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YETI Holdings, Inc. (YETI)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the YETI Holdings' Second Quarter 2021 Earnings Conference Call. As a reminder, all participants are in a listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]

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

Tom Shaw

Vice President-Investor Relations, YETI Holdings, Inc.

Good morning, everyone, and thanks for joining us to discuss YETI Holdings' second quarter 2021 results. Before we begin, we like to remind you that some of the statements that we make today on this call, including those statements relating to the impact of the COVID-19 pandemic on our business may be considered forward-looking and such forward-looking statements are subject to various risks and uncertainties that could cause our actual results differ materially from these statements.

For more information, please refer to the risk factors detailed in our most recently filed quarterly report on Form 10-Q and the Form 8-K filed with the SEC earlier this morning, along with the associated press release.

We undertake no obligation to revise or update any forward-looking statements made today as a result of new information, future events or otherwise, except as required by law. During our call today, we'll be discussing certain non-GAAP measures pertaining to completed fiscal periods. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in the press release issued this morning. We use

non-GAAP measures as a lead in some of our financial discussions, as we believe they more accurately represent the true operational performance and underlying results of our business.

Today's call will be led by Matt Reintjes, President and CEO of YETI; and Paul Carbone, CFO. Following the prepared remarks, we'll open the call for your questions.

And with that, I'll turn the call over to Matt.

Matthew J. Reintjes

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

Thanks, Tom, and good morning. YETI had a remarkable second quarter with sales increasing over 40% for the second straight quarter. This performance continues the trend of high demand for the brand during the start of summer and the gift-giving celebrations of moms, dads, and grads. This Q2 was punctuated by the broader return to some pandemic-disrupted activities, such as travel and the continued trend in people looking for active outdoor adventures.

Several key elements continue to drive our results. It all starts with our unrelenting focus on designing products to deliver performance, durability, and versatility to support new activities since the pandemic and for the activities disrupted during the pandemic.

Great product comes to life through relevant and impactful brand and product storytelling. Our incredibly talented team of in-house creatives continues to find unique and meaningful ways to build connections with customers globally and across a wide range of outlets from digital to in-person experiences, amplifying the strength and heritage of the brand.

And finally, in an increasingly digital-led world, we continue to make strategic investments in data analytics and our technology stack to better personalize the consumer journey and engagement with YETI. As we turn to the second quarter, our 45% net sales growth was ahead of our expectations with strength in the quarter across all our channels. Those channels most impacted by the prior year's COVID-19 disruptions, as well as channels such as yeti.com that saw incredible strength in the year-ago period, delivered in the second quarter.

In D2C, we posted 48% growth on top of last year's increase of 61%. This included strong performance through Mother's Day and Father's Day as we highlighted the range and relevance of our product portfolio while also earning impactful media placement across key outlets from The New York Times and Chicago Tribune to Vanity Fair, Vice, and CNN. We saw a significant growth during the quarter in wholesale where we continue our efforts to replenish inventory to support the ongoing strong demand in the channel.

Finally, we tripled our international revenues and what was our largest net sales quarter to-date for this business, as we continue to see the penetration of the brand even amidst the ongoing pandemic challenges in many of the international locations. This top line performance drove better than planned profitability, with adjusted operating margins expanding 160 basis points and adjusted EPS growth of 66%. Importantly, this top to bottom performance was driven by the dedication, creativity, and passion of our employees and partners, powering through the ongoing pandemic resulting in another strong quarter for YETI.

Before we touch on progress around our four strategic growth priorities, I want to provide some color on our focus for the balance of 2021. What we unequivocally believe today is that overall brand demand is incredibly strong. We're capitalizing on a continuing influx of new customers and returning brand advocates. And we're better equipped than ever to reach new global customers.

At the same time, global supply chains remain incredibly challenged and strained. Despite the ongoing supply chain disruptions including cost and transportation pressures, our team continues to do a remarkable job managing and mitigating to minimize the impact while we continue to focus on growth.

Most recently, we've seen the government mandated shutdowns of one of our soft cooler suppliers in Vietnam as a result of the ongoing impacts of COVID. While our prior work to drive supplier redundancy in key product areas helps our ability to absorb this type of temporary disruption, the shutdown does underscore the inherent volatility that lingers globally.

As evidenced by our results and updated outlook, we're managing through this overall backdrop well, and we'll continue to tighten our grip on what we can most directly control. We remain focused on servicing the tremendous momentum heading into the balance of this year to ensure we drive growth this year and beyond.

As it relates to our key growth priorities, I'd first like to discuss our brand efforts. For the quarter, we continue our multifaceted depth and breadth marketing strategy, partnering with incredibly talented ambassadors and organizations to support our depth in a wide variety of active outdoor pursuits, magnified by breadth across our online and offline media partnerships and our recently restarted in-person activations which connects us directly with consumers.

We believe the uniqueness of this approach spanning broad reach efforts and very directed and specific consumer engagement is part of the continued advantage of YETI's brand effectiveness. Looking at some examples, we once again celebrated National Barbecue Month in May. This included sharing YETI ambassadors tips from the pit and recipes ranging from pork belly burnt ends to spare ribs on our social channels and the highly anticipated return of Memphis in May Barbecue Festival.

The success of Mother's Day and Father's Day showcased how we built upon last year's efforts to spotlight special occasions through gift curation, storytelling and product customization. As we did in 2020, we once again highlighted our small independent wholesale partners through our mom and pop shops campaign. In this year, we released a short film of YETI co-Founder, Roy Cedars, interviewing one of our first retail partners, Tackle Box Outfitters in San Antonio, Texas.

We also began to see a return to in-person consumer experiences and brand activations this quarter. In June, we attended the Mountain Games in Vail for the first time since 2019, displaying and selling product to the 56,000 consumers who attended while promoting the reduction of single-use plastic in the process. In addition to our mobile retail store, we also featured two large water silos that distributed over 600 gallons of water throughout the four-day event, equivalent to 4,020-ounce plastic bottles.

With the February launch of our Crossroads bags collection, we engaged our ambassador network to support the launch through the development of social content and videos. In addition, we partnered with HYPEBEAST to develop content and brand placement of bags featuring our first skate ambassador, Geoff Rowley, and showcasing product highlights including our Tuscan nylon.

Our YETI Dispatch magalog continues to be a powerful and productive tool to showcase our product and tell YETI experience stories. This spring, we expanded our initial April mailing of 1 million magalogs with an additional 1 million unit run in May targeting prospects. This content serves as a great introduction to the brand and product portfolio while driving conversion. The return on this catalog investment continues to remain meaningfully above

industry standards. Moreover, we continue to find ways to bring this amazing print to life digitally with content available across our social channels and on yeti.com.

And, finally, we were excited and honored to kick off our Austin FC partnership as the official jersey sponsor of Austin FC in their inaugural season in Major League Soccer. This partnership is an important and impactful way to support YETI's hometown while driving reach and exposure as the front of jersey brand. Our visibility on the verde and black jerseys has already carried us to audiences in seven key urban markets throughout the US and has been shown on seven nationally televised matches.

On the products side, our second quarter focus was on amplifying our 2020 and Q1 2021 product introduction while working with our supply chain partners on ramping supply. Demand for hard coolers including our Roadie 24, which launched in the first half of 2020, continue to outpace supply. We remain focused on building inventory across both hard and soft coolers and anticipate these levels will continue to be pressured as demand outstrips supply throughout the second half of the year.

Drinkware growth accelerated in the quarter supported by strong demand, improved inventory positioning, and great momentum in our corporate sales business. In the current quarter, we had a full online and offline marketing launch of our fall colors. Along with the product, we have some incredible digital stories about the inspiration for these colors that will be rolled out through our digital properties in social. We introduced YETI Thin Ice in July which is optimized to fit into our soft cooler and have two new iterations of Drinkware with the Rambler 18-ounce HotShot and the larger sized Rambler 64-ounce bottle coming in August.

In the weeks ahead, we're excited to re-introduce our Travel Mug, now delivered in 20- and 30-ounce sizes including an updated lid. We're also introducing a great functional update to our highly-regarded top-selling Camino Carryall tote with enhanced organization from a new pocket and two deployable dividers on each side of the bag. We will also officially occupy our new soft goods design office in Vancouver next month, which will provide full sample making patterning and prototyping capability for our design team. Supporting our brand and product efforts, we continue to leverage our channel strategy to achieve the growth we expect from D2C and wholesale, with each exceeding 40% growth in the quarter.

D2C represented 55% of our sales mix for the quarter and we saw a range of positive gains across our direct business, given the varying comparisons from last year's COVID-impacted period. YETI.com delivered very solid growth on top of triple-digit increases last year, including growth across all domestic regions.

As it relates to our data analytics progress, first, we greatly enhanced our data platform. With the ongoing shift to a digital-first customer, we have made the investment in talent and capabilities over the past two years to create a data framework to better understand our customer behavior.

Second, we are using this platform to gather key insights into the business. High-level data shows our Q2 online business was driven by an increase in both unique customers to the site and revenue per customer. In addition, the quality of our new and returning customers is strong, both in terms of retention rates and in the average value of each customer. This is yielding both higher sequential and year-over-year customer lifetime value.

Finally, an enhanced data platform enables more sophisticated approaches to interact with our customers. This includes leveraging machine learning to understand the most relevant purchase journey. We are ramping up our efforts here and have already seen promising results this quarter in terms of optimized customer reach, expanded product consideration and conversion. Ultimately, we expect customers to receive an enhanced personalized experience that will drive both improved engagement and conversion for the brand.

Across the rest of D2C, the Amazon Marketplace business continued to perform well, particularly as we cycled against some of last year's disruptions. Corporate sales capitalized on increasing trends seen in back to work and employee giving. Our increased customization capacity, expanded color options, and an enhanced service structure also supported our success here.

Finally, international D2C and strength in YETI-owned retail continue to build momentum and are beginning to more meaningfully contribute to the overall business. At wholesale, we remain focused on driving inventory replenishment and merchandising productivity with our existing partners. Consumer demand in the channel was very strong in the quarter. While overall channel inventory has improved slightly, this progress continues to be offset by stronger than anticipated demand in certain product areas, such as hard and soft coolers. While we expect channel inventory to continue to improve throughout the year, our current visibility pushes these full replenishment actions into 2022.

YETI's international business continued to show great progress that we believe will support long-term sustainable growth. All of our regions are showing strong demand and we will continue to focus in these markets to ensure scale, first to maximize the currently active markets, and then ultimately to replicate in new markets.

Canada had an excellent quarter, underscoring the continued growth opportunity. We saw strong D2C traction here through both YETI.ca and local corporate sales. In addition, we lapped significant COVID-related wholesale disruptions from last year, even as varying degrees of store restrictions remained in place throughout this year's quarter. Overall, our team is doing a phenomenal job of investing in and driving local relevance and channel consistency, helping to ensure relevant engagement with the Canadian customer.

The outstanding success in Australia continues as we are executing significantly above plan. We still believe in the tremendous opportunity ahead as we drive deeper distribution across the larger coastal markets and further build out localized marketing support.

In Europe, we recently opened our new subsidiary in Amsterdam and we continue to make strides as consumers are discovering the brand through strong word of mouth. We are particularly encouraged by the significant interest in hard coolers across the region. In addition to the five new local language websites launched early in the year, we have now added nearly 250 additional targeted wholesale doors across the region. We were excited by our recent retail execution at Selfridges in London. Our presence at the historic premium location in the heart of London has been extended several times from its debut in June, and we believe it is driving incremental brand awareness and consideration.

Before handing the call over to Paul, I would like to give a quick thanks to Dave Schnadig, who stepped down as Chair of the Board and Chair of our Nominating and Governance Committee at our Annual Shareholder Meeting in May. Dave held the Chair role for nearly nine years, partnering with YETI through much of its early growth and maturation, both as an investor and adviser to our founders. And Dave was a champion of our growth as we went through the IPO process. Dave was re-elected to our board at the May shareholder meeting and will continue to provide his unique insight and experience to our board as Bob Shearer takes on the role of Chair of the Board.

In closing, I want to reiterate that we remain focused on providing unique and inspiring brand and product experiences, and we'll continue investing to ensure that we meet the global consumer wherever they choose to shop. I continue to be proud of our YETI team and thank our customers and partners for all they do to support us as we address both the challenges and the incredible opportunities before us.

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

Paul C. Carbone

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

Thanks, Matt, and good morning.

YETI continued to see outstanding brand momentum and performance during the second quarter. And I'll add my sincere thanks to the incredible efforts of our team that are driving these results. I will start with the review of the quarter, followed by thoughts on the balance of the year and our updated outlook. We will then open the call up for your questions.

Net sales increased 45% to \$357.7 million, compared to \$246.9 million in the prior-year period. While this growth compares against COVID-impacted results last year, it represents the fourth straight quarter we have generated a two-year compounded annual growth rate in the low- to mid-20% range.

Direct-to-consumer net sales grew 48% to \$196.9 million, compared to \$133 million in the same period last year. Direct-to-consumer performance was driven by strength in both our Drinkware and Coolers & Equipment categories. All direct-to-consumer channels grew in excess of 20% during the period.

Yeti.com drove another impressive quarter even against last year's triple-digit strength, and we experienced sharp recoveries in our corporate sales and YETI retail businesses. Overall, our direct-to-consumer mix increased slightly to 55% of net sales for the period compared to 54% last year.

Wholesale net sales increased 41% to \$160.8 million, compared to \$113.9 million last year. Wholesale performance was driven by both our Drinkware and Coolers & Equipment categories, with particular strength in Drinkware. As Matt mentioned, channel demand remained strong and we have made some replenishment progress. However, we have significant opportunity ahead with wholesale channel inventory still down year-over-year.

By category, Drinkware net sales increased 69% to \$192.9 million, compared to \$114.3 million last year. This strength reflects broad-based demand across our Drinkware lineup, improving product availability, and the strong recovery of our corporate sales business. We continue to see great results in our Rambler tumbler business with strong growth from heritage sizes, incrementality from newer options, and improved functionality led by MagSlider Lids now standard across the line.

Coasters showed impressive growth considering the lapping of its successful launch last year. And bottle growth outperformed the broader Drinkware category, benefiting from underlying demand momentum and the inclusion of the chug cap as a standard lid. Supporting the overall category, customization remains in high demand for both yeti.com and corporate customers.

On the Coolers & Equipment side, net sales increased 23% to \$157.8 million, compared to \$128.6 million during the same period last year. Strong soft cooler momentum led by our Hopper M30 and BackFlip styles helped drive the overall category, even as hard cooler growth was more limited during the period due to ongoing inventory constraints.

Within bags, driving broader customer awareness as well as consistent in-stocks were second quarter priorities. We remain encouraged by the customer response to our bag collection and the opportunity to build out this category.

Internationally, net sales more than tripled to \$33 million, reaching 9% of total net sales. This performance was led by a recovery in Canada following last year's extensive retailer restrictions due to the COVID-19 pandemic, as well as strong contributions from Australia, the UK, and Europe.

Gross profit increased 52% to \$209.1 million, or 58.5% of net sales, compared to \$137.5 million, or 55.7% of net sales, in the same period last year. The 280-basis-point year-over-year expansion was driven by the following favorable factors: 110 basis points from channel mix, 90 basis points from product cost improvements, 80 basis points from lapping higher noncore inventory reserves last year, 40 basis points from fewer promotions in our direct-to-consumer channel, and 70 basis points from all other impacts. These gains were partially offset by 90 basis points from higher duties related to the expiration of the GSP program at the beginning of the year and 30 basis points from higher inbound freight.

Adjusted SG&A expenses for the second quarter increased by 49% to \$131.7 million, or 36.8% of net sales, as compared to \$88.2 million, or 35.7% of net sales, in the same period last year. The increase of 110 basis points as a percent of net sales was driven by non-variable expenses increase as a percent of net sales by 190 basis points, primarily driven by higher marketing expenses. Excluding marketing, the expense rate decreased for the period as the strong rate of revenue growth outpaced more normalized spending following last year's cost curtailment efforts in response to COVID-19.

Variable expenses decreased by 80 basis points as sales growth across our two channels was more balanced in the quarter. Adjusted operating income increased 57% to \$77.4 million, expanding approximately 160 basis points to 21.6% of net sales compared to \$49.3 million, or 20% of net sales, during the same period last year.

Our effective tax rate was 20.4% during the quarter compared to 25.2% in last year's second quarter with a lower rate reflecting a discrete income tax benefit related to stock compensation. Adjusted net income increased 68% to \$60 million, or \$0.68 per diluted share, compared to \$35.6 million, or \$0.41 per diluted share, in the prior year period.

Now turning to our balance sheet. As of July 3, 2021, we had cash of \$233.8 million, compared to \$127.5 million in the year-ago period. Inventory increased 60% to \$221.7 million, compared to \$138.8 million during the same quarter last year. Inventory growth on a two-year compounded annual growth basis was 11%, slightly below our plan given the better-than-expected top-line results.

Total debt, excluding unamortized deferred financing fees and finance leases, was \$123.8 million, compared to \$292.5 million at the end of last year's second quarter. During the quarter, we made principal payments of \$5.6 million.

Now, on to our updated thoughts for the full year, where we are, again, raising both the top and bottom line outlooks. We now expect full-year net sales to increase between 26% and 28% compared to fiscal 2020. The higher range incorporates the outperformance from the second quarter, as well as implied mid- to high-teens growth for the second half of the year on top of the strong 27% growth comparison from the second half of last year. By quarter, third quarter net sales growth is expected to be somewhat higher than fourth quarter growth.

We continue to expect flat gross margins for the year from the record 57.6% level last year. This reflects similar year-over-year margin contraction expected in both the third and fourth quarters, given the exceptionally strong comparisons from last year, the impact of the non-renewal of GSP, and higher inbound freight expense. On the

GSP front, we continue to assume no renewal for the balance of the year and have yet to see alignment to move this bill through Congress.

Looking at SG&A, we expect expense dollar growth to continue to trend in line with sales growth. Non-variable expenses overall for the year are still expected to trend slightly below our revised total sales growth, while variable expenses tied most directly to our faster-growing and higher gross margin direct-to-consumer channel will grow slightly faster than total sales.

As we continue to normalize from last year's cost containment efforts, we expect the rate of adjusted SG&A growth to ease sequentially in the third quarter and then again to a greater extent in the fourth quarter. More pointedly, we expect the third quarter adjusted SG&A growth rate to be slightly below the 36% growth from the first quarter before dropping to single-digit growth in the fourth quarter.

Our full-year adjusted operating margin outlook remains at approximately 20.5%, which is also consistent with the prior year. We expect the adjusted operating margin rate to be lower year-over-year in the third quarter and slightly higher year-over-year in the fourth quarter. The effective tax rate for fiscal 2021 is now expected to be approximately 23%, given the slight benefit to plan recorded in the second quarter.

Based on full-year diluted shares outstanding of approximately 88.6 million, we expect adjusted earnings per diluted share to grow 29% to 32% to between \$2.42 and \$2.46, compared to \$1.87 in fiscal 2020. Our use of cash is also consistent as we move into the back half of the year, primarily focused on our inventory replenishment efforts. Inventory levels are expected to build significantly year-over-year during the next two quarters, as we continue to focus on replenishing our channels to meet demand and look to mitigate potential supply chain disruptions.

Our CapEx outlook continues to be between \$55 million and \$60 million for the year, primarily reflecting technology upgrades, including enhancements to SAP, website optimization, and expanded data analytics capabilities, as well as more traditional spending in product development.

Overall, our year-to-date performance has been outstanding. As our increased outlook would indicate, we are positioned for a strong second half of the year. We are managing our business thoughtfully through this period of uncertainty as the pandemic continues to evolve around the world. Managing through these pieces is difficult, and we remain confident in the execution of our team as we continue to capitalize on the incredibly strong demand that we are seeing for our brand.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Robby Ohmes of Bank of America. Please go ahead.

Q

Hi. This is [ph] Alex (00:31:25) on for Robby. Thanks for taking my question. Just first, can you talk to us a bit more about the channel inventory levels at your largest accounts? When would you sort of expect channel partners to be back at sort of appropriate inventory levels? It seems like maybe the replenishment has gotten pushed out a bit, so just trying to get a little more color there.

Paul C. Carbone

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

A

Hey. Good morning. This is Paul. Thanks for the question. One of the biggest factors in reloading the channel is demand. So, demand is very, very strong. As we talked about, we made a little bit of progress during second quarter, although inventory levels in the channel still ended down year-over-year. I think it's going to normalize based on different categories. I think Drinkware will be the soonest and hard coolers will be the longest. And I think it goes into – we're looking into 2022 until we really fully restock the channel, but we're really happy with the demand and try to satisfy that demand in any channel that it comes to us.

Q

Perfect. That's really helpful. And just my second question, can you just give us a bit more color on the supply chain disruption that you're seeing? I think you've called out soft cooler bag production being impacted. Are you also seeing that in the hard coolers side as well and what sort of mitigation strategies are you looking at to try to offset this? Are there opportunities to ramp production elsewhere?

Paul C. Carbone

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

A

Yeah. It's a great question. So, I'll start with the hard cooler. And just as a reminder, hard coolers, Philippines, Poland and North America. We are – for hard coolers, it's really a capacity issue and we are producing as many hard coolers as possible and then, the transportation, the timing of the elongated transportation, but it's really a capacity issue. But a country like the Philippines does have a low vaccination rate, so that's something that we watch.

Specifically, what Matt called out, in Vietnam, you've read in the headlines there, we're in the third week of the government-mandated shutdown. One of the great things is our dual sourcing. So, we're able to – and that's really around hard coolers and bags in the Philippines – soft coolers and bags in the Philippines, excuse me. And we do have second sourcing, so we can make up some of it. But these are the unknowns in the continued things that we face as we go into the back half of the year.

Operator: Our next question comes from Sharon Zackfia of William Blair. Please go ahead.

Sharon Zackfia

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. I guess, a question on gross margin, Paul. So, I think the implication is for something like 150 basis points, like sequential degradation in the back half. Can you kind of break that down to the components because there's a lot of moving parts there? And I think previously, you had talked about flattish gross margin in the fourth quarter. Is that still the case? Are we going to see most of those kind of occur on the third quarter?

Paul C. Carbone

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

A

Yeah. So, thanks, Sharon. Good morning. So, our guidance implies about a 57% gross margin in the back half of the year, in the 2H. And we see that today, more – the deceleration more evenly split between Q3 and Q4, so unlike prior. The pieces that go into that, from what we talked about at the end of Q1, which was flat gross margin for the year, and today we're flat gross margin for the year, but what has changed is inbound freight and other costs have added about \$8 million to the gross margin or the product cost, and then that's being offset to keep flat for the year with a little bit of over-performance in Q2 and then a little bit more of the fixed cost leverage as we raised the top line.

From a component, we would expect to see DTC still being a slight tailwind as we go into the back half of the year. The cost improvements, we're seeing cost increases or input cost increases. I think that will be less pronounced in the back half of the year and then certainly offset by GSP and inbound freight.

Sharon Zackfia

Analyst, William Blair & Co. LLC

Q

Thanks for that. One follow-up, too. I guess given the low inventory obsolescence that you have, are you able to kind of stock up at all on inventory? Do you have like more safety stock? It doesn't really sound like that's the case right now, but just curious if there's any opportunity there.

Paul C. Carbone

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

A

So, we are buying as much as possible. So, inventory was up 60%, but on a two-year, it's only up 11%, 11% CAGR. Similar to [ph] Alex's (00:37:06) question and my responses, we are doing everything we can to build up inventory but for the strong demand. So, we continue to believe that – or we continue to expect inventory up significantly in the back half of the year, rolling over significant negative last year, and by product category, similar to the wholesale channel, Drinkware, soft coolers and hard coolers when we'll get healthier through the product categories.

Operator: Our next question comes from Camilo Lyon of BTIG. Please go ahead.

Camilo Lyon

Analyst, BTIG LLC

Q

Thank you. Good morning and congrats on a great quarter. I was curious, if you could talk about what you're seeing either domestically or in your international markets, with respect to the Delta variant. Has there been any sort of impact in demand that you've seen in any of these regions? Any sort of updated thoughts on that would be helpful.

Matthew J. Reintjes

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

A

Camilo, good morning. This is Matt. As we look across our domestic regions and our global regions, one of the things that we learned from the disruption last year is how we shift channels based upon what's happening and what those dynamics are. Obviously, there are parts of the world and we talked about Canada and Australia on the prepared remarks around – continued disruption around wholesale openings and closings, different parts of those particular markets that are applying different rules around the COVID, broadly I could speak specifically to Delta variant being the driver.

But what we've seen is [ph] in ability (00:38:59), if wholesale is disrupted, how we manage it and push resource towards the direct-to-consumer and engaging the consumer. But as we said on the call, we've seen broad-based strength in demand across all regions in the US and across our emerging but now more significant international regions. So, we feel great about our ability to reach the consumer. We feel great about our ability to continue to stoke excitement for the brand and ultimately drive that demand.

Camilo Lyon

Analyst, BTIG LLC

Q

That's great. And then, my follow-up is – it's a two-part follow-up, actually. With respect to the channel replenishment that you talked about in wholesale, is there an ability – I just want to confirm this, is there an ability to start fulfilling demand for spring of 2022? Are your wholesale partners trying to get ahead of this and do you have any capacity to do so by starting to take spring receipts earlier, perhaps maybe in end of Q3 or Q4, where it typically might fall into Q1? Is there any talk of that and can you do that given the supply constraint?

And then just longer term on your sales outlook, you now averaged over 20% growth for the past four years. Brand momentum is solid both in the US and abroad. What prevents you from keeping this 20% growth trajectory going?

Matthew J. Reintjes

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

A

Camilo, I'll take the front-end question on the channel replen and Paul can jump in on how we're thinking about that. What we feel has been a very strong run, a very strong growth of above 20% as you point out. On the channel replen, obviously, our full focus right now is servicing the demand we see today and that's working with our – across our suppliers on capacity planning in the near term, but also start looking further out with them on how we start to get ahead of 2022 demand and beyond.

So, I would say our near-term focus across hard coolers, soft coolers, Drinkware is to drive supply to support demand we're seeing in the market today. We don't have plans to get ahead of 2022 in 2021 because I think we're going to continue to stoke demand in the year and we're going to continue to push supply into this year to help support that demand. We have an incredible supply chain team. Obviously, we've overrun what we thought the first half of the year was going to look like due to that great demand. So, they're working on not only the in-the-moment replenishment, but also as we build that supply back up into 2022, as Paul mentioned.

Camilo Lyon

Analyst, BTIG LLC

Q

And then, thinking about sales, while not giving any outlook for 2022, I'd say broader or more macro thinking, we expect the outdoor leisure trends to continue and we think that's certainly a great thing for YETI as life. And

commuting has come back, so in-person events, that's also a benefit. So, does it continue [ph] in 2020 (00:42:22)? Does it not? That one I won't answer, but we think the macro trends are very positive for us.

Operator: Our next question comes from Peter Benedict of Baird. Please go ahead. Peter Benedict, your line is live.

Peter Sloan Benedict

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

Q

Sorry, guys. I was on mute. So, I guess my first question is just around any plans you have or how you think about using price as a lever to offset some of the rising cost pressures that are out there in the market?

Matthew J. Reintjes

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

A

Peter, the – obviously, we've talked about this quite a bit through the tariff challenges of a couple years ago, some of the supply disruptions and last year, where – we had supply disruptions but obviously saw incredible strength in demand in 2020. We use price as the last lever. We think there's some real benefit to the consistency of our pricing in the market for our consumers and also for the consistency of how we tell the stories.

Where we look at price very strategically is, as we introduce new products, as we expand product families, we would selectively look at price. But we look at addressing the cost pressures across the range of opportunities in front of us and some of those are working with our supply partners on price negotiations that offset some of the increases because of the volume we're driving. Some of it may be selectively, as we introduce new products, looking in bringing enhanced benefits and features of the product, we look at how we can bring price into it.

But price as a broad-based lever is not something we've historically done. It's always something that's there. And we continue to watch how we manage and mitigate and contain the near term and cost pressures.

Peter Sloan Benedict

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

Q

Okay. Got you. That makes sense. And then, Matt, you talked earlier in your prepared remarks about your customer retention efforts, really sounds like those are starting to scale here. Maybe, I don't know, can you expand on a little bit? Are there any metrics you could share on maybe progress to date, where you stand today, where the opportunity lies in terms of driving this more personalized engagement with consumers and driving repeat orders, et cetera?

Matthew J. Reintjes

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

A

Yeah, Peter. It's an incredibly exciting area for us. It's one that we've talked quite a bit about the investment we've made in people and in technology and in the process. And really, the thought of how we take the passion enthusiasm for the YETI brand, engage the consumer in the way they want to be engaged with at the moment in time where they're in that consideration funnel and move them to conversion.

While we aren't sharing specifics, today, we did mention that what we're seeing from a consideration in a conversion and the size of the orders has been really positive. The team continues – the beautiful thing about this advanced analytics is we get smarter every day and every week. And we also have the ability to adjust and we have the ability to test into things.

And when we think about – the three big things we're trying to do is, one, we wanted to drive the talent and the resource to be able to really take advantage of the digital evolution that continues. We want to use this data and this platform to understand the behaviors of our consumers, and then really take a data-led approach to creating that digital engagement and that consumer experience.

And a couple things that we've done by leveraging our machine learning. One, we've worked to optimize our customer outreach, which is the number of times we contact customer, the types of information we put in front of them, depending on where they are in the consideration process based upon our data learning and using propensity models to purchase.

And so, there's a lot of richness in there that we're really excited about in the dataset we have and now the team we have to put that into play. And so, you're going to – you may not see it because it won't be overt, but you'll start to feel more personalized, more directed communications with our customers. And then that'll ultimately lead all the way back to our digital properties in how we take people on the YETI journey on our digital properties.

Operator: Our next question comes from Brooke Roach of Goldman Sachs. Please go ahead.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Good morning and thank you so much for taking our question. A lot of ground has been covered. But, Matt, maybe I wanted to follow up a little bit on the international momentum. Can you talk a little bit about the profile of your customer that you're seeing internationally maybe in the context of the data and analytics that you've been implementing? What are you seeing in the international customer base versus the US in terms of awareness and bringing those customers up the adoption curve? And what progress have you made so far on building out the international ambassador program?

Matthew J. Reintjes

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

A

Great, Brooke. A lot of good stuff in there. I would say starting with the data analytics in our advanced analytics, the base of that is really primarily focused on our US domestic customer. It's where we have the largest data set. So, we're much more intelligent 15 years into this journey in the US. We're a little more nascent internationally.

So, what I would say what we know about that customer is it doesn't look fundamentally different than our US consumer from what we've seen from interest areas, in some of the demographics information we have internationally. We obviously have a lot lower awareness internationally than we do in the US. But what we're seeing from a behavioral perspective is our early adopting international customers are buying in a mix that looks quite a bit like what our early adopting US customers and, frankly, a little bit of how our US mix looks today. We're seeing really strong adoption in coolers, particularly hard coolers in Europe and Australia. Drinkware is performing very well. We're just starting the evolution in our marketing and how we talk to that consumer in a YETI-like voice, but with some local market relevance. We just launched a colorway recently that we call Highlands, really inspired by the Scottish Highlands, was our first sort of story around a product, around color that we told internationally that works around the globe. And so, we really like the progress.

On the ambassador front – and we said this in the past, we plan to run a very similar playbook internationally that we ran in the US. We've seen that successful over the last three years in Australia and in Canada. We're seeing the early stages of that success of running this depth and breadth marketing strategy in Europe.

Our ambassador roster continues to grow internationally, but many of our original ambassadors have an international reputation and an international halo, whether that's John John Florence in surfing, who recently competed in the Olympics; or Geoff Rowley, who is a global skate ambassador. So, we're getting the benefit of the group we have today and we're just adding to it and strengthening it.

Brooke Roach*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. And Paul, maybe to just follow-up on some of the topics earlier regarding some of the supply chain. Can you talk a little bit more about what you're seeing in terms of transportation and logistics, and maybe how YETI is navigating those challenges, given some of the factory closures in other regions of the world?

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

A

Yeah. So, we're seeing a couple of things from a transportation, so certainly, the elongated time from backdoor manufacturer to our DCs, it hasn't gotten materially longer since the end of first quarter. But, certainly, year-over-year, it's significantly longer. So, there's time challenges. The second challenge is – and the most – the one that we talk a lot about on calls like this is the cost in seeing transportation costs increasing. What we're focused on is obtaining containers, obtaining space on ships to get product here. So, those are the two biggest.

And then, from a manufacturer/supplier, it's really about – if we think about hard coolers, it's really about adding capacity because we are producing at full capacity. So, it's really how do we add capacity and become even more efficient. On the other end, on the Drinkware, it's about increasing volume or increasing manufacturing. So, they have the capacity and it's just continuing to catch up with demand. And soft coolers is kind of in between that. So, that's kind of how we think about it, and it is something that we're very focused on.

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

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

Q

Thanks. Hey, guys. Good morning. Just want to go back to the international business for a second. It sounds like your customer demographics and the usage occasions are similar to what you guys saw in the US in the early days of the business. But can you talk about the competition that you're seeing internationally? How much does it differ by market? How does it differ from the competition that you see in the US? And is it primarily at the lower end or at the higher end of the category from a pricing standpoint?

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

A

Hey, Joe. Great, great question. I would say when we think about – just to add to the front of that, the demographic and the use occasions, obviously, there are activities and pursuits globally that are more prevalent than they are in the US and activities that are more prevalent in the US than globally. And that's a bit of how we're nuancing the positioning, but the base kind of an idea of large active outdoor markets is really held true. And we've been able to address that even when we think about the variety of wholesale partners in Europe that have joined in with us, we're in everything from very well-regarded, long-established sporting goods and doing things in the culinary community and retailers or even things like butcher shops in Germany. And so, it's a really YETI-like approach to finding ways to be relevant to people in their lives and a lot of different variety.

I would say as we think about the growth and expansion, it's going to be highly targeted at people who can be that same reference and the excitement for what YETI is and drive the word of mouth reference and the passion for the brand. And we're doing that digitally through our e-commerce and our D2C first approach internationally and through these referential wholesale partners that we're signing up.

Joseph Altobello

Analyst, Raymond James & Associates, Inc.

Q

Got it. Okay. Just one follow-up on that in terms of how are you thinking about the year from a growth standpoint. I think early in the year the thinking was that cooler growth would slightly outpace Drinkware, is that still the case?

Paul C. Carbone

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

A

So, as you can appreciate, we don't give it to that level. Certainly, the very strong first half of C&E being up 34%, Drinkware is up 51% because of the strong second quarter. So I would say as I think about this overall, as we've talked about between the two categories for the year, they are similar as we've said in the past.

Joseph Altobello

Analyst, Raymond James & Associates, Inc.

Q

Okay. Great. Thank you, guys.

Operator: Our next question comes from Xian Siew of Exane BNP Paribas. Please go ahead.

Xian Siew

Analyst, Exane BNP Paribas

Q

Hi, guys. Thanks for the question. I think you talked about how non-variable SG&A would maybe leverage [indiscernible] (00:55:51) the marketing. How are you thinking about marketing right now? Is it just really leaning into the opportunity with demand that is strong right now and should kind of normalize a bit? And maybe as you think about 2022, is it maybe stepping down and normalizing as well or, yeah, maybe you can help us think about that?

Matthew J. Reintjes

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

A

Yes. It's a great question. And as a reminder, in Q2 last year when the early dark days of COVID, we made some very quick decisions to make sure we thoughtfully created cost containment if the world wasn't going to resume in the way it did. We were fortunate obviously as we've talked about in Q2 last year that particularly in our digital channels, it resumed very quickly and in our wholesale partners that were deemed essential, which allowed us to deliver a strong Q2 2020 amidst that and then continue on through the year.

This year, what you see is a little bit of rebuild in that marketing. We haven't changed our marketing approach. We haven't loosened up anything around our expectations of how our marketing returns, whether that's our direct performance marketing through our digital channels or our brand building efforts. But 15 years into our history with the kind of growth we're producing, with the kind of new customers we're acquiring, we still consider ourselves in a brand awareness growth mode, customer acquisition mode. But we want to do it in a highly profitable way. And so, we use our marketing as an incredible asset, an incredible lever to do that. But I wouldn't say the quarter would show anything that we've fundamentally changed about how we run a very disciplined brand building, performance marketing program.

Paul C. Carbone

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

A

And then, from a numbers perspective, we have de-levered marketing year-to-date based on what Matt said about us really clamping down at the end of Q1 last year, so the last couple of weeks in Q1 and then Q2. As we look forward, we would expect Q3 to also de-lever because we didn't really turn it fully back on until Q4. We expect Q4 to leverage because that's when we turned it on last year. And then, overall and we've talked about this broadly, we see marketing at around 8% of sales.

We didn't get there last year. We'll get closer this year. It's really one of those – and I know our Head of Marketing will always take more. But the top line, the strong top line will actually be one of the impediments to getting back to that 8%. So, it's same target and really rolling over last year's actions.

Xian Siew

Analyst, Exane BNP Paribas

Q

Okay. Got it. That's very helpful. And maybe just as a follow-up on the flipside of expenses, I think you mentioned variable incentive leverage this quarter, typically with the DTC channel growing faster, it delevers. I think you said it was just more maybe a balanced growth between wholesale and DTC. Just want to make sure there's no maybe inflection point here where you're starting to see better efficiencies on the variable expenses.

Paul C. Carbone

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

A

No. It's really that more balanced growth and driving the variable to leverage slightly this quarter.

Xian Siew

Analyst, Exane BNP Paribas

Q

Okay. But I guess longer term, there could be opportunities to change that or how are we thinking about it?

Paul C. Carbone

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

A

I think if and going back where we longer term expect DTC to grow faster than wholesale, that may still – you may still come back to a world of deleveraging variable expenses which we take all day long because of the higher gross margin of the DTC channel.

Operator: Our next question comes from Wendy Nicholson of Citi. Please go ahead.

Wendy C. Nicholson

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks so much. Just I think two kind of quick housekeeping items. First, just as you think about capital allocation, I know you want to invest obviously more in inventory and working capital to build up your safety stocks and all of that but you're still building a lot of cash on the balance sheet. So what's the current thinking about either a dividend or share repurchase program?

And then second of all, any update on the timing of expanding luggage into wholesale beyond the Panga Duffel? Thanks.

Matthew J. Reintjes

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

A

Hi, Wendy, Matt. Thanks for the questions. As we think about capital allocation, and it's a great question, one obviously this business is focused on driving high-quality revenue that ultimately produces a strong cash position for the business. One of the things that we've said is as we've worked with our board on the best ways to think about returning value to our shareholders is that we're a growth-oriented company. And so, first and foremost, as you said, investing in inventory, investing in capital expenses that we think – whether those are technology, as we talked about in advanced analytics or the innovation engine.

The other thing that we've talked about is we would look at strategic M&A as an innovation accelerant and things that we think – whether it's technologies, materials, processes, things that we think help continue to drive what we believe is a very long growth story for YETI.

As it relates specifically to expansion of bags and channel expansion, when we launched these products, we said one of the things we want to do is we want to make sure we ramp at the right way, we tell the right stories, we build the awareness in the channel. And that's really what we've done. And the pandemic has provided some additional challenges with ramping suppliers and in some cases new suppliers from a remote perspective.

And so, that's what led us to the – we're not betting on bags and luggage to carry the year for YETI. We're going to keep driving the productivity of our existing portfolio. We're going to launch it through our dot-com only. We're going to learn. We've had great consumer feedback on it. The receptivity has been strong and we continue to learn. And I think as that portfolio expands, we believe that is a significant category opportunity for YETI. And then, we'll look at channels as they present themselves and as they make sense for the product portfolio and they make sense for the brand.

Wendy C. Nicholson

Analyst, Citigroup Global Markets, Inc.

Q

Fair enough. Okay. And obviously, one area where you could spend more capital is in company-owned retail doors. Can you just update us maybe for the next year or two your thoughts in terms of how many new stores you want to open?

Paul C. Carbone

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

A

Yeah. I'll take that one. What we've said in the past is coming out of – or as we move through COVID, we're going to continue to take an approach of seeing what happens in physical retail. I will say this year, as we think about retail, we have a couple of our temporary sites going into permanent sites. So, the one here in Austin, our second location here in Austin, and then also the one in Dallas, and then our Fort Lauderdale next year will go into a permanent site. So, start with this strategy of doing temp locations to test out the year and then go into permanent locations has worked well for us.

We have a couple of additional stores that we're looking at that may come online this year, but we're taking it slowly and really see what traffic returns. And I will say we are delighted with the performance in the retail stores, the seven stores we have. They had a great quarter, really focusing on the operations, focusing on when a customer comes in, servicing that customer. So, we're really happy with the stores and the way they're performing.

Operator: We have time for one final question from Peter Grom of UBS. Please go ahead.

Peter K. Grom

Analyst, UBS Securities LLC



Hey. Good morning. So, this is just a quick housekeeping one. But was there any impact from Prime Day at all in the quarter as we think about the better-than-expected growth versus your expectations? And then, maybe my broader question is, so we've heard from some of your Drinkware competitors that the initial read on back to school is very strong. And I know this is a bit of a fluid situation, things can change rapidly, but would love to understand what you're hearing from your customers around back to school and kind of how that informed your outlook for Q3, back of the year. Thanks.

Matthew J. Reintjes

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



Thanks, Peter. What I would say on Prime Day, the short answer is, no, we wouldn't attribute a whole lot to the Prime Day. We didn't run and didn't run a Prime deal. We just kept running the business at full price as we said in the past. Our Amazon Marketplace presence is an always-on, full-price channel.

It's safe for those moments when we're transitioning products like we talked about with the Camino. But it's a full-price channel for us and is a key part of our D2C approach and continues to perform. But nothing weird attributed to Prime Day.

And then, as it relates to back to school, well, we don't comment on intra-quarter things. When we look back at Q2, obviously, with the growth we had in our Drinkware business, our Drinkware business continues to be very relevant and vibrant. And we talked about that our bottles business had a really strong performance within that overall Drinkware portfolio.

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

Matthew J. Reintjes

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

Thank you. And thank you, all, for joining us today. We look forward to speaking on our third quarter call and wish everyone a wonderful week.

Operator: This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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