HD **Q4 2019 Yeti Holdings Inc Earnings Call - Final**

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OPERATOR: Greetings, and welcome to the YETI Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

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

THOMAS D. SHAW, VP OF IR, YETI HOLDINGS, INC.: Good morning, and thanks for joining us to discuss YETI Holdings' Fourth Quarter and Full Year 2019 Results.

Before we begin, we would like to remind you that this conference call will include forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. These statements are detailed in our risk factor discussions that can be found in this morning's press release as well as our filings with the SEC, all of which can be found on our website at investors.yeti.com. We undertake no obligation to revise or update any forward-looking statements or information.

During our call today, we'll be discussing YETI's adjusted EBITDA and certain other non-GAAP measures pertaining to completed fiscal periods and 2020 outlook. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in the press release issued this morning as well as in the supplemental reconciliation, both of which are available in the Investor Relations section of the YETI website.

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 our prepared remarks, we'll open the call for your questions.

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

MATTHEW J. REINTJES, PRESIDENT, CEO & DIRECTOR, YETI HOLDINGS, INC.: Thanks, Tom, and good morning. We're pleased to report a great fourth quarter holiday season and year for YETI, with exceptional revenue growth of 23% during the quarter and full year revenue growth of 17%. Customers continue to embrace the YETI brand and our innovation.

In the quarter, we showed the strength of our omnichannel efforts with a strong performance in each of our channels, including our wholesale partners. In our direct channels, we delivered 35% growth, reaching 50% of our mix during the period, highlighted by strength in customer acquisition, repeat purchase and with both consumer and corporate customization.

For the full year, DTC grew 34% to reach 42% of total sales, marking a meaningful evolution from a 10% mix 3 years ago. Our national, regional and specialty independent wholesale partners grew 14% for the quarter and 7% for the full year, capping another strong year in wholesale.

Both our product categories drove growth in the quarter and throughout 2019. Drinkware grew 34% in the quarter and 24% during 2019, while Coolers & Equipment delivered double-digit sales growth of 12% for the quarter and 11% for the full year.

Along with tremendous top line momentum, we continue to focus on high-quality revenue as we delivered a record 54.5% gross margin for the quarter and 52% for the full year. These results drove adjusted earnings per share growth of 29% and 32% for the quarter and year, respectively. Paul will discuss our results in more detail in his remarks.

The financial performance achieved in 2019 was a result of ongoing progress against our 4 strategic growth drivers, consisting of: expanding our customer base; introducing new products; omnichannel growth; and international. Our conviction around these growth drivers remains high, and we'll continue to lead with these initiatives as we progress through 2020.

We've made significant progress expanding our brand reach over the past few years, leveraging our strong heritage while continuing to evolve many of the ways we engage consumers. Our 2019 brand efforts culminated in a multipronged marketing program during the quarter. This started with the distribution in November of our YETI Dispatch magalog to roughly 1.5 million U.S. homes, highlighting the range of the YETI product portfolio and giving a first look at our new Yeti V Series hard cooler. This is our fifth magalog, and we continue to be very pleased with the results we are seeing from existing customers and prospects, including the trends and purchase mix of newer innovation and product families.

In the quarter, we also proactively messaged our customization capabilities, contributing to strong growth in Q4. We debuted 2 product-led ad campaigns on TV and digital that aired through the quarter, and we delivered our holiday launch of For The Places We Call Home national TV and digital campaign in December. Finally, we leveraged the elements of family, friends and togetherness to drive our gather around holiday gift-giving campaign, highlighting the seasonal moments of gathering and sharing.

In addition to these brand awareness programs, we also had several notable call-outs in our expanding ambassador roster and communities. Recently added Pitmaster, Matt Horn, was named a rising star chef by the San Francisco Chronicle, and is expected to open his hotly anticipated Horn Barbecue in West Oakland, California in spring 2020.

Also on the barbecue side, Pitmaster, Travis Clark, with his Clark Crew BBQ team won the Jack Daniel's World Championship Invitational Barbecue competition in October, beating out a field of close to 100 international teams, landing the Grand Champion title.

Surfing ambassador, John John Florence, overcame his knee injury to compete in December at Pipe Masters on the North Shore of Oahu, capturing in dramatic fashion a final spot on the inaugural U.S. Olympic surfing team as the sport makes its Olympic debut this summer in Tokyo.

The games will also include 3 disciplines in rock climbing. And we're excited to have announced a broad partnership with USA Climbing as their official sustainability partner and as title sponsor of the Bouldering Open National Championship showcased on ESPN in late January and early this month.

More recently, we added our first skate ambassador with the addition of renowned skater, Geoff Rowley. While his reputation in the skate world is well known, Geoff's off-season passion as a hunting guide for desert bighorn sheep is emblematic of the crossover connection we seek in our relationships and communities. These ambassador and community relationships continue to be central to our brand evolution.

As we look at 2020 and think about brand reach, we'll continue to balance how we connect to our heritage, while also pushing into new pursuits and geographies. This approach was evident last month as we kicked off our 12-city 2020 Yeti International Film Tour. Our first stop in Denver debuted to a stellar crowd of over 1,600 and included 7 previously unreleased films. For the first time, the tour will make 2 stops internationally in Toronto, Canada and Melbourne, Australia. Most importantly, the proceeds from the entire tour will go towards incredible organizations focused on conservation and disaster relief.

In addition, earlier this week, we are proud to announce YETI as a founding partner and official Jersey sponsor of the MLS' Austin FC. We're also honored to serve as a presenting sponsor of Austin FC's sustainability efforts. Austin FC is the 27th club in Major League Soccer, and we're excited to have our brand as the centerpiece of the black and green kits starting in their inaugural 2021 season. This was a unique chance to support the Austin community, which has meant so much to us since our founding here in 2006.

This leads to our second growth driver, introducing new products. The introduction of a number of new products in the fall of 2019, coupled with the ongoing momentum of key legacy products, injected additional excitement into the 2019 holiday offering.

We advanced innovation and performance in hard coolers with the limited launch of the YETI V Series. Combining 2 YETI technologies and designs for the first time, the cold holding power of our Rambler Drinkware and our iconic, Tundra Cooler, we have matched unparalleled performance with a classic stainless steel look. The YETI V Series was one of 16 products to make the GearJunkie 'Gear of the Year' list for 2019. And we're excited to tell a more fulsome story around the product and technology as we move deeper in 2020.

Strategic color drops continue to be an important element of our playbook, with our holiday black-on-black collection for the Hopper Flip 12 soft cooler and Camino Carryall bag. We debuted our first YETI Presents book with Tarpon, an incredible 130-page coffee table book filled with photography and short essays that celebrate the pursuit and culture surrounding arguably the world's most inspiring game fish. As we launch the book at our YETI stores, we also raised money for one of our conservation partners, Captains for Clean Water, continuing our passion to find unique and real ways of supporting the wild.

For 2020, while much of our lineup will be released as we move throughout the year, we unveiled a portion of our first half launches at the Outdoor Retailer show last month, including the broader debut of our pinnacle V Series cooler. We showcased our latest example of continuous improvement in bottles. We added a new, easy-to-drink from Chug Lid as a standard feature on all our bottles. We are transitioning our Rambler 18-, 26- and 36-ounce bottles to this Chug Lid, continuing our history of always innovating and delivering performance in our products. This transition not only shows our willingness to make great products better, but also further supports the impact we can have on changing behavior towards reuse.

We also had our first refresh of our original Colster can cooler, transitioning to 3 new sizes to support the growing trend in aluminum can shapes.

In January, we introduced a second share offering in our outdoor living category with the trailhead chair. Maintaining the quality, performance and design excellence from our original Hondo Base Camp folding chair and targeting a true premium void in the category, our new chair delivers performance and design with a pack-away frame for on-the-go adventures.

And of course, color will continue to play a big part in our assortment, led by our 3 spring seasonal colors of coral, pacific blue and chartreuse.

Our strategy to win all phases within omnichannel and wholesale was on full display this quarter, as D2C grew 35% and mix reached 50% of the business for the first time, with a strong contribution from each of our direct channels.

Importantly, the success of yeti.com, YETI retail and the Amazon Marketplace, came through full-price selling during the promotional holiday period, helping drive gross margin performance. As we have mentioned, we were better positioned to service our D2C customer, given the mid-2019 opening of our Salt Lake City 3PL and through added customization capacity during the period.

Year-over-year strength in our customization business, particularly, on the corporate sales side, were evident even as we continue to ramp capacity through the period.

As always, we believe a great D2C strategy is balanced with a great lineup of wholesale partners that help impactfully represent YETI in relevant shopping destinations. This includes focusing on our reach with our large national, regional and key accounts, optimizing our network of 4,700 independent retailers and strategically adding new distribution when it creates a new buying occasion, reaches a new customer or augments or enhances our existing portfolio.

2020 will entail driving growth across our existing distribution, including broader assortments and enhanced merchandising while also supporting YETI's expansion with newer partners.

Shifting to the YETI retail strategy. Our 6-store footprint continues to expand, and we're pleased with both the reception to the store experience and the build of store traffic through the holiday season. We held fourth quarter openings of our pop-up stores at Domain in Austin, which we have recently extended another year, as well as the opening of our store in the Knox-Henderson area in Dallas. The learnings from these new smaller-format locations is helping inform our strategy relative to the large-format offerings in Austin, Charleston and Chicago.

Over the next 2 months, we're looking forward to the opening of our Denver store and a pop-up store in Fort Lauderdale. We continue to expect to open between 4 to 6 locations this year, looking at a range of footprint options and balance between heritage and nonheritage markets.

With the strong growth in D2C and wholesale, we continue to get sharper with our data analytics efforts, spending much of 2019 building out the internal team and capabilities. As we learn more from our product registration and our consumer purchases, we're positioned to develop customized, targeted audiences, better optimize our website and manage the purchase journey of the customer. For instance, our product recommendation engine leverages online purchase history to inform what our existing customers are inclined to purchase next. The ongoing development of these insights will help shape and optimize our customer targeting efforts across our marketing channels as we move further in 2020.

Before we talk about our international business, I want to say our thoughts are with those affected by the coronavirus outbreak. We remain in very close contact with our local team and partners in China to monitor their safety and well-being. While it remains a fluid situation with supply chain time lines and restarts, we are tracking this daily. Currently, we do not expect impact to our first half outlook. But we are actioning multiple levers to help mitigate future risk of supply disruptions in the event there is a prolonged delay due to factory and logistics start-up.

Similar to our approach last year with tariffs, we're working a plan. As previously disclosed, our spring Drinkware was already received as early receipts of product in advance of potential List 4B tariffs and ahead of the Chinese New Year.

We're working closely with our suppliers as they work to come back online. To that end, we will leverage existing work-in-progress inventory to our partners and look to direct production and scheduling to optimize our available assortment. Finally, we anticipate the potential to expedite the shipping of specific product should we experience protracted production delays.

Now turning to our international growth story. International reached 5% of sales for the quarter and 4% for the full year. Growth was highlighted by our largest international market in Canada, where we're driving localization efforts for the Canadian consumer. This includes the ongoing adoption of our **yeti**.ca website, our first fully integrated product and holiday campaign led by our new local PR agency and a ramping corporate sales function. These are all important areas to build upon throughout 2020, and will be the thrust of our international growth story for the year.

We continue to make excellent progress in Australia and New Zealand. We have watched the courageous efforts to contain the devastating wildfires in Australia, and we are working with our local partners to help assist with relief and recovery. As previously mentioned, the proceeds from our Film Tour stop in Melbourne, Australia will be going towards these relief and recovery efforts.

In Japan, our brand continues to be a highly Instagram-able must-have for the outdoor lifestyle. And we're focused on broadening our reach in 2020, with additional wholesale accounts and the introduction of an online presence.

In the U.K. and Europe, we like the initial response across the region and will continue to supplement our e-commerce business with a relevant retail footprint. This includes the fourth quarter addition of partners such as the House of Bruar, Scotland's premier independent country lifestyle retailer. Expect broader wholesale distribution as we move deeper into 2020.

Our international strategy overall will continue to center around disciplined expansion where our foundation for success will balance optimal control of our brand in each market, relevant distribution choices that build upon the authenticity and trust of the brand and localized customer engagement.

Before handing the call over to Paul to discuss the financial details and guidance, I want to first thank our 700-plus YETIzens, our ambassadors, partners, wholesalers and suppliers that have contributed to a remarkable year, and who are providing invaluable dedication and support for **YETI**. We set a high bar for the brand in 2019. And we look forward to once again exceeding customer expectations in the new year.

And now I'll hand the call over to Paul.

PAUL C. CARBONE, SENIOR VP & CFO, YETI HOLDINGS, INC.: Thanks, Matt, and good morning, everyone. I'll begin with an overview of our fourth quarter and fiscal 2019 results, followed by our fiscal 2020 outlook.

YETI's fourth quarter net sales increased 23% to $297.6 million compared to $241.2 million in the year-ago period. This was our highest growth rate in the past 6 quarters, and reflects strong momentum as we move into 2020.

For the full year, net sales increased 17% to $913.7 million. The full year results were above the high end of our previous outlook of 14.5% to 15% sales growth. While we don't specifically discuss individual customer contributions to our growth, I'm proud to say that even excluding the impact of Lowe's in the quarter, we would have still exceeded the high end of our full year 2019 net sales outlook.

Looking across our channels, direct-to-consumer net sales for the quarter increased 35% to $149 million compared to $110.5 million in the same period last year. This impressive growth was driven by momentum across yeti.com, Amazon Marketplace and in particular, corporate sales, where we were well positioned to capitalize on increased demand by expanding our capacity for customization during the quarter. We also experienced strong demand in our 2 primary product categories with Drinkware leading the way. Full year, DTC net sales increased 34% to $386.1 million, representing 42% of our overall sales mix.

Wholesale net sales for the quarter increased 14% to $148.7 million compared to $130.7 million in the year-ago period, with strong performance delivered in both product categories. Full year wholesale net sales increased 7% to $527.6 million. And as I mentioned earlier, our existing wholesale accounts drove the majority of the growth during the quarter and the year.

Internationally, net sales rose 124% for the quarter to reach 5% of total net sales, led by strong momentum in Canada. And for 2019, international net sales grew 135% to double its sales mix year-over-year to 4% of total net sales.

By category, fourth quarter Drinkware net sales grew 34% to $192 million compared to $143.5 million in the prior year quarter. We continue to see impressive growth with both our legacy products and new product introductions, highlighted by ongoing customer excitement with color in our expanded customization capacity.

Our Rambler bottle business remains robust with strong core product demand, complemented by new 2019 introductions like our Rambler 12-ounce in Rambler Junior bottles. Overall, Drinkware grew an impressive 24% for the full year to reach $526.2 million.

Coolers & Equipment net sales increased 12% to $102.3 million compared to $91.2 million during the year-ago period, led by strong performance in soft coolers, including demand for our next-generation Hopper M30 and the Daytrip lunch bag that launched in the third quarter as well as new color options. For the full year, Coolers & Equipment net sales increased 11% to $368.9 million.

Gross profit increased 27% to $162.3 million or 54.5% of net sales compared to $127.8 million or 53% of net sales during the same period last year. The 150 basis point year-over-year gross margin expansion was primarily driven by: a 230 basis point favorable impact from cost improvements, led by our Drinkware category; a favorable 90 basis point impact from channel mix; and a favorable 80 basis point impact from lower inbound freight. These margin expansions were partially offset by 160 basis point unfavorable impact from higher warranty and inventory reserves and a 70 basis point unfavorable impact from higher tariffs. Full year gross profit increased 24% to $475.3 million, expanding 280 basis points to 52% of net sales.

Adjusted SG&A expenses for the fourth quarter were $102.7 million or 34.5% of net sales as compared to $81.9 million or 34% of net sales in the same period last year. Selling expenses deleveraged 80 basis points, primarily driven by higher variable expenses tied to our faster-growing direct-to-consumer business, including online marketplace fees and outbound freight. Partially offsetting these increases, general and administrative expenses leveraged 30 basis points, given our strong top line performance.

Adjusted operating income increased 30% to $59.7 million or 20.1% of net sales compared to $45.9 million or 19% of net sales during the same period last year. Notably, these adjusted results exclude $41.9 million in noncash stock-based compensation expense, mostly comprised of a onetime expense related to pre-IPO performance-based RSUs that vested and were fully recognized in the fourth quarter as previously announced in conjunction with our November secondary offering. For the full year, adjusted operating income increased 27% to $158.1 million, expanding 140 basis points year-over-year to 17.3% of net sales.

Our effective tax rate was 29.7% during the quarter compared to 15.7% in last year's fourth quarter, slightly ahead of our expectations due to the unfavorable tax impact on the aforementioned performance-based RSU vesting. Our effective tax rate was 25% for the year.

Fourth quarter adjusted net income grew 31% to $42.1 million or $0.48 per diluted share compared to adjusted net income of $32 million or $0.38 per diluted share last year. Full year adjusted net income grew 37% to $103.4 million or $1.20 per diluted share, exceeding the high end of our most recent outlook of $1.14.

Fourth quarter adjusted EBITDA increased 29% to $67.5 million or 22.7% of net sales compared to $52.2 million or 21.7% of net sales in the same quarter last year. Full year adjusted EBITDA increased 25% to $187 million, expanding 130 basis points to 20.5% of net sales.

Now let me turn to our balance sheet. To start, with **YETI** no longer qualifying for emerging growth company status, we have adopted new ASC 842 lease standard using the modified retrospective approach. Most notably, this adoption impacted our balance sheet with the recognition of $37.8 million for operating lease right-of-use assets and a corresponding $50 million of operating lease liabilities as of year-end. This adoption had no material impact to fourth quarter results and no impact to previously reported interim results.

Our cash position was $72.5 million as of December 28, 2019, compared to $80.1 million at the end of fiscal 2018. We ended the year with $185.7 million in inventory compared to $145.4 million last year. The 28% increase in inventory for the period reflects the strategic buildup of Drinkware inventory to mitigate the potential of List 4B tariffs that were scheduled for a December 2019 implementation. This buildup includes a combination of strong selling core items and new seasonal colors slated for the spring.

Excluding this strategic buildup, inventory growth remains below our reported sales growth for the fourth quarter. And we remain very comfortable with the health of our overall inventory position to support our planned growth this year. As we have discussed in the past, we expect inventory growth to normalize throughout 2020.

We ended the year with total debt, excluding unamortized deferred financing fees and finance leases, of $300 million compared to $332.9 million in last year's fourth quarter.

During the quarter, we amended our credit facility and extended the maturity from May 2021 to December 2024 as well as reduced our interest rate by approximately 150 basis points. We also upsized our revolver to $150 million from $100 million, which remained undrawn at year-end to provide added flexibility given the growth of our company since securing the original revolver. Our ratio of total net debt to adjusted EBITDA for the trailing 12 months improved to 1.2x compared to 1.7x in the prior year quarter.

With a highly successful 2019 now behind us, let's shift to our outlook for 2020. Following our initial year as a public company, we are updating our definition of certain non-GAAP financial measures going forward by eliminating several adjustments or add backs. Beginning in the first quarter of 2020, the following 3 expense categories will now be included in our consolidated non-GAAP results: first, investments in new retail locations and international market expansion; second, expenses related to the transition to the ongoing senior management team; and third, expenses related to transitioning to a public company.

My forthcoming discussion of the 2020 outlook reflects these revised non-GAAP definitions. 2019 historical information has been updated to reflect these changes, so the information is comparable. We have posted a supplement in the Investor Relations section of **YETI**'s website with the updated 2019 quarterly financials as they relate to the non-GAAP definition changes.

Please also note that our fiscal year 2020 includes a 53rd week ending January 2, 2021. Given the smaller size for **YETI** of this additional post-holiday week, we expect approximately $7 million in sales for the full year with no impact to earnings per share.

Now turning to our full year 2020 outlook. We expect full year net sales to increase between 13% and 15% compared to fiscal 2019. We expect growth across both channels with higher sales growth in the direct-to-consumer channel relative to the wholesale channel. We expect balanced category growth between Coolers & Equipment and Drinkware. We also expect growth in the second half of 2020 to be moderately above growth in the first half of 2020.

On the margin side, we expect GAAP operating margins between 15.3% and 15.6% of net sales compared to 9.8% in 2019. We expect adjusted operating margins of between 16.3% and 16.6% of net sales, reflecting margin expansion of 70 to 100 basis points. This operating margin expansion reflects continued gross margin expansion, driven primarily by the benefits of lower product cost and the favorable shift in channel mix to our direct-to-consumer business, partially offset by adjusted SG&A deleverage, driven by higher variable expenses related to our faster-growing DTC channel.

Notably, we currently expect a modest net gross margin benefit related to the current tariff environment, with savings from the sourcing of substantially all of our soft goods outside of China in 2020, partially offset by continued tariffs on Drinkware accessories and the recent strengthening of the Chinese RMB. We expect an effective tax rate of approximately 25% for fiscal 2020.

Based on full year diluted shares outstanding of approximately 88 million, GAAP earnings per diluted share are expected to be between $1.24 and $1.29 compared to $0.58 in fiscal 2019. We expect adjusted earnings per diluted share to be between $1.34 and $1.39, reflecting year-over-year growth of 26% to 30%.

Adjusted EBITDA is expected to be between $202.1 million and $207.9 million, reflecting growth of 18% to 21% and margin expansion of 80 to 100 basis points. Again, let me remind you that these adjusted growth rates are based on our revised non-GAAP metric definition.

We expect capital expenditures to be between $30 million to $35 million. Capital expenditure priorities in fiscal 2020 are largely comparable to last year, including ongoing investments in molds and tooling to support both our sales growth and new product launches as well as the opening of 4 to 6 retail stores.

To summarize, we had a fantastic 2019 and are well positioned and excited to execute against our strategic growth drivers to deliver both strong top line and bottom line results, again, in 2020.

And with that, we will now open the call for questions.

Questions and Answers

OPERATOR: (Operator Instructions) Your first question comes from the line of Peter Benedict with Robert W. Baird.

PETER SLOAN BENEDICT, SENIOR RESEARCH ANALYST, ROBERT W. BAIRD & CO. INCORPORATED, RESEARCH DIVISION: I guess, Paul or Matt, maybe can you help us understand how maybe you're thinking about Lowe's, either quantitatively or qualitatively in terms of how that plays into your plan for 2020? Clearly, they're still there, won't all be incremental because there'll be some cannibalization. But just maybe help us understand what Lowe's is doing with respect to your 2020 plan. That's my first question.

PAUL C. CARBONE: Sure, Peter. Let me start. So it's -- to be fair, it's pretty early in the process with initial stores rolling out in late December. And we're still ahead of true spring buying. That said, we remain excited to continue to work with Lowe's. As we talked about in the fourth quarter, our over-performance in both wholesale and in total was -- only part of it was Lowe's.

So again, as we look to 2020, we will continue to see how the rollout goes, how sell-through goes. We're very excited about it, and as they continue to expand the **YETI** assortment and drive merchandising excellence across all our products. So it's something that we continue to be very, very excited about.

MATTHEW J. REINTJES: The only thing I would add, Peter, is the -- as we previously talked about, we're going to be thoughtful and methodical in how this rollout happens. And we previously communicated, we expect it to stretch into 2021 and stay in close partnership. But we're excited about the engagement, the assortment, how that rollout has gone to date.

PETER SLOAN BENEDICT: Okay. That's helpful, guys. And I think, Paul, you mentioned maybe the second half, from a revenue standpoint, might grow a little faster than the first half. Can you maybe tease that out a little bit what's driving that?

PAUL C. CARBONE: Yes. So we do expect growth to be moderately higher in the second half versus the first half, really 3 things, somewhat driven by higher new product contribution, right? So in the second half, you have the first half products and the second half; higher planned wholesale, new wholesale customer contribution; and then thirdly, the impact of the 53rd week. So those 3 items are driving the moderately higher growth in the back half versus the first half.

PETER SLOAN BENEDICT: Understood. Great. And my last question, and I'll let some other guys get on here, is just how are you guys thinking longer term about gross margin? I mean, clearly, the plan for '20 kind of gets us beyond, I think, where you guys were thinking a year ago or 18 months ago, where the margin would go.

Just what's your latest thinking about gross margin, any structural limits to that, where you're thinking that could go?

PAUL C. CARBONE: Thank you. So we are, particularly, pleased with the continued expansion of gross margin as we believe that's a true measure of strength when evaluating the health of the brand. At our IPO, we provided a 50% to 52% long-term range. And we believe, today, it's a bit early, 6 quarters in, to update that long-term range.

That being said, we do not necessarily see a margin ceiling at 52%, which is evident in the 2020 guidance, showing further gross margin expansion above and beyond the 2019 actual of 52%. The opportunity to drive that continues to be the same as it was in 2019. So higher direct-to-consumer mix and cost improvements across the portfolio will continue to drive that mix higher.

OPERATOR: Your next question comes from the line of Peter Keith with Piper Sandler.

ROBERT ADAM FRIEDNER, RESEARCH ANALYST, PIPER SANDLER & CO., RESEARCH DIVISION: It's Bobby Friedner on for Peter. Nice quarter. I just wanted to follow-up on your tariff commentary. Can you maybe just give a little more color as to kind of the cadence as to how you'll recoup that tariff benefit in 2020? That's my first question.

PAUL C. CARBONE: Yes. Sure. So in 2019, and we talked about this, we had incremental tariffs of about $9 million, gross tariffs of about $10 million because we had some back in '18, so that's the difference between the incremental and the gross. The -- what we're seeing the benefit going into 2020 is no longer having tariffs on our soft goods as we've moved that out of China. We continue to have tariffs, List 3 on Drinkware accessories, and a couple of small items, the chairs and blankets. And then List 4A on our 1-gallon jugs and dog beds is kind of what's still under tariff. So of the gross number of approximately $10 million of tariffs in 2019, we get back about half of that with the move of the supply -- the soft goods supply chain out of China.

ROBERT ADAM FRIEDNER: All right. I appreciate that a lot. And then maybe just separately, I just wanted to ask about free cash flow. So it did come down quite a bit in 2019; seems largely inventory driven. Can you kind of speak to how you're thinking about your free cash flow outlook for 2020? And any -- the growth now that inventory growth will be less than in 2019?

PAUL C. CARBONE: Yes. Sure. So yes, certainly, 2018, we had significant free cash flow, driven by the reduction of inventories vis-Ã -vis 2017. In 2019, as we used prepositioning of inventory as a mitigating lever for tariffs inventory, and we talked about that, we used cash flow for inventory. In 2020, we see our free cash flow projection at around $60 million to $70 million. So certainly higher than 2019, as we talked about in my prepared remarks, as we normalize inventory throughout 2020.

OPERATOR: Your next question comes from the line of Alex Walvis with Goldman Sachs.

ALEXANDRA E. WALVIS, RESEARCH ANALYST, GOLDMAN SACHS GROUP INC., RESEARCH DIVISION: My first question is on the customs and corporate business. You called that out as a strong driver in the quarter and indeed, for the year. How big are those businesses today? And how much of the growth were they driving in 2019? And then perhaps a comment on the extent of growth expected from them in 2020?

PAUL C. CARBONE: Yes, Alex. So we don't break out custom specifically or corporate sales. So if we step back for the quarter, direct-to-consumer was 50% of the business and overall for the year, was 42%. And then inside that, as you know, **yeti**.com, Amazon and then corporate sales. Corporate sales, across all 3 platforms, as I talked about in my prepared remarks, very strong results in the quarter and the year. We really liked what we saw in customization, certainly, in the fourth quarter, having a -- going deeper into the quarter. And we still believe there is opportunity there. So -- and on the consumer side of the business, guaranteed shipment for holidays with Black Friday, not -- as you know, Black Friday was a week later, too. So not only did we go deeper into the holiday season, Black Friday was a week later. So it was certainly longer than last year because we cut off before Black Friday weekend. So we really like what we saw in customization across both corporate sales and DTC and still think there's growth there in 2020.

ALEXANDRA E. WALVIS: Fantastic. And the second question is on the introduction of some of these new products. I believe there's been a little bit of discounting activity in advance of that. Can you talk about the strategy behind that, whether there's any change from previously? I know that's a way that you tend to prepare for new product introductions. But I'm just wondering about the extent of that activity versus usual?

MATTHEW J. REINTJES: This -- as we think about these product transitions, exactly as you said, this is consistent with how we've transitioned. As you know, we're -- we've been very supportive of map pricing. And as I said in my prepared remarks, through the holidays in our D2C channels, we're very supportive of keeping the full price selling. But when we go into these product transitions, one of the things we're very thoughtful about, and we plan in advance and we plan with our wholesale partners, is how to effectively make a transition, generation-to-generation on our products. So exactly what you said, what you're seeing today, and we have already announced if there is a new product coming behind it, we go move the channel, and get the channel to have the right inventory position. So as we launch a new product, the new product comes out and we have a clean channel to launch into it.

So I think one of the patterns that we've built is exactly this. When you see **YETI** come off-price, we'll be announcing a new product coming behind it or you can expect something new coming behind it, much like we're doing right now in bottles and colsters.

OPERATOR: Your next question comes from the line of Randy Konik with Jefferies.

RANDAL J. KONIK, EQUITY ANALYST, JEFFERIES LLC, RESEARCH DIVISION: So a couple of questions. I guess first topic that would be very helpful is getting some questions around how we should be thinking about the wholesale growth rate in general and how to think about it organically or like-for-like, ex the Lowe's addition? That would be super helpful, if we get a little bit more granular or directional help on how we should be thinking about that segment of growth, that channel distribution's growth first.

PAUL C. CARBONE: Sure. Randy, I would go back to our long-term guidance or long-term outlook commentary. And that hasn't changed from a top line, 10% to 15%. And then inside that, what we've talked about is -- and again, to your point, ex any new customers coming in, on a like-for-like basis, we would say, wholesale should be mid-single digits and we continue to expect wholesale to perform mid-single digits. Most of that from velocity, so not new door additions, so sell-through, new product introductions, things of that nature. But again, we still expect that at mid-single digits.

RANDAL J. KONIK: Very helpful. And then when we think about the DTC channel as a margin-accretive channel, you touched upon it reaching 50%, which I think is well in advance what we had originally thought years ago, that it would get to this point. So we're getting there quicker. Is there any kind of color you can give us within the channel of how the dynamic is playing out between the Amazon Marketplace and the **yeti**.com itself? Because, obviously, we know that **yeti**.com is going to be higher margin than the Amazon Marketplace. So I'm just kind of curious on what that dynamic is looking like. How it's changed over the last 12 months? And how we could expect it to change over the next 1 to 2 years?

MATTHEW J. REINTJES: Yes. Randy, Matt. It's -- as we look across our D2C channels, as Paul said, and there's been a consistent theme is we like the contributions we're getting from each plank of our direct-to-consumer business, including our small but growing retail presence. What we tend to see is **yeti**.com continues to be our flagship in the D2C business. It's the one that we can present the best stories, drive new customer acquisition. We like the mix we're seeing of new customers versus repeat buyers on **yeti**.com. The Amazon Marketplace, we believe, tends to be a bit more of a transactional and an ease of purchase place. And also for consumers that are that are trained to start their search in the Amazon platform, it's a -- that's a very natural place for them to buy. So we're cognizant of how we balance and how we drive those businesses. But we like the contribution we're seeing from every element of our direct-to-consumer business and the growth rates we're seeing across them.

RANDAL J. KONIK: Got it. And then I guess my last question is, is there any perspective you guys can give us on new product or new colorway contribution as a percent of the revenue base? And then give us -- maybe elaborate a little bit more on what you're seeing on the repeat purchase behavior. As I'm just trying to get a sense of the story around product innovation driving demand and then getting a sense of customer longevity story unfolding through, any statistics you can share around repeat purchase behavior?

MATTHEW J. REINTJES: Thanks, Randy. The -- a couple of things. When we think about color and we think about color on existing or legacy product, it continues to be a really nice part of the growth story. And so that -- taking a product that has been in the market for multiple seasons, adding a new color brings vitality and selection to it. And that's part of our strategy is continuing to leverage long-standing products and bringing new life into them.

As we launch a wholly new product families, that growth is something, as we've said in the past, we don't plan for big replacement growth, so big ups in new product and big downs in legacy products. We really want to drive additive growth, and that's what our expanded product portfolio has been doing.

We continue to like the repeat purchase statistics that we're seeing in -- particularly, in our trackable yeti.com and our magalog, as I mentioned in my prepared remarks. Our magalog has been a great indicator of the changing basket in the repeat purchase and what people buy and how you introduce them to a broader assortment, and when they're introduced to a broader assortment, how it changes buying pattern versus our controls.

And so while we're not sharing specific statistics around that, what I would say is we spent a lot of time in 2019, building out capabilities in team. And we're very focused not only on driving repeat purchase from our long-standing customers and creating great products for them, but also continue to attract new consumers into the YETI brand.

OPERATOR: Your next question comes from the line of Sharon Zackfia with William Blair.

SHARON ZACKFIA, PARTNER & GROUP HEAD OF CONSUMER, WILLIAM BLAIR & COMPANY L.L.C., RESEARCH DIVISION: Paul, just a clarifying question on the wholesale expectations, I think you said mid-single digit. Is that an expectation for 2020, including Lowe's?

PAUL C. CARBONE: So we don't -- so thank you for the question. We don't give an outlook down to the channel level. I would say that was our long-term outlook, ex -- as Randy's question, ex any new participants or ex Lowe's. But we don't guide or give an outlook down to that level, but you can infer from my comments.

SHARON ZACKFIA: Okay. That's helpful. And then secondarily, on the reserves or the warranty provision in the quarter, can you give any commentary around that and what that occurred around?

PAUL C. CARBONE: Yes. So it was really a couple of things. So it was our warranty reserves. So our warranty reserves are tracked to soft cooler sales. And in my remarks, I said we had a great soft cooler quarter. So just year-over-year with the growth in soft coolers, the warranty reserve is higher in dollars. That was number one.

The second is we had some -- if you go back to last Q4, we had some favorability of reversals of accruals, which didn't repeat this year. So in essence, that's a negative.

And then the third piece is, with our transition to Chug in line that we announced at Outdoor Retailer, we have reserved as -- what we will do is when that is introduced, any existing inventory we have in our warehouse for our direct-to-consumer channel, we will rework into the new lid. And there was a reserve for those old lids as we scrap those and recycle those old lids. So those are the 3 main buckets of the warranty/inventory reserves.

OPERATOR: Your next question comes from the line of Robbie Ohmes with Bank of America.

ROBERT FREDERICK OHMES, MD, BOFA MERRILL LYNCH, RESEARCH DIVISION: I had a follow-up on the D2C business. Can you talk about, if you just take the D2C business and look at the expense trends there, is there any change in the variable expenses? Or is there any change, for example, in the cost of operating Marketplace on Amazon? And maybe work into that what you've seen so far in store performance and if there's been a lot of variability, Chicago versus Dallas versus Austin versus Charleston in terms of profitability. Maybe help us understand, is the -- when you isolate the D2 -- I know it's going to be a higher margin than wholesale, but is it -- is the margin of D2C changing at all versus maybe what you would have thought a year ago?

PAUL C. CARBONE: Yes. So let me start with the DTC piece. So as we've talked about, and you're absolutely right, Robbie, much -- significantly higher gross margin on a contribution margin in a dollar perspective, it is -- DTC is still high on a dollar per-unit basis as you think about it. We haven't seen significant changes. And what I'm thinking about is the Amazon piece. We haven't seen significant changes in the cost structure there.

As that business continues to grow, the online marketplace fees, as I talked about, will grow with that. On our own, DTC business, outbound freight and things of that nature, 3PL are growing with the business.

Overall, on stores, it is early. I can tell you in the Charleston store, when we look at the Charleston market, the -- and again, it's 2 quarters in, right, if you think about Q3 and Q4 in that store. We like what it's done to the Charleston market relative to -- we look at the rest of South Carolina, ex Charleston. So we're taking more out of the market, which is excellent. So we're growing the business and not impacting our wholesale business and things of that nature.

It's early. Q4 was a great quarter for all the stores. We saw a great ramp in the Dallas store and the second store here in Austin. Chicago really ramped up. But it's early days, and we're happy with that performance. And as we talked about, planning on 4 to 6 stores in 2020, so we really like what the stores are doing.

ROBERT FREDERICK OHMES: That's helpful. And then separate question, just the -- can you speak a little to the Jersey partnership you guys announced? And maybe remind us apparel percent of sales? And does this signal a change in strategy doing a lot more in apparel going forward?

MATTHEW J. REINTJES: Yes, Robbie. We're -- as you mentioned, we're incredibly excited about what we announced earlier this week with Austin FC. And that deal was really around 2 basic parameters. One, it was a chance to do something unique in the community here in Austin that was going to become a national brand. And the unique thing about soccer partnerships is when you do a Jersey-type deal, our brand carries along with that kit. And so in 17-or-so urban markets around the country, we'll have a moving partnership playing on the field and a fan base walking around with our brand.

And if you go back to the very beginning, YETI, and one of the founding stories was hats and T-shirts were a big part of building the brand and introducing the brand to people. So as they bought the original coolers and wearing it as a point and a sign of pride.

We also think that soccer community, much like our early days in the fishing community and hunting and climbing and surfing, the soccer community is a unique community, both on the pitch and off the pitch. And I think that is what ultimately led us to being really excited about what this partnership can mean from a brand expansion in an authentic way to move into a different passion-based community, but also one that travels around the country.

PAUL C. CARBONE: And then let me give you some color on your question on apparel. So I'm going to talk about it in the other category, which apparel is a piece of that. So for the year, other was 2% of sales, so, small. And then inside of that or inside of channels, as you think about that, Robbie, I'd say that apparel is the smallest in our wholesale -- as a percent in our wholesale business. Then the next one in order of size would be our yeti.com site and then in our retail stores. So as you can imagine, our retail stores, apparel, small set or a small amount of total revenue in the retail stores. But apparel is a much bigger piece than 2% in the total company would be indicative of, but...

OPERATOR: Your next question comes from the line of Jim Duffy with Stifel.

JAMES VINCENT DUFFY, MD, STIFEL, NICOLAUS & COMPANY, INCORPORATED, RESEARCH DIVISION: A few questions for me, guys. Matt, with respect to Lowe's, can you talk about the assortment that's right for these stores and any early findings as to how Lowe's consumer is engaging with the brand?

MATTHEW J. REINTJES: Yes. So as we said, we went in with a -- what I would call a representative assortment of what YETI has. There are certain SKUs that we didn't launch into Lowe's right away. We went a little heavier in things like our buckets and our go boxes. But we have a representative collection of our soft coolers, hard coolers, Drinkware. This is something the stores started rolling out in mid-December and through the end of the year, so based on that timing, it's a little early to make any defined conclusions around assortment shifts or changes. But we like the partnership. We like the engagement of Lowe's. We're liking what we're seeing at retail in a small month, in January, in a short stub period at the end of December.

But it's something we'll pay close attention to. As we said, one of our thesis in going into Lowe's and signing up that partnership was they brought to us a relatively unique consumer and a different buying occasion that we see in the rest of our wholesale channel, which is the pro piece of it. And so we're paying a lot of attention to both how, what we call, the consumer transaction happens at Lowe's but also how the pro-consumer reacts.

JAMES VINCENT DUFFY: Helpful. And then a question I'm getting often from clients: is there something distinct about Lowe's versus Home Depot that suggests Home Depot couldn't be an opportunity in coming years?

MATTHEW J. REINTJES: I would say we entered the Lowe's partnership, as we started the conversations with them and the level of engagement and enthusiasm and understanding of what our brands could do together, the commitment to multiple points of placement within their stores and the idea of how we build through a thoughtful ramp were all a lot of things that I would commend the Lowe's leadership and the team that we worked with on planning for.

As we continue to move forward, we're going to stick to what we said, which is we'll look at distribution, if it does one of 3 things: if it brings a unique consumer; a relatively unique buying occasion; or it augments or supports our existing wholesale accounts. So we like the flexibility we have within that. And we don't feel held back from future opportunities. But as you saw with Lowe's and how long it's been since we added a large national account, we're pretty thoughtful about when we bring them on board.

JAMES VINCENT DUFFY: Very good. And then, Paul, in 2019, Drinkware was a strong driver and increased as a percent of the mix, I believe, to the benefit of the margin. Should this mix shift in margin benefit continue in 2020?

PAUL C. CARBONE: Yes. So we see, with our outlook, gross margins continuing to expand. And that is both -- and we look at it, channel-wise, but it's also product-wise as well. So in 2020, cost improvements will continue to drive gross margin expansion, channel mix will drive gross margin expansion. The good news on tariffs -- the good news -- the step-down in tariffs will be a gross margin expansion. And then if you think about I also mentioned the strengthening of the currency would potentially go against us. But both the Drinkware/DTC mix drives gross margin expansion.

Thanks. Operator, I want to be respectful of people's time as it's the top of the hour. Let's take 2 more questions.

OPERATOR: Absolutely. Your next question comes from the line of Kimberly Greenberger with Morgan Stanley.

KIMBERLY CONROY GREENBERGER, MD, MORGAN STANLEY, RESEARCH DIVISION: Great. I really appreciate it. Wholesale grew 14% here in Q4, Paul. And I'm wondering, do you have a number, excluding the Lowe's sell-in that would be sort of an apples-to-apples growth rate?

And then the advanced stocking of spring deliveries looks to be very fortuitous at this point, given what we're seeing happening in China with factory production. I'm wondering if you've heard any word from your Drinkware factories. Are they back to work? Do they have a sort of scheduled time to get back up and running? And roughly, which month here over the next 3 to 6 months, when do you need to start receiving goods, again, to make sure that your sales trends are not disrupted by the potential delays, let's say, in receiving product because of some of the factory shutdowns there?

PAUL C. CARBONE: Great. Thanks, Kimberly. Let me start, and then I'll turn it over to Matt. So it has been our practice not to comment on specific customers, even pre-Lowe's and dimensionalize any particular customer. What I would say is, and I would refer back to my prepared remarks, and this will give you some gateposts that even without or ex-Lowe's, we would have exceeded the top end of our full year guide. And then you can infer Q4, as you did, when we gave it at the end of Q3, so 14.5% to 15%. For the full year, we finished at 17%. We would have been above that 15% even ex-Lowe's. So it wasn't while giving our guide without Lowe's was the right thing to keep it apples-to-apples. The takeaway is, we would have beaten that or we would have -- yes, we would have beaten it even without Lowe's coming into the picture.

MATTHEW J. REINTJES: And on the supply chain in China, a couple of things worth pointing out. We have a team on the ground in China. We have a team that's working with them daily and working with our partners as they come back online. And as I'm sure you're hearing in the market, there are varying time lines for factories to come back online. We're optimistic about the progress, but this is early days. And it's a very fluid daily situation that our team's on top of and our team on the ground is monitoring. And we're working not only with our Tier 1 factories, but with their supply chain and looking at the transportation and logistics options.

As I mentioned in my prepared remarks, one of the advantages, in addition to having some inventory, is that we also have in -- product in work in progress in those factories. So factories aren't fully starting cold. So when they -- as they come back online and workers return to work, we'll see the ability while the rest of the supply chain in China comes back online.

So it is something that we're managing very, very closely and paying attention to. And we feel, based on what we know today and currently, we don't expect near-term disruption. But it is something that as the year goes on, we're going to stay close to and stay abreast of how it evolves.

KIMBERLY CONROY GREENBERGER: And Matt, did you say you could air in goods potentially, if there are some delays? Or what's sort of the backup plan, if there's some delay in getting product out of the factories?

MATTHEW J. REINTJES: Yes. I would say 2 things. If there's delays in back to full capacity and how they would define full capacity, there's a few things that we'll use. One, we'll take advantage of the inventory and the product that's already in process. So that's the quickest to become finished goods. And then we would look at the range of expedited opportunities, and it could be -- there's expedited opportunities on the water and there's expedited opportunities in the air. And as we build our plan, we contemplate some of those contingencies.

OPERATOR: Your final question comes from the line of Alex Maroccia with Berenberg.

ALEXANDER ROCCO MAROCCIA, ANALYST, JOH. BERENBERG, GOSSLER & CO. KG, RESEARCH DIVISION: So I'm looking at the guidance here for interest expense and what you mentioned earlier on free cash flow. And it makes it look like by the end of the year, you'll be at about 0.5 turn on the leverage ratio. I guess, off of that point, are my debt repayment assumptions in line? And how should we think about your capital allocation priorities for the year?

PAUL C. CARBONE: Yes. So from a debt repayment perspective, the new credit agreement and the amortization, required payments for the year will be approximately $15 million. And then from a capital-allocation standpoint, it's still -- we continue to talk to the Board about this. The leverage ratio moves closer to 1x and then, to your point, if you do the math, slightly below. Our near-term focus is paying the mandatory payments of $15 million, which will give us the leverage. And then it's really all about, as we've talked about, is driving shareholder value and shareholder returns, whatever levers we use across our options.

ALEXANDER ROCCO MAROCCIA: Okay. That makes sense. And then just thinking about new stores for this year. I've noticed Fort Lauderdale popping up as a potential opening soon, in addition to the previously announced Denver one. Can you just pinpoint any other markets that interest you guys at the moment?

MATTHEW J. REINTJES: I think as you can -- as you could understand, we survey quite a few markets. And real estate's a matter of right market and right opportunity. And so we have a team that tracks multiple markets and that we think would -- if the right opportunity came up, would be something we'd move in. We're also cognizant of looking at, what we would call, heritage versus nonheritage markets, the balances of the Chicagos versus the Charlestons.

And so we have a pipeline of cities. We have a pipeline of opportunities. And we'll act on them as the right opportunities come up. And as we learn more now with 6 stores and soon to be 8 rooftops, we'll build more of that muscle, and balancing longer-term type opportunities and commitments versus shorter-term. And Fort Lauderdale is also an example of one of the shorter-term opportunities in a market that all of our other data points would say is a very strong market for us. So we think it was a really natural place for us to put our next location.

With that, I want to thank everyone for hanging in there a little bit longer. Thank you for your time, and we look forward to talking to you as we wrap up Q1.

OPERATOR: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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