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SharkNinja, Inc. (SN)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the SharkNinja Fourth Quarter 2024 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode. The lines will be open for your questions following the presentation. Please note that this conference is being recorded.

I would now like to hand the call over to Arvind Bhatia, Senior Vice President of Investor Relations, to begin the presentation. Thank you. You may begin.

Arvind Bhatia

Senior Vice President-Investor Relations, SharkNinja, Inc.

Good morning and welcome to SharkNinja's fourth quarter 2023 earnings conference call. Joining me on today's call are Mark Barrocas, SharkNinja's Chief Executive Officer; and Larry Flynn, Interim Chief Financial Officer and Chief Accounting Officer. Mark will begin by providing a business update, and Larry will then review our financial results and discuss our 2024 outlook. After that, we will open the call for your questions.

By now, everyone should have access to the earnings release for our fourth quarter ended December 31, 2023 issued this morning. The press release is accessible on the company's website at ir.sharkninja.com. Shortly after the conclusion of today's call, a webcast will be archived and available for replay.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment, as you currently hear, and as such does include risks and uncertainties. If you refer to SharkNinja's earnings release as well as the company's most recent SEC filings, you can see a discussion of factors that could cause the company's actual results to differ materially from these forward-looking statements.

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Please remember, the company undertakes no obligation to update or revise any forward-looking statements in the future.

During the call, we will make a number of references to non-GAAP financial measures. We believe these measures provide investors with useful perspective on the underlying growth trends of the business, and have included in our earnings release a full reconciliation of non-GAAP financial measures to the most comparable GAAP measures.

Now, I will turn the call over to Mark.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Thanks, Arvind. It's great to be with everyone this morning. We're thrilled to share with you our excellent top and bottom line results for the fourth quarter and full year 2023, our momentum in 2024, which makes us even more excited about the coming year, and our positive long-term outlook driven by our proven three pillar growth strategy. Let's start by reviewing our operational and financial results.

We once again delivered industry-leading performance, gaining market share across both the Shark and Ninja brand portfolios. We had a very strong fourth quarter as adjusted net sales increased nearly 20%. Adjusted EBITDA was up more than 70%. Adjusted gross margin improved nearly 1,000 basis points, and adjusted EBITDA margins expanded almost 500 basis points, which is just incredible. Our outperformance and overall strength demonstrate the power of our innovation engine as our growth was broad-based across categories, customers, channels, and geographies.

During the critical holiday selling season, consumers responded with excitement and passion around our product offering, and our retail partners leaned into our brands. I'm thankful for the continued support and trust in our brands by consumers and retailers.

Our full-year results underscore our commitment to delivering on our expectations. On a full-year basis, we exceeded the high end of our previously provided guidance across key metrics. We grew adjusted net sales by more than 15% to nearly $4.2 billion. Adjusted EBITDA increased by nearly 39% to $720 million. We expanded adjusted EBITDA margins by nearly 300 basis points to just above 17%. Full-year adjusted gross margins improved nearly 700 basis points year-over-year to 46.9%. I'm happy to share that this is well ahead of our longer term goal of getting back to our pre-COVID adjusted gross margin level of 45%. We believe our strong gross margin rate is a real competitive advantage for us. These results reinforce our position as one of the largest and most profitable companies in our industry. The entire SharkNinja team has done an incredible job.

We are delivering strong top and bottom line growth and significant margin expansion at scale. Our performance is even more impressive when considering an uncertain macroeconomic backdrop. The consumer environment remains unpredictable, but we continue to be laser-focused on factors within our control. I'm incredibly proud by our team for continuing to deliver these tremendous results.

So, what makes SharkNinja uniquely positioned to win in new categories, markets, and geographies? How do we extend our track record of growth even in challenging business cycle? Our success is directly connected to our unique mindset, culture, and the way we think about the consumer. And each and every layer in our organization, we are maniacally focused on understanding consumers. SharkNinja has created a moat through the relentless focus on four key areas that will continue to propel future growth.

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First, our rapid product innovation approach turns proprietary insight into highly desirable products that solve consumer problems. Two, our highly-efficient, scaled, and agile global supply chains delivers high-quality products with market-leading performance at an extraordinary value. Our global 360-degree marketing plan drives consumer demand through TV, social media, and experiential events, and our omni-channel strategy empowers consumers to shop wherever they choose. I can't think of any other company that is as well set up to succeed moving forward with this flywheel.

Looking ahead, the first quarter of 2024 is off to a great start. Because of our strong performance and better-than-expected trends in the fourth quarter, we exited the year with clean inventories and slightly lower weeks of supply with our retail partners. We are well-positioned to continue to drive strong growth in margins as we build on our incredible momentum.

Our 2023 performance and our go-forward outlook will continue to be driven by our three pillar growth strategy. This includes entering new and adjacent categories, growing share in existing categories, and international expansion. We made great progress across all three of our pillars in 2023 and are excited about what we have coming in 2024 and beyond. Let's now dive a bit deeper in all three.

Entering new and adjacent categories continues to be a critical growth driver for us. If you look back over the last four years, we added 14 new subcategories. We have a very conscious, deliberate, and purposeful approach to entering new and adjacent categories. We've entered categories like beauty and outdoor cooking that didn't always seem obvious for our brands, but where we have been disruptive and highly successful as consumers have gravitated to our innovative offerings.

Entering new categories is something many consumer products companies strive to do, but it's challenging. SharkNinja has a demonstrated track record of not just entering but disrupting the new categories that it enters. This expansion allows us to bring new consumers into our brands, including younger demographics we're seeing with beauty and more male consumers through outdoor cooking.

In 2023, we added four new subcategories to our portfolio, each with tremendous potential. Ninja Thirsti, our recently launched proprietary in-home carbonation drink system, had a strong start in 2023 and is nicely positioned to expand globally in 2024. As we build household penetration, we're excited about the growth potential, including the opportunity to create a recurring revenue stream with our consumable flavored pods and CO2 canisters. Our new Ninja Woodfire Outdoor Oven helped us increase our share of outdoor cooking products.

Expanding our brands [ph] upwards (00:10:00) and particularly in the outdoor cooking space is a key growth area for us. This is a big, definable global category. Carpet shampooing and steam cleaning is a $1 billion-plus category in North America and the UK, which we have not participated in previously. Our recently launched Shark CarpetXpert and Shark StainStriker cleaning products had a very strong holiday season and we believe are poised well for growth and market share gains in 2024. Finding ways to expand our cleaning business and providing consumers with solutions to real-world problems is something that we're passionate about.

The Shark MessMaster, our recent launch into the Wet/Dry Vacuum category is performing well and has become a recognized product on TikTok and TV shopping channels. We expect these new subcategories to remain important growth drivers in 2024 and beyond.

On February 1 this year, we held our first EMEA Product Forum, which brought together retailers, press, and influencers from all over Europe and the Middle East to experience SharkNinja. At the event, we announced our entry into two new $1 billion subcategories for the outdoors.

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We're excited to launch our new Shark FlexBreeze, the world's first indoor/outdoor cooling system, which will be rolling out in both North America and Europe this Spring. Our insights showed us that while consumers love spending time outdoors, they were impacted by heat and bugs, which made it less enjoyable. That negative insight focused us on creating a cooling solution for both indoors and outdoors. The FlexBreeze runs both with a cord and cordless, stands on a pedestal, and can be lifted away for tabletop use. And while built to be outdoors, it is stylish, powerful, and quiet enough to be used indoors. A big innovation is the misting accessory that sprays a cool mist of water, bringing down the ambient temperature nearly 10 degrees. The global fan market is a large, definable segment, and we believe we can gain market share and grow the overall size of the market with this innovation.

Another product we just announced is the Ninja FrostVault, our first entry into the premium cooler segment. While coolers have done a great job keeping beverages cold, they failed to keep food from getting damp and soggy. The soggy sandwich inside is what led us to create the world's first cooler with cold/dry storage. So, now, in addition to getting days of ice retention in innovative fridge-temp drawer built into the cooler allows consumers to safely store any food they want while also keeping it dry.

Consumers are spending more and more time outdoors and are looking for products that offer convenience and solution to their pain points. With our entry into these new subcategories, we are expanding our outdoor portfolio, which already include outdoor grills and ovens, portable blenders, and drinkware. Consumers love our products inside their home, and now they're going outdoors with us as well. Expanding our brands and products outside the home is a big growth opportunity for us in the coming years.

Looking ahead, there are many more categories both in the home as well as outside of the home for the Shark and Ninja brands to be able to expand into. We intend to capitalize on these opportunities by staying focused on identifying and solving consumer problems that others either don't see or are unable to solve, and what's most exciting is that we're just getting started.

Our second growth pillar is growing share in existing categories. We have a long track record of growing market share across our key subcategories. Even in some of our more established subcategories such as vacuum cleaners and blenders where we have a significant market share, we have demonstrated an ability to increase that share. The success is driven by our relentless focus on innovation in existing categories.

Of the approximately 20 to 25 new products that we launch annually, about 80% of them are within existing categories, keeping our offerings fresh and consumers excited. We don't take anything for granted. Led by our 800 cross-functional engineers and designers and driven by global consumer insights and dynamic testing, our 24/7 innovation cycle continues to play a major role in the improvements we observed in 2023 as we introduce 25 new products, including 20 new products within existing categories alone.

For example, we launched a new series of robotic and cordless vacuums using our proprietary Detect Pro technology. In the home environment segment, we introduced the Shark NeverChange air purifiers, which don't require filter replacement for five years. We expanded our Shark hair care family of styling products with the launch of the Shark SmoothStyle, a heated comb straightener and smoother, and Shark SpeedStyle, the market's lightest leading digital hair dryer. At $99, the SmoothStyle has allowed us to bring in many more consumers into our beauty segment, and, over time, we hope to graduate them into other beauty products.

Within the Ninja brand, we introduced the Ninja Combi, our next generation of multi-cookers. We also reinvigorated our blenders and kitchen systems with improved features and functionality through the launch of the

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Ninja Detect Pro. We introduced the XL version of our outdoor drill. This is not just a larger version, but also a connected device that leverages our app, IoT expertise and brings our robotic technology to outdoor cooking. This is all a testament to our innovation approach, which enables us to continue to gain share in existing categories.

During 2023, we continue to grow market share across existing subcategories. While growth is broad-based, subcategories like beauty, air fryers, ice cream makers, and outdoor grills were particularly strong. For example, based on industry data, our US market share of hair dryers and hot air stylers in 2023 increased to nearly 19% compared to 8% in 2022.

Now, to a segment that I'm very excited about, which is our continued international expansion. During 2023, we continued to deliver very strong performance in international markets as adjusted net sales reached $1.1 billion, increasing 66% compared to 2022. UK, which is our largest international market, grew nearly 60% while markets like Germany, France, and Latin America, which are newer, grew at impressive triple-digit rates.

We ended the year with presence in 32 countries, up from 26 countries, at the end of 2022. We have great momentum, scale, and a strong base to further expand our international business. But what's even more exciting is that in most of these markets, our market share is relatively small and we have lots of white space to grow.

Our tremendous success in the UK market has provided important insights and lessons. We're quickly implementing those lessons to catapult our business in newer markets such as Germany and France, which are key growth markets for us in the next few years. We see these two markets as relatively similar in terms of size and scope to the UK market with the long-term potential for Germany to be even bigger than the UK market for us.

I'm also thrilled with our initial success in Latin America, which looks promising as we introduced new products and opened new markets within the region. Our products are resonating with consumers globally, and we believe our international business can be as large as, if not larger, than the US over the long term. Our three pillar growth strategy has driven our record of sustainable, repeatable growth, and we will continue to deploy this proven strategy going forward.

With that, let me turn it over to Larry who will now walk you through our fourth quarter financials and 2024 outlook. Larry?

Larry Flynn

Interim Chief Financial Officer & Chief Accounting Officer, SharkNinja, Inc.

Thank you, Mark, and good morning, everyone.

I'll focus my remarks first on our Q4 financial performance and then cover our expectations for 2024 before turning it back over to Mark for closing remarks.

As Mark mentioned, our fourth quarter results were very strong. Net sales increased 17% and adjusted net sales, which exclude our divested APAC business, were up 20% to $1.4 billion. We grew adjusted EBITDA 71% to $219 million with adjusted EBITDA margins increasing more than 470 basis points year-over-year.

In terms of top line performance by region, net sales in North America were up 8% to $973 million, representing 71% of our sales mix. North America POS was even stronger and was up mid-teens. Adjusted net sales in international markets were up 62% to $404 million, including UK, which was up 38%, continuing the strong trend.

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Retailers leaned into our brands during the holiday season as consumer demand remained strong, leading to reduced weeks of supply at retailers, which is contributing to the momentum in Q1.

Next, let me take a minute to provide color on Q4 performance in our four major product categories. Adjusted net sales in the Cleaning category, which includes vacuums, carpet extraction, as well as other floor care products such as steam mops and wet and dry cleaning floor products decreased just under 3% to $542 million from $556 million last year. While our sales in the category were down, there were several bright spots. First, we saw significant sequential improvement relative to the third quarter decline of 9%. Second, sales of our robotic vacuums were up slightly for the quarter after declining earlier in the year. And third, we delivered strong performance in our recently launched carpet extraction subcategory, which continues to perform well here in 2024.

Adjusted net sales in the Cooking and Beverage category, which includes air fryers, multi-cookers, outdoor grills and ovens, and carbonation increased 33% to $503 million compared to $379 million in the prior year. This performance was primarily driven by strength in Europe, particularly in the UK, where we continue to expand our dominant market position, and continued strength in the US market driven by our outdoor grills, outdoor ovens, and Thirsti.

Our performance in the Food Preparation category, which includes blenders, food processors, and ice cream makers was also strong. Adjusted net sales in this category increased 14% to $181 million compared to $158 million in the prior year. Growth in Food Prep was driven by continued strong performance of our creamy ice cream makers and compact blenders, including the launch of our new portable blenders.

And finally, other, which includes beauty products such as hair dryers and stylers and home environment products such as air purifiers and humidifiers was again our fastest-growing category. Adjusted net sales in this category were $153 million, nearly tripled compared to $57 million in the prior year. This growth was fueled by the continued strong performance of our hair care products, including FlexStyle, SpeedStyle, and SmoothStyle, as well as Shark NeverChange air purifiers within the home environment subcategory.

Moving down to gross profit. In the fourth quarter, GAAP gross profit increased 47% to $623 million or 45.2% of net sales, an expansion of 940 basis points compared to the prior year. Adjusted gross profit increased 50% to $653 million or 47.4% of adjusted net sales, representing expansion of 970 basis points over the prior year. This margin expansion was primarily driven by continued supply chain tailwinds, cost optimization efforts, and category mix.

Turning now to operating expenses. During the quarter, R&D expenses increased to 24% to $69 million compared to $56 million in Q4 last year. We continue to invest in research and development, primarily in head count, to support new product categories and new market expansion. As a percentage of sales, R&D was 5% of net sales compared to 4.7% last year with the increase attributable to incremental share-based compensation.

Sales and marketing expenses increased to $330 million or 23.9% of sales compared to $217 million or 18.3% of sales in the year-ago period. This increase was mainly due to our continued reinvestment of some gross margin dollars back into the business via advertising and personnel to support our new product launches and expansion in existing and new markets and subcategories.

Similar to previous quarters, a portion of the increase in sales and marketing dollars also resulted from increased delivery and distribution costs driven by higher volumes, particularly in our direct-to-consumer business.

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General and administrative expenses increased to $124 million compared to $97 million in the prior year primarily due to incremental share-based compensation associated with new RSU grants as well as transaction cost related to the separation from our parent company, JS Global and our secondary offering in December.

Our GAAP effective tax rate was 45.4% in the fourth quarter and 43% on a full-year basis. This higher GAAP effective tax rate reflects the expected impact of dividend withholding taxes and nondeductible transaction costs and related-party bonus payments.

GAAP net income for the quarter was $49 million compared to $47 million in the prior year. Adjusted net income was $132 million or $0.94 per share compared to $75 million or $0.54 per share in the prior year, reflecting growth of 74%.

Adjusted EBITDA for the quarter increased 71% to $219 million or 15.9% of adjusted net sales compared to $128 million or 11.2% of adjusted net sales in the prior year, reflecting strong gross margin, partially offset by the increased investments in advertising and head count to support our brand-building and growth initiatives.

Looking at the full year results, we delivered GAAP net sales growth of 14% to more than $4.2 billion. Adjusted net sales grew 15% to nearly $4.2 billion compared to $3.6 billion in the prior year. We expanded full-year adjusted gross margins by 690 basis points to 46.9%, well ahead of our long-term goal of 45%, reflecting supply tailwinds and our cost optimization efforts.

GAAP net income for the full year was $167 million compared to $232 million in the prior year. Adjusted net income was $449 million or $3.22 per share compared to $330 million or $2.38 per share in the prior year, reflecting growth of 36%. Adjusted EBITDA for the full year was $720 million, up 39% year-over-year, and adjusted EBITDA margins increased 290 basis points to 17.2%.

Turning to the balance sheet, we finished the year with cash of $154 million, total debt outstanding of $805 million, and a net leverage ratio of 0.9 times. From an inventory perspective, we believe our inventory level and mix remain healthy. At the end of the quarter, we had inventories of $700 million, up approximately 28% compared to Q4 2022. This is slightly ahead of our sales growth for three key reasons.

First, we ended last year below our target inventory level. Second, we prepared for strong consumer demand in Q1. And third, we pre-built a few weeks of supply in anticipation of 301 tariff exemptions that were expected to be reinstated on January 1, 2024 but have been pushed out to at least June 1.

I would like to now touch on two global topics that are likely top of mind for everyone, Red Sea disruption and China tariffs. With respect to Red Sea, while the ocean freight situation remains fluid, we have already taken swift action to mitigate the impact. We proactively increased our weeks of supply in the markets as we continue to meet the strong demand we are seeing in the European and US markets.

Over the past few years we have diversified our shipping partners, and as a result only selectively used spot market containers. Our 2024 guidance assumes some cost impact from the ongoing disruption, but we expect the impact to be immaterial. We are closely monitoring the situation and are ready to adapt to any changes in market conditions to ensure we can continue to serve our customers.

Turning to tariffs. First, let me provide some background. We began proactively moving production out of China in 2019 to diversify and build redundancy in our supply chain. Today, we have manufacturing in Vietnam, Thailand, Indonesia, and Hong Kong, and we are building a presence in other parts of Southeast Asia such as Malaysia

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and Cambodia. We already have line of sight to a run rate of nearly two-thirds of our US sales volume outside of China, covering us well for section 301 tariffs, which affect less than half of our US volume or less than a third of our global [ph] port (00:31:09) volume. We will continue to proactively diversify and tap additional capacity outside of China to mitigate future tariff risk. Overall, we are confident in our ability to move almost all of our US volume out of China by the end of 2025.

When we started on our diversification initiative, our cost of production outside of China was 15% higher than inside China. As a result of the partnerships we have built over the last many years, we are now at cost parity outside of China. In terms of the impact on our P&L, we estimate the financial impact of Section 301 tariff exemptions, which are currently set to expire on May 31, 2024, will be immaterial and is already baked into our 2024 guidance.

With respect to a hypothetical 60% tariff scenario in 2025, if such tariffs were to go into effect, we would not expect any incremental cost to be a long-term issue given the ongoing diversification efforts to move almost all US volume out of China by the end of 2025 as well as the cost parity I talked about earlier. With that, let me now turn to our outlook for 2024.

For the full year, we expect adjusted net sales to increase between 7% and 9%, adjusted EPS to be in the range of $3.45 to $3.61, which reflects a year-over-year increase of 7% to 12%. Adjusted EBITDA to be in the range of $800 million to $830 million, which represents a year-over-year growth of 11% to 15%. Net interest expense of approximately $65 million for the year compared to $45 million in the year-ago period. A GAAP effective tax rate of approximately 24% to 25%. And, finally, capital expenditures of $120 million to $140 million for the year.

In closing, we are very pleased to finish off the year with strong results and continued successful execution of our three pillar growth strategy. As we enter 2024, we remained focused on strategic reinvestments into the business and believe we are in an optimal position to deliver top and bottom line growth over the next year and for years to come.

With that, I will hand it back to Mark.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Thanks, Larry.

Some of the takeaways and highlights from today's prepared remarks are, first, in 2023, we delivered very strong results and achieved profitable organic growth fueled by our three pillar growth strategy. We deployed our best-in-class innovation engine to offer high-performance products that solve consumer problems. We leaned into our always-on omni-channel marketing strategy to create demand and increase brand awareness, and we leveraged our supply chain to achieve success.

Second, we're entering 2024 with strong momentum, which we've continued to see in Q1. I could not be more excited for this year as we plan to launch new products, enter new categories, new markets, and reach more households around the world. We're committed to investing back into our business to drive consumer demand, to continue to perfect our state-of-the-art innovation engine, and reinvent and create new categories to delight consumers around the world. We're well-positioned to deliver another strong year.

Third, I'm more confident than ever that we're on the right track for the long term. We have a large addressable market that grows with each category we enter, a scalable model that applies for all that we do, and a proven

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track record of organic growth. This is all underpinned by a world-class team that ensures we deliver excellence year-after-year.

We remain committed to our mission of positively impacting people's lives every day in every home around the world while driving growth and profitability and creating significant long-term shareholder value.

That concludes our prepared remarks, and I will now turn it over to the operator to kick off Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Randy Konik with Jefferies. Please proceed with your question.

Randal J. Konik
Analyst, Jefferies LLC

Q

Thanks, guys. Maybe a little bit more than one question. I guess a couple for Mark, couple for Larry. Mark, you talked about international and some things you learned about the UK that are informing you on how to kind of go to market in a better way in Germany, France, Latin America. Maybe share some of those insights.

And then, the other thing that's pretty impressive is the continued investment in R&D that continues to pay off. Maybe elaborate on some of the capabilities you've been able to build with that R&D investment over the last few years and kind of some of the capabilities you're working on going forward, that would be super helpful.

And then just for Larry, after Mark. When you think about the guidance that you gave, again, impressive especially on the EBITDA dollar line, maybe give us some perspective on what that guidance entails from just category thoughts and then gross margin thoughts in the numbers, in the plan for the guide for the year. That would be super helpful as well. Thanks, guys.

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. So, I'll start here, Randy. Thanks for the question. So, let's start with the international learnings. I mean, I think, first and foremost, it comes down to do we have the right products for consumers in those markets. I mean, homes are different in Germany and France and elsewhere, Europe and Latin America. Consumer trends are different. So, the first thing was is getting local consumer insights in the markets was a very big change for us.

So, we have consumer insights teams in Germany and France. We're in Italy. We're in Spain. We're in Mexico. So, I would say, first, getting the product right and making sure that we are really in tune with consumers in their homes, how they use these products. The second is, I would say, kind of our omni-channel strategy. In every market that we're in the focus is being relevant where the consumer chooses to shop for our products whether that is online, whether that is brick and mortar. In a country like Germany, brick and mortar still has a very, very high percentage of overall sales and also a robust direct-to-consumer business. So, we've employed that omni-channel approach in every market that we're in.

Third, I would say, is our marketing strategy, TV, social media, experiential events. We're taking those learnings from the UK. We're applying them to all of those markets as well. We're leveraging lots of social media content

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from one country to another. In fact, I'll give you an interesting insight. Lots of social media that was run in Mexico, how we're taking that content and leveraging it in Spain and vice versa.

And then, I would also say that we just had our first EMEA Forum in Mallorca February 1 and 2 where we brought together retailers, influencers, and press all across Europe and the Middle East to really kind of demonstrate to them kind of the power of SharkNinja and let them see the products in a controlled environment. And there's a lot of retailers in Europe that are cross-country retailers. And so, they're driving us – we might sell them in Germany, but they're driving us to sell them in Poland and Turkey and elsewhere. So, I think all of those learnings are kind of helping us focus on the consumer at a more local level rather than trying to direct a lot of this from the home office in Boston.

The second part to your question in terms of R&D and scale and capability, I think on this one, Randy, our team is not only getting larger and larger now with over 800 engineers around the globe, but it's the skill set of those engineers. It's mechanical, electrical, software, app, IoT. I mean, we just launched in Q4 of last year a Ninja XL connected grill. Most of that was designed and developed by our robot app, IoT team and was able to port that technology over into our grill business.

So, our products have a lot of technology inside of them, increasingly more and more for a rather affordable average sell price to the consumer. And I will tell you that just the amount of ideas and innovation that's coming from the team is continuing to accelerate with the scale and growth that we've had internationally with that group.

Larry?

Larry Flynn
Interim Chief Financial Officer & Chief Accounting Officer, SharkNinja, Inc.

A

Yeah. Thanks. Thanks for the question, Randy. I guess starting on the EBITDA guide. I think, overall, kind of continued gross margin expansion in the first half, kind of flattish in the second half. So, that's going to drive a lot of that kind of flow-through down to the EBITDA line. From an adjusted OpEx perspective where we're planning for that to be effectively flat as a percentage of sales in 2024.

Kind of within the gross margin line specifically, obviously we've talked about kind of the cost tailwinds that we saw, some of the cost optimization efforts that we've realized and benefited from in the second half of 2023 as we've kind of diversified our supply chain, created dual sourcing capabilities, which has helped us to really kind of optimize our cost base, get obviously cost parity outside of China. But it's also given us kind of leverage as we have competed with our suppliers. So, overall, kind of the gross margin, as we think about the full year, it's 80 basis points to kind of 100 basis points there.

And what I would say as we think about the kind of those cost optimization efforts as well. Q4, we also saw category mix benefit us in the gross margin line as we think about beauty growing strongly relative to the rest of the business, D2C growing at a faster pace than the rest of the business. We've also – ASPs were strong in the fourth quarter, discounted less than expected, really driving demand through our investments in media. And I think those fundamental elements to the gross margin kind of will continue to benefit us [ph] and our (00:43:06) tools kind of in our toolkit I guess as we think about gross margin going forward.

From a category perspective, I guess on the top line, we would look at kind of Cleaning and Cooking [ph] up, low (00:43:20) kind of mid-single digits, Food Prep kind of mid-teens, and then kind of other, which encompasses beauty and home environment is kind of high teens. That's kind of what's baked into our top line guide.

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Randal J. Konik
Analyst, Jefferies LLC

Q

Very thoughtful and very helpful. Thanks, guys, really appreciate it.

Operator: Thank you. Our next question comes from the line of Brooke Roach with Goldman Sachs. Please proceed with your question.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Good morning and thank you so much for taking our question. I was hoping you could elaborate on the underlying market level growth rate you expect both in the US and the UK for your core categories. Do you think the industry is moving back to more normalized growth levels relative to the last couple of years? And are you seeing any changes in how wholesale partners are planning their orders for the year?

And then second for Larry, I was hoping you could help us with a few guardrails on how to think about how the year might shape out on sales growth. The commentary on a strong start to 1Q is very encouraging, but are there any puts and takes we should be considering regarding growth by quarter due to comparisons, product launches, or otherwise? Thank you.

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. So, Brooke, on the first part of your question, in terms of the underlying market, as you know we're coming off of two years now of market declines in 2022 and 2023after we saw a real spike in demand in 2020 and 2021. I think we're anticipating the market to flatten in the first half of this year with the hope that we see a little bit of increase in the second half of the year. But our assumption for our guidance kind of assumes a flat overall market. And if we're able to get any tailwind from that with the market growing a little bit, that will be a benefit for us.

In terms of the retailers and how the retailers are looking at things. The retailers, as Larry and I pointed out, really leaned into us in Q4. And I think that we're expecting them to support us in a rather big way as we go into 2024, both in our existing categories as well as new categories that we're entering.

We are not assuming destocking in 2024, but our guidance also hasn't assumed any significant amount of restocking. So, we're expecting to kind of wait until the retailer year-end's finish at the end of this year and start to have conversations with them in March and April as to how they're going to plan their inventory levels.

Now, all that being said, I think it's positive to note that retailers did support us with inventory in Q4. They came out of Q4 rather clean on inventory, and we are seeing good ordering patterns in the first quarter of this year. So, we're optimistic that retailers will continue to lean into our products and make sure that they have the stock when the consumer comes to purchase it.

Larry Flynn
Interim Chief Financial Officer & Chief Accounting Officer, SharkNinja, Inc.

A

Yeah. And then, Brooke, on the kind of phasing throughout the year on the top line, we look at it as first half kind of stronger than the second half. Q1 and Q2, baked in our guide is kind of low-double digit in the first two quarters of the year as you know kind of in Q1 of last year we obviously had kind of lighter growth in Q1 of last year. So,

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that's kind of how we think about I guess the shaping throughout 2024 kind of embedded within our 7% to (sic) [and] (00:47:11) 9% top line.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much. I'll pass it on.

Operator: Thank you. Our next question comes from the line of Steven Forbes with Guggenheim Securities. Please proceed with your question.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Good morning, Mark, Larry, Arvind. Maybe just to follow-up on Larry's comment before. I think you said OpEx flat for the year. If we think about the support for new market and new category growth in the fourth quarter and the ramp in ad spend, can you just maybe frame for us how you're thinking about the sales and marketing line for 2024 both in terms of the team itself and pure advertising sort of spend?

Larry Flynn
Interim Chief Financial Officer & Chief Accounting Officer, SharkNinja, Inc.

A

Yeah. So, I guess kind of within that, flat OpEx as a percentage of sales year-over-year. We would see kind of continued investments in sales and marketing, right, in media. Those investments that we made in Q4 and kind of continue to make, some of those are obviously longer term investments around sales forces globally, obviously new markets and new categories, and kind of building the brand awareness there. And I think we've talked about that as kind of one of the benefits of our strong gross margin and being able to kind of embed these investments within the P&L to really fuel longer term growth.

And so then, kind of a by-product of that is then thinking about sales and marketing with a little bit of additional investment there, G&A and R&D just kind of deleveraging slightly, kind of overall to flat OpEx as a percentage of sales [ph] are kind of all in (00:48:50).

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

A

Steve, I think we feel that there is a lot of white space growth potential for us in new markets. We've got to continue to build our brand. There is new categories that we're launching into. But we did also spend at quite elevated levels in the second half of 2023.

And so, to Larry's point, you will still continue to see more investment in sales and marketing, it just won't be to the degree that we've seen the increases 2023 versus 2022. But you will continue to see more sales and marketing investment.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And if I can maybe just staying on expenses. Given the investments in mold and tooling and so forth, maybe the shorter duration assets or depreciation of life of assets, can you just maybe frame D&A expense for the year?

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Larry Flynn
Interim Chief Financial Officer & Chief Accounting Officer, SharkNinja, Inc.

A

Yeah. I mean I think it would be up slightly, not materially different kind of overall. But, yeah, because we stepped up, I think it was $90 million of CapEx in 2022 and we finished kind of right inside of our 2023 guide at about $130 million, $131 million of CapEx in 2023. [ph] And to go (00:50:16) to your point and as we had talked about previously, a lot of that step-up in CapEx, right, is those tooling investments kind of as we dual source outside of China, etcetera.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: Thank you. Our next question is coming from the line of Philip Blee with William Blair. Please proceed with your question.

Phillip Blee
Analyst, William Blair & Co. LLC

Q

Hi, guys. Thanks. Can you speak about some of the outsized growth and share gains you're seeing in some of the newer categories like beauty and outdoor? What are the key drivers there? How sustainable is that in 2024? And then, should we expect a similar kind of success in some of the new categories you have planned for this year?

And then just quickly, on your ability to diversify your supply chain outside of China over the next two years, how do you think about the potential risk to quality or supply here given your existing boots on the ground approach with some of your long-time suppliers? Thanks.

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. So, first on the question of new categories, we did experience significant growth both in beauty and outdoor cooking in 2023, which came from growing within the existing retailers as well as expanding into new retailers for a lot of those products. And Q4 of 2023 was the first holiday season that we were in Sephora and Ulta. We're excited to see our beauty brands there.

We ended the year with the fastest-growing hair tools company in the US. We experienced significant growth in Europe as well, but we're still relatively low share. I mean, in the US, we ended the year at about 19% share in hot air stylers. We did run with supply constraints throughout the year on beauty as we were chasing supply. We only really launched in most of Europe at the end of last year. Same with Latin America, we really launched just at the end of last year. So, we'll see the full-year benefit and impact of beauty.

In the outdoor space, we've expanded into more products. We launched an outdoor oven at the end of the year last year. We'll obviously go into this barbeque season in Q2 with a much stronger offering than we did last year, having multiple grills and an oven. So, we're excited about the growth potential there in outdoor as well as expanding into more doors and more retailers with our outdoor cooking products.

In terms of some of the new products, we think there is a big growth opportunity for us in outdoors, going outside the home. You heard us just talk about the recent launches of our indoor/outdoor fan and also our entry into the

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premium cooler market, our entry into the drinkware market. So, I think outdoor is a category for us overall that we feel like both the Shark and Ninja brands have white space to be able to expand into as we move forward.

On the supply chain side, we've been diversifying outside of China now for the better part of the last five years. We've opened up a engineering and quality office actually in Ho Chi Minh City, which just happened last year. So, the quality side, we have moved offshore with a lot of existing suppliers in China that have opened up facilities in Southeast Asia. And so, our teams are on the ground with them. Their managers have moved over from China into Southeast Asia. So, focusing on quality, focusing on fast churn, focusing on competitive pricing, is all something that we've been working on for the last four or five years. And you're just seeing a scaling up of the work that we've done over those last few years really come into effect over the last 18 months.

Phillip Blee
Analyst, William Blair & Co. LLC

Q

Okay. Great. That's super helpful. Thank you.

Operator: Thank you. Our next question is coming from the line of Megan Alexander with Morgan Stanley. Please proceed with your questions.

Megan Alexander
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning. Thanks very much. Wanted to follow-up just on the kind of retailer destocking/restocking comment. I think the gap between POS in North America and shipment I think was in the high-single-digit type range in the fourth quarter. I guess how does that compare to what you've been seeing prior and how did that trend over the quarter? And are you getting to the point where the gap is at least closing and, understanding you want to be conservative in that, assume it may be reversing? But any more color you can give us there?

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

A

So, the gap is definitely closing as we come out of Q4. POS still grew over shipments, but at a narrower gap than what we have seen in particularly Q3 and Q2 and Q1. And we would expect that as we go into 2024, the POS and shipments are going to start to normalize themselves. I don't necessarily think or we're not planning for shipments to outpace POS and kind of build inventories back. But I think at least we're planning for shipments and POS to kind of match each other and look a lot more apples to apples.

Megan Alexander
Analyst, Morgan Stanley & Co. LLC

Q

Super helpful. And then maybe just a question on distribution channels, particularly with some of these new category launches, the cooler in particular. How are you thinking about or planning for new distribution entries in the US in 2024 and beyond?

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

A

So, we've made investments in our sales organization over the last year, outdoor retailers, sporting goods retailer with the launch of our Ninja Thirsti product, grocery retailers. So, over the last six months we brought a lot of that staff on. They are scaling up in the business. We think that sporting goods will continue to be a bigger channel for

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us. I mean as you think about not just coolers and drinkware, but outdoor cooking and our types of outdoor cooking products could apply well into sporting goods.

We've launched and been quite successful with a product called the Ninja Blast. It's a portable cordless blender that we think the sporting goods space would be ripe for. Again, as I said, Ninja Thirsti in grocery stores we think is an opportunity. And then continued expansion with both outdoor cooking and beauty as we go into kind of more retailers than we have been in in the past, not just in North America, but in Europe as well. So, you will see a lot of sales force expansion from us and us entering into new retailers.

Megan Alexander
Analyst, Morgan Stanley & Co. LLC

Q

Awesome. Thank you.

Operator: Thank you. Our next question is coming from the line of Brian McNamara with Canaccord. Please proceed with your questions.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Hey. Good morning, guys. Thanks for taking the question and congrats on the strong results. We've gotten a lot of questions from investors on what a "normal" top line growth year looks like after kind of flattish sales in 2022, mid-teens growth last year, and now high-single digits guide for 2024. Not expecting a formal long-term guide here, but how should investors overall think about top line growth longer term? Thank you.

Larry Flynn
Interim Chief Financial Officer & Chief Accounting Officer, SharkNinja, Inc.

A

Yeah. I mean, to your point, Brian, we haven't given that kind of long-term guide. Obviously, this is our kind of first time coming out with full-year guidance at the beginning of a year, right? So, I guess, how we probably commented on it at this point in time is 2024 we kind of put that out there and the 7% and 9% top line probably not a bad template kind of as we look forward. But, again, nothing official from a long-term guide at this point in time.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Fair enough. Thank you.

Operator: Thank you. There are no further questions at this time. I would now like to hand the call back over to Mark Barrocas for any closing remarks.

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

Great. Thanks, everyone, for joining us on our fourth quarter call, and we look forward to speaking to you again soon. Have a great day.

Operator: Thank you. That does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

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