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YETI Holdings, Inc. (YETI)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the YETI Holdings 2Q 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. [Operator Instructions] This call is being recorded on Thursday, August 8, 2024.

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

Tom Shaw

Vice President-Investor Relations, YETI Holdings, Inc.

Good morning, and thanks for joining us to discuss YETI Holdings' second 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 recently filed Form 10-K. We undertake no obligation to revise or update any forward-looking statements made today as a result of new information, future events or otherwise, except as required by law.

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

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

Matthew J. Reintjes

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

Thanks, Tom, and good morning. YETI wrapped a great first half of 2024, showcasing the strength of our brand, our products, and our global go to market. As we've highlighted in the past, the second quarter includes a number of key moments, including Mother's Day, Father's Day, and the return of summer, creating a perfect intersection for our brand and product.

Our innovation across our portfolio, in particular, Coolers, proved to be impactful, creating what we believe will be momentum going into the second half of the year and beyond. Complementing our focus on Coolers, we continue to drive expansion in our Drinkware portfolio. These efforts are seen in our wholesale sell-through, our social engagement and sentiment, and our global performance.

In the quarter, we drove 9% sales growth, above expectations, and led by Coolers & Equipment and International. Emphasizing this top line performance and showing the continued resilience and strength of the brand, we delivered excellent gross margin expansion on top of significant improvement last year. I would like to thank our team for managing and neutralizing the ongoing risks in the dynamic supply chain environment.

We anticipate that the end result of these efforts and the momentum we are seeing puts us on pace to deliver record high gross margins for the full year. Our top line and gross margin execution continue to support our long-term growth and strategic investments, while also delivering upside to the bottom line.

As we move through the second half of the year, we have ample reason to be encouraged across product categories, channels, and geographies. While being mindful of the macroeconomic and geopolitical complexities that we expect to remain present through the year, our focus remains on controlling what we can and being nimble and prepared to respond effectively in the face of uncertainty.

For YETI, that always begins with our approach to customer engagement and delivering uncompromising product. It also means a commitment to investment, so we can efficiently and globally scale our business. This investment includes the addition of key roles in our leadership team to manage Asia and Europe, additions to our global logistics footprint, and the build out of capabilities across our regions to support our expanding product offering.

Additionally, we continue to drive the strategic diversification of our global supply. Today, approximately 40% of our total cost of goods is tied to products sourced from China, primarily related to our Drinkware portfolio. As we have previously discussed, we began our major supply chain transformation journey in 2018, beginning with our soft goods. At that time, we also indicated we started to optimize our Drinkware supply base, including process improvements and automation efforts with our partners.

As mentioned in early 2023, we successfully proved out our model and began our first production location for Drinkware outside of China. We are pleased with the quality and performance of this initiative, and by year-end 2024, expect to bring online a second non-China location for Drinkware. As a result, we expect that by the end of

this year, approximately 20% of our global Drinkware production capacity will be located outside of China. As we look forward to other opportunities and initiatives, we believe we can extend this program further, providing greater global scale, diversification, and reach of our supply base.

Additionally, we expect to have the flexibility to allocate capacity to specific end markets for cost optimization. By the end of 2025, we plan that roughly half of our Drinkware production capacity will reside outside of China and available to support our global growth. Going forward, we anticipate opportunity to scale this diversification even further to meet the needs of the business. This has been and will continue to be a significant priority for YETI.

Our work here is designed to give us maximum flexibility to address a range of future global tariff scenarios and cost dynamics. To be clear, as we expressed when we started these initiatives in 2018, we will focus on making the right long-term decisions to support our growing global business while being mindful of the geopolitical landscape.

Moving to our strategic priorities, a constant focus for our brand is extending our reach and broadening our access to global consumers. Many of these efforts are rooted in the communities we support. We have methodically evolved this focus while staying true to who we are across a range of varied but often connected audiences.

For instance, YETI has built a deep heritage in Western lifestyle. A very natural extension of these pursuits is the global equestrian community where we have thoughtfully built the foundation over the past few years. Many of these relationships start when we identify our product in use, which contributes to a natural relevance. In this case, product that was being used to address hydration, storage, organization, and thermal retention. We then established the brand through partnerships with organizations such as US Equestrian supporting global competition and aligning with ambassadors. This is how we've built our 15 communities and is a key to how we establish sustainable relevance.

We've taken a similar approach in golf, highlighted by our recent partnership with The Caddie Network, including 25 caddies across the PGA and LPGA tours, using our products on a global stage. This has led to our products organically making their way into the hands of touring professionals, earning social mentions in press, and driving broader interest across golf. These organic, connected approaches to community building drive high relevance with a range of new and existing customers, both at home and abroad.

Our global focus extends to our ambassador network as well. In Europe, year-to-date, we have partnered with nine new ambassadors across the world of skiing, snowboarding, climbing and culinary. Overall, international ambassadors now represent nearly 30% of our total and will continue to be a significant focus as we look to extend the brand to new regions over time.

Speaking of ambassadors, we were excited to see three of ours compete in Paris at the Summer Olympics, including John Florence and Caity Simmers in surfing, and Alex Megos in sports climbing. We are incredibly proud to partner with some of the best in what they do.

Our reach is further supported by our partnerships and licensing programs. We're excited to announce YETI's continued move into sports through our newly signed licensing agreement with the NFL. Under this agreement, fans will soon be able to purchase officially licensed YETI Drinkware and Coolers for all 32 NFL teams. The NFL license has also been key to us establishing our first NFL team partnership with the Dallas Cowboys as the official Cooler and Drinkware of the team. Launching this season, we look forward to building on this program as we

move into 2025 and beyond. These new deals build on a sports foundation that now includes three of the largest pro leagues in the US in addition to a wide range of global partnerships.

Looking at innovation, we reinforced our leadership position in Coolers this quarter as our full range of soft coolers is in market and we delivered on the previously mentioned innovation in hard coolers. To extend awareness and consideration, we leveraged our strong heritage in the category with a range of media placements across linear and streaming TV, online channels, and a focus on live sports, including the Stanley Cup Playoffs and CrossFit Games, integrating our product campaigns and brand audiences.

In conjunction with these efforts, we prioritized education around these products, reinforcing the why and the how our products have redefined the category. We delivered these messages while bringing innovation to the hard cooler category, first, with the wheeled Roadie 32 and in the personal side, Roadie 15 later in the quarter. We are particularly excited with the most recent launch of the Roadie 15, our smallest hard cooler in the lineup featuring an attractive \$200 opening price point. We see the strong early demand signals for this product and are working to build our supply.

Overall, despite some of the persistent narrative in the market around higher ticket spending, we saw our cooler category performance build throughout the quarter and ultimately exceed our expectations, which we believe will set us up well for the back half of the year. To complement our Coolers, later this year, we will introduce our first food organization and storage containers. These highly durable products are optimized for use within our hard cooler and soft cooler ecosystem and also as a stand-alone.

On the Equipment side, we continue to integrate the designs and talent of Mystery Ranch with the YETI team. We've established a robust long-term road map for the category and are on track to launch a range of new products starting in the first quarter of 2025, roughly one year post-acquisition.

In Drinkware, our new products continue to deliver, including our expanded stackable tumblers and straw mugs. We're also seeing strong receptivity to new additions that are highlighting the opportunity in the broader food and beverage space. This was particularly evident with a French Press, which received a number of industry accolades, strong social sentiment, and excellent consumer demand.

Our category expansion will continue in the second half of the year, starting with the introduction of our first line of cookware products. As planned, we will introduce three sizes of YETI cast iron skillets later this month, which will initially be available in our YETI direct channels, with prices ranging from \$150 to \$250. We believe this will be the best cast iron in the world, opening the door for broader opportunities in the cookware and culinary space going forward.

Importantly, any expansion will fit within the YETI ecosystem and ethos of leading products built with durability, performance and design. Great products is supported by our range of impactful channels to market, leveraging a strong network of wholesale partners and extending our reach through our DTC channel. Excluding the impact of gift cards on our DTC business, our second quarter results demonstrate the balanced strength of these channels. As expected, we saw the full impact of the gift card comparison in our e-commerce business.

In the quarter, we were pleased by the positive trend we saw in average order value and units per transaction, as we expect consumers to continue to be discerning with their purchases. Our Amazon Marketplace continues to provide reach driving strong growth across Drinkware and C&E. Growth in corporate sales included the emergence of our International business and positive order volume in our US business, even though we continue to see signs of caution in corporate spending.

Within our retail stores, we're focused on delivering an unparalleled customer experience. We added our 21st YETI retail store outside of Kansas City during the second quarter. We remain on track to reach 24 locations by the end of the year and we are incredibly excited to announce today's grand opening of our first Canadian store in Calgary.

In our wholesale channel, we saw balanced positive demand across our categories, highlighting the brand's strong positioning and consideration for the summer buying season, and we maintained healthy inventory levels across the channel. As we have highlighted in recent quarters, we continue to build our brand experience with our existing accounts, thoughtfully partner with new accounts globally, and explore new wholesale opportunities that match our broadening range of product categories.

Our International growth continues to showcase the relevance and opportunity for YETI. It also reinforces that our growth in brand playbook travel. International revenues for the period increased 34% to reach 17% of our total business, continuing to ramp from a 13% mix last year and 11% during the 2022 period. We're incredibly bullish on this opportunity, particularly as Europe growth [ph] inflects (00:13:33) and as we begin our approach to Asia in 2025.

Providing a little more color on our existing regions, Europe posted strong gains across channels. We also made several important foundational improvements during the quarter. First, we successfully completed the transition of our 3PL in the UK following similar work in the Netherlands last year. Both facilities are operational and providing a more efficient network to our service for our customers. And second, we're excited to add Martin Vergien as our new Managing director of the EMEA region. With his focus on building our brand in Europe and driving productivity, we are incredibly excited with his addition as we look to scale what is still a relatively untapped opportunity.

Our Australian business continues to outperform expectations with strength across channels. To extend our momentum, we remain focused on meeting the needs of the urban customer, an area where we still see meaningful opportunity. A key step here is the recent debut of a store test with rebel Sports, the leading premium sports retailer in the market. Customization is another opportunity for both e-commerce and corporate sales.

In Canada, we continue to drive the reach of our omni-channel and expanded product offerings to match the US. Additionally, we are finding opportunities to share impactful brand spend across North America. As mentioned, we ran a brand campaign that showcased YETI around the boards throughout the Stanley Cup Playoff, with a combination of brand and product marketing highlighting our NHL license. This was amplified with both the Canadian and American team in the Stanley Cup Finals. While the wholesale environment in Canada remains challenging, we were encouraged by the sell-through performance at our largest account. Similar to Australia, we are also making progress scaling our customization business, including our e-commerce capabilities and the growing traction of our corporate sales.

When I look at our accomplishment for the first half of the year and the immense opportunity in front of us, I'm proud of our team and their ability to drive the YETI brand and deliver strong and profitable growth. Given the ongoing and considerable challenges in the market, we remain highly focused on managing our P&L and the strength of our balance sheet, all while investing in the incredible growth opportunity we see globally.

Now, I would like to turn the call over to Mike to discuss our results and updated outlook.

Michael McMullen

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

Thanks, Matt, and good morning, everyone. To start, I would like to provide a quick overview of several items contained in our second quarter GAAP numbers that impacted both the year ago and current period results. I'll then review our non-GAAP performance for the period and close with an update to our fiscal 2024 outlook. We then look forward to taking your questions for the balance of the call.

I'll start with two call-outs that impacted our GAAP results. First, last year's second quarter included several adjustments to our recall reserve. This reserve was initially established in Q4 of 2022 and then updated in Q2 of 2023 to better reflect actual consumer recall activity. This update and other period costs reduced prior-year GAAP sales by \$24.5 million, reduced prior-year GAAP cost of goods sold by \$5.1 million, and reduced prior-year GAAP SG&A expense by \$10.7 million. By comparison, no adjustments were made to the recall reserve in this year's second quarter.

Second, our GAAP results this quarter include transition cost associated with the two acquisitions that we made earlier this year, primarily the impact of purchase accounting on our gross margins. As per our historical reporting practices, the impact of these and other non-recurring items are excluded from our non-GAAP results. All of the results that I will discuss on today's call will be on a non-GAAP basis to better focus on the operating performance of the business.

Now, moving on to the details of the quarter, second quarter sales increased 9% to \$464 million. This was above our expectations and was led by our performance in Coolers & Equipment and our International business. There were two compare dynamics in our growth rate this quarter that I wanted to specifically mention. First, this quarter's year-over-year growth includes a nearly 300 basis point net headwind from gift card redemptions, with \$12.5 million redeemed last Q2 compared to just \$2.3 million redeemed this quarter.

And second, this quarter also includes the contributions from Mystery Ranch. We are pleased with the integration of our two acquisitions and they remain on track to deliver approximately 200 basis points of top line growth for YETI in 2024.

Reviewing our categories, Coolers & Equipment sales increased 14% to \$206 million. We had a strong quarter in Coolers supported by the combined initiatives and growing momentum that Matt outlined.

Soft coolers outperformed our expectations with the complete line of M Series Backpack and tote fully in-stock across the market following last year's recall. Our hard cooler business faced a tough comparison given the benefit it experienced last year from not having soft coolers in the market heading into the peak summer season, but we were very pleased with the initial performance of the new Roadie 32 and Roadie 15 further supporting our optimism for coolers in the back half of the year.

Within our Equipment categories, the YETI bags business continues to perform well with our SideKick and Panga product lines exceeding our expectations. In addition, our Camino tote bags continue to grow nicely as the awareness of this fantastic product line builds. Finally, and as indicated, Mystery Ranch products continue to perform in line with our expectations.

Drinkware sales increased 6% to \$247 million, which was generally in line with expectations. Category growth continues to be supported by the overall breadth of our product assortment, the strong success of new innovation launched over the past year, and the contribution from our International business.

Our growing lineup of tabletop and barware options was also a highlight in Q2. As Matt mentioned, the French Press is off to a fantastic start since launch and we are seeing good attachment for several other products in our portfolio, such as our new Rambler 16 Stackable Cup and our new Rambler 14 Stackable Mug. As a reminder, all of these products launched within the last 12 months. In addition, our limited Flask and Shot Glass releases were a success, selling out in less than a week. We plan to have both products back in stock later in the third quarter.

From a channel perspective, wholesale sales increased 11% to \$213 million, driven by growth in both C&E and Drinkware. We saw growth on a sell-through basis across both categories as well. Inventory in the channel remains healthy and is well positioned to support demand for the back half of the year. Direct-to-consumer sales grew 7% to \$250 million, also with solid growth in both C&E and Drinkware. All of our DTC channels posted growth in the quarter led by our Amazon business. We were also pleased with the growth of e-commerce, especially considering it absorbed the entire gift card impact. Excluding the headwind from gift cards, total DTC growth was approximately 12%.

Outside the US, sales grew 34% to \$77 million, driven by strong growth in Europe and Australia. We continue to be very pleased with the results and the momentum that we are seeing internationally and expect to continue investing to drive brand awareness, build out our local teams, and establish the infrastructure needed to support what we believe is a significant opportunity for growth.

Moving on to margins, gross profit increased 14% to \$268 million or 57.7% of sales compared to 54.9% in the same period last year. Positive drivers of this 280 basis point increase include 320 basis points from lower inbound freight, and 90 basis points from lower product costs. These gains were partially offset by 50 basis points from strategic price decreases on certain hard coolers that we implemented during the first quarter and 80 basis points from a combination of other smaller impacts.

SG&A expenses for the quarter increased 12% to \$188 million, or 40.5% of sales, compared to 39.1% in the same period last year. Non-variable expenses increased 80 basis points as a percent of sales, primarily driven by higher employee costs. Variable expenses increased 60 basis points as a percent of sales, primarily driven by our Amazon channel. Looking forward, we do expect to get some modest leverage on our variable cost in the second half of this year.

Operating income increased 19% to \$80 million or 17.3% of sales, an increase of 160 basis points over the 15.7% that we reported in the prior-year period. Net income increased 20% to \$60 million or \$0.70 per diluted share compared to \$0.57 in the prior-year period.

Turning to our balance sheet, we ended the quarter with \$213 million in cash compared to \$223 million in the year-ago period. Inventory increased 17% year-over-year to \$378 million, primarily driven by the return of our full lineup of soft coolers, as well as inventory from our acquisition of Mystery Ranch.

We continue to expect year-end inventory growth to be in the range of sales growth. So, as we indicated last quarter, growth on a quarter-to-quarter basis can fluctuate based on the timing of wholesale channel shipments and product launches. Total debt, excluding unamortized deferred financing fees and finance leases, was \$80 million compared to \$84 million at the end of last year's second quarter.

Now, turning to our fiscal 2024 outlook. We now expect full year sales to increase between 8% and 10% compared to fiscal 2023's adjusted net sales, which is up from our prior outlook of between 7% and 9% top line growth. This range continues to include a contribution of approximately 200 basis points from our Q1 acquisitions,

but also includes a headwind of approximately 150 basis points from gift cards. Our expectations for the back half of the year are relatively unchanged and we expect growth to be balanced across the third and fourth quarters.

We continue to take what we would call a prudently conservative approach in our demand planning for the second half of the year. We are updating several elements of our outlook as we look across channels, categories, and geographies. By channel, we now expect slightly higher performance from our wholesale channel versus DTC given our performance in Q2 and our expectation for continued sell-in and sell-through strength in the second half of the year.

By category, we continue to expect Coolers & Equipment to outpace Drinkware supported by strong performance in soft coolers, recent innovation in hard coolers and the incremental sales of Mystery Ranch products. Finally, we now expect International growth to approach 30% with domestic growth holding in the mid-single digit range. Given our strong Q2 performance, we are increasing our 2024 gross margin target to approximately 58.5%, up from our prior target of approximately 58% and versus 56.9% last year.

Over the last six quarters, we have realized significant benefits in gross margin from the post-pandemic drop in inbound freight rates. Given we have now [ph] account for (00:26:06) much of the benefit from these lower freight costs, we continue to expect our second half gross margin to be approximately flat as compared to the prior-year period.

Also, I want to mention a relatively new dynamic in the market as it relates to inbound freight costs. While most of our projected capacity is under contract, we are seeing peak season surcharges on inbound freight shipments earlier in the year than we have seen in prior years and at higher levels. However, we believe these costs will be transitory and manageable within our P&L, which is allowing us to flow through the upside in our Q2 gross margins to the full year outlook.

With continued gross margin traction, we are investing a portion of these incremental gains into SG&A across a number of initiatives to support our global expansion efforts. As a result, we now expect to grow full year SG&A slightly above the high end of our sales range, with similar growth rates expected in both the third and fourth quarters. We now expect adjusted operating margin of approximately 16.5%, at the high end of our prior outlook of between 16% and 16.5% and compared to 15.6% in fiscal 2023.

Below the operating line, we expect an effective tax rate of approximately 25.2% for the year, slightly above the 24.8% rate in 2023, and full year diluted shares outstanding of approximately \$86 million, reflecting the \$100 million accelerated share repurchase that was fully executed in April. And we now expect adjusted earnings per diluted share to increase 16% to 18% to between \$2.61 and \$2.65 compared to \$2.25 in fiscal 2023.

As for cash, we now expect full year capital expenditures of between \$50 million and \$60 million and free cash flow of between \$150 million and \$200 million. Going forward, we will remain opportunistic with our capital allocation approach, balancing both M&A opportunities and the remaining \$200 million share repurchase authorization.

This was another great quarter for YETI. Our execution in the first half led to strong top and bottom line performance, which supported our confidence in raising our outlook for the year. Heading into the back half of the year, we will remain consistent in our focus: driving growth through product innovation, international expansion, and our powerful omni-channel model, delivering strong earnings growth while also investing in our business to take advantage of what we believe is a tremendous opportunity in front of us and generating strong free cash flow

which will allow us to create further value for our shareholders. Most importantly, we will remain focused on growing and strengthening the incredible YETI brand.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Our first question will be coming from Brooke Roach.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Good morning, and thank you so much for taking our question. Matt, you spoke in the prepared remarks about sales momentum for coolers building throughout the quarter. We've heard a lot of comments recently from a variety of sources suggesting a choppy macro backdrop. I'm hoping you can give us an update on how you're seeing current demand trends for the YETI brand in the US across each of your key categories as you head into the back-to-school season.

And then if you look forward, what gives you confidence [ph] in the (00:30:31) sustained momentum in holiday and into 2025?

Matthew J. Reintjes

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

A

Brooke, thanks. Thanks for the question. Yeah. I'd say a few things. As we look at the market, as we said around coolers, we really like what we saw in Coolers in Q2 and the performance as we had both soft coolers and hard coolers fully in the market, we had introduced innovation and really gave the consumer choice and gave them choice not only across form factor, but across price points, which I think is an important thing as we think about both the individual use and the giftable nature of our products in Q2 and importantly, as we go into that Q4 gift-giving season.

We saw positive wholesale trends. Importantly, our inventory we think is in really good shape in the US market and around the world, and that we see that innovation continues to work. And when you support the innovation with strong brands, strong product marketing, we really like the uptake that we're seeing. So, we feel good about where the business is positioned, recognizing that it is a choppy market. And as I said in my remarks and we said for multiple quarters, we think higher price point items are going to continue to be in focus.

So, we're really trying to drive consideration in purchase over traffic. If traffic slows down, then we want to drive – we want to drive value, we want to drive engagement, we want to put products in front of consumers that they want, and that's where the innovation and brand play in. I would say, we're seeing that same opportunity globally. In the global markets where we're newer, we're really seeing great consumer adoption, we're seeing great brand interest, we're seeing great interest across the range of the portfolio. In our more established international markets, they're really continuing to hit their stride, and I think that's what leads to a strong quarter overall for YETI, but really a particularly strong International quarter.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC



Great, thanks. And then maybe for Mike, with YETI now on track to achieve an all-time high gross margin rate of 58.5%, can you provide your thoughts on the opportunity you see ahead for gross margins from here? What are the puts and takes in second half gross margins that we should be mindful of and what is the sustainable long-term rate for the company?

Michael McMullen

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



Hey, Brooke. Good morning. Thanks. Thanks for the question. So, we were obviously really pleased with gross margins in Q2, expanded 280 basis points versus the prior year. The primary driver within Q2 being inbound transportation costs. But we also saw benefits in product costs as well. I would say for the second half, as we get into the – you'll see gross margins much more in line with the prior year, which is really consistent with what we said last quarter, which – but if you look at what we did in Q2, that led to our ability to take gross margins up by 50 basis points for the year from 58% to 58.5%.

There are a few things happening in the market that we wanted to address. It's a narrative there around transportation costs. But even with those, we think we can manage those within our P&L, given some opportunities and other line items and still be able to increase gross margins for the year to 58.5%, which would be an increase of 160 basis points versus last year.

As we go forward – now, we want to be careful, we're not giving guidance for 2025 here today, but we still believe we have opportunities within gross margins as we look forward. I think there's some opportunities in sales mix. We did take the hard cooler pricing actions this year, which were in place for the majority of this year. We think there's opportunities to optimize other line items.

And I think stepping back, we have incredibly strong gross margins and we have more levers to pull as we go forward. Now, you could see some sensitivity to sales mix going forward, whether that'd be product mix, channel mix of International while other regions are building, et cetera, but we still believe we have opportunities to drive up margins over time with that sort of variable out there.

And I think the other important thing is we're going to continue to manage gross margin and SG&A together to drive up operating margins over time, which is really what our priority is going to be going forward.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC



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

Operator: Next question in line will be coming from Megan Alexander.

Megan Alexander

Analyst, Morgan Stanley & Co. LLC



Hey. Good morning. Thanks so much for taking our questions. Maybe just to follow up on Brooke's first question there. On the cooler demand, obviously, some positive trends you're seeing. But can you comment on whether sell-through was positive either in the quarter or exiting the quarter? And then maybe more broadly, can you comment just on what you saw from a sell-through perspective around some of those key moments like Mother's

Day and Father's Day and how that compared to maybe the lull periods in between and just how that informs your embedded expectations as we look to the back half?

Matthew J. Reintjes

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

A

Megan, couple of things I'd say there. We did see positive sell-through in Coolers & Equipment and we mentioned that on the call. We feel great about where those products are positioned, the assortment we have. As I said, getting our soft cooler lineup, plus our hard cooler lineup, plus the introduction of our opening price point wheeled cooler with our Roadie 32 and then the introduction of our Roadie 15 kind of personal sized opening price point cooler, we think, really is a great – was a big contributor to Q2, but also a great set-up for the rest of the year.

As we focus on driving demand, I think – as I said, I think the consumer is going to be more discerning. I think higher price points are going to be in focus. And so, the desirability of our products as a gift-giving item we saw continue to play out in Q2, and we would expect that that will be a big part of our Q4 performance.

I think the thing that's harder to your question of the lull moments in the holidays is just the cadence of how we introduce product. As I said on the call, we saw strong demand for our Roadie 15. We're building supply. So, we're still building into our kind of full assortment from a capacity and from an inventory perspective there.

So, I think all those are opportunities. We feel good about delivering a strong 2024 and we feel good about the way we've set up the back half of the year, but we're also prepared for a range of outcomes. There's a lot of things in the market that are outside of our control. So, we focus on the things we can, which is brand, product, consumer demand and really strong channels to market.

Megan Alexander

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's really helpful. And maybe then big picture, I guess if you take out the gift card lot from last year, you've had two straight quarters of kind of a return to underlying double-digit growth. International seems to be accelerating. So, does the performance and what you're seeing give you some improved confidence that you can get back to that low-double digit top line algo?

Matthew J. Reintjes

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

A

Well, I think the things that you've laid out are the things that we're seeing in the business, which is International's doing what we have said we believe it would do, which is create an incredible opportunity for scaling this brand globally, that there's still strong relevance and resonance with our Coolers & Equipment business, and that the innovation, diversification and reach of our Drinkware portfolio continues to unlock opportunity for us.

So, that return to double-digit growth is, as you said, if you kind of take out the noise of the gift cards, that's where we are today. I think if you kind of roll through the year, that sort of plays out. And that's really our focus is how do we keep driving outsized demand for what we think is an incredible product portfolio and a growing product portfolio with a lot of consumer adoption still out there in front of us.

Megan Alexander

Analyst, Morgan Stanley & Co. LLC

Q

Awesome. Thank you so much.

Operator: Next question is coming from Randy Konik.

Randal J. Konik

Analyst, Jefferies LLC

Q

Yeah. Thanks a lot, guys, and good morning. I guess, Matt, one I want to kind of think about and talk through is the way you go about innovation. I think in the past, over the years, you've talked about usage occasion and portability as kind of key tenets for innovation. Yeah, you've talked on the call about the success of the French Press, you've talked in the press release about launching cookware later in the year. So, are you thinking more of a holistic dynamic of both – everybody thinks of YETI as outside the home, around campfires and in the great outdoors, but also kind of more attacking inside the home as well. Maybe kind of give us your thought process around, yeah, the more recent innovation and then going forward and maybe kind of elaborate on how you think about the cookware category opportunity going forward. Thanks.

Matthew J. Reintjes

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

A

Thanks, Randy. Good morning. I would say a few things. As we think about our product innovation and our product expansion, outdoor DNA is absolutely been central to what we do. It's part of the reason we put the level of durability, performance and then ultimately design into our product. And we make products that from a durability and performance can stand up to drops and knocks and being outdoors, but design that we think is portable and transferable between inside and outside.

Funny enough, the French Press, one of the audiences that was most demanding the French Press were some of our most extreme ambassadors, because that's how they prepared coffee around the campsite. But it's a spectacular product to use in the home, too. And so, I think that idea of one of the things that YETI has always, I believe, done well from a product perspective is incredible range and versatility. So, I wouldn't say it's a change of strategy. It's really – at the end of the day, we want to be a brand that stays with the consumer throughout their daily journey. We don't want to be a pick-up and put-down brand. And the way you fill that in is, you continue to connect to these products so that we touch consumers at more and more moments throughout their daily life, and that could be a cup that stays with you all day, or it could be how you start your day and how you end your day, and it may be multiple YETI products along the way.

So, a French Press to a backpack to a cooler [indiscernible] (00:42:08) is kind of a – a little bit of that ecosystem around the consumer. So, I think you'll always see us have an outdoor angle, the cookware does, the cast iron is a brilliant live fire, amazing kind of campfire over-a-grill type product. But I think as consumers will get to see it in the home, it's a spectacular product inside the home and on the range. So, I think as you think about us continuing to organically build out our product portfolio and sort of keep pushing those edges, I think that's sort of the ethos that we have.

Randal J. Konik

Analyst, Jefferies LLC

Q

Super helpful. And last question, just on International, you're obviously firing away on all cylinders, but you've also kind of made some key strategic hires to lead those regions. Maybe talk a little bit further about those leaders, some of the teams they're looking to build out and kind of – because it feels like International already strong, can kind of kick into a kind of the higher gear over time. Just maybe give us some perspective there on the hires and how you think [indiscernible] (00:43:14) your strategy sort of in building out these opportunities internationally. Thanks, guys.

Matthew J. Reintjes

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

A

Yeah. Thanks. I think in our most established markets, Canada, Australia, we have incredible teams with strong leaders and strong leadership teams that continue to drive the opportunity in those markets. Europe is – and the Middle East is a newer market for us. But as we called out on the call, it's really hitting some growth inflection. We're seeing really strong consumer receptivity. And it's – we're seeing a lot of what I would call look-alike to how we saw the US market, the Canadian market and the Australia market develop, partnerships, consumer events, signing up ambassadors, building out diverse retail and wholesale partners, a strong DTC business.

And so, the addition of Martin in Europe is really to kind of continue that and to continue to scale that business and build upon the strong team that we have in Europe today. But as you know well, I mean, Europe has many, many unique markets. And so, how we address each of those markets was one of the things that attracted us to Martin is, a lot of experience of building, growing, scaling businesses throughout Europe and a great fit for YETI.

As we go to Asia, really underdeveloped there. We have – as we've indicated in the past, we have a small partnership in Japan through a retailer. But bringing [ph] Maoji (00:44:41) on board gave us the opportunity to really think differently, not only about the opportunity in Japan, but secondarily, the opportunity throughout the rest of Asia. And so, I think you'll see the same thing that I talked about in Europe is, we're going to start to build that team, we're going to build our great range of partners to go to market, build up our direct piece of the business, and then build the brand through awareness partnerships, ambassadors, event activations. And so, we're really excited for the multi-year opportunity that International is for YETI.

Randal J. Konik

Analyst, Jefferies LLC

Q

Super helpful. Thanks, guys.

Matthew J. Reintjes

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

A

Thanks, Randy.

Operator: Next in line will be coming from Brian McNameer (sic) [Brian McNamara] (00:45:30).

Madison Callinan

Analyst, Canaccord Genuity

Q

Good morning. This is Madison Callinan on for Brian. Thanks for taking our question. Would you mind commenting on the competitive dynamics you're seeing in Drinkware, particularly from emerging players like Stanley and more recently Wahla? Is this simply a rising tide continuing to lift all boats or are you seeing any competitive pressures there? Thanks.

Matthew J. Reintjes

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

A

Thanks, Madison, for the question. I would say a couple of things. When we said this previously, I think things that bring attention to categories that we're in and bring maybe casual participants or newer participants or newer owners in that category, we think in total is actually good. We have a immense confidence in our product portfolio, our ability to build our brand, to create desirability in our consumers. And so, I think the fact that the Drinkware, in

particular, hydration element of the Drinkware category has gotten a lot of attention, we think is actually great and supports both the portfolio we have today and the product portfolio going forward.

I would also say, between the range of consumers that we address across demographics, the range of channels we have to market, both our amazing wholesale partners and our DTC business and the reach we have through the marketplaces, we think we're really well-positioned to continue capitalize on both the opportunity that's in Drinkware and hydration, but also importantly as that market gets a lot of attention, we are actually continuing to diversify our Drinkware and Drinkware and food and beverage type offerings. And so, we like our strategy, we like where it's going, we like the growth it's delivering, we like the scale we have, and we're excited about the innovation we have coming.

Madison Callinan

Analyst, Canaccord Genuity

Q

Great. And then just a similar question on Coolers. Ninja just debuted their cooler offering at similar price point to the new entry level Roadie 15. This brand has a strong history of gaining share and entering new categories. Is there any concern there regarding potential share loss? Thanks.

Matthew J. Reintjes

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

A

Thanks, Madison. Could you repeat the front-end of that question? I think I missed the who you were asking about.

Madison Callinan

Analyst, Canaccord Genuity

Q

The Ninja – new Ninja Coolers. SharkNinja.

Matthew J. Reintjes

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

A

Okay. Okay. Yeah. I think there's a few things. As we think about our strategy in Coolers, the relationship between our hard coolers and soft coolers and then the buildup we have in hard coolers, really – and it's the same philosophy I talked about earlier. We really focus on durability, performance, design and standing behind those three things. Our products need to be able to handle the kind of environments in which our products get used. And so, I think when you look at the market, largely, that is a market that we have sustained and really established the leadership position, and we continue to do that. Through time, we've seen products come on to the market at various price points with maybe a different consumer value prop around some of those items or around some of those features. I think, for us, it's continuing to do what YETI does, which is put great product in front of consumers, continue to drive that desirability, continue to drive that demand, and I think Q2 showed still what's possible and what happens when we do that.

Madison Callinan

Analyst, Canaccord Genuity

Q

Great. Thanks so much.

Operator: Next question will be coming from Alex Perry.

Alexander Perry

Analyst, BofA Securities, Inc.

Q

Hi. Thanks for taking my questions here. Just on the NFL license for Drinkware, how significant do you think this could be? Can you give us any case studies, and when you rolled out other professional leagues in terms of sales uplift that you saw and just sort of remind us on the timing of the NFL license rollout? Thanks.

Matthew J. Reintjes

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

A

Yeah. Hi, Alex. Thanks for the question. We won't and kind of haven't gotten into quantifying the magnitude of the various partnerships that we have. What we do know well is the way to execute those most effectively so that you get – ultimately get to consumers what they want, but also that you build broad relationships that are more than just a licensing deal, and I think that's one of the hallmarks of getting this umbrella NFL deal done and then the specific deal with the Cowboys, the Dallas Cowboys, gives us a chance to continue to kind of broaden and deepen that relationship.

We think these are important and they're important to do a variety of them, because you reach consumers that have different passions, different needs, they love the Cowboys and they love the YETI brand, they love the Kansas City Chiefs and they love the YETI brand. I think all of those things are – is kind of why we like these types of relationships.

I would expect, like all of our partnerships, that it – to contribute to the business and be a driver of performance. But the quantification is it's really the stack-up of all these things that gives us the range and the opportunity to address more consumers and more buying occasions, and back to my comment earlier, kind of be part of their life. And that's why we liked – ultimately like the NFL. Obviously, the NFL is the NFL. I mean, it's a huge – has huge followership, it has a growing global followership, they're now playing games, as you know, all over the world. So, all those create opportunities for us that fits within our overall strategy of continuing to build this global brand.

Alexander Perry

Analyst, BofA Securities, Inc.

Q

Incredibly helpful. And then just my follow-up is, can you just provide any commentary on the sort of Amazon Prime Day in July maybe versus last year? And do you plan to participate in any more Prime events as you move through the year? Thanks.

Michael McMullen

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

A

Hey, Alex. It's Mike. Thanks for the question. So, I don't want to get into current quarter commentary too deeply. But, obviously, in our remarks, we talked about Amazon had a good Q2. It's had several quarters in a row of good performance. We feel like Amazon provides a lot of reach for us, allows us to reach new consumers that prefer to shop on Amazon. I would say, we've been pretty consistent in how we approach promotional periods. The types of products is typically a way for us to sort of build demand in a moment with colors that – with colors that have from prior seasons or first-generation products that we've moved to new generation. So, nothing's really changed there.

And then in terms of the future, we'll have to see how the year goes. Again, I don't want to get too deep in our commentary on how we're seeing demand in Q3 or the rest half of the year, we're just – or the second half of the

year, we're focused on hitting the outlook that we've provided today, which we raised obviously and we feel really good about.

Alexander Perry

Analyst, BofA Securities, Inc.

Q

Perfect. Incredibly helpful. Best of luck going forward.

Michael McMullen

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

A

Thanks, Alex.

Operator: Next in line will be coming from Peter Benedict.

Peter Sloan Benedict

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

Q

Hi. Good morning, guys. Thanks. Thanks for taking the question. Congratulations on that NFL deal. I must say, though, it does pain me to see the Dallas Cowboys partnership. I guess, I understand it, but that one hurts. Thinking about the evolving macro, I'm kind of curious how you could alter your marketing approach in the back half of the year if things do get tougher maybe than you envision them. Do you just message differently? Do you adjust the promotional cadence? It looks like the innovation price points are coming in at, I think, relatively attractive within your range. So, just kind of curious how you would maybe pivot the business in the event that things are on the tougher side. That's my first question.

Matthew J. Reintjes

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

A

Good morning, Peter, and thanks for that. You'll note I mentioned the Kansas City Chiefs just as a – had to put my own balance back to that equation. So, I appreciate your concern for the NFL license.

What I would say on the macro, this is – we have a lot of practice at when there is disruption how do we change our marketing to make sure we stay in front of the consumer. And that – whether that was kind of the March 2020 period in disruption that created and we had to shift our marketing away from some strategies that were more active in-person engaged and became more digital in nature.

I think – and I say that because one of the benefits of having built what I believe is the best kind of in-house marketing, creative talent, content team out there is that they can pivot really quickly and address a changing consumer dynamic. So, if the world were to get rocky in the back half of the year and it became a battle for consumer attention and demand, I think performance marketing comes into play, how we balance brand spend versus product spend and how we position different parts of our portfolio in front of the consumer depending upon what the appetite is.

I think the other thing is how we lean into those gifting times of year. At the end of the day, our product portfolio, from a gifting perspective, has really approachable price points and they're also highly desired. And so, you get that great combination between \$30 or \$35 Drinkware or \$200 or \$250 or \$300 cooler, but you get an incredible outsized value for that, for that gift on the recipient side. And so, all those dynamics we can play into, but we're also playing a long game, which is we want to continue to invest in this business, in this brand, we want to continue to grow awareness beyond the moment in time. So, I think what you would see us do is really look at

balancing the momentary, more traffic, more transactionally-driven activities with the support of the brand over the long term.

Peter Sloan Benedict

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

Q

No, that makes sense. Thanks for that, Matt. And then I guess the next question just is around kind of the innovation. The new products are coming out. You mentioned the cookware. Sounds like the price points there are maybe a little below where maybe that legacy product was – I can't recall exactly, but I'm more curious around the bags launch for 2025. I'm not sure how much you're willing to share, but just how are you thinking about that bag portfolio expansion – portfolio expansion in the first part of next year, whether in terms of the range of product or where the price point's going to fall relative to what you currently have out there, just kind of curious what else you're willing to share there. Thank you.

Matthew J. Reintjes

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

A

Yeah. Thanks, Peter. And as you mentioned, the cookware, we're excited about – it is a slightly different price point than the legacy product. As we brought that, we actually moved that price point down as we worked with our suppliers to not only drive some what we think are some incredible improvements to what was already the best cookware on the market – or the best cast iron on the market, but also get it to a place that we thought was a really great kind of fit within the pricing strategy and the pricing ladder at YETI.

The thing about bags, we haven't discussed the range and what's coming. What I would say is, we're going to build into this and we believe in the opportunity in every day, we believe in the opportunity in active outdoor, we believe in the opportunity in travel and in adventure. And so, I think as you watch us over time, what you're going to see is this melding of YETI plus the acquired designs and talent that we now have within the business that we're going to continue to expand that product portfolio, which will then allow us to address a wide range of price points. But always with that idea that there is a durability and performance aspect to what we do. And I think that idea that we're not going to go down-market and have something that doesn't sort of represent YETI, but I think the breadth and the different use cases and environments we're going to address we think is really exciting, not just domestically, but globally.

Peter Sloan Benedict

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

Q

All right. Sounds good. Good luck. Thanks very much.

Operator: Next in line will be coming from Joe Altobello.

Joseph Altobello

Analyst, Raymond James & Associates, Inc.

Q

Thanks. Hey, guys. Good morning. Appreciate the question. So, I guess, first question for you, Matt, you sound a lot different than you did six months ago with respect to cooler demand and demand across price points. I just wanted to clarify, you did not see any meaningful trade-down in the quarter in the Cooler segment. And maybe if you could tease out what the impact of price and mix was and see any revenue in the quarter.

Matthew J. Reintjes

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

A

Yeah. Joe, thanks for the question. And I'll hopefully address, I think, what you're getting at. And yeah, if you took sentiment today versus sentiment six months ago, it was really the difference between having our soft coolers fully assorted back in the market, our – what I knew was coming and what we indicated was coming in innovation in our hard coolers and really the idea that we were pretty bullish on what was coming out. But I think at that time, there was a lot of – there was a lot more price point sensitivity, which we've seen some of that continue to play forward. But also we weren't fully assorted in the market in the way in which we wanted. And so, I think the trade-down question – I don't know if it's trade-down as much as it is, we put products out in front of consumers at sizes, functionality, the price points that met what their needs were. And we were excited – as we said, we were excited to get back to the \$200 entry price point in hard coolers. It's a place we had been in the past for a long time, it's been a successful price point for us. And I think it's a successful price point because it matches a size, a personal use, a carry ease that works really well in the market, and then getting – building on the success we had in our wheeled coolers and bringing something that we think had a better form factor and fit at a different price point was a really attractive thing to do. So, I think any change in the last six months is really – feel great about the lineup we have, feel great about the innovation – the forward innovation over the coming years that we have in those categories. And that's in a backdrop where we think the consumers' going to be discerning and we're going to have to drive interest in and demand for our brand, and that's something I think we do well.

Joseph Altobello

Analyst, Raymond James & Associates, Inc.

Q

Got it. Very helpful. Maybe just to follow up on that. You mentioned the cautious corporate [ph] sales. Can you (01:02:10) elaborate on that a little bit and how did the corporate channel do this quarter?

Michael McMullen

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

A

Hey, Joe, it's Mike. So, yeah, as we talked about in our remarks, we saw growth across all of our DTC channels, corporate sales included. A few things we'd call out. One, this has really been to-date a heavily US business as we just didn't have the customization capabilities outside the US that you need to really grow and expand that business, but we're starting to see some momentum outside the US within corporate sales.

The second thing, on the US side, we were pleased with the overall order volume growth that we saw in the quarter. We did see some more cautious order values, but we're going to continue to try to manage that to drive overall growth both in the US and outside the US. And we really believe that as we launch custom capabilities in Canada, in Australia and eventually Europe that corporate sales business can be a part of the overall growth story outside the United States.

Joseph Altobello

Analyst, Raymond James & Associates, Inc.

Q

Got it. Very helpful. Thank you.

Operator: Our final question will be coming from Jim Duffy.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hello, thank you. Thanks for taking my question. I know the call's gotten long. Hope you're doing well, Matt and Mike. I want to talk about newness. Can you help us understand the importance of newness maybe with some metrics. Is there a way to shape in or put context around it? I don't know if there's a metric like contribution of products in the last 12 months or something similar which can be helpful there.

Michael McMullen

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

A

Hey, Jim, it's Mike, and thanks for the question. We generally have not given too much detail in terms of the contribution of new products or the mix of new products as we've gone. The only thing we've talked about and we've been relatively consistent here is just the importance of newness, not only the overall growth, but it also creates excitement for the business, it drives traffic that lifts the rest of the portfolio as well.

The one thing I will say is that the contribution from new products, as the business has grown from an overall percentage standpoint, it hasn't materially changed over time. In our view, though, it just speaks to the need to continue to drive excitement and growth and continue to put out new products to broaden the portfolio both in Drinkware and C&E. But other than that, we haven't given a whole lot of -too much specifics on the exact contribution from new products.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Great. I'll leave it at that. Clearly, you've done a great job with the new products. Thanks for taking my question.

Matthew J. Reintjes

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

A

Thank you, Jim. You're welcome.

Michael McMullen

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

A

Thank you, Jim.

Operator: I'd now like to turn the call over back to Mr. Matt Reintjes for final closing comment.

Matthew J. Reintjes

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

Thanks all for joining us. Look forward to speaking with you during our Q3 call.

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

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