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YETI PRODUCTS: A CULTURAL PHENOMENON –
FORECAST AND VALUATION

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Abstract

This report is part of the “YETI Products: a Cultural Phenomenon” Equity Research Report. The second half of the work is devoted to the analysis of future growth value drivers and to YETI’s valuation. Expansion into international markets and a greater reliance on Direct-to-Consumer will be the main sources of future value, allowing the Company to reach a wider pool of customers and increase profitability margins. The work contemplates three different scenarios for YETI’s future, accounting for the elevated uncertainty of the Post-Covid Era.

The matters discussed support a BUY recommendation, with a price target of \$153.02 and an expected return of 73.51% as of year-end 2022.

Premium Products
Coolers
Drinkware
Outdoor Activities

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This report is part of the “YETI Products: a Cultural Phenomenon” Equity Research Report (annexed) and should be read as an integral part of it.

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Value Drivers

Revenue Model

To build a sound model, we decided to estimate revenues using a bottom-up approach, mainly focusing on drivers directly linked to existing and newly-acquired customer. First, we isolated revenues coming from the US from the ones generated Internationally, as these markets have peculiarities we needed to take into account when forecasting.

We further broke down YETI's revenues into two main distribution channels: Wholesale and Direct-to-Consumer. On one hand, YETI's customers are constituted by large retail chains – e.g. Dick's Sporting goods, REI Corporation etc. -, while on the other the Company sells directly to individuals.

Lastly, we identified the main revenue drivers in both wholesale and DTC. We believe that wholesale revenues are driven by the total number of stores in which YETI products are sold – this only includes third-party stores as YETI-owned stores fall into the DTC perimeter – and the average revenue YETI generates per wholesaler-owned store. As far as DTC is concerned, YETI's uses this channel as a synonym for online sales, as only a minor percentage of DTC comes from YETI-owned stores. Therefore, we forecasted the pace at which YETI's growth in revenues is outpacing the growth in the Online Outdoor and Recreation market revenues and projected this multiple in the future.

Number of Stores

First, we want to remark once more that this driver does not refer to YETI's directly managed stores. Indeed, stores that sell YETI's products are facilities owned by wholesalers and independent retailers over which YETI cannot exercise direct control. For this reason, it was not possible to incorporate YETI's management long-term plans on future domestic and international footprint.

To come up with an estimate for YETI's future penetration in wholesale and retail stores, we began our analysis by collecting actual data for 2021. For this year, YETI disclosed the number of stores that sell its products only in the US and internationally in Europe (UK included), with 9,471 and 370 stores, respectively. To derive the total number of authorized YETI dealers in the remaining countries we had to rely on estimates. Therefore, we considered reasonable to assume that the number of stores that sell YETI in the remaining international countries is proportional to the country's size in terms of store revenues. Thus, if the European Outdoor and Recreation market generates \$1.8 billion in turnover and 370 stores sell YETI, the total number of international stores that sell YETI must be around 480, considered an overall market size of \$2.3 billion. Following the same reasoning, we assumed YETI's footprint to be 44 stores in Canada, 37 in Australia and 29 in Japan, as of year-end 2021 (*Figure 1*).

Then, we identified stores growth rate key external drivers. We concluded that these factors have a common nature in both the US and international market, since they are mainly based on consumers' propensity to engage in outdoor activities. To understand what influences store growth, we narrowed down the analysis to the following factors: per capita disposable income, participation in sports & time spent in leisure activities and external competition.

Per capita disposable income. Demand for sporting goods is positively correlated with per capita disposable income. As consumers may regard such products as non-essential, their

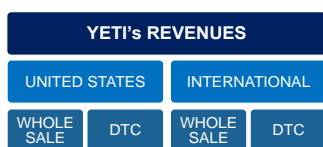
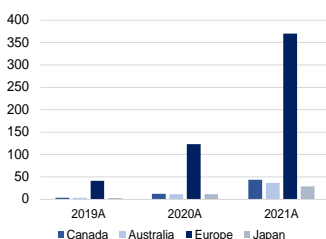


Figure 1: Number of Stores – International
Source: YETI's Financials, Analysts' Estimates



demand is highly elastic and depends strongly on the relative portion of wealth they can allocate toward leisure expenses. Ultimately, customer’s willingness to spend on Sporting Goods has a sensible impact on the number of stores in this Industry.

Participation in sports & time spent in leisure activities. Participation in outdoor activities has burgeoned in the past two years and is poised to establish a trend. A global survey carried out by the World Federation of The Sporting Goods Industry (WFSGI) in partnership with McKinsey & Co., estimated that in 2021 participation in outdoor individual sports increased 84% compared to 2020.¹ In addition to this, the time people spend in leisure activities has increased with regard to the previous years. In fact, the United States Bureau of Labor Statistics states that on average people aged 15 or older spent 32 minutes more per day engaging in sport activities due to the pandemic situation.² All these factors represent positive catalysts for future store growth in the Outdoor and Recreation Industry.

External competition. Specialized retailers in the Outdoor & Recreation Industry are currently put under increasing competitive pressure by both online retailers and mass merchandisers. Online retailers are able to reach an ample cohort of customers with less invested capital, while mass merchandisers leverage on high bargaining power with manufacturers and usually compete building small portfolios of low-cost outdoor and recreation products. External competition has a negative impact on the number of specialized stores in the industry, as well as its sales volumes.

We concluded that the tail wind the offline segment of the Outdoor & Recreation Industry is currently experiencing will decrease in power going forward in the US, where we expect the total number of stores that sell YETI to increase by 470 units until 2025. Since its foundation, it took YETI roughly 14 years to reach 9,417 total doors in its domestic market. Considered that international expansion will be mainly reliant on DTC, we assumed the overall number of international stores that sell YETI to reach 1/3 of the 2021 total number of stores in the US by 2035 – over the same 14-year time horizon.

Growth in Number of Stores - US

In our view, the growth in the number of stores in the US Outdoor and Recreation market is likely to stabilize at a moderate CAGR, appropriate for such a mature segment.

According to IBIS World library, one of the most authoritative data sources on US market trends, Sporting Goods Stores in the US, increased by 7.24% in 2021. However, in the following years their growth will be hampered by the pressure coming from online marketplaces. Thus, until 2027 the industry will grow at a CAGR₂₂₋₂₇ of 1.62% (Figure 2).

Figure 2: Store Revenues (\$ '000 000) & Growth in Number of Stores - US
Source: IBIS World, Analysts' Estimates

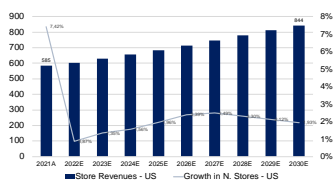
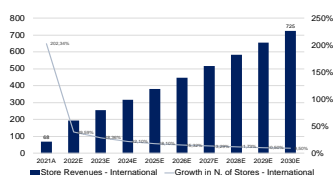


Figure 3: Store Revenues (\$ '000 000) & Growth in Number of Stores - International
Source: Passport, Analysts' Estimates



Growth in Number of Stores - International

The easing of restriction Worldwide allowed YETI to persevere with its plans of international footprint expansion. In 2021, the international total number of doors surged by 202.3%, signaling ample room for growth. We expect the growth in number of stores international to advance at a CAGR₂₂₋₂₇ of 22.8% (Figure 3). Embedded in this assumption is the fact that YETI will execute on its objective to build the foundations of a self-standing fully integrated supply chain in the

1 McKinsey & Company "Sporting goods 2021: The next normal for an industry in flux", January 2021.

2 U.S. Bureau of Labor Statistics "Time spent in leisure and sports activities increased by 32 minutes per day in 2020", October 2021.

international market is entering, declared also in the most recent earnings call.

Average Revenues per Store

To have a future measure of the Average Revenues per Store, we relied on the assumption that revenues of the overall industry are a function of the performance of all the single retailers. In the US, we expect the Average Revenues per Store to increase at CAGR₂₂₋₃₅ of 2%, whilst advancing at CAGR₂₂₋₃₅ of 1.6%.

Figure 4: Online Revenues US (\$ '000 000)
Source: Statista, Analysts' Estimates

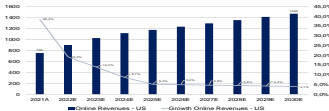
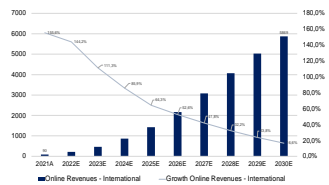


Figure 5: Online Revenues International (\$ '000 000)
Source: YETI's Financials, Analysts' Estimates



Online Revenues Drivers

In 2021, YETI's online revenues grew 38.4% and 155.6% in the US and Internationally, respectively (Figure 4 and 5). We impute this notable result to the Company's enormous social media presence, that outweighs the one of its peers. For the sake of comparison, Dometic Group can count on 167 thousand followers on Instagram, while YETI enjoys more than 1.7 million followers. In the context of valuation, it is worth noting that such a large public resonance is quite uncommon for a discretionary product manufacturer. Hence, we expect YETI to consistently continue outpacing the O&R online market both in the US and Internationally. Specifically, we foresee YETI to grow 1.7x the US O&R online market until 2026, slowing down gradually to reach the growth rate of the market in 2035. Internationally, we expect YETI to grow 17.1x the market until 2024, gradually decelerating to match the market pace in 2035.

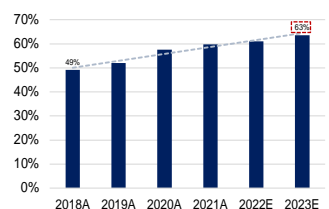
Cost of Goods Sold

To estimate cost of goods sold, we avoided forecasting it as a percentage of revenues since this would not capture the impact of a higher gross margin, guaranteed by YETI's channel mix shift towards Direct-to-Consumer. Indeed, the Austin-based Company's historical gross margin – computed as the ratio between total revenues and cost of goods sold -, has shown an upward trend from 2018 to date. This comes from a heavier reliance on Direct-to-Consumer, that allowed YETI to cut intermediaries and directly reach a wider pool of customers while receiving a larger inflow from each sale.

Moreover, the Company greatly benefitted from cost improvements in its Drinkware category. Indeed, YETI became more cost efficient in the production of bottles and mugs and pivots on its customers' anelastic demand by keeping retail prices above industry average. As a direct consequence, we forecast the management to continue steering toward this more profitable product category, that now sits at more than 60% of total revenues.

Furthermore, we are convinced that YETI's bargain power will vastly improve in the upcoming years, as the Company will consolidate itself as a leader within the Outdoor & Recreation Industry. This will allow YETI to negotiate lower prices with its suppliers and further cut costs. Additionally, on the revenues side, YETI can afford to apply a massive mark-up on its products, leveraging on its immense brand recognition.

Figure 6: Expected Gross Margin Evolution
Source: YETI's Financials, Analysts' Estimates



To forecast COGS value in the future, we calculated their historical behavior at a 1% marginal increase in online revenues. This metric allows to empirically quantify how much the gross margin historically improved when YETI relied more on DTC. In both 2019 and 2020, a 1% weight increase in DTC resulted in an average improvement of 51.9 basis points in gross margin, while in 2021 the benefit amounted to 68.3 basis points. Then we multiplied this improvement by the annual increase in percentage points in DTC/total revenues. The output represents the estimated change in percentage points in gross margin that we applied through the forecasted period.

Basing our reasoning on the identified trend and aforementioned supporting assumptions, we believe that YETI's current gross margin of 59.8% will reach 60.9% in 2022 and stabilize to 63.5% from 2023 onwards (*Figure 6*). Lastly, we assumed the latter result to be the best possible result YETI will achieve throughout the forecasting period.

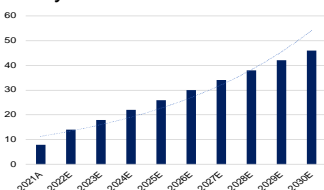
Property Plant & Equipment

As of year-end 2021, YETI directly manages 8 leased physical stores – cumulatively amounting to 207,258 square feet – and 1 headquarters of 173,000 square feet (*Figure 7*). Thus, the average store dimension is 4,282 square feet – equivalent to 398 square meters – and we believe that future openings will be in line with such size. We expect YETI to not open any new headquarters, while, in the US, we forecast 6 new stores to be inaugurated in 2022. From 2023 to 2030, we expect YETI to open 4 stores per year in its domestic market. Consequently, we are confident that YETI will operate 46 stores on a cumulative surface of 369,984 square feet (*Figure 8*). As far as the international arena goes, we do not see YETI investing in directly-owned stores in the forecasted period, but rather approaching through wholesale partnerships and online marketplace.

Figure 7: YETI-owned stores
Source: YETI's Investor Relation

Name of the Store	Location	Dimension in Sq. Feet	Opening Date
YETI Flagship Store	Austin, TX	6,600	2017
YETI Charleston	Charleston, SC	5,000	2019
YETI Wicker Park Store	Chicago, IL	4,900	2019
YETI Denver	Denver, CO	4,300	2020
YETI Fort Lauderdale	Fort Lauderdale, FL	3,300	2020
YETI Domain Northside	North Austin, TX	2,600	2019
YETI Dallas	Dallas, TX	1,700	2020
YETI San Antonio	San Antonio, TX	3,658	2021
YETI's Headquarters Offices	Austin, TX	173,000	2017

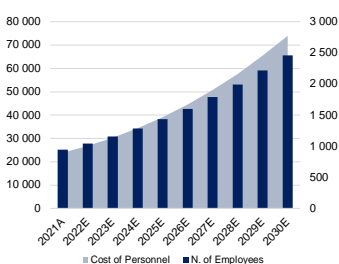
Figure 8: Expected Number of YETI-Owned Stores
Source: YETI's Financials, Analysts' Estimates



Cost of Personnel

We estimated how the cost of personnel will evolve in the future, based on the number of stores in which YETI's products will be sold. Indeed, we believe that a rise in number of wholesalers would require more workforce on YETI's side, and consequently, an inflow of personnel. According to IBIS World, the average annual wage in the Outdoor & Recreation Industry in the US was \$25,200 in 2021. We assumed this value to increase at the expected long inflation rate of 2% in YETI's domestic market. The Company's workforce is all based in the United States. As of year-end 2021, the total number of employees was 943. Based on historical data, we assume the growth rate in the number of employees per store to remain 7.6% annually. In 2030, YETI is expected to have 2,459 employees (*Figure 9*).

Figure 9: Expected Cost of Personnel (\$ '000) & N. of Employees
Source: YETI's Financials, Analysts' Estimates



Valuation

DCF Approach

We adopted the Discounted Cash Flow model to value YETI Holdings, Inc., since it allows to incorporate specific information about firm's probability, cost of capital, future growth potential, free cash flow, and most importantly, sensitivity analysis. In fact, through the latter, we were able to gauge the impact of changes in a set of independent variables – e.g. how the stock price is affected by different WACC or terminal growth rates. Furthermore, the Discounted Cash Flow is a more reliable approach to assess the Company's overall value compared to multiple valuation. Indeed, unlike relative valuation based on multiples, DCF takes into account the company's peculiarities, such as future growth rate, risks, profitability, as well as business life cycle. YETI operates in a niche market and has many unique traits. Therefore, multiple valuation could be less accurate.

Deciding how far in the future the forecasted cash flows should go was a crucial decision in properly valuing YETI. Indeed, we decided to forecast up to 14 years, since we are convinced that a shorter time horizon would have misrepresented the life-cycle of this still young and

scalable Company. We expect YETI's growth to reach the steady state in 2035 and grow perpetually at 1.56%. To compute the Core Business Present Value, we discounted all future core free cash flows and terminal value at a WACC of 10.47%. Lastly, we calculated YETI's equity implied fair value and divided it by the current total number of shares outstanding to derive the stock price.

In the aftermath of the pandemic, global economic conditions continue to be uncertain and economy volatile. Moreover, future trends in consumer discretionary spending remain unpredictable and YETI's business may be subject to declines. To account for this, we conducted a scenario analysis with three possible outcomes. Each scenario – base case, best case and worst case - yields a specific stock price, which is weighted for the implied probability of the events to unfold.

Cost of Debt

YETI Holdings, Inc. currently has no outstanding bonds that match the duration of the Company's free cash flow. Therefore, we calculated the cost of debt through an indirect method. According to Moody's, YETI's credit rating on long-term debt is BBB. Consequently, we investigated the average yield to maturity of a portfolio of 10-year unsecured fixed rate bonds issued by US composite companies with so, we considered this value a proxy for YETI's implied YTM on long-term debt. Moreover, Bloomberg estimates the Annual Default Rate on long-term debt to be 0.002%, with Moody's indicating a corresponding BBB Loss Given Default of 58.61%. This gave us an estimated cost of debt of 2.71% (Figure 10).

Figure 10: YETI's Cost of Debt Inputs
Source: Bloomberg, Moody's, Scope Ratings Global

Cost of Debt	
10y US Composite BBB YTM	2,71%
Rating	BBB
Default Rate for 10y BBB	4,14%
Annual Default Rate BBB	0,002%
Loan Recovery	41,39%
Loss Given Default BBB	58,61%
Cost of Debt	2,71%

Cost of Equity

To estimate the cost of equity, we relied on the Capital Asset Pricing Model return of a specific asset (Figure 11). However, one of the inputs of the formula - the expected return on the market - is unobservable. Consequently, we relied on NYU Stern's Market Risk Premium Database to come up with an estimate of the Total Equity Risk Premium in the United States. As of January 2021, the market is expected to return an additional 4.72% over the risk-free US treasury.³

For the risk-free rate, we looked at government bonds issued by the U.S. Treasury with a maturity of 10 years. Specifically, the 10-year U.S. Treasury bond is commonly regarded as the best proxy of a risk-free rate security. Since YETI runs its core business operations in the United States, and the Company's Free Cash Flows are forecasted up to 14 years from now, the duration of the US risk-free is consistent with our assumptions. According to Bloomberg, our risk-free rate is equal to 1.43%.

To estimate the Beta, we ran a regression on YETI's stock returns against the selected index benchmark (Figure 12). For the sake of our analysis, we selected the MSCI World index, as it represents a weighted and diversified portfolio, that includes large and mid-cap equities across 23 developed countries.

Regressing three years of weekly returns, we obtained a regression Beta of 1.96 which is the equivalent of an unlevered Beta of 1.92. Despite having a quite narrow confidence interval, we

Figure 11: YETI's Cost of Equity Inputs
Source: Bloomberg, NYU Stern

Cost of Equity	
Risk Free Rate	1,43%
Market Risk Premium	4,72%
β Levered	1,96
Cost of Equity	10,68%

Figure 12: YETI's Regressions Against MSCI World Index
Source: Analysts' Elaboration on Bloomberg Data

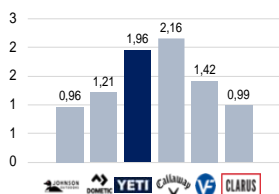


³ NYU Stern, "Country Default Spreads and Risk Premium", January, 2021.

Figure 13: Industry Betas
Source: Analysts' Elaboration on Bloomberg Data

Outdoor & Recreation - Industry Betas				
	Min	Median	Average	Max
Beta Levered	0,96	1,21	1,35	2,16
Beta Unlevered	0,88	0,99	1,12	1,64

Figure 14: Betas for YETI and Peers
Source: Analysts' Elaboration on Bloomberg Data



believed that an in-depth analysis was useful to thoroughly investigate YETI's stock systematic risk. For this reason, we derived a median levered industry beta of 1.21, obtained regressing YETI's competitors on the MSCI World, and de-leveraged such value at the companies' current capital structure (Figure 13 and 14). Finally, we obtained a median unlevered industry beta of 0.99, that we then applied to YETI's target D/E of 2.53%, resulting in a re-levered beta of 1.01.

After a careful evaluation we opted for the Beta resulting from YETI's regression instead of the industry's beta. Our main argument is that YETI is still flourishing and respects all the parameter of growth stocks. Indeed, during 2021 the Company greatly outperformed the MSCI World index, showing amplified returns during bull market. This is a typical behaviour of high-beta stocks, that have a marked volatility with regards to the market. Therefore, a 1.96 beta seemed more reasonable than the lower 1.21 beta value coming from the industry. In fact, the latter includes also Dometic and VF Corporation, more established mature players less sensible to market movements.

As far as YETI is concerned, we believe that the company has reached its long-term target capital structure. In fact, the past two years showed how the Company's management worked toward sensibly reducing leverage, both through debt repayments and equity injections, in order stabilize the D/E around 2.53%. The Company is foreseen to gravitate around such value with negligible variations. Indeed, we do not expect any major capital structure rebalance in the long run.

Multiple Valuation

With the aim of performing a better valuation and triangulate the results given by the discounted cash flow model, we ran a relative multiple analysis.

We analyzed the set of peer companies already discussed in this report and, to be consistent with YETI's growth prospects and its current enterprise life-cycle, we opted for forward-looking estimates of the EV/EBITDA and P/E ratios.

When performing a relative valuation, all the assumptions that are explicit in an intrinsic valuation are implicitly embedded in the multiple. Therefore, we decided to isolate the drivers behind such value and carefully select the right companies for the comparison, rather than aggregating the information in a statistical figure like the median of the industry.

Our objective was to identify among the peer group companies that had similar expected growth and ROIC to YETI. In this regard, we excluded from the analysis Johnson Outdoors Inc. and Callaway, since they have negative expected growth rate in earnings of -8% and -17%, respectively. We further decided to narrow down the analysis only to the forward EV/EBITDA ratio. Indeed, we believed the forward P/E could bias the results due to the notable differences in the capital structure of the peers. The relative valuation was ultimately carried out considering Dometic Group, VF Corporation and Clarus, since these firms were more similar to YETI in terms of the aforementioned growth and return parameters (Figure 15).

Figure 15: YETI and Peers Growth Prospects and ROIC
Source: Bloomberg, Analysts' Estimates

Company	Expected Earnings Growth in 2022	ROIC
YETI	-4%	52,85%
Johnson Outdoors Inc.	-8%	19,36%
Dometic Group	32%	4,18%
Callaway	-17%	3,47%
VF Corporation	16%	10,57%
Clarus	25%	6,89%

We computed the weighted harmonic mean of the forward EV/EBITDA ratios, achieving a multiple of 16.53x. Multiplying such value to YETI's 2022 forecasted EBITDA of \$503 million, we obtained a stock price of \$95.15. The latter stock price collides with our DCF estimate of \$153.02. As shown in Figure 15, YETI is a one-of-a-kind Company in terms of Return on Invested Capital, and it is still undergoing an enormous expansion process. Furthermore, we impute the difference in valuation to the fact that the vast majority of the peers already have a vast international footprint and are currently in a mature phase of their life-cycle. Indeed, the multiple fails in capturing the

growth that YETI is forecasted to experience in the upcoming years.

Sensitivity Analysis

The outcome of our valuation is sensible to key inputs such as WACC and Terminal Growth Rate. To better grasp the influence of these variables, we investigated the impact of their changes on YETI's expected stock price as of year-end 2022.

Figure 16: YETI's Stock Price Sensitivity Analysis
Source: Analysts' Estimates

Stock Price			Terminal Growth Rate				
			-20%	-10%	1,56%	+10%	+20%
			1,12%	1,41%	1,56%	1,72%	2,06%
WACC	-20%	8,38%	172,73	175,11	177,60	180,20	182,93
	-10%	9,43%	159,85	161,66	163,55	165,52	167,56
	10,48%	149,87	151,31	152,79	154,33	155,93	
	+10%	11,53%	141,92	143,08	144,28	145,52	146,80
	+20%	12,58%	135,42	136,39	137,38	138,40	139,46

Changes in the WACC are associated with larger swings in our estimated stock price, compared to changes of the same magnitude in the terminal growth rate. For instance, holding the current terminal growth at 1.56%, and varying the WACC by +/- 10% results in a variation range in the stock price of \$17.93. In the opposite scenario, the variation is just \$3.02 (Figure 16).

Scenario Analysis

On November 25, 2021, the new COVID-19 Omicron Variant was discovered in South-Africa. Little evidence is yet available about this new mutation, but studies reveal that it could pose the threat of new infections on COVID-recovered patients⁴. Consequently, the risk of new lockdowns and restrictions is looming. Additionally, the world of finance is harshly debating on the nature of the current inflation spike, questioning whether this will be a temporary or permanent phenomenon. Thus, the 2022 outlook remains extremely uncertain. For these reasons, we investigated the potential implications for YETI in two different scenarios.

In the worst-case, we assumed the Omicron variant to cause a drop of 20% in the average revenues per stores that sell YETI due to newly-imposed closures. We further anticipate the growth rate in the number of stores to be revised downward by 10% in both the US and International Market. Additionally, a new wave of infection would exacerbate current supply chains disruptions, causing an increase in YETI's freight and distribution costs. Moreover, we assumed a permanent inflationary pressure on raw materials to deteriorate the current gross margin to 55%. In the worst-case scenario, we estimated YETI's Enterprise Value at \$7.92 billion, implying a stock price of \$90.69 and an annual expected return of 2.83%. In our view, this scenario has a 30% probability of unfolding and would result in a HOLD recommendation.

In the best-case scenario, we assumed the new COVID variant to be rapidly neutralized by the vaccination campaign and consumer spending on discretionary products to surge. We expect this to boost by 10% the average revenues per store in the O&R industry in both the US and international market. In an expansionary scenario, the growth rate in the number of stores is anticipated to be revised upwards by 10% and the gross margin to reach 65%.

In terms of valuation, YETI would achieve an Enterprise Value of \$14.54 billion, which implies a stock price of \$166.03 and an annual expected return of 88.27%. In our assessment, this scenario has a 10% chance of occurrence, and would result in a BUY recommendation.

⁴ The New York Times, "Omicron: What we know about the New Coronavirus Variant", December, 2021.

Figure 17: Scenario Analysis
Source: Analysts' Estimates

Scenario Analysis	Probability	Equity Value (\$ '000)	Expected Stock Price (\$) - YE 2021	Annual Return	Analysts' Recommendation
Best Case	10%	14.585.666	166,03	88,27%	BUY
Base Scenario	60%	13.442.008	153,02	73,51%	BUY
Worst Case	30%	7.966.733	90,69	2,83%	HOLD
Weighted Probabilities Implied Stock Price		11.913.791	135,62	53,78%	BUY

Considering the worst, best and base case scenarios, weighted for their respective probabilities, YETI's implied stock price as of year-end 2022 would be \$135.62, with an expected return of 53.78% and a BUY recommendation (Figure 17).

Recommendation

We are convinced that YETI's future valuation will be strongly dependent on the Company's ability to execute on its international expansion plans. We forecast YETI to generate 50.8% of sales in the US and 49.2% Internationally by 2025, drastically increasing its footprint outside the domestic market. Despite being an ambitious goal, we believe YETI can achieve it leveraging on the Direct-to-Consumer channel. As we see previously in the report, DTC is expected to grant the Company an extremely attractive gross margin of 63.5% from 2023 onwards.

All this considered, we set our expected EV for YETI at \$13.40 billion, corresponding to a target price of \$153.02, as of year-end 2022 (Figure 18). At the time of our writing – December 15, 2021 – YETI's stock is quoted at \$88.19. According to our valuation efforts, investing today and holding the stock for one year would yield a return of 73.51%.

Thus, we are confident in issuing a BUY recommendation for YETI Holdings, Inc.

Core Business Value \$13.41 Billion	Net Debt \$(41.93 Million)
Non-Core Business Value \$(12.35 Mllion)	Equity Value \$13.44 Billion
Enterprise Value \$13.40 Billion	

Appendix

Please refer to the full Equity Research report attached herein.

YETI HOLDINGS INC.

OUTDOOR PRODUCTS MANUFACTURER

GIAN MATTEO RICCI | MARCO BRUNI

COMPANY REPORT

17 DECEMBER 2021

45969@novasbe.pt | 45858@novasbe.pt

YETI Products: A Cultural Phenomenon

Premium Coolers and Drinkware for Outdoor Enthusiasts

▪ We advise to **BUY** YETI Holdings Inc., as our target price for December 31st, 2022 is **\$153.02**. At the current stock price of \$88.19, the total return over a one-year time horizon for an investor buying the stock would be **73.51%** - considered that YETI does not plan to pay any dividends in the short term.

▪ By consistently delivering high-performing products, YETI has built a following of **engaged brand loyalists**. Its customer base can be described as near-fanatical and includes both outdoor enthusiasts that value uncompromised quality and design, and **pure collectors**.

▪ The Outdoor & Recreation market gained traction after the COVID-19 pandemic and is expected to grow at a **CAGR₂₁₋₂₅ of 6.05%** and **5.76% until 2025** for US and International, respectively.

▪ YETI mainly operates in the **US**, however, it is heavily leveraging on international opportunities. Indeed, in 2021 **International revenues grew 139.1% YoY**.

▪ The channel mix shift towards **Direct-to-Consumer (DTC)**, allowed the Company to get through the pandemic-related store closure. The greater reliance on DTC allowed YETI to achieve **above-industry-average margins** - with gross margin expected to hit 63.5% in 2023.

Company description

Founded in 2006 by the brothers Roy and Ryan Seiders, YETI Holdings, Inc. is an American manufacturer, designer, and distributor of premium outdoor products. The Company was initially started to fulfil the founder's need for the perfect cooler.

Recommendation: BUY

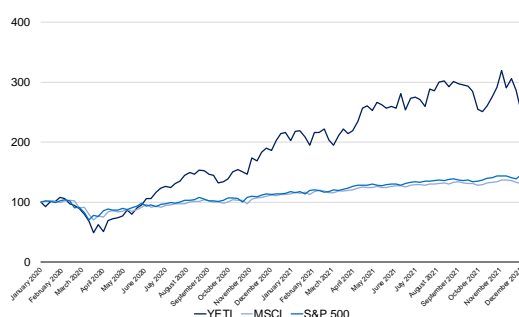
Price Target FY22: \$ 153.02

Price (as of 15-Dec-2021) \$ 88.19

Bloomberg: YETI:US

52-week range (\$)	65.09-107.73
Market Cap (\$m)	7,747
Outstanding Shares (m)	87.85

Source: Bloomberg



Source: Analysts elaboration on Bloomberg data

(Values in \$ millions)	2020	2021E	2022F
Revenues	1,091	1,498	1,916
Gross Margin	58%	59%	61%
EBITDA	244	375	503
EBIT	214	342	461
Net Profit	155	267	351
EPS	1.79	3.09	3.99
P/E	38.3x	34.3x	24.2x
EV/EBITDA	23.2x	23.1x	16.5x

Source: YETI's Annual Reports, Bloomberg, Analysts' estimates.

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY GIAN MATTEO RICCI AND MARCO BRUNI, MASTER'S IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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Company Overview

Company description

Founded in 2006 by the brothers Roy and Ryan Seiders, YETI Holdings, Inc. is an American manufacturer, designer, and distributor of premium outdoor products.

The Company was initially started to fulfill the founders' need for the perfect cooler. The Seiders had the vision to build a nearly-indestructible product for serious outdoor enthusiasts rather than for the mass-discount retailer.

Currently, YETI is much more than a cooler manufacturer. Its product portfolio ranges from bottles, tumblers and mugs, to hard and soft coolers, bags, security cable locks and brackets, t-shirts and caps. As of 2021, the Firm identifies three main business segments: Drinkware - 56.6% of Net Sales -, Coolers & Equipment - 41.2% of Net Sales -, and Other - 2.2% of Net Sales (Figure 1). Furthermore, YETI exceeds \$1.49 billion in annual turnover and has around 790 employees.

The Company is positioning itself as a premium brand, indeed, the average price of its mid-sized coolers is around \$250, well above its competitors (Figure 2). Despite this, YETI has built a following of engaged brand loyalists. Its customer base can be described as near-fanatical and includes both outdoor enthusiasts that value uncompromised quality and design, and pure collectors.

Many investors wonder how the Texas-based brand's demand can be so strong considered its products' staggering price tag. YETI achieved its stellar dominance in the industry through advanced technology and effective marketing campaigns. YETI coolers are built using the rotomolding technology, that combines high temperature and high pressure to create an extremely resistant plastic hollow frame. Moreover, a large inner layer of polyurethane foam allows to retain ice up to 7+ days.

Despite this, YETI's success is largely attributable to its marketing strategy. The Company has expanded the business as a global lifestyle brand by building a diverse group of more than 140 brand Ambassadors in segments such as fishing, hunting, beer and BBQ, rodeo, ranch, skiing and snowboarding, surfing and outdoor adventures. YETI advertises its products through visual content creation and film storytelling. The ultimate aim is to create an emotional bridge between the products and an adventurous outdoor life-style. YETI was able to achieve what companies like Apple or Dyson achieved: making its brand become a synonym for the product itself.



Figure 1: Net Sales by Product, as of 2021
Source: YETI Financials

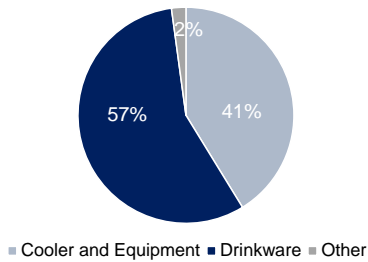
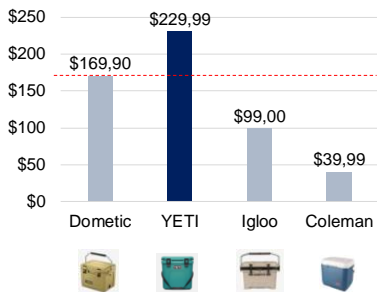
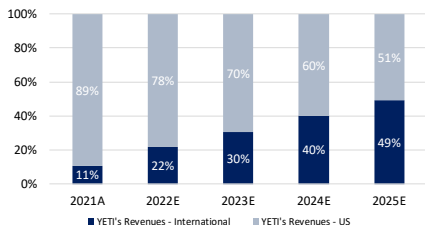


Figure 2: Mid-sized cooler - Price comparison
Source: Companies websites



In the context of valuation, the combination of above-average prices and strong demand is expected to drive YETI’s future profitability. Indeed, we expect these factors to increase gross margin to 61% as of year-end 2022.

Figure 3: Expected Net Sales by Geography
Source: YETI Financials, Analysts Estimates

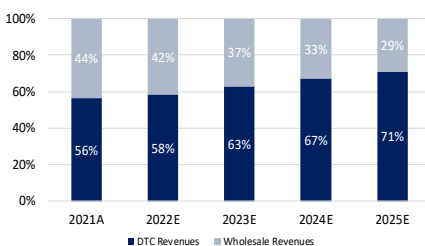


YETI mainly operates in the US, with corporate headquarters in Austin, Texas. YETI’s brand has been predominantly popular in the South and Midwestern regions of the United States. However, the Company is heavily investing in International expansion. In fact, it entered Canada and Australia in 2017, Japan in the following year and Europe & UK in 2019. As of year-end 2018, international revenues accounted for 2.2% of total revenues while in 2021, they increased by 139.1% YoY reaching 10.6% of the total. In our analysis, international expansion will be the main responsible for the increase in YETI’s valuation. Indeed, as shown in *Figure 3*, we foresee international revenues to keep growing at a fast pace, reaching 49.2% of total revenues in 2025 (*Figure 3*).

YETI sells its products through two main channels: wholesale channel and Direct-to-Consumer. The first includes independent national retailers – such as Dicks’ Sporting Goods, Bass Pro Shop, Lowe’s Home Improvement and REI – and international retail partners throughout the US, Canada, Australia and Europe.

In the DTC channel, YETI sells online through YETI.com, country and region-specific YETI websites, and authorized Amazon Marketplace. Furthermore, YETI’s whole product lineup and other exclusive goods are sold directly to the end customer through 8 YETI stores in the US – the buildings are leased and not owned by the Company.

Figure 4: Expected Net Sales by Channel
Source: YETI Financials, Analysts Estimates



Direct-to-Consumer has been YETI’s ace to get through the COVID-19 pandemic, since it allowed to achieve higher margins whilst being less reliant on the wholesale channel - the latter was significantly hit by stores’ closure. In 2021, DTC outweighed wholesale, reaching 56.4% of total revenues, and is expected to grow at a CAGR₂₁₋₂₅ of 32.4%. We expect the channel mix shift to be the pillar of YETI’s international expansion, with DTC reaching 71% of total revenues in 2025 (*Figure 4*). This strategic adjustment will further unlock value, since the net inflow deriving from an end customer is higher than the one from a wholesale partner.

Shareholders structure and return

Back in 2016, the Company filed for its first Initial Public Offering, however, due to a sharp downturn in the business, the offering was postponed.

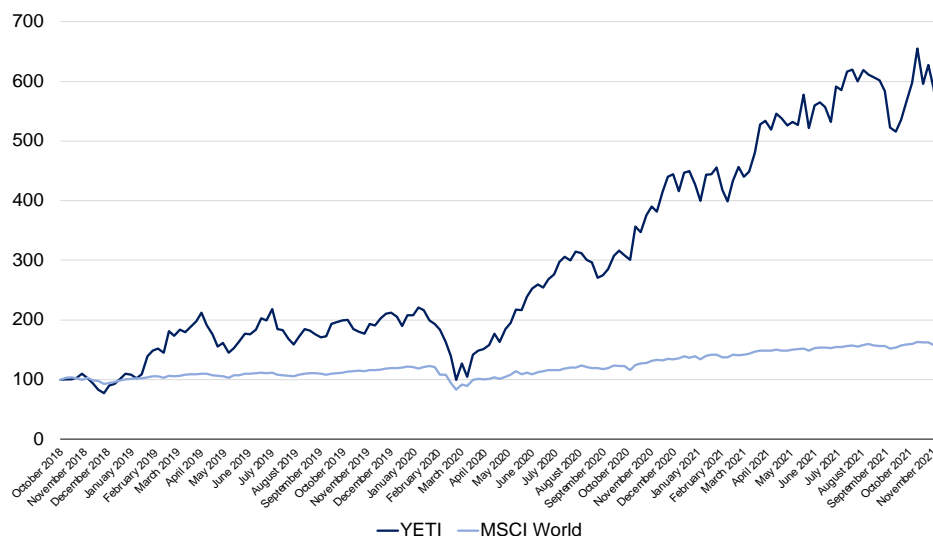
On October 25, 2018, YETI Holdings, Inc. completed its IPO, issuing 16 million shares of common stock at \$18.00. Out of the total amount issued, 2.5 million shares were sold by YETI, while the remainder was sold by previously existing stockholders. The company is currently listed on the NYSE under the ticker “YETI” and, as of December 15, 2021, has a market capitalization of \$7.74 billion, 1.2x the market capitalization at December 15, 2020. The wholesale store closure experienced in Q2 and Q3 2020 severely impacted YETI’s stock price, that plunged by 40% from March to April. However, in the following months, the share price soared, outperforming the MSCI World benchmark by 3.3x (Figure 5).¹

As of December 15, 2021, the total return for an investor holding the stock since the IPO would have been 389.94%, considered and annualized standard deviation of 27.82%.

YETI is a full-fledged growth-stock. Indeed, it retains its earnings to further foster future financial performance. In support of this assertion, the Company’s management states that it does not plan to pay any dividends in the foreseeable future.

As far as the ownership is regarded, 95.43% of YETI’s equity is held by institutional investors, as at end of Q3 2021. At this date, the total number of shares outstanding is 87.85 million, 8.22% held by Vanguard Group, 7.59% by Blackrock Inc., and 6.64% by Capital World Investors.

Figure 5: YETI Vs MSCI World Performance. Three years of weekly data. Prices at the beginning of the period normalized to \$100. Source: Analysts Elaboration on Bloomberg Data.



¹ In March 2020, the Market was at rock bottom on Friday the 20th. Considering the time frame from March 26 to December 25, 2020, YETI achieved a total return of 75.9%, compared to the 23.3% of the MSCI World Benchmark.

Industry Overview

Macroeconomic Analysis

COVID-19 Pandemic continuance and vaccination campaign

In 2021, the World was hit by a second wave of infections mainly due to the Delta variant of the SARS-CoV-2. Contextually, the biggest vaccination campaign in human history was finally initiated. The conjunct efforts of all Nations across the Globe have allowed more than 6.98 billion doses to be administrated in 184 countries, in an attempt to thwarting the resurgence of the COVID-19 Pandemic.² However, wide inequalities in wealth across the World pose the risk of a further prolonging the pandemic and set back lower GDP countries in the race to recovery.

The WHO set the target to have 70% of the World's population vaccinated by mid-2022. As of October 2021, according to Bloomberg COVID-19 Tracker, the average global vaccination rate was 31,001,392 doses per day. At this pace, the WHO goal could be achieved in 4-5 months. Zooming in on the US, the latest average vaccination rate is 956,721 doses per day. Such rate would allow to immunize 75% of the population within 2 months.

Institutions revise their expectations for 2022 GDP growth

The rising vaccination rates coincide with better future prospects in hospitalisation, return of the workforce and wellbeing. This, in conjunction with the numerous stimulus packages put in place by the FED, is expected to foster future growth. According to Goldman Sachs, the US economy is expected to grow at 4% in 2022,³ however, the general sentiment is that the recovery could be delayed, since the Monetary Policy body will have to cut fiscal support to contain the surge of inflation. In fact, as of the end of November 2021, the annual inflation rate in US climbed to a 13-year high of 6.8%, well above the FED's long-run inflation target of 2%.⁴

Inflation is surging due to the expansionary monetary policies

The market's nerves are becoming increasingly tense, since the surging inflation could be a non-transitory phenomenon. COVID-19-related supply-chain disruptions, paired with a sharp increase in energy costs are the main drivers of the inflation rise. As reported by the Financial Times, in October 2021, the West Texas Intermediate – the main US crude oil benchmark – reached its highest peak in seven years. Moreover, data from the US Bureau of Labor Statistics indicate that, apart from Energy, Food and Shelter had a major impact on the Consumer Price Index for All Urban Consumers (CPI-U) increase.

² Bloomberg, "More Than 6.98 Billion Shots Given: Covid-19 Tracker"; October 30, 2021.

³ Reuters, "Goldman cuts Forecast for US Economic Growth 2021 and 2022", October 10, 2021.

⁴ Trading Economics, "United States Inflation Rate", December 10, 2021.

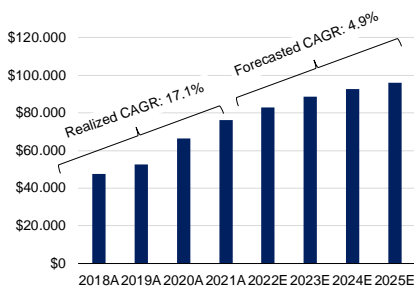
Potential impact of current macroeconomic outlook on YETI's long-term valuation

Considered the current macroeconomic outlook, three main factors could impact YETI's valuation in the long run. The threat posed by COVID could affect store revenues and will most likely force the Company to continue its shift towards DTC. Moreover, future GDP will influence YETI's demand, since it will determine households' disposable income allocation to leisure products. Lastly, YETI's future cost structure will depend on the evolution of inflation, with potential impact on margins.

Market analysis

Figure 6: Global Revenues in the Outdoor and Recreation Market (\$ '000 000)

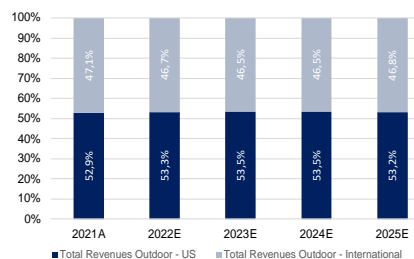
Source: Analysts Elaboration on Statista and IBIS World data.



As of year-end 2021, total cumulative revenues in the US and International⁵ Outdoor & Recreation market reached \$76.2 billion, an increase of 14.9% YoY. From 2018 to 2021, the Outdoor & Recreation market grew significantly, recording a CAGR of 17.1% (Figure 6). As the COVID-19 pandemic hit, people became more conscious of the benefits of regular exercise and healthy lifestyle. As a consequence, the number of people participating in outdoor and recreation activities drastically increased. According to the US Outdoor Industry Association, 8.1 million more Americans engaged in hiking and outdoor activities in 2020 compared to 2019, 7.9 million more went camping and 3.4 million more participated in freshwater fishing. In 2020, The overall outdoor participation surged by 52.9%. This trend is expected to last in the upcoming years, with Global Outdoor & Recreation market revenues forecasted to grow at a CAGR²²⁻²⁵ of 4.9%. This represents a significant opportunity for YETI. Indeed, despite the heavy hit coming from mandatory store closure, the pandemic enlarged the Company's pool of prospective clients.

Figure 7: Expected O&R Sales - US and International Share.

Source: Analysts Elaboration on Statista and IBIS World data.



The current COVID-19 Pandemic acted as a catalyst for the shift in consumer preferences towards DTC channel. In fact, as of 2021, overall store revenues steadily increased by 1.5%, while the online channel revenues soared by 15.8%, outpacing traditional stores revenues by 10.9x. However, it should be noted that channel mix metrics refer to the Outdoor and Recreation market in aggregate terms, meaning that they derive from trends in both the US and International market. For the purpose of YETI's equity research, we directed our attention to the Company's relevant markets: the United States are the domestic market and account for 52.9% of total industry revenues, whereas the International market is narrowed down to the countries where YETI is active, and accounts 47.1% of total industry revenues (Figure 7).

⁵ For YETI Holdings, Inc., the International Outdoor and Recreation market includes Canada, Australia, Europe and UK, Japan. Further, It should be noted that we refer to the Global Outdoor & Recreation Market from YETI's perspective, meaning the latter is the sum of US and International O&R Markets.

Unites States

In the United States, the post pandemic scenario was considerably favored by the relaxing of lockdown measures. As a consequence, leisure travels across the North American regions occurred more frequently. Leisure trips were estimated to have increased from 11% to 16%. Moreover, vendors in the camping and outdoors space preferred equipment with higher safety features and more comfort levels in terms of size, weight and material quality.⁶

Total revenues in the Outdoor & Recreational market in the US reached \$40.31 billion in 2021, growing at 11.6% YoY. This is mainly due to the escalating demand in the e-commerce channel. In 2020, the Outdoor & Recreation store revenues plunged by 9.3% compared to the previous year, due to mandated stay-at-home rules. However, a staggering 39.9% increase in YoY online sales was able to offset the fall in the retail channel. As shown in *Figure 8*, the US O&R Market is expected to reach \$50.9 billion in 2025, resulting in a much larger domestic total addressable market for YETI.

In 2021, industry establishments were mainly concentrated in the Southeast and West regions (*Figure 9*). According to IBIS World estimates, the Southeast is the industry’s predominant region, hosting 24.1% of the total establishments and 25.8% of the population. The West lags behind, accounting for 17.2% of total establishments and 17.2% of the population. More specifically, the industry’s most outdoor engaged states are California and Florida, with 10.8% and 7.5% of total industry establishment, respectively due to a favorable weather that is conducive to outdoor sports all year long.⁷

For the sake of an in-dept US market analysis, it is pivotal to identify the industry’s average customer. Before the pandemic, the age bracket of existing participants was almost evenly split between people +50 – 52% of the total – and 18 to 49 – 48% of the total. As far as the gender goes, male was prevalent at 54% and, at the same time, their household income was higher than \$100,000 in 32% of cases.⁸ The pandemic, however, marked a shift in the average participant profile. Indeed, 70% of new participants were 18 to 49 years old and mainly female – 58% of the total new participants.⁹ We believe that YETI will benefit from a lower average age of industry participants, because its marketing strategy heavily relies on social media and visual content creation. Thus, a younger audience is far more likely to stumble across YETI’s content and become a client.

Figure 8: Expected Total Revenues in the US O&R Market (\$ '000 000)
Source: Analysts Elaboration on IBIS World data.

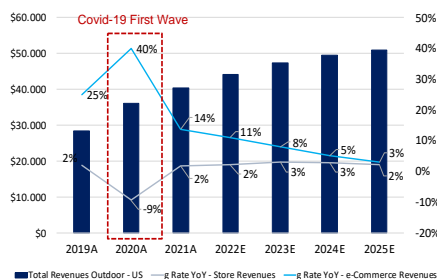
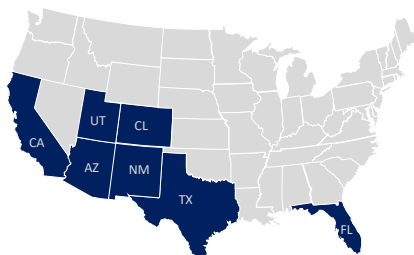


Figure 9: US Most Active Regions in O&R
Source: Analysts Elaboration on IBIS World data.



Outdoor & Recreation Average Customer Profile

Profile of new entrants in O&R, post COVID-19 Pandemic

6 Mordor Intelligence, "Camping Equipment Market – Growth Trends, Covid-19 Impact and Forecast (2021-2026)", July, 2021.

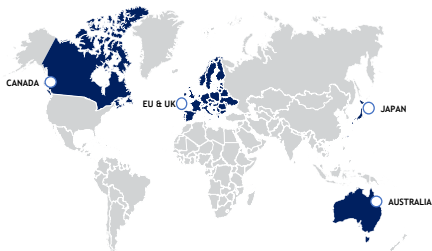
7 IBIS World, "Sporting Goods Stores in the US", October 2021.

8 Outdoor Foundation "2021 Outdoor Participation Trends Report", June, 2021.

9 Outdoor Industry Association and Naxion Research and Consulting, 2021 Special Report: "The New Outdoor Participant – Covid and Beyond", March, 2021.

International

Figure 10: YETI's International footprint
Source: Analysts Elaboration on YETI's Financials

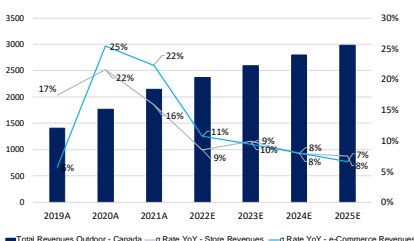


During the past years the number of international outdoors participants soared, with some peculiarities in each country. These are mainly explained by cultural factors, geographic characteristics of each country, average health status, average age and income, among others. We believe these factors, along with the evolution of the COVID situation, would significantly impact the engagement in outdoor activities, and, consequently, affect the international demand for YETI's products.

As YETI operates internationally in Canada, Australia, Europe & UK and Japan, we collected data, with the aim of clearly distinguishing each area's own characteristics and outline future trends relevant to YETI's performance in the long run (Figure 10).

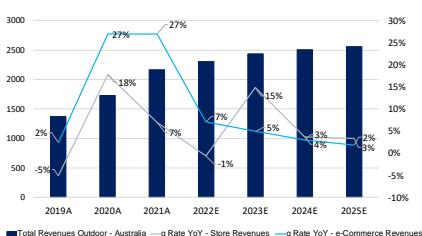
Figure 11 to 14: International Revenues by Country (\$ '000 000)
Source: Analysts Elaboration on Passport and Statista data

Figure 11



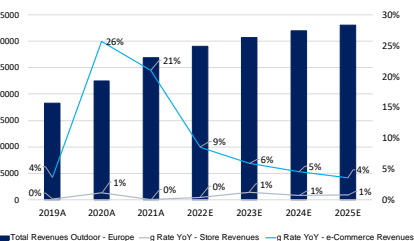
Canada. According to National Statistics, 74% of Canadians participate in outdoor activities. Hiking, camping and fishing are the most common ones, due to the large green areas and bodies of water the Country offers. According to Passport, the Outdoor & Sports Market in Canada accounts for \$2.1 billion in 2021, and it is forecasted to grow at a CAGR₂₁₋₂₅ of 8.6%. The Canadian Market is one of the most attractive to YETI for its vicinity to domestic market and cultural similarities. YETI will be able to further penetrate the market exploiting existing distribution partnership with retailers that operate cross border (Figure 11).

Figure 12



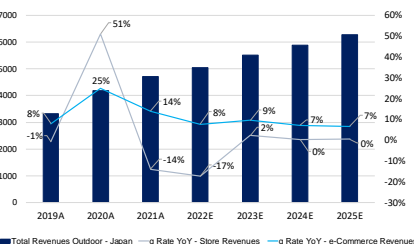
Australia. The vast and remote wilderness of Australian sceneries make the Country famous Worldwide for the array of practicable outdoor activities. As of 2021, the Australian O&R market had a total value of \$2.2 billion, and it is expected to grow at a CAGR₂₁₋₂₅ of 4.3%. YETI entered the market in 2017, mainly serving customers through DTC channel. However, YETI's executives have expressed their willingness to build a proper infrastructure to support growth locally in the most recent earnings call. We expect Australia to be at the forefront of YETI's international expansion (Figure 12).

Figure 13



Europe. The European O&R market generated more than \$26.9 billion in 2021, being the second largest market where YETI operates. According to Statista, in the Sports & Outdoor segment, the number of users is expected to amount to 161.8 million by 2025. Europe is a mature market that presents modest future growth prospects but potentially enormous volumes of sales (Figure 13).

Figure 14



Japan. The Outdoor & Recreation market in Japan is growing rapidly, especially in the store revenues, where the Country recorded a fifty-one-percent increase from 2019 and 2020, later halted by the COVID-19 disease. In 2021, the outdoor market reached \$4.7 billion, and it is forecasted to surpass \$6 billion by 2025. We

expect Japan to play a minor role in YETI's international expansion. Indeed, the Company decided to stop serving Japan through YETI.com marketplace and to continue distribution only through the authorized dealer A & F Corporation (Figure 14).

Competitive Landscape

YETI Holdings operates in a broad market, that is generally referred to as Outdoors & Recreation Market. Due to the vast product offering, the Company also competes in Houseware, Home & Garden, Outdoor Living, Camping and Sporting Goods.

The Outdoor & Recreation Market is highly fragmented with a large number of small players

The Outdoor & Recreation Market is particularly fragmented, presents medium concentration but high competitiveness, with low barriers to entry due to low initial capital investments. Another distinctive trait of such industry is that it is participated by a large number of small players. Many industry operators are family-owned or independently-operated and serve a niche market of local consumer. Specifically, in the United States – YETI's main competitive arena – an estimated 49.7% of total industry establishments are owner-operated with no additional external employees – accounting for 3.1% of total industry revenues.¹⁰

Smaller players are subject to an immense pressure from larger global players that operate at the wholesale level and exploit advanced infrastructure, technologies, and economies of scale to drive prices down. This mechanism is currently causing a fervid M&A Activity. In fact, the industry is forecasted to be deeply reshaped and become increasingly concentrated until 2026.

YETI's competitive landscape includes famous and established brands such as Igloo and Coleman, as well as new emerging competitors including Pelican, OtterBox, HydroFlask and others. Additionally, YETI is exposed to the combined competition of smaller niche players, most of which are mimicking its business model geared toward premium products – e.g. Kong Coolers, Lifetime Coolers and Orca Coolers among others.

¹⁰ IBIS World, "Sporting Goods Stores in the US", October 2021.

YETI’s Competitive Advantage

Considered all the challenges that YETI has to face – well-known competitors that sell at a much lower price and new entrants that try to emulate both the look and price point of its products –, it is worth investigating why the Austin-based brand is still the most recognizable and successful player in its environment.

When it comes to price, YETI’s products can cost up to 10x than a plain-vanilla cooler. Back in 2006, YETI founders’ initial vision was to build the perfect portable cooler, using the best materials available combined with the most advanced manufacturing techniques. This caused the cooler to cost an order of magnitude more than traditional coolers. As YETI’s CEO Matt Reintjes put it, “We didn’t set out to make a product that costs ten times as much as ordinary coolers. We just wanted something that wouldn’t break. So, we set out to build the best cooler we could make, with the best materials, construction, and manufacturing processes, without any compromises”.¹¹

Despite its products’ impressive price, YETI is supported by a hyper-loyal customer cohort and has become a status-symbol in the US. The Outdoor brand was able to establish an emotional connection between its products and the outdoors life-style, therefore, mass consumers started buying YETI because of their desire for an adventurous life. One of YETI’s most effective marketing strategies is to create professional video content of its brand ambassadors’ deeds. For instance, when you admire John John Florence – a surfing prodigy currently in YETI’s ambassador rooster – riding towering waves in Hawaii and then satisfy his thirst drinking from a YETI’s bottle, unconsciously, you are tricked into thinking that getting the same bottle would grant you his same compelling life-style.

Lastly, unlike its competitors, YETI’s is able to leverage on its exceptional brand awareness to expand its product portfolio and increase customer repurchase. From 2017 to 2021, YETI significantly enlarged its core business product lineup, introducing more than 20 new models in hard and soft coolers and 15 models in drinkware. The exceptional durability of YETI’s products poses the risk of one-time-only purchases. To mitigate this, the Company introduced colorful limited-edition runs, as well as a customization service to encourage repeated orders.

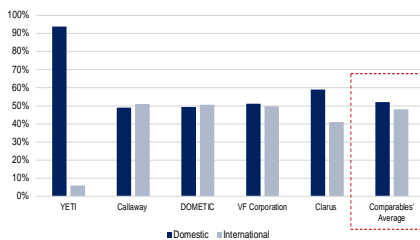
YETI’s products high price tag is not mere pricing strategy

Figure 15: Extract of YETI’s Brand Ambassadors
Source: stories.YETI.com



11 CM Commerce Team “Premium Pricing: Why customers pay 10x more for YETI’s Coolers”, February, 2020.

Figure 16: YETI's and Peer Companies' Revenues by Geography
Source: YETI Financials, Bloomberg



Peer Companies

We carefully selected peer companies that can be compared to YETI in terms of dimensions, channel mix and business affinity (Figure 16). All the selected companies are well-established players in the Outdoor & Recreation Industry however, in some cases, their products may vary and lie outside the mere perimeter of coolers and drinkware.

Johnson Outdoors. Johnson Outdoors Inc. is an American manufacturer and marketer of outdoor recreational equipment and seasonal products used for camping, hiking, fishing and diving. Johnson owns a diverse portfolio of brands, that allow the Company to engage in 4 main business segments: Fishing, Diving, Watercraft Recreation and Camping. As of year-end 2020, Johnson Outdoors had an annual turnover of \$594 million and a market capitalization of \$1.13 billion. A common trait to YETI, is that Johnson mainly operates in the US, indeed, International revenues accounted only for 11.7% of total revenues, as of December 31st, 2020.



Dometic Group. Dometic is a Swedish manufacturer and distributor of products such as refrigerators, portable fridges and freezers, drinkware, ovens, stoves, and other electronic products. As of year-end 2020, Dometic had an annual turnover of \$1.8 billion and a market capitalization of \$3.9 billion. Despite being mainly active in Europe, in 2020, 44.3% of its revenues were generated in the US. The Swedish Group has a broader international footprint compared to YETI, in fact, its sales derived from more than 100 countries worldwide. On September 17, 2021, Dometic entered into an agreement to acquire Igloo for \$677 million, further rooting its presence in the passive cooling boxes and drinkware business.



Callaway Golf. Callaway Golf is a prominent and high-end golf equipment provider. The Company is based in California and it is one of the World's largest manufacturer of golf clubs, golf balls, golf bags and other golf-related accessories. Founded in 1962, Callaway owns a portfolio of global premium brands, such as Callaway Golf, Odyssey, and Jack Wolfskin. As of year-end 2020, Callaway Golf had an annual turnover of \$1.6 billion and a market capitalization of \$2.3 billion. As YETI, Callaway addresses a premium market and bears immense marketing efforts to increase customer's perceived quality. Callaway's equipment is recognized as high-performing and high-functioning among the Industry. Callaway's international footprint is higher than YETI's, indeed, it operates in over 70 countries worldwide, with international revenues accounting for 51% of the total.



VF Corporation. VF Corporation is one of the World’s largest apparel, footwear and accessories companies. Headquartered in the United States, it produces and distributes lifestyle apparel and occupational apparel products. VF owns legendary brands such as Vans, North Face, Timberland, Napapijri, Eastpack and Dickies, and operates in three main business segments: Active, which accounted for 45% of net sales as of March 31, 2021; Outdoor and Work, which accounted for 44.7% and 10.2% of total revenues, respectively. At the end of March 2021, VF had an annual turnover of \$9.2 billion and a market capitalization of \$31.3 billion. As YETI, VF Corporation delivers its ample array of products through direct-to-consumer or wholesale. Moreover, just as YETI, VF Corporation products have a strong evocative power with regards of adventurous outdoor living. VF’s international footprint is much larger than YETI’s, indeed, as of March 2021, International revenues weighted 49.8% of total revenues.



Clarus. Clarus Corporation is a leading American designer, manufacturer and distributor of Outdoor & Recreation equipment based in Salt Lake City, Utah. Clarus proposes lifestyle products focused on climbing, skiing, camping, backpacking and hunting through a portfolio of renowned brands such as Black Diamond, Sierra, Barnes, and Rhino-Rack. As of year-end 2020, Clarus had an annual turnover of \$224 million and a market capitalization of \$480.9 million. Unlike YETI, Clarus’ International footprint is already quite well developed. Indeed, the Company heavily penetrates the European Alpine market and currently generates 41.5% of its total revenues Internationally.

Ratio Analysis

In order to assess YETI’s overall financial position compared to its peers, we examined Cash Management Ratios, Liquidity Ratios, Profitability and Capital Structure Ratios.

Figure 17: Industry Average Activity Ratios
Source: Analysts’ Elaboration on Bloomberg Data

Industry Average	ACTIVITY RATIOS		
	2018A	2019A	2020A
Average Holding Period	133	131	124
Average Collecting Period	39	41	82
Average Payable Period	90	82	105
Cash Conversion Cycle	82	90	100

Figure 18: YETI’s Activity Ratios
Source: YETI’s Financials

YETI	ACTIVITY RATIOS		
	2018A	2019A	2020A
Average Holding Period	134	155	110
Average Collecting Period	28	33	22
Average Payable Period	63	70	97
Cash Conversion Cycle	99	118	35

In 2020, the Industry’s average Cash Conversion Cycle was 100 days. In the same year, YETI was able to slash its CCC down to 35 days, an 83-day improvement compared to 2019 (Figure 17). This meant that the Austin-based Company was generating cash from the regular flow of its operations in little over a month. This trend makes our assumptions regarding YETI’s future cash flow more robust, as we expect that the Company will minimize its executional risk, ensuring less pressure on its liquidity during the uncertain time of the post-pandemic era. The main reason behind CCC improvement is a greater reliance on DTC. Indeed, YETI sold directly to the end user through its e-commerce marketplaces, lowering its Average Holding Period by 45 Days (Figure 18).

Figure 19: Industry Average Liquidity Ratios
Source: Analysts' Elaboration on Bloomberg Data

Industry Average	LIQUIDITY ANALYSIS		
	2018A	2019A	2020A
Current Ratio	2,76	2,92	2,84
Quick Ratio	1,46	1,68	1,92
Cash Ratio	0,53	0,78	1,09
Net Working Capital	609 728	655 895	893 117

Figure 20: YETI's Liquidity Ratios
Source: YETI's Financials

YETI	LIQUIDITY ANALYSIS		
	2018A	2019A	2020A
Current Ratio	1,59	2,12	1,66
Quick Ratio	0,81	1,03	1,17
Cash Ratio	0,43	0,43	0,88
Net Working Capital	109 675	190 235	188 738

Figure 21: Industry Average Profit. Ratios
Source: Analysts' Elaboration on Bloomberg Data

Industry Average	PROFITABILITY RATIOS		
	2018A	2019A	2020A
ROIC	10%	11%	3%
Return on Assets	7%	7%	2%
Gross Margin	43%	42%	40%
EBITDA Margin	13%	13%	10%

Figure 22: YETI's Profit. Ratios
Source: YETI's Financials

YETI	PROFITABILITY RATIOS		
	2018A	2019A	2020A
ROIC	19%	12%	63%
Return on Assets	11%	8%	21%
Gross Margin	49%	52%	58%
EBITDA Margin	16%	13%	22%

Figure 23: Industry Average Capital Structure Ratios
Source: Analysts' Elaboration on Bloomberg Data

Industry Average	CAPITAL STRUCTURE		
	2018A	2019A	2020A
Gearing Ratio	0,19	0,33	0,40
D/E	0,32	0,70	0,98
D/EBITDA	1,41	2,30	3,35
PPE/Total Assets	0,08	0,10	0,09
Solvency Ratio	1,97	1,71	1,30
Financial Autonomy Ratio	0,61	0,54	0,48

Figure 24: YETI's Capital Structure Ratios
Source: YETI's Financials

YETI	CAPITAL STRUCTURE		
	2018A	2019A	2020A
Gearing Ratio	1,09	0,82	0,72
D/E	11,32	2,85	0,62
D/EBITDA	2,58	2,93	0,73
PPE/Total Assets	0,14	0,13	0,11
Solvency Ratio	0,09	0,35	1,61
Financial Autonomy Ratio	0,06	0,19	0,39

Among peer companies, only Dometic Group and VF Corporation performed better. Their large size grants them a much higher bargaining power. This is reflected in an above-average Average Payable Period, that exceeds 4 months for both Companies.

As far as the liquidity is concerned, in 2020, YETI underperformed its peers' average in all ratios examined. The discrepancy between a Current Ratio of 1.66 and a Cash Ratio of 0.88 highlights YETI's exposure to the execution of its current assets – including inventories. YETI's 2020 mediocre Cash Ratio performance is mainly explained by a repayment of a revolving credit facility for 50 million and the repayment of long-term debt for 165 million. Indeed, in 2020, YETI's financing activities absorbed 163.2 million in net cash, 3.57x more than 2019's cash consumption (Figure 19 and 20).

In terms of profitability, YETI is the best performing Company among its peers. The Return on Invested Capital indicates that YETI creates 0,63 in net result per each dollar of Invested Capital. Despite being the nearest competitor with a ROIC of 0.15, Johnson Outdoors lags behind by almost 4.5x.

In terms of gross margin, YETI is just shy of 60%, placing itself well above the industry standard of 13.36%. This data highlights once again how Direct-to-Consumer has been YETI's management ace in the hole in 2020 (Figure 21 and 22). YETI is extremely cost-efficient in generating revenues and this marks a trend that is bound to last also in the following years, as we expect the Company to reach and maintain a gross margin of 63.5%, from 2023 onwards.

As far as the capital structure goes, in 2020 the industry average D/E was 0.98 and YETI achieved a D/E of 0.62. In the past three years, YETI could have been considered an outlier, since it was severely levered to foster its bursting growth. In 2018, the Company had a D/E of 11.32, however, in the following year it underwent a robust capital injection to boost equity and rebalance the capital structure. In 2020, D/E further decreased because of large chunks of long-term debt were repaid. We believe that after the de-leveraging process YETI achieved its long-term capital structure (Figure 23 and 24).

Key Risks

YETI's business operation is exposed to a vast number of threats and risks, that may affect directly or indirectly the financial results of the Company. Most of the risks cannot be promptly managed nor prevented, and that leaves YETI with little room for maneuver. Nevertheless, we believe that the Company has the right tools to overcome external threats, as it can rely on high selling prices, unique brand recognition, growth prospect, and an accomplished management team.

COVID-19 evolution. YETI's business is highly dependent on COVID updates, as the preventative measures adopted to curb the growing curve infection could keep business shutdown, affecting significantly the financial results. Due to the recent Omicron variant – already detected in 38 countries, in December 5, 2021, according to the Guardian –, governments are imposing severe lockdown measures as well as travel restrictions. As consumer sentiment and behavior is particularly influenced by public news, YETI's financial results are tied to the future COVID evolution. Furthermore, as the operating result is regarded, YETI's supply chain could suffer delays and disruptions, as government restrictions may impair the availability of certain products. Therefore, YETI's future financial and operating results are contingent on the duration and the effects of the rapidly evolving COVID-19 pandemic worldwide.

Increasing competition in the market. The Outdoor & Recreation Market in which YETI operates is extremely competitive and highly fragmented. YETI established itself as a market leader in the Outdoor & Recreation Market with undeniable competitive advantages. However, due to the market low barriers to entry and potential M&A operations, new competitors may enter the market or others may seek business synergies. YETI has to be ready to face this potential competitive challenge, and a failure could heavily harm the financial condition of the Company.

Unsuccessful international expansion. International expansion is the most ambitious long-term strategy for the future development of the Company. This geographic expansion aims at reinforcing YETI's brand awareness globally, and at reaching a wider pool of customers. However, the strategic decision comes with uncertainty and riskiness, as YETI may be unable to successfully penetrate the market, due to cultural differences, technical developments, and tax regulatory. Furthermore, YETI may face hurdles establishing its brand recognition outside the US, especially if the areas are characterized by a poor tradition of outdoor and recreational activities. In addition, the geographic expansion exposes the Company to market and political global instability.

Value Drivers

Revenue Model

To build a sound model, we decided to estimate revenues using a bottom-up approach, mainly focusing on drivers directly linked to existing and newly-acquired customer. First, we isolated revenues coming from the US from the ones generated Internationally, as these markets have peculiarities we needed to take into account when forecasting.

We further broke down YETI’s revenues into two main distribution channels: Wholesale and Direct-to-Consumer. On one hand, YETI’s customers are constituted by large retail chains – e.g. Dick’s Sporting goods, REI Corporation etc. -, while on the other the Company sells directly to individuals.

Lastly, we identified the main revenue drivers in both wholesale and DTC. We believe that wholesale revenues are driven by the total number of stores in which YETI products are sold – this only includes third-party stores as YETI-owned stores fall into the DTC perimeter – and the average revenue YETI generates per wholesaler-owned store. As far as DTC is concerned, YETI’s uses this channel as a synonym for online sales, as only a minor percentage of DTC comes from YETI-owned stores. Therefore, we forecasted the pace at which YETI’s growth in revenues is outpacing the growth in the Online Outdoor and Recreation market revenues and projected this multiple in the future.

Number of Stores

First, we want to remark once more that this driver does not refer to YETI’s directly managed stores. Indeed, stores that sell YETI’s products are facilities owned by wholesalers and independent retailers over which YETI cannot exercise direct control. For this reason, it was not possible to incorporate YETI’s management long-term plans on future domestic and international footprint.

To come up with an estimate for YETI’s future penetration in wholesale and retail stores, we began our analysis by collecting actual data for 2021. For this year, YETI disclosed the number of stores that sell its products only in the US and internationally in Europe (UK included), with 9,471 and 370 stores, respectively. To derive the total number of authorized YETI dealers in the remaining countries we had to rely on estimates. Therefore, we considered reasonable to assume that the number of stores that sell YETI in the remaining international countries is proportional to the country’s size in terms of store revenues. Thus, if the European Outdoor and Recreation market generates \$1.8 billion in turnover and 370 stores sell YETI, the total number of international stores that sell YETI must

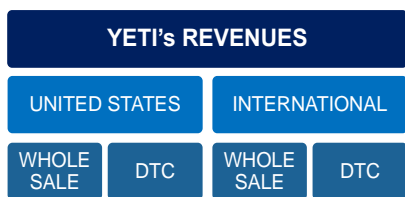
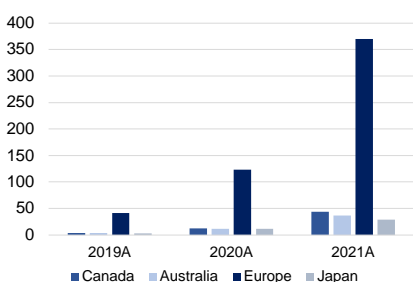


Figure 25: Number of Stores – International
Source: YETI’s Financials, Analysts’ Estimates



be around 480, considered an overall market size of \$2.3 billion. Following the same reasoning, we assumed YETI's footprint to be 44 stores in Canada, 37 in Australia and 29 in Japan, as of year-end 2021 (*Figure 25*).

Then, we identified stores growth rate key external drivers. We concluded that these factors have a common nature in both the US and international market, since they are mainly based on consumers' propensity to engage in outdoor activities. To understand what influences store growth, we narrowed down the analysis to the following factors: per capita disposable income, participation in sports & time spent in leisure activities and external competition.

Per capita disposable income. Demand for sporting goods is positively correlated with per capita disposable income. As consumers may regard such products as non-essential, their demand is highly elastic and depends strongly on the relative portion of wealth they can allocate toward leisure expenses. Ultimately, customer's willingness to spend on Sporting Goods has a sensible impact on the number of stores in this Industry.

Participation in sports & time spent in leisure activities. Participation in outdoor activities has burgeoned in the past two years and is poised to establish a trend. A global survey carried out by the World Federation of The Sporting Goods Industry (WFSGI) in partnership with McKinsey & Co., estimated that in 2021 participation in outdoor individual sports increased 84% compared to 2020.¹² In addition to this, the time people spend in leisure activities has increased with regard to the previous years. In fact, the United States Bureau of Labor Statistics states that on average people aged 15 or older spent 32 minutes more per day engaging in sport activities due to the pandemic situation.¹³ All these factors represent positive catalysts for future store growth in the Outdoor and Recreation Industry.

External competition. Specialized retailers in the Outdoor & Recreation Industry are currently put under increasing competitive pressure by both online retailers and mass merchandisers. Online retailers are able to reach an ample cohort of customers with less invested capital, while mass merchandisers leverage on high bargaining power with manufacturers and usually compete building small portfolios of low-cost outdoor and recreation products. External competition has a negative impact on the number of specialized stores in the industry, as well as its sales volumes.

¹² McKinsey & Company "Sporting goods 2021: The next normal for an industry in flux", January 2021.

¹³ U.S. Bureau of Labor Statistics "Time spent in leisure and sports activities increased by 32 minutes per day in 2020", October 2021.

We concluded that the tail wind the offline segment of the Outdoor & Recreation Industry is currently experiencing will decrease in power going forward in the US, where we expect the total number of stores that sell YETI to increase by 470 units until 2025. Since its foundation, it took YETI roughly 14 years to reach 9,417 total doors in its domestic market. Considered that international expansion will be mainly reliant on DTC, we assumed the overall number of international stores that sell YETI to reach 1/3 of the 2021 total number of stores in the US by 2035 – over the same 14-year time horizon.

Growth in Number of Stores - US

In our view, the growth in the number of stores in the US Outdoor and Recreation market is likely to stabilize at a moderate CAGR, appropriate for such a mature segment.

According to IBIS World library, one of the most authoritative data sources on US market trends, Sporting Goods Stores in the US, increased by 7.24% in 2021. However, in the following years their growth will be hampered by the pressure coming from online marketplaces. Thus, until 2027 the industry will grow at a CAGR₂₂₋₂₇ of 1.62% (Figure 26).

Figure 26: Store Revenues (\$ '000 000) & Growth in Number of Stores - US
Source: IBIS World, Analysts' Estimates

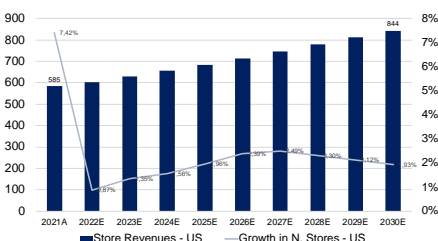
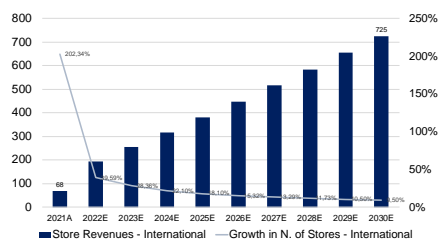


Figure 27: Store Revenues (\$ '000 000) & Growth in Number of Stores - International
Source: Passport, Analysts' Estimates



Growth in Number of Stores - International

The easing of restriction Worldwide allowed YETI to persevere with its plans of international footprint expansion. In 2021, the international total number of doors surged by 202.3%, signaling ample room for growth. We expect the growth in number of stores international to advance at a CAGR₂₂₋₂₇ of 22.8% (Figure 27). Embedded in this assumption is the fact that YETI will execute on its objective to build the foundations of a self-standing fully integrated supply chain in the international market is entering, declared also in the most recent earnings call.

Average Revenues per Store

To have a future measure of the Average Revenues per Store, we relied on the assumption that revenues of the overall industry are a function of the performance of all the single retailers. In the US, we expect the Average Revenues per Store to increase at CAGR₂₂₋₃₅ of 2%, whilst advancing at CAGR₂₂₋₃₅ of 1.6%.

Online Revenues Drivers

In 2021, YETI's online revenues grew 38.4% and 155.6% in the US and Internationally, respectively (Figure 28 and 29). We impute this notable result to

Figure 28: Online Revenues US (\$ '000 000)
Source: Statista, Analysts' Estimates

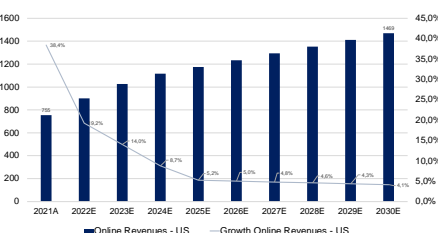
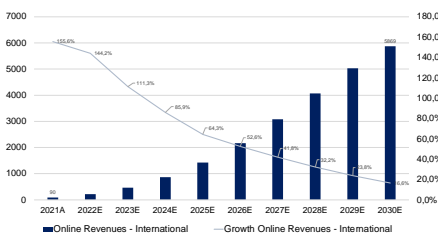


Figure 29: Online Revenues International (\$ '000 000)
Source: YETI's Financials, Analysts' Estimates



the Company's enormous social media presence, that outweighs the one of its peers. For the sake of comparison, Dometic Group can count on 167 thousand followers on Instagram, while YETI enjoys more than 1.7 million followers. In the context of valuation, it is worth noting that such a large public resonance is quite uncommon for a discretionary product manufacturer. Hence, we expect YETI to consistently continue outpacing the O&R online market both in the US and Internationally. Specifically, we foresee YETI to grow 1.7x the US O&R online market until 2026, slowing down gradually to reach the growth rate of the market in 2035. Internationally, we expect YETI to grow 17.1x the market until 2024, gradually decelerating to match the market pace in 2035.

Cost of Goods Sold

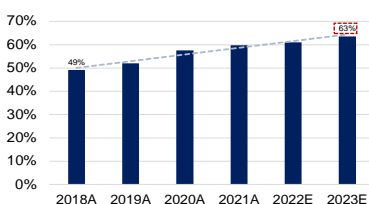
To estimate cost of goods sold, we avoided forecasting it as a percentage of revenues since this would not capture the impact of a higher gross margin, guaranteed by YETI's channel mix shift towards Direct-to-Consumer. Indeed, the Austin-based Company's historical gross margin – computed as the ratio between total revenues and cost of goods sold -, has shown an upward trend from 2018 to date. This comes from a heavier reliance on Direct-to-Consumer, that allowed YETI to cut intermediaries and directly reach a wider pool of customers while receiving a larger inflow from each sale.

Moreover, the Company greatly benefitted from cost improvements in its Drinkware category. Indeed, YETI became more cost efficient in the production of bottles and mugs and pivots on its customers' anelastic demand by keeping retail prices above industry average. As a direct consequence, we forecast the management to continue steering toward this more profitable product category, that now sits at more than 60% of total revenues.

Furthermore, we are convinced that YETI's bargain power will vastly improve in the upcoming years, as the Company will consolidate itself as a leader within the Outdoor & Recreation Industry. This will allow YETI to negotiate lower prices with its suppliers and further cut costs. Additionally, on the revenues side, YETI can afford to apply a massive mark-up on its products, leveraging on its immense brand recognition.

To forecast COGS value in the future, we calculated their historical behavior at a 1% marginal increase in online revenues. This metric allows to empirically quantify how much the gross margin historically improved when YETI relied more on DTC. In both 2019 and 2020, a 1% weight increase in DTC resulted in an average improvement of 51.9 basis points in gross margin, while in 2021 the benefit amounted to 68.3 basis points. Then we multiplied this improvement by the annual increase in percentage points in DTC/total revenues. The output

Figure 30: Expected Gross Margin Evolution
Source: YETI's Financials, Analysts' Estimates



represents the estimated change in percentage points in gross margin that we applied through the forecasted period. Basing our reasoning on the identified trend and aforementioned supporting assumptions, we believe that YETI's current gross margin of 59.8% will reach 60.9% in 2022 and stabilize to 63.5% from 2023 onwards (Figure 30). Lastly, we assumed the latter result to be the best possible result YETI will achieve throughout the forecasting period.

Property Plant & Equipment

As of year-end 2021, YETI directly manages 8 leased physical stores – cumulatively amounting to 207,258 square feet – and 1 headquarters of 173,000 square feet (Figure 31). Thus, the average store dimension is 4,282 square feet – equivalent to 398 square meters – and we believe that future openings will be in line with such size. We expect YETI to not open any new headquarters, while, in the US, we forecast 6 new stores to be inaugurated in 2022. From 2023 to 2030, we expect YETI to open 4 stores per year in its domestic market. Consequently, we are confident that YETI will operate 46 stores on a cumulative surface of 369,984 square feet (Figure 32). As far as the international arena goes, we do not see YETI investing in directly-owned stores in the forecasted period, but rather approaching through wholesale partnerships and online marketplace.

Figure 31: YETI-owned stores
Source: YETI's Investor Relation

Name of the Store	Location	Dimension in Sq. Feet	Opening Date
YETI Flagship Store	Austin, TX	8,600	2017
YETI Charleston	Charleston, SC	5,000	2019
YETI Wicker Park Store	Chicago, IL	4,900	2019
YETI Denver	Denver, CO	4,500	2020
YETI Fort Lauderdale	Fort Lauderdale, FL	3,300	2020
YETI Domain Northside	North Austin, TX	2,600	2019
YETI Dallas	Dallas, TX	1,700	2020
YETI San Antonio	San Antonio, TX	3,658	2021
YETI's Headquarters Offices	Austin, TX	173,000	2017

Figure 32: Expected Number of YETI-Owned Stores
Source: YETI's Financials, Analysts' Estimates

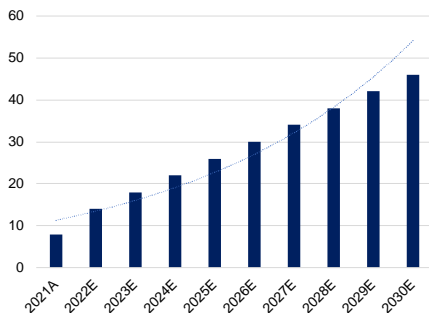
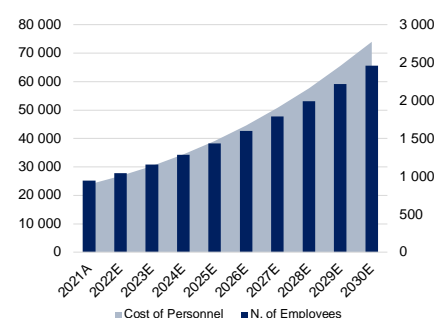


Figure 33: Expected Cost of Personnel (\$ '000) & N. of Employees
Source: YETI's Financials, Analysts' Estimates



Cost of Personnel

We estimated how the cost of personnel will evolve in the future, based on the number of stores in which YETI's products will be sold. Indeed, we believe that a rise in number of wholesalers would require more workforce on YETI's side, and consequently, an inflow of personnel. According to IBIS World, the average annual wage in the Outdoor & Recreation Industry in the US was \$25,200 in 2021. We assumed this value to increase at the expected long inflation rate of 2% in YETI's domestic market. The Company's workforce is all based in the United States. As of year-end 2021, the total number of employees was 943. Based on historical data, we assume the growth rate in the number of employees per store to remain 7.6% annually. In 2030, YETI is expected to have 2,459 employees (Figure 33).

Valuation

DCF Approach

We adopted the Discounted Cash Flow model to value YETI Holdings, Inc., since it allows to incorporate specific information about firm's probability, cost of capital,

future growth potential, free cash flow, and most importantly, sensitivity analysis. In fact, through the latter, we were able to gauge the impact of changes in a set of independent variables – e.g. how the stock price is affected by different WACC or terminal growth rates. Furthermore, the Discounted Cash Flow is a more reliable approach to assess the Company's overall value compared to multiple valuation. Indeed, unlike relative valuation based on multiples, DCF takes into account the company's peculiarities, such as future growth rate, risks, profitability, as well as business life cycle. YETI operates in a niche market and has many unique traits. Therefore, multiple valuation could be less accurate.

Deciding how far in the future the forecasted cash flows should go was a crucial decision in properly valuing YETI. Indeed, we decided to forecast up to 14 years, since we are convinced that a shorter time horizon would have misrepresented the life-cycle of this still young and scalable Company. We expect YETI's growth to reach the steady state in 2035 and grow perpetually at 1.56%. To compute the Core Business Present Value, we discounted all future core free cash flows and terminal value at a WACC of 10.47%. Lastly, we calculated YETI's equity implied fair value and divided it by the current total number of shares outstanding to derive the stock price.

In the aftermath of the pandemic, global economic conditions continue to be uncertain and economy volatile. Moreover, future trends in consumer discretionary spending remain unpredictable and YETI's business may be subject to declines. To account for this, we conducted a scenario analysis with three possible outcomes. Each scenario – base case, best case and worst case - yields a specific stock price, which is weighted for the implied probability of the events to unfold.

Cost of Debt

YETI Holdings, Inc. currently has no outstanding bonds that match the duration of the Company's free cash flow. Therefore, we calculated the cost of debt through an indirect method. According to Moody's, YETI's credit rating on long-term debt is BBB. Consequently, we investigated the average yield to maturity of a portfolio of 10-year unsecured fixed rate bonds issued by US composite companies with so, we considered this value a proxy for YETI's implied YTM on long-term debt. Moreover, Bloomberg estimates the Annual Default Rate on long-term debt to be 0.002%, with Moody's indicating a corresponding BBB Loss Given Default of 58.61%. This gave us an estimated cost of debt of 2.71% (Figure 34).

Figure 34: YETI's Cost of Debt Inputs
Source: Bloomberg, Moody's, Scope Ratings Global

Cost of Debt	
10y US Composite BBB YTM	2,71%
Rating	BBB
Default Rate for 10y BBB	4,14%
Annual Default Rate BBB	0,002%
Loan Recovery	41,39%
Loss Given Default BBB	58,61%
Cost of Debt	2,71%

Cost of Equity

Figure 35: YETI's Cost of Equity Inputs
Source: Bloomberg, NYU Stern Database

Cost of Equity	
Risk Free Rate	1,43%
Market Risk Premium	4,72%
β Levered	1,96
Cost of Equity	10,68%

To estimate the cost of equity, we relied on the Capital Asset Pricing Model return of a specific asset (Figure 35). However, one of the inputs of the formula - the expected return on the market - is unobservable. Consequently, we relied on NYU Stern's Market Risk Premium Database to come up with an estimate of the Total Equity Risk Premium in the United States. As of January 2021, the market is expected to return an additional 4.72% over the risk-free US treasury.¹⁴

For the risk-free rate, we looked at government bonds issued by the U.S. Treasury with a maturity of 10 years. Specifically, the 10-year U.S. Treasury bond is commonly regarded as the best proxy of a risk-free rate security. Since YETI runs its core business operations in the United States, and the Company's Free Cash Flows are forecasted up to 14 years from now, the duration of the US risk-free is consistent with our assumptions. According to Bloomberg, our risk-free rate is equal to 1.43%.

To estimate the Beta, we ran a regression on YETI's stock returns against the selected index benchmark (Figure 36). For the sake of our analysis, we selected the MSCI World index, as it represents a weighted and diversified portfolio, that includes large and mid-cap equities across 23 developed countries.

Regressing three years of weekly returns, we obtained a regression Beta of 1.96 which is the equivalent of an unlevered Beta of 1.92. Despite having a quite narrow confidence interval, we believed that an in-depth analysis was useful to thoroughly investigate YETI's stock systematic risk. For this reason, we derived a median levered industry beta of 1.21, obtained regressing YETI's competitors on the MSCI World, and de-leveraged such value at the companies' current capital structure (Figure 37 and 38). Finally, we obtained a median unlevered industry beta of 0.99, that we then applied to YETI's target D/E of 2.53%, resulting in a re-levered beta of 1.01.

After a careful evaluation we opted for the Beta resulting from YETI's regression instead of the industry's beta. Our main argument is that YETI is still flourishing and respects all the parameter of growth stocks. Indeed, during 2021 the Company greatly outperformed the MSCI World index, showing amplified returns during bull market. This is a typical behaviour of high-beta stocks, that have a marked volatility with regards to the market. Therefore, a 1.96 beta seemed more reasonable than the lower 1.21 beta value coming from the industry. In fact, the latter includes also Dometic and VF Corporation, more established mature players less sensible to market movements.

Figure 36: YETI's Regressions Against MSCI World Index
Source: Analysts' Elaboration on Bloomberg Data

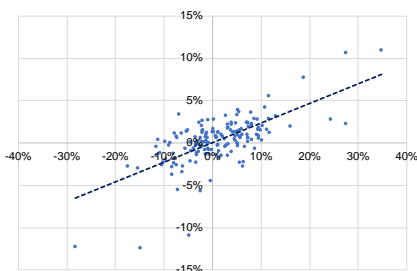
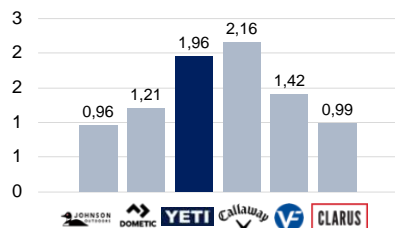


Figure 37: Industry Betas
Source: Analysts' Elaboration on Bloomberg Data

Outdoor & Recreation - Industry Betas				
	Min	Median	Average	Max
Beta Levered	0,96	1,21	1,35	2,16
Beta Unlevered	0,88	0,99	1,12	1,64

Figure 38: Betas for YETI and Peers
Source: Analysts' Elaboration on Bloomberg Data



¹⁴ NYU Stern, "Country Default Spreads and Risk Premium", January, 2021.

As far as YETI is concerned, we believe that the company has reached its long-term target capital structure. In fact, the past two years showed how the Company's management worked toward sensibly reducing leverage, both through debt repayments and equity injections, in order stabilize the D/E around 2.53%. The Company is foreseen to gravitate around such value with negligible variations. Indeed, we do not expect any major capital structure rebalance in the long run.

Multiple Valuation

With the aim of performing a better valuation and triangulate the results given by the discounted cash flow model, we ran a relative multiple analysis.

We analyzed the set of peer companies already discussed in this report and, to be consistent with YETI's growth prospects and its current enterprise life-cycle, we opted for forward-looking estimates of the EV/EBITDA and P/E ratios.

When performing a relative valuation, all the assumptions that are explicit in an intrinsic valuation are implicitly embedded in the multiple. Therefore, we decided to isolate the drivers behind such value and carefully select the right companies for the comparison, rather than aggregating the information in a statistical figure like the median of the industry.

Our objective was to identify among the peer group companies that had similar expected growth and ROIC to YETI. In this regard, we excluded from the analysis Johnson Outdoors Inc. and Callaway, since they have negative expected growth rate in earnings of -8% and -17%, respectively. We further decided to narrow down the analysis only to the forward EV/EBITDA ratio. Indeed, we believed the forward P/E could bias the results due to the notable differences in the capital structure of the peers. The relative valuation was ultimately carried out considering Dometic Group, VF Corporation and Clarus, since these firms were more similar to YETI in terms of the aforementioned growth and return parameters (*Figure 39*).

We computed the weighted harmonic mean of the forward EV/EBITDA ratios, achieving a multiple of 16.53x. Multiplying such value to YETI's 2022 forecasted EBITDA of \$503 million, we obtained a stock price of \$95.15. The latter stock price collides with our DCF estimate of \$153.02. As shown in *Figure 39*, YETI is a one-of-a-kind Company in terms of Return on Invested Capital, and it is still undergoing an enormous expansion process. Furthermore, we impute the difference in valuation to the fact that the vast majority of the peers already have a vast international footprint and are currently in a mature phase of their life-

Figure 39: YETI and Peers Growth Prospects and ROIC
Source: Bloomberg, Analysts' Estimates

Company	Expected Earnings Growth in 2022	ROIC
YETI	-4%	52,85%
Johnson Outdoors Inc.	-8%	19,36%
Dometic Group	32%	4,18%
Callaway	-17%	3,47%
VF Corporation	16%	10,57%
Clarus	25%	6,89%

cycle. Indeed, the multiple fails in capturing the growth that YETI is forecasted to experience in the upcoming years.

Sensitivity Analysis

The outcome of our valuation is sensible to key inputs such as WACC and Terminal Growth Rate. To better grasp the influence of these variables, we investigated the impact of their changes on YETI’s expected stock price as of year-end 2022.

Figure 40: YETI’s Stock Price Sensitivity Analysis
Source: Analysts’ Estimates

Stock Price			Terminal Growth Rate				
			-20%	-10%	1,56%	+10%	+20%
WACC	-20%	8,38%	172,73	175,11	177,60	180,20	182,93
	-10%	9,43%	159,85	161,66	163,55	165,52	167,56
		10,48%	149,87	151,31	152,79	154,33	155,93
	+10%	11,53%	141,92	143,08	144,28	145,52	146,80
	+20%	12,58%	135,42	136,39	137,38	138,40	139,46

Changes in the WACC are associated with larger swings in our estimated stock price, compared to changes of the same magnitude in the terminal growth rate. For instance, holding the current terminal growth at 1.56%, and varying the WACC by +/- 10% results in a variation range in the stock price of \$17.93. In the opposite scenario, the variation is just \$3.02 (Figure 40).

Scenario Analysis

On November 25, 2021, the new COVID-19 Omicron Variant was discovered in South-Africa. Little evidence is yet available about this new mutation, but studies reveal that it could pose the threat of new infections on COVID-recovered patients¹⁵. Consequently, the risk of new lockdowns and restrictions is looming. Additionally, the world of finance is harshly debating on the nature of the current inflation spike, questioning whether this will be a temporary or permanent phenomenon. Thus, the 2022 outlook remains extremely uncertain. For these reasons, we investigated the potential implications for YETI in two different scenarios.

In the worst-case, we assumed the Omicron variant to cause a drop of 20% in the average revenues per stores that sell YETI due to newly-imposed closures. We further anticipate the growth rate in the number of stores to be revised downward by 10% in both the US and International Market. Additionally, a new wave of infection would exacerbate current supply chains disruptions, causing an increase in YETI’s freight and distribution costs. Moreover, we assumed a permanent inflationary pressure on raw materials to deteriorate the current gross

¹⁵ The New York Times, “Omicron: What we know about the New Coronavirus Variant”, December, 2021.

margin to 55%. In the worst-case scenario, we estimated YETI’s Enterprise Value at \$7.92 billion, implying a stock price of \$90.69 and an annual expected return of 2.83%. In our view, this scenario has a 30% probability of unfolding and would result in a HOLD recommendation.

In the best-case scenario, we assumed the new COVID variant to be rapidly neutralized by the vaccination campaign and consumer spending on discretionary products to surge. We expect this to boost by 10% the average revenues per store in the O&R industry in both the US and international market. In an expansionary scenario, the growth rate in the number of stores is anticipated to be revised upwards by 10% and the gross margin to reach 65%.

Figure 41: Scenario Analysis
Source: Analysts’ Estimates

Scenario Analysis	Probability	Equity Value (\$ '000)	Expected Stock Price (\$) - YE 2021	Annual Return	Analysts' Recommendation
Best Case	10%	14,585,666	166,03	88,27%	BUY
Base Scenario	60%	13,442,008	153,02	73,51%	BUY
Worst Case	30%	7,966,733	90,69	2,83%	HOLD
Weighted Probabilities Implied Stock Price		11,913,791	135,62	53,78%	BUY

In terms of valuation, YETI would achieve an Enterprise Value of \$14.54 billion, which implies a stock price of \$166.03 and an annual expected return of 88.27%. In our assessment, this scenario has a 10% chance of occurrence, and would result in a BUY recommendation. Considering the worst, best and base case scenarios, weighted for their respective probabilities, YETI’s implied stock price as of year-end 2022 would be \$135.62, with an expected return of 53.78% and a BUY recommendation (Figure 41).

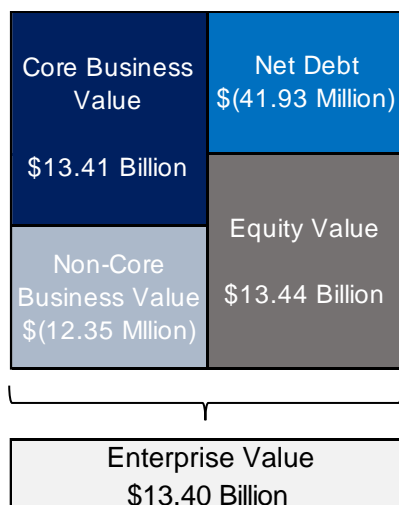
Recommendation

We are convinced that YETI’s future valuation will be strongly dependent on the Company’s ability to execute on its international expansion plans. We forecast YETI to generate 50.8% of sales in the US and 49.2% Internationally by 2025, drastically increasing its footprint outside the domestic market. Despite being an ambitious goal, we believe YETI can achieve it leveraging on the Direct-to-Consumer channel. As we see previously in the report, DTC is expected to grant the Company an extremely attractive gross margin of 63.5% from 2023 onwards.

All this considered, we set our expected EV for YETI at \$13.40 billion, corresponding to a target price of \$153.02, as of year-end 2022 (Figure 42). At the time of our writing – December 15, 2021 – YETI’s stock is quoted at \$88.19. According to our valuation efforts, investing today and holding the stock for one year would yield a return of 73.51%.

Thus, we are confident in issuing a BUY recommendation for YETI Holdings, Inc.

Figure 42: Expected YETI’s Future Value, Base Case Scenario
Source: Analysts’ Estimates



Appendix

Reformulated Income Statement

Reformulated Income Statement						
CORE BUSINESS	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
<i>(In \$'000)</i>						
Net Sales	778.833	913.734	1,091.721	247.554	357.667	362.643
Cost of goods sold	395.705	438.420	462.918	102.370	148.550	155.640
Gross profit	383.128	475.314	628.803	145.184	209.117	207.003
Selling, general, and administrative expenses	280.972	385.543	414.570	105.135	136.692	138.274
Operating income	102.156	89.771	214.233	40.049	72.425	68.729
Core result before taxes	102.156	89.771	214.233	40.049	72.425	68.729
Income taxes at the statutory rate	21.453	18.852	44.989	8.410	15.209	14.433
State income taxes, net of federal tax effect	2.030	2.989	7.816	242	313	226
Research and development tax credits	(578)	(2,157)	(580)	(92)	(89)	(64)
Tax expense (benefit) related to stock-based compensation	(2,396)	950	(611)	26	(370)	(267)
Revaluation of deferred tax assets for state income taxes	(1,154)	(92)	2	(3)	(178)	(128)
Core business result	\$ 82.801	\$ 69.229	\$ 162.617	\$ 31.466	\$ 57.539	\$ 54.529
NON CORE BUSINESS						
	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
<i>(In \$'000)</i>						
Other (expense) income	(1,261)	(734)	123	(298)	(955)	(1,239)
Non core result before taxes	(1,261)	(734)	123	(298)	(955)	(1,239)
Income taxes at the statutory rate	-265	-154	26	(63)	(201)	(260)
Non deductible expenses	248	203	63	9	38	28
Other taxes	(921)	807	(382)	25	(142)	(103)
Foreign currency translation adjustments	(137)	98	(391)	329	630	(84)
Non core business result	\$ (460)	\$ (1,492)	\$ 25	\$ 60	\$ (21)	\$ (988)
FINANCING						
	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
<i>(In \$'000)</i>						
Interest expense	(31,280)	(21,779)	(9,155)	(854)	(832)	(833)
Financing result before taxes	(31,280)	(21,779)	(9,155)	(854)	(832)	(833)
Income taxes at the statutory rate	(6,569)	(4,574)	(1,923)	(179)	(175)	(175)
Non deductible interest expense	4	0	0	0	1	0
Financing	\$ (24,715)	\$ (17,205)	\$ (7,232)	\$ (675)	\$ (658)	\$ (659)
Total comprehensive income after reformulation	\$ 57.626	\$ 50.532	\$ 155.410	\$ 30.852	\$ 56.861	\$ 52.883

Reformulated Balance Sheet

Reformulated Balance Sheet						
CORE BUSINESS						
	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
<i>(In \$'000)</i>						
Current assets						
Working cash	23.365	27.412	32.752	7.427	10.730	10.879
Accounts receivable, net	59.328	82.688	65.417	67.051	81.893	83.267
Inventory	145.423	185.700	140.111	183.921	221.663	265.974
Prepaid expenses and other current assets	12.211	19.644	17.686	24.471	23.832	23.640
Property and equipment, net	74.097	82.610	78.075	86.741	102.005	108.739
Production molds, tooling and equipment	45.614	56.375	60.331			
Furniture, fixture, and equipment	5.752	7.721	8.204			
Computers and software	41.209	52.930	63.343			
Leasehold improvements	29.079	35.419	37.933			
Finance Lease	-	1.208	1.208			
Accumulated Depreciation	(47.557)	(71.043)	(92.944)			
Operating lease right-of-use assets	-	37.768	34.090	32.340	51.672	54.270
Goodwill	54.293	54.293	54.293	54.293	54.293	54.293
Intangible assets, net	80.019	90.850	92.078	92.245	92.857	94.074
Deferred income taxes	7.777	1.082	1.062	1.087	1.138	1.108
Accounts payable	68.737	83.823	123.621	120.044	145.683	166.080
Accrued expenses and other current liabilities	53.022	41.668	88.979	72.366	86.490	96.503
Taxes payable	6.390	3.329	18.316	19.774	15.928	6.869
Accrued payroll and related costs	15.551	18.119	25.810	10.058	19.966	24.513
Core business invested capital	\$ 312.813	\$ 435.108	\$ 258.838	\$ 327.333	\$ 372.016	\$ 402.280
NON CORE BUSINESS						
	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
<i>(In \$'000)</i>						
Deferred charges and other assets	1.014	2.389	972	810	849	826
Other liabilities	13.528	13.307	13.327	18.450	17.239	20.227
Non core business invested capital	\$ (12.514)	\$ (10.918)	\$ (12.355)	\$ (17.640)	\$ (16.390)	\$ (19.401)
FINANCING						
	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
<i>(In \$'000)</i>						
Excess cash	56.686	45.103	220.531	182.866	223.043	248.438
Current maturities of long-term debt	43.638	15.185	22.697	22.700	24.478	24.548
Long-term debt, net of current portion	284.376	281.715	111.017	105.518	107.756	101.723
Operating lease liabilities	-	7.768	8.247	7.803	11.142	11.008
Operating lease liabilities, non-current	-	42.200	36.546	34.998	50.881	54.043
Accrued expenses and other current liabilities (Interest Payables)	-	420	89	266	318	354
Financing	\$ (271.328)	\$ (302.185)	\$ 41.935	\$ 11.582	\$ 28.468	\$ 56.761
Equity	\$ 28.971	\$ 122.005	\$ 288.418	\$ 321.275	\$ 384.094	\$ 439.640

Discounted Cash Flows

	DISCOUNTED CASH FLOW																	
	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
(in \$'000)																		
EBIT	102,156	89,771	214,233	342,913	461,254	632,031	786,060	973,805	1,213,889	1,497,383	1,803,392	2,103,367	2,368,464	2,624,990	2,858,926	3,055,924	3,202,911	3,289,785
Notional taxes	(21,453)	(18,852)	(44,989)	(72,012)	(96,863)	(132,726)	(165,073)	(272,665)	(339,889)	(419,267)	(504,950)	(588,943)	(663,170)	(734,997)	(800,499)	(855,659)	(896,815)	(921,140)
Adjusted taxes	2,098	(1,690)	(6,627)	513	513	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)	(2,073)
Core Business Result	82,801	69,229	162,617	271,414	364,904	497,231	618,914	699,067	871,927	1,076,043	1,296,370	1,512,352	1,703,221	1,887,920	2,056,354	2,198,192	2,304,023	2,366,572
Depreciation	24,777	28,959	30,535	32,411	41,916	48,409	56,170	65,284	76,499	89,456	103,317	116,936	129,155	140,241	149,631	157,538	163,438	166,925
as a % of PP&E	23.4%	25.1%	39.1%	32.3%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Gross Free Cash Flow	107,578	98,188	193,152	303,824	406,819	545,641	675,084	764,351	948,426	1,165,499	1,399,687	1,629,288	1,832,376	2,028,161	2,205,985	2,355,730	2,467,461	2,533,497
- Capital Expenditures (CAPEX)	0	(48,303)	(27,228)	(120,337)	(91,376)	(112,085)	(135,096)	(160,499)	(196,999)	(230,929)	(255,668)	(266,371)	(261,740)	(266,429)	(262,650)	(252,711)	(234,450)	(208,896)
Δ in Property and Equipment	0	8,513	(4,535)	22,245	19,516	18,565	22,188	26,057	32,063	37,045	39,628	38,936	34,933	31,694	26,846	22,607	16,868	9,969
as a % of PPE	0.0%	10.2%	5.8%	22.2%	19.5%	18.5%	22.1%	26.0%	32.0%	36.9%	39.5%	38.6%	34.8%	31.6%	26.8%	22.5%	16.8%	9.9%
Δ in Intangibles Assets	0	10,831	1,128	65,682	29,945	45,111	56,738	69,158	88,438	104,428	112,722	110,499	97,651	94,494	86,173	72,566	54,144	32,001
as a % of Intangible Assets	0.0%	11.9%	1.3%	41.6%	16.0%	19.4%	19.6%	19.3%	19.8%	18.9%	17.0%	14.3%	11.2%	9.8%	8.2%	6.4%	4.6%	2.6%
- Change in Net Working Capital (NWC)	0	71,878	(169,265)	133,096	34,846	30,373	48,145	58,684	75,043	88,612	95,650	93,764	82,862	80,183	73,122	61,576	45,944	27,154
Core Current Assets	240,327	315,444	255,966	541,436	551,758	659,856	820,666	1,016,678	1,267,331	1,563,306	1,882,788	2,195,969	2,472,737	2,740,557	2,984,792	3,190,463	3,343,921	3,434,619
Core Current Liabilities	143,700	146,939	256,726	409,100	384,576	462,301	574,966	712,293	887,904	1,095,266	1,319,098	1,538,516	1,732,422	1,920,058	2,091,172	2,235,266	2,342,781	2,406,325
- Change in Core Non-current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in Core Non-current Liabilities	-	31,073	(3,698)	51,507	211,880	83,685	106,381	129,668	165,816	195,798	211,348	207,181	183,092	177,172	161,570	136,058	101,518	60,000
Core Free Cash Flow	-	(53,066)	338,887	(1,116)	68,716	319,497	385,462	415,499	510,567	650,160	837,021	1,061,972	1,304,683	1,504,377	1,708,643	1,905,385	2,085,549	2,237,447
Discount Factor	-	-	-	-	1.00	0.91	0.82	0.74	0.67	0.61	0.55	0.50	0.45	0.41	0.37	0.33	0.30	0.27
Discounted Cash Flows	-	-	-	-	68,716	289,212	315,850	308,190	342,808	395,155	460,504	528,883	588,168	619,907	631,171	637,130	631,270	613,051

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

This report was prepared by [*insert student's name*], a Master's in Finance student of Nova School of Business and Economics ("Nova SBE"), within the context of the Field Lab – Equity Research.

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This report was supervised by a Nova SBE faculty member, acting merely in an academic capacity, who revised the valuation methodology and the financial model.

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