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The Daily Dispatch

Friday Special Feature

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How Yeti Survived a Pandemic — and Private Equity

By: Cheryl Wischhover—Marker via Medium *(Published on October 12, 2020)*

Inside our wacky economy where a company selling $300 coolers can cruise through a recession

Illustrations: Joel Plosz

On a frigid Chicago afternoon last November, Sue Roth was walking her dog near a three-way intersection in Wicker Park, reminiscing about the Double Door. In its '90s heyday, the smoky dive bar and music venue had hosted bands like Urge Overkill and Smashing Pumpkins; Roth, now 46, had even performed there in her twenties. A few years ago, her neighborhood, dotted with Old Style beer signs and drooping wooden back porches, began getting overrun with stores like Lululemon and Diptyque. Late last year — two years after the Double Door had been evicted from its location when a developer purchased it — another bougie store appeared in its place. Roth shook her head about the famous dive bar's strange fate. "To have it replaced with this elitist thermos company is really quite bizarre," she says.

The thermos company in question? Yeti, the Austin, Texas-based brand known for catapulting a lowly, utilitarian product — the portable cooler — into a full-blown premium brand. Today a basic plastic Coleman cooler at Target costs $25; a similarly sized Yeti is $300. As the well-tread company lore goes, the original Yeti cooler was first hatched by Ryan and Roy Seiders, two fishermen brothers who, in 2006, began wooing bait shop and hunting types into spending $200 to $1,300 for a sleek cooler that could hold an elk and keep ice solid for several days in the beating sun. Now the Yeti brand is as commonly seen fronting in a suburban backyard as is it by urbanites toting their homemade lattes around New York City.

Yeti has become a cooler the way Dyson is a vacuum or Canada Goose is a warm coat. In 2011, the then five-year-old company sold a two-thirds stake to private equity investor Cortec Group, and has been rapidly expanding ever since. In 2014, it rolled out its first vacuum-insulated drinkware — which today accounts for about 54% of the company's revenue — and now sells everything from a $200 picnic blanket to a $50 dog bowl. In recent years, the 700-person company has continued pulling all the growth levers: a top-secret innovation lab, a sophisticated brand ambassador machine, and a full-throttle push into experiential retail. After a 2018 IPO, its annual 2019 earnings were just shy of $1 billion in revenue.

Then, in March, Covid-19 hit. As shelter-in-place orders tore throughout the country, Yeti closed its new fleet of stores. Many of its primary wholesalers, including Dick's Sporting Goods, laid off staff. In a matter of weeks, Yeti's sales plummeted by 25%, and its share price tumbled almost 60% from February when it was about $38. Yeti instituted a hiring freeze, let go of some employees at "all levels" according to executives on the company's May earnings, and grappled with supply chain disruptions. "We have very tough calls to make," said CEO Matt Reintjes on the call back then.

Nothing about what Yeti sells should have poised it well for a pandemic-induced recession: Its signature product is a $300 luxury cooler, and its most profitable one is a portable insulated cup often used by commuters on the way to the office. The company's most recent expensive bet was on in-person experiential retail. And it's been backed by private equity, an arrangement typically saddled with debt that has plummeted brands like J.Crew and Neiman Marcus into bankruptcy or insolvency during this crisis.

But so far Yeti has managed to escape this fate. By May, Yeti's revenue growth made a dramatic, unexpected bounce back, its stock price rebounding to pre-pandemic levels, then soaring up past $50. Yeti's improbable comeback reveals just how bizarre the state of our seemingly irrational and unpredictable economy is right now.

Matt Reintjes is the guy you want to hire when you have a promising outdoor gear brand with ambitions to blast it on a rocket-ship trajectory. Reintjes, Yeti's CEO, arrived at the company in 2015, after two years running Vista Outdoor's $900 million outdoor products division, during which time it acquired Camelbak. Last winter at Yeti's headquarters in a nondescript office park off a highway in Austin, the 44-year-old with sandy brown hair and a neatly tucked-in plaid shirt described his mandate when he started at Yeti: "'Don't screw it up.'"

Reintjes was chosen by Cortec, a small New York City-based PE firm that in 2012 took a reported two-thirds stake in Yeti, worth $67 million. At the time, the young company was already profitable, but was struggling to manufacture at the pace of demand. A high-end consumer goods business was a strange match for Cortec, whose investment portfolio has included a vein restoration center, a window and siding distributor, and the company that sells Goo Gone, a product that removes gum and adhesives.

Cortec's pitch: Rather than saddling Yeti with mounds of debt — as we've seen play out grimly across brands from Toys "R" Us to beloved NYC supermarket chain Fairway — "We make our money by growing, not by financial engineering," says Cortec managing director David Schnadig. When the PE firm pitched the Seiders brothers, it emphasized its operational experience, with a focus on entrepreneur- or family-led companies."Yeti was small, it was high-growth, and we knew we were going to add a bunch of operating expense," says Schnadig. Cortec says it used about 30% less debt in the Yeti deal than it typically does.

During the first three years of the arrangement, Schnadig and co-founder Roy Seiders effectively functioned as "co-CEOs." (Today, Roy is on the board of directors and has the title of chairman and founder at Yeti, while his brother Ryan does product testing.) By the time Reintjes arrived in 2015, Yeti had figured out how to transcend the niche it had cornered itself into — its cheapest product was still a whopping $200, targeting outdoorsy men. In 2014, it introduced soft cooler tote bags and an insulated Rambler drinkware line, the brand's first products selling for less than $50 and a turning point. Early adopters raved that their coffee stayed hot for hours and that the ice didn't melt, even when the cups were left on tables overnight. It became the must-have gift for the 2015 holiday season, even prompting Yeti shortages.

As the company kicked into a new frenzied phase of hypergrowth, Reintjes and the company's private equity owners started discussing an IPO. It had been three years since Cortec's investment, a time in which the brand's sales had ballooned from less than $30 million to $469 million.

Yeti filed its S-1 in the summer of 2016, but 2017 got off to a rough start. Sales declined by over 20%, and the company said in an SEC filing that wholesalers had ended up with excess inventory after the booming 2015 season. Like other brands in the premium reusable bottle business, Yeti was also increasingly the target of knockoffs and counterfeits. Brands including RTIC, Grizzly, Orca, Bison, Rovr, and Walmart's Ozark Trail emerged in the wake of Yeti and appeared to take inspiration from its designs. The company fought back and spent countless hours settling lawsuits with competitors over IP claims. Within a few months of filing its S-1, Yeti scuttled its IPO plans, citing "market conditions."

Of that time, Reintjes says the business was still too concentrated, both in product and geography. "'We don't have a lot of levers if everything doesn't go right,'" he recalls telling the board. They were also limited by the stainless steel drinkware, which sold well but wasn't particularly distinctive. In late 2016, Yeti debuted dishwasher-safe drinkware in a variety of colors — "a game-changer" says Schnadig. To keep up with the hamster wheel of expansion and stave off competition, in 2016 they opened a high-security innovation center in Austin. Filled with ovens that melt bags, robots that try to break zippers, and a merry-go-round that drags coolers and bags over rough terrain, the center cycles through 5,000 pounds of ice a year. The lab would enable them to accelerate product development timelines and keep prototypes and early stage products on home turf — versus foreign factories where they were vulnerable to being knocked off.

Yeti finally IPOed in October 2018, with shares priced at $18, earning the company some $288 million. The brand was on an unstoppable run: It rolled out costly extras like new lids and handles to trick out drinkware; launched new lifestyle products including a $300 camping chair; and opened stores in the hippest downtowns across the country.

But when Covid hit in March, Yeti was forced to shift into crisis mode like every other business in America — making supplier changes, cutting inventory, and putting the brakes on new product launches. The executive team took pay cuts, and retail and customization employees were furloughed. By the end of that first month, Yeti products seemed to be the last thing on both consumers' and the market's mind.

After 15 years of growth and heady gains since Cortec's investment and the IPO, the stock price fell from a high of about $38 a share in early February to a low of about $15.50 in late March. "We faced a unique challenge," says Reintjes. "How do we remain relevant and connect with consumers when the world is on lockdown?"

A block away from the Colorado River on a corner in Austin, a smoker made of rusting steel drums greets visitors on its covered porch. A bar in one corner of the porch, backdropped by a Texas flag made out of bottle caps, serves local beer. Upon walking into the building, you notice the smoky smell of barbecue. But the scent is piped in artificially because this isn't a restaurant — it's Yeti's flagship store.

The Austin store, which opened in 2017, is a Disneyfied version of Yeti's origin story, corporate fanfic to animate a brand that had historically been sold on others' bland shelves like Dick's Sporting Goods and REI. Protruding from a wall is half of an old pickup truck, to help shoppers visualize and size coolers. Near a stage where local bands performed pre-Covid, there's a taxidermy bear rearing up on its hind legs, a nod to the coolers' bear-proof claim. In the store's center, a fishing skiff sits on a fake body of water teeming with fish, like something out of a natural history museum. Off to the side, there's a coffee bar for visitors to sip local joe while trying out the steel cups. There are even Easter eggs for Yeti customers who actually fish — like a tarpon hanging on the signature neon sign in the Austin location, versus coho salmon in the Chicago locale — representatives of the region's local species.

The smoker on the front porch isn't just any smoker — it belongs to Aaron Franklin, the first barbecue chef to receive a James Beard award. He's also Yeti's first pitmaster ambassador, one of a growing roster of over 130 contracted brand ambassadors who test Yeti products, consult with the company on product development and testing, and plug Yeti products on their social media channels. "Most brands of our size tend to start more on the [coasts] and they move inward and downward," Reintjes says, describing Yeti's opposite migration pattern stemming from Texas. "Now we're an immersion brand in the bigger, more population-dense communities." This requires the brand to cover all its bases trying to build street cred, from the outdoorsy types and pitmasters to people who are just into nice things. Yeti's early ambassadors included hosts of TV fishing shows and influential hunters, but as the brand has grown to lure the general population, its ambassadors now also include surfers, skiers, and skaters.

Not dissimilar to Lululemon's network of local fitness instructors and Canada Goose's "Goose People," Yeti's aspirational ambassadors creatively use the products in their most extreme form. (Franklin reportedly uses his Yeti cooler to lug up to 18 briskets to his smoker, and he once tossed a 70-pound hog in one on a PBS special.) Still, trying to be everything to everyone can backfire. In 2018, Yeti pissed off the NRA and some of its early adopter hunters, when it announced it was terminating a discounting program for the controversial entity. Yeti said in a statement that it was an "outdated" program and other organizations also got the notice; NRA supporters proceeded to blow up their coolers in protest anyway. On the other end of the spectrum, a group of Yeti haters has sprouted in the form of Shiti, reminiscent of "Canada Douche," a Tumblr account that roasted people who wore the $1,000 Canada Goose coats. Shiti Coolers has almost 200,000 followers on Instagram and a YouTube page featuring parody reviews of old, beat-up Coleman coolers and gentle ribbing of high-end cooler culture. (While Shiti does not actually sell coolers, it sells apparel, stickers, and nameplates that read "Shiti" in a font similar to Yeti's to stick on beat-up Igloos.)

When Yeti opened its Chicago store in September 2019 — its first physical move into new geographic territory after opening in Austin and Charleston — it was supposed to be the beginning of a new chapter of the company's burgeoning experiential retail footprint. The plan was to open four to six stores a year, expanding into dense population centers like Denver and Fort Lauderdale. By March, Yeti had opened six in total, but when shelter-in-place orders kicked in, all the stores had to be shut down, as did many of Yeti's retail partners, including Dick's, Williams-Sonoma, and REI. Then came the hit to another growing part of its business — customization, which encouraged corporate clients (and regular shoppers) to emblazon logos and initials on its gear. But companies weren't having events and conferences or spending extra money on branded swag anymore, and another sales avenue dried up.

By April, both Yeti's sales and stock price were tanking. Then, after months of people sheltering in place at home — baking, and Zooming, and baking some more — it seemed all the pandemic-stricken country wanted to do was go on road trips and camp and nest in their backyards. Even with the knowledge of a looming financial crisis, suddenly investments in high-end coolers didn't seem like such an audacious purchase. Yeti's stores were still closed, but its e-commerce channels — namely, its website and Amazon — became an unexpected, pulsing lifeline for the company, bolstered by a rollout of tons of original digital content, like a livestream of actual burbling streams out in the wilderness, to drive engagement.

Yeti sales and its share price began climbing again, and by May, private equity backer Cortec saw its chance for an exit. In June, it sold off the last big chunk of its shares at just over $32 a share, keeping only about a 1% stake in the company and making its investors 20 times the initial investment in the process. Schnadig, who remains on Yeti's board of directors, says the pandemic and looming recession were not factors in them exiting the business. "It wasn't about timing," he says. "Our view was the price is reasonably fair, we should sell now because we should let the company fly free on its own without our overhang."

Still, Cortec probably ended up selling too early. By Yeti's second-quarter earnings call in August, its stock was over $50 a share and revenue was actually up year-over-year by 7%. Its online sales had grown to a whopping 54% of all revenue, compared to only 35% the prior year. "We were incredibly pleased," said Reintjes on the earnings call, "to see the resilience of demand for Yeti through this unprecedented period."

Now, as the cold weather kicks in, the pandemic drags on, and the economy balances precariously, can Yeti continue to ride these improbable tailwinds?

With a long winter ahead, outdoor leisure activities will largely be on pause, with nesting shifting back inside the home. Analysts have expressed concern that commuters and tailgaters — big buyers of insulated drinkware and coolers — will no longer drive demand, as many offices and stadiums remain closed.

Nevertheless, Yeti's brand-building push continues. It opened two new stores, in Denver and West Palm Beach, this summer. And in place of live events and screenings it had initially planned for the spring, the company released digital films like those about a Navajo cowboy and Texas quails, and other slickly produced blurbs about its ambassadors. In the tradition of Supreme fashion and streetwear drops, Yeti continues rolling out new limited edition colors like "Northwoods Green" and "Ice Pink." Whether anyone will have an appetite for splurges like its new stainless retro $800 V-Series—"50% longer ice retention time" than original Yeti coolers— in the dead of winter is dubious. Analysts are generally predicting depressed sales growth this holiday amid an uncertain economy, citing recession-sensitive consumers who are concerned about spending too much.

Even so, the company appears to be in better financial shape than most who have been touched by private equity. Yeti's debt load is small and shrinking; as of its last earnings report in August, it had cut its debt in half from the year prior. To put that into perspective, many companies have "seen their debt burdens grow in recent months as their earnings have plunged" as Bloomberg reported in August. Other analysts are still enthusiastic about the stock's potential.

But a visit to Yeti's Chicago store in September is a stark contrast to almost a year ago. Some of the shops in Wicker Park had yet to take down the plywood from their windows after a night of looting in May. The Yeti store's plywood boards are gone, but several flyers have replaced it: directions for mask-wearing, the shop's reduced hours, and a notice from the city noting that the water in this location has been deemed nonpotable. Inside the store, stainless steel Yeti coffee mugs and wine glasses sit unused on top of a once-functioning coffee bar that is now basically just another prop in the store. A stage that was once used for events is loaded up with Yeti coolers, with NBC Sports playing on the huge screen behind it.

"Exactly who is their customer?" Roth, the Wicker Park resident asked back in November when contemplating the store's entry into her neighborhood. Yeti is going to find out.

About Marker

Marker is a new Medium publication making you smarter about business. We deliver intelligence by entrepreneurs, CEOs and thinkers, and rigorously reported journalism that changes how you think about the future.

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TODAY'S TOP NEWS

AC Energy eyes Singapore firm's P20-B investment

The board of AC Energy Philippines, Inc. has approved the proposal of Singapore-based GIC Private Limited's affiliate Arran Investment Pte Ltd. to invest around P20 billion in the Ayala-led company for a 17.5% ownership stake, it disclosed on Thursday.

PHL improves global talent ranking

The Philippines inched up one spot in an annual global ranking of countries' ability to attract and retain a skilled workforce, but continues to lag behind other Asia-Pacific economies. The country ranked 48th out of 63 economies in the IMD World Competitiveness Center's World Talent Ranking 2020 report, rising one spot from 49th in 2019.

Philguarantee approves P42B in guarantees for MSME

STATE-RUN Philippine Guarantee Corp. (Philguarantee) approved P42.3 billion worth of credit guarantee facilities to cover loans taken out by micro, small and medium enterprises (MSMEs) from banks, easing their access to credit during the economic crisis.

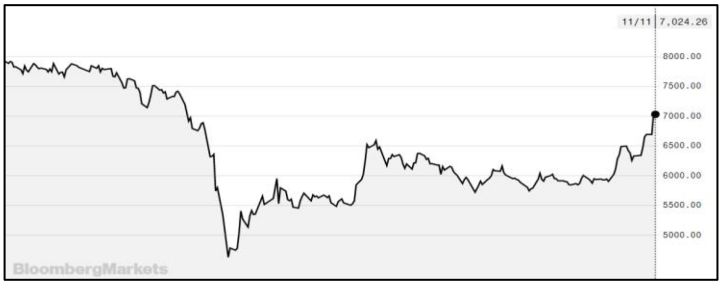
Premiere Horizon sells 55% ownership to fintech group

Listed Premiere Horizon Alliance Corp. is embarking on a backdoor listing through the sale of shares to the owners of financial technology (fintech) firm Squidpay Technology, Inc. Premiere Horizon said it is selling a total of 2.8 billion shares or 55% equity to an investor group led by businessman Marvin C. Dela Cruz.

IMF backs lifting of bank secrecy

THE Bank Secrecy Law is constraining the Bangko Sentral ng Pilipinas' ability to effectively supervise the banking industry, the International Monetary Fund said. The IMF said the Bank Secrecy Law should be amended to allow the BSP full access to banks' deposit and other data.

Philippine Stock Market Update



Previous Close:
7,024.26

1 Yr Return:
-11.10%

Open:
6,933.89

YTD Return:
-11.22%

52-Week Range:
4,039.15 - 8,012.34

Source:
Bloomberg

Foreign Exchange

As of Nov. 11, 2020

US Dollar	Philippine Peso
1	48.46

BVAL Reference Rates

As of Nov. 11, 2020

Tenor	Rate
1Y	1.771
3Y	2.292
5Y	2.703
7Y	2.897
10Y	2.996
20Y	3.929

Daily Quote

"It's not in the dreaming, it's in the doing."
-- Mark Cuban

MORE LOCAL NEWS

BSP remains unfazed by surge in bad loans

The BSP is not alarmed by the steady rise in banks' bad loans, saying the local banking industry is well prepared for the rise in soured debts amid the coronavirus pandemic. BSP Governor Benjamin Diokno said the regulator already anticipated that the NPL ratio of Philippine banks would rise to 4.6 percent by the end of the year.

ICTSI links terminals to blockchain platform

ICTSI is connecting its network of terminals in 19 countries to a blockchain platform for enhanced service and operations. ICTSI said it has signed on to connect its 31 terminals globally to TradeLens, an industry platform supported by blockchain technology that is jointly developed by IBM and Maersk.

Taiheyo Cement building new production line in Cebu

Japanese firm Taiheyo Cement Corp. is building a new P15-billion production line to expand its Cebu plant capacity. In a statement, the Department of Trade and Industry (DTI) said Taiheyo Cement executives in Japan reported that the expansion plan in Cebu is underway.

Ayala recovered in Q3, but profit still down 59%

The country's oldest business house Ayala Corp. reported a rebound in third quarter earnings coming from a difficult second quarter, when the toughest lockdowns were imposed by the government to curb the COVID-19 pandemic.

LBC profit up 38% as Filipinos swamp online markets

Leading courier service firm LBC Express Holdings returned to profitability in the third quarter as demand for logistics rebounded alongside the gradual reopening of the economy, boosting the company's bottom line by 38 percent year-on-year despite the lingering COVID-19 pandemic.

PH expects 2 more World Bank loans worth $880M

The Philippines will secure two more loans worth a total of $880 million from the World Bank in December to support economic recovery and the agriculture sector amid the COVID-19 pandemic.

E-money transactions to grow until 2021–fintech

Electric money (e-money) transactions are expected to continue growing until next year as the lockdown measures amid the coronavirus pandemic encouraged cashless payments, FintechAlliance.ph Chairman Angelito M. Villanueva told the BusinessMirror in an e-mail.

SMC tollway unit reports lower profit

The tollway unit of San Miguel Corp. said Thursday net income fell by 50 percent in the first nine months because of travel restrictions amid the COVID-19 pandemic.

TODAY'S TOP ASIAN NEWS

SIA prices $850m 5yr convertible bonds at 1.625%

The new $850 million five-year convertible bonds by Singapore Airlines (SIA) will carry a coupon of 1.625 per cent per annum and be issued at par. The initial conversion price is $5.743 for each new ordinary share, said the flag carrier in a bourse filing early on Friday morning (Nov 13).

ExxonMobil still committed to Sg refinery expansion

ExxonMobil said yesterday that it remains committed to expanding its refining-petrochemical complex in Singapore, amid an ongoing review of its projects globally.

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Temasek eyes investment in education, health tech

Temasek is in active talks to make its first direct investment in healthcare and education tech start-ups in South-east Asia, said its chief investment strategist. The outbreak has fuelled demand for digital health and education services, prompting Sg's investment company to review potential targets to add to its US$227b portfolio.

Alibaba, JD.com say US was top seller to China

Alibaba and JD.com said the United States was the top seller of goods to China during the Singles' Day shopping extravaganza that generated about US$116 billion (S$156.5 billion) in merchandise volume for the pair.

TODAY'S TOP GLOBAL NEWS

Rolls-Royce raises £2b with rights issue

British engineering company Rolls-Royce raised £2 billion from a rights issue on Thursday to bolster its pandemic-hit finances, after shareholders signed up for 94% of the new shares and the rest were sold via a rump placing.

InPost attracting interest from Blackstone, GIC

InPost is attracting initial interest from buyout firms including Blackstone Group and Silver Lake, as its owner pursues a dual-track sale process for the Polish postal locker firm, people with knowledge of the mater said. European private equity firms EQT and Hellman & Friedman are also among potential bidders for InPost.

UK bookshops go online to reach new audiences

Faced with closures because of COVID-19 measures and fierce competition from retail giant Amazon, 250 independent bookshops from the United Kingdom have banded together on a new online platform.

Emirates airline posts first loss in over 30 years

Dubai, United Arab Emirates — Dubai-based Emirates airline on Thursday posted a $3.4 billion half-year loss, its first in more than three decades, saying it had been badly hit by the coronavirus lockdown that brought air transport to "a literal standstill".

US airlines to end year with 90,000 fewer workers

Hit with a collapse of demand, US airlines will end the year with the lowest number of workers since at least 1987, 90,000 fewer than when Covid-19 hit, an industry federation said on Thursday (Nov 12).

TikTok gets reprieve as US holds off on ban

The US government announced it would delay enforcement of a ban on TikTok. The hit short form video app was forbidden based on national security concerns voiced by US officials, but the Commerce Department said it was holding off due to an injunction by a federal judge issued on October 30.

Conspiracies could jeopardize Covid-19 vaccine

Conspiracies about Covid vaccines play an "outsized role" on social media, driven in part by a lack of reliable information which could threaten efficacy. "When people can't easily access reliable info on vaccines and when mistrust in actors is high, misinformation narratives rush to fill the vacuum," First Draft said.

UN to open lending window for farmers

The French development agency extended a €300-m loan to the UN's International Fund for Agricultural Development (IFAD) to help small-scale farmers.The IFAD said the loan will be used to help build small-scale farmer's in high-risk countries to become resilient to shocks and increase their productivity.