



YETI®

2020

ANNUAL REPORT



UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 2, 2021
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 001-38713

YETI Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

45-5297111

(I.R.S. Employer Identification No.)

7601 Southwest Parkway

Austin, Texas 78735

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(512) 394-9384**

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	YETI	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 26, 2020, the last business day of our mostly recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates was \$2,450,144,266.

As of February 19, 2021, there were 87,175,205 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2021 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission no later than 120 days after January 2, 2021, are incorporated by reference in Part III herein.

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Forward-Looking Statements

This Annual Report on Form 10-K (this "Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical or current fact included in this Report are forward-looking statements. Forward-looking statements include statements containing words such as "anticipate," "assume," "believe," "can," "have," "contemplate," "continue," "could," "design," "due," "estimate," "expect," "forecast," "goal," "intend," "likely," "may," "might," "objective," "plan," "predict," "project," "potential," "seek," "should," "target," "will," "would," and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operational performance or other events. For example, all statements made relating to growth strategies, the estimated and projected costs, expenditures, and growth rates, plans and objectives for future operations, growth, or initiatives, or strategies are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that are expected and, therefore, you should not unduly rely on such statements. The risks and uncertainties that could cause actual results to differ materially from those expressed or implied by these forward-looking statements include but are not limited to the risks and uncertainties listed below under "Risk Factors Summary" and further described under the heading "Risk Factors" in Part I, Item 1A of this Report, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the United States Securities and Exchange Commission.

These forward-looking statements are made based upon detailed assumptions and reflect management's current expectations and beliefs. While we believe that these assumptions underlying the forward-looking statements are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect actual results.

The forward-looking statements included herein are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events, or otherwise, except as required by law.

Risk Factors Summary

Investing in our securities involves a high degree of risk. The following is a summary of the principal factors that make an investment in our securities speculative or risky, all of which are more fully described below in the section titled “Risk Factors” in Part I, Item 1A of this Report. This summary should be read in conjunction with the “Risk Factors” section and should not be relied upon as an exhaustive summary of the material risks facing our business. In addition to the following summary, you should consider the information set forth in the “Risk Factors” section and the other information contained in this Report before investing in our securities.

Risks Related to Our Business, Operations and Industry

- A significant reduction in demand for our products could harm our results of operations.
- If we are unable to successfully design, develop and market new products, our business may be harmed.
- Our business could be harmed if we are unable to accurately forecast our results of operations and growth rate.
- We may not be able to effectively manage our growth.
- Our marketing strategy may not be successful with existing and future customers.
- If we fail to attract new customers, or fail to do so in a cost-effective manner, we may not be able to increase sales.
- We may not be successful in expanding into additional markets.
- If we fail to compete effectively, we could lose our market position.
- If we are unable to protect or preserve our brand image and proprietary rights, our business may be harmed.
- Problems with, or loss of, our suppliers or an inability to obtain raw materials could harm our business and results of operations.
- If we fail to timely and effectively obtain shipments of products from our manufacturers and deliver products to our retail partners and customers, our business and results of operations could be harmed.
- Our business is subject to the risk of manufacturer concentrations.
- Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products.
- Our business could be harmed if we fail to execute our internal plans to transition our supply chain and certain other business processes to a global scale.
- Our profitability may decline as a result of increasing pressure on pricing.
- Some of our manufacturing relationships are not exclusive, which means that these manufacturers could produce similar products for our competitors.
- Fluctuations in the cost and availability of raw materials, equipment, labor, and transportation could cause manufacturing delays or increase our costs.
- Many of our products are manufactured by third parties outside of the United States, and our business may be harmed by legal, regulatory, economic, political and public health risks associated with international trade and those markets.
- As current tariffs are implemented, or if additional tariffs or other restrictions are placed on foreign imports or any related counter-measures are taken by other countries, our business and results of operations could be harmed.
- A significant portion of our sales are to independent retail partners, and if they cease to carry our current products or choose not to carry new products that we develop, our brand as well as our results of operations and financial condition could be harmed.
- We depend on our retail partners to display and present our products to customers, and our failure to maintain and further develop our relationships with our retail partners could harm our business.
- If our plans to increase sales through our DTC channel are not successful, our business and results of operations could be harmed.
- If we do not successfully implement our future retail store expansion, our growth and profitability could be harmed.
- Insolvency, credit problems or other financial difficulties that could confront our retail partners could expose us to financial risk.
- If our independent suppliers and manufacturing partners do not comply with ethical business practices or with applicable laws and regulations, our reputation, business, and results of operations could be harmed.
- We are subject to payment-related risks that may result in higher operating costs or the inability to process payments, either of which could harm our business, financial condition and results of operations..
- Our limited operating experience and limited brand recognition in new markets may make it more difficult to execute our international expansion plan and cause our business and growth to suffer.
- Our financial results and future growth could be harmed by currency exchange rate fluctuations.
- We may become involved in legal or regulatory proceedings and audits.
- Our business involves the potential for product recalls, product liability, and other claims against us, which could adversely affect our reputation, earnings and financial condition.
- Our business is subject to the risk of catastrophic events, and to interruption by problems such as terrorism, public health crises, cyberattacks, or failure of key information technology systems.

- Our results of operations are subject to seasonal and quarterly variations, which could cause the price of our common stock to decline.
- We are subject to many hazards and operational risks that can disrupt our business, some of which may not be insured or fully covered by insurance.

Risks Related to Market and Global Economic Conditions

- The COVID-19 pandemic could continue to adversely affect our business, sales, financial condition, results of operations and cash flows, and our ability to access current or obtain new lending facilities.
- During a downturn in the economy, consumer purchases of discretionary items are affected, which could materially harm our sales, profitability, and financial condition.

Risks Related to Information Technology and Security

- We rely significantly on information technology and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.
- We collect, store, process, and use personal and payment information and other customer data, which subjects us to regulation and other legal obligations related to privacy, information security, and data protection.
- Any material disruption or breach of our information technology systems or those of third-party partners could materially damage our customer and business partner relationships, and subject us to significant reputational, financial, legal, and operational consequences.

Risks Related to our Financial Condition and Tax Matters

- We depend on cash generated from our operations to support our growth, and we may need to raise additional capital, which may not be available on terms acceptable to us or at all.
- Our indebtedness may limit our ability to invest in the ongoing needs of our business and if we are unable to comply with the covenants in our current Credit Facility, our liquidity and results of operations could be harmed.
- If our goodwill, other intangible assets, or fixed assets become impaired, we may be required to record a charge to our earnings.
- Changes in tax laws or unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.
- The uncertainty regarding the phase-out of LIBOR may negatively impact our operating results.
- Our results of operations could be harmed if a material number of our retail partners were not able to meet their payment obligations.

Risks Related to Ownership of Our Common Stock

- Any future failure to maintain effective internal control over financial reporting could harm us.
- Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of the Company more difficult, limit attempts by our stockholders to replace or remove our current management, and limit the market price of our common stock.
- Our Amended and Restated Certificate of Incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.
- YETI Holdings, Inc. is a holding company with no operations of its own and, as such, it depends on its subsidiaries for cash to fund its operations and expenses, including future dividend payments, if any.

General Risk Factors

- Our future success depends on the continuing efforts of our management and key employees, and on our ability to attract and retain highly skilled personnel and senior management.
- If our estimates or judgments relating to our critical accounting policies prove to be incorrect or change significantly, our results of operations could be harmed.
- We may be the target of strategic transactions, which could divert our management's attention and otherwise disrupt our operations and adversely affect our business.
- We may acquire or invest in other companies, which could divert our management's attention, result in dilution to our stockholders, and otherwise disrupt our operations and harm our results of operations.
- We may be subject to liability if we infringe upon the intellectual property rights of third parties.

PART I

Item 1. Business

Overview

Headquartered in Austin, Texas, YETI is a global designer, retailer, and distributor of a variety innovative outdoor products. From coolers and drinkware to backpacks and bags, YETI products are built to meet the unique and varying needs of diverse outdoor pursuits, whether in the remote wilderness, at the beach, or anywhere life takes our customers. By consistently delivering high-performing, exceptional products, we have built a strong following of brand loyalists throughout the world, ranging from serious outdoor enthusiasts to individuals who simply value products of uncompromising quality and design. We have an unwavering commitment to outdoor and recreation communities, and we are relentless in our pursuit of building superior products for people to confidently enjoy life outdoors and beyond.

We were founded in 2006 by avid outdoorsmen, Roy and Ryan Seiders (our “Founders”), who were frustrated with equipment that could not keep pace with their interests in hunting and fishing. By utilizing forward-thinking designs and advanced manufacturing techniques, they developed a nearly indestructible hard cooler with superior ice retention. Our original hard cooler not only delivered exceptional performance, it anchored an authentic, passionate, and durable bond among customers and our company.

Our principal corporate offices are located in Austin, Texas. We completed our initial public offering (“IPO”) in October 2018 and our common stock is listed on the New York Stock Exchange (the “NYSE”) under the symbol “YETI.” Unless the context requires otherwise, references to “YETI,” the “Company,” “we,” “us,” and “our” used herein refer to YETI Holdings, Inc. and its consolidated subsidiaries.

Our fiscal year is the 52- or 53-week period that ends on the Saturday closest in proximity to December 31, such that each quarterly period will be 13 weeks in length, except during a 53-week period when the fourth quarter will be 14 weeks. Our fiscal year 2020 included 53 weeks and ended on January 2, 2021. Our fiscal years 2019 and 2018 ended on December 28, 2019 and December 29, 2018, respectively, and spanned 52 weeks each. Unless otherwise stated, references to particular years, quarters, months and periods refer to our fiscal years ended in December and the associated quarters, months, and periods of those fiscal years.

Our Products

Our product portfolio is comprised of three categories: Coolers & Equipment; Drinkware; and Other. We have a history of consistently broadening our high-performance, premium-priced product portfolio to meet our expanding customer base and their evolving pursuits. Our culture of innovation and success in identifying customer needs and wants drives our robust product roadmap. In 2020, net sales of Coolers & Equipment, Drinkware, and Other represented 41%, 58%, and 2% of net sales, respectively. Refer to Note 2 of the Notes to Consolidated Financial Statements for net sales by product category.

Coolers & Equipment

Our Coolers & Equipment family is comprised of hard coolers, soft coolers, storage, bags, outdoor living, and associated accessories. Coolers & Equipment could change over time as we add new product categories and incubate them within Coolers & Equipment.

Hard Coolers. Unlike conventional hard coolers, our hard coolers are built with seamless rotationally-molded, or rotomolded, construction, making them nearly indestructible. For superior ice retention, we pressure-inject up to two inches of commercial-grade polyurethane foam into the walls and lid and utilize a freezer-quality gasket to seal the lid. We offer five product ranges within our core hard cooler category: YETI Tundra™, YETI Roadie®, Tundra Haul™, YETI TANK®, and YETI Silo™ 6G. We also offer related accessories, including locks, beverage holders, and other add-ons, to enhance our products’ versatility. In 2019, we advanced innovation and performance in hard coolers by introducing the stainless-steel body YETI V Series™ Hard Cooler, which combines the high-performing vacuum insulation technology used in our Drinkware with the construction of our iconic hard coolers to produce more efficient insulation.

Soft Coolers. The Hopper® is our line of soft coolers, which are designed to be leakproof and provide superior durability and ice retention compared to ordinary soft coolers. The Hopper soft cooler product line includes: the next-generation Hopper® M30, Hopper BackFlip™, Hopper Flip®, Daytrip™ Lunch Bag, and Daytrip™ Lunch Box. Our soft coolers also include related accessory options such as the SideKick Dry gear case, MOLLE Zinger retractable lanyard, and a mountable MOLLE Bottle Opener.

Storage, Bags, and Outdoor Living. Our storage, bags, and outdoor living product category includes: the **Panga™** submersible duffel bag, **LoadOut™ Bucket**, **Panga™ Backpack**, **Crossroads™ Backpack**, **Crossroads Tote**, **Camino™ Carryall**, **Hondo™ Base Camp Chair**, **Lowlands™ Blanket**, **Trailhead™ Dog Bed**, and **Boomer Dog Bowls**. Beginning in 2019, we began reporting **Boomer Dog Bowl** net sales in our **Coolers & Equipment** instead of in our **Other** category.

Drinkware

Our Drinkware product family is made with durable, kitchen-grade, 18/8 stainless-steel, double-wall vacuum insulation, and our innovative No Sweat design. The result is high-performing drinkware products that keep beverages at their preferred temperature — whether hot or cold — for hours at a time without condensation. Our Drinkware product line currently includes eight product families including the Rambler Colster, Rambler Lowball, Rambler Wine Tumbler, Rambler Stackable Pints, Rambler Mugs, Rambler Tumblers, Rambler Bottles, and Rambler Jug. Related accessories include the Rambler Bottle Straw Cap, Rambler Tumbler Handles, Rambler Jug Mount, and Rambler Bottle Sling.

Other

We offer an array of YETI-branded gear, such as hats, shirts, bottle openers, and ice substitutes.

Segment Information

We operate as one reportable segment.

Sales Channels

We offer our products in the United States, Canada, Australia, New Zealand, Europe, and Japan through a diverse omni-channel strategy, comprised of our wholesale and our direct-to-consumer (“DTC”) channels. In 2020 and 2019, our wholesale channel accounted for 47% and 58% of our net sales, respectively, and our DTC channel accounted for 53% and 42% of our net sales, respectively. As part of our commitment to premium positioning, we maintain supply discipline, consistently enforce our minimum advertised price (“MAP”) policy, and primarily sell through one-step distribution.

In our wholesale channel, we sell to several large retailers with a national presence, including Dick’s Sporting Goods, Lowe’s Home Improvement, REI, Academy Sports + Outdoors, Bass Pro Shops, Ace Hardware, and William Sonoma, and an assemblage of independent retail partners throughout the United States, Canada, Australia, New Zealand, and Europe. We carefully evaluate and select retail partners that have an image and approach that are consistent with our premium brand and pricing, while also seeking new retail partners that create access to unique shopping experiences or customer bases. Our network of independent retail partners includes outdoor specialty, hardware, sporting goods, and farm and ranch supply stores, among others. As of January 2, 2021, we sold through a diverse base of nearly 4,500 independent retail partners.

We sell our products in our DTC channel to consumers on YETI.com, country and region-specific YETI websites, and YETI Authorized on the Amazon Marketplace, as well as customized products with licensed marks and original artwork through our corporate sales program and at YETI.com. Our corporate sales program offers customized products to corporate customers for a wide-range of related events and activities, and in certain instances may also offer products to re-sell. Additionally, we sell our full line of products at our retail stores. Our DTC channel enables us to directly interact with our customers, more effectively control our brand experience, better understand consumer behavior and preferences, and offer exclusive products, content, and customization capabilities. We believe our control over our DTC channel provides our customers the highest level of brand engagement and further builds customer loyalty, while generating attractive margins.

No single customer accounted for 10% or more of our gross sales in 2020. YETI Authorized on the Amazon Marketplace represented approximately 14% of gross sales in 2020.

Our Market

Our premium products are designed for use in a wide variety of activities, from professional to recreational and outdoor to indoor, and can be used year round. As a result, the markets we serve are broad as well as deep, including, for example, outdoor, housewares, home and garden, outdoor living, industrial, and commercial. While our product reach extends into numerous and varied markets, we currently primarily serve the United States outdoor recreation market. The outdoor recreation products market is a large, growing, and diverse economic sector, which includes consumers of all genders, ages, ethnicities, and income levels.

Additionally, we are expanding internationally as we continue to grow our presence in North America (including Canada), Australia, New Zealand, Japan, and Europe. We are expanding internationally by focusing on brand awareness, wholesale expansion, and our DTC channel. We believe there are meaningful growth opportunities by expanding into additional international markets, such as Asia, as many of the market dynamics and premium, performance-based consumer needs that we have successfully identified domestically are also valued in these markets.

Product Design and Development

We design and develop our products to provide superior performance and functionality in a variety of environments. Our products are carefully designed and rigorously tested to maximize performance while minimizing complexity, allowing us to deliver highly functional products with simple, clean, and distinct designs.

We expand our existing product families and enter new product categories by designing solutions grounded in consumer insights and relevant product knowledge. We use high-quality materials, as well as advanced design and manufacturing processes, to create premium products that redefine consumer expectations and deliver best-in-class product performance. We continue to expand our product line by introducing anchor products, followed by product expansions, such as additional sizes and colorways, and then offering accessories.

To ensure our continued success in bringing category-redefining products to market, our marketing and product development teams collaborate to identify consumer needs and wants to drive our robust product roadmap. We use our purpose-built, state-of-the-art research and development center to generate design prototypes and test performance. We follow a disciplined, stage-gate product development process that is designed to provide consistent quality control while optimizing speed-to-market. We collaborate with our YETI Ambassadors, a diverse group of men and women throughout the United States and select international markets, comprised of world-class anglers, hunters, rodeo cowboys, barbecue pitmasters, surfers, brewmasters, fitness experts, skateboarders, and outdoor adventurers who embody our brand, and industry professionals to test our prototypes and provide feedback that is incorporated into final product designs. Once we approve the final design and specifications of a new product, we partner with global suppliers and specialized manufacturers to produce our products according to our exacting performance and quality standards.

Marketing

We employ a wide range of marketing tactics and outlets to cultivate our relationships with experts, serious enthusiasts, and everyday consumers, including a combination of traditional, digital, social media, and grass-roots initiatives to support our premium brand, in addition to original short films and high-quality content for YETI.com.

Supply Chain and Quality Assurance

We manage a global supply chain of highly qualified, third-party manufacturing and logistics partners to produce and distribute our products. The primary raw materials and components used by our manufacturing partners include polyethylene, polyurethane foam, stainless-steel, polyester fabric, zippers, and other plastic materials and coatings. We believe many of these materials are available from multiple vendors. We stipulate approved suppliers and control the specifications for key raw materials used in our products. We do not directly source significant amounts of these raw materials and components.

We do not own or operate any manufacturing facilities. We match sourcing partnerships to deliver flexibility and scalability to support multiple product introductions and evolving channel strategies. Our global supply chain management team researches materials and equipment; qualifies raw material suppliers; vets potential manufacturing partners for advanced production and quality assurance processes; directs our production planning; approves and manages product purchasing plans; and oversees product transportation. Additionally, we work closely with our manufacturing partners regarding product quality and manufacturing process efficiency.

Many of our core products are manufactured in the United States, China, the Philippines, Vietnam, Taiwan, Poland, and Malaysia. In addition, we have third-party manufacturing partners in Mexico and Italy. To mitigate the concentration risk in our supply chain, we are pursuing a higher diversification of manufacturing partners, with both sourcing and geographical advantages and, over time, intend to shift the current allocation of production to a better balance among them. See Note 1 of the Notes to Consolidated Financial Statements included herein for further discussion of concentration risk. We hold our manufacturers to rigorous quality and product conformance standards through frequent involvement and regular product inspecting. We own the molds and tooling used in the production of our products, create and provide the specifications for our products, and work closely with our manufacturing partners to improve production yields and efficiency. Our manufacturers do not have unique skills, technologies, processes, or intellectual property that prevent us from migrating to other manufacturing partners.

To ensure consistent product quality, we provide detailed specifications for our products and inspect finished goods both at our manufacturing partners as well as upon delivery to our United States-based third-party logistics partners. As part of our quality assurance program, we have developed and implemented comprehensive product inspection and facility oversight processes that are performed by our employees and third-party service providers who work closely with our suppliers to assist them in meeting our quality standards, as well as improving their production yields and throughput.

Distribution and Inventory Management

We utilize global third-party logistics providers to warehouse and distribute finished products from our distribution facilities in Dallas, Texas and Salt Lake City, Utah to support our domestic operations, and in Australia, Canada, New Zealand, and the Netherlands to support our international operations. These logistics providers manage various distribution activities, including product receipt, warehousing, certain limited product inspection activities, and coordinating outbound shipping.

We manage our inventory levels by analyzing product sell-through, forecasting demand, and placing orders with our manufacturers before we receive firm orders from customers to ensure sufficient availability.

Competition

We compete in the large outdoor and recreation market and may compete in other addressable markets. Competition in our markets is based on a number of factors including product quality, performance, durability, styling, and price, as well as brand image and recognition. We believe that we have been able to compete successfully on the basis of our brand, superior design capabilities and product development, our DTC capabilities, as well as the breadth of our national, regional, and independent retail partners.

In the Coolers & Equipment category, we compete against established, well-known, and legacy cooler brands, such as Igloo and Coleman, as well as numerous other brands and retailers that offer competing products. The popularity of YETI products and the YETI brand has attracted numerous new competitors including Pelican, OtterBox, and others, as well as private label brands. In the Drinkware category, we compete against well-known brands such as HydroFlask, as well as numerous other brands and retailers that offer competing products.

The outdoor and recreation market is highly fragmented and highly competitive, with low barriers to entry. Our current and potential competitors may be able to develop and market superior products or sell similar products at lower prices. These companies may have competitive advantages, including larger retailer bases, global product distribution, greater financial strength, superior relations with suppliers and manufacturing partners, or larger marketing budgets and brand recognition.

Seasonality

We expect our sales to include a seasonal component. We expect our net sales to be highest in the fourth and second quarters, due in part to seasonal holiday demand, followed by the third quarter, and the lowest sales in the first quarter. We expect that this seasonality will continue to be a factor in our results of operations and sales. See “Impacts of the COVID-19 Pandemic” above for additional information of the impact of COVID-19 on our seasonality for 2020.

Intellectual Property and Brand Protection

We own the patents, trademarks, copyrights, and other intellectual property rights that support key aspects of our brand and products. We believe these intellectual property rights, combined with our innovation and distinctive product design, performance, and brand name and reputation, provide us with a competitive advantage. We protect our intellectual property rights in the United States and certain international jurisdictions on all new products.

We aggressively pursue and defend our intellectual property rights to protect our distinctive brand, designs, and inventions. We have processes and procedures in place to identify, protect, and optimize our intellectual property assets on a global basis. Our experienced legal and brand protection teams initiate claims and litigation to protect our intellectual property assets. In the future, we intend to continue to seek intellectual property protection for our new products and prosecute those who infringe on these valuable assets.

All product designs, specifications, and performance characteristics are developed and documented. After these aspects of the process are complete, we seek intellectual property protection to the fullest extent possible, including applying for patents and for registration of trademarks and copyrights.

We have a proactive online marketplace monitoring and seller/listing termination program to disrupt any online counterfeit offerings. In addition, we work to shut down counterfeit stand-alone sites through litigation.

Human Capital Resources

At YETI, we have an unwavering commitment to outdoor and recreation communities, and we are relentless in our pursuit of building superior products for people to confidently enjoy life outdoors and beyond. We are proud of our unique company culture, where ideas, innovation, collaboration and personal development are essential. We believe our brand, culture, and employees are central to our success and our ability to attract, develop, motivate, and retain highly-skilled talent.

As of January 2, 2021, we employed approximately 701 people worldwide, representing seven countries. Of these, approximately 90% of our workforce was located in the United States. None of our employees are currently covered by a collective bargaining agreement. We have no labor-related work stoppages and believe our relations with our employees are positive and stable.

Diversity, Equity and Inclusion. We believe that an equitable and inclusive and culturally diverse environment is imperative and key to our long-term growth. YETI is committed to building an inclusive and diverse culture through a variety of initiatives on employee recruitment, employee training and development, including through participation in our employee affinity groups (“EAGs”). Our EAGs are voluntary, employee-led groups that foster a diverse and inclusive workplace aligned with our core values, goals and business practices.

Compensation and Benefits. We strive to hire, develop and retain top talent. We attract and reward our employees by providing competitive benefits, including market-competitive compensation, healthcare, 401(k) program, paid time off, bonding leave, as well as health, wellness and financial planning programs.

Communication and Engagement. We actively communicate and listen to employees through multiple internal channels and encourage employees to provide feedback about their experiences through ongoing employee engagement activities, including employee satisfaction surveys and pulse surveys on specific issues. We strive to address feedback in real time in order to continue to provide an environment where our employees can have fulfilling careers and be more productive, creative, happy, and healthy.

Consistent with our focus on employee growth and development, YETI offers employees the opportunity to participate in educational activities and periodic trainings. Additionally, we employ a variety of recognition programs to recognize leadership and other employees who best exemplify our core values.

Compliance with Government Regulations

YETI is subject to a wide variety of local, state, and federal laws and regulations in the countries where it conducts business. While compliance with these laws and regulations often requires the dedication of time and effort of employees, as well as financial resources, in fiscal 2020, compliance with the regulations applicable to YETI did not have a material effect on its capital expenditures, earnings, or competitive position. Additional information about the potential impact of government regulations on YETI's business is included in Item 1A. "Risk Factors" under the headings "*Many of our products are manufactured by third parties outside of the United States, and our business may be harmed by legal, regulatory, economic, political and public health risks associated with international trade and those markets,*" "*If our independent suppliers and manufacturing partners do not comply with ethical business practices or with applicable laws and regulations, our reputation, business, and results of operations could be harmed,*" "*We may become involved in legal or regulatory proceedings and audits,*" and "*Our business involves the potential for product recalls, product liability, and other claims against us, which could adversely affect our reputation, earnings and financial condition.*"

Available Information

We file annual, quarterly and current reports and other documents with the United States Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The public can obtain any documents that we file with the SEC at www.sec.gov. We also make available free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such materials with, or furnishing such materials to, the SEC, on or through our internet website, www.YETI.com. We are not including the information contained on, or accessible through, any website as a part of, or incorporating it by reference into, this Report, unless expressly noted.

Item 1A. Risk Factors

Our business, financial condition and operating results can be affected by a number of risks and uncertainties, whether currently known or unknown, any one or more of which could, directly or indirectly, cause our actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. The risks discussed below are not the only ones facing our business but do represent those risks that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition and results of operations.

Risks Related to Our Business, Operations and Industry

Our business depends on maintaining and strengthening our brand to generate and maintain ongoing demand for our products, and a significant reduction in such demand could harm our results of operations.

The YETI name and premium brand image are integral to the growth of our business, as well as to the implementation of our strategies for expanding our business. Our success depends on the value and reputation of our brand, which, in turn, depends on factors such as the quality, design, performance, functionality, and durability of our products, the image of our e-commerce platform and retail partner floor spaces, our communication activities, including advertising, social media, and public relations, and our management of the customer experience, including direct interfaces through customer service. Maintaining, promoting, and positioning our brand are important to expanding our customer base and will depend largely on the success of our marketing and merchandising efforts and our ability to provide consistent, high-quality customer experiences. We intend to continue making substantial investments in these areas in order to maintain and enhance our brand, and such investments may not be successful. Ineffective marketing, negative publicity, product diversion to unauthorized distribution channels, product or manufacturing defects, counterfeit products, unfair labor practices, and failure to protect the intellectual property rights in our brand are some of the potential threats to the strength of our brand, and those and other factors could rapidly and severely diminish customer confidence in us. Furthermore, these factors could cause our customers to lose the personal connection they feel with the YETI brand. We believe that maintaining and enhancing our brand image in our current markets and in new markets where we have limited brand recognition is important to expanding our customer base. If we are unable to maintain or enhance our brand in current or new markets, our growth strategy and results of operations could be harmed.

If we are unable to successfully design, develop and market new products, our business may be harmed.

The market for products in the outdoor and recreation products industry is characterized by new product introductions, frequent enhancements to existing products, and changing customer demands, needs and preferences. To maintain and increase sales, we must continue to introduce new products and improve or enhance our existing products on a timely basis to respond to new and evolving consumer preferences. The success of our new and enhanced products depends on many factors, including anticipating consumer preferences, finding innovative solutions to consumer problems, differentiating our products from those of our competitors, and maintaining the strength of our brand. The design and development of our products is costly, and we typically have several products in development at the same time. Problems in the design or quality of our products, or delays in product introduction, may harm our brand, business, financial condition, and results of operations. Any new products that we develop and market may not generate sufficient revenues to recoup their development, production, marketing, selling and other costs.

Our business could be harmed if we continue to be unable to accurately forecast our results of operations and growth rate.

We are not currently able to accurately forecast our results of operations and growth rate. Forecasts are particularly challenging as we expand into new markets and geographies, develop and market new products, and face further uncertainty related to the duration and impact of the rapidly evolving COVID-19 pandemic. Our historical sales, expense levels, and profitability may not be an appropriate basis for forecasting future results.

Failure to accurately forecast our results of operations and growth rate could cause us to make poor operating decisions and we may not be able to adjust in a timely manner. Consequently, actual results could be materially lower than anticipated. Even if the markets in which we compete expand, we cannot assure you that our business will grow at similar rates, if at all. Furthermore, if we fail to accurately forecast our results of operations and growth rate, we may experience excess inventory levels or a shortage of product to deliver to our customers. Inventory levels in excess of customer demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices or in less preferred distribution channels, which could impair our brand image and harm our gross margin. In addition, if we underestimate our growth rate and the demand for our products, our manufacturers may not be able to produce products to meet our customer requirements, and this could result in delays in the shipment of our products and our ability to recognize revenue, lost sales, as well as damage to our reputation and retailer and distributor relationships. For more information regarding the inventory risk related to our inability to accurately forecast our results of operations, please see “— *Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products.*”

We may not be able to effectively manage our growth.

As we grow our business, slower growing or reduced demand for our products, increased competition, a decrease in the growth rate of our overall market, failure to develop and successfully market new products, or the maturation of our business or market could harm our business. We have made and expect to continue to make significant investments in our research and development and sales and marketing organizations, expand our operations and infrastructure both domestically and internationally, design and develop new products, and enhance our existing products. In addition, in connection with operating as a public company, we will incur significant additional legal, accounting, and other expenses that we did not incur as a private company. If our sales do not increase at a sufficient rate to offset these increases in our operating expenses, our profitability may decline in future periods.

We have expanded our operations rapidly since our inception. Our employee headcount and the scope and complexity of our business have increased substantially over the past several years. We have only a limited history operating our business at its current scale. Our management team does not have substantial tenure working together. Consequently, if our operations continue to grow at a rapid pace, we may experience difficulties in managing this growth and building the appropriate processes and controls. Future rapid growth may increase the strain on our resources, and we could experience operating difficulties, including difficulties in sourcing, logistics, recruiting, maintaining internal controls, marketing, designing innovative products, and meeting consumer needs. If we do not adapt to meet these evolving challenges, the strength of our brand may erode, the quality of our products may suffer, we may not be able to deliver products on a timely basis to our customers, and our corporate culture may be harmed.

Our marketing strategy of associating our brand and products with activities rooted in passion for the outdoors may not be successful with existing and future customers.

We believe that we have been successful in marketing our products by associating our brand and products with activities rooted in passion for the outdoors. To sustain long-term growth, we must continue to successfully promote our products to consumers who identify with or aspire to these activities, as well as to individuals who simply value products of uncompromising quality and design. If we fail to continue to successfully market and sell our products to our existing customers or expand our customer base, our sales could decline, or we may be unable to grow our business.

If we fail to attract new customers, or fail to do so in a cost-effective manner, we may not be able to increase sales.

Our success depends, in part, on our ability to attract customers in a cost-effective manner. In order to expand our customer base, we must appeal to and attract customers ranging from serious outdoor enthusiasts to individuals who simply value products of uncompromising quality and design. We have made, and we expect that we will continue to make, significant investments in attracting new customers, including through the use of corporate partnerships, YETI Ambassadors, traditional, digital, and social media, original YETI films, and participation in, and sponsorship of, community events. Marketing campaigns can be expensive and may not result in the cost-effective acquisition of customers. Further, as our brand becomes more widely known, future marketing campaigns may not attract new customers at the same rate as past campaigns. If we are unable to attract new customers, or fail to do so in a cost-effective manner, our growth could be slower than we expect and our business will be harmed.

Our growth depends, in part, on expanding into additional consumer markets, and we may not be successful in doing so.

We believe that our future growth depends not only on continuing to reach our current core demographic, but also continuing to broaden our retail partner and customer base. The growth of our business will depend, in part, on our ability to continue to expand our retail partner and customer bases in the United States, as well as in international markets, including Canada, Australia, Europe, and Japan. In these markets, we may face challenges that are different from those we currently encounter, including competitive, merchandising, distribution, hiring, and other difficulties. We may also encounter difficulties in attracting customers due to a lack of consumer familiarity with or acceptance of our brand, or a resistance to paying for premium products, particularly in international markets. We continue to evaluate marketing efforts and other strategies to expand the customer base for our products. In addition, although we are investing in sales and marketing activities to further penetrate newer regions, including expansion of our dedicated sales force, we cannot assure you that we will be successful. If we are not successful, our business and results of operations may be harmed.

The markets in which we compete are highly competitive and include numerous other brands and retailers that offer a wide variety of products that compete with our products; if we fail to compete effectively, we could lose our market position.

The markets in which we compete are highly competitive, with low barriers to entry. Numerous other brands and retailers offer a wide variety of products that compete with our coolers, drinkware, and other products, including our bags, storage, and outdoor lifestyle products and accessories. Competition in these product markets is based on a number of factors including product quality, performance, durability, styling, brand image and recognition, and price. We believe that we are one of the market leaders in both the U.S. premium cooler and U.S. premium stainless-steel drinkware markets. We believe that we have been able to compete successfully largely on the basis of our brand, superior design capabilities, and product development, as well as on the breadth of our independent retailers, national, and regional retail partners, and growing DTC channel. Our competitors may be able to develop and market higher quality products that compete with our products, sell their products for lower prices, adapt to changes in consumers' needs and preferences more quickly, devote greater resources to the design, sourcing, distribution, marketing, and sale of their products, or generate greater brand recognition than us. In addition, as we expand into new product categories, we have faced, and will continue to face, different and, in some cases, more formidable competition. We believe many of our competitors and potential competitors have significant competitive advantages, including longer operating histories, ability to leverage their sales efforts and marketing expenditures across a broader portfolio of products, global product distribution, larger and broader retailer bases, more established relationships with a larger number of suppliers and manufacturing partners, greater brand recognition, larger or more effective brand ambassador and endorsement relationships, greater financial strength, larger research and development teams, larger marketing budgets, and more distribution and other resources than we do. Some of our competitors may aggressively discount their products or offer other attractive sales terms in order to gain market share, which could result in pricing pressures, reduced profit margins, or lost market share. If we are not able to overcome these potential competitive challenges, effectively market our current and future products, and otherwise compete effectively against our current or potential competitors, our prospects, results of operations, and financial condition could be harmed.

Competitors have imitated and attempted to imitate, and will likely continue to imitate or attempt to imitate, our products and technology. If we are unable to protect or preserve our brand image and proprietary rights, our business may be harmed.

As our business continues to expand, our competitors have imitated or attempted to imitate, and will likely continue to imitate or attempt to imitate, our product designs and branding, which could harm our business and results of operations. Only a portion of the intellectual property used in the manufacture and design of our products is patented, and we therefore rely significantly on trade secrets, trade and service marks, trade dress, and the strength of our brand. We regard our patents, trade dress, trademarks, copyrights, trade secrets, and similar proprietary rights as critical to our success. We also rely on trade secret protection and confidentiality agreements with our employees, consultants, suppliers, manufacturers, and others to protect our proprietary rights. Nevertheless, the steps we take to protect our proprietary rights against infringement or other violation may be inadequate, and we may experience difficulty in effectively limiting the unauthorized use of our patents, trademarks, trade dress, and other intellectual property and proprietary rights worldwide. We also cannot guarantee that others will not independently develop technology with the same or similar function to any proprietary technology we rely on to conduct our business and differentiate ourselves from our competitors. Because a significant portion of our products are manufactured overseas in countries where counterfeiting is more prevalent, and we intend to increase our sales overseas over the long term, we may experience increased counterfeiting of our products. Unauthorized use or invalidation of our patents, trademarks, copyrights, trade dress, trade secrets, or other intellectual property or proprietary rights may cause significant damage to our brand and harm our results of operations.

While we actively develop and protect our intellectual property rights, there can be no assurance that we will be adequately protected in all countries in which we conduct our business or that we will prevail when defending our patent, trademark, and proprietary rights. Additionally, we could incur significant costs and management distraction in pursuing claims to enforce our

intellectual property rights through litigation and defending any alleged counterclaims. If we are unable to protect or preserve the value of our patents, trade dress, trademarks, copyrights, or other intellectual property rights for any reason, or if we fail to maintain our brand image due to actual or perceived product or service quality issues, adverse publicity, governmental investigations or litigation, or other reasons, our brand and reputation could be damaged, and our business may be harmed.

We rely on third-party contract manufacturers, and problems with, or loss of, our suppliers or an inability to obtain raw materials could harm our business and results of operations.

Our products are produced by third-party contract manufacturers. We face the risk that these third-party contract manufacturers may not produce and deliver our products on a timely basis or at all. We have experienced, and will likely continue to experience, operational difficulties with our manufacturers. These difficulties include reductions in the availability of production capacity, errors in complying with product specifications and regulatory and customer requirements, insufficient quality control, failures to meet production deadlines, failure to achieve our product quality standards, increases in costs of materials, and manufacturing or other business interruptions. The ability of our manufacturers to effectively satisfy our production requirements could also be impacted by manufacturer financial difficulty or damage to their operations caused by fire, terrorist attack, riots, natural disaster, public health issues such as the current COVID-19 pandemic (or other future pandemics or epidemics), or other events. The failure of any manufacturer to perform to our expectations could result in supply shortages or delays for certain products and harm our business. If we experience significantly increased demand, or if we need to replace an existing manufacturer due to lack of performance, we may be unable to supplement or replace our manufacturing capacity on a timely basis or on terms that are acceptable to us, which may increase our costs, reduce our margins, and harm our ability to deliver our products on time. For certain of our products, it may take a significant amount of time to identify and qualify a manufacturer that has the capability and resources to produce our products to our specifications in sufficient volume and satisfy our service and quality control standards.

The capacity of our manufacturers to produce our products is also dependent upon the availability of raw materials. Our manufacturers may not be able to obtain sufficient supply of raw materials, which could result in delays in deliveries of our products by our manufacturers or increased costs. Any shortage of raw materials or inability of a manufacturer to produce or ship our products in a timely manner, or at all, could impair our ability to ship orders of our products in a cost-efficient, timely manner and could cause us to miss the delivery requirements of our customers. As a result, we could experience cancellations of orders, refusals to accept deliveries, or reductions in our prices and margins, any of which could harm our financial performance, reputation, and results of operations.

If we fail to timely and effectively obtain shipments of products from our manufacturers and deliver products to our retail partners and customers, our business and results of operations could be harmed.

Our business depends on our ability to source and distribute products in a timely manner. However, we cannot control all of the factors that might affect the timely and effective procurement of our products from our third-party contract manufacturers and the delivery of our products to our retail partners and customers.

Our third-party contract manufacturers ship most of our products to our distribution centers in Dallas, Texas, and Salt Lake City, Utah. Our reliance on only two geographical locations for our distribution centers makes us more vulnerable to natural disasters, weather-related disruptions, accidents, system failures, public health issues such as the current COVID-19 pandemic (or other future pandemics or epidemics), or other unforeseen events that could delay or impair our ability to fulfill retailer orders and/or ship merchandise purchased on our website, which could harm our sales. We import our products, and we are also vulnerable to risks associated with products manufactured abroad, including, among other things: (a) risks of damage, destruction, or confiscation of products while in transit to our distribution centers; and (b) transportation and other delays in shipments, including as a result of heightened security screening, port congestion, and inspection processes or other port-of-entry limitations or restrictions in the United States. In order to meet demand for a product, we have chosen in the past, and may choose in the future, to arrange for additional quantities of the product, if available, to be delivered through air freight, which is significantly more expensive than standard shipping by sea and, consequently, could harm our gross margins. Failure to procure our products from our third-party contract manufacturers and deliver merchandise to our retail partners and DTC channel in a timely, effective, and economically viable manner could reduce our sales and gross margins, damage our brand, and harm our business.

We also rely on the timely and free flow of goods through open and operational ports from our suppliers and manufacturers. Labor disputes or disruptions at ports, our common carriers, or our suppliers or manufacturers could create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during periods of significant importing or manufacturing, potentially resulting in delayed or canceled orders by customers, unanticipated inventory accumulation or shortages, and harm to our business, results of operations, and financial condition.

In addition, we rely upon independent land-based and air freight carriers for product shipments from our distribution centers to our retail partners and customers who purchase through our DTC channel. We may not be able to obtain sufficient freight capacity on a timely basis or at favorable shipping rates and, therefore, may not be able to receive products from suppliers or deliver products to retail partners or customers in a timely and cost-effective manner.

Accordingly, we are subject to the risks, including labor disputes, union organizing activity, inclement weather, public health crises such as the current COVID-19 pandemic (or other future pandemics or epidemics), and increased transportation costs, associated with our third-party contract manufacturers' and carriers' ability to provide products and services to meet our requirements. In addition, if the cost of fuel rises, the cost to deliver products may rise, which could harm our profitability.

Our business is subject to the risk of manufacturer concentrations.

We depend on a limited number of third-party contract manufacturers for the sourcing of our products. For hard coolers, soft coolers, Drinkware, bags, and outdoor living and pet products our two largest manufacturers comprised approximately 88%, 85%, 77%, 83%, and 95% respectively, of our production volume during 2020. For cargo, two manufacturers accounted for all of the production in 2020. As a result of this concentration in our supply chain, our business and operations would be negatively affected if any of our key manufacturers were to experience significant disruption affecting the price, quality, availability, or timely delivery of products. Our manufacturers could also be acquired by our competitors and may become our direct competitors, thus limiting or eliminating our access to manufacturing capacity. The partial or complete loss of our key manufacturers, or a significant adverse change in our relationship with any of these manufacturers, could result in lost sales, added costs, and distribution delays that could harm our business and customer relationships.

Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products.

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers before firm orders are placed by our customers. If we fail to accurately forecast customer demand, we may experience excess inventory levels or a shortage of product to deliver to our customers. Factors that could affect our ability to accurately forecast demand for our products include: (a) an increase or decrease in consumer demand for our products; (b) our failure to accurately forecast consumer acceptance for our new products; (c) product introductions by competitors; (d) unanticipated changes in general market conditions or other factors, which may result in cancellations of advance orders or a reduction or increase in the rate of reorders or at-once orders placed by retailers; (e) the impact on consumer demand due to unseasonable weather conditions; (f) weakening of economic conditions or consumer confidence in future economic conditions, which could reduce demand for discretionary items, such as our products; and (g) terrorism or acts of war, or the threat thereof, or political or labor instability or unrest, riots, public health crises such as the current COVID-19 pandemic (or other future pandemics or epidemics), or xenophobia resulting therefrom, which could adversely affect consumer confidence and spending or interrupt production and distribution of product and raw materials.

Inventory levels in excess of customer demand, including Drinkware inventory that we have added in preparation for recently enacted tariffs or that we may add in preparation for tariffs in the future, may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices or in less preferred distribution channels, which could impair our brand image and harm our gross margin. In addition, if we underestimate the demand for our products, our manufacturers may not be able to produce products to meet our customer requirements, and this could result in delays in the shipment of our products and our ability to recognize revenue, lost sales, as well as damage to our reputation and retailer and distributor relationships.

Difficulty in forecasting demand, which we have encountered as a result of the COVID-19 pandemic, also makes it difficult to estimate our future results of operations and financial condition from period to period. A failure to accurately predict the level of demand for our products could adversely impact our profitability or cause us not to achieve our expected financial results.

Our business could be harmed if we fail to execute our internal plans to transition our supply chain and certain other business processes to a global scale.

We are in the process of re-engineering certain of our supply chain management processes, as well as certain other business processes, to support our expanding scale. This expansion to a global scale requires significant investment of capital and human resources, the re-engineering of many business processes, and the attention of many managers and other employees who would otherwise be focused on other aspects of our business. If our globalization efforts fail to produce planned efficiencies, or the transition is not managed effectively, we may experience excess inventories, inventory shortage, late deliveries, lost sales, or increased costs. Any business disruption arising from our globalization efforts, or our failure to effectively execute our internal plans for globalization, could harm our results of operations and financial condition.

Our profitability may decline as a result of increasing pressure on pricing.

Our industry is subject to significant pricing pressure caused by many factors, including intense competition, consolidation in the retail industry, pressure from retailers to reduce the costs of products, and changes in consumer demand. These factors may cause us to reduce our prices to retailers and customers or engage in more promotional activity than we anticipate, which could negatively impact our margins and cause our profitability to decline if we are unable to offset price reductions with comparable reductions in our operating costs. This could materially harm our results of operations and financial condition. In addition, ongoing and sustained promotional activities could harm our brand image.

We rely on a series of purchase orders with our manufacturers. Some of these relationships are not exclusive, which means that these manufacturers could produce similar products for our competitors.

We rely on a series of purchase orders with our manufacturers. With all of our manufacturers, we face the risk that they may fail to produce and deliver our products on a timely basis, or at all, or comply with our quality standards. In addition, our manufacturers may raise prices in the future, which would increase our costs and harm our margins. Even those manufacturers with whom we have purchase orders may breach these agreements, and we may not be able to enforce our rights under these agreements or incur significant costs attempting to do so. As a result, we cannot predict with certainty our ability to obtain finished products in adequate quantities, of required quality and at acceptable prices from our manufacturers in the future. Any one of these risks could harm our ability to deliver our products on time, or at all, damage our reputation and our relationships with our retail partners and customers, and increase our product costs thereby reducing our margins.

In addition, except in some of the situations where we have a supply contract, our arrangements with our manufacturers are not exclusive. As a result, our manufacturers could produce similar products for our competitors, some of which could potentially purchase products in significantly greater volume. Further, while certain of our long-term contracts stipulate contractual exclusivity, those manufacturers could choose to breach our agreements and work with our competitors. Our competitors could enter into restrictive or exclusive arrangements with our manufacturers that could impair or eliminate our access to manufacturing capacity or supplies.

Fluctuations in the cost and availability of raw materials, equipment, labor, and transportation could cause manufacturing delays or increase our costs.

The price and availability of key components used to manufacture our products, including polyethylene, polyurethane foam, stainless-steel, polyester fabric, zippers, and other plastic materials and coatings, as well as manufacturing equipment and molds, may fluctuate significantly. In addition, the cost of labor at our third-party contract manufacturers could increase significantly. For example, manufacturers in China have experienced increased costs in recent years due to shortages of labor and fluctuations of the Chinese yuan in relation to the U.S. dollar. Additionally, the cost of logistics and transportation fluctuates in large part due to the price of oil. Any fluctuations in the cost and availability of any of our raw materials or other sourcing or transportation costs related to our raw materials or products could harm our gross margins and our ability to meet customer demand. If we are unable to successfully mitigate a significant portion of these product cost increases or fluctuations, our results of operations could be harmed.

Many of our products are manufactured by third parties outside of the United States, and our business may be harmed by legal, regulatory, economic, political and public health risks associated with international trade and those markets.

Many of our core products are manufactured in China, the Philippines, Vietnam, Taiwan, Poland, and Malaysia. In addition, we have third-party manufacturing partners in Mexico and Italy. Our reliance on suppliers and manufacturers in foreign markets creates risks inherent in doing business in foreign jurisdictions, including: (a) the burdens of complying with a variety of foreign laws and regulations, including trade and labor restrictions and laws relating to the importation and taxation of goods; (b) weaker protection for intellectual property and other legal rights than in the United States, and practical difficulties in enforcing intellectual property and other rights outside of the United States; (c) compliance with U.S. and foreign laws relating to foreign operations, including the U.S. Foreign Corrupt Practices Act (“FCPA”), the UK Bribery Act 2010 (“Bribery Act”), regulations of the U.S. Office of Foreign Assets Controls (“OFAC”), and U.S. anti-money laundering regulations, which respectively prohibit U.S. companies from making improper payments to foreign officials for the purpose of obtaining or retaining business, operating in certain countries, or maintaining business relationships with certain restricted parties as well as engaging in other corrupt and illegal practices; (d) economic and political instability and acts of terrorism in the countries where our suppliers are located; (e) public health crises, such as pandemics and epidemics, in the countries where our suppliers and manufacturers are located; (f) transportation interruptions or increases in transportation costs; and (g) the imposition of tariffs or non-tariff barriers on components and products that we import into the United States or other markets. For example, the ongoing COVID-19 outbreak has resulted in increased travel restrictions, supply chain disruptions, and extended shutdown of certain businesses around the globe. This public health crises or any further political developments or health concerns in markets in which our products are manufactured could result in social, economic and labor instability, adversely affecting the supply of our products and, in turn, our business, financial condition, and results of operations. Further, we cannot assure you that our directors, officers, employees, representatives, manufacturers, or suppliers have not engaged and will not engage in conduct for which we may be held responsible, nor can we assure you that our manufacturers, suppliers, or other business partners have not engaged and will not engage in conduct that could materially harm their ability to perform their contractual obligations to us or even result in our being held liable for such conduct. Violations of the FCPA, the Bribery Act, OFAC restrictions, or other export control, anti-corruption, anti-money laundering, and anti-terrorism laws or regulations may result in severe criminal or civil penalties, and we may be subject to other related liabilities, which could harm our business, financial condition, cash flows, and results of operations.

As current tariffs are implemented, or if additional tariffs or other restrictions are placed on foreign imports or any related counter-measures are taken by other countries, our business and results of operations could be harmed.

The Trump Administration has put into place tariffs and other trade restrictions and signaled that it may additionally alter trade agreements and terms between the United States and China, the European Union, Canada, and Mexico, among others, including limiting trade and/or imposing tariffs on imports from such countries. In addition, China, the European Union, Canada, and Mexico, among others, have either threatened or put into place retaliatory tariffs of their own. As announced tariffs are implemented, or additional tariffs or other restrictions are placed on foreign imports, including on any of our products manufactured overseas for sale in the United States, or any related counter-measures are taken by other countries, our business and results of operations may be materially harmed.

Current and additional tariffs have the potential to significantly raise the cost of our products, particularly our Drinkware. In such a case, there can be no assurance that we will be able to shift manufacturing and supply agreements to non-impacted countries, including the United States, to reduce the effects of the tariffs. As a result, we may suffer margin erosion or be required to raise our prices, which may result in the loss of customers, negatively impact our results of operations, or otherwise harm our business. In addition, the imposition of tariffs on products that we export to international markets could make such products more expensive compared to those of our competitors if we pass related additional costs on to our customers, which may also result in the loss of customers, negatively impact our results of operations, or otherwise harm our business.

A significant portion of our sales are to independent retail partners. If these independent retail partners cease to carry our current products or choose not to carry new products that we develop, our brand as well as our results of operations and financial condition could be harmed.

For 2019 and 2020, approximately 18% and 14%, respectively, of our gross sales were made to independent retail partners. These retail partners may decide to emphasize products from our competitors, to redeploy their retail floor space to other product categories, or to take other actions that reduce their purchases of our products. We do not receive long-term purchase commitments from our independent retail partners, and orders received from our independent retail partners are cancellable. Factors that could affect our ability to maintain or expand our sales to these independent retail partners include: (a) failure to accurately identify the needs of our customers; (b) a lack of customer acceptance of new products or product expansions; (c) unwillingness of our independent retail partners and customers to attribute premium value to our new or existing products or product expansions relative to competing products; (d) failure to obtain shelf space from our retail partners; (e) new, well-received product introductions by competitors; (f) damage to our relationships with independent retail partners due to brand or reputational harm; (g) delays or defaults on our retail partners' payment obligations to us; and (h) store closures, decreased foot traffic, recession or other adverse effects resulting from public health crises such as the current COVID-19 pandemic (or other future pandemics or epidemics).

We cannot assure you that our independent retail partners will continue to carry our current products or carry any new products that we develop. If these risks occur, they could harm our brand as well as our results of operations and financial condition. In addition, store closures, decreased foot traffic and recession resulting from the COVID-19 pandemic will adversely affect the performance and will likely adversely affect the financial condition of many of these customers. The foregoing are expected to have a material adverse effect on our business and financial condition.

We depend on our retail partners to display and present our products to customers, and our failure to maintain and further develop our relationships with our retail partners could harm our business.

We sell a significant amount of our products through knowledgeable national, regional, and independent retail partners. Our retail partners service customers by stocking and displaying our products, explaining our product attributes, and sharing our brand story. Our relationships with these retail partners are important to the authenticity of our brand and the marketing programs we continue to deploy. Our failure to maintain these relationships with our retail partners or financial difficulties experienced by these retail partners could harm our business.

We have key relationships with national retail partners. For both 2019 and 2020, one national retail partner accounted for approximately 15% and 9% of our gross sales, respectively. If we lose any of our key retail partners or any key retail partner reduces its purchases of our existing or new products or its number of stores or operations or promotes products of our competitors over ours, our sales would be harmed. Because we are a premium brand, our sales depend, in part, on retail partners effectively displaying our products, including providing attractive space and point of purchase displays in their stores, and training their sales personnel to sell our products. If our retail partners reduce or terminate those activities, we may experience reduced sales of our products, resulting in lower gross margins, which would harm our results of operations.

If our plans to increase sales through our DTC channel are not successful, our business and results of operations could be harmed.

For 2020, our DTC channel accounted for 53% of our net sales. Part of our growth strategy involves increasing sales through our DTC channel. However, we have limited operating experience executing the retail component of this strategy. The level of customer traffic and volume of customer purchases through our country and region-specific YETI websites or other e-commerce initiatives are substantially dependent on our ability to provide a content-rich and user-friendly website, a hassle-free customer experience, sufficient product availability, and reliable, timely delivery of our products. If we are unable to maintain and increase customers' use of our website, allocate sufficient product to our website, and increase any sales through our website, our business, and results of operations could be harmed.

We currently have a limited number of country and region-specific YETI websites and are planning to expand our e-commerce platform to others. These countries may impose different and evolving laws governing the operation and marketing of e-commerce websites, as well as the collection, storage, and use of information on customers interacting with those websites. We may incur additional costs and operational challenges in complying with these laws, and differences in these laws may cause us to operate our business differently, and less effectively, in different territories. If so, we may incur additional costs and may not fully realize the investment in our international expansion.

If we do not successfully implement our future retail store expansion, our growth and profitability could be harmed.

We have and may continue to expand our existing DTC channel by opening new retail stores. We opened and currently operate retail stores in Austin, Texas, Charleston, South Carolina, Chicago, Illinois, Dallas, Texas, Denver, Colorado, Ft. Lauderdale, Florida, and West Palm Beach, Florida. Our ability to open new retail stores in a timely manner and operate them profitably depends on a number of factors, many of which are beyond our control, including:

- our ability to manage the financial and operational aspects of our retail growth strategy, including making appropriate investments in our software systems, information technology, and operational infrastructure;
- our ability to identify suitable locations, including our ability to gather and assess demographic and marketing data to accurately determine customer demand for our products in the locations we select;
- our ability to negotiate favorable lease agreements;
- our ability to properly assess the potential profitability and payback period of potential new retail store locations;
- the availability of financing on favorable terms;
- our ability to secure required governmental permits and approvals and our ability to effectively comply with state and local employment and labor laws, rules, and regulations;
- our ability to hire and train skilled store operating personnel, especially management personnel;
- the availability of construction materials and labor and the absence of significant construction delays or cost overruns;
- our ability to provide a satisfactory mix of merchandise that is responsive to the needs of our customers living in the areas where new retail stores are established;
- our ability to establish a supplier and distribution network able to supply new retail stores with inventory in a timely manner;
- our competitors, or our retail partners, building or leasing stores near our retail stores or in locations we have identified as targets for a new retail store;
- customer demand for our products;
- governmental orders requiring adherence to social distancing practices, temporary store closures, or reduced hours; and
- general economic and business conditions affecting consumer confidence and spending and the overall strength of our business.

We have limited experience in opening retail stores and may not be able to successfully address the risks that they entail. For example, due to the current COVID-19 pandemic, which resulted in widespread government mandated temporary store closures or reduced hours during the second quarter of fiscal 2020 that may be re-imposed by governmental authorities in certain geographies to reduce the spread of COVID-19, our ability to implement our full retail store strategy, achieve desired net sales growth and maintain consistent levels of profitability in our retail stores has been, and continues to be, disrupted. In order to pursue our retail store strategy, we will be required to expend significant cash resources prior to generating any sales in these stores. We may not generate sufficient sales from these stores to justify these expenses, which could harm our business and profitability. The substantial management time and resources, which any future retail store expansion strategy may require, could also result in disruption to our existing business operations, which may decrease our net sales and profitability.

Insolvency, credit problems or other financial difficulties that could confront our retail partners could expose us to financial risk.

We sell to the large majority of our retail partners on open account terms and do not require collateral or a security interest in the inventory we sell them. Consequently, our accounts receivable with our retail partners are unsecured. Insolvency, credit problems, or other financial difficulties confronting our retail partners could expose us to financial risk. These actions could expose us to risks if they are unable to pay for the products they purchase from us. Financial difficulties of our retail partners could also cause them to reduce their sales staff, use of attractive displays, number or size of stores, and the amount of floor space dedicated to our products. For example, the COVID-19 pandemic caused public health officials to recommend precautions to mitigate the spread of the virus that resulted in widespread temporary store closures or reduced store hours for our retail partners during the second quarter of 2020. These actions had a significant unfavorable impact on our wholesale business during the second quarter of fiscal 2020. Significant uncertainty about the ultimate duration and severity of the spread of COVID-19, uncertainties regarding consumer willingness to visit retail stores during the COVID-19 pandemic and in the future, and the overall economic impact of COVID-19 and the related impact on consumer confidence and spending may lead to a material reduction in sales of our products by our retail partners. Any reduction in sales by, or loss of, our current retail partners or customer demand, or credit risks associated with our retail partners, could harm our business, results of operations, and financial condition.

If our independent suppliers and manufacturing partners do not comply with ethical business practices or with applicable laws and regulations, our reputation, business, and results of operations could be harmed.

Our reputation and our customers' willingness to purchase our products depend in part on our suppliers', manufacturers', and retail partners' compliance with ethical employment practices, such as with respect to child labor, wages and benefits, forced labor, discrimination, safe and healthy working conditions, and with all legal and regulatory requirements relating to the conduct of their businesses. We do not exercise control over our suppliers, manufacturers, and retail partners and cannot guarantee their compliance with ethical and lawful business practices. If our suppliers, manufacturers, or retail partners fail to comply with applicable laws, regulations, safety codes, employment practices, human rights standards, quality standards, environmental standards, production practices, or other obligations, norms, or ethical standards, our reputation and brand image could be harmed, and we could be exposed to litigation and additional costs that would harm our business, reputation, and results of operations.

We are subject to payment-related risks that may result in higher operating costs or the inability to process payments, either of which could harm our business, financial condition and results of operations..

For our DTC sales, as well as for sales to certain retail partners, we accept a variety of payment methods, including credit cards, debit cards, electronic funds transfers, electronic payment systems, and gift cards. Accordingly, we are, and will continue to be, subject to significant and evolving regulations and compliance requirements, including obligations to implement enhanced authentication processes that could result in increased costs and liability, and reduce the ease of use of certain payment methods. For certain payment methods, including credit and debit cards, as well as electronic payment systems, we pay interchange and other fees, which may increase over time. We rely on independent service providers for payment processing, including credit and debit cards. If these independent service providers become unwilling or unable to provide these services to us, or if the cost of using these providers increases, our business could be harmed. We are also subject to payment card association operating rules and agreements, including data security rules and agreements, certification requirements, and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for losses incurred by card issuing banks or customers, subject to fines and higher transaction fees, lose our ability to accept credit or debit card payments from our customers, or process electronic fund transfers or facilitate other types of payments. Any failure to comply could significantly harm our brand, reputation, business, financial condition and results of operations.

Our plans for international expansion may not be successful; our limited operating experience and limited brand recognition in new markets may make it more difficult to execute our expansion strategy and cause our business and growth to suffer.

Continued expansion into markets outside the United States, including Canada, Australia, Europe and Japan, is one of our key long-term strategies for the future growth of our business. There are, however, significant costs and risks inherent in selling our products in international markets, including: (a) failure to effectively translate and establish our core brand identity, particularly in markets with a less-established heritage of outdoor and recreational activities; (b) time and difficulty in building a widespread network of retail partners; (c) increased shipping and distribution costs, which could increase our expenses and reduce our margins; (d) potentially lower margins in some regions; (e) longer collection cycles in some regions; (f) increased competition from local providers of similar products; (g) compliance with foreign laws and regulations, including taxes and duties, enhanced privacy laws, rules, and regulations, and product liability laws, rules, and regulations, particularly in the European Union; (h) establishing and maintaining effective internal controls at foreign locations and the associated increased costs; (i) increased counterfeiting and the uncertainty of protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad; (j) compliance with anti-bribery, anti-corruption, sanctions, and anti-money laundering laws, such as the FCPA, the Bribery Act, and OFAC regulations, by us, our employees, and our business partners; (k) currency exchange rate fluctuations and related effects on our results of operations; (l) economic weakness, including inflation, or political instability in foreign economies and markets; (m) compliance with tax, employment, immigration, and labor laws for employees living or traveling abroad; (n) workforce uncertainty in countries where labor unrest is more common than in the United States; (o) business interruptions resulting from geopolitical actions, including war and terrorism, natural disasters, including earthquakes, typhoons, floods, and fires, public health issues, including the outbreak of a pandemic or contagious disease, such as COVID-19, or xenophobia resulting therefrom; (p) the imposition of tariffs on products that we import into international markets that could make such products more expensive compared to those of our competitors; (q) that our ability to expand internationally could be impacted by the intellectual property rights of third parties that conflict with or are superior to ours; and (r) other costs and risks of doing business internationally.

These and other factors could harm our international operations and, consequently, harm our business, results of operations, and financial condition. Further, we may incur significant operating expenses as a result of our planned international expansion, and it may not be successful. We have limited experience with regulatory environments and market practices internationally, and

we may not be able to penetrate or successfully operate in new markets. We also have limited operating experience outside of the United States and in our expansion efforts we may encounter obstacles we did not face in the United States, including cultural and linguistic differences, differences in regulatory environments, labor practices and market practices, difficulties in keeping abreast of market, business and technical developments, and preferences of foreign customers. Consumer demand and behavior, as well as tastes and purchasing trends, may differ internationally, and, as a result, sales of our products may not be successful, or the margins on those sales may not be in line with those we anticipate. We may also encounter difficulty expanding into international markets because of limited brand recognition, leading to delayed or limited acceptance of our products by customers in these markets and increased marketing and customer acquisition costs to establish our brand. Accordingly, if we are unable to successfully expand internationally or manage the complexity of our global operations, we may not achieve the expected benefits of this expansion and our financial condition and results of operations could be harmed.

Our financial results and future growth could be harmed by currency exchange rate fluctuations.

As our international business grows, our results of operations could be adversely impacted by changes in foreign currency exchange rates. Revenues and certain expenses in markets outside of the United States are recognized in local foreign currencies, and we are exposed to potential gains or losses from the translation of those amounts into U.S. dollars for consolidation into our financial statements. Similarly, we are exposed to gains and losses resulting from currency exchange rate fluctuations on transactions generated by our foreign subsidiaries in currencies other than their local currencies. In addition, the business of our independent manufacturers may also be disrupted by currency exchange rate fluctuations by making their purchases of raw materials more expensive and more difficult to finance. As a result, foreign currency exchange rate fluctuations may adversely impact our results of operations.

We may become involved in legal or regulatory proceedings and audits.

Our business requires compliance with many laws and regulations, including labor and employment, sales and other taxes, customs, and consumer protection laws and ordinances that regulate retailers generally and/or govern the importation, promotion, and sale of merchandise, and the operation of stores and warehouse facilities. Failure to comply with these laws and regulations could subject us to lawsuits and other proceedings, and could also lead to damage awards, fines, and penalties. We may become involved in a number of legal proceedings and audits, including government and agency investigations, and consumer, employment, tort, and other litigation. The outcome of some of these legal proceedings, audits, and other contingencies could require us to take, or refrain from taking, actions that could harm our operations or require us to pay substantial amounts of money, harming our financial condition and results of operations. Additionally, defending against these lawsuits and proceedings may be necessary, which could result in substantial costs and diversion of management's attention and resources, harming our business, financial condition, and results of operations. Any pending or future legal or regulatory proceedings and audits could harm our business, financial condition, and results of operations.

Our business involves the potential for product recalls, product liability, and other claims against us, which could adversely affect our reputation, earnings and financial condition.

As a designer, marketer, retailer, and distributor of consumer products, we are subject to the United States Consumer Products Safety Act of 1972, as amended by the Consumer Product Safety Improvement Act of 2008, which empowers the Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous, and similar laws under foreign jurisdictions. Although we extensively and rigorously test new and enhanced products, there can be no assurance we will be able to detect, prevent, or fix all defects. Under certain circumstances, the Consumer Products Safety Commission or comparable foreign agency could require us to repurchase or recall one or more of our products. Additionally, laws regulating consumer products exist in states and some cities, as well as other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future. Any repurchase or recall of our products, monetary judgment, fine or other penalty could be costly and damaging to our reputation. If we were required to remove, or we voluntarily removed, our products from the market, our reputation could be tarnished and we may have large quantities of finished products that we could not sell.

We also face exposure to product liability claims and unusual or significant litigation in the event that one of our products is alleged to have resulted in bodily injury, property damage, or other adverse effects. In addition to the risk of monetary judgments or other penalties that may result from product liability claims, such claims could result in negative publicity that could harm our reputation in the marketplace, adversely impact our brand, or result in an increase in the cost of producing our products. As a result, these types of claims could have a material adverse effect on our business, results of operations, and financial condition.

Our business is subject to the risk of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by problems such as terrorism, public health crises, cyberattacks, or failure of key information technology systems.

Our business is vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, riots, public health crises, human errors, criminal acts, and similar events. For example, a significant natural disaster, such as an earthquake, fire, or flood, could harm our business, results of operations, and financial condition, and our insurance coverage may be insufficient to compensate us for losses that may occur. Our corporate offices, one of our distribution centers, and one of our data center facilities are located in Texas, a state that frequently experiences floods and storms. In addition, the facilities of our suppliers and where our manufacturers produce our products are located in parts of Asia that frequently experience typhoons and earthquakes. Acts of terrorism and public health crises, such as the current COVID-19 pandemic (or other future pandemics or epidemics), could also cause disruptions in our or our suppliers', manufacturers', and logistics providers' businesses or the economy as a whole. The COVID-19 pandemic has significantly impacted the global supply chain, with restrictions and limitations on related activities causing disruption and delay, and the likely overall impact of the COVID-19 pandemic is viewed as highly negative to the general economy. These disruptions and delays have strained certain domestic and international supply chains, which have affected and could continue to negatively affect the flow or availability of certain of our products. While our domestic customization operations are open and operating currently, we were forced to temporarily close these operations during the pandemic. We may not have sufficient protection or recovery plans in some circumstances, such as natural disasters affecting Texas or other locations where we have operations or store significant inventory. Our servers may also be vulnerable to computer viruses, criminal acts, denial-of-service attacks, ransomware, and similar disruptions from unauthorized tampering with our computer systems, which could lead to interruptions, delays, or loss of critical data. As we rely heavily on our information technology and communications systems and the Internet to conduct our business and provide high-quality customer service, these disruptions could harm our ability to run our business and either directly or indirectly disrupt our suppliers' or manufacturers' businesses, which could harm our business, results of operations, and financial condition.

Our results of operations are subject to seasonal and quarterly variations, which could cause the price of our common stock to decline.

We believe that our sales include a seasonal component. We expect our net sales to be highest in our second and fourth quarters, with the first quarter generating the lowest sales. To date, however, it has been difficult to accurately analyze this seasonality due to fluctuations in our sales. In addition, due to our more recent, and therefore more limited experience, with bags, storage, and outdoor lifestyle products and accessories, we are continuing to analyze the seasonality of these products. We expect that this seasonality will continue to be a factor in our results of operations and sales.

Our annual and quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including, among other things, the timing of the introduction of and advertising for our new products and those of our competitors and changes in our product mix. Variations in weather conditions may also harm our quarterly results of operations. In addition, we may not be able to adjust our spending in a timely manner to compensate for any unexpected shortfall in our sales. As a result of these seasonal and quarterly fluctuations, we believe that comparisons of our results of operations between different quarters within a single fiscal year, or across different fiscal years, are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of our future performance. In the event that any seasonal or quarterly fluctuations in our net sales and results of operations result in our failure to meet our forecasts or the forecasts of the research analysts that may cover us in the future, the market price of our common stock could fluctuate or decline.

We are subject to many hazards and operational risks that can disrupt our business, some of which may not be insured or fully covered by insurance.

Our operations are subject to many hazards and operational risks inherent to our business, including: (a) general business risks; (b) product liability; (c) product recall; and (d) damage to third parties, our infrastructure, or properties caused by fires, floods and other natural disasters, power losses, telecommunications failures, terrorist attacks, riots, public health crises such as the current COVID-19 pandemic (and other future pandemics or epidemics), human errors, and similar events.

Our insurance coverage may be inadequate to cover our liabilities related to such hazards or operational risks. For example, our insurance coverage does not cover us for business interruptions as they relate to the COVID-19 pandemic. In addition, we may not be able to maintain adequate insurance in the future at rates we consider reasonable and commercially justifiable, and insurance may not continue to be available on terms as favorable as our current arrangements. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by us could harm our business, results of operations, and financial condition.

Risks Related to Market and Global Economic Conditions

The COVID-19 pandemic could continue to adversely affect our business, sales, financial condition, results of operations and cash flows, and our ability to access current or obtain new lending facilities.

Since being reported in December 2019, COVID-19 has spread globally, including to every state in the United States, and has been declared a pandemic by the World Health Organization. The COVID-19 pandemic and preventative measures taken to contain or mitigate such have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas and significant disruption in the financial markets both globally and in the United States, which could lead to a decline in discretionary spending by consumers, and in turn impact, possibly materially, our business, sales, financial condition and results of operations. The impacts include, but are not limited to:

- the possibility of renewed retail store closures or reduced operating hours and/or decreased retail traffic;
- disruption to our distribution centers and our third-party manufacturing partners and other vendors, including the effects of facility closures as a result of outbreaks of COVID-19 or measures taken by federal, state or local governments to reduce its spread, reductions in operating hours, labor shortages, and real time changes in operating procedures, including for additional cleaning and disinfection procedures; and
- significant disruption of global financial markets, which could have a negative impact on our ability to access capital in the future.

The COVID-19 pandemic has significantly impacted the global supply chain, with restrictions and limitations on related activities causing disruption and delay. These disruptions and delays have strained certain domestic and international supply chains, which have affected and could continue to negatively affect the flow or availability of certain products. Increased demand for online purchases of products has impacted our fulfillment operations and small parcel network, resulting in potential delays in delivering products to our customers.

The further spread of COVID-19, and the requirements to take action to help limit the spread of the illness, could impact our ability to carry out our business as usual and may materially adversely impact global economic conditions, our business, results of operations, cash flows and financial condition. The extent of the impact of COVID-19 on our business and financial results will depend on future developments, including the duration and severity of the outbreak (including the severity and transmission rates of new variants of the coronavirus) within the markets in which we operate, the timing, distribution and efficacy of vaccines and other treatments, the related impact on consumer confidence and spending, and the effect of governmental regulations imposed in response to the pandemic, all of which are highly uncertain and ever-changing. The sweeping nature of the COVID-19 pandemic makes it extremely difficult to predict how our business and operations will be affected in the longer run. However, the likely overall economic impact of the pandemic is viewed as highly negative to the general economy. Any of the foregoing factors, or other cascading effects of the coronavirus pandemic, could materially increase our costs, negatively impact our sales and damage our results of operations and liquidity, possibly to a significant degree. The duration of any such impacts cannot be predicted.

Our net sales and profits depend on the level of customer spending for our products, which is sensitive to general economic conditions and other factors; during a downturn in the economy, consumer purchases of discretionary items are affected, which could materially harm our sales, profitability, and financial condition.

Our products are discretionary items for customers. Therefore, the success of our business depends significantly on economic factors and trends in consumer spending. There are a number of factors that influence consumer spending, including actual and perceived economic conditions, consumer confidence, disposable consumer income, consumer credit availability, unemployment, and tax rates in the markets where we sell our products. Consumers also have discretion as to where to spend their disposable income and may choose to purchase other items or services if we do not continue to provide authentic, compelling, and high-quality products at appropriate price points. As global economic conditions continue to be volatile and economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to declines. Any of these factors could harm discretionary consumer spending, resulting in a reduction in demand for our premium products, decreased prices, and harm to our business and results of operations. Moreover, consumer purchases of discretionary items, such as our products, tend to decline during recessionary periods when disposable income is lower or during other periods of economic instability or uncertainty, which may slow our growth more than we anticipate. A downturn in the economies in markets in which we sell our products, particularly in the United States, may materially harm our sales, profitability, and financial condition. For example, the adverse effects of COVID-19 across geographies could lead to a decline in discretionary spending by consumers, resulting in a reduction in demand for our products, and in turn may materially impact our sales, profitability, and financial condition.

Risks Related to Information Technology and Security

We rely significantly on information technology, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

Our business relies on information technology. Our ability to effectively manage and maintain our inventory and internal reports, and to ship products to customers and invoice them on a timely basis, depends significantly on our enterprise resource planning, warehouse management, and other information systems. We also heavily rely on information systems to process financial and accounting information for financial reporting purposes. Any of these information systems could fail or experience a service interruption for a number of reasons, including computer viruses, programming errors, hacking or other unlawful activities, disasters or our failure to properly maintain system redundancy or protect, repair, maintain or upgrade our systems. The failure of our information systems to operate effectively or to integrate with other systems, or a breach in security of these systems, could cause delays in product fulfillment and reduced efficiency of our operations, which could negatively impact our financial results. If we experienced any significant disruption to our financial information systems that we are unable to mitigate, our ability to timely report our financial results could be impacted, which could negatively impact our stock price. We also communicate electronically throughout the world with our employees and with third parties, such as customers, suppliers, vendors and consumers. A service interruption or shutdown could have a materially adverse impact on our operating activities. Remediation and repair of any failure, problem or breach of our key information systems could require significant capital investments.

We collect, store, process, and use personal and payment information and other customer data, which subjects us to regulation and other legal obligations related to privacy, information security, and data protection.

We collect, store, process, and use personal and payment information and other customer data, and we rely on third parties that are not directly under our control to manage certain of these operations. Our customers' personal information may include names, addresses, phone numbers, email addresses, payment card data, and payment account information, as well as other information. Due to the volume and sensitivity of the personal information and data we manage, the security features of our information systems are critical.

Threats to information technology security can take a variety of forms. Individual and groups of hackers and sophisticated organizations, including state-sponsored organizations or nation-states, continuously undertake attacks that may pose threats to our customers and our information technology systems. These actors may use a wide variety of methods, which may include developing and deploying malicious software or exploiting vulnerabilities in hardware, software, or other infrastructure in order to attack our information technology systems or gain access to our systems, using social engineering techniques to induce our employees, users, partners, or customers to disclose passwords or other sensitive information, or take other actions to gain access to our data or our customers' data, impersonating authorized users, or acting in a coordinated manner to launch distributed denial of service or other coordinated attacks. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, we have, from time to time, experienced threats to our data and systems, including malware and computer virus attacks and it is possible that in the future our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. For example, system administrators may fail to timely remove employee account access when no longer appropriate. Employees or third parties may intentionally compromise our security or systems, or reveal confidential information. There have been initial media reports regarding increased cyber-security threats and potential breaches because of the increase in numbers of individuals working from home as a result of the COVID-19 pandemic. Cyberthreats are constantly evolving, increasing the difficulty of detecting and successfully defending against them.

Any breach of our data security or that of our service providers could result in an unauthorized release or transfer of customer, consumer, user or employee information, or the loss of valuable business data or cause a disruption in our business. These events could give rise to unwanted media attention, damage our reputation, damage our customer, consumer, employee, or user relationships and result in lost sales, fines or lawsuits. We may also be required to expend significant capital and other resources to protect against or respond to or alleviate problems caused by a security breach, which could harm our results of operations. If we or our independent service providers or business partners experience a breach of systems compromising our customers' sensitive data, our brand could be harmed, sales of our products could decrease, and we could be exposed to losses, litigation, or regulatory proceedings. Depending on the nature of the information compromised, we may also have obligations to notify users, law enforcement, or payment companies about the incident and may need to provide some form of remedy, such as refunds, for the individuals affected by the incident.

In addition, privacy laws, rules, and regulations are constantly evolving in the United States and abroad and may be inconsistent from one jurisdiction to another. For example, in June 2018, the State of California enacted the California Consumer Privacy Act, or CCPA, which became effective on January 1, 2020, and created new individual privacy rights for California consumers and place increased privacy and security obligations on entities handling certain personal data. Further, as we expand internationally, we are subject to additional privacy rules, such as the European Union's General Data Protection Regulation, many of which are significantly more stringent than those in the United States. Complying with these evolving obligations is costly, and any failure to comply could give rise to unwanted media attention and other negative publicity, damage our customer and consumer relationships and reputation, and result in lost sales, fines, or lawsuits, and may harm our business and results of operations.

Any material disruption or breach of our information technology systems or those of third-party partners could materially damage our customer and business partner relationships and subject us to significant reputational, financial, legal, and operational consequences.

We depend on our information technology systems, as well as those of third parties, to design and develop new products, operate our website, host and manage our services, store data, process transactions, respond to user inquiries, and manage inventory and our supply chain as well as to conduct and manage other activities. Any material disruption or slowdown of our systems or those of third parties that we depend upon, including a disruption or slowdown caused by our or their failure to successfully manage significant increases in user volume or successfully upgrade our or their systems, system failures, viruses, ransomware, security breaches, or other causes, could cause information, including data related to orders, to be lost or delayed, which could result in delays in the delivery of products to retailers and customers or lost sales, which could reduce demand for our products, harm our brand and reputation, and cause our sales to decline. If changes in technology cause our information systems, or those of third parties that we depend upon, to become obsolete, or if our or their information systems are inadequate to handle our growth, particularly as we increase sales through our DTC channel, we could damage our customer and business partner relationships and our business and results of operations could be harmed.

We interact with many of our consumers through our e-commerce platforms, and these systems face similar risks of interruption or attack. Consumers increasingly utilize these services to purchase our products and to engage with our brand. If we are unable to continue to provide consumers a user-friendly experience and evolve our platform to satisfy consumer preferences, the growth of our e-commerce business and our net revenues may be negatively impacted. If this software contains errors, bugs or other vulnerabilities which impede or halt service, this could result in damage to our reputation and brand, loss of users, or loss of revenue.

Risks Related to our Financial Condition and Tax Matters

We depend on cash generated from our operations to support our growth, and we may need to raise additional capital, which may not be available on terms acceptable to us or at all.

We primarily rely on cash flow generated from our sales to fund our current operations and our growth initiatives. As we expand our business, we will need significant cash from operations to purchase inventory, increase our product development, expand our manufacturer and supplier relationships, pay personnel, pay for the increased costs associated with operating as a public company, expand internationally, and further invest in our sales and marketing efforts. If our business does not generate sufficient cash flow from operations to fund these activities and sufficient funds are not otherwise available from our current or future credit facility, we may need additional equity or debt financing. If such financing is not available to us on satisfactory terms, our ability to operate and expand our business or to respond to competitive pressures could be harmed. Moreover, if we raise additional capital by issuing equity securities or securities convertible into equity securities, the ownership of our existing stockholders may be diluted. The holders of new securities may also have rights, preferences or privileges which are senior to those of existing holders of common stock. In addition, any indebtedness we incur may subject us to covenants that restrict our operations and will require interest and principal payments that could create additional cash demands and financial risk for us.

Our indebtedness may limit our ability to invest in the ongoing needs of our business and if we are unable to comply with the covenants in our current Credit Facility, our liquidity and results of operations could be harmed.

As of January 2, 2021, we had \$135.0 million principal amount of indebtedness outstanding under the Credit Facility (as defined in Note 8 of the Notes to Consolidated Financial Statements). The Credit Facility is jointly and severally guaranteed by certain of our wholly-owned material subsidiaries, including YETI Coolers, LLC, which we refer to as YETI Coolers, and YETI Custom Drinkware LLC, which we refer to as YCD, and any of our future subsidiaries that become guarantors, together, which we refer to as the Guarantors, and is also secured by a first-priority lien on substantially all of our assets and the assets of the Guarantors, in each case subject to certain customary exceptions. We may, from time to time, incur additional indebtedness under the Credit Facility.

The Credit Facility places certain conditions on us, including, subject to certain conditions, reductions and exceptions, requiring us to utilize a portion of our cash flow from operations to make payments on our indebtedness, reducing the availability of our cash flow to fund working capital, capital expenditures, development activity, return capital to our stockholders, and other general corporate purposes. Our compliance with this condition may limit our ability to invest in the ongoing needs of our business. For example, complying with this condition:

- increases our vulnerability to adverse economic or industry conditions;
- limits our flexibility in planning for, or reacting to, changes in our business or markets;
- makes us more vulnerable to increases in interest rates, as borrowings under the Credit Facility bear interest at variable rates;
- limits our ability to obtain additional financing in the future for working capital or other purposes; and
- potentially places us at a competitive disadvantage compared to our competitors that have less indebtedness.

The Credit Facility places certain limitations on our ability to incur additional indebtedness. However, subject to the qualifications and exceptions in the Credit Facility, we may incur substantial additional indebtedness under that facility. The Credit Facility also places certain limitations on our ability to enter into certain types of transactions, financing arrangements and investments, to make certain changes to our capital structure, and to guarantee certain indebtedness, among other things. The Credit Facility also places certain restrictions on the payment of dividends and distributions and certain management fees. These restrictions limit or prohibit, among other things, and in each case, subject to certain customary exceptions, our ability to: (a) pay dividends on, redeem or repurchase our stock, or make other distributions; (b) incur or guarantee additional indebtedness; (c) sell stock in our subsidiaries; (d) create or incur liens; (e) make acquisitions or investments; (f) transfer or sell certain assets or merge or consolidate with or into other companies; (g) make certain payments or prepayments of indebtedness subordinated to our obligations under the Credit Facility; and (h) enter into certain transactions with our affiliates.

The Credit Facility requires us to comply with certain covenants, including financial covenants regarding our total net leverage ratio and interest coverage ratio. Fluctuations in these ratios may increase our interest expense. Failure to comply with these covenants and certain other provisions of the Credit Facility, or the occurrence of a change of control, could result in an event of default and an acceleration of our obligations under the Credit Facility or other indebtedness that we may incur in the future.

If such an event of default and acceleration of our obligations occurs, the lenders under the Credit Facility would have the right to proceed against the collateral we granted to them to secure such indebtedness, which consists of substantially all of our assets. If the debt under the Credit Facility were to be accelerated, we may not have sufficient cash or be able to sell sufficient collateral to repay this debt, which would immediately and materially harm our business, results of operations, and financial condition. The threat of our debt being accelerated in connection with a change of control could make it more difficult for us to attract potential buyers or to consummate a change of control transaction that would otherwise be beneficial to our stockholders.

If our goodwill, other intangible assets, or fixed assets become impaired, we may be required to record a charge to our earnings.

We may be required to record future impairments of goodwill, other intangible assets, or fixed assets to the extent the fair value of these assets falls below their book value. Our estimates of fair value are based on assumptions regarding future cash flows, gross margins, expenses, discount rates applied to these cash flows, and current market estimates of value. Estimates used for future sales growth rates, gross profit performance, and other assumptions used to estimate fair value could cause us to record material non-cash impairment charges, which could harm our results of operations and financial condition.

Changes in tax laws or unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.

We are subject to income taxes in the United States (federal and state) and various foreign jurisdictions. Our effective income tax rate could be adversely affected in the future by a number of factors, including changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations or their interpretations and application, and the outcome of income tax audits in various jurisdictions around the world.

The United States enacted the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017, which had a significant impact to our provision for income taxes for fiscal 2017 and 2018.

The Tax Act requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the Internal Revenue Service, and other standard-setting governmental bodies could interpret the provisions of the Tax Act or issue related administrative guidance contrary to our interpretation.

As part of Congress’ response to the COVID-19 pandemic, the Families First Coronavirus Response Act, or FFCR Act, was enacted on March 18, 2020, and the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was enacted on March 27, 2020. Both contain numerous tax provisions. In particular, the CARES Act retroactively and temporarily (for taxable years beginning before January 1, 2021) suspends application of the 80%-of-income limitation on the use of net operating losses, which was enacted as part of the Tax Act. It also provides that net operating losses arising in any taxable year beginning after December 31, 2017, and before January 1, 2021 are generally eligible to be carried back up to five years. The CARES Act also temporarily (for taxable years beginning in 2019 or 2020) relaxes the limitation of the tax deductibility for net interest expense by increasing the limitation from 30 to 50% of adjusted taxable income.

Regulatory guidance under the Tax Act, the FFCR Act and the CARES Act is and continues to be forthcoming, and such guidance could ultimately increase or lessen impact of these laws on our business and financial condition. It is also likely that Congress will enact additional legislation in connection with the COVID-19 pandemic, some of which could have an impact on our company. We regularly assess all of these matters to determine the adequacy of our income tax provision, which is subject to significant judgment.

The uncertainty regarding the phase-out of LIBOR may negatively impact our operating results.

LIBOR, the London interbank offered rate, is the interest rate benchmark used as a reference rate on our variable rate debt, including our Credit Facility. On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. In November 30, 2020, ICE Benchmark Administration (“IBA”), the administrator of LIBOR, with the support of the United States Federal Reserve and the United Kingdom’s Financial Conduct Authority, announced plans to consult on ceasing publication of USD LIBOR on December 31, 2021 for only the one week and two month USD LIBOR tenors, and on June 30, 2023 for all other USD LIBOR tenors. While this announcement extends the transition period to June 2023, the United States Federal Reserve concurrently issued a statement advising banks to stop new USD LIBOR issuances by the end of 2021. In light of these recent announcements, the future of LIBOR at this time is uncertain and any changes in the methods by which LIBOR is determined or regulatory activity related to LIBOR’s phaseout could cause LIBOR to perform differently than in the past or cease to exist.

At this time, no consensus exists as to what rate or rates will become accepted alternatives to LIBOR, although the U.S. Federal Reserve, in connection with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate (“SOFR”). SOFR is calculated based on short-term repurchase agreements, backed by Treasury securities. SOFR is observed and backward looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given the inherent differences between LIBOR and SOFR or any other alternative benchmark rate that may be established, there are many uncertainties regarding a transition from LIBOR, including but not limited to the need to amend all debt instruments with LIBOR as the referenced rate and how this will impact our cost of variable rate debt. We will also need to consider any new contracts and if they should reference an alternative benchmark rate or include suggested fallback language, as published by the Alternative Reference Rates Committee. The consequences of these developments with respect to LIBOR cannot be entirely predicted and span multiple future periods but could result in an increase in the cost of our variable rate debt which may be detrimental to our financial position or operating results.

We are subject to credit risk in connection with providing credit to our retail partners, and our results of operations could be harmed if a material number of our retail partners were not able to meet their payment obligations.

We are exposed to credit risk primarily on our accounts receivable. We provide credit to our retail partners in the ordinary course of our business and perform ongoing credit evaluations. While we believe that our exposure to concentrations of credit risk with respect to trade receivables is mitigated by our large retail partner base, and we make allowances for doubtful accounts, we nevertheless run the risk of our retail partners not being able to meet their payment obligations, particularly in a future economic downturn. If a material number of our retail partners were not able to meet their payment obligations, our results of operations could be harmed.

Risks Related to Ownership of Our Common Stock

We previously identified material weaknesses in our internal control over financial reporting which have since been remediated. Any future failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements and could cause investors to lose confidence in our financial statements, which could have a material adverse effect on our stock price.

During the preparation of our consolidated financial statements for the year ended December 30, 2017, we identified certain material weaknesses in our internal control over financial reporting. The material weaknesses related to (i) ineffective information technology general controls (“ITGCs”) in the areas of user access and program-change management over certain information technology systems that support our financial reporting process; and (ii) failure to properly detect and analyze issues in the accounting system related to inventory valuation. Although the previously-identified material weakness relating to inventory was remediated as of December 28, 2019 and the material weakness related to ITGCs was remediated as of September 26, 2020, we cannot assure you that other material weaknesses and control deficiencies will not be discovered in the future. If we identify any other material weaknesses in our internal control over financial reporting, or we fail to implement and maintain effective internal controls in the future, investors may lose confidence in our financial statements, which could cause a decline in the price of our common stock, and we may be unable to maintain compliance with the NYSE listing standards.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of the Company more difficult, limit attempts by our stockholders to replace or remove our current management, and limit the market price of our common stock.

Provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws may have the effect of delaying or preventing a change in control or changes in our management. Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws:

- provide that our Board of Directors is classified into three classes of directors;
- prohibit stockholders from taking action by written consent from and after the date that Cortec beneficially owns less than 35% of our outstanding shares of common stock;
- provide that stockholders may remove directors only for cause, and only with the approval of holders of at least 66 2/3% of our then outstanding common stock;
- provide that the authorized number of directors may be changed only by resolution of the Board of Directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law or as set forth in the Stockholders Agreement be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder’s notice;
- restrict the forum for certain litigation against us to Delaware;
- do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election);
- provide that special meetings of our stockholders may be called only by the Chairman of the Board of Directors, our CEO, or the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors;
- provide that stockholders will be permitted to amend our Amended and Restated Bylaws only upon receiving at least 66 2/3% of the votes entitled to be cast by holders of all outstanding shares then entitled to vote generally in the election of directors, voting together as a single class; and

- provide that certain provisions of our Amended and Restated Certificate of Incorporation may only be amended upon receiving at least 66 2/3% of the votes entitled to be cast by holders of all outstanding shares then entitled to vote, voting together as a single class.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, we have opted out of the provisions of Section 203 of the General Corporation Law of the State of Delaware (the “DGCL”), which generally prohibit a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder. However, our Amended and Restated Certificate of Incorporation provides substantially the same limitations as are set forth in Section 203 but also provides that Cortec and its affiliates and any of their direct or indirect transferees and any group as to which such persons are a party do not constitute “interested stockholders” for purposes of this provision.

Our Amended and Restated Certificate of Incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our Amended and Restated Certificate of Incorporation provides that, unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for: (a) any derivative action or proceeding brought on our behalf; (b) any action asserting a claim of breach of fiduciary duty owed by any of our stockholders, directors, officers, or other employees to us or to our stockholders; (c) any action asserting a claim arising pursuant to the DGCL; or (d) any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision does not apply to any actions arising under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, or any other claim for which the federal courts have exclusive jurisdiction. The exclusive forum provision in the Amended and Restated Certificate of Incorporation will not relieve us of our duties to comply with the federal securities laws and the rules and regulations thereunder, and stockholders of YETI will not be deemed to have waived our compliance with these laws, rules and regulations. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers, and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations, and financial condition.

YETI Holdings, Inc. is a holding company with no operations of its own and, as such, it depends on its subsidiaries for cash to fund its operations and expenses, including future dividend payments, if any.

As a holding company, our principal source of cash flow is distributions from our subsidiaries. Therefore, our ability to fund and conduct our business, service our debt, and pay dividends, if any, depends on the ability of our subsidiaries to generate sufficient cash flow to make upstream cash distributions to us. Our subsidiaries are separate legal entities, and although they are wholly owned and controlled by us, they have no obligation to make any funds available to us, whether in the form of loans, dividends, or otherwise. The ability of our subsidiaries to distribute cash to us is also subject to, among other things, restrictions that may be contained in our subsidiary agreements (as entered into from time to time), availability of sufficient funds in such subsidiaries and applicable laws and regulatory restrictions. Claims of any creditors of our subsidiaries generally have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of our subsidiaries to distribute dividends or other payments to us is limited in any way, our ability to fund and conduct our business, service our debt, and pay dividends, if any, could be harmed.

General Risk Factors

Our future success depends on the continuing efforts of our management and key employees, and on our ability to attract and retain highly skilled personnel and senior management.

We depend on the talents and continued efforts of our senior management and key employees. The loss of members of our management or key employees may disrupt our business and harm our results of operations. Furthermore, our ability to manage further expansion will require us to continue to attract, motivate, and retain additional qualified personnel. Competition for this type of personnel is intense, and we may not be successful in attracting, integrating, and retaining the personnel required to grow and operate our business effectively. There can be no assurance that our current management team or any new members of our management team will be able to successfully execute our business and operating strategies.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect or change significantly, our results of operations could be harmed.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity and the amount of sales and expenses that are not readily apparent from other sources. Our results of operations may be harmed if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors and could result in a decline in our stock price.

We may be the target of strategic transactions, which could divert our management's attention and otherwise disrupt our operations and adversely affect our business.

Other companies may seek to acquire us or enter into other strategic transactions. We will consider, discuss, and negotiate such transactions as we deem appropriate. The consideration of such transactions, even if not consummated, could divert management's attention from other business matters, result in adverse publicity or information leaks, and could increase our expenses.

We may acquire or invest in other companies, which could divert our management's attention, result in dilution to our stockholders, and otherwise disrupt our operations and harm our results of operations.

In the future, we may acquire or invest in businesses, products, or technologies that we believe could complement or expand our business, enhance our capabilities, or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various costs and expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

In any future acquisitions, we may not be able to successfully integrate acquired personnel, operations, and technologies, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from future acquisitions due to a number of factors, including: (a) an inability to integrate or benefit from acquisitions in a profitable manner; (b) unanticipated costs or liabilities associated with the acquisition; (c) the incurrence of acquisition-related costs; (d) the diversion of management's attention from other business concerns; (e) the loss of our or the acquired business' key employees; or (f) the issuance of dilutive equity securities, the incurrence of debt, or the use of cash to fund such acquisitions.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our results of operations based on this impairment assessment process, which could harm our results of operations.

We may be subject to liability if we infringe upon the intellectual property rights of third parties.

Third parties may sue us for alleged infringement of their proprietary rights. The party claiming infringement might have greater resources than we do to pursue its claims, and we could be forced to incur substantial costs and devote significant management resources to defend against such litigation, even if the claims are meritless and even if we ultimately prevail. If the party claiming infringement were to prevail, we could be forced to modify or discontinue our products, pay significant damages, or enter into expensive royalty or licensing arrangements with the prevailing party. In addition, any payments we are required to make, and any injunction we are required to comply with as a result of such infringement, could harm our reputation and financial results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in a 175,000 square foot leased facility in Austin, Texas, a portion of which we sublease. We also lease office and building space in Austin, Texas, Canada, China, and Australia. Our primary distribution centers are leased and managed by third-party logistics providers and, as of January 2, 2021, were located in Dallas, Texas, Salt Lake City, Utah, Australia, Canada, New Zealand, and the Netherlands. In addition, we lease and operate eight retail stores across the United States.

We believe that our facilities, including space available through our third-party logistics providers, are in good condition and are adequate to support our current needs.

Item 3. Legal Proceedings

From time to time, we are involved in various legal proceedings. Although no assurance can be given, we do not believe that any of our currently pending proceedings will have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our common stock has been listed and traded on the NYSE under the symbol “YETI” since October 25, 2018.

Holders of Record

As of February 19, 2021, there were approximately 33 shareholders of record of our common stock. This does not include the significant number of beneficial owners whose stock is in nominee or “street name” accounts through brokers, banks or other nominees.

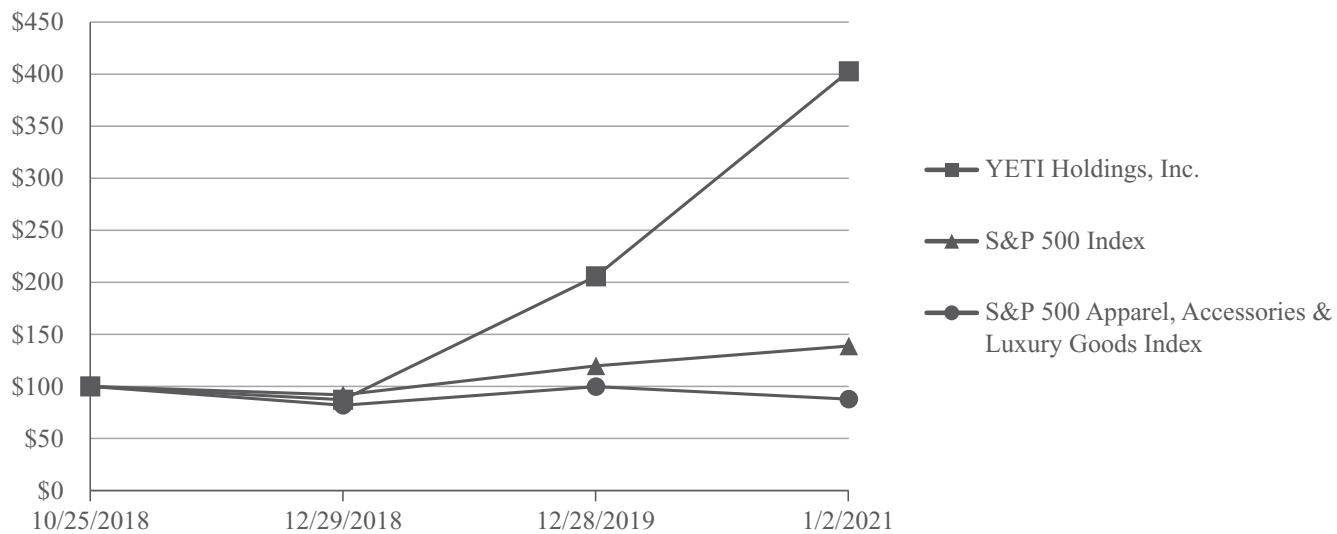
Dividend Policy

We have not declared or paid any cash dividends on our common stock. We intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

Stock Performance Graph

The following graph shows a comparison of the cumulative total return for our common stock with that of the Standard & Poor's 500 Stock Index ("S&P 500 Index") and Standard & Poor's 500 Apparel, Accessories & Luxury Goods Index. The graph assumes that \$100 was invested on October 25, 2018 (the date our common stock commenced trading on the NYSE) in our common stock, the S&P 500 Index, and Standard & Poor's 500 Apparel, Accessories & Luxury Goods Index and assumes reinvestment of any dividends, if any. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

Comparison of Cumulative Total Return Since October 25, 2018
Assumes Initial Investment of \$100



	10/25/2018	12/29/2018	12/28/2019	1/2/2021
YETI Holdings, Inc.....	\$ 100.00	\$ 87.18	\$ 205.76	\$ 402.76
S&P 500 Index.....	100.00	91.87	119.75	138.83
S&P 500 Apparel, Accessories & Luxury Goods Index.....	100.00	81.85	99.78	87.75

The performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that section and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act.

Item 6. Selected Financial Data

The following table presents selected consolidated financial data that has been derived from our audited consolidated financial statements for the periods and at the dates indicated. The tables should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements and our accompanying notes thereto included in Item 8 of this Report (in thousands, except per share amounts):

	Fiscal Year Ended				
	January 2, 2021	December 28, 2019	December 29, 2018	December 30, 2017	December 31, 2016
Consolidated Statement of Operations Data:					
Net sales.....	\$ 1,091,721	\$ 913,734	\$ 778,833	\$ 639,239	\$ 818,914
Gross profit.....	628,803	475,314	383,128	294,601	413,961
Net Income.....	155,801	50,434	57,763	15,401	48,788
Net income per share - diluted.....	\$ 1.77	\$ 0.58	\$ 0.69	\$ 0.19	\$ 0.58
Dividend per share ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ 5.54
Weighted average common shares outstanding - diluted.....	87,847	86,347	83,519	82,972	82,755
Consolidated Balance Sheet Data:					
Cash.....	\$ 253,283	\$ 72,515	\$ 80,051	\$ 53,650	\$ 21,291
Inventory.....	140,111	185,700	145,423	175,098	246,119
Total assets.....	737,067	629,539	514,213	516,427	536,107
Current maturities of long-term debt.....	22,697	15,185	43,638	47,050	45,550
Long-term debt, net of current portion ⁽²⁾	111,017	281,715	284,376	428,632	491,688
Total stockholders’ equity (deficit).....	288,418	122,005	28,971	(76,231)	(95,101)

- (1) In 2016, we declared and paid a cash dividend of \$5.54 per common share, as a partial return of capital to our stockholders, which totaled \$451.3 million.
- (2) In 2020, we made a total of \$165.0 million in mandatory and voluntary payments to our Credit Facility using cash on hand. In 2018, we made a total of \$150.3 million in mandatory and voluntary payments to our Credit Facility using cash on hand and \$42.4 million in net proceeds from our IPO in October 2018.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis contains forward-looking statements within the meaning of the federal securities laws, and should be read in conjunction with the disclosures we make concerning risks and other factors that may affect our business and operating results, including those set forth in Part I, Item 1A, "Risk Factors" of this Report. The information contained in this section should also be read in conjunction with our consolidated financial statements and related notes and the information contained elsewhere in this Report. See also "Forward-Looking Statements" immediately prior to Part I, Item 1, "Business" in this Report.

Business Overview

Headquartered in Austin, Texas, YETI is a global designer, retailer, and distributor of a variety innovative outdoor products. From coolers and drinkware to backpacks and bags, YETI products are built to meet the unique and varying needs of diverse outdoor pursuits, whether in the remote wilderness, at the beach, or anywhere life takes our customers. By consistently delivering high-performing, exceptional products, we have built a strong following of brand loyalists throughout the world, ranging from serious outdoor enthusiasts to individuals who simply value products of uncompromising quality and design. We have an unwavering commitment to outdoor and recreation communities, and we are relentless in our pursuit of building superior products for people to confidently enjoy life outdoors and beyond.

Effects of the COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic. The COVID-19 pandemic has significantly impacted global economies, resulting in travel restrictions, business slowdowns or shutdowns in affected areas, reduced economic activity, and changes in consumer behavior.

These COVID-19 pandemic disruptions have affected our businesses, as well as those of our consumers, wholesale partners, and suppliers. As we entered 2020, the great momentum from 2019 continued to be reflected in the strong sales performance throughout most of the first quarter of 2020. Unfortunately, our sales were adversely impacted during the final weeks of the first quarter of 2020 due to the decrease in consumer spending and temporary store closures attributed to the COVID-19 pandemic. However, during the second quarter of 2020, our DTC channel significantly benefited from a demand surge for outdoor recreation and leisure lifestyle products as we saw consumers change their views towards how they spend their time experiencing nature and exploring the outdoors as home restriction were lifted, as well as more consumers shopping online while sheltering-in-place. The unprecedented demand across the DTC channel continued throughout the remainder of the year. In our wholesale channel, these changes in consumer behavior helped to fuel strong wholesale orders at the end of the second quarter of 2020 as our wholesale partners began to reopen stores and replenish inventories for anticipated demand for the remainder of 2020. Despite the strong demand, the full-year performance of our wholesale channel was limited by inventory constraints throughout the second half of the year, as further discussed below.

To date, we have experienced minimal supply-chain disruptions as a direct result of the COVID-19 pandemic. Additionally, restrictions or disruptions of transportation did not result in significantly higher costs or delays for us during 2020. However, in the final weeks of the second quarter of 2020 in the midst of the pandemic, we reduced inventory purchase orders to align with demand forecasts at the time and to provide enhanced financial flexibility. These actions coupled with the overall strong demand during 2020 contributed to lower than expected inventory levels throughout the second half of the year and, in turn, resulted in inventory constraints to meet demand in our wholesale channel, particularly in the fourth quarter of 2020.

As part of our response strategy to the disruptions caused by the COVID-19 pandemic and as a precautionary measure, we enhanced our liquidity position at the end of the first quarter of 2020 through a \$50.0 million draw down on our Revolving Credit Facility and began instituting cost reduction initiatives, including the reduction of discretionary spending, lowering of capital expenditures and investments, temporary hiring suspensions, employee furloughs, and workforce reductions. Our senior leadership also agreed to temporarily reduce their base salaries and our Board of Directors agreed to temporarily waive their annual cash compensation starting in May 2020. In the second quarter of 2020, we repaid in full the \$50.0 million borrowed under the Revolving Credit Facility. The cost reduction initiatives were scaled back during the second half of 2020. In August 2020, salaries of senior leadership team members were restored to previously approved levels. Additionally, the Board of Directors' annual cash compensation was reinstated.

Throughout the pandemic, we have prioritized the health and safety of our employees and our consumers. In March 2020, we temporarily closed our retail stores, domestic customization operations, and offices, including our innovation center, and implemented a remote work policy for all of our corporate employees, which, in most cases, we are still continuing to follow. As our retail stores and certain of our facilities were re-opened, we followed local health guidelines and we implemented additional safety and cleaning protocols.

As we continue to monitor and navigate the COVID-19 pandemic and its effects and may take additional actions based on the requirements and recommendations of local health guidelines, we intend to focus on disciplined investments for future, long-term growth. In certain circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, given the dynamic nature of this situation, we cannot reasonably estimate the impacts of the COVID-19 pandemic on our financial condition, results of operations or cash flows in the future. In addition, see Part I-Item 1A, “Risk Factors - Risks Related to Market and Global Economic Conditions,” included herein for updates to our risk factors regarding risks associated with the COVID-19 pandemic.

General

Components of Our Results of Operations

Net Sales. Net sales are comprised of wholesale channel sales to our retail partners and sales through our DTC channel. Net sales in both channels reflect the impact of product returns as well as discounts for certain sales programs or promotions.

We discuss the net sales of our products in our two primary categories: Coolers & Equipment and Drinkware. Our Coolers & Equipment category includes hard coolers, soft coolers, outdoor equipment and other products, as well as accessories and replacement parts for these products. Beginning in 2019, we began reporting Boomer Dog Bowl net sales in our Coolers & Equipment instead of in our Other category. Our Drinkware category includes our stainless-steel drinkware products and related accessories. In addition, our Other category is primarily comprised of ice substitutes, and YETI-branded gear, such as shirts, hats, and other miscellaneous products.

Gross profit. Gross profit reflects net sales less cost of goods sold, which primarily includes the purchase cost of our products from our third-party contract manufacturers, inbound freight and duties, product quality testing and inspection costs, depreciation expense of our molds and equipment, and the cost of customizing Drinkware products. We calculate gross margin as gross profit divided by net sales. Our DTC channel generally generates higher gross margin than our wholesale channel due to differentiated pricing between these channels.

Selling, general, and administrative expenses. Selling, general, and administrative (“SG&A”) expenses consist primarily of marketing costs, employee compensation and benefits costs, costs of our outsourced warehousing and logistics operations, costs of operating on third-party DTC marketplaces, professional fees and services, non-cash stock-based compensation, cost of product shipment to our customers, depreciation and amortization expense, and general corporate infrastructure expenses. Our variable expenses, specifically our distribution expenses, will vary as they are dependent on our sales volume and our channel mix. Our DTC channel distribution costs are generally higher as a percentage of net sales than our wholesale channel distribution costs. In 2020, due to the impact of the COVID-19 pandemic as described below, our channel mix significantly shifted towards our DTC channel from 42% in 2019 to 53% in 2020. As a result, variable distribution expenses as a percentage of net sales increased during 2020.

Fiscal Year. We have a 52- to 53-week fiscal year that ends on the Saturday closest in proximity to December 31, such that each quarterly period will be 13 weeks in length, except during a 53-week year when the fourth quarter will be 14 weeks. Our fiscal year 2020 included 53 weeks and ended on January 2, 2021. Our fiscal years 2019 and 2018 ended on December 28, 2019 and December 29, 2018, respectively, and spanned 52 weeks each. Unless otherwise stated, references to particular years, quarters, months and periods refer to our fiscal years ended in December and the associated quarters, months, and periods of those fiscal years.

Results of Operations

The following table sets forth selected statement of operations data, and their corresponding percentage of net sales, for the periods indicated (dollars in thousands):

	Fiscal Year Ended					
	January 2, 2021		December 28, 2019		December 29, 2018	
Statement of Operations						
Net sales.....	\$ 1,091,721	100 %	\$ 913,734	100 %	\$ 778,833	100 %
Cost of goods sold.....	462,918	42 %	438,420	48 %	395,705	51 %
Gross profit.....	628,803	58 %	475,314	52 %	383,128	49 %
Selling, general, and administrative expenses.....	414,570	38 %	385,543	42 %	280,972	36 %
Operating income.....	214,233	20 %	89,771	10 %	102,156	13 %
Interest expense.....	(9,155)	1 %	(21,779)	2 %	(31,280)	4 %
Other income (expense).....	123	— %	(734)	— %	(1,261)	— %
Income before income taxes.....	205,201	19 %	67,258	7 %	69,615	9 %
Income tax expense.....	(49,400)	5 %	(16,824)	2 %	(11,852)	2 %
Net income.....	<u>\$ 155,801</u>	14 %	<u>\$ 50,434</u>	6 %	<u>\$ 57,763</u>	7 %

Year Ended January 2, 2021 Compared to Year Ended December 28, 2019

(dollars in thousands)	Fiscal Year Ended		Change	
	January 2, 2021	December 28, 2019	\$	%
Net sales.....	\$ 1,091,721	\$ 913,734	\$ 177,987	19 %
Gross profit.....	628,803	475,314	153,489	32 %
Gross margin (Gross profit as a % of net sales).....	57.6 %	52.0 %		
Selling, general, and administrative expenses.....	\$ 414,570	\$ 385,543	\$ 29,027	8 %
SG&A as a % of net sales.....	38.0 %	42.2 %		

Net Sales

Net sales increased \$178.0 million, or 19%, to \$1,091.7 million in 2020 from \$913.7 million in 2019. The increase in net sales was driven by growth in our faster growing DTC channel. DTC channel net sales increased \$194.8 million, or 50%, to \$580.9 million in 2020 from \$386.1 million in 2019, driven by both Drinkware and Coolers & Equipment categories. Net sales in our DTC channel were favorably impacted by increased demand for outdoor recreation and leisure lifestyle products as the COVID-19 pandemic has significantly impacted consumers' views towards how they spend their time experiencing nature and the outdoors as well as more consumers shopping online while sheltering-in-place, resulting in increased sales volume during the period. As a result, our channel mix significantly shifted towards our DTC channel from 42% in 2019 to 53% in 2020. Net sales in our wholesale channel decreased \$16.8 million, or 3%, to \$510.9 million in 2020 from \$527.6 million in 2019, primarily driven by Coolers & Equipment. While wholesale net sales trends returned to positive growth at the end of the second quarter of 2020 and continued during the second half of the year, the sharp decline of net sales during March and April 2020, as a result of COVID-19 related temporary store closures, adversely impacted the performance of the wholesale channel.

Net sales in our two primary product categories were as follows:

- Drinkware net sales increased \$102.3 million, or 19%, to \$628.6 million in 2020 from \$526.2 million in 2019, primarily driven by the increase in sales volume, reflecting the continued expansion of our Drinkware product offerings, including the introduction of new colorways and sizes, and strong demand for customization.
- Coolers & Equipment net sales increased \$77.7 million, or 21%, to \$446.6 million in 2020 from \$368.9 million in 2019, primarily driven by the strong performance of hard coolers, soft coolers, outdoor living products, and cargo.

Gross Profit

Gross profit increased \$153.5 million, or 32%, to \$628.8 million in 2020 from \$475.3 million in 2019. Gross margin increased 560 basis points to 57.6% in 2020 from 52.0% in 2019. The increase in gross margin was primarily driven by:

- an increase in the mix of higher margin DTC channel net sales, which favorably impacted gross margin by approximately 280 basis points;
- product cost improvements across our product portfolio, which favorably impacted gross margin by approximately 150 basis points;
- decreased tariffs, which favorably impacted gross margin by 60 basis points;
- lower inbound freight, which favorably impacted gross margin by 50 basis points; and
- other impacts, which favorably impacted gross margin by 40 basis points.

These gains were partially offset by 20 basis points from higher inventory reserves related to new product transitions and other impacts.

Selling, General, and Administrative Expenses

SG&A expenses increased by \$29.0 million, or 8%, to \$414.6 million in 2020 from \$385.5 million in 2019. As a percentage of net sales, SG&A expenses decreased 420 basis points to 38.0% in 2020. The increase in SG&A expenses resulted from:

- an increase in variable expenses of \$41.1 million, or a 210 basis point increase, driven by our faster growing and higher margin DTC channel, which grew to 53% of net sales, comprised of:
 - higher distribution costs including outbound freight, online marketplace fees, credit card processing fees, and third-party logistics fees; and
- a decrease in non-variable expenses of \$12.1 million, or a 630 basis point decrease, comprised of:
 - lower non-cash stock-based compensation expense, primarily driven by the \$40.7 million expense associated with the pre-IPO performance-based restricted stock units (“RSUs”) that vested and were fully recognized in the fourth quarter of 2019; and
 - decreased professional fees.

These decreases were partially offset by:

- increased marketing expenses;
- increased personnel expenses primarily due to higher incentive compensation, partially offset by lower travel expense and the effect of COVID-19 related cost saving initiatives;
- increased non-variable distribution costs, including third-party logistics fees;
- increased depreciation and amortization expense;
- increased insurance expenses; and
- increased facilities costs and other operating expenses.

Non-Operating Expenses

Interest expense was \$9.2 million in 2020, compared to \$21.8 million in 2019. The decrease in interest expense was primarily due to lower interest rates and decreased outstanding long-term debt under our Credit Facility.

Income tax expense was \$49.4 million in 2020, compared to \$16.8 million in 2019. Our effective tax rate for 2020 was 24% compared to 25% for 2019. The decrease in the effective tax rate was primarily due to a lower state tax rate and higher tax benefit related to stock-based compensation in 2020 compared to 2019, partially offset by a decrease in our research and development tax credit in 2020.

Year Ended December 28, 2019 Compared to Year Ended December 29, 2018

(dollars in millions)	Fiscal Year Ended		Change	
	December 28, 2019	December 29, 2018	\$	%
Net sales.....	\$ 913,734	\$ 778,833	\$ 134,901	17 %
Gross profit.....	475,314	383,128	92,186	24 %
Gross margin (Gross profit as a % of net sales).....	52.0 %	49.2 %		
Selling, general, and administrative expenses.....	\$ 385,543	\$ 280,972	\$ 104,571	37 %
SG&A as a % of net sales.....	42.2 %	36.1 %		

Net Sales

Net sales increased \$134.9 million, or 17%, to \$913.7 million in 2019 from \$778.8 million in 2018. The increase in net sales was driven by increases in net sales from our DTC and wholesale channels. DTC channel net sales increased \$98.7 million, or 34%, to \$386.1 million in 2019 from \$287.4 million in 2018. The DTC channel net sales increase was driven by strong performance in both primary product categories, particularly Drinkware. Wholesale channel net sales increased \$36.2 million, or 7%, to \$527.6 million in 2019 from \$491.4 million in 2018. The wholesale channel net sales increase was primarily driven by strong performance across both primary product categories.

Net sales in our two primary product categories were as follows:

- Drinkware net sales increased \$102.1 million, or 24%, to \$526.2 million in 2019 from \$424.2 million in 2018. The increase in Drinkware net sales was primarily driven by the expansion of our Drinkware product offerings during 2019, including the introduction of new colorways, sizes, and accessories, and strong demand for customization.
- Coolers & Equipment net sales increased \$37.7 million, or 11%, to \$368.9 million in 2019 from \$331.2 million in 2018. The increase in Coolers & Equipment net sales was primarily driven by strong performance in outdoor living products, bags, hard coolers, soft coolers, and cargo.

Gross Profit

Gross profit increased \$92.2 million, or 24%, to \$475.3 million in 2019 from \$383.1 million in 2018. Gross margin increased 280 basis points to 52.0% in 2019 from 49.2% in 2018. The increase in gross margin was primarily driven by the following:

- cost improvements across our product portfolio, particularly in our Drinkware category, which favorably impacted gross margin by approximately 270 basis points;
- an increase in the mix of higher margin DTC channel net sales, which favorably impacted gross margin by approximately 150 basis points; and
- lower inbound air freight, reflecting higher costs to expedite Drinkware inventory supply in the prior period, which favorably impacted gross margin by approximately 80 basis points.

These factors, which contributed to the increase in gross margin were partially offset by the unfavorable impact of:

- increased tariff rates, which reduced gross margin by approximately 100 basis points;
- higher inventory reserves, which reduced gross margin by approximately 70 basis points; and
- end-of-life price reductions on our Hopper Two 30 soft cooler implemented in the second quarter of 2019 and other impacts, which reduced gross margin by approximately 50 basis points.

Selling, General, and Administrative Expenses

SG&A expenses increased by \$104.6 million, or 37%, to \$385.5 million in 2019 from \$281.0 million in 2018. As a percentage of net sales, SG&A expenses increased 610 basis points to 42.2% in 2019. The increase in SG&A expenses were primarily driven by:

- an increase in variable expenses of \$22.8 million, or a 120 basis point increase, driven by our higher margin DTC channel:
 - higher distribution costs included outbound freight, online marketplace fees, credit card processing fees, and third-party logistics fees; and

- an increase in non-variable expenses of \$81.7 million, or a 490 basis point increase, comprised of:
 - higher non-cash stock-based compensation expense, primarily driven by pre-IPO performance-based restricted stock units that vested and were fully recognized in the fourth quarter of 2019;
 - increased personnel to support long-term growth in our business;
 - higher marketing expenses, which were broad-based across both brand and performance marketing efforts;
 - higher temporary labor and information technology expenses to support growth and continued development of our omni-channel capabilities;
 - incremental costs incurred in connection with our ongoing transition to a public company, including costs incurred in connection with our secondary offerings in May 2019 and November 2019;
 - increased depreciation and amortization expense;
 - increased non-variable distribution costs, including third-party logistics fees; and
 - increased facilities costs;

These increases were partially offset by a decrease in other operating expenses.

Non-Operating Expenses

Interest expense was \$21.8 million in 2019, compared to \$31.3 million in 2018. The decrease in interest expense was primarily due to decreased outstanding long-term debt under our Credit Facility.

Income tax expense was \$16.8 million in 2019, compared to \$11.9 million in 2018. Our effective tax rate for 2019 was 25% compared to 17% for 2018. The increase in effective tax rate was primarily due to an increase in state income tax expense due to expanding our operations to additional states and a discrete tax expense associated with the pre-IPO performance-based RSUs that vested and were fully recognized in the fourth quarter of 2019. In addition, income tax expense in 2018 was lower due to a benefit from a revaluation of state deferred tax assets and the stock compensation tax benefit of exercised options primarily in connection with our IPO.

Liquidity and Capital Resources

General

Our cash requirements have principally been for working capital purposes, long-term debt repayments, and capital expenditures. We fund our working capital, primarily inventory and accounts receivable, and capital investments from cash flows from operating activities, cash on hand, and borrowings available under our Revolving Credit Facility (as defined below). As discussed under “—Effects of the COVID-19 Pandemic” above, although the potential magnitude and economic impacts of COVID-19 are uncertain, we believe that the actions taken to date, together with our current operating performance, operating plan, our strong cash position, including cash generated from operations, inventory on hand and borrowings available under the Revolving Credit Facility, will be sufficient to satisfy our liquidity needs and capital expenditure requirements for at least the next twelve months.

Current Liquidity

As of January 2, 2021, we had a cash balance of \$253.3 million, a \$64.5 million working capital deficit (excluding cash), and \$150.0 million of borrowings available under the Revolving Credit Facility.

Credit Facility

We are party to a senior secured credit agreement (the “Credit Facility”) that provides for a \$150.0 million Revolving Credit Facility maturing on December 17, 2024 and a \$300.0 million Term Loan A maturing on December 17, 2024 (the “Term Loan A”). In December 2019, we amended our existing Credit Facility to, among other changes, increase the remaining principal amount of the Term Loan A from approximately \$298.0 million to \$300.0 million, increase the commitments under the Revolving Credit Facility from \$100.0 million to \$150.0 million, and extend the maturity date of both the Term Loan A and the Revolving Credit Facility from May 19, 2021 to December 17, 2024.

During 2020, we made \$15.0 million and \$150.0 million in mandatory and voluntary repayments, respectively.

At the end of the first quarter of 2020, as a precautionary measure to enhance our liquidity position and to increase available cash on hand amidst the start of the COVID-19 pandemic, we drew down \$50.0 million on the Revolving Credit Facility. During the second quarter of 2020, we repaid in full the \$50.0 million borrowed under the Revolving Credit Facility. As of January 2, 2021, we had no outstanding borrowings and \$150.0 million of borrowings available under the Revolving Credit Facility.

At January 2, 2021, we had \$135.0 million principal amount of indebtedness outstanding under the Credit Facility.

The weighted average interest rates for borrowings under Term Loan A and our outstanding balance under the Revolving Credit Facility until it was repaid in June 2020 were 2.72% and 2.92%, respectively, as of January 2, 2021. We were in compliance with all covenants under the Credit Facility as of January 2, 2021.

The Credit Facility requires us to comply with certain covenants, including financial covenants regarding our total net leverage ratio and interest coverage ratio. Fluctuations in these ratios may increase our interest expense. Failure to comply with these covenants and certain other provisions of the Credit Facility, or the occurrence of a change of control, could result in an event of default and an acceleration of our obligations under the Credit Facility or other indebtedness that we may incur in the future. At January 2, 2021, we were in compliance with all covenants and expect to remain in compliance with all covenants under the Credit Facility.

Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated (in thousands):

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Cash flows provided by (used in):			
Operating activities.....	\$ 366,427	\$ 86,893	\$ 176,068
Investing activities.....	(22,944)	(48,691)	(31,722)
Financing activities.....	(163,191)	(45,687)	(117,990)

Operating Activities

2020. Net cash provided by operating activities of \$366.4 million for 2020 was primarily driven by net income of \$155.8 million, total non-cash items of \$38.7 million, and the favorable impact of a decrease in net working capital items of \$171.9 million. Non-cash items primarily consisted of depreciation and amortization of \$30.5 million, stock-based compensation expense of \$9.0 million, loss on prepayment of debt of \$1.1 million, impairment of long-lived assets of \$1.1 million, and amortization of deferred financing fees of \$0.9 million, partially offset by deferred income taxes of \$3.8 million, and other items of \$0.1 million, primarily consisting of unrealized foreign currency transaction gains. The change in net working capital items was primarily due to a \$89.1 million increase in accounts payable and accrued expenses, driven by the favorable timing of increased purchase orders at the end of 2020 and other working capital fluctuations; a \$46.1 million decrease in inventory due to the impact of delayed purchase orders resulting from the precautionary measures to provide enhanced financial flexibility during the COVID-19 pandemic, as well as the unplanned nature of the demand in our DTC channel net sales; a \$16.4 million decrease in accounts receivable; a \$14.9 million increase in taxes payable; a \$3.5 million increase in other, primarily related to higher long-term tax liabilities; and a \$2.0 million decrease in other current assets.

2019. Net cash provided by operating activities of \$86.9 million for 2019 was primarily driven by net income of \$50.4 million and total non-cash items of \$100.4 million, offset by the unfavorable impact of an increase in net working capital items of \$63.9 million. Non-cash items primarily consisted of stock-based compensation expense of \$52.3 million, depreciation and amortization of \$29.0 million, deferred income taxes of \$15.6 million, the amortization of deferred financing fees of \$2.2 million, the loss on modification and extinguishment related to the Amendment of our Credit Facility of \$0.6 million, and the impairment of long-lived assets of \$0.6 million. The change in net working capital items was primarily due to a \$40.5 million increase in inventory, primarily reflecting a strategic buildup of Drinkware in advance of potential tariffs as well as investments to support anticipated sales growth; a \$19.9 million increase in accounts receivable; a \$6.8 million increase in other current assets primarily related to an increase in prepaid information technology expenses; and a \$3.1 million decrease in taxes payable, offset by a \$6.6 million increase in accounts payable and accrued expenses related to trade payables primarily related to extending payment terms with vendors.

2018. Net cash provided by operating activities of \$176.1 million for 2018 was primarily driven by net income of \$57.8 million, total non-cash items of \$46.6 million, and the favorable impact of a decrease in net working capital items of \$71.7 million. Non-cash items primarily consisted of depreciation and amortization of \$24.7 million and stock-based compensation expense of \$13.2 million. The change in net working capital items was primarily due to a \$43.7 million increase in accounts payable and accrued expenses related to extending payment terms with vendors, as well as increased accrued incentive compensation, and a \$29.6 million decrease in inventory driven by effective inventory management coupled with increased sales in the fourth quarter of 2018.

Investing Activities

2020. Net cash used in investing activities of \$22.9 million for 2020 was primarily related to \$15.6 million of purchases of property and equipment for technology systems infrastructure, production molds, tooling, and equipment, and facilities, and \$7.4 million of additions of intangibles such as trademarks, patents, and trade dress assets.

2019. Net cash used in investing activities of \$48.7 million for 2019 was primarily related to \$32.1 million of purchases of property and equipment for technology systems infrastructure, production molds, tooling, and equipment, and facilities, and \$16.6 million of additions of intangibles such as trade dress, patents, and trademark assets.

2018. Net cash used in investing activities of \$31.7 million for 2018 was primarily related to \$20.9 million of purchases of property and equipment for technology systems infrastructure, production molds, tooling, and equipment, and facilities, and \$11.0 million of additions of intangibles such as trade dress and trademark assets.

Financing Activities

2020. Net cash used in financing activities was \$163.2 million for 2020 primarily resulted from \$165.0 million of mandatory and voluntary repayments of long-term debt and \$1.0 million of taxes paid related to the net share settlement of stock-based compensation, partially offset by \$3.0 million of proceeds from employee stock transactions.

2019. Net cash used in financing activities was \$45.7 million for 2019 primarily resulted from \$34.9 million of repayments of long-term debt, \$13.5 million of taxes paid related to the net share settlement of stock-based compensation, \$0.6 million in dividend payments to certain option holders, and \$0.1 million of net borrowings related to the Amendment of our Credit Facility, net of deferred financing fees. These financing activity outflows were partially offset by \$3.5 million of proceeds from employee stock transactions.

2018. Net cash used in financing activities was \$118.0 million for 2018 primarily resulted from \$151.8 million of repayments of long-term debt, \$2.5 million in dividend payments, and \$2.0 million to repurchase common stock from one stockholder that was subsequently retired. These financing activity outflows were partially offset by \$38.1 million of net proceeds from our IPO.

For 2021, we expect capital expenditures for property and equipment to be between \$55 million and \$60 million, primarily to support our growing business with investments in technology, and new product innovation and launches, including production molds and tooling and equipment.

Contractual Obligations

The following table summarizes our contractual obligations as of January 2, 2021 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Long-term debt principal payment.....	\$ 135,000	\$ 22,500	\$ 45,000	\$ 67,500	\$ —
Interest.....	8,539	2,791	4,288	1,460	—
Operating lease obligations.....	54,710	10,852	15,796	14,794	13,268
Finance leases.....	1,077	249	498	330	—
Other noncancellable agreements ⁽¹⁾	111,892	37,897	43,762	24,472	5,761
Total.....	<u>\$ 311,218</u>	<u>\$ 74,289</u>	<u>\$ 109,344</u>	<u>\$ 108,556</u>	<u>\$ 19,029</u>

(1) We have entered into commitments for service and maintenance agreements related to our management information systems, distribution contracts, advertising, sponsorships, and licensing agreements.

The contractual obligations table above excludes unrecognized tax benefits as we are unable to reasonably predict the timing of settlement of liabilities, if any, related to unrecognized tax benefits. As of January 2, 2021, we had unrecognized tax benefits of \$8.7 million.

Off-Balance Sheet Arrangements.

As of January 2, 2021, we had no off-balance sheet debt or arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. In preparing the consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, sales, expenses, and related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an on-going basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because of the uncertainty inherent in these matters, actual results may differ from these estimates and could differ based upon other assumptions or conditions.

See Note 1 of the Notes to Consolidated Financial Statements for our significant accounting policies. The following describes significant judgments and estimates used in the application of these policies. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Revenue Recognition

As discussed in the “Recently Adopted Accounting Standards” section in Note 1 of the Notes to Consolidated Financial Statements, we adopted the new revenue recognition standard at the beginning of 2019. Revenue transactions associated with the sale of YETI branded coolers, equipment, drinkware, apparel and accessories comprise a single performance obligation, which consists of the sale of products to customers either through our wholesale or DTC channels. Revenue is recognized when performance obligations are satisfied through the transfer of control of promised goods to the customers, based on the terms of sale. The transfer of control typically occurs at a point in time based on consideration of when the customer has an obligation to pay for the goods, and physical possession of, legal title to, and the risks and rewards of ownership of the goods has been transferred, and the customer has accepted the goods. Revenue from wholesale transactions is generally recognized at the time products are shipped based on contractual terms with the customer. Revenue from our DTC channel is generally recognized at the point of sale in our retail stores and at the time products are shipped for e-commerce transactions and corporate sales based on contractual terms with the customer.

Revenue is recognized net of estimates of variable consideration, including product returns, customer discounts and allowances, sales incentive programs, and miscellaneous claims from customers. We determine these estimates based on contract terms, evaluations of historical experience, anticipated trends, and other factors. The actual amount of customer returns and customer allowances, which is inherently uncertain, may differ from our estimates.

The duration of contractual arrangements with our customers is typically less than 1 year. Payment terms with wholesale customers vary depending on creditworthiness and other considerations, with the most common being net 30 days. Payment is due at the time of sale for retail store transactions and at the time of shipment for e-commerce transactions.

Certain products that we sell include a limited warranty which does not meet the definition of a performance obligation within the context of the contract. Product warranty costs are estimated based on historical and anticipated trends and are recorded as cost of goods sold at the time revenue is recognized.

Revenue from the sale of gift cards is initially deferred and recognized as a contract liability until the gift card is redeemed by the customer.

We elected to account for shipping and handling as fulfillment activities, and not as separate performance obligations. Shipping and handling fees billed to customers are included in net sales. All shipping and handling activity costs are recognized as selling, general and administrative expenses at the time the related revenue is recognized. Sales taxes collected from customers and remitted directly to government authorities are excluded from net sales and cost of goods sold.

Our terms of sale provide limited return rights. We may accept, and have at times accepted, returns outside our terms of sale at our sole discretion. We may also, at our sole discretion, provide our retail partners with sales discounts and allowances. We record estimated sales returns, discounts, and miscellaneous customer claims as reductions to net sales at the time revenues are recorded. We base our estimates upon historical experience and trends, and upon approval of specific returns or discounts. Actual returns and discounts in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and discounts were significantly greater or lower than the reserves we had established, we would record a reduction or increase to net sales in the period in which we made such determination. A 10% change in our estimated reserve for sales returns, discounts, and miscellaneous claims for 2020 would have impacted net sales by \$1.1 million.

For periods prior to adoption, revenue was recognized when persuasive evidence of an arrangement existed, and title and risks of ownership had passed to the customer, based on the terms of sale. Goods were usually shipped to customers with free-on-board (“FOB”) shipping point terms; however, our practice was to bear the responsibility of the delivery to the customer. In the case that product was lost or damaged in transit to the customer, we generally took the responsibility to provide new product. In effect, we applied a synthetic FOB destination policy and therefore recognized revenue when the product was delivered to the customer. For our national accounts, delivery of our products typically occurred at shipping point, as such customers took delivery at our distribution center.

Inventory

Inventories are comprised primarily of finished goods and are carried at the lower of cost (weighted-average cost method) or market (net realizable value). We make ongoing estimates relating to the net realizable value of inventories based upon our assumptions about future demand and market conditions. If the estimated net realizable value is less than cost, we reflect the lower value of that inventory. This methodology recognizes inventory exposures at the time such losses are identified rather than at the time the inventory is actually sold. Due to customer demand and inventory constraints, we have not historically taken material adjustments to the carrying value of our inventory.

Our inventory valuation reflects adjustments for anticipated inventory losses that have occurred since the last physical inventory. We estimate inventory shrinkage based on historical trends from physical inventory counts and cycle counts. We perform physical inventory counts and cycle counts throughout the year and adjust the shrink provision accordingly. Historically, physical inventory shrinkage has not been significant.

Valuation of Goodwill and Indefinite-Lived Intangible Assets

Goodwill and intangible assets are recorded at cost, or at their estimated fair values at the date of acquisition. We review goodwill and indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount may be impaired.

As a result of the events and impacts surrounding the COVID-19 pandemic, including the sharp decline in sales beginning in mid-March 2020 and reduced cash flow forecasts during the beginning of the second quarter of 2020, we considered whether these conditions indicated that it was more likely than not that our goodwill of \$54.3 million and indefinite-lived intangible assets were impaired as of March 28, 2020. Based on the qualitative assessment of the facts and circumstances in existence as of March 28, 2020 and the results of our annual impairment test performed during the fourth quarter of 2019, we determined that the fair values more likely than not significantly exceeded the carrying values of both our reporting unit and indefinite-lived intangible assets and, therefore, an interim quantitative impairment test was not performed. Based on our qualitative assessment performed during the fourth quarter of 2020, we determined that it is not more likely than not that the fair value of each reporting unit is lower than its carrying value; therefore, the quantitative impairment test was not required.

In conducting our annual impairment test, we first review qualitative factors to determine whether it is more likely than not that the fair value of the asset, or reporting units, is less than its carrying amount. If factors indicate that the fair value is less than its carrying amount, we perform a quantitative assessment, analyzing the expected present value of future cash flows to quantify the amount of impairment, if any. Based on our qualitative assessment performed during the fourth quarter of 2020, we determined that it is not more likely than not that the fair value of each reporting unit is lower than its carrying value; therefore, the quantitative impairment test was not required. We did not record any goodwill or indefinite-lived intangible assets impairment charges during the years ended January 2, 2021, December 28, 2019, or December 29, 2018.

Valuation of Long-Lived Assets

We assess the recoverability of our long-lived assets, which include property and equipment, operating lease right-of-use assets, and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. An impairment loss on our long-lived assets exists when the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. If the carrying amount exceeds the sum of the undiscounted cash flows, an impairment charge is recognized based on the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or estimated fair value less costs to sell.

Product Warranty

Warranty liabilities are recorded at the time of sale for the estimated costs that may be incurred under the terms of our limited warranty. We make and revise these estimates primarily on the number of units under warranty, historical experience of warranty claims, and an estimated per unit replacement cost. The liability for warranties is included in accrued expenses in our consolidated balance sheets. The specific warranty terms and conditions vary depending upon the product sold but are generally warranted against defects in material and workmanship ranging from three to five years. Our warranty only applies to the original owner. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required and could materially affect our financial condition and operating results.

Stock Options

We measure compensation expense for all stock-based awards at fair value on the date of grant and recognize compensation expense over the service period for awards expected to vest. We use the Black-Scholes-Merton (“Black-Scholes”) option pricing model to determine the fair value of stock option awards, which uses the expected option term, stock price volatility, and the risk-free interest rate. The expected option term assumption reflects the period for which we believe the option will remain outstanding. We elected to use the simplified method to determine the expected option term, which is the average of the options’ vesting and contractual terms. Our computation of expected volatility is based on the historical volatility of selected comparable publicly traded companies over a period equal to the expected term of the option. The risk-free interest rate reflects the U.S. Treasury yield curve for a similar instrument with the same expected term in effect at the time of the grant. The assumptions used in calculating the fair value of stock-based compensation awards represent management’s best estimates, but the estimates involve inherent uncertainties and the application of management judgment. If any of the assumptions used in the Black-Scholes model changes significantly, stock-based compensation expense for future option awards may differ materially compared with the awards granted previously. Costs relating to stock-based compensation are recognized in SG&A expenses in our consolidated statements of operations, and forfeitures are recognized as they occur. No stock options were granted during the year ended January 2, 2021.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see “Recently Adopted Accounting Guidance” and “Recent Accounting Guidance Not Yet Adopted” in Note 1 of the Notes to Consolidated Financial Statements included herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

In order to maintain liquidity and fund business operations, our long-term Credit Facility bears a variable interest rate based on prime, federal funds, or LIBOR plus an applicable margin based on our total net leverage ratio. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions, and other factors. We may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations, but as of January 2, 2021, we have not entered into any such contracts. Based on the balance outstanding under our Term Loan A at January 2, 2021, we estimate that a 1% increase or decrease in underlying interest rates would increase or decrease annual interest expense by \$1.4 million in any given fiscal year. See Item 1A, Risk Factors under *“The uncertainty regarding the potential phase-out of LIBOR may negatively impact our operating results”* for a discussion of the interest rate risk related the potential phase-out of LIBOR in 2021.

Inflation Risk

Inflationary factors such as increases in the cost of our products and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and SG&A expenses as a percentage of net sales, if the selling prices of our products do not increase with these increased costs.

Commodity Price Risk

The primary raw materials and components used by our contract manufacturing partners include polyethylene, polyurethane foam, stainless-steel, polyester fabric, zippers, and plastic. We believe these materials are readily available from multiple vendors. We have, and may continue to, negotiate prices with suppliers of these products on behalf of our third-party contract manufacturers in order to leverage the cumulative impact of our volume. We do not, however, source significant amounts of these products directly. Certain of these products use petroleum or natural gas as inputs. However, we do not believe there is a significant direct correlation between petroleum or natural gas prices and the costs of our products.

Foreign Currency Risk

Our international sales are primarily denominated in the Canadian dollar, Australian dollar, and Euros and any unfavorable movement in the exchange rate between the U.S. dollar and these currencies could have an adverse impact on our revenue. During 2020, net sales from our international entities accounted for 6% of our consolidated net sales, and therefore we do not believe exposure to foreign currency fluctuations would have a material impact on our net sales. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. In addition, our suppliers may incur many costs, including labor costs, in other currencies. To the extent that exchange rates move unfavorably for our suppliers, they may seek to pass these additional costs on to us, which could have a material impact on our gross margin. In addition, a strengthening of the U.S. dollar may increase the cost of our products to our customers outside of the United States. Our operating results and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. However, we believe that the exposure to foreign currency fluctuations from operating expenses is not material at this time as the related costs accounted for 5% of our total operating expenses.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
YETI Holdings, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of YETI Holdings, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of January 2, 2021 and December 28, 2019, the related consolidated statements of operations, comprehensive income, equity (deficit), and cash flows for each of the three years in the period ended January 2, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 2, 2021 and December 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 2, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of January 2, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated March 1, 2021 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2014.

Dallas, Texas
March 1, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
YETI Holdings, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of YETI Holdings, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of January 2, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended January 2, 2021, and our report dated March 1, 2021 which expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Dallas, Texas
March 1, 2021

YETI HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	January 2, 2021	December 28, 2019
ASSETS		
Current assets		
Cash	\$ 253,283	\$ 72,515
Accounts receivable, net	65,417	82,688
Inventory	140,111	185,700
Prepaid expenses and other current assets	17,686	19,644
Total current assets	<u>476,497</u>	<u>360,547</u>
Property and equipment, net	78,075	82,610
Operating lease right-of-use assets	34,090	37,768
Goodwill	54,293	54,293
Intangible assets, net	92,078	90,850
Deferred income taxes	1,062	1,082
Deferred charges and other assets	972	2,389
Total assets	<u><u>\$ 737,067</u></u>	<u><u>\$ 629,539</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 123,621	\$ 83,823
Accrued expenses and other current liabilities	89,068	42,088
Taxes payable	18,316	3,329
Accrued payroll and related costs	25,810	18,119
Operating lease liabilities	8,247	7,768
Current maturities of long-term debt	22,697	15,185
Total current liabilities	<u>287,759</u>	<u>170,312</u>
Long-term debt, net of current portion	111,017	281,715
Operating lease liabilities, non-current	36,546	42,200
Other liabilities	13,327	13,307
Total liabilities	<u>448,649</u>	<u>507,534</u>
Commitments and contingencies (Note 13)		
Stockholders' Equity		
Common stock, par value \$0.01; 600,000 shares authorized; 87,128 and 86,774 shares outstanding at January 2, 2021 and December 28, 2019, respectively	871	868
Preferred stock, par value \$0.01; 30,000 shares authorized; no shares issued or outstanding	—	—
Additional paid-in capital	321,678	310,678
Accumulated deficit	(33,744)	(189,545)
Accumulated other comprehensive (loss) income	(387)	4
Total stockholders' equity	<u>288,418</u>	<u>122,005</u>
Total liabilities and stockholders' equity	<u><u>\$ 737,067</u></u>	<u><u>\$ 629,539</u></u>

See Notes to Consolidated Financial Statements

YETI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Net sales.....	\$ 1,091,721	\$ 913,734	\$ 778,833
Cost of goods sold.....	462,918	438,420	395,705
Gross profit.....	628,803	475,314	383,128
Selling, general, and administrative expenses.....	414,570	385,543	280,972
Operating income.....	214,233	89,771	102,156
Interest expense.....	(9,155)	(21,779)	(31,280)
Other income (expense).....	123	(734)	(1,261)
Income before income taxes.....	205,201	67,258	69,615
Income tax expense.....	(49,400)	(16,824)	(11,852)
Net income.....	<u><u>\$ 155,801</u></u>	<u><u>\$ 50,434</u></u>	<u><u>\$ 57,763</u></u>
 Net income per share			
Basic.....	\$ 1.79	\$ 0.59	\$ 0.71
Diluted.....	\$ 1.77	\$ 0.58	\$ 0.69
 Weighted-average common shares outstanding			
Basic.....	86,978	85,088	81,777
Diluted.....	87,847	86,347	83,519

See Notes to Consolidated Financial Statements

YETI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Net income	\$ 155,801	\$ 50,434	\$ 57,763
Other comprehensive (loss) income			
Foreign currency translation adjustments.....	(391)	98	(137)
Total comprehensive income	<u>\$ 155,410</u>	<u>\$ 50,532</u>	<u>\$ 57,626</u>

See Notes to Consolidated Financial Statements

YETI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' (Deficit) Equity
	Shares	Amount				
Balance, December 30, 2017	81,535	\$ 815	\$ 219,095	\$ (296,184)	\$ 43	\$ (76,231)
Issuance of common stock upon initial public offering, net of offering costs	2,500	25	37,749	—	—	37,774
Stock-based compensation	—	—	13,247	—	—	13,247
Common stock issued under employee benefit plans	560	6	256	—	—	262
Common stock withheld related to net share settlement of stock-based compensation	(2)	—	(57)	—	—	(57)
Repurchase of common stock	(397)	(4)	(1,963)	—	—	(1,967)
Dividends	—	—	—	(1,683)	—	(1,683)
Other comprehensive loss	—	—	—	—	(137)	(137)
Net income	—	—	—	57,763	—	57,763
Balance, December 29, 2018	84,196	\$ 842	\$ 268,327	\$ (240,104)	\$ (94)	\$ 28,971
Stock-based compensation	—	—	52,332	—	—	52,332
Common stock issued under employee benefit plans	3,023	30	3,531	—	—	3,561
Common stock withheld related to net share settlement of stock-based compensation	(445)	(4)	(13,512)	—	—	(13,516)
Adoption of new accounting standard	—	—	—	500	—	500
Dividends	—	—	—	(375)	—	(375)
Other comprehensive income	—	—	—	—	98	98
Net income	—	—	—	50,434	—	50,434
Balance, December 28, 2019	86,774	\$ 868	\$ 310,678	\$ (189,545)	\$ 4	\$ 122,005
Stock-based compensation	—	—	9,009	—	—	9,009
Common stock issued under employee benefit plans	383	4	3,018	—	—	3,022
Common stock withheld related to net share settlement of stock-based compensation	(29)	(1)	(1,027)	—	—	(1,028)
Other comprehensive loss	—	—	—	—	(391)	(391)
Net income	—	—	—	155,801	—	155,801
Balance, January 2, 2021	87,128	\$ 871	\$ 321,678	\$ (33,744)	\$ (387)	\$ 288,418

See Notes to Consolidated Financial Statements

YETI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Cash Flows from Operating Activities:			
Net income	\$ 155,801	\$ 50,434	\$ 57,763
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	30,535	28,959	24,777
Amortization of deferred financing fees	935	2,189	3,425
Stock-based compensation	9,009	52,332	13,247
Deferred income taxes	(3,827)	15,615	2,226
Impairment of long-lived assets	1,051	616	2,209
Loss on prepayment, modification, or extinguishment of debt	1,064	643	694
Other	(74)	—	—
Changes in operating assets and liabilities:			
Accounts receivable, net	16,353	(19,940)	7,675
Inventory	46,052	(40,541)	29,583
Other current assets	1,982	(6,798)	(5,089)
Accounts payable and accrued expenses	89,125	6,614	43,740
Taxes payable	14,943	(3,101)	(5,876)
Other	3,478	(129)	1,694
Net cash provided by operating activities	<u>366,427</u>	<u>86,893</u>	<u>176,068</u>
Cash Flows from Investing Activities:			
Purchases of property and equipment	(15,566)	(32,077)	(20,860)
Additions of intangibles, net	(7,378)	(16,614)	(11,027)
Proceeds from sale of long-lived assets	—	—	165
Net cash used in investing activities	<u>(22,944)</u>	<u>(48,691)</u>	<u>(31,722)</u>
Cash Flows from Financing Activities:			
Borrowings under revolving line of credit	50,000	—	—
Repayments under revolving credit facility	(50,000)	—	—
Repayments of long-term debt	(165,000)	(34,875)	(151,788)
Proceeds from employee stock transactions	3,022	3,561	262
Taxes paid in connection with employee stock transactions	(1,028)	(13,516)	(57)
Finance lease principal payment	(185)	(74)	—
Repayments of Term Loan A in connection with amendment	—	(64,250)	—
Proceeds from borrowings in connection with amendment	—	66,238	—
Payments of deferred financing fees	—	(2,135)	—
Dividends	—	(636)	(2,523)
Cash paid for repurchase of common stock	—	—	(1,967)
Proceeds from issuance of common stock, net of offering costs	—	—	38,083
Net cash used in financing activities	<u>(163,191)</u>	<u>(45,687)</u>	<u>(117,990)</u>
Effect of exchange rate changes on cash	476	(51)	45
Net increase (decrease) in cash	180,768	(7,536)	26,401
Cash, beginning of period	<u>72,515</u>	<u>80,051</u>	<u>53,650</u>
Cash, end of period	<u><u>\$ 253,283</u></u>	<u><u>\$ 72,515</u></u>	<u><u>\$ 80,051</u></u>

See Notes to Consolidated Financial Statements

YETI HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

YETI Holdings, Inc. acquired the operations of YETI Coolers, LLC (“Coolers”) on June 15, 2012. We are headquartered in Austin, Texas, and are a designer, marketer, and distributor of premium products for the outdoor and recreation market which are sold under the YETI brand. We sell our products through our wholesale channel, including independent retailers, national, and regional accounts across a wide variety of end user markets, as well as through our direct-to-consumer (“DTC”) channel, primarily our e-commerce website. We operate in the U.S., Canada, Australia, New Zealand, Europe, Hong Kong, China, Singapore, and Japan.

The terms “we,” “us,” “our,” and “the Company” as used herein and unless otherwise stated or indicated by context, refer to YETI Holdings, Inc. and its subsidiaries.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules of the U.S. Securities and Exchange Commission (“SEC”). The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. Intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses during the reporting period and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates and assumptions about future events and their effects cannot be made with certainty, including the potential impacts and duration of the COVID-19 pandemic. Estimates may change as new events occur, when additional information becomes available and if our operating environment changes. Actual results could differ from our estimates.

Fiscal Year End

We have a 52- to 53-week fiscal year that ends on the Saturday closest in proximity to December 31, such that each quarterly period will be 13 weeks in length, except during a 53-week year when the fourth quarter will be 14 weeks. Fiscal year 2020 was a 53-week period and fiscal years 2019 and 2018 spanned 52 weeks each. The consolidated financial results represent the fiscal years ended January 2, 2021 (“2020”), December 28, 2019 (“2019”), and December 29, 2018 (“2018”).

Accounts Receivable

Accounts receivable are carried at original invoice amount less estimated credit losses. Upon initial recognition of a receivable, we estimate credit losses over the contractual term of the receivable and establish an allowance for credit losses based on historical experience, current available information, and expectations of future economic conditions. We mitigate credit loss risk from accounts receivable by assessing customers for credit worthiness, including ongoing credit evaluations and their payment trends. Credit risk is limited due to ongoing monitoring, high geographic customer distribution, and low concentration of risk. As the risk of loss is determined to be similar based on the credit risk factors, we aggregate receivables on a collective basis when assessing credit losses. Accounts receivable are uncollateralized customer obligations due under normal trade terms typically requiring payment within 30 to 90 days of sale. Receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded to income when received. Our allowance for credit losses was \$1.3 million as of January 2, 2021 and nominal as of December 28, 2019, respectively.

Advertising

Advertising costs are expensed in the period in which the advertising occurs and included in selling, general and administrative expenses in our consolidated statements of operations. Advertising costs were \$42.9 million, \$39.0 million, and \$27.5 million for 2020, 2019, and 2018, respectively. At January 2, 2021 and December 28, 2019, prepaid advertising costs were \$0.9 million and \$0.4 million, respectively.

Cash

We maintain our cash in bank deposit accounts which, at times, may exceed federally insured limits. We have not historically experienced any losses in such accounts.

Comprehensive Income

Our comprehensive income is determined based on net income adjusted for gains and losses on foreign currency translation adjustments.

Concentration of Risk

We are exposed to risk due to our concentration of business activity with certain third-party contract manufacturers of our products. For hard coolers, soft coolers, Drinkware, bags, outdoor living and pet products, our two largest manufacturers comprised approximately 88%, 85%, 77%, 83%, and 95%, respectively, of our production volume during 2020. For cargo, two manufacturers accounted for all of the production in 2020.

Deferred Financing Fees

Costs incurred upon the issuance of our debt instruments are capitalized and amortized over the life of the associated debt instrument on a straight-line basis, in a manner that approximates the effective interest method. If the debt instrument is retired before its scheduled maturity date, any remaining issuance costs associated with that debt instrument are expensed in the same period. Deferred financing fees related to our \$450.0 million senior secured Credit Facility are reported in “Long-term debt, net of current portion” as a direct reduction of the carrying amount of our outstanding long-term debt. At January 2, 2021 and December 28, 2019, the amortization of deferred financing fees included in interest expense was \$0.9 million and \$2.2 million, respectively.

Fair Value of Financial Instruments

For financial assets and liabilities recorded at fair value on a recurring or non-recurring basis, fair value is the price we would receive to sell an asset, or pay to transfer a liability, in an orderly transaction with a market participant at the measurement date. In the absence of such data, fair value is estimated using internal information consistent with what market participants would use in a hypothetical transaction. In determining fair value, observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions; preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

Our financial instruments consist principally of cash, accounts receivable, accounts payable, and bank indebtedness. The carrying amount of cash, accounts receivable, and accounts payable, approximates fair value due to the short-term maturity of these instruments. The carrying amount of our long-term bank indebtedness approximates fair value based on Level 2 inputs since the Credit Facility carries a variable interest rate that is based on the London Interbank Offered Rate (“LIBOR”).

Foreign Currency Translation and Foreign Currency Transactions

Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income.

For consolidation purposes, the assets and liabilities of our subsidiaries whose functional currency is not the U.S. dollar are translated into U.S. dollars using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the period. The gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as a separate component of accumulated other comprehensive income.

Goodwill and Intangible Assets

Goodwill and intangible assets are recorded at cost, or at their estimated fair values at the date of acquisition. We review goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter of each fiscal year or on an interim basis whenever events or changes in circumstances indicate the fair value of such assets may be below their carrying amount. In conducting our annual impairment test, we first review qualitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount. If factors indicate that the fair value of the asset is less than its carrying amount, we perform a quantitative assessment of the asset, analyzing the expected present value of future cash flows to quantify the amount of impairment, if any. We perform our annual impairment tests in the fourth quarter of each fiscal year.

For our annual goodwill impairment tests in the fourth quarters of 2020 and 2019, we performed a qualitative assessment to determine whether the fair value of goodwill was more likely than not less than the carrying value. Based on economic conditions and industry and market considerations, we determined that it was more likely than not that the fair value of goodwill was greater than its carrying value; therefore, the quantitative impairment test was not performed. Therefore, we did not record any goodwill impairment for the years 2020 and 2019.

Our intangible assets consist of indefinite-lived intangible assets, including tradename, trademarks, trade dress, and definite-lived intangible assets such as customer relationships, trademarks, patents, and other intangibles assets, such as copyrights and domain name. We also capitalize the costs of acquired trademarks, trade dress, patents and other intangibles, such as copyrights and domain name assets.

In addition, external legal costs incurred in the defense of our patents and trademarks are capitalized when we believe that the future economic benefit of the intangible asset will be increased, and a successful defense is probable. In the event of a successful defense, the settlements received are netted against the external legal costs that were capitalized. Capitalized patent and trademark defense costs are amortized over the remaining useful life of the asset. Where the defense of the patent and trademark maintains rather than increases the expected future economic benefits from the asset, the costs would generally be expensed as incurred. The external legal costs incurred and settlements received may not occur in the same period. Capitalized costs incurred during 2018, 2019, and 2020 primarily relate to external legal costs incurred in the defense of our patents and trademarks, net of settlements received.

Income Taxes

We provide for taxes at the enacted rate applicable for the appropriate tax jurisdictions. Deferred taxes are provided on an asset and liability method, which requires the recognition of deferred tax assets and liabilities for expected future consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities using enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Tax filing positions are evaluated, and we recognize the largest amount of tax benefit that is more likely than not to be sustained upon examination by the taxing authorities based on the technical merits of the tax position. Settlements with tax authorities, the expiration of statutes of limitations for particular tax positions, or obtaining new information on particular tax positions may cause a change to the effective tax rate. We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated statements of operations.

Inventories

Inventories are comprised primarily of finished goods and are generally valued at the lower of weighted-average cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We make ongoing estimates relating to the net realizable value of inventories based upon our assumptions about future demand and market conditions.

Property and Equipment

We record property and equipment at their original acquisition costs and we depreciate them based on a straight-line method over their estimated useful lives. Expenditures for repairs and maintenance are expensed as incurred, while asset improvements that extend the useful life are capitalized. The useful lives for property and equipment are as follows:

Leasehold improvements.....	lesser of 10 years, remaining lease term, or estimated useful life of the asset
Molds and tooling.....	3 - 5 years
Furniture and equipment.....	3 - 7 years
Computers and software.....	3 - 7 years

Research and Development Costs

Research and development costs are expensed as incurred. Employee compensation, including non-cash stock-based compensation expense, and miscellaneous supplies are included in research and development costs within selling, general, and administrative expenses. Research and development expenses were \$11.2 million, \$20.5 million, and \$10.8 million, for 2020, 2019, and 2018, respectively. The increase in research and development costs in 2019 relates primarily to one-time non-cash stock-based compensation expense related to pre-IPO performance-based restricted stock units that vested and were fully recognized in the fourth quarter of 2019. See Note 10 for further discussion.

Revenue Recognition

As discussed in the “Recently Adopted Accounting Standards” section below, we adopted the new revenue recognition standard at the beginning of 2019. Revenue transactions associated with the sale of YETI branded coolers, equipment, drinkware, apparel and accessories comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or DTC channels. Revenue is recognized when performance obligations are satisfied through the transfer of control of promised goods to the customers, based on the terms of sale. The transfer of control typically occurs at a point in time based on consideration of when the customer has an obligation to pay for the goods, and physical possession of, legal title to, and the risks and rewards of ownership of the goods has been transferred, and the customer has accepted the goods. Revenue from wholesale transactions is generally recognized at the time products are shipped based on contractual terms with the customer. Revenue from our DTC channel is generally recognized at the point of sale in our retail stores and at the time products are shipped for e-commerce transactions and corporate sales based on contractual terms with the customer.

Revenue is recognized net of estimates of variable consideration, including product returns, customer discounts and allowances, sales incentive programs, and miscellaneous claims from customers. We determine these estimates based on contract terms, evaluations of historical experience, anticipated trends, and other factors. The actual amount of customer returns and customer allowances, which is inherently uncertain, may differ from our estimates.

The duration of contractual arrangements with our customers is typically less than 1 year. Payment terms with wholesale customers vary depending on creditworthiness and other considerations, with the most common being net 30 days. Payment is due at the time of sale for retail store transactions and at the time of shipment for e-commerce transactions.

Certain products that we sell include a limited warranty which does not meet the definition of a performance obligation within the context of the contract. Product warranty costs are estimated based on historical and anticipated trends and are recorded as cost of goods sold at the time revenue is recognized.

Revenue from the sale of gift cards is initially deferred and recognized as a contract liability until the gift card is redeemed by the customer.

We elected to account for shipping and handling as fulfillment activities, and not as separate performance obligations. Shipping and handling fees billed to customers are included in net sales. All shipping and handling activity costs are recognized as selling, general and administrative expenses at the time the related revenue is recognized. Sales taxes collected from customers and remitted directly to government authorities are excluded from net sales and cost of goods sold.

Our terms of sale provide limited return rights. We may accept, and have at times accepted, returns outside our terms of sale at our sole discretion. We may also, at our sole discretion, provide our retail partners with sales discounts and allowances. We record estimated sales returns, discounts, and miscellaneous customer claims as reductions to net sales at the time revenues are recorded. We base our estimates upon historical experience and trends, and upon approval of specific returns or discounts. Actual returns and discounts in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and discounts were significantly greater or lower than the reserves we had established, we would record a reduction or increase to net sales in the period in which we made such determination.

For periods prior to adoption, revenue was recognized when persuasive evidence of an arrangement existed, and title and risks of ownership had passed to the customer, based on the terms of sale. Goods were usually shipped to customers with free-on-board ("FOB") shipping point terms; however, our practice was to bear the responsibility of the delivery to the customer. In the case that product was lost or damaged in transit to the customer, we generally took the responsibility to provide new product. In effect, we applied a synthetic FOB destination policy and therefore recognized revenue when the product was delivered to the customer. For our national accounts, delivery of our products typically occurred at shipping point, as such customers took delivery at our distribution center.

Segment Information

We report our operations as a single reportable segment and manage our business as a single-brand consumer products business. This is supported by our operational structure, which includes sales, research, product design, operations, marketing, and administrative functions focused on the entire product suite rather than individual product categories. Our chief operating decision maker does not regularly review financial information for individual product categories, sales channels, or geographic regions that would allow decisions to be made about allocation of resources or performance.

Shipping and Handling Costs

Amounts charged to customers for shipping and handling are included in net sales. Our cost of goods sold includes inbound freight charges for product delivery from our third-party contract manufacturers. The cost of product shipment to our customers, which is included in selling, general and administrative expenses in our consolidated statements of operations, was \$62.7 million, \$39.9 million, and \$30.2 million for 2020, 2019, and 2018, respectively.

Stock-Based Compensation

Stock-based compensation awards granted to employees and directors are measured at fair value and recognized as an expense. Compensation expense equal to the fair value of performance-based awards that are expected to vest is estimated and recorded over the period the grants are earned, which is the vesting period. Compensation expense estimates are updated periodically. The vesting of the performance-based restricted stock units is also contingent upon the attainment of predetermined performance goals. Depending on the estimated probability of attainment of those performance goals, the compensation expense recognized related to the awards could increase or decrease over the remaining vesting period.

We use a Black-Scholes option-pricing model to calculate the fair value of options. This model requires various judgmental assumptions including volatility, forfeiture rates and expected option life. No stock options were granted in 2020.

Costs relating to stock-based compensation are recognized in selling, general, and administrative expenses in our consolidated statements of operations, and forfeitures are recognized as they occur. See Note 10 for further discussion.

Valuation of Long-Lived Assets

We assess the recoverability of our long-lived assets, which include property and equipment, operating lease right-of-use assets, and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. An impairment loss on our long-lived assets exists when the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. If the carrying amount exceeds the sum of the undiscounted cash flows, an impairment charge is recognized based on the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or estimated fair value less costs to sell.

Warranty

Warranty liabilities are recorded at the time of sale for the estimated costs that may be incurred under the terms of our limited warranty. We make and revise these estimates primarily based on the number of units under warranty, historical experience of warranty claims, and an estimated per unit replacement cost. The liability for warranties is included in accrued expenses in our consolidated balance sheets. The specific warranty terms and conditions vary depending upon the product sold, but are generally warranted against defects in material and workmanship ranging from three to five years. Our warranty only applies to the original owner. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required and could materially affect our financial condition and operating results. Warranty reserves were \$8.9 million and \$6.6 million as of January 2, 2021 and December 28, 2019, respectively. Warranty costs included in costs of goods sold were \$5.1 million, \$3.8 million, and \$3.6 million for 2020, 2019, and 2018, respectively.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 842, *Leases* (“ASC 842”), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. We adopted ASC 842 effective December 30, 2018, the first day of fiscal year 2019 using the modified retrospective transition method. We applied the transition provision for ASC 842 at our adoption date instead of at the earliest comparative period presented in our financial statements and, therefore, we recognized and measured leases existing at December 30, 2018, but without retrospective application.

The impact of the adoption of ASC 842 on previously reported interim financial statements included the recognition of right-of-use (“ROU”) assets and lease liabilities for operating leases. The adoption of ASC 842 had no impact to previously reported results of operations for any interim period. See Note 5 for further discussion.

In the first quarter of 2019, we adopted ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), using the modified retrospective transition method and applying this approach to contracts not completed as of the date of adoption. This ASC requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 also requires certain disclosures regarding qualitative and quantitative information with respect to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Comparative prior period information has not been restated and continues to be reported in accordance with accounting standards in effect for those periods. See Note 2 for additional revenue disclosures.

Under ASC 606, an asset for the estimated cost of inventory expected to be returned is now recognized separately from the liability for sales-related reserves. This resulted in an increase in prepaid expenses and other current assets and an increase in accrued expenses and other current liabilities on our consolidated balance sheets as of December 28, 2019.

The adoption of ASC 606 impacted the timing of revenue recognized related to sales for certain wholesale transactions and substantially all e-commerce transactions, resulting in earlier recognition of such sales, which were not material. Additionally, miscellaneous claims from customers are now recognized in net sales. Previously, these costs were recorded in selling, general and administrative expenses.

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, *Measurement of Credit Losses on Financial Instruments*, and also subsequently issued amendments to the initial guidance, in ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2020-02. ASU 2016-13 replaces the current incurred loss impairment method with a method that reflects expected credit losses on financial instruments. In November 2018, the FASB issued update ASU 2018-19, clarifying the scope of ASU 2016-13. In April 2019, the FASB issued updated ASU 2019-04, clarifying that equity instruments without readily determinable fair values for which an entity has elected the measurement alternative should be remeasured to fair value as of the date that an observable transaction occurred. In May 2019, the FASB issued ASU 2019-05, which provides an option to irrevocably elect to measure certain individual financial assets at fair value instead of amortized cost. ASU 2020-02 provides updated guidance on how an entity should measure credit losses on financial instruments. We adopted this standard in the first quarter of fiscal year 2020. The adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU removes Step 2 from the goodwill impairment test. The standard will be effective for us in the first quarter of our fiscal year 2020, although early adoption is permitted. The adoption of this ASU did not have a material impact on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. We adopted this standard in the first quarter of fiscal year 2020. The adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350)* (“ASU 2018-15”). The objective of ASU 2018-15 is to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those incurred to develop or obtain internal-use software. The amendments can be applied either retrospectively or prospectively. We adopted this standard in the first quarter of fiscal year 2020. The adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures.

Recent Accounting Guidance Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides an optional expedient and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In response to the concerns about structural risks of interbank offered rates (“IBORs”) and, particularly, the risk of cessation of the LIBOR, regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. The ASU can be adopted no later than December 1, 2022 (fiscal year 2023) with early adoption permitted. We are evaluating the effect of adopting this new accounting guidance.

2. REVENUE

Contract Balances

Accounts receivable represent an unconditional right to receive consideration from a customer and are recorded at net invoiced amounts, less an estimated allowance for doubtful accounts.

Contract liabilities are recorded when the customer pays consideration before the transfer of a good to the customer and thus represent our obligation to transfer the good to the customer at a future date. Our primary contract liabilities relate to payment advances for certain customized product transactions and gift cards. We recognize contract liabilities as revenue once all performance obligations have been satisfied.

The following table provides information about accounts receivable and contract liabilities at the periods indicated (in thousands):

	January 2, 2021	December 28, 2019
Accounts receivable, net	\$ 65,417	\$ 82,688
Contract liabilities	(11,074)	(4,499)

During the year ended January 2, 2021, we recognized \$4.2 million of revenue that was previously included in the contract liability balance at the beginning of the period. The change in the contract liability balance primarily results from timing differences between the customer's payment and our satisfaction of performance obligations.

Disaggregation of Revenue

The following table disaggregates our net sales by channel, product category, and geography for the periods indicated (in thousands):

	2020	2019	2018 ⁽¹⁾
Net Sales by Channel:			
Wholesale	\$ 510,861	\$ 527,634	\$ 491,431
Direct-to-consumer	580,860	386,100	287,402
Total net sales	\$ 1,091,721	\$ 913,734	\$ 778,833
Net Sales by Category:			
Coolers & Equipment	\$ 446,585	\$ 368,874	\$ 331,224
Drinkware	628,566	526,241	424,164
Other	16,570	18,619	23,445
Total net sales	\$ 1,091,721	\$ 913,734	\$ 778,833
Net Sales by Geographic Region:			
United States	\$ 1,025,393	\$ 873,867	\$ 761,880
International	66,328	39,867	16,953
Total net sales	\$ 1,091,721	\$ 913,734	\$ 778,833

(1) Prior year information is presented in accordance with accounting guidance in effect during that period and has not been updated to reflect the impact of ASC 606. See Note 1 for additional information.

For 2019, and 2018, our largest single customer represented approximately 15%, and 16% of gross sales, respectively. In 2020, 2019, and 2018 Amazon Marketplace accounted for 14%, 13%, and 10% of gross sales, respectively. No other customer accounted for more than 10% of gross sales in 2020, 2019 or 2018.

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets include the following (in thousands):

	January 2, 2021	December 28, 2019
Prepaid expenses	\$ 12,174	\$ 15,052
Prepaid taxes	433	1,374
Other	5,079	3,218
Total prepaid expenses and other current assets	\$ 17,686	\$ 19,644

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at the dates indicated (in thousands):

	January 2, 2021	December 28, 2019
Production molds, tooling, and equipment	\$ 60,331	\$ 56,375
Furniture, fixtures, and equipment	8,204	7,721
Computers and software	63,343	52,930
Leasehold improvements	37,933	35,419
Finance leases	1,208	1,208
Property and equipment, gross	171,019	153,653
Accumulated depreciation	(92,944)	(71,043)
Property and equipment, net	<u>\$ 78,075</u>	<u>\$ 82,610</u>

Depreciation expense was \$24.6 million, \$23.2 million, and \$19.5 million for 2020, 2019, and 2018, respectively.

Geographic Information

Property and equipment, net by geographical region was as follows as of the dates indicated (in thousands):

	January 2, 2021	December 28, 2019
United States	\$ 65,509	\$ 70,672
International	12,566	11,938
Property and equipment, net	<u>\$ 78,075</u>	<u>\$ 82,610</u>

5. LEASES

We determine if an arrangement is or contains a lease at contract inception and determines its classification as an operating or finance lease at lease commencement. We lease certain retail locations, office space, distribution facilities, manufacturing space, and machinery and equipment. While the substantial majority of these leases are operating leases, certain machinery and equipment agreements are finance leases. As of January 2, 2021, the initial lease terms of the various leases range from one to 20 years. ROU lease assets and liabilities associated with leases with an initial term of twelve months or less are not recorded on the balance sheet.

Operating lease assets represent the right to use an underlying asset for the lease term, and operating lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at commencement date. We use our collateralized incremental borrowing rate based on the information available at commencement date, including lease term, in determining the present value of future payments. Our operating leases also typically require payment of real estate taxes, common area maintenance and insurance. These components comprise the majority of our variable lease cost and are excluded from the present value of our lease obligations. In instances where they are fixed, they are included due to our election to combine lease and non-lease components, with the exception of our distribution facility asset class. Operating lease assets include prepaid lease payments and initial direct costs and are reduced by lease incentives. Our lease terms generally do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised. Fixed payments may contain predetermined fixed rent escalations. We recognize the related rent expense on a straight-line basis from the commencement date to the end of the lease term.

The following table presents the assets and liabilities related to operating and finance leases (in thousands):

	Balance Sheet Location	January 2, 2021
Assets:		
Operating lease assets.....	Operating lease right-of-use assets.....	\$ 34,090
Finance lease assets.....	Property, plant and equipment.....	909
Total lease assets.....		<u><u>\$ 34,999</u></u>
Liabilities:		
Current		
Operating lease liabilities.....	Operating lease liabilities.....	\$ 8,247
Finance lease liabilities.....	Current maturities of long-term debt.....	197
Non-current		
Operating lease liabilities.....	Operating lease liabilities, non-current.....	36,546
Finance lease liabilities.....	Long-term debt, net of current portion.....	753
Total lease liabilities.....		<u><u>\$ 45,743</u></u>

The following table presents the components of lease costs (in thousands):

	Fiscal Year Ended	
	January 2, 2021	
Operating lease costs.....		\$ 9,599
Finance lease cost - amortization of right-of-use assets.....		211
Finance lease cost - interest on lease liabilities.....		64
Short-term lease cost.....		185
Variable lease cost.....		3,349
Sublease income.....		<u>(757)</u>
Total lease cost.....		<u><u>\$ 12,651</u></u>

The following table presents lease terms and discount rates:

	January 2, 2021
Weighted average remaining lease term:	
Operating leases.....	6.15 years
Finance leases.....	3.66 years
Weighted average discount rate:	
Operating leases.....	6.42 %
Finance leases.....	6.24 %

Minimum lease payments have not been reduced by minimum sublease rentals of \$3.2 million due in the future under non-cancelable subleases. We received \$0.8 million, \$0.7 million, and \$0.4 million in sublease income for 2020, 2019, and 2018, respectively. The following table presents the minimum lease payment obligations of operating and finance lease liabilities (leases with terms in excess of one year) for the next five years and thereafter as of January 2, 2021 (in thousands):

	Operating Leases	Finance Leases	Total
2021.....	\$ 10,852	\$ 249	\$ 11,101
2022.....	7,752	249	8,001
2023.....	8,044	249	8,293
2024.....	7,759	330	8,089
2025.....	7,035	—	7,035
Thereafter.....	13,268	—	13,268
Total lease payments.....	54,710	1,077	55,787
Less: Effect of discounting to net present value.....	9,917	127	10,044
Present value of lease liabilities.....	<u>\$ 44,793</u>	<u>\$ 950</u>	<u>\$ 45,743</u>

The following table presents supplemental cash flow information related to our leases (in thousands):

	<u>January 2, 2021</u>
Cash paid for amounts included in measurement of liabilities:	
Operating cash flows used in operating leases.....	\$ 11,097
Operating cash flows used in finance leases.....	64
Financing cash flows used in finance leases.....	185
Right-of-use assets obtained in exchange for new lease liabilities:	
Operating leases.....	2,831

6. INTANGIBLE ASSETS

Intangible assets consisted of the following at the dates indicated below (dollars in thousands):

		January 2, 2021		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Tradename	Indefinite	\$ 31,363	\$ —	\$ 31,363
Trade dress	Indefinite	14,197	—	14,197
Trademarks	Indefinite	13,514	—	13,514
Customer relationships	11 years	42,205	(32,783)	9,422
Trademarks	6 - 30 years	19,514	(5,982)	13,532
Patents	4 - 25 years	10,369	(1,072)	9,297
Other intangibles	15 years	1,045	(292)	753
Total intangible assets		<u>\$ 132,207</u>	<u>\$ (40,129)</u>	<u>\$ 92,078</u>

		December 28, 2019		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Tradename	Indefinite	\$ 31,363	\$ —	\$ 31,363
Trade dress	Indefinite	13,917	—	13,917
Trademarks	Indefinite	9,245	—	9,245
Customer relationships	11 years	42,205	(28,947)	13,258
Trademarks ⁽¹⁾	6 - 30 years	19,872	(4,307)	15,565
Patents	4 - 25 years	7,407	(719)	6,688
Non-compete agreements	5 years	2,815	(2,815)	—
Other intangibles	15 years	1,041	(227)	814
Total intangible assets		<u>\$ 127,865</u>	<u>\$ (37,015)</u>	<u>\$ 90,850</u>

(1) Includes the acquisition of \$9.1 million in trademarks during 2019, as discussed below.

Amortization expense was \$5.9 million, \$5.8 million, and \$5.3 million, for 2020, 2019, and 2018, respectively. Amortization expense related to intangible assets is expected to be \$4.9 million for 2021 and 2022, \$4.8 million for 2023, \$3.4 million for 2024, and \$2.1 million for 2025.

Intellectual Property Acquisition

In March 2019, we acquired the intellectual property rights related to the YETI brand across several jurisdictions, primarily in Europe and Asia, for approximately \$9.1 million, pursuant to certain purchase agreements we entered into with a European outdoor retailer. The intellectual property rights include trademark registrations and applications for YETI formative trademarks for goods and services, as well as domain names that include the YETI trademark. The purchase price has been allocated to trademarks.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following at the dates indicated (in thousands):

	January 2, 2021	December 28, 2019
Accrued freight and distribution costs.....	\$ 22,047	\$ 12,454
Contract liabilities.....	11,074	4,499
Customer discounts, allowances, and returns.....	10,920	6,976
Advertising and marketing.....	12,675	3,300
Warranty reserve.....	8,936	6,584
Accrued capital expenditures.....	4,967	48
Interest payable.....	89	420
Other.....	18,360	7,807
Total accrued expenses and other current liabilities.....	\$ 89,068	\$ 42,088

8. LONG-TERM DEBT

Long-term debt consisted of the following at the dates indicated (in thousands):

	January 2, 2021	December 28, 2019
Term Loan A, due 2024.....	\$ 135,000	\$ 300,000
Finance lease debt.....	950	1,135
Total debt.....	135,950	301,135
Current maturities of long-term debt.....	(22,500)	(15,000)
Current maturities of finance lease debt.....	(197)	(185)
Total long-term debt.....	113,253	285,950
Unamortized deferred financing fees.....	(2,236)	(4,235)
Total long-term debt, net.....	\$ 111,017	\$ 281,715

At January 2, 2021, the future maturities of principal amounts of our debt obligations, excluding finance lease obligations, for the next four years and in total (see Note 5 for future maturities of finance lease obligations), consisted of the following (in thousands):

	Amount
2021.....	22,500
2022.....	22,500
2023.....	22,500
2024.....	67,500
Total.....	\$ 135,000

Credit Facility

In May 2016, we entered into senior secured credit agreement that provided for: (a) a \$100.0 million Revolving Credit Facility maturing on May 19, 2021 (“Revolving Credit Facility”); (b) a \$445.0 million term loan A maturing on May 19, 2021 (“Term Loan A”); and (c) a \$105.0 million term loan B maturing on May 19, 2022 (“Term Loan B”) (together with the amendments described below, the “Credit Facility”). Borrowings made under the Credit Facility bear interest at a variable rate based on the LIBOR plus an applicable margin. The applicable margin for LIBOR rate borrowings is determined by reference to a pricing grid, based on the ratio of our net leverage ratio, and ranges from 1.75% to 2.75%. Additionally, a commitment fee of between 0.175% and 0.375% also determined by reference to the pricing grid, is payable on the average daily unused amounts under the Revolving Credit Facility.

On July 15, 2017, we amended the Credit Facility to reset the net leverage ratio covenant for the period ending June 2017 and thereafter, and we incurred \$2.0 million in additional deferred financing fees.

On December 17, 2019, we further amended our Credit Facility which increased the remaining principal amount of Term Loan A from approximately \$298.0 million to \$300.0 million; increased the commitments under the revolving credit facility from \$100.0 million to \$150.0 million; extended the maturity date of both Term Loan A and the revolving credit facility from May 19, 2021 to December 17, 2024; revised the leverage ratios and reduced the interest rates spreads and commitment fee payable on the average daily unused amount of the revolving commitment; and revised the scheduled quarterly principal payments of Term Loan A to 1.25% of the remaining aggregate principal amount of Term Loan A for the first year, and 1.875% for the second year and thereafter until the maturity date. As a result of the amendment, we recognized a \$0.6 million loss on modification and extinguishment of debt and we capitalized \$2.1 million of new lender and third-party fees in the fourth quarter of 2019.

In March 2020, we drew down \$50.0 million from our \$150.0 million Revolving Credit Facility. This action was a precautionary measure to enhance our liquidity position and to increase available cash on hand in response to the COVID-19 pandemic. During the second quarter of 2020, we repaid in full the \$50.0 million borrowed under the Revolving Credit Facility. The weighted average interest rate was 2.92% for borrowings under the Revolving Credit Facility. As of January 2, 2021, we had no borrowings outstanding under our Revolving Credit Facility.

The Credit Facility also provides us with the ability to issue up to \$20.0 million in letters of credit. While our issuance of letters of credit does not increase our borrowings outstanding under our Revolving Credit Facility, it does reduce the amount available. As of January 2, 2021, we had no outstanding letters of credit.

The weighted average interest rate on borrowings outstanding under the Term Loan A at January 2, 2021 and December 28, 2019 was 2.72% and 6.05%, respectively.

The Credit Facility includes customary financial and non-financial covenants limiting, among other things, mergers and acquisitions; investments, loans, and advances; affiliate transactions; changes to capital structure and the business; additional indebtedness; additional liens; the payment of dividends; and the sale of assets, in each case, subject to certain customary exceptions. The Credit Facility contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, defaults under other material debt, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Credit Facility to be in full force and effect, and a change of control of our business. At January 2, 2021, we were in compliance with the covenants under our Credit Facility.

Term Loan A

The Term Loan A is a \$300.0 million term loan facility, maturing on December 17, 2024. Principal payments of \$3.8 million were due quarterly during 2020 and \$5.6 million are due quarterly during 2021 to 2024 with the entire unpaid balance due at maturity. In 2020, we made \$150.0 million in voluntary payments on our Term Loan A from excess cash on hand, and as a result we recorded a \$1.1 million loss on prepayments of debt.

Extinguishment of Term Loan B

During the fourth quarter of 2018, we voluntarily repaid in full the \$47.6 million principal amount and \$0.6 million of accrued interest outstanding under our Term Loan B, using the net proceeds from our IPO plus additional cash on hand. As a result of the voluntary repayment of the Term Loan B prior to maturity of December 17, 2024, we recorded a loss from extinguishment of debt of \$0.7 million relating to the write-off of unamortized financing fees associated with the Term Loan B.

Extinguishment of Rambler On LLC Promissory Note

In May 2019, we repaid in full \$1.5 million of remaining principal on the unsecured promissory note to Rambler On LLC and \$0.1 million of accrued interest outstanding thereon, using cash on hand. See Note 12 for additional information.

9. BENEFIT PLAN

We provide a 401(k)-defined contribution plan covering substantially all our employees, which allows for employee contributions and provides for an employer match. Our contributions totaled approximately \$1.1 million, \$1.1 million, and \$1.0 million for 2020, 2019, and 2018, respectively.

10. STOCK-BASED COMPENSATION

In October 2018, the Board adopted the 2018 Plan and ceased granting awards under the YETI Holdings, Inc. 2012 Equity and Performance Incentive Plan, as amended and restated on June 20, 2018 (the “2012 Plan”). The 2018 Plan became effective with the completion of our IPO. Any remaining shares available for issuance under the 2012 Plan as of our IPO effectiveness date are not available for future issuance. However, shares subject to stock awards granted under the 2012 Plan (a) that expire or terminate without being exercised or (b) that are forfeited under an award return to the 2018 Plan.

Subject to adjustments as described above, the 2018 Plan provides for up to 4.8 million shares of authorized stock to be awarded as stock options, appreciation rights, restricted stock (“RSAs”), restricted stock units (“RSUs”), performance shares, performance units, cash incentive awards, and certain other awards based on or related to shares of our common stock. The 2012 Plan provided for up to 8.8 million shares of authorized stock to be awarded as either stock options or RSUs.

Stock options, RSUs, and RSAs granted generally have a three-year vesting period and vest one-third on the first anniversary of the grant date, and an additional one-sixth vest on each of the first four six-month anniversaries of the initial vesting date. Stock options have a ten year term. Performance-based restricted stock awards (“PBRSSs”) vest three years from the grant date, subject to the attainment of certain predetermined performance goals and the grantee remaining employed during the vesting period. Depending on the estimated probability of attainment of those performance goals, the compensation expense recognized related to the awards could increase or decrease over the remaining vesting period. Deferred stock units (“DSUs”) are issued to non-employee directors in lieu of RSU or certain cash compensation at the election of the grantee. DSUs generally vest one year from the grant date.

We recognized non-cash stock-based compensation expense of \$9.0 million, \$52.3 million, and \$13.2 million for 2020, 2019, and 2018, respectively. As of January 2, 2021, total unrecognized stock-based compensation expense of \$17.0 million for all stock-based compensation plans is expected to be recognized over a weighted-average period of 1.7 years.

Stock Options Fair Value

The exercise price of options granted under the 2012 Plan and 2018 Plan is equal to the estimated fair market value of our common stock at the date of grant. Before our IPO in October 2018, we estimated the fair value of our common stock based on the appraisals performed by an independent valuation specialist. Subsequent to our IPO, we began using the market closing price for our common stock as reported on the New York Stock Exchange.

We estimate the fair value of stock options on the date of grant using a Black-Scholes option-pricing valuation model, which uses the expected option term, stock price volatility, and the risk-free interest rate. The expected option term assumption reflects the period for which we believe the option will remain outstanding. We elected to use the simplified method to determine the expected option term, which is the average of the option’s vesting and contractual term. Our computation of expected volatility is based on the historical volatility of selected comparable publicly-traded companies over a period equal to the expected term of the option. The risk-free interest rate reflects the U.S. Treasury yield curve for a similar instrument with the same expected term in effect at the time of the grant.

The following assumptions were utilized to calculate the fair value of stock options granted during the periods indicated below:

	2019	2018
Expected option term	6 years	6 years
Expected stock price volatility	27% - 35%	35%
Risk-free interest rate	1.64% - 2.53%	2.99
Expected dividend yield	-%	-%
Weighted average fair value at date of grant	\$7.67	\$7.22

No stock options were granted in 2020.

A summary of the stock options is as follows for the periods indicated (in thousands, except per share data):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance, December 30, 2017	2,884	\$ 5.22	6.10	
Granted	761	18.00		
Exercised	(560)	0.47		
Forfeited/cancelled	(172)	47.91		
Expired	(24)	53.55		
Balance, December 29, 2018	2,889	\$ 6.56	6.48	
Granted	601	23.59		
Exercised	(1,730)	2.06		
Forfeited/cancelled	(142)	20.88		
Balance, December 28, 2019	1,618	\$ 16.44	8.12	
Exercised	(247)	12.23		
Forfeited/cancelled	(117)	21.56		
Balance, January 2, 2021	1,254	\$ 16.79	7.22	\$ 64,781
Exercisable, January 2, 2021	<u>715</u>	<u>\$ 14.07</u>	<u>6.66</u>	<u>\$ 38,917</u>

The total intrinsic value of stock options exercised was \$6.7 million, \$46.7 million, and \$10.0 million for 2020, 2019, and 2018, respectively. The total grant date fair value of stock options vested was \$2.9 million, \$12.2 million, and \$15.2 million for 2020, 2019, and 2018, respectively.

The following is a summary of our non-vested stock options for the periods indicated (in thousands, except per share data):

	Shares Under Outstanding Options	Weighted Average Grant Date Fair Value
Non-vested options at December 28, 2019	1,044	\$ 7.47
Granted	—	—
Forfeited	(117)	7.81
Vested	(388)	7.41
Non-vested options at January 2, 2021	<u>539</u>	<u>\$ 7.44</u>

Stock-based activity, excluding options, for the year ended January 2, 2020 is summarized below (in thousands, except per share data):

	Performance-Based Restricted Stock Awards		Restricted Stock Units, Restricted Stock Awards, and Deferred Stock Units	
	Number of PBRSSs	Weighted Average Grant Date Fair Value	Number of RSUs, RSAs, and DSUs	Weighted Average Grant Date Fair Value
Nonvested, December 28, 2019	—	\$ —	319	\$ 23.61
Granted	166	32.84	404	33.88
Vested/released	—	—	(136)	23.62
Forfeited/expired	(20)	32.84	(114)	29.34
Nonvested, January 2, 2021	146	\$ 32.84	473	\$ 30.99

As of January 2, 2021, the weighted average remaining contractual term of PBRSSs was 2.12 years and the aggregate intrinsic value of PBRSSs expected to vest was \$5.2 million. The weighted average remaining contractual term of RSUs, RSAs, and DSUs was 1.74 years and the aggregate intrinsic value of RSUs, RSAs, and DSUs was \$17.7 million as of January 2, 2021.

The following table summarizes additional information about PBRSSs, RSUs, RSAs, and DSUs (in thousands, except per share data):

	Fiscal Year Ended ⁽¹⁾		
	January 2, 2021	December 28, 2019	December 29, 2018
Weighted average grant date fair value per share of awards granted	\$ 33.58	\$ 23.72	\$ 17.00
Total grant date fair value of awards vested ⁽²⁾	\$ 3,215	\$ 168	—
Intrinsic value of awards vested ⁽²⁾	\$ 5,271	\$ 345	—

(1) Excludes performance-based RSUs activity. See below for further discussion.

(2) Excludes approximately 10,500 and 13,000 DSUs that vested but were not released in 2020 and 2019, respectively.

Performance-Based Restricted Stock Units

During 2018, our Board of Directors approved the grant of performance-based RSUs (“PRSUs”) to various employees under the 2012 Plan. During 2018, 385,241 of those PRSUs were granted as replacement awards in exchange for 104,411 out-of-the-money stock options, which were cancelled. On November 12, 2019, we completed an underwritten secondary offering. Following the closing of this offering, Cortec Group Fund V, L.P. and its affiliates (collectively, “Cortec”), our largest stockholder at the time, ceased to own more than 35% of the voting power of our outstanding common stock and as a result, the PRSUs granted to various employees during 2018 fully vested pursuant to their terms. In connection with the vesting of the PRSUs, we recognized non-cash stock-based compensation expense of \$40.7 million for 2019. The grant date fair value of PRSUs was \$31.74 per unit, and the intrinsic value of PRSUs that vested was \$38.1 million.

11. STOCKHOLDERS’ EQUITY

Stockholders’ Equity

Repurchase of Common Stock

In March 2018, we purchased 0.4 million shares of our common stock at \$4.95 per share from one of our stockholders for \$2.0 million. We accounted for this purchase using the par value method, and subsequently retired these shares.

Stock-Splits

In October 2018, we effected a 0.397-for-1 reverse stock split of all outstanding shares of our common stock. Share and per share data disclosed for all periods has been retroactively adjusted to reflect the effects of this stock-split. This stock-split was effected prior to the completion of our IPO, discussed below.

Capital Stock Increase

In October 2018, the Board of Directors approved an increase in our authorized capital stock of 200.0 million shares of common stock and 30.0 million shares of preferred stock. Following this increase our authorized capital stock of 630.0 million shares consisted of 600.0 million shares of common stock and 30.0 million shares of preferred stock. No shares were issued in connection with the increase in authorized capital stock. This capital stock increase occurred prior to the completion of our IPO, discussed below.

Initial Public Offering

On October 29, 2018, we completed our IPO of 16.0 million shares of our common stock, including 2.5 million shares of our common stock sold by us and 13.5 million shares of our common stock sold by selling stockholders. The underwriters were also granted an option to purchase up to an additional 2.4 million shares from the selling stockholders, at the public offering price, less the underwriting discount, for 30 days after October 24, 2018, which the underwriters exercised, in part, on November 28, 2018 by purchasing an additional 0.9 million shares of common stock at the public offering price of \$18.00 per share, less the underwriting discount, from selling stockholders. We did not receive any proceeds from the sale of shares by selling stockholders. Based on our IPO price of \$18.00 per share, we received net proceeds of \$42.4 million after deducting underwriting discounts and commissions of \$2.6 million. Additionally, we incurred offering costs of \$4.6 million. On November 29, 2018, we used the proceeds plus additional cash on hand to repay our Term Loan B as described in Note 8.

Special Dividend

On May 17, 2016, we declared and paid a cash dividend of \$5.54 per common share, as a partial return of capital to our stockholders, which totaled \$451.3 million (“Special Dividend”). In connection with the Special Dividend, pursuant to anti-dilution provisions in the 2012 Equity and Performance Incentive Plan (“2012 Plan”), the option strike price on outstanding options as of May 17, 2016, was reduced by the lesser of 70% of the original strike price and the per share amount of the Special Dividend. Any difference between the reduction in strike price and the per share amount of the Special Dividend was paid in cash immediately for vested options. For holders of unvested options as of May 17, 2016, we were required to pay a \$7.9 million dividend which accrues over the requisite service period as the options vest (“Options Dividend”).

We paid \$0.6 million and \$2.5 million related to the Options Dividend to vested option holders in 2019 and 2018, respectively. The Options Dividend was paid in full on September 28, 2019.

12. RELATED-PARTY AGREEMENTS

In 2012, we entered into a management services agreement with Cortec, our majority stockholder, that provides for a management fee to be based on 1.0% of total sales not to exceed \$750,000 annually plus certain out-of-pocket expenses. During 2018, we incurred fees and out-of-pocket expenses under this agreement of \$0.08 million which were included in selling, general and administrative expenses within our consolidated statements of operations. This agreement was terminated in connection with our IPO in 2018 and no further payments are due to Cortec.

We lease warehouse and office facilities under various operating leases. One warehouse facility is leased from an entity owned by our founders, brothers Roy and Ryan Seiders. The warehouse facility lease, which is month-to-month and can be cancelled upon 30 days’ written notice, requires monthly payments of \$8,700 and is included in selling, general and administrative expenses within our consolidated statements of operations.

In April 2016, we entered into an agreement with a minority stockholder (less than 1%), to provide strategic and financial advisory services for a fee of \$3.0 million. The term of the agreement was fifteen months and the fee was due upon the consummation of a merger, sale, IPO, or other transaction. In 2016, we accrued the full amount payable under the agreement of \$3.0 million in accrued liabilities, and subsequently reversed the full amount in August 2017 when the agreement term ended. No amounts were paid in 2016 or 2017. In July 2018, we entered into an agreement with the same minority stockholder, to provide strategic and financial advisory services for a fee of \$2.0 million. The term of the agreement was the earlier of twelve months of the date of an IPO or similar sale of equity. Following our IPO, we paid the minority stockholder \$2.0 million.

In May 2017, we acquired substantially all of the assets and certain liabilities from Rambler On LLC (“Rambler On”) for \$6.0 million. At the time, Rambler On was our exclusive drinkware customization partner and a variable interest entity, which we reflected as a consolidated subsidiary. The purchase price consisted of cash of \$2.9 million and a \$3.0 million principal amount promissory note payable to the seller, with a two year term and bearing interest at 5% per annum, payable in two equal installments on May 16, 2018 and May 16, 2019. Subsequent to acquisition, the sole owner of Rambler On became a YETI employee. In May 2019, we repaid in full the remaining principal amount on the unsecured promissory note to Rambler On.

13. COMMITMENTS AND CONTINGENCIES

Future commitments under non-cancelable agreements at January 2, 2021 were as follows (in thousands):

		Fiscal Year					
	Total	2021	2022	2023	2024	2025	Thereafter
Other noncancelable agreements ⁽¹⁾	\$ 111,892	\$ 37,897	\$ 24,293	\$ 19,469	\$ 12,108	\$ 12,364	\$ 5,761

(1) We have entered into commitments for service and maintenance agreements related to our management information systems, distribution contracts, advertising, sponsorships, and licensing agreements.

As we are unable to reasonably predict the timing of settlement of liabilities related to unrecognized tax benefits and other noncurrent tax liabilities, the table above does not include \$8.7 million, net, of such liabilities on our consolidated balance sheet as of January 2, 2021.

We are involved in various claims and legal proceedings, some of which are covered by insurance. We believe that the existing claims and proceedings, and potential losses relating to such contingencies, will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

14. INCOME TAXES

The components of income before income taxes were as follows for the periods indicated (in thousands):

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Domestic.....	\$ 201,919	\$ 65,469	\$ 69,209
Foreign.....	3,282	1,789	406
Income before income taxes.....	<u>\$ 205,201</u>	<u>\$ 67,258</u>	<u>\$ 69,615</u>

The components of income tax expense were as follows for the periods indicated (in thousands):

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Current tax expense:			
U.S. federal.....	\$ 41,884	\$ 627	\$ 7,190
State.....	10,619	1,505	2,316
Foreign.....	829	526	247
Total current tax expense.....	53,332	2,658	9,753
Deferred tax expense (benefit):			
U.S. federal.....	(3,332)	12,911	3,298
State.....	(538)	1,304	(1,172)
Foreign.....	(62)	(49)	(27)
Total deferred tax expense.....	(3,932)	14,166	2,099
Total income tax expense.....	\$ 49,400	\$ 16,824	\$ 11,852

A reconciliation of income taxes computed at the federal statutory income tax rate of 21% to the effective income tax rate is as follows for the periods indicated (in thousands):

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Income taxes at the statutory rate.....	\$ 43,092	\$ 14,124	\$ 14,619
Increase (decrease) resulting from:			
State income taxes, net of federal tax effect.....	7,816	2,989	2,030
Nondeductible expenses.....	63	203	248
Research and development tax credits.....	(580)	(2,157)	(578)
Tax expense (benefit) related to stock-based compensation.....	(611)	950	(2,396)
Nondeductible interest expense.....	—	—	4
Revaluation of deferred tax assets for state income taxes.....	2	(92)	(1,154)
Other.....	(382)	807	(921)
Income tax expense.....	\$ 49,400	\$ 16,824	\$ 11,852

Deferred tax assets and liabilities consisted of the following for the periods indicated (in thousands):

	Fiscal Year Ended	
	January 2, 2021	December 28, 2019
Deferred tax assets:		
Accrued liabilities	\$ 6,857	\$ 4,482
Allowances and other reserves	2,979	2,030
Inventory	5,012	1,929
Stock-based compensation	4,796	4,761
Operating lease liabilities	10,714	12,286
Deferred interest	—	1,703
Other	2,360	1,497
Total deferred tax assets	<u>\$ 32,718</u>	<u>\$ 28,688</u>
Deferred tax liabilities:		
Operating lease assets	\$ (8,222)	\$ (9,528)
Prepaid expenses	(644)	(1,897)
Property and equipment	(11,425)	(10,971)
Intangible assets	(15,843)	(13,546)
Other	(745)	(744)
Total deferred tax liabilities	<u>(36,879)</u>	<u>(36,686)</u>
Net deferred tax liabilities	<u>\$ (4,161)</u>	<u>\$ (7,998)</u>
Amounts included in the Consolidated Balance Sheets:		
Deferred income taxes	\$ 1,062	\$ 1,082
Other liabilities	(5,223)	(9,080)
Net deferred income tax liabilities	<u>\$ (4,161)</u>	<u>\$ (7,998)</u>

On December 22, 2017, U.S. federal legislation, commonly referred to as the Tax Cuts and Jobs act (the “Tax Act”) was signed into law, significantly reforming the U.S. Internal Revenue Code. The Tax Act, among other things, reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and put into effect the migration from a “worldwide” system of taxation to a territorial system. During 2018, we finalized the accounting for the enactment of the Tax Act, with an immaterial adjustment to the amount recorded in the year of enactment.

We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested, and, accordingly, no taxes have been recognized on such earnings except for the transition tax recognized as part of the Tax Act. We continue to evaluate our plans for reinvestment or repatriation of unremitted foreign earnings. If we determine that all or a portion of our foreign earnings are no longer indefinitely reinvested, we may be subject to additional foreign withholding taxes and U.S. state income taxes. At January 2, 2021, we had unremitted earnings of foreign subsidiaries of \$6.9 million.

The Tax Act introduced new provisions for U.S. taxation of certain global intangible low-taxed income (“GILTI”). We elected to account for the tax on GILTI as a period cost and therefore have not recorded deferred taxes related to GILTI on our foreign subsidiaries.

As of January 2, 2021, we had Texas research and development tax credit carryforwards of approximately \$1.9 million, which if not utilized, will expire beginning in 2037.

The following table summarizes the activity related to our unrecognized tax benefits for the periods indicated (excluding interest and penalties) (in thousands):

	Fiscal Year Ended	
	January 2, 2021	December 28, 2019
Balance, beginning of year.....	\$ 3,358	\$ 2,381
Gross increases related to current year tax positions.....	4,522	987
Gross increases related to prior year tax positions.....	—	37
Gross decreases related to prior year tax positions.....	(65)	—
Lapse of statute of limitations.....	(565)	(47)
Balance, end of year.....	<u>\$ 7,250</u>	<u>\$ 3,358</u>

If our positions are sustained by the relevant taxing authorities, approximately \$7.3 million (excluding interest and penalties) of uncertain tax position liabilities as of January 2, 2021 would favorably impact our effective tax rate in future periods. We do not anticipate that the balance of gross unrecognized tax benefits will change significantly during the next twelve months.

We include interest and penalties related to unrecognized tax benefits in our current provision for income taxes in the accompanying consolidated statements of operations. As of January 2, 2021, we had recognized a liability of \$0.6 million for interest and penalties related to unrecognized tax benefits.

We file income tax returns in the United States and various state jurisdictions. The tax years 2017 through 2020 remain open to examination in the United States, and the tax years 2016 through 2020 remain open to examination in Texas and most other state jurisdictions. The 2017 through 2020 tax years remain open to examination in foreign jurisdictions.

15. EARNINGS PER SHARE

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted income per share includes the effect of all potentially dilutive securities, which include dilutive stock options and awards.

The following table sets forth the calculation of earnings per share and weighted-average common shares outstanding at the dates indicated (in thousands, except per share data):

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Net income.....	\$ 155,801	\$ 50,434	\$ 57,763
Weighted average common shares outstanding — basic.....	86,978	85,088	81,777
Effect of dilutive securities.....	869	1,259	1,742
Weighted average common shares outstanding — diluted.....	<u>87,847</u>	<u>86,347</u>	<u>83,519</u>
Earnings per share			
Basic.....	\$ 1.79	\$ 0.59	\$ 0.71
Diluted.....	\$ 1.77	\$ 0.58	\$ 0.69

Outstanding stock-based awards representing 0.2 million, 0.8 million, and 0.2 million shares of common stock were excluded from the calculations of diluted earnings per share in 2020, 2019, and 2018, respectively, because the effect of their inclusion would have been antidilutive to those years. In addition, 1.4 million shares of performance-based RSUs were excluded from the calculations of diluted earnings per share in 2018 because these units were not considered to be contingent outstanding shares.

16. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

Supplemental cash flow information was as follows for the periods indication (in thousands):

	Fiscal Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Interest paid.....	\$ 8,358	\$ 19,396	\$ 28,504
Income taxes paid.....	36,306	3,524	16,347

Liabilities related to property and equipment outstanding at 2020, 2019, and 2018 of \$5.3 million, \$1.0 million, \$1.3 million, respectively, are not included in “Purchases of property and equipment” within the consolidated statement of cash flows. Non-cash financing activities during 2019, and 2018 consisted of accrued dividends payable on unvested options, which were \$0.4 million and \$1.7 million, respectively. No dividends were accrued in 2020.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for the periods indicated is set forth below (in thousands, except per share amounts). Quarterly results were influenced by seasonal and other factors inherent in our business.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<u>2020</u>					
Net sales.....	\$ 174,412	\$ 246,938	\$ 294,603	\$ 375,768	\$ 1,091,721
Gross profit.....	92,458	137,525	173,976	224,844	628,803
Net income.....	8,480	33,482	51,445	62,394	155,801
Net income per share - basic.....	\$ 0.10	\$ 0.39	\$ 0.59	\$ 0.72	\$ 1.79
Net income per share - diluted.....	\$ 0.10	\$ 0.38	\$ 0.58	\$ 0.71	\$ 1.77
<u>2019</u>					
Net sales.....	\$ 155,353	\$ 231,654	\$ 229,125	\$ 297,602	\$ 913,734
Gross profit.....	76,627	116,277	120,076	162,334	475,314
Net (loss) income.....	2,167	22,223	21,302	4,742	50,434
Net (loss) income per share - basic.....	\$ 0.03	\$ 0.26	\$ 0.25	\$ 0.05	\$ 0.59
Net (loss) income per share - diluted.....	\$ 0.03	\$ 0.26	\$ 0.25	\$ 0.05	\$ 0.58

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosures. Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of January 2, 2021.

Previously Reported Material Weakness

As previously disclosed in Part II Item 9A Controls and Procedures in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, during the preparation of our consolidated financial statements for the year ended December 30, 2017, we identified a material weakness in our internal control over financial reporting related to ineffective information technology general controls ("ITGCs") in the areas of user access and program change-management over certain information technology systems that support our financial reporting process.

During 2019, we implemented our previously disclosed remediation plan that included: (i) hiring a new Chief Information Officer and an IT Compliance Manager in July 2019 to continue to improve our information technology systems, including the enhancement of related policies and procedures, and the development and documentation of our ongoing ITGC improvement initiatives; and (ii) completing the implementation of remediation activities during the fourth quarter of 2019 within our SAP environment and across our other information technology systems that support our financial reporting process.

During the third quarter ended September 26, 2020, we completed the necessary testing to conclude that the material weakness has been remediated as of September 26, 2020.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP") and includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Our management has conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 2, 2021, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013) ("COSO"). Based on the results of this evaluation, management concluded that our internal control over financial reporting were effective as of January 2, 2021.

Our independent registered public accounting firm, Grant Thornton LLP, has audited our internal control over financial reporting. Their opinion on the effectiveness of our internal control over financial reporting as of January 2, 2021 appears in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the fourth quarter of fiscal 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations in Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures, or our internal controls, will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake or fraud. Additionally, controls can be circumvented by individuals or groups of persons or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements in our public reports due to error or fraud may occur and not be detected.

Item 9B. Other information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We adopted a written code of business conduct that applies to our directors, executive officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A current copy of the code is posted under “Governance” on the Investor Relations section of our website, www.YETI.com. To the extent required by applicable rules adopted by the SEC and the NYSE, we intend to disclose future amendments to certain provisions of the code, or waivers of such provisions granted to executive officers and directors, in this location on our website at www.YETI.com.

The remaining information required by this item is incorporated by reference to our definitive Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended January 2, 2021.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended January 2, 2021.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except as set forth below regarding securities authorized for issuance under our equity compensation plans, the information required by this item is incorporated by reference to our definitive Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended January 2, 2021.

The following table summarizes our equity compensation plan information as of January 2, 2021:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by YETI Holdings, Inc. stockholders ⁽¹⁾	1,871,555 ⁽²⁾	\$ 16.80 ⁽³⁾	3,024,365 ⁽⁴⁾
Equity compensation plans not approved by YETI Holdings, Inc. stockholders.....	—	—	—
Total	1,871,555	\$ 16.80	3,024,365

(1) Reflects both the YETI Holdings, Inc. 2012 Equity and Performance Incentive Plan, as amended and restated on June 20, 2018 (the “2012 Plan”), and the YETI Holdings, Inc. 2018 Equity and Incentive Compensation Plan (the “2018 Plan”), both of which were approved by our stockholders via written consent on September 26, 2018. As of October 25, 2018, the 2012 Plan is no longer in effect for new grants.

(2) Includes an aggregate of 1,253,730 shares subject to outstanding options granted under the 2012 Plan or the 2018 Plan, as well as an aggregate of 580,373 restricted stock units, performance-based restricted stock, and restricted stock that have been granted under the 2018 Plan and an aggregate of 37,452 deferred stock units that have been granted under the 2018 Plan. Each restricted stock unit or deferred stock unit is intended to be the economic equivalent of one share of our common stock.

(3) The weighted-average exercise price does not include outstanding restricted stock units or deferred stock units.

(4) These shares remain available for future issuance under the 2018 Plan, as the 2012 Plan is no longer in effect for new grants. In addition to options, restricted stock units and deferred stock units, other equity benefits that may be granted under the 2018 Plan include stock appreciation rights, restricted stock, performance shares, performance units, cash incentive awards, and certain other awards based on or related to shares of our common stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended January 2, 2021.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended January 2, 2021.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this Report:

- (1) Financial Statements — See Part II, Item 8. “Financial Statements and Supplementary Data” of this Report.
- (2) Financial Statement Schedules — None.

(3) Exhibits — The following is a list of exhibits filed or furnished as part of this Report or incorporated by reference herein to exhibits previously filed with the Securities and Exchange Commission.

Exhibit Number	Exhibit
3.1	Amended and Restated Certificate of Incorporation of YETI Holdings, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K on October 26, 2018 and incorporated herein by reference)
3.2	Amended and Restated Bylaws of YETI Holdings, Inc. (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K on October 26, 2018 and incorporated herein by reference)
4.1	Form of Registration Rights Agreement, by and among YETI Holdings, Inc., Cortec Group Fund V, L.P. and certain holders of YETI Holdings, Inc. capital stock party thereto (filed as Exhibit 4.2 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on October 15, 2018 and incorporated herein by reference)
4.2	Amendment No. 1 to Registration Rights Agreement, dated May 6, 2019, by and among YETI Holdings, Inc., Cortec Group V, L.P. and certain holders of YETI Holdings, Inc. capital stock party thereto (filed as Exhibit 10.17 to the Company's Registration Statement on Form S-1 (Registration No. 333-231240) on May 6, 2019 and incorporated herein by reference)
4.3	Amendment No. 2 to Registration Rights Agreement, dated December 11, 2019, by and among YETI Holdings, Inc., Cortec Group V, L.P. and certain holders of YETI Holdings, Inc. capital stock party thereto (filed as Exhibit 4.4 to the Company's Annual Report on Form 10-K for the year ended December 28, 2019 on February 18, 2020 and incorporated herein by reference)
4.4	Description of Capital Stock of YETI Holdings, Inc.
10.1†	Amended and Restated Employment Agreement, dated as of October 9, 2018, by and between YETI Coolers, LLC and Matthew J. Reintjes (filed as Exhibit 10.3 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on October 15, 2018 and incorporated herein by reference)
10.2†	YETI Holdings, Inc. 2012 Equity and Performance Incentive Plan (Amended and Restated June 20, 2018) (filed as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)
10.3†	Form of Option Adjustment Letter, dated as of May 19, 2016 (filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.4† Form of Restricted Stock Unit Agreement under the YETI Holdings, Inc. 2012 Equity and Performance Incentive Plan (Amended and Restated June 20, 2018) (filed as Exhibit 10.15 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.5† YETI Coolers, LLC Senior Leadership Severance Benefits Plan (filed as Exhibit 10.16 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.6† YETI Holdings, Inc. 2018 Equity and Incentive Compensation Plan (filed as Exhibit 10.17 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.7† Form of Non-Employee Director Restricted Stock Unit Agreement under the 2018 Equity and Incentive Compensation Plan (filed as Exhibit 10.18 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.8† Form of Non-Employee Director Deferred Stock Unit Agreement under the 2018 Equity and Incentive Compensation Plan (filed as Exhibit 10.19 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.9† Form of Nonqualified Stock Option Agreement under the 2018 Equity and Incentive Compensation Plan (filed as Exhibit 10.20 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on October 15, 2018 and incorporated herein by reference)

10.10† Form of Time-Based Restricted Stock Award Agreement under the YETI Holdings, Inc. 2018 Equity and Performance Incentive Plan (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 2020 filed August 6, 2020 and incorporated herein by reference)

10.11† Form of Performance-Based Restricted Stock Award Agreement under the YETI Holdings, Inc. 2018 Equity and Performance Incentive Plan (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 2020 filed August 6, 2020 and incorporated herein by reference)

10.12†* YETI Holdings, Inc. Non-Employee Director Compensation Policy

10.13† Form of Indemnification Agreement by and between the Company and each of its directors and executive officers (filed as Exhibit 10.21 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.14 Credit Agreement, dated as of May 19, 2016, by and among YETI Holdings, Inc., the lenders from time to time party thereto and Bank of America, N.A., as administrative agent (filed as Exhibit 10.22 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.15 First Amendment to Credit Agreement, dated as of July 17, 2017, by and among YETI Holdings, Inc., the lenders from time to time party thereto and Bank of America, N.A., as administrative agent (filed as Exhibit 10.23 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)

10.16 Second Amendment to Credit Agreement, dated as of December 17, 2019, by and among YETI Holdings, Inc., the lenders from time to time party thereto and Bank of America, N.A., as administrative agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on December 18, 2019 and incorporated herein by reference)

10.17	Form of Supply Agreement (filed as Exhibit 10.26 to the Company's Registration Statement on Form S-1 (Registration No. 333-227578) on September 27, 2018 and incorporated herein by reference)
21.1*	Subsidiaries of YETI Holdings, Inc.
23.1*	Consent of Grant Thornton LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following audited financial statements from YETI Holdings, Inc.'s Annual Report on Form 10-K for the year ended January 2, 2021, formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Consolidated Financial Statements
104*	Cover Page Interactive Data File (embedded within the Exhibit 101 Inline XBRL document)

* Filed herewith.

** Furnished herewith.

† Indicates a management contract or compensation plan or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YETI Holdings, Inc.

Dated: March 1, 2021

By: /s/ Matthew J. Reintjes

Matthew J. Reintjes

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated.

Dated: March 1, 2021

By: /s/ Matthew J. Reintjes

Matthew J. Reintjes

President and Chief Executive Officer, Director
(Principal Executive Officer)

Dated: March 1, 2021

By: /s/ Paul C. Carbone

Paul C. Carbone

Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Dated: March 1, 2021

By: /s/ David L. Schnadig

David L. Schnadig

Chair and Director

Dated: March 1, 2021

By: /s/ Tracey D. Brown

Tracey D. Brown

Director

Dated: March 1, 2021

By: /s/ Alison Dean

Alison Dean

Director

Dated: March 1, 2021

By: /s/ Frank D. Gibeau

Frank D. Gibeau

Director

Dated: March 1, 2021

By: /s/ Mary Lou Kelley

Mary Lou Kelley

Director

Dated: March 1, 2021

By: /s/ Dustan E. McCoy

Dustan E. McCoy

Director

Dated: March 1, 2021

By: /s/ Roy J. Seiders

Roy J. Seiders

Director

Dated: March 1, 2021

By: /s/ Robert K. Shearer

Robert K. Shearer

Director

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BOARD OF DIRECTORS

David L. Schnadig

Chair of the Board; Co-President of Cortec Management Services, LLC

Matthew J. Reintjes

President and Chief Executive Officer of YETI Holdings, Inc.

Tracy D. Brown

Chief Executive Officer of American Diabetes Association

Allison Dean

Former Executive Vice President, Chief Financial Officer and Treasurer of iRobot Corporation

Frank D. Gibeau

Chief Executive Officer of Zynga Inc.

Mary Lou Kelley

Former President of E-Commerce at Best Buy Co., Inc.

Dustan E. McCoy

Retired Chairman and Chief Executive Officer of Brunswick Corporation

Roy J. Seiders

Founder of YETI Coolers, LLC

Robert K. Shearer

Retired Senior Vice President and Chief Financial Officer of VF Corporation

EXECUTIVE OFFICERS

Matthew J. Reintjes

President and Chief Executive Officer

Paul C. Carbone

Senior Vice President and Chief Financial Officer

Bryan C. Barksdale

Senior Vice President, General Counsel and Secretary

Hollie S. Castro

Senior Vice President of Talent & ESG

Brian S. Dengler

Senior Vice President of Product

Kirk A. Zambetti

Senior Vice President of Sales

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