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SharkNinja, Inc. (SN)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Desiree, and I will be your conference operator today. At this time, I would like to welcome everyone to the SharkNinja First Quarter 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Arvind Bhatia, Senior Vice President of Investor Relations. Please go ahead, sir.

Arvind Bhatia

Senior Vice President-Investor Relations, SharkNinja, Inc.

Good morning, and welcome to the SharkNinja first quarter 2024 earnings conference call. Our first quarter earnings release was issued this morning and can be found on the company's website at ir.sharkninja.com. And shortly after today's call, a webcast will be available there for replay. Let me remind you that today's discussion contains forward-looking statements based on the environment as we currently see it and, as such, does include risks and uncertainties.

If you refer to the earnings release, as well as the company's most recent SEC filings, you will see a discussion of factors that could cause the company's actual results to differ materially from these forward-looking statements. The company undertakes no obligation to update or revise these forward-looking statements in the future.

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

With me today are Chief Executive Officer, Mark Barrocas; Chief Financial Officer, Patraic Reagan, who joined the company on April 22nd; and Chief Accounting Officer, Larry Flynn. Mark will provide a business update, Larry will review our Q1 financial results and discuss our 2024 outlook, Mark will share a brief closing remarks, and we will then open the call for your questions.

Now, I will turn the call over to Mark.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Thank you, Arvind. Good morning, everyone, and thank you for joining us today. Before we begin, let me take a moment to officially welcome and introduce our new Chief Financial Officer, Patraic Reagan. Over the last several months, we interviewed a number of highly qualified candidates, and Patraic distinguished himself on all of the dimensions that we identified as most important. He has a robust global experience, he has helped to drive growth for big brands, he has a proven track record of driving long-term profitability, and he brings the kind of passion, energy, and pace that is a hallmark of the SharkNinja culture.

Patraic was most recently CFO of the Asia Pacific and Latin America businesses at Nike, and previously held financial leadership roles at powerhouse brand companies, such as Coach, Ralph Lauren, and Kraft Foods. We are so pleased to have him join our leadership team. And I can tell you, from what I've seen these last few weeks, he's hit the ground running.

I also want to thank Larry for his contributions as Interim CFO, and know that he will be an invaluable member of Patraic's team as our Chief Accounting Officer. Patraic, I know you'd like to say a few words.

Patraic Reagan

Executive Vice President & Chief Financial Officer, SharkNinja, Inc.

Thank you, Mark, and nice to meet all of you. It's been an incredible few weeks and I appreciate the warm welcome from you and the team. What drew me to SharkNinja was how unique and truly differentiated this company is from any of its competitors. The powerful growth strategy, the best-in-class product development and innovation engine and, of course, the culture. The energy in these halls and in every meeting is palpable. I'm looking forward to helping the company continue to execute its proven three-pillar growth strategy, while driving long-term profitability and continuing to create strong shareholder value. Mark?

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Thanks, Patraic. Let me begin with a review of our first quarter performance. Our Q1 results were very strong. Adjusted net sales increased 28% and we grew adjusted EBITDA by 30%. Adjusted gross margins improved over 200 basis points and adjusted EBITDA margins were up 30 basis points, even as we continue to significantly reinvest in selling and marketing to build our brands in emerging international markets and to drive awareness of our new products globally. We believe these investments will pay off as we establish our presence in these nascent markets and categories.

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We began Q1 with the momentum of a strong holiday season. Our retail partners in North America ended the fourth quarter with lower weeks of supply than the prior year and replenished inventory in the early part of the first quarter. Our business performed above expectations throughout the quarter across product categories and across our global markets. Our North America business was up 22% and our international business grew 42% on an adjusted basis.

I'm especially pleased that our performance was so well balanced across all three pillars of our growth strategy. This strong momentum has continued into the second quarter. And based on Q1 performance and how we're tracking in the second quarter, we're raising our full year guidance. Larry will provide the details in his prepared remarks.

Let me now provide an update of our three-pillar growth strategy. First, entering new and adjacent categories remains a key area of growth for us. We've entered 18 new subcategories since 2021, including our recent and very exciting launches into two established categories with our disruptive innovation Ninja coolers and Shark indoor/outdoor fans. With these introductions, we've both increased our presence and diversified our offering to a total of 33 subcategories, which is a larger category footprint than most of our competitors. This is a strategic and intentional approach to drive growth and mitigate risk by seizing opportunity in many categories, while simultaneously reducing exposure in any one subcategory.

Looking at our new subcategories, I'm confident in their performance and future potential. In 2023, we entered four new subcategories; carpet shampooing and wet dry vacuuming with our Shark brand and outdoor ovens and in-home beverage with our Ninja brand. Carpet shampooing and steam cleaning represent $1 billion total addressable market in North America and the UK combined. Our Shark CarpetXpert, and Shark StainStriker products had strong launches and a very successful holiday season, and momentum has continued throughout this year.

According to US industry data, during the first quarter, we established double-digit market share and our products drove most of the growth within the category. The Shark MessMaster, our entry into the wet/dry vacuum category last year is performing well and also had double-digit market share in the US during the first quarter.

We're enthusiastic about the growth prospects of Ninja Thirsti, our proprietary home use carbonation system. We launched Ninja Thirsti in the US late last year and will begin its global rollout later this year. We also see a recurring high-margin revenue opportunity for more consumable flavored pods and CO2 canisters, as we increase the installed base of the system over time.

The introduction of our Ninja Woodfire outdoor oven has helped to expand our market share in outdoor cooking products. Along with our Ninja Outdoor Grill and the XL version, which connects to an app for conveniently monitoring and controlling your cooking, we now offer three different SKUs and price points to attract a wider range of consumers. Extending our brand presence in outdoor settings, especially within outdoor cooking, holds significant global potential and is an important growth area for us.

Over the past few weeks, we began rolling out the Ninja FrostVault, our unique offering in the premium cooler segment, and Shark FlexBreeze, our proprietary indoor/outdoor cooling system. With our entry into these $2 billion subcategories that are ripe for disruption, we have further expanded our total addressable market. As the world's first cooler with cold/dry storage, our FrostVault not only delivers premium ice retention, but also solves the problems, we call, the soggy sandwich, the key consumer insight that led to this game-changing innovation. And FrostVault is priced below other premium coolers, offering consumers an amazing product at extraordinary value.

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The Shark FlexBreeze indoor/outdoor cooling system is truly revolutionary with its power, versatility, portability, and unique misting feature. We have a holistic go-to-market strategy for both FrostVault and FlexBreeze, and see meaningful opportunity to extend our reach in these categories over time. We expect our 2023 and 2024 launches to become important growth drivers, and we have a strong pipeline of additional products to be announced later this year.

Our second key growth pillar is gaining share in existing categories. Each year, we launch around 25 new products, including 20 of those within existing categories. These expansions within existing categories accelerate the consumer upgrade cycle as we consistently launch new products with additional high-quality features and functionality for increased convenience and efficiency. A great example is our new Ninja Double Stack XL, the industry's first vertical two-basket air fryer that offers double the performance and requires up to 40% less counter space, a true best-of-both-worlds options for consumers.

We have leading market share in air fryers today, but we continue to rapidly innovate and create an even stronger moat in the category. By ensuring that our offerings are always fresh and relevant, we stay ahead of the competition, gain additional share of the market, and maintain our ASPs and margins, which is a key differentiator.

During Q1, we continued to gain global market share as we delivered industry leading top line growth. While our growth was broad-based, there were a few standouts. For example, we continue to drive strong growth and expansion of the ice cream maker category with our Ninja CREAMi. Our Shark FlexStyle, SpeedStyle, and SmoothStyle, generated a lot of buzz in the hair styler category and helped us broaden retail partnerships. And our air fryers continue to deliver strong double-digit growth and build our global presence.

I will now turn to our third growth pillar, expansion in international markets. Our domestic business is growing well, but we expect our international business to continue to outpace domestic growth for at least the next several years, given the significant white space we have internationally. We expect this global growth to come from a combination of category expansion, geographic expansion, and deepening partnerships with international retailers and distributors.

In 2023, we launched several new subcategories in international markets, entered six new countries and added many new retail partners across EMEA and Latin America, all of which positions us nicely for growth, both in 2024 and beyond. We are projecting significant growth in France, Germany and Latin America this year. And we see tremendous opportunity in the Nordics, Benelux, Poland, Italy, Spain, and the Middle East in the next few years. The UK, which is our largest international market today, is also growing well.

During Q1, our UK business was up 15% on top of a 73% increase in the first quarter of last year. Our products continue to resonate with consumers worldwide and, we believe, our international business could exceed our US business over the long term. Our three-pillar growth strategy has been instrumental in achieving sustained and replicable growth. Moving forward, we remain committed to implementing this effective, tried and tested strategy.

In terms of supply chain, I want to note that our diversified [indiscernible] (00:15:06) supply chain remains robust and resilient. Following recent contract negotiations with our carriers, we now have improved visibility on container shipping rates. There were no real surprises in our discussions and our contracted rates are essentially in line with our expectations.

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We believe that the strategic relationships that we built with a diverse set of carriers over the last several years enables us to act nimbly and navigate issues, like the disruptions in the Red Sea with minimal interruptions to our business. In response to the Red Sea issue, we acted swiftly, increasing our weeks of supply to support our strong US and EMEA businesses. We not only mitigated the potential risk of disruption and delays, but also stayed within our contracted rates in nearly all instances.

With respect to tariffs, we remain laser focused in our efforts to diversify and ensure capacity to produce almost all of our US volume outside of China by the end of 2025. We have increased CapEx investments in tooling as we accelerate our efforts to tap into additional capacity outside of China. Meanwhile, as we mentioned on our last call, we're well-prepared for Section 301 tariffs if they're reinstated on June 1st. We expect the financial impact to us to be relatively small and have already built it into our guidance.

The total addressable market for SharkNinja products continues to expand as we successfully develop and introduce new products and enter subcategories and markets. Based on industry data, our global addressable market is close to $120 billion and growing. And based on our sales of approximately $4.5 billion over the last 12 months, we estimate our market penetration today is less than 4% of this total addressable market which is why, despite our strong growth and market share gains, you often hear me say that, in many ways, we're just getting started.

And now, Larry will walk you through our first quarter financials and updated 2024 outlook.

Larry Flynn

Chief Accounting Officer, SharkNinja, Inc.

Thank you, Mark, and good morning, everyone. I'll begin with a review of our first quarter results and then provide an update on our 2024 guidance, before turning it back over to Mark for closing remarks.

As Mark said, we opened the year with very strong Q1 results. Net sales increased 25% and adjusted net sales, which exclude our divested APAC business, were up 28% to $1.1 billion. We delivered adjusted EBITDA growth of 30% to $231 million, with adjusted EBITDA margins improving 30 basis points year-over-year.

Focusing on top line performance by region. Net sales in North America were up 22% to $734 million, representing 69% of our sales mix. Adjusted net sales in international markets increased 42% to $332 million with Germany, France and LatAm markets each delivering triple-digit growth in the quarter. UK, which is our largest market outside the US, was up 15% on top of a tough comp of 73% growth in Q1 last year.

Next, let me take a minute to provide color on the Q1 performance in our four major product categories, which all saw growth within the quarter. 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, increased 6% to $422 million from $398 million. We were pleased to return to growth in Cleaning, driven by strong performance of our carpet extraction and robotic vacuum subcategories.

Adjusted net sales in the Cooking and Beverage category, which includes air fryers, multi-cookers, outdoor grills and ovens, and carbonation, increased 29% to $330 million, compared to [ph] $255 (00:19:40) million in the prior year. This performance was primarily driven by continued strength in Europe, particularly in the UK, as we furthered our leading market share position. Our growth was also supported by the success of outdoor grills and outdoor ovens across both the US and European markets.

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Food Preparation, which includes blenders, food processors, ice cream makers and coolers, delivered an excellent quarter and it was our fastest growing category. Adjusted net sales in this category increased [ph] 77% (00:20:15) to $205 million, compared to [ph] $116 (00:20:19) million in the prior year. Growth in Food Prep was driven by strong sales of our CREAMi ice cream makers and our compact blenders, particularly our portable blenders.

And lastly, the Other category, which includes beauty products such as hair dryers and stylers, and home environment products, such as air purifiers and indoor/outdoor fans, continued its strong growth. Adjusted net sales in this category increased 66% to $110 million, compared to $66 million in the prior year. This growth was powered by the continued strong performance of our haircare products within beauty, increased sales in the air purifier subcategory, driven by product innovation, and the successful new product launch of our FlexBreeze indoor/outdoor cooling system.

Moving down to gross profit. In the first quarter, GAAP gross profit increased 31% to $527 million, or 49.4% of net sales, an expansion of 260 basis points compared to the prior year. Adjusted gross profit increased 33% to $542 million, or 50.8% of adjusted net sales, representing expansion of 210 basis points over the prior year. This margin expansion was primarily driven by continued supply chain tailwinds and cost optimization efforts.

Turning now to operating expenses in the quarter. R&D expenses increased 19% to $70 million, compared to $59 million in Q1 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 6.5% of net sales compared to 6.9% last year, as we leverage our strong top line growth.

Sales and marketing expenses increased 41% to $215 million or 20.1% of sales, compared to $152 million or 17.8% 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-related expenses to support our new product launches and expansion in existing and new markets and subcategories. Like 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.

General and administrative expenses increased to $88 million, compared to $67 million in the prior year, primarily due to incremental share-based compensation associated with new RSU grants, as well as increased legal and other professional fees, partially offset by lower transaction costs related to the separation and secondary offering.

Our GAAP effective tax rate was 23.6% in the first quarter, compared to 21.8% in the prior year. This higher GAAP effective tax rate is primarily related to the impact of limitations on deductible executive compensation. GAAP net income for the quarter was $110 million, compared to $87 million in the prior year. Adjusted net income was $149 million or $1.06 per share, compared to $119 million or $0.86 per share in the prior year, reflecting growth of 23% on a per share basis.

Adjusted EBITDA for the quarter increased 30% to $231 million or 21.6% of adjusted net sales, compared to $178 million or 21.3% of adjusted net sales in the prior year, reflecting strong gross margin expansion, partially offset by increased investments in advertising and personnel to support our brand building and growth initiatives.

Turning to the balance sheet. As of the end of the first quarter, we had cash of $132 million, total debt outstanding of $800 million, and a net leverage ratio of 0.9 times. We had inventory of $750 million at quarter end, up 47%,

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compared to Q1 of last year. While inventory growth was ahead of sales growth, we believe our inventory level and mix is healthy. There were four key factors that drove the significant year-over-year increase.

First, we ended Q1 last year below our target inventory level. Second, we increased inventory levels this year to support strong consumer demand in Q2. Third, we proactively increased our weeks of supply to mitigate shipment delays due to the Red Sea situation. And fourth, we pre-built inventory in anticipation of Section 301 tariff exemptions expiring at the end of May. Relative to the first quarter of 2022, our inventory balance increased 13% compared to net sales growth of 32% over that same period.

With that, let me now turn to our outlook for 2024. Given our strong performance in the first quarter and our improved visibility into the second quarter, we are raising our fiscal year 2024 guidance. For the full year, we now expect adjusted net sales to increase between 12% and 14% above our prior guidance of between a 7% and 9% increase.

We expect adjusted EPS to be in the range of $3.66 to $3.82, an increase of 14% to 19% year-over-year, compared to our prior guidance of $3.45 to $3.61 per share, or a 7% to 12% increase. Adjusted EBITDA is now expected to be in the range of $840 million to $870 million, representing growth of 17% to 21% year-over-year, compared to our prior expectation of $800 million to $830 million or 11% to 15% growth.

Consistent with our previous guidance, we continue to expect net interest expense of approximately $65 million for the year and a GAAP effective tax rate of approximately 24% to 25%. We now expect capital expenditures to be between $160 million and $180 million for the year, up from our previous expectation of $120 million to 140 million. The increase is driven primarily by incremental investments in tooling, as we accelerate the diversification of our sourcing outside of China.

To close, we are excited by our performance in the first quarter and continued momentum in the second quarter, reflecting the effectiveness of our three-pillar growth strategy and our industry-leading margin profile. We were also pleased to see broad-based growth across our key categories and markets. We will continue to strategically reinvest throughout our business, and we remain confident in our ability to drive strong top and bottom line growth for the remainder of the year and beyond.

Finally, I would also like to welcome Patraic to SharkNinja. I'm truly excited to have him aboard and look forward to working closely with him to deliver strong, profitable growth, and significant shareholder value for years to come.

With that, I will hand it back to Mark.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Thanks, Larry. I'm proud of what our incredible team of 3,000 SharkNinja associates has accomplished, and believe that our success comes from a powerful and difficult to replicate combination of factors. Our proprietary consumer insights generate both factual inputs and creative inspiration for us to develop products that deliver genuinely disruptive innovation.

Our high quality, agile and scalable supply chain allows us to deliver amazing products at extraordinary value to consumers. Our 360-degree marketing approach generates demand by reaching the right audiences with the right message at the right time. And our dominant omni-channel strategy makes it convenient for consumers to shop our products wherever and whenever they choose.

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Each of these is an essential element of the SharkNinja game plan and, together, the whole is even greater than the sum of the parts. But what really brings it all together and is extremely difficult to replicate is our unique SharkNinja mindset. Together with our leadership team, I've invested a great deal of time and energy over the last several years, creating the SharkNinja success drivers and leadership principles. Our associates embrace and demonstrate these every day as they set out to solve consumer problems and positively impact consumer lives.

Our track record of consistent, strong top and bottom line growth, as well as steadily increasing market share over the past 16 years is evidence of the power of our scalable platform. As I look ahead, I'm confident in our ability to deliver sustainable long-term growth and to mitigate risk through continued diversification across product categories, geographies, distribution channels and sourcing partners.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Randy Konik with Jefferies. Your line is open.

Randal J. Konik
Analyst, Jefferies

Q

Hey. Good morning, everybody, and thanks for inventing the Double Stack air fryer. I ordered it the other day, so I really appreciate it. I guess, my first question, we probably have a lot of new people that are getting up to speed on the story. So Mark, what might be helpful is to give us your perspective on additional areas of category expansion you think about going forward. Obviously, you guys own the kitchen, you own the cleaning of a house, you've entered the bathroom. So, maybe give us your added thoughts on with the success you're seeing in, let's say, FlexStyle, for example, in the beauty category. Just give us your thoughts on where you see incremental opportunity for growth on the products category front? Thanks.

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

A

Yeah. Thanks, Randy. So, look, I'll start off by saying that, in the quarter, we're really excited about the two new category launches that we've gone into, the Ninja FrostVault is our first launch in the cooler category. That product launched just a couple of weeks ago and has actually been a complete sellout. We're out of inventory completely right now on that product. So, we'll talk a little bit more about outdoor. And then secondly was the Shark FlexBreeze fan, which has been a really nice success for us in just a short few weeks, and especially as the weather is warming up in most of the country right now.

I think the linkage between the two of those, Randy is, we think there's a tremendous opportunity and a lot of white space for us outside the home. I think if you thought about SharkNinja a year or two years ago, you would think about us, as you said, in the kitchen, in the home cleaning, home environment. I think with our expansion into outdoor cooking, our grill business, our oven business is strong.

The expansion into this indoor/outdoor cooling system with FlexBreeze, our coolers, we're gaining a lot of consumer insights and knowledge about the consumer outside the home and what they're looking for, both as it

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relates to on their patios, but also as they're in RVs or campers or boats or tailgates or places like that. So, I think you should expect kind of more innovation coming from us in the outdoor segment.

I think, secondly, as you mentioned, in beauty, I've said that we expect to expand outside of beauty, outside of just haircare. And I think there's a lot of other categories within beauty for us to be able to expand into. We're expanding our distribution in Sephora. We're expanding our distribution in Ulta. I think we've created kind of real beauty credibility over the last two years with what we've done in the hair space. And I'm excited about additional categories within beauty that we'll be expanding into shortly.

And then lastly, I would just say that we've publicly stated that we believe that the Shark brand and the Ninja brand will each launch into at least one new product category a year as we move forward. And I think you'll see more than that as we continue the rollout in 2024 of 25 new products that will ultimately come to market.

Randal J. Konik
Analyst, Jefferies

Q

Super helpful. Last question would be, you gave us good perspective on the success, let's say, around Europe, in particular, the UK, you talked about some other countries of opportunity. Maybe just give us your perspective on just on the capabilities you're building infrastructure to kind of support that growth [ph] and on sales teams (00:35:18) and whatnot being put in over there to build further relationships with the different retailers in different countries? Just give us the lay of the land on how you're building up your capabilities to execute and scale across the different international markets? Thanks.

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

A

Yes. So, Randy, I actually just came back two weeks ago. I spent a week in London, Frankfurt and Paris. And I think, first and foremost, it's about building up the team. Right now, I mean, although we have grown the team tremendously with offices in the UK, in Frankfurt and in Paris, sitting here today, we have a significant amount of open positions to build the capabilities, not just in sales and marketing, but operations and finance and IT and so on and so forth.

We've also expanded quite a bit of our in-store demonstrator group in many of the retailers in Europe. They give us an opportunity to be able to have demonstrator's in-store, and so, we've expanded that considerably in both Germany, as well as in the UK and are starting it now in France. I think that what you'll see is continued G&A investment. Although we have leverage – we expect to leverage G&A on a full year basis, I think in the first half of this year, you're going to see some G&A investment that is going to be directly attributable to EMEA expansion, Latin America expansion and building the team in those markets.

I also met with some retailers while I was over there, and those retailers are very, very excited about the innovation that we're bringing, the marketing and advertising that we're investing in those markets, the social media excitement. Products like our Ninja CREAMi. Just last week, our Ninja CREAMi in one key European market did over $1 million just in the week. So, I think they're starting to really see what a lot of the North American and the UK retailers have seen over the last number of years that, if you take SharkNinja's combination of consumer-driven product innovation, connect it with a strong investment in creating consumer demand, and you tie that together with a dominant omni-channel strategy, both brick-and-mortar, online and direct-to-consumer, that playbook is very powerful in these European markets, as well as these Latin American markets.

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Randal J. Konik
Analyst, Jefferies

Q

Very helpful. Thanks. Thanks so much.

Operator: [Operator Instructions] Thank you. Our next question comes from the line of Andrea Teixeira from JPMorgan. Your line is open.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Congrats on your results overall. Mark, you mentioned the continuing momentum in the second quarter. Can you comment on consumption shipments on your three divisions? And you also quoted inventory replenishment formed a very low base last year that you called out. So, how much would you think it helped your 28% sales growth in the quarter?

And conversely, as you quoted out, like some of your new products are sold out, but wondering how investors should think about inventory levels at the trade and the phasing of your guidance, even as you raised your guidance substantially? Just wondering how we go from 28% to finish in high-single digit and low-double? Thank you.

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

A

Yeah. Andrea, so, I guess, I'll start with, as you said, we ended 2023 with lower weeks of supply at our retailers as a result of strong sell-through in the holiday season. Our POS out the door was very strong in the first quarter. I mean, we've been chasing shipments throughout Europe and our international business. I mean, our POS and our shipments, our POS is actually lagging – is actually a little bit faster pace than our shipments. And so, we're trying to keep up with inventory levels to service the international markets.

Our POS in North America was a little bit less than our shipments number and that's mainly as a result of we entered the first quarter very depleted in inventory. And so, although you would – historically, we've been talking about this idea of destocking and restocking. And I wouldn't say that we actually restocked with inventory in the US retailers. We actually are down at the end of the first quarter in weeks of supply year-on-year. So, we replenished some inventory in Q1. We had very strong sell-through. We're chasing inventory on certain products that, as I've mentioned, that were sold out in beyond just our coolers.

Now, as it relates to second quarter demand and demand in the second half of the year, we didn't touch our guidance significantly for the second half of the year. We'll update our guidance in the second quarter as it relates to the second half of the year. We're taking a conservative position. We're coming into an environment of the consumer continuing, we think to be challenged. We're coming into a presidential election year. But we think that our combination of, again, performance, quality and value is a strong recipe playbook for what the consumer is looking for today, and I think that we expect our new products and our new innovation that's going to be coming out through the year to continue to excite consumers.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

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That's great to hear, you're raising as you're seeing demand and not with the hopes of the new products. So, you raised based on the success you had and how much replenishment and how much fulfillment you can get through. Is that the way we should be thinking?

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

A

It is, it is. And look, I think that, again, as the quarter goes on and as we close out the second quarter and as we get kind of more and more visibility to kind of retailer sentiment and just market sentiment in the second half of the year, we'll update that guidance at the end of the second quarter.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

That's great to hear. Congrats again. I'll pass it on.

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

A

Thank you.

Operator: Our next question comes from the line of Brooke Roach with Goldman Sachs. Your line is open.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Good morning and thank you for taking our question. I was hoping you could provide an update on your outlook for inventory level growth in the North America market for each of the core categories where you play. What are you seeing in the competitive and promotional environment broadly, and how are your retail partner conversations indicating for trends for the remainder of the year? Thank you.

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

A

Yeah. Brooke, so, look, listen, I think you're seeing a lot of the industry trends and market trends as well. I mean, I think the market is tough. I think the market is down low-single digits. I think the low end of the market is quite promotional. I think that when you look at our gross margins, when you look at our sell-through that we've had, that's not a market – those are not areas of the market that we're participating in. I mean, we've invested very heavily in sales and marketing.

We think that's the better way for us to drive demand than bigger promo pricing. I mean, there's obviously certain cases, of course, that we go on promo and there's certain periods of the year, for example, right now before Mother's Day. But I think that what SharkNinja is experiencing is definitely bucking the trend of the industry. Our outlook is that we think the industry will get back to flat in the second half of the year after a down-year in 2022 and 2023. But our forecast and expectation don't have the industry growing in the second half of the year, but roughly have the industry at about flat in the second half of the year.

I'll just point out, in the conversations, as you say to retailers, I think if you walk to retail stores and you saw the placement that SharkNinja has, I think retailers are betting on us. I think they're supporting us with incremental SKU placements and stack-outs and additional locations. I think they're counting on us for the innovation that

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we're bringing to market and the demand that we're creating. So, I think that those conversations that they're having with us might be slightly different than maybe what they're having with others in the industry.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. And then just a follow-up. As you think about outperforming your initial guide, how do you think about flow-through of that outperformance to the bottom line in driving better margin expansion versus reinvesting that for additional pull forward of growth?

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

A

So, I think, Brooke, we're focused on driving profitable sales. So, let's start off with that. I mean, our gross margin improved in the quarter. Our gross margin rate improved in the quarter. But as it relates to flowing that all the way through, I mean, I think we've talked a lot about the fact that there's a lot of organic growth areas of the business for us to invest in. Europe, we're having a lot of great success in Europe, and we expect to continue to put our foot on the gas when it comes to advertising investment.

We're entering into new categories. Those new categories require advertising. I think the way you should think about operating expense on a full year basis is a little bit of leverage on the R&D side, a little bit of leverage on the G&A side as we get into the second half of the year. But I think you should expect sales and marketing to continue to deleverage and be quite strong. We just think that there are lots of areas for us to invest, lots of new markets, lots of new geographies, and we think it's prudent at this point for us to continue to keep investing in those.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much. I'll pass it on.

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

A

Thanks.

Operator: Next question comes from the line of Steven Forbes with Guggenheim. Your line is open.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Good morning, Mark, Patraic, Larry. Congrats on a great quarter. Mark, I was hoping maybe just to follow up on some previous questions, right. We look at the first quarter net sales performance in the US segment at 22%. I mean, that's significantly outperformed sort of where we were, and I think where the baseline expectation is for that segment on a go-forward basis. So, is there any way to like unpack the various contributing factors to the quarter, whether it'd be the 2023, 2024 products, whether it'd be replenishing inventory, or you think about points of distribution, like any way to contextualize the contributions to growth?

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

A

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Yeah, absolutely. I mean – well, look, I would say, first and foremost, I think we generated kind of strong base business. I mean, I think our core base business was healthy in the quarter. I mean, our core vacuum business, our core blender business our core cooking business in North America. And so, you're copying – I mean, if you think about last year at this time, that market was declining high-single digits, even low-double digits. Market came down to kind of declining low-single digits. So, we've got a firmed-up core base of our business.

Then, secondly, I would say, you layer on top of that expansion of new categories and new products that we launched in both 2022 and 2023. I mean, we had a very strong outdoor cooking season. Our beauty business continues to be quite strong. The new products that we launched in 2023 are having a big impact in 2024. I mean, I'll identify, our Cleaning business grew 6%. I mean, we're seeing really nice growth out of this expansion into a carpet extractor business and the spot and stain cleaner business. It's been strong for us.

So, I think number two is, you're just seeing new product and new category growth coming from the compounding effect of 2022 and 2023 that's having a positive impact on 2024. I think three, you have to look at expansion of retailers. I mean, last year at this time in Q1, we weren't in Sephora, we weren't in Ulta, we weren't in [indiscernible] (00:49:57). We have, in the quarter, launched into DICK'S Sporting Goods online. So, we're in more retail doors as well. And then lastly is the replenishment from a strong Q4 numbers that we talked about. So, I think when you kind of combine all four of those things, it really propelled us into nice growth in the first quarter in North America.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you. I'll pass along.

Operator: Our next question comes from the line of Phillip Blee with William Blair. Your line is open.

Phillip Blee
Analyst, William Blair & Co. LLC

Q

Good morning. Patraic, welcome. Thanks for taking my question. There's obviously a pretty long runway to continue to expand here internationally. Can you provide some color on where you are at in terms of the number of product categories offered in some of these more nascent markets versus what's available domestically? And then, what your plans are for expansion this year and what kind of lift we can expect that to provide? Thanks.

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

A

Sure. Well, look, so, I would say, first and foremost, we were comping a massive Q1 2023 in the UK. And so, we're excited to see that our UK business continues to grow which is our largest market outside of North America. The business in the UK is getting more diversified across more product categories. We're generating real scale in new categories that we've expanded into. We're the number one electric grill in the UK. Our CREAMi business is starting to grow really nicely. Our spot and stain cleaner, our hard floor cleaner business is growing in the UK.

So, when you look at the UK, first and foremost, we're in about 20 of our 33 categories today that are in the UK and that business is becoming, we think more healthier, more diversified. In Germany and France, we experienced triple-digit growth in the quarter. We expect similar triple-digit type growth in the second quarter in Germany and France. And those markets, for the most part, are really selling about 10 product categories. So, we've got a long runway of new products to be able to expand into Germany and France.

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And we're seeing great support from the [ph] Euronics and the MediaMarkts (00:52:33) and Fnac Dartys and the [indiscernible] (00:52:37) in Germany and France. So, we're getting really strong retailer support. You look at a market like Latin America, I mean, our beauty business is extremely strong in Latin America and we're expanding more and more our Ninja brand into that market. In the second half of the year, you'll see a much bigger launch into the Middle East that'll start contributing to our growth as we get into the third and fourth quarter. So, I would say at the most mature area of being UK, we're still seeing opportunities for category expansion. And then you look at some of these other less mature markets, there's a multi-year runway of products for us to be able to continue to expand in those markets.

Phillip Blee
Analyst, William Blair & Co. LLC

Q

Okay. Great. Very helpful. And then just a quick one. You spoke about the opportunity for recurring revenue with CO2 canisters and flavored pods for Thirsti. Can you talk about where you are now in terms of adoption there? And then what are the opportunities to kind of expand some of these ancillary recurring purchases and existing or maybe planned new categories? Thanks a lot.

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

A

Yeah. So, Phillip, I think the consumable conversation is much broader than just Thirsti. I mean, we're getting a very, very high attach rate in our carpet cleaners and stain cleaners with our proprietary chemicals that go into those products. Our hard floor cleaners, like the HydroVac are getting high attach rates with chemicals on those products. So, our accessories business and outdoor cooking [indiscernible] (00:54:17) business is quite strong in those categories of consumers coming back and buying a cover or a griddle or some other accessory for our outdoor cooking business.

So there's lots of aspects of our business that are becoming more, either aftermarket accessory driven or more consumable driven. I think the most exciting one, clearly is Thirsti, and we're learning a tremendous amount about Thirsti. I mean, we've had a nice installed base as we get into Q1. We're starting to see replenishment on which flavors are resonating, which drink types are resonating, which are not resonating, and how do we start to need to retool kind of a flavor development. We brought on a number of outside consultants that come from the ready-to-drink beverage space that are working with us on drink development, recipe development. We're going to launch our Thirsti product into the UK late in the second half of the year. We're working on drink development for that market. CO2 is kind of another area of replenishment.

So look, I would say that we're learning a lot. We're tweaking as we go to try to figure out how to get the formula right and try to really figure out how do we give consumers what they want and what they're looking for. And I think, as we go quarter-over-quarter, we're going to continue to get much, much smarter about how we're approaching that Thirsti business and how do we take those learnings and apply it to other potential consumable categories that we have in the pipeline.

Phillip Blee
Analyst, William Blair & Co. LLC

Q

Great. Thanks again. Congrats on good quarter.

Operator: Next question comes from the line of Brian McNamara with Canaccord Genuity. Your line is open.

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Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Good morning, guys. Thanks for taking the questions. Congrats on the very good results. Mark, I think consumer companies that are looking to go public could take the SharkNinja playbook [indiscernible] (00:56:30) success in, arguably, a very tough category. The company has obviously been very successful since you debuted last July. I'm curious, what was your philosophy in terms of expectations management when you went public? And does anything change now with a permanent CFO, and Patraic in place? Thanks.

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

A

Yeah. Look, Brian, I mean, we're just playing the playbook we've done for the last 16 years. I mean, this company has had different chapters. I mean, it had a long chapter of Mark and I owning the business. It had chapter of us with investors. It had a chapter of us in Hong Kong and going public last July which is kind of the next chapter of the business. I mean, the underlying kind of operating of the business, those are the same mission, same pillars that we worked on for the last 16 years. I mean, the business is about positively impacting people's lives every day in every home around the world.

We do that through taking these proprietary insights that we have and turning them into disruptive innovation that solves consumer problems. We've continued to keep working on driving efficiency in our global supply chain. We think that our ability to story tell and to get the consumer to really understand the problems that we're solving and create consumer demand through social media and TV and experiential events, we're really connecting and engaging with our consumers. And we think that we've created a really dominant omni-channel strategy of brick-and-mortar and dotcom and direct-to-consumer to enable the consumer to buy our products whenever or wherever they want.

And so, I mean, all of that is the same. And I think, if we just keep playing that same playbook and we keep getting better and better at it as a leadership team and as a company overall, hopefully, the consumer responds by buying more products from us and buying across brands and buying across categories and expanding it into more markets. And we'll kind of let the market decide how that all rolls up from a stock performance perspective.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Thanks very much. I'll leave it there. Best of luck.

Operator: Next question comes from the line of Rennie Pan with UBS. Your line is open.

Rennie Pan
Analyst, UBS Securities Co. Ltd.

Q

Hi. Congrats on the strong result. This is Rennie from UBS. My question is on your Cleaning Appliances segment. It has accelerated and it's been positive in this quarter. But if we exclude the extractor and the robotic categories, the regular vacuum cleaner still generated positive growth. And since this is a core category, I would like to understand your views on the outlook for full year 2024?

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

A

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Yeah. So, Rennie, if you strip out kind of the impact of extractor and you kind of look at our total global vacuum business, it was up a few percent. So, yeah, we've seen positive growth in a market that is down. So, we believe we've continued to take share in that category. I think, as we look at the full year outlook, I think we will continue to accelerate the Cleaning category.

We've got a lot of new products that are launching in Cleaning over the course of the next couple of months. As we continue to keep penetrating more into certain global markets and getting more retail replacement in places like Germany and France and other European countries, I think that that will continue to help the Cleaning category. So, overall, I'm bullish that we'll continue to see some acceleration as we go through the year in the overall Cleaning category.

Rennie Pan
Analyst, UBS Securities Co. Ltd.
Q

Thank you. And also, would like to understand your views on the gross margin. It's been very strong this quarter. Are you comfortable with that? And since there is some very promotional environment, what's your view into the, like second quarter or into the second half of this year? Thank you.

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

Yeah. Well, look, I mean, we need to deliver – Let's go back. I mean, we need to deliver compelling, disruptive innovation with great quality, and we need to do it at an extraordinary value to the consumer. And so, we always got to keep that quotient in mind as we're thinking about pricing and we're thinking about gross margin. And I think we're working hard to kind of find that right balance and make sure that consumers really feel that they're getting great value when they buy a Shark or a Ninja product.

As you said, I mean the market is promotional. But I think when you look at a business that's investing over 6% of sales in R&D and over 9% of sales in marketing, I think we're creating, unique products, and I think we're creating lots of great demand for those products. I mean, I think our cooler is a great example about the Ninja FrostVault. I mean, I think we found a real consumer problem and we developed a really disruptive product to solve that problem.

I think the marketing and the social media that we put out there really connected and engaged and resonated with consumers as they started seeing it. I think that the business really drove through our direct-to-consumer channels and through some of our retail partners. And I think that when consumers got the product in home, they felt that it was really priced right and it was at a good value maybe versus other premium competitive cooler companies in the market. So, I think if we get all of those quotients right of innovation and compelling message and omni-channel and we do it at the right price, I think we'll kind of find that right balance in from a gross margin standpoint.

Rennie Pan
Analyst, UBS Securities Co. Ltd.
Q

Thank you. That's very helpful.

Operator: And we do have our last question, comes from the line of Megan Alexander with Morgan Stanley. Your line is open.

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Megan Alexander
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning. Thanks for squeezing me in. I wanted to just come back to the restocking conversation. I think it's a little bit confusing and everyone's just trying to understand the dynamics, not just for your categories, but a lot of categories that saw this. So maybe just a clarification than a question. So, to clarify, it does seem like the factories shipped ahead of POS and 1Q was really more a function of where you ended the year and seeing kind of replenishment carryover into 1Q from the holiday season as opposed to kind of lapping over an easy compare on the destocking last year. So, I guess clarification would be, is that fair?

And then the question would just be, is the better way to think about it perhaps where are your weeks of supply at retail fit today versus maybe what is normal? Just trying to understand whether, as we get to the back half and you're going to be lapping a pretty large gap in POS than shipments, if the easy compare – if it is an easy compare or it's really more about kind of how your weeks of supply look and not so much a year-over-year conversation? Hopefully, that makes sense. Thank you.

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

A

Sure, Megan. So again, let's start by focusing on the fact that like this restocking/destocking situation is a US-only phenomenon and doesn't exist outside – or hasn't existed outside of the US. To help make this more clear for you, at the end of Q1 2022, retailers had 11 weeks of supply. At the end of Q1 2023, they had nine weeks of supply. And at the end of Q1 2024, they had eight weeks of supply. So, on your question on weeks of supply basis, we're down three weeks of supply versus 2022 and we're down one week of supply versus 2023.

As we said, we ended 2023 with significantly lower weeks of supply in inventory levels than we did at the end of 2022. And so, you had some pipeline fill to replenish that back. But even after replenishing that back, our POS in the US grew 14%, 15%. Our shipments in North America grew 22%. So it's a little kind of apples and oranges there because you got to include Canada as well in that number. But in general, we're ending Q1 with one less weeks of supply versus last year and three weeks of supply versus two years ago. Again, we're going to continue to guide that shipments and POS will match each other as we go out through the remaining three quarters. And we'll just have to see whether retailers continue or willing to increase their weeks of supply relative to what we saw prior year. We're happy to – if you have any follow-up on that.

Megan Alexander
Analyst, Morgan Stanley & Co. LLC

Q

No. That makes a lot of sense. I think that's really helpful. So, thank you so much.

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

A

Great.

Operator: That concludes our question-and-answer session. Mr. Mark Barrocas, I turn the call back over to you.

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

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Great. Well, thank you all for joining us on our first quarter call. We're excited by the strong start to 2024 and we appreciate your engagement and continued interest in the SharkNinja story. We look forward to speaking with you again next quarter. Thanks so much.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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