CONFIDENTIAL
PREMIUM RECOMMENDATIONS

Organization	YETI HOLDINGS, INC. (YETI)
Volume 4	Issue 11 | August 2024

THE VALUE LINE®
M&A Service

IN THIS ISSUE

Value Line®

MONTHLY STOCK SELECTION SERVICE

THE MERGERS & ACQUISITIONS (M&A) ENVIRONMENT

Global M&A deal volume rose in the second quarter, despite fewer transactions. According to a report from Finimize, global volume increased about 4% even though the number of transactions fell about 21%. This was due to a greater number of relatively high-value deals. The increasing role of private equity and private credit funds has supported dealmaking lately and also impacted transaction financing practices.

M&A trends look quite favorable in certain international markets. Citigroup appears to expect a surge in mergers and acquisitions activity in India. It has announced plans to increase the headcount of its India investment banking unit, in anticipation of strong growth in equity capital market and M&A deals in this fast-growing market. Citi has been an advisor for roughly $7.9 billion worth of M&A transactions in India so far in the current year. Elsewhere, mergers and acquisitions activity in Brazil rose 66% in the first half of the current year (compared with the prior-year level), to roughly $18.7 billion. M&A volume in Mexico advanced 32% during this time frame, to $10 billion. Dealmaking prospects for Mexico appear particularly bright. This country's M&A market is viewed as one of the most advanced in Latin America. Moreover, the Mexican economy is expected to benefit as production that the United States had previously outsourced to China returns to North America in conjunction with rising geopolitical tension between the United States and China.

Department store giant Macy's has ended buyout talks with two private equity firms. Back in December, Arkhouse Management and Brigade Capital Management had offered to purchase the remaining interest in Macy's that they did not already own for $21 per share ($5.8 billion). This figure was raised twice, ultimately to $24.80 ($6.9 billion) early this month. However, talks then broke down, with Macy's ultimately ending the negotiations. Macy's cited a lack of compelling value and concerns about the ability of the private equity firms to fund the transaction as reasons for this decision. The company's stock traded lower on the news. Macy's will now emphasize its turnaround strategy, which includes store closures, the elimination of certain positions, and a greater focus on luxury brands.

There have been a couple of noteworthy deals announced in recent times. Networking-equipment provider Infinera Corp. has agreed to be acquired by Nokia Corp. in a $2.3 billion transaction. Morphic, a biopharmaceutical developer of oral integrin therapies to treat serious chronic diseases, is to be acquired by pharmaceutical giant Eli Lilly in a deal valued at roughly $3.2 billion.

The next Federal Reserve meeting is scheduled for July 30th and 31st. The central bank has kept rates steady at the 5.25% to 5.50% level since last summer. We think that the most likely outcome is that the Fed will maintain this stance for the July meeting. But recent good news suggesting relatively weak inflation has led some on Wall Street to believe that the central bank will begin cutting rates in September. Much depends on the data, of course, but deal volumes would likely rise should interest rates come down. ■

ECONOMIST'S NOTE

By William Ferguson

Inflation is moving in the right direction for the Federal Reserve. Specifically, the Consumer Price Index (CPI) declined 0.1% in June, which was down from the unchanged reading in May and below the consensus estimate of a 0.1% increase. The core CPI, which excludes the food and energy components, also came in below forecast, rising just 0.1%. On a 12-month basis, the CPI and core CPI rose 3.0% and 3.3%, respectively, both down from the May advances and below the consensus forecasts. The companion report from the Labor Department showed a slight uptick in the pace of price growth at the producer (wholesale) level last month, but not enough to change the building narrative calling for an interest-rate cut.

The more-benign readings on inflation have raised the odds of a Fed monetary policy pivot in the second half of 2024. The Federal Open Market Committee (FOMC) is scheduled to begin its next two-day monetary policy meeting on July 30th. At that get-together, the data-driven central bank is expected to hold interest rates steady at 5.25% to 5.50% for the eighth-consecutive meeting. However, given the recent downtrend in inflation and the softening economic data of late (more below), we would not be surprised if the Fed strikes a more-dovish tone. Chairman Jerome Powell recently said that the lead bank won't wait for the pace of price growth to reach the Fed's target rate of 2% to begin reducing interest rates.

The Federal Reserve's most restrictive monetary policy course in four decades is slowing growth. But the path to this goal and the hoped-for continued cooling of inflation is proving arduous, given that higher interest rates are being counterbalanced by unprecedented fiscal spending in recent years. Nevertheless, manufacturing and nonmanufacturing activity both contracted in June and headline retail sales growth was unchanged last month. A continuation of these trends may threaten the Fed's goal of orchestrating a "soft landing" for the domestic economy and could prompt the bank to reduce rates, perhaps as early as this fall.

Conclusion: Even in the face of high geopolitical anxiety around the globe, the major equity averages continue to move higher, buoyed by solid initial second-quarter earnings results and the hope that the central bank may soon begin reducing interest rates. ■

THIS MONTH'S RECOMMENDATION: YETI HOLDINGS, INC.

YETI designs, markets, and distributes products for the outdoor and recreation market under the *YETI* brand. Its products include hard coolers, soft coolers, drinkware and associated accessories, as well as hats, shirts, backpacks, duffel bags, outdoor camp chairs, and a variety of additional items. The company divides its product offerings into three categories - Drinkware, Coolers & Equipment, and Other – but operates as one reportable segment.

Drinkware, YETI's largest product area, offers premium tumblers, mugs and cups, bottles, jugs, wine and lowball tumblers, and associated accessories. That business accounted for 62% of 2023 net sales after climbing 8%, the same as it did in 2022. In 2024's first quarter, its net sales rose by 13%. While YETI started in 2006 as a maker of durable coolers, the Coolers & Equipment category is the company's second largest, accounting for 36% of total net sales in 2023. Its products include hard and soft coolers, cargo bags, backpacks, camp chairs, and various other items. Its net sales declined by 2% in 2023, but adjusted for recall reserves, net sales would have been 5% lower, with management pointing to the main culprit as being the halt in sales of products the company voluntarily recalled. In contrast, in 2022, the Coolers & Equipment category's adjusted sales increased 18%. And the category started strongly in 2024 with first-quarter adjusted net sales up 15%.

YETI designs and develops its products at its U.S. facilities and relies on "a diverse group of people 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 prototypes and provide feedback that is incorporated into the final product designs." It outsources fully the fabrication of its products to contract manufacturers in China and Southeast Asia, as well as in Mexico, Italy and the U.S. This allows the company to replace those it deems to have become too expensive or to have reduced their quality. Global logistics providers warehouse and distribute its products. The company puts a lot of focus into marketing, with ads in business, lifestyle, and sports journals, and it has received extensive media coverage.

YETI sells its products to independent retailers, including outdoor specialty, hardware, and farm supply stores, as well as through a limited, yet expanding number of YETI retail stores, and online sites, such as Amazon and its own Web site. Management has been reducing its U.S. dealer count to "strengthen our brand," and, we think, for increased profitability. In 2023, direct-to-consumer (DTC) sales rose by 9%, versus a 5% decline in wholesale sales, the latter due to a cautious ordering environment and the absence of coolers that were recalled. In 2024's first quarter, there was a slight reversal, with net wholesale sales up 13%, versus DTC's 12% rise.

Of course, YETI faces several competitors across its product lines. Competing brands in the cooler arena include RTIC, Igloo, Grizzly, Pelican, ORCA and a host of others. In drinkware, its insulated tumblers go head-to-head against those of Stanley International, RTIC, Simple Modern, and many others. There are also private-label ones, such as those offered by Walmart. Dozens of articles are available online wherein the authors highlight YETI's relatively high minimum advertised prices and determine how well its products stack up against those of its competitors. They generally found YETI's products tending, on average, to be more durable, more efficacious (such as being better insulated), and possessing superior user-friendly, functional details (e.g., handles, lids, etc.), and/or a longer warranty. Depending on the circumstances, including cost and often, the intended duration of use, the critics may prefer a rival product. Indeed, why purchase a more expensive, durable cooler if it will only be used once or twice in total?

Nevertheless, YETI appears to us to have a competitive advantage: strong brand equity. In other words, it is a recognizable brand with a strong reputation for rugged, high-quality products "trusted by outdoor enthusiasts" (e.g., campers, anglers, and beachgoers) worldwide. What's more, its partnerships with outdoor influencers and sports leagues should further improve brand recognition. In our view, brand loyalty and trust has contributed to the premium pricing of its products and in this regard, *YETI* may well be viewed as an aspirational brand.

Companywide first-quarter of 2024 net sales rose by almost 13% year over year and adjusted share earnings, by 89%, exceeding Wall Street's expectations for both. The top line partly benefited from a variety of products launched since the first quarter of 2023 and the January 2024 acquisition of Mystery Ranch, LLC, a maker of backpacks, bags, and pack accessories. No mention was made of a first-quarter contribution from its acquisition of Butter Pat Industries, a maker of premium-priced cast-iron pots and pans, also made in January. In addition, we think YETI will gain from recently begun lawsuits facing Stanley International, whose sales were rising faster than YETI's in recent years, over the use of lead in the manufacture of the former's tumblers. For the year, management sees 7%-9% sales growth, with the acquisitions contributing 200 basis points. Still, absent the acquisitions, the company expects organic growth in 2024 to be below past years', due to market uncertainties and a significant number of gift-card redemptions starting in last year's second quarter.

Still, looking further out, we view YETI's long-term prospects as bright. Its international sales grew 28% in 2023 and accounted for 15.5% of the year's total. Despite its 32% rise year over year in 2024's first quarter (compared to 9% growth in the U.S.), we think Europe and Australia remain well underpenetrated. In addition, we see the company continuing to launch promising new products yearly. Finally, we would not be surprised if there were additional M&A (mergers and acquisitions) down the road to further diversify its product offerings.

Prospective buyers of the company include large players in the sporting goods market in the U.S. and elsewhere that may wish to branch into the "outdoors" arena. Also, while we think it is very unusual, YETI might interest companies outside its purview, just as Stanley International was acquired by the privately owned HAVI Group, LP, a global provider of supply chain management and marketing services, to expand its product offerings and supply chain capabilities. Private equity, which brought YETI public, might take it private again, combine it with other appropriate acquisitions and then take it public once more. With officers and directors controlling less than 1% of the shares and five institutional investors combined controlling 48.3% (3/24 proxy), we believe no single entity nor group can block a vote to be acquired. We think an offer of about $70 per share would be appropriate and engender the major holders' interest. ■

UPDATES ON PREVIOUS RECOMMENDATIONS

Catalyst Pharmaceuticals, Inc. – Catalyst Pharmaceuticals, Inc. (CPRX) is a commercial-stage, biopharmaceutical company focused on in-licensing, developing, and commercializing novel medicines for patients living with rare and difficult to treat diseases. We think that larger pharmaceutical and biotech companies with operating segments focused on treating such diseases may be interested in purchasing Catalyst. **Buy.**

Tecnoglass, Inc. – Tecnoglass Inc. (TGLS) is a vertically-integrated manufacturer (facilities in South America), supplier, and installer of architectural glass, windows, and associated aluminum and vinyl products for commercial and residential construction markets. We expect its multi- and single-family residential businesses will continue to expand. We believe larger glass fabricators, building materials companies, or private equity firms may be interested in purchasing Tecnoglass. **Buy.**

Jabil Inc. – Jabil Inc. (JBL) is a provider of a broad range of outsourced manufacturing services, including complete turnkey solutions, design, component selection, and automated assembly, to a wide range of industries. We think the company's advanced manufacturing technologies, skilled workforce, and broad global customer base may attract the interest of a large diversified industrial or electronics business, or a private equity firm. **Buy.**

Lattice Semiconductor Corporation – Lattice Semiconductor Corp. (LSCC) develops high-performance programmable logic devices (PLDs) and related software. Its products are mainly sold to original equipment manufacturers (OEMs) in the communications, computing, instrumentation, industrial, automotive, medical, consumer, and military end markets. A larger manufacturer of semiconductors or provider of electrical equipment may be interested in purchasing Lattice, though headwinds experienced by the company's industrial and automotive segments have prompted us to sell our position. **Sell.**

Penumbra – Penumbra (PEN) is a global healthcare company focused on the development and manufacture of a portfolio of novel interventional products for the neurovascular, vascular, and neurosurgical markets, and for the "immersive healthcare" market with its REAL ® virtual-reality headsets for care providers. Though we believed the company would make a suitable acquisition candidate for a large healthcare equipment maker, negative market sentiment has prompted us to redeploy capital elsewhere. **Sell.**

Jazz Pharmaceuticals – Jazz Pharmaceuticals (JAZZ) is a specialty biopharmaceutical company that develops novel neurological and oncological treatments for unmet needs. With its market-leading drugs, pipeline, patents, global assets, and key employees, we view Jazz as an attractive acquisition candidate for larger biotech and pharmaceutical companies. **Buy.**

Canada Goose Holdings – Canada Goose Holdings (GOOS.TO) designs, manufactures, and distributes high-end outerwear, clothing, footwear, and accessories. A manufacturer or clothier that caters to affluent and aspirational consumers may be interested in Canada Goose. **Buy.**

Gray Television – Gray Television (GTN) owns and operates television stations and digital assets across the U.S. along with video program companies and studio production facilities. The company, which has

(Continued next page)

access to more than 110 television markets and a strong digital presence, is a compelling takeover candidate in the current environment. **Buy.**

Sensata Technologies – Sensata Technologies (ST) is a UK-based corporation that manufactures a wide array of vehicle and appliance sensors. We believe that trends in the auto industry could benefit the company's operations over the long haul and that this may attract the interest of a larger player in the Precision Instrument Industry. **Buy.** ■

THE VALUE LINE M&A SERVICE UPDATES

Here is our take on pending and recently completed mergers & acquisitions. Just because a deal has been announced doesn't mean that money can't still be made.

Infinera Corp./Nokia (INFN, NOK)

Networking-equipment provider Infinera Corp. has agreed to be acquired by Nokia Corp. in a $2.3 billion deal. Shareholders of Infinera are to receive $6.65 per share. The transaction is structured as a cash-and-stock deal, with 70% of the consideration payable in cash and the remainder comprised of Nokia ADRs. The transaction represents a premium of 28% to Infinera's preannouncement closing price. The regulatory review process should take some time here, and the transaction will not likely close before the first half of next year.

Analysis: Assuming the deal is completed, Nokia would benefit from greater scale and profitability, and this move would strengthen its technology leadership, bolster its optical networking operation, and broaden its exposure to the fast-growing webscale market. Investors in Infinera who are sitting on a nice gain should consider taking profits, in our view. That said, there still could be some money to be made here. The stock is trading moderately below the price that Nokia will likely pay to complete the transaction. There is also the possibility that Infinera may receive a higher bid.

Morphic Holding, Inc./Eli Lilly and Company (MORF, LLY)

Morphic Holding, a biopharmaceutical developer of oral integrin therapies to treat serious chronic diseases, has agreed to be acquired by pharmaceutical giant Eli Lilly in a deal valued at roughly $3.2 billion. Stockholders of Morphic are to receive $57 a share in cash. The purchase price represents a premium of roughly 80% to the stock's preannouncement closing price. The transaction is expected to close in the current quarter, subject to customary conditions.

Analysis: Assuming completion, the addition of oral integrin therapies would expand Eli Lilly's immunology pipeline. In particular, the transaction would support LLY's efforts to develop new therapies in the field of gastroenterology, where it has already made significant investments. At this juncture, shares of Morphic are trading fairly close to the price that Eli Lilly has agreed to pay to complete the deal. With apparently limited remaining upside, we think that holders of Morphic should sell in order to lock in any gains. ■

COMPANY DATA, VALUE LINE M&A PORTFOLIO

YETI Holdings, Inc. – Company Data	
Industry	Recreation
Exchange	NYSE
Ticker Symbol	YETI
Options	Yes
Financial Strength	B
Safety Rank	3
Actual E.P.S. FY '22	$2.36
Actual E.P.S. FY '23	$2.25
Estimated E.P.S. FY '24	$2.50
Current P/E Ratio	15.7
Relative P/E	0.86
Dividend Yield	Nil

Shares Outstanding	85,238,498
Insider Holdings	Less than 1%
Market Capitalization	$3.3 billion (Mid Cap)
Address	7601 Southwest Parkway Austin TX 78735
Telephone	512-394-9384
Website	investors.yeti.com

Value Line Projections	
Recent Price	$39.25
18-Month Target Price Range	$29-$75
18-Month Midpoint Price Appreciation	32%

Value Line Mergers & Acquisitions Service—Current Portfolio Selections

Company	Ticker	Recent Price	VL Rec.	Stop-Loss Price	Purchase Date	Potential Buyout Price (VL Estimate)
Sensata Technologies	ST	$41.52	Buy	$24	6/21/2021	$65
Gray Television	GTN	$5.69	Buy	$4	8/22/2022	$10
Canada Goose Holdings	GOOS.TO	$16.32	Buy	$12	8/21/2023	$32
Jazz Pharmceuticals plc	JAZZ	$108.84	Buy	$95	12/26/2023	$180
Jabil Inc.	JBL	$112.22	Buy	$100	4/15/2024	$190
Tecnoglass Inc.	TGLS	$52.45	Buy	$35	5/20/2024	$80
Catalyst Pharma., Inc.	CPRX	$16.72	Buy	$10	6/17/2024	$30
YETI Holdings, Inc.	YETI	$39.25	Buy	$28	7/22/2024	$70

Value Line

Value Line Publishing LLC
551 Fifth Avenue
New York, NY 10176-0001
vlcr@valueline.com

1-800-VALUELINE
www.valueline.com