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YETI Holdings, Inc. (YETI)

Q3 2024 Earnings Call

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CORPORATE PARTICIPANTS

Maria Lycouris
Managing Director, Solebury Strategic Communications

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

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

OTHER PARTICIPANTS

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

Alexia Morgan
Analyst, Piper Sandler & Co.

Randal J. Konik
Analyst, Jefferies LLC

Phillip Blee
Analyst, William Blair & Co. LLC

Martin Mitela
Analyst, Raymond James & Associates, Inc.

Peter Clement McGoldrick
Analyst, Stifel, Nicolaus & Co., Inc.

Savannah Sommer
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the YETI Holdings' Third Quarter 2024 Earnings Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. This call is being recorded on Thursday, November 7, 2024.

I would now like to turn the conference over to Maria Lycouris, Investor Relations for YETI. Please go ahead.

Maria Lycouris
Managing Director, Solebury Strategic Communications

Good morning, and thank you for joining us to discuss YETI Holdings' third quarter fiscal 2024 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 detailed in our most recent 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 the Investor Relations section of our website at yeti.com.

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

Matthew J. Reintjes

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

Thanks, Maria, and good morning. YETI wrapped another strong quarter with growing brand engagement, performance across our broadening product portfolio, and outstanding growth in our International business, all driven by the consistent, successful execution of our strategic priorities.

Our net sales were up 10% in the quarter, with growth across all channels. On the product side, innovation continues to be a catalyst, with Drinkware delivering several highly anticipated launches in bar and tableware, underscoring the expansion opportunities we see. In Coolers & Equipment, we saw good performance from both legacy and newer product, including several newly launched accessories that complement our existing lineup.

On the International front, we saw our fourth consecutive quarter of over 30% growth outside of the US, while also delivering solid growth in a more challenging US market, where we continue to see high quality, but more discerning buyers. Taken together, YETI's brand strength, strong product innovation cadence, and global growth position us to remain on track to deliver on our full year top and bottom line outlook.

As a reminder, our top line outlook takes into consideration an expectation of more intentional consumer buying in Q4, as we closely watch spending in this shortened holiday season. As it relates to our global supply chain expansion programs, our previously announced efforts remain solidly on track.

As a reminder, approximately 40% of our total cost of goods has historically been tied to products sourced from China, primarily related to our Drinkware portfolio. This supply chain initiative gives us the opportunity to support greater global scale, target end markets for cost and service optimization, and evolve our supply base.

Notably, we commenced production at our second Drinkware facility outside of China during the quarter, and we are on pace for a third facility. We have great partners in this effort, and are encouraged by the process and automation improvements over the past few years to enable these successful moves.

All in all, we are pleased with the performance of this initiative, and as a result, we remain confident that by the end of this year, approximately 20% of our global Drinkware capacity will be located outside of China. And by the end of 2025, 50% of our Drinkware capacity will be outside of China. This initiative is a key priority for YETI and will be actively managed to ensure we are supporting our growing global business and positioning for long-term success.

We continue to have confidence in the long term opportunity in front of YETI across geographies, channels, and product expansion. In the near term, our demand drivers heading into the holiday season are underpinning the reiteration of our outlook in supporting our continued delivery of high-quality growth, strong profitability, and a very sound balance sheet. Our long-term growth strategy continues to prioritize the expansion of brand reach and engagement, greater product diversification, expansion of our omnichannel approach and international.

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Turning to brand. In the third quarter, our team did a terrific job extending our global reach and access to consumers. YETI showed up at over 100 events around the globe, spanning our broad and growing enthusiast communities. From the first annual YETI Open Bass Fishing Tournament in Missouri, to the Outdoor Enthusiast Game Fair in the United Kingdom, a multi-day event attracting over 125,000 attendees.

Notably, the Game Fair was also our highest sales volume event globally in 2024. This is just another point that underscores the effectiveness of our playbook as we bridge to global audiences and create brand and product residence.

Showing our reach and range, we also hosted and participated in exciting events across hospitality and sports. Culinary was highlighted with activations and ambassador engagement at a number of live fire cooking events around the globe, with a notably stronger presence in Europe, including the World Barbecue Championship in Stuttgart, The Big Grill in Dublin, and Meatopia in London. Our entry into the culinary space was further displayed in Eater's Stepping Off the Line in September, featuring YETI-produced content from the Underground Cooking and In Season series.

On the sports side, YETI hosted a skateboarding trip in the Pacific Northwest with a group of skaters, five of whom are brand ambassadors. On the back of this event, iconic industry magazine Thrasher, published a 25-plus page spread in their December issue featuring the experience.

In surf, we had the US Open of Surfing at Huntington Beach, as well as the World Surf League Finals in San Clemente, where two of our ambassadors, John John Florence and Caity Simmers both won world titles. With the exciting momentum we're seeing in the surf community, we published our Fifth YETI Presents, Coffee Table Book last month, titled Waves, which celebrates the intersection of the sport and nature.

We are energized by the massive opportunities we see ahead of YETI to connect to new consumers and enthusiast groups in authentic and real ways, supporting them in the pursuits they care about and providing product relevant to their lives.

As it relates to our sports partnerships, we entered tailgating season with 11 of the top college football programs selling YETI-customized drinkware. These programs, alongside our NFL and other sports league partnerships, put YETI products into the hands of sports enthusiasts that span a broad spectrum of consumers.

Beyond Drinkware, we've also leveraged the American football season to promote our hard and soft coolers during live sports moments, including linear and streaming placements during recent Thursday night and Monday night NFL football games, which collectively generated over tens of millions of impressions for the brand.

Another high-profile media moment in the quarter came out of our partnership with Liquid Death, where we collaborated to create a one-of-a-kind functional cooler casket. Between the cult following of both brands and shared commitment to reducing single-use plastics, we saw significant social and earned media exposure after the campaign launch. The joint Instagram posts around the collaboration reached over 7 million people, and the initial launch post alone was our most shared Instagram post of all time and one of our most viewed videos of all time.

Turning to product innovation. Our team is designing and developing products for frequency and consistency of use in daily lives, whether it be in the wild, in the home, for passion pursuits, or simply for everyday routines. We continue to meaningfully increase our addressable market with the expansion of our existing categories, plus our entrance into newer, large, global markets, such as bags and cookware.

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In Drinkware, we continue to innovate, seeing expansion opportunities building out the portfolio in beverage and food offerings. During the quarter, we launched four highly anticipated products, two pitchers, as well as the full release of our flask and shot glasses, which marks 18 new products launched over the last 12 months in this category. Early performance and feedback on barware has been extremely positive and fits with our tableware and drinkware expansion. As we enter the gifting season, we are optimistic about the potential of these products.

In hard coolers, both innovation and legacy products have been key drivers, with broad based strength in our Roadie and Tundra hard cooler families. In soft coolers, we continue to see strength in our newer backpack format, as well as our smaller-sized thermal lunch-style bags.

More recently, we launched several new accessories that complement our Cooler & Equipment portfolio. Our LoadOut Bucket Swivel Seat, which launched in September, has been in high demand due to the range of use cases from garage to sideline to the field. And last month, our food organization and storage containers went live to complement the functionality and versatility of our hard and soft coolers and tie to our food expansion theme.

Beyond coolers and drinkware, bags performed well in the quarter, and were on track to launch a new range of everyday and all-weather bags in 2025, inspired by YETI and MYSTERY RANCH designs.

Finally, while cookware is our newest family, the initial performance and feedback we received around our cast iron skillet is extremely encouraging. Showcasing our product strategy as we bridge the natural connection of our offerings from live fire cooking to food storage, to coolers, to serving, to eating. This is how we build out the YETI product ecosystem. The introduction of cast iron received positive attention from key tastemakers and culinary media, namely Eater and Food & Wine, where they highlighted quality and performance of our products.

As we continue to expand our product portfolio, we're leveraging our strong and diverse omnichannel. We performed well across channels in the quarter, delivering growth in wholesale and DTC.

In our wholesale channel, our release cadence and innovation strategy has supported healthy sell-in with our partners. Our Wetlands collection saw exceptional demand during the quarter with partners such as Bass Pro Shops, Academy Sports, and our Independent Doors doing an excellent job leaning into merchandizing around this collection and attracting their loyal enthusiast shoppers.

Channel inventory remained in good shape as we managed product distribution and new innovation launches. Wholesale plays an incredibly significant role for YETI as we want to be where consumers shop and intersect with them during buying occasions, whether those are impulse or intentional.

In DTC, while we continue to see some weaker traffic trends, the quality and value of customers that are shopping with us is higher, suggesting more deliberate, loyal purchasing. To support those who shop directly with us, we're building new ways to connect. During the quarter, we launched our YETI ID program with a more unique and personalized experience, exclusive to account holders on yeti.com. This includes a preference center, product registration, and gear locker experience as we engage more deeply with our customers.

The Amazon marketplace showed strong demand in the quarter, and in corporate sales, we saw growth across all regions with strength outside of the US. In retail, we opened our 23rd store in the third quarter with our 24th coming this month, hitting our commitment of six store openings this year.

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Our newest location in Virginia at Tysons Corner has seen strong traffic, and across our fleet, we are seeing strong drinkware performance. In general, we continue to see our stores have a positive impact on omnichannel performance in the markets where they are present, raising awareness of our brand and exposure to the full product portfolio.

Turning to our International business. We continue to see momentum and growing awareness in non-US markets. Our brand playbook and go-to-market strategy is seeing traction in Europe and is receiving strong reception from retail partners and consumers. We're on the front end of this significant opportunity, and we remain focused on continuing our brand expansion strategy as we scale our infrastructure and omnichannel approach. Our investments in team, brand, and distribution are supporting our continued robust growth.

As we expand our reach, grow our wholesale partner footprint, and as customization ramps up in 2025, we expect strong performance across our European markets, with particular focus in the UK and Germany.

Australia continues to deliver exceptional growth across all channels, powered by our national wholesale partners and with good execution at our important smaller independent retailers. In DTC, customization has been a real positive as we continue to scale capacity and we see opportunity to continue driving this demand through e-commerce and corporate sales.

Similarly in Canada, we are scaling our custom business and expanding our corporate sales partnerships. On the wholesale front, while broader consumer headwinds and channel cautions persist, we're focused on strong merchandising and brand presence. On the DTC side, we see positive response to our enhanced customization offering in our first Canadian YETI store, which opened in Calgary during the quarter, has exceeded our early expectations.

Before I turn the call over to Mike, I want to share a few thoughts as we look to wrap 2024 and why, in my 10th year leading YETI, I'm so excited about the future. Taking our updated outlook for 2024, combined with our historical quarter-to-quarter and year-to-year quality of execution since we went public in 2018, YETI has more than doubled revenue and tripled EPS. But I sit here today more enthusiastic about where we're going than in any other point in our history, execution has been a hallmark of the business and I expect the future to be no different.

The real excitement comes as I look towards the long term and what is in front of this brand, this product portfolio, and this team. Innovation, expansion, and execution are our priorities.

Our Drinkware business continues to evolve and grow its addressable market. We see proof points of the growth and relevance from our innovation, not only deeper into drinkware, but also broader into the food space. This evolution has led to food storage and premium cookware, collectively representing a large global TAM we track to be over $10 billion.

Underlying our enthusiasm around this expansion are the global macro trends around hydration, health and wellness, and being active, outdoors, all themes we believe strongly benefit YETI long term across product families.

Additionally, our relevance and expansion in coolers, not only with our current hard and soft cooler solutions, but also the opportunity in broader daily use, such as smaller format thermal bags, fit within the macro themes and expand how YETI enables daily life.

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With YETI continuing to extend the market opportunity in drinkware and coolers, I'm equally excited and enthusiastic about the expansion and growth opportunity in premium bags, packs, and luggage.

As I look across the landscape of everyday travel, hike, hunt, sport, all-weather and water-based packs, bags, and luggage, I believe that we have the right brand, DNA, designs, and capabilities to sustainably build out and address another large and expansive $10 billion-plus global TAM.

The ecosystem of YETI products is growing and varied, with multiple avenues for expansion beyond what we've already publicly disclosed. Importantly, we remain committed to and connected by the ethos of product rooted in premium, durability, performance, and design. And underlying all of it is a powerful and vibrant outdoor-inspired and lifestyle-oriented brand that we cultivate through real relationships with expansive global audiences.

While near-term dynamics and markets can be unpredictable and have an influence on the business, the consistent long-term opportunity in front of us is as rich and achievable as I've seen in my time at YETI. Recognizing the current market environment remains choppy, we're focused on managing through the unknowns heading into Q4 in 2025 to deliver on our 2024 full year outlook and our long term potential.

To that end, I would like to thank our team for their unwavering commitment to building our brand and innovation, supporting our customers, and driving our profitable growth.

Now, I will turn the call over to Mike.

Michael McMullen

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

Thanks, Matt, and good morning, everyone. I'll start by providing a brief overview of items contained in our third quarter GAAP numbers that affected both the year-ago and current period results. I'll then provide a review of our third quarter performance, followed by an update on our outlook for the full year. We will then open it up for your questions.

There were two items of note that impacted our GAAP results. First, the prior year quarter's results included a $0.8 million benefit to cost of goods sold related to our product recalls. There were no adjustments made to our recall reserve in the current period.

Second, similar to our two prior quarters, our GAAP results include costs associated with the acquisitions that we made earlier this year. These include the impact of purchase accounting on gross margins as well as other minor transition costs within our operating expenses.

Per our standard reporting practices, the impact of these and other non-recurring items are excluded from non-GAAP results. All results presented on today's call will be on a non-GAAP basis in order to better focus on the operating performance of the business during the quarter.

Now, turning to our third quarter results. Sales increased 10% in the quarter to $478 million. This was in line with our expectations and was driven by growth across all categories, channels, and geographies. This quarter's year-over-year growth includes an approximately 100 basis point net headwind from gift card redemptions related to our product recall.

Our results this quarter include $2.7 million in gift card redemptions compared to $6.3 million in gift card redemptions in the prior year quarter. On a year-to-date basis, sales are up 10% versus the comparable period

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last year, again across all of our categories, channels, and geographies. We believe this demonstrates the continued momentum and growth potential of the YETI brand and product portfolio, with more growth available for us to go capture in new communities, new categories, and new geographies.

Now, moving on to our sales by product category. Coolers & Equipment sales increased 12% to $193 million. We have been very pleased with the performance of C&E this year, as this was the third quarter in a row with double-digit growth in the category. Hard coolers had a strong quarter supported by our recent innovation. In particular, we are thrilled with the customer feedback and sales performance of the new Roadie 15 hard cooler and believe that this product is in position to have a very successful holiday season.

Soft coolers benefited from continued good demand for our line of backpack coolers. And our Daytrip Lunch products also performed well, particularly during the key back-to-school shopping period.

Within Equipment, our bags category had a great quarter, exceeding our expectations with continued strong performance in our SideKick, Camino, and Panga product lines.

Finally, MYSTERY RANCH branded products continued to perform in line with our expectations, and we are excited about what the future hold as we near the launch of our YETI branded backpacks that leverage the premium design, carry, and performance tenets of MYSTERY RANCH.

Drinkware sales increased 9% to $275 million, supported by our broad and diverse portfolio of products, our continued innovation, and our global growth opportunity. As Matt mentioned, this quarter we continued our expansion into barware and tableware with the launch of our Pitcher in two sizes, as well as the full release of our flask and shot glasses following the very successful limited release in Q2.

As we continue to expand our portfolio, we are seeing some really encouraging consumer behavior. As we launch more and more products that are intended for group sharing, like our Beverage Bucket, Wine Chiller, French Press, and Pitcher, we're seeing a nice lift in other parts of our portfolio, such as our lineup of stackable cups in six different sizes.

We believe that this dynamic will only build as the awareness of our full portfolio continues to grow. One final point on Drinkware that we believe is often overlooked. We see a tremendous growth opportunity in Drinkware outside the United States, led by our expanding brand awareness and retail partner footprint.

Moving on to our performance by channel. Wholesale sales were $198 million in the third quarter, up 14% versus the same period last year. In the US, we continue to benefit from the strength and diversity of our wholesale channel, diversity in terms of size, pursuits, and location. We think this positions us well to capture the demand that is in the market regardless of macroeconomic conditions.

Longer term, we also believe that this puts us in a great position to grow our shelf space with our wholesale partners as we expand our product portfolio. Outside the US, wholesale dealer growth remains a focal point of our strategy, as we continue to see plenty of opportunity for new partnerships around the globe. Finally, inventory in the channel remains healthy and is well-positioned to support demand as we enter the holiday season.

Direct-to-consumer sales grew 8% to 281 million, driven by good growth in both C&E and Drinkware. Similar to last quarter, all of our DTC channels posted growth in the quarter, led again, by our Amazon business. Excluding the headwind from gift cards, total DTC growth was approximately 10%.

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Turning now to our International business. Outside the US, sales grew 30% to $88 million, driven by exceptional growth in Europe and Australia. We are encouraged by the momentum and brand awareness we are seeing in new markets, and we will continue to invest in building our presence, in scaling our infrastructure and omni-channel capabilities in these geographies.

One example of those capabilities is within Drinkware customization. We're now offering customers in Australia and Canada, both consumer and corporate sales, the ability to customize and personalize their YETI products. This has been a driver of our growth so far this year, and we believe it will be a successful offering for us this holiday season.

As it relates to margins, gross profit increased 11% to $278 million, or 58.2% of sales, compared to 57.8% in the third quarter last year. The drivers of this roughly 40 basis point increase in gross margins during the third quarter included lower inbound freight and lower product costs had favorable impacts of 160 basis points and 80 basis points, respectively. These gains were offset by 40 basis points from higher customization costs, 40 basis points from supplier and product transition costs, 30 basis points from the strategic price decreases on certain hard coolers that we implemented during the first quarter, and 90 basis points from a combination of other smaller impacts.

SG&A expenses for the quarter increased 11% to $199 million, or 41.7% of sales, compared to 41.3% in the same period last year. Non-variable expenses increased 170 basis points as a percent of sales, primarily driven by higher employee costs, and higher marketing expenses, as we continue to spend into growing brand awareness and in building out our global teams to support the growth opportunity that we see looking forward. Variable expenses decreased by 130 basis points as a percent of sales due to a higher mix of wholesale sales, as well as strong AOVs across our DTC channels.

Operating income increased 11% to $79 million, or 16.6% of sales, an increase of 10 basis points over the prior year period. Net income increased 14% to $60 million, and earnings per diluted share was $0.71 compared to $0.60 in the prior year period, an increase of 18%. Year-to-date, our earnings per diluted share of $1.74 is up nearly 30% versus the same period last year.

Turning to our balance sheet, we ended the quarter with $280 million in cash, which was relatively flat on a year-over-year basis, despite our $100 million share repurchase and our two acquisitions that were all completed in the first half of this year. Inventory increased 8% year-over-year to $370 million.

As we look forward, we expect year-end inventory to be approximately flat versus the prior year as we continue to drive efficiencies in our global inventory planning. Total debt, excluding unamortized deferred financing fees and finance leases, was approximately $79 million compared to approximately $83 million at the end of last year's third quarter.

Now, turning to our fiscal 2024 outlook. We now expect full year sales to increase approximately 9% compared to fiscal 2023's adjusted net sales, which is the midpoint of our prior range of 8% to 10%. We continue to take a prudently conservative approach in our demand planning for the remainder of the year. As Matt said, we believe this is the right approach given the current macroeconomic backdrop, as well as the shorter shopping period between the Thanksgiving and Christmas holidays this year.

The components of our full year sales outlook remain largely consistent. We continue to expect slightly higher performance from our wholesale channel versus DTC, given our current momentum in wholesale. By category, we continue to expect Coolers & Equipment to outpace Drinkware, supported by strong performance in hard

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coolers and bags. Finally, we expect international growth to remain in the 30% range, with domestic growth in the mid-single digits.

Moving down to P&L. Our 2024 gross margin target remains at approximately 58.5% versus 56.9% last year. This 160 basis point expansion for the year has not only been driven by lower inbound freight costs, but also the efforts of our teams to drive savings in other areas, such as product costs.

As we mentioned last quarter, we did see elevated surcharges on inbound freight shipments through much of the third quarter, which we managed well within our P&L. Those surcharges have started to come down, but we would expect the year-over-year benefit to our gross margins from lower inbound freight to be smaller in Q4 than in Q3. When combined with the impact of our hard cooler price decreases and an unfavorable impact to margins from sales mix, we continue to expect fourth quarter gross margins to be relatively flat on a year-over-year basis.

Moving on to SG&A, we continue to expect full-year SG&A growth to be slightly above full-year sales growth. As we have consistently said this year, we are investing a portion of the increase in gross margin that we will see in 2024 back into SG&A in order to drive future growth.

Our expectations for adjusted operating margins also have not changed. We continue to expect operating margins of 16.5%, 90 basis points higher than the 15.6% that we delivered in fiscal 2023. This represents operating profit dollar growth of approximately 15%.

Below the operating line, we now expect an effective tax rate of approximately 24.8% for fiscal 2024, in line with the prior year. And we continue to expect full year diluted shares outstanding of approximately $86 million. As a result, we now expect adjusted earnings per diluted share of approximately $2.65, which is the high end of our prior range and represents year-over-year growth of approximately 18%.

As for cash, we now expect full year capital expenditures of $50 million and our outlook for free cash flow remains consistent at between $150 million and $200 million. We will remain opportunistic with our capital allocation approach going forward, balancing both M&A opportunities and the remaining $200 million on our share repurchase authorization.

All in all, we are proud of our third quarter performance and the broad strength we saw across our businesses. Our top and bottom line execution in the first nine months of this year gives us confidence we can achieve our full year guidance, while also continuing to drive our strategic priorities forward.

Our growing cash position gives us the opportunity to further invest in the business, while also opportunistically pursuing a combination of strategic acquisitions and share repurchases. As we move into our year-end, we continue to focus on strengthening the brand, expanding our product portfolio, and driving omnichannel and international growth.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] One moment, please, for your first question. Your first question comes from the line of Peter Benedict of Baird. Please go ahead.

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

Q

Hi. Good morning, guys. Thanks for taking the question. First one is just kind of around the [ph] low tariff (00:32:05) question. Appreciate the efforts you're making to diversify your sourcing outside of China. I'm curious how the international supply chain works at this point. If we kind of fast forward maybe 12 to 18 months, how much of the China-sourced drinkware can you just ship directly to other international markets and not bring to the United States? Is that a nuance that we should be aware of or thinking of as we try to pencil out potential tariff cost impacts on the business? That's my first question.

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

A

Hey, Peter. It's Mike. Thanks for the question. Yeah. So, absolutely. So, as we go through this, any product made in China can go directly to the region, so to Europe, to Canada, to Australia. So, one of the things we've talked about as we've gone through this is this is obviously currently primarily a US dynamic, which we feel as our International business grows sort of helps offset some of the potential cost risk that is out there.

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

Q

Okay. That's helpful. And another question, Mike, kind of is how do we think about the pace of SG&A growth and really more of the non-variable side as we look at it? You mentioned you've been investing to support international growth. But as we kind of look out beyond this year and maybe you have some gross margin tailwinds that maybe moderate or just how do you think about your ability to manage the SG&A line in the event that gross margin isn't as much of a tailwind as it has been for the last year or two?

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

A

Yeah. So, I'd say, our comments have been pretty consistent here. And I'd say that everything that we've done this year has largely been intentional. So, coming into the year, we knew we were going to have some gross margin tailwinds. And we viewed it as that is an opportunity for us to invest some of that back into the business and still allow operating margins to expand.

So, year-to-date, gross margins are up 240 basis points. We've taken 70 basis points of that and still expanded operating margins to 170 basis points. For the year, the outlook that we put out today would imply gross margin expansion of 160 basis points. Again, SG&A investing 70 basis points of that back into SG&A and allowing for 90 basis points of operating margin expansion. That's all intentional.

So, as we go into next year, we're going to be very thoughtful about how we approach that. And we've been pretty consistent that it is our intention to manage gross margin and operating margins together to drive operating

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margins up over time. And we're obviously not giving specific guidance on 2025 today, but we've been pretty consistent that that is our intention as we go into next year.

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

Q

All right. Great. That's helpful. Thanks so much.

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

A

Thanks, Peter.

Operator: Thank you. Your next question comes from the line of Peter Keith of Piper Sandler. Please go ahead.

Alexia Morgan
Analyst, Piper Sandler & Co.

Q

Hi. This is Alexia Morgan on for Peter Keith. Thanks for taking our questions. Maybe just more on the tariff topic. So, you're de-emphasizing China exposure within Drinkware, that's great. But how should we think about gross margin impact there? And is the facility move expected to be relatively smooth in terms of margin impact? Or how should we think about that?

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

A

Yeah. Thanks for the question. So, obviously, there's been a lot of focus on the potential impact of tariffs. But I think it's really important to remember at the present time, there are a lot of unknowns. So, the amount of the tariffs, the specific products, the timing, et cetera. There's just too much that we don't know to try and quantify beyond what we talked about last quarter and then reiterated today in terms of what we're doing.

And I think that's where we'd like to focus is, here's what we are doing. The plan that we laid out last quarter and that we reiterated today is on track, number one. Number two, we're working very closely with our suppliers who have strong – we have strong long standing relationships with. We're working with them on a solution and also assessing potential new partners. And, third, we'll have to see as we go through this, but I think we would look at price potentially as an option to offset any potential tariff risk. So, basically, we're focused on the things that we can control.

And the other thing that I would lay out that just as a reminder, we have been through this before in the 2018-2019 timeframe with soft goods, and we navigated that successfully, and we believe the plan that we have in place today would allow us to do that again. But, again, there's just a lot of unknowns right now to lay out a specific number.

Alexia Morgan
Analyst, Piper Sandler & Co.

Q

Okay. That's helpful. Thank you. And then one more just on wholesale sell-in. So, sales were really strong in the quarter. I mean – I'm sorry, you mentioned healthy wholesale sell-in already, but could you go more into detail on the wholesale sell-through dynamics that you saw in Q3? And then maybe how those compared to earlier in the year?

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

A

Yeah. So, here's what I'd say. We've been very pleased with our sell-in and our sell-through this year. As we look this year in the US, now, one thing I do want to make sure is clear is that, when we talk comparing sell-in and sell-through, when we talk sell-through, that's primarily a US dynamic. And so, whereas the wholesale reported number is global. And so, when you look at just the US sell-in piece, they're reasonably aligned across both C&E and Drinkware. And we've been really pleased with how sell-through has performed this year. And I think as we go into the holidays, we think we're in a really, really good inventory position to have a successful Q4.

Alexia Morgan
Analyst, Piper Sandler & Co.

Q

Okay. Thank you. That's it for me.

Operator: Your next question comes from the line of Randy Konik of Jefferies LLC. Please go ahead.

Randal J. Konik
Analyst, Jefferies LLC

Q

Thanks, guys. And good morning. I guess maybe, Matt, for you, considering the International business has continued to power ahead here, maybe frame up for us where are we today with bodies in the different regions in terms of employees, just infrastructure, the way everything is set up, as we think about additional growth in areas like Europe and Asia. Just try to frame it out for us in terms of where we've been, where are we, and where we're going in those markets ahead? Thanks.

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

A

Thanks, Randy. Good morning. I would say a couple of things. As we've talked in the past, we've kind of built these pillars of international growth through time. And we've said before, Canada and Australia, those two markets from a team infrastructure really are built out and they're in the scale mode. And we called out, in particular, we called out Australia today and the strong growth and execution that that incredible team we have down under continues to deliver.

Europe was a couple years behind that in its build out, but with the team that we put together in Europe focused on Continental Europe and focused on the UK, we feel really good about the infrastructure that we have built. There's still some more investment in front of that as we continue to kind of go up the scale. But I would say, we're still in, when you look at the relative size of that market, we're still in the early days of the potential in Europe. And that's why we continue to call out, even specifically Germany and the UK, we think the opportunity is extraordinary. The reception has been outstanding, the playbook is working, and it's really powering. It's meaningful growth for us now. And it's kind of – as we reported today, that's part of what you're seeing in that result is the strong execution of Europe and the UK.

But I would say even more exciting is how early we are in that opportunity. Asia is further back in that investment. We're very early in the startup in Asia, and building out our go-to-market strategy and our resourcing there. So, I think Asia, North Asia, Japan, Korea will be a story over the years to come. I think Europe and the UK, we'll be talking more and more about in the near term as we kind of take the foundation we built and really scale off of it.

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Randal J. Konik
Analyst, Jefferies LLC

Q

Thanks. And then, I guess, lastly, maybe give us some further impact how you're thinking about product evolution ahead in innovation. You talked a lot about excitement around barware. You also kind of gave us some good perspectives on the investments in sponsorship you've been doing on the culinary side of another audience that you're targeting. Maybe just give us some perspective on how you're thinking about going forward, how we should be thinking about innovation around other categories or other areas for the strong YETI brand to go into ahead? Thanks, guys.

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

A

Yeah. What I'd say here, Randy, is, you know, if you look back, I think our historical evolution sort of laid all the foundations for what we're talking about today and really are the setup for where we're going in the future. I don't expect and has never been a hallmark of YETI to go just scattershot the brand and scattershot the product portfolio, we really want to thoughtfully build it out so it all connects.

And so what you're seeing, and I think 2024 is really an example of that and I think you'll see it continue into 2025 and beyond is, as we build out drinkware and we connect more into food and culinary and as we build out our coolers and really expand the use cases there and as our bags portfolio continues to evolve, and as we continue to evolve our storage, cargo, protective case business, you're going to also see those all fit together within the YETI ecosystem.

And so, what we're really ultimately trying to do is surround the consumer with more use cases in their daily lives, make the brand more present and the brand more relevant, because we know we have the brand heat, we know we have the right product ethos, and we feel those opportunities to grow it.

We're incredibly excited about what's in front of us in bags. We think that is a massive global market that is right for YETI. I think that combination of drinkware moving – market moving from being very cup focused to being very solution-oriented, and that's the barware, serveware, tabletop connection to cooking and culinary, we're really excited about. You know, and I think over the next kind of near and midterm, you're going to see us aggressively build that out. But I think you're going to look at it and say that all really makes sense underneath the YETI umbrella.

Randal J. Konik
Analyst, Jefferies LLC

Q

Great. Thanks, guys.

Operator: Your next question comes from the line of Phillip Blee of William Blair. Please go ahead.

Phillip Blee
Analyst, William Blair & Co. LLC

Q

Thanks. Good morning, guys. Can you talk a little bit more about your expectations for the upcoming holiday? Maybe what you're seeing in quarter-to-date trends and then any level of conservatism built in, ahead of peak season ability to chase. And then any impact of a potentially more promotional competitive environment? Thanks.

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

A

Hi, Phillip. I would say a couple of things and I'll reiterate a little bit of what I said and Mike said. Q4 is always big for us. YETI has always been an incredible gifting solution and gifting product and a highly desirable one. I'd say year-to-year and depending upon environments, you see different behaviors in Q4, when buying starts, kind of when the season falls. So, we closely monitor those. We feel great about how we're positioned for the holidays. We have incredible plans with our wholesale partners domestically and globally to address the consumer when they shop.

This year there is a shortened run between the goalposts of the traditionally defined holiday buying season. And so, you know, we're well primed for that. We're excited about the innovation we put into the market. This year, that's still undiscovered, that still has opportunity to be a great holiday, great gifting solution.

And, you know, as our history has been, we always have some things that we have for the holidays to stoke energy and demand and drive traffic and interest. So, you know, I think it's – I think we're early in the quarter as it relates to the holiday. And, you know, I think as we go forward and get into this shortened season, we're ready to react to what the market gives.

And, I would say, as it relates to the promotional environment, we haven't seen anything outstanding and unusual in the quarter-to-date. And as we have always done, our promotional cadence has continued to be consistent and similar to what we've done in the past.

Phillip Blee
Analyst, William Blair & Co. LLC

Q

Okay. Excellent. Very helpful. And then, you know, on gross margin, outside of any potential impact of tariffs, can you talk about what inning you are in for some of your gross margin improvements, may be between kind of the normalizing transportation costs that are more macro versus some of your internal initiatives on controllable and product costs, just to kind of try and give us some sort of gauge on a go-forward rate. Thanks.

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

A

Yeah. Hey, Phillip. So, difficult to put an inning on it, because I'd say, this is a continual process that we have internally to manage our COGS, to manage our gross margins. And there's things that happen every year, in terms of things going on in the business, things going on in the market that we need to react to as well.

Obviously, we've been really pleased with our gross margins in 2024, the expansion that we've had out. The outlook that we put out was essentially holding to the 58.5%, which was nice expansion year-over-year. The outlook, what it implies for Q4 is essentially a flat gross margin in Q4 like we talked about, but there's some things driving that that we believe are specific to this time period, that won't necessarily continue as we go into next year.

We'll lap the hard cooler price decreases, sales mix, the faster growing – wholesale is growing faster than DTC. C&E is growing faster than Drinkware. Those are both, somewhat diluted to gross margins. It's our intention to sort of grow the categories together. It's our intention to grow DTC faster than wholesale. So, we think that also can provide some benefit going forward.

And then, lastly, one thing that's going to impact in Q4 is we've talked about these freight surcharges that we've seen. We did a nice job of managing those, we believe, but the benefit that we'll get in Q4 from freight year-over-

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year is going to be lower than what we saw in Q3, because a lot of those surcharges are going to flow through our P&L in Q4. So – but, you know, we've said all along, we think those are transitory and we are starting to see those come down.

Again, not giving specific guidance on 2025, but other than to say, we're going to continue to do what we've been doing, which is manage our product costs, manage our inbound freight costs, and continue to drive gross and operating margins up over time.

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

Yeah. And the only thing I would just add to what Mike said is – and we have strong gross margins, and we have strong operating margins, and we continue to work both and see opportunity. And I think when you have a situation where you drive top line growth, you have strong gross margins, you have strong operating margins, we think really good things will continue to happen in our P&L and they'll continue to strengthen what we think is already an incredibly strong balance sheet.

Phillip Blee
Analyst, William Blair & Co. LLC
Q

Okay. Excellent. Thanks. Best of luck on holiday.

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

Thanks, Phillip.

Operator: Your next question comes from the line of [ph] Megan Clapp (00:49:42) with Morgan Stanley. Please go ahead.

Q

Hi. Good morning. Thanks very much for taking our question. Wanted to just ask kind of big picture. You're talking to mid-single digit growth in the US this year. There's obviously been a lot of noise year-over-year as it relates to gift cards, some acquisition.

So, I guess, when you think about kind of the go forward, is mid-single digit growth in the US the right level? And is that, you know, category up low single digits and you gaining some share? And if not, you know, maybe how do you think about that kind of growth in the US going forward?

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

[ph] Megan (00:50:25), thanks for the question. I would say, while we're not sitting here in kind of our Q3 call and Q4 updating any version of our long-term outlook, what I would reiterate is the signs we're seeing in the brand potential and what the market opportunity is for the brand, the expansion opportunities we're seeing in the product portfolio as we continue to build it out just opens more and more new doors, the growth opportunity domestically that we see as we think about that product expansion gets us incredibly excited.

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Without giving a specific number on it or pegging to a number, I think that quarter-to-quarter, year-to-year, there can be some changes based on background, market backdrop, strong, weaker, how our product cadence and our product expansion comes out.

I think when you step back from it all, to your point on the bigger picture, we're incredibly bullish on the brand. We're incredibly bullish on the product expansion and where we can go, the consumer receptivity. The partners we have today to get to market and address those consumers domestically and that's before you get to the very early days of what we think are really long run international growth.

So, I think, as we go through our annual guidance, we'll talk more about that. But I think when you think about – if you step back and think about potential and you think about relevance and you think about connection, product, and consumer, we feel great about where we are.

Q

Okay. Awesome. That's helpful. And maybe – sorry to ask another question on tariffs, but maybe a little bit different. Your balance sheet is in a really great spot. How do you think about, perhaps, the ability to take on some debt and increase leverage to, you know, give yourself a little bit more flexibility on the bottom line? Are there investments in capacity that you can accelerate? It's obviously encouraging to hear that you will be able to get 50% outside of China by the end of 2025. But is there anything that you can do from a capital standpoint to perhaps accelerate that further? It would just be great to kind of hear a little bit more, how you're thinking about the ability to leverage the balance sheet to offset some of these maybe short term headwinds.

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

A

Yeah. [ph] Megan (00:53:03), thanks for that question. I would say, we do have an incredibly strong balance sheet. We feel great about it. We feel great about our free cash flow generation and what that says about the business operationally.

When we think about our supply chain alongside all of our other strategic initiatives, we continue to look for ways to get to the answer faster and get to the right answer with more thoughtful approaches, leveraging the people capabilities and capacity we have, the capital we have. So, I think as we get deeper into this and we understand as it specifically relates to tariffs, what we're dealing with, those kind of flexibility conversations, those kind of investment conversations we absolutely look at. And as Mike said, we'll look at everything – as it relates to tariffs, we'll look at everything from consumer pricing to how we manage and operationalize the business to investments we make in the continued evolution of our supply chain. So, all of that is active on-the-table discussions and some of it being actioned right now.

Q

Great. Awesome. Thanks so much. Best of luck.

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

A

Thank you. Thanks, [ph] Megan (00:54:22).

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Operator: Your next question comes from the line of Joe Altobello of Raymond James. Please go ahead.

Martin Mitela
Analyst, Raymond James & Associates, Inc.

Q

Hey. Good morning. This is Martin on for Joe. I just want to touch on 4Q again. You know, EPS for this quarter is up 18%. And if we've done the math right, you're sort of implying flat for next quarter. I know you mentioned the shorter buying season and you've touched a little bit on margins. I'm just wondering if there's any pull forward or any other dynamics that haven't been mentioned yet?

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

A

No, I think, we've – I mean, it's largely a consistent story. So, when you think about Q4, I think there's a couple of components to Q4 related to sales, gross margin, operating expenses, and I think we've touched on a lot of those in terms of the environment that Matt talked about, some of the dynamics and gross margin that we believe are specific to this quarter.

And then, our decision to continue to invest into the business using some of the upside in gross margin we've had this year. But I think everything needs to be looked at in terms of context of the year, both our results year-to-date and then as well as our outlook. And so, we are very pleased with the year that we've had so far and the year that we're about to post both on a top line basis and a bottom line basis. There's some unique dynamics in Q4 that we talked about. I think the other thing is that when we put out an outlook, we obviously want to make sure that we feel good about that. And that's what we've done today. So, nothing beyond what we've talked about.

Martin Mitela
Analyst, Raymond James & Associates, Inc.

Q

Okay. Understood. And could you just update us on the competitive landscape and how your market share is holding up?

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

A

I'll take that. A couple of things on the competitive landscape. We haven't seen largely any significant changes in the competitive landscape. I think when you look at our results and how we continue to deliver quarter-to-quarter, the partnerships we have, the shelf space we continue to maintain and grow domestically, the opportunity that we're seeing globally, I think markets are competitive and you have market alternatives that come and go and some come and stay for a bit. But I think the residual kind of strength of YETI and the strength of the brand that we're building and the diversification and growth of the product portfolio, I think are all signs of kind of how we weather the market. And so, I feel good about where we are. I wouldn't say we've seen any appreciable or material changes to the market.

Martin Mitela
Analyst, Raymond James & Associates, Inc.

Q

Okay. Great. Appreciate it, guys. Thank you.

Operator: Your next question comes from the line of Jim Duffy of Stifel. Please go ahead.

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Peter Clement McGoldrick
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi. This is Peter McGoldrick on for Jim. Thanks for taking our questions. Just first, thinking of the composition of the 30% year-over-year international revenue growth, can you provide some insight to the contribution of new dealer growth and gains within the existing customers for this quarter? And then as we look forward, how should we expect that to evolve sequentially as we look forward over the mid-term?

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

A

Hi, Peter. We haven't historically given kind of a resolution down into those markets at that level of specificity. But what I would say to you is, if you kind of follow how we've talked about Canada and Australia and those markets largely built out the infrastructure established, the omni-channel, and the things that we point out, customization, strong wholesale partnerships, our e-commerce businesses, that would lead you to believe that it's evolving a lot like the US.

And when we talk about the playbook we run, we aren't traditionally an open new door negative comp door type brand, that's not been the approach we've taken and we've taken that and exported it to the globe. Europe, obviously, we've been adding some wholesale doors, but that as we've called out in the past, has been a really strong e-commerce business. We have a growing Amazon marketplace. We've got a growing corporate sales custom business.

And then the other dynamic in Europe is there aren't large kind of Pan-European multinational retailers like you'd see in the US and Australia and Canada. And so, it tends to be more picking the right doors. And so, it's a much more methodical process as it relates to wholesale build out, which would lead you to kind of the conclusion that the business that we have is performing well.

Peter Clement McGoldrick
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. And then just thinking about Drinkware specifically and holiday. YETI is a giftable staple already. Can you share any figures underpinning the fourth quarter outlook as it relates to wholesale shelf space, reorder rates, DTC contribution, new products or international contribution?

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

A

Yeah. So, thanks for the question. I mean, here's what I'd say. We didn't give specific – when we gave our outlook for the year and we talked about sort of we expect the channel category and international dynamics to sort of continue that we've seen this year, wholesale growing faster than DTC. C&E growing faster than Drinkware. And that's, I would expect, Q4 to look similar to that. We think we've got, for Drinkware specifically – and Matt talked about this, I mean, the number of products that we've released in the last 12 months that we think are highly giftable items at highly giftable price points and we think could set us up for a really strong holiday season. But, I think Q4 as it relates to the relationships between channels and categories and international will look pretty similar to how we've looked all year long.

Peter Clement McGoldrick
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Very helpful. Thank you.

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Operator: For your last question, we have Brooke Roach of Goldman Sachs. Please go ahead.

Savannah Sommer
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. This is Savannah Sommer on for Brooke Roach. Thank you so much for taking our question. In your prepared remarks, you mentioned a lot of excitement around the expanded bags launch planned for next year. Should we think about a similar value proposition rebalancing to your existing bags and packs business ahead of the launch, similar to the changes you made with your hard cooler expansion earlier this year? If so, how should we think about the breadth and depth of those price changes? Thank you.

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

A

Yeah. Hi, Savannah. Thanks for the question. We are excited not only about the literal launch of those bags, but actually what it starts from an expansion in growth and what we see is the, frankly, the long term potential in bags. As I've laid out on the call, that run from everyday travel, sport, hike, hunt, water-based things, all-weather bags, I mean, all those we think are incredible sort of and natural growth extensions for YETI in this bags, packs, and luggage space. As I think about the Q1, the bags that we are bringing out in the first half of next year, really are expansionary and additive to what we have today. So, there is some interplay between the bags that we have in the market and these, but I wouldn't expect anything meaningfully transition-wise between those. It's really, we're looking to expand line, create more choices for consumers in our bags and packs.

Savannah Sommer
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for the color.

Operator: Thank you. I'd now like to turn the call back over to Matt Reintjes for a final closing remark.

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

Thanks, everybody, for joining us. We look forward to speaking with you on our Q4 and full year call. Have a wonderful rest of your month.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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