe is where we're doing a lot of our investing now just because of the opportunity that we see. But over time, as we scale that business, we'll start to get benefit as they drive up their operating margins. That just may be offset as we launch new regions. And obviously, we took a big step recently with a new member of our team who's going to help lead our entrance into that region.

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From a new product standpoint, I think we'll have to see where we go. But as we've done over the last six, eight years as we've broadened our product portfolio beyond just Coolers and Drinkware, those new products, as we launched them or even expanded within those core categories, they've all been at margins that are relatively in line with what we've done in the past. So we don't have a history of as we expand the product portfolio, the margins go down. So we believe we can continue to expand our operating margins from here both through gross margin upside as well as leverage on our SG&A.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

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

Operator: And this will conclude our question-and-answer session. And now, I would like to turn the conference back over to Matt Reintjes for any closing remarks. Please, Matt, go ahead.

Matthew J. Reintjes

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

Thank you, operator. And thanks all for joining the call this morning. We look forward to speaking with you during our Q2 call.

Operator: And this concludes our conference. Thank you very much for attending today's presentation. You may now disconnect and have a great day.

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