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SharkNinja, Inc. (SN)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

Arvind Bhatia

Senior Vice President-Investor Relations, SharkNinja, Inc.

Patraic Reagan

Chief Financial Officer, SharkNinja, Inc.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

OTHER PARTICIPANTS

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Randal J. Konik

Analyst, Jefferies LLC

Megan Alexander

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you all for attending the SharkNinja's Third Quarter 2024 Earnings Conference Call. My name is Bretha and I will be your moderator for today. All lines will be muted during the presentation portion of the call with an opportunity for questions-and-answers at the end.

I would now like to pass the conference over to your host, Arvind Bhatia, Senior Vice President, Investor Relations. Thank you. You may proceed, Arvind.

Arvind Bhatia

Senior Vice President-Investor Relations, SharkNinja, Inc.

Good morning and welcome to the SharkNinja's third quarter 2024 earnings conference call. Our third 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 and 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 any forward-looking statement in the future.

During the call, we will make several references to non-GAAP financial measures. We believe these measures provide investors with useful perspective on the underlying growth trends of the business. We 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; and Chief Financial Officer, Patraic Reagan. Mark will provide a business update. Patraic will review our Q2 financial results and discuss our 2024 outlook. Mark will then share brief closing remarks and we will 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. Our third quarter results were very strong. Our global teams once again delivered incredible top and bottom line performance in the quarter. We drove adjusted net sales growth of 35%. Adjusted EBITDA grew 26% on top of 38% growth in Q3 last year as we continued to reinvest in our growth initiatives.

Gross margins remained very healthy. For the quarter, adjusted gross margins were up 160 basis points to 49.4%. This increase was despite the unfavorable impact of Section 301 tariffs, which went into effect in June. Our strategic initiatives around supplier diversification, competitive bidding and value engineering are all continuing to pay off. We're on track to deliver nearly 200 basis points of adjusted gross margin improvement this year. This is on top of approximately 700 basis points improvement last year, an incredible 900 basis point increase over two years.

We're not only delivering strong organic growth, but also highly profitable growth, and we're delivering all of that at scale. At the same time, we are consciously reinvesting our strong performance and upside in our growth initiatives to drive long-term shareholder value. These investments are strengthening our moat and accelerating our pursuit of a very large and growing addressable market. While I'm thrilled about our performance in Q3, I'm equally excited about how broad-based our growth continues to be across our four key categories and across our global markets.

In Q3, cleaning, cooking, food prep and other, which includes beauty and home environment all delivered double digit growth in adjusted net sales. Our North America net sales grew 26% year-over-year. Our international business accelerated with adjusted net sales increasing 62%, on top of 80% growth last year, our toughest quarterly comparison of the year.

Our teams continue to drive strong execution across our three-pillar growth strategy. This includes entering new and adjacent categories, increasing our share in existing categories and international expansion. Our first growth pillar, entering new and adjacent categories remains a key growth driver. We remain committed to entering at least two new subcategories annually. In 2024, we've exceeded that goal with entry into four new subcategories, including coolers, fans, frozen drink makers, and most recently, skin care.

Earlier this month, we announced that we will be entering the skin care market with the launch of the Shark CryoGlow in LED infrared and cryo beauty device that focuses not only on anti-aging and blemish reduction, but also instant under-eye de-puffing. We've gained strong share and garnered a lot of consumer excitement in the hair space. We felt that skin was the next problem for us to solve. With two daughters and a teenage son, I have watched as they look for new ways to help them deal with skin blemishes.

As my wife and I look in the mirror each day and see the signs of aging, I recognize that there is an opportunity for one product to appeal to such a broad consumer base, solving so many different problems. Our expansion into skin care is the latest example of how we continue to deliver on our mission of positively impacting people's lives.

We identified a gap in the market for products that deliver both instant results, such as under-eye de-puffing and soothing and long-term skin care benefits like wrinkle and blemish reduction. Traditionally, skin care products are primarily focused only on aging women. Our consumer research identified skin care as a concern for a much

broader audience, including men and women of a variety of age groups. Skin, much like hair, is a source of confidence for everyone. CryoGlow is different than competing products in that it combines cutting edge LED and infrared technology with under-eye cryo cooling, which results in rejuvenated skin. Our engineering and product development teams partnered with global scientists, dermatologists and wellness experts to develop an at-home solution at an accessible price point relative to competing products.

Just like we disrupted the ice cream category with the Ninja CREAMi, we're disrupting the skin care category by offering a versatile product solution versus what's in the market today. We're launching the CryoGlow in the UK and Mexico in the coming weeks. Going forward, we see significant upside potential for us as we drive innovation in skin care and the broader beauty category.

Ninja SLUSHi, our professional grade frozen drink maker continues to strike a chord with consumers. At peak, the waitlist to buy the product from our DTC channel exceeded 200,000 as the product story went viral. To-date, SLUSHi has garnered over 200 million impressions on social media. We are now collaborating with some of the largest ready-to-drink beverage makers and culturally-relevant brands to deliver five-star experiences and continuing to drive social engagement. But that's not all. These partnerships are opening opportunities for us to meet consumers and new channels. And with new experiences, we see the possibility for grocery store placement and expansion to other channels.

Initial sales of Ninja SLUSHi have significantly surpassed our expectations. Our supply chain teams have been working around the clock to ensure availability across our DTC and retail channels for the holiday season. We are also looking forward to launching SLUSHi in our international markets in the first half of next year. We remain very excited about the long-term opportunity for SLUSHi. We are well on our way to becoming global destination for frozen treats with Ninja CREAMi, the clear leader in the ice cream category and now, Ninja SLUSHi.

Our Shark FlexBreeze has already made waves in the cooling category by providing incredible performance for indoor and outdoor use. FlexBreeze had an amazing first season this year, establishing a strong beachhead for us. Last month, it was named the best cordless fan by the New York Times Wirecutter. We have a very exciting line-up in this category for 2025. We expect to launch several new SKUs to develop a substantial portfolio of products in the category and drive significant growth and additional market share gains next year.

This year, Ninja FrostVault technology and innovation disrupted the cooler category that has seen little demonstrable innovation in a long time. After a successful first year, we're super excited about what's in store for the Ninja FrostVault next year. We plan to continue to disrupt the category in 2025 with SKU expansion, broader distribution, including further penetration in the sporting goods channel and improved product availability during the key selling season.

Our 2023 new subcategory launches are also driving significant growth for us. They include everything from deep carpet cleaning, [ph] shop vac (00:11:27), and outdoor oven to in-home beverage making. We're growing sales in these new subcategories as we annualize the launches, enter new markets and additional channels.

In the Deep Carpet Cleaning segment, Shark CarpetXpert is now America's number one upright deep carpet cleaner since the launch in 2023. We haven't rested on our laurels and just last month launched our next-generation extractor and spot cleaning products with our patent pending HairPro technology. The goal is to keep building out these new categories to cater to different consumer needs and price points.

Our second key growth pillar is gaining share in existing categories. Our strategy for expanding market share is fundamentally built on our proven track record of innovating and revitalizing within our established categories.

This approach of relentlessly improving and reimagining our offerings serves as the cornerstone of our growth. I mentioned this last quarter, but I think it's important to highlight how our innovation is helping us regain strength in the cleaning category.

Adjusted net sales in cleaning grew 19% in the quarter. Our engineering and product development teams have worked relentlessly to bring newness to the category and reignite growth. Our recent innovation in the floor care category includes the launch of our Shark PowerDetect franchise, featuring our most advanced cleaning technology to date across robots, cordless and corded vacuums. These products deliver unmatched cleaning performance and set a new industry standard in automation.

In cordless, we continue to expand on the auto-empty segment and drive growth in North America and EMEA. Consumer feedback on auto-empty has been overwhelmingly positive. We're delivering a unique product that makes cleaning seamless and saves consumers from the dust cloud of traditional vacuum empty. Our PowerDetect NeverTouch robot is our disruptive entry into the rapidly growing multi-functional, vacuum and mopping robot segment. This is our highest consumer-rated robot launch that has received amazing press coverage and it's been included on several tech publications' Best of 2024 list. We've already been successful with robots in North America, but we're now a strong competitor in EMEA, including the UK, Germany and France.

With PowerDetect, we have further strengthened our leadership in home cleaning and we're driving growth across key markets. We've also partnered with actress, producer and entrepreneur and self-proclaimed clean freak, Courteney Cox, to promote our innovative line of PowerDetect robot and cordless vacuums. We've expanded our hard floor cleaning lineup with the launch of the Shark Steam Pickup and Shark HydroDuo hard floor cleaners. The hard floor segment presents a great growth opportunity for us and continue to diversify our overall cleaning business.

Another great example of how we're driving market share gains in existing categories is our recent success in the coffee and espresso category following the launch of Ninja Luxe Café. Coffee is a multi-billion dollar global category. Our coffee business has been steady and growing for many years, but there's still very significant market share gains for us to go after.

Ninja Luxe Café provides us a big opportunity to significantly expand our market share in an entirely new segment of the coffee and espresso category. Early results have been very exciting, driven by positive consumer feedback and strong demand. We're offering our discerning consumers an affordable, multi-functional coffee and espresso machine that is easy to use and has endless drink options. Our consumers are able to enjoy cafe quality drinks at home. Following the US launch a couple of months ago, we're now rolling out Ninja Luxe Café in the UK, Germany, France, and other European markets.

We continue to drive innovation and disruption in the Cooking and Beverage category, with our September launch of the Ninja CRISPi. This is the first of its kind portable cooking system, which revolutionizes air frying by delivering consistent CRISPi results with complex versatility. CRISPi shows our commitment to meeting consumer demand for convenience. We already have leading market share in air fryers. But with the CRISPi, we're rethinking, redefining and reinventing the category. We're expanding our market potential and positioning us for continued growth and market share gains in a competitive segment.

Our other category performed extremely well with strength across beauty, fans, and air purifiers. Beauty, led by FlexStyle hot air stylers, remained strong both in our domestic and international markets. In early October, we launched Shark FlexFusion Styling Systems, which addresses a key consumer need we've identified, hot tool

styles without the hot tool damage. Our research shows the average woman washes their hair just two to three times a week. There's a clear demand for tools that can restyle dry hair between washes.

Also, while consumers love hot tools and stylers, they hate the heat damage they cause. We took on the challenge and created a breakthrough product that solves the problem. FlexFusion is a next-generation air styler that combines powerful air and heat-controlled ceramic for no heat damage styling. FlexFusion positions us to capitalize on the growing demand for multi-functional beauty devices, further strengthening our market presence and potential for continued growth in the beauty category.

Next, I will turn to our third key growth pillar, expansion in international markets. Our international business accelerated, delivering 62% adjusted net sales growth in Q3. Germany and France, our largest international markets outside of UK, continue to drive triple-digit sales growth and are well positioned to deliver a strong holiday season. Emerging markets like Benelux, Nordics, Italy, Poland, Spain and the Middle East also continue to deliver very strong growth. The UK grew nearly 6% in Q3 on top of already robust growth of 65% in Q3 last year.

While the overall UK air fryer market, where we hold number one market share, has been down significantly this year, we've been able to diversify into new categories and gain share in existing categories. The UK business today is more diversified and overall healthier than ever before. To support strong North America demand for our new products, we've consciously moved some of our UK product launches to the first half of 2025. This will have a temporary impact on Q4 revenue, but will position us well to grow the UK market in 2025.

SharkNinja generated a lot of buzz at the 100th anniversary of IFA Berlin in September of this year. This is the world's largest consumer electronics and home appliances show. We announced a staggering 20 new products for the EMEA market. This year, we expanded our floor presence significantly. We also had the opportunity to share our story on-stage in a much bigger way. I had the privilege to deliver a keynote, showcasing our innovative product lineup and unique mindset. We had more than 700 meetings with retail partners, nearly tripling year-over-year, and we received extensive media coverage. I'm also proud of the numerous awards we won this year. All said, we were able to generate significant increase in orders, including from many new partners.

Within Latin America, Mexico net sales grew strong double digits, and the market is poised to accelerate for us next year as we shifted to a direct model. We will continue to expand and diversify our Mexico business. We expect to launch additional product categories, increase retail distribution point, and capitalize on the direct-to-consumer opportunity. Mexico has been a great market for our haircare products and will become the first North American market to enter skincare with the launch of CryoGlow next week. I'm also excited to announce that in September, we entered Brazil. Early results are promising and we see significant potential for growth in the market over the long-term. We're also exploring other Latin American markets for launch in the future.

Looking forward, we know the consumers are stretched and will remain cautious this holiday season as they navigate the uncertain macroeconomic environment, including US elections and a shortened holiday shopping season. While we're cognizant of the external challenges, we will continue our relentless focus on execution. We will lead with our innovation. We will deliver amazing products that solve consumer pain points and positively impact consumer's lives. We'll continue to build our brand globally as we leverage our brand partnerships with David Beckham, Chris Appleton, Courtney Cox and others.

We will lean in on our nimble supply chain and omni-channel partnerships to ensure timely supply to our customers this holiday season. Regardless of the outcome of next week's elections, we're well-prepared and

poised for significant growth. I'm pleased with the progress we're making in diversifying our production outside of China to mitigate tariff risks. Patraic will share additional details on that in his prepared remarks.

Looking at quarter-to-date trends, we're off to a great start. We had a highly successful Prime Day earlier this month. Based on available data, we significantly outperform the Home and Kitchen category, just as we did on the first Prime Day in July this year. Given our strong third quarter performance and fourth quarter trends so far, we're again raising our full year 2024 guidance on several key metrics.

I'll now hand it over to Patraic, who will walk you through our third quarter financials and share the details of our updated 2024 outlook third quarter financials and share the details of our updated 2024 outlook.

Patraic Reagan

Chief Financial Officer, SharkNinja, Inc.

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

Our third quarter results were very strong as we continued to deliver on our three pillar growth strategy. Net sales increased 33% and adjusted net sales, which exclude our divested APAC business, were up 35% to over \$1.4 billion. As a reminder, we divested our APAC business in Q3 last year. Therefore, beginning in Q4 this year, it will no longer be a factor in our year-over-year comparisons.

We delivered adjusted EBITDA growth of 26% to \$262 million. Adjusted EBITDA margins declined approximately 130 basis points year-over-year as we continue to purposefully reinvest gross margin upside in product innovation, demand creation and building our brand globally.

Looking at performance by region, net sales in North America were up 26% to over \$1 billion, representing 70% of sales with broad strength across key categories. Adjusted net sales in international markets accelerated, increasing 62% to \$421 million, driven by robust results in EMEA and Latin America. We remain bullish on our international opportunities and believe we have a long runway for growth.

In Mexico, POS sales remain strong. We will experience a transition period as we shift away from our existing distributor and go direct. This will have a small temporary impact on our sales into Mexico as we execute the shift in Q4 and in early Q1.

I'll now provide color on Q3 performance in our four major product categories, which all saw strong double-digit net sales growth in the quarter. Adjusted net sales in the Cleaning category, which includes vacuums, carpet extraction as well as other floor care products, remains strong, delivering growth of 19% to \$527 million from \$443 million in the prior year. We continue to see broad-based strength in the category, including excellent performance in cordless carpet extraction and hard floor. We also continue to gain market share in uprights in robotic vacuums. With our strong innovation in the Cleaning category, we expect momentum to remain strong in Q4.

Adjusted net sales in the Cooking and Beverage category, which includes air fryers, multi-cookers, outdoor grills and ovens and carbonation accelerated, increasing nearly 22% to \$411 million, compared to \$338 million in the prior year. This performance was primarily driven by growth in Europe, particularly in Germany and France.

Food Preparation, which includes blenders, food processors, ice cream makers, juicers, frozen drink appliances and coolers, delivered another strong quarter. Adjusted net sales in this category increased 75% to \$367 million,

compared to \$209 million in the prior year. Strong performances from our CREAMi ice cream makers, the launch of SLUSHi Frozen Drink Maker, and continued strength in kitchen systems were the key drivers in this category.

Finally, our other category, which includes beauty products such as hair dryers and stylers in home environment, products such as air purifiers and indoor/outdoor fans had another excellent quarter. Adjusted net sales in this category were up 79% to \$121 million, compared to \$67 million in the prior year. Beauty remains strong and as Mark mentioned, we are excited to continue this momentum with our launch in the skincare.

Now, moving to gross profit. In the third quarter, GAAP gross profit increased 43% to \$695 million, or 48.7% of net sales. Adjusted gross profit increased 39% to \$705 million, or 49.4% of adjusted net sales as we drove 160 basis points of adjusted gross margin expansion over the prior year. This expansion was primarily driven by our cost optimization efforts in our supply chain, combined with mix in foreign exchange favorability partially offset by unfavorable impact of tariffs.

In terms of operating expenses in the quarter, we continue to use our financial strength to invest in growth initiatives, bringing our amazing products into consumer homes. We are strengthening our product pipeline, expanding our international footprint, and increasing awareness for both the Shark and the Ninja brands. R&D expenses increased 56% to \$95 million or 6.6% of net sales, compared to \$61 million or 5.7% of net sales in Q3 last year.

We continue to invest in head count to support existing and new product categories. In addition, we chose to invest additional prototype costs in head count to accelerate our manufacturing diversification outside of China. Sales and marketing expenses increased 45% to \$301 million or 21.1% of net sales compared to \$208 million or 19.4% of net sales in the year-ago period. This increase was driven in part by our planned investment in advertising and personnel related expenses to support our exceptionally strong new product launches in our expansion into new markets. In addition, a portion of the year-over-year dollar increase resulted from increased delivery and distribution costs driven by higher volumes, particularly in our direct-to-consumer business.

General and administrative expenses decreased to \$119 million or 8.3% of net sales, compared to \$125 million or 11.6% of net sales in the year-ago period. The decrease was primarily driven by transaction costs incurred in Q3 last year related to the separation and distribution from our former parent company. This was partially offset by increased legal fees, including a legal settlement reserve related to certain patent infringement claims and higher professional fees, including increased public company expenses.

Moving to tax, our GAAP effective tax rate was 24.1% in the third quarter and in line with our expectations. GAAP net income for the quarter was \$132 million compared to \$19 million in the prior year. Adjusted net income was \$170 million or \$1.21 per share compared to \$133 million or \$0.95 per share in the prior year, reflecting growth of 27% on a per share basis.

Adjusted EBITDA for the quarter increased 26% to \$262 million or 18.4% of adjusted \$262 million or 18.4% of adjusted net sales, compared to \$209 million or 19.7% of adjusted net sales in the prior year, reflecting 160 basis points of gross margin expansion, more than offset by continued investments in our growth initiatives.

Now, to the balance sheet. As of the end of the third quarter, we had cash balance of \$128 million, total debt outstanding of \$965 million, and a net leverage ratio of just under 1. We had inventory of \$1.08 billion at quarter end, up 36% compared to Q3 of last year. This was in line with sales growth and within our expectations for the quarter. Our inventory mix is healthy. I also want to note that our channel inventory was clean exiting the third quarter.

With respect to tariffs, we continue to make significant progress in our efforts to mitigate risk. Our close partnerships with manufacturers and increased tooling investments with our partners is enabling us to move forward at a rapid pace. We have identified new office space in Vietnam and are hiring in additional personnel and instituting increased rigor in quality control and compliance, as we further expand our presence in Southeast Asia. Overall, we continue to grow in confidence in our ability to diversify and have the capacity to move almost all of our US volume outside of China by the end of 2025.

Next, I'll turn to our outlook for 2024 and provide some preliminary high level thoughts on 2025. With strong Q3 results and quarter-to-date trends in Q4, we are raising our fiscal year 2024 guidance on several key metrics. For the full year, we now expect adjusted net sales to increase between 27% and 28%, above our prior guidance of 22% to 24% increase. We expect adjusted net income per diluted share to be in the range of \$4.13 to \$4.24, an increase of 28% to 32% year-over-year. This compares to our prior guidance of \$4.05 to \$4.21 per share or a 26% to 31% increase. Adjusted EBITDA is now expected to be in the range of \$925 million to \$945 million, representing a growth of 29% to 31% year-over-year compared to our prior expectation of \$910 million to \$940 million or 26% to 31% growth.

Consistent with our previous guidance, we continue to expect net interest expense of approximately \$65 million for the year, a GAAP effective tax rate of approximately 24% to 25%, and capital expenditures to be between \$160 million and \$180 million for the year. Our 2024 year-to-date performance has been strong, and we continue to play from a position of strength. We have accelerated the pace of innovation and geographic expansion this year. Our revised outlook includes the impact of additional investments in our world-class product pipeline. It also includes opportunistic and targeted marketing investments we are making to build our brand in newer markets and to support new product launches.

We have also made a conscious decision to strengthen our supply chain as we accelerate moving manufacturing outside of China. We are pulling forward investments that will help us increase capacity.

In terms of Q4, it is seasonally our largest quarter of the year. While we are very well-positioned for the critical holiday period ahead of us, we are aware this year shopping season is shortened. Next week's US presidential election adds another layer of uncertainty to consumer sentiment in spending. Our updated 2024 guidance reflects our strong growth trajectory, increased investments in growth initiatives and the continued macroeconomic uncertainty we face as a global company.

Looking ahead, while we are not providing formal guidance for 2025 at this time, we did want to provide some high-level comments for you to consider as we wrap this year. First, as you know, 2024 is shaping up to be an exceptionally strong year in which we expect to add over \$1 billion in adjusted net sales and over \$200 million in adjusted EBITDA year-over-year. This sets a high bar for us as we plan for 2025.

Second, as I mentioned, the global macro environment has significant uncertainty with continued geopolitical unrest, the impending US elections and the cumulative impact inflation has had on our consumers. Third, similar to our approach in 2023 and 2024, we are taking a prudent and measured approach to our 2025 planning. We are balancing our competitive advantages and business momentum with the continued challenges in the global economy. Our 2025 planning is well underway and we'll provide more detailed guidance when we report fourth quarter earnings in February.

To close, we are exceptionally pleased with our year-to-date performance. The broad-based growth and sustained momentum across our business reinforced our strategic vision business, reinforce our strategic vision

and execution of our three-pillar growth strategy. We remain committed to making targeted investments that will further elevate our position as an industry leader in identifying, addressing and solving everyday consumer problems. We are well-positioned to deliver robust revenue and profit growth in the remainder of 2024 and beyond.

Now, I will hand it back to Mark.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Thanks, Patraic. SharkNinja's outstanding third quarter results showcased our continued success in delivering profitable organic growth through innovative high-performance products. Our expanding \$120 billion addressable market presents tremendous opportunity as we enter exciting new categories and strengthen our global brand presence.

Our consumer-driven innovation engine continues to thrive and is fueling our growth potential. We're leveraging our agile supply chain and ramping up production to meet increasing consumer demand. We're thrilled about our strong market position for this holiday season and the incredible products we offer.

Looking ahead to 2025, we're more confident than ever. Our ability to capitalize on our consumer insights, cutting-edge R&D capabilities and expanding range of products to drive sustainable long-term growth puts us in a strong position. We've made tremendous progress in diversifying our production outside of China to mitigate tariff risks. The future is bright for SharkNinja, and we're excited to continue delivering innovative solutions that enhance our consumers' lives.

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, Mark. We will now begin the question-and-answer session. [Operator Instructions] We have the first question on the line from Brooke Roach with Goldman Sachs. You may proceed.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Good morning and thank you so much for taking our question. Mark, I was hoping you could elaborate a little bit more on your reinvestment priorities as you look ahead into the fourth quarter and into early 2025. How are you thinking about the rate of potential flow-through on revenue growth and margin expansion as you look ahead?

And then, for Patraic, can you talk a little bit about the rate of margin that you're seeing in international in the new products and in your DTC businesses? And then finally, can you size the impact of some of these elevated and accelerated supply chain investments that you're making relative to your prior expectations as you look to diversify your supply chain? Thank you.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. Brooke, thanks for the question. Listen, this has been an incredibly innovative and growth driving year for us. I mean, we delivered 38% top line growth in the second quarter, 35% top line growth in the third quarter. Our market that we're in is kind of flat to down a little bit. So, we're taking massive share growth both in the existing categories, the new categories and international expansion.

The investments that we've made in R&D have required a lot of spend. And you know, we've got a great pipeline as we look forward into 2025. I mean, we were very fortunate, Brooke. We've hit with our Lux Café. We've hit with our SLUSHi. We've hit with our CRISPi, FlexFusion, CryoGlow, our PowerDetect vacuums. I mean, we launched 15 new products just in the third quarter. A lot of that revenue is not going to hit in 2024. I mean, this is really all setting us up for 2025 and beyond. And then continuing that pace of innovation in 2025 that we're investing now in the third, fourth quarter and as we get into next year. So that's one big piece of investment.

The second is we're expanding into a lot of new markets. I mean we're driving – we drove 62% growth in our international business. And that growth is coming from lots of new countries. I mean, we're entering our first what I would call really massive scaled holiday season in Germany and France. And it's required a lot of up-front investment for us to position ourselves across a number of different product categories.

And then third, on the supply chain side, I guess I would put that, Brooke, into two buckets for you. One is we're making a conscious investment to move and accelerate our outside of China manufacturing faster than what we expected. Not just because of the election right now, but we think that there is capacity outside of China and we want to capture that capacity outside of China and lock that up for us.

So it's coming from everything from manufacturing consultants that we put in place, quality staff. You heard Patraic talk about we're opening up an office in Ho Chi Minh City in Vietnam. But there's a lot – yes, there's a lot of incremental investment that we're making to set up our supply chain to scale as we enter 2025. On the diversification side, on the quality side, and just quite frankly on the ability for us to produce 70 million, 80 million, 90 million units a year across our supply chain.

And then the last thing I would say for an investment standpoint is, we're making other targeted strategic investments in a new ecommerce platform. We are excited about the growth of our direct-to-consumer business, but it's going to take us to provide the consumer with a better experience on our direct-to-consumer side than what we currently have today. And so that re-platforming work is going on right now to be able to enable us to launch that in 2025.

So, I think what – I've always done for the last 16 years is invested in long-term sustainable growth. We've grown a lot, but we got to put the pieces in place to make sure that the growth continues for many, many more years to come. I'll let Patraic answer your other question.

Patraic Reagan

Chief Financial Officer, SharkNinja, Inc.

A

Hey, Brooke. Nice to hear from you. So, what I'd like to say on the question around the international margin is, one, as you heard Mark say, everything that we do really follows our strategy, our three-pillar growth strategy. And so, what I'd like to say is, first of all, we see EMEA, we continue to see and we've spoken about this, is just a tremendous opportunity to extend the breadth and the reach of the SharkNinja brand. And so with that is kind of the backdrop strategically how we go into marketplaces is we typically test and learn.

From a EMEA standpoint, you see that the UK is or both our largest and our oldest marketplace that we've been in, although still relatively youthful in terms of amount of years we've been there. And so, that structurally has the highest margin at this point in time.

The next couple of markets that we're in, in a significant way, owning our business from a direct standpoint is France and Germany. And so, we are, in those markets, both expanding, but also building our margins within those two countries.

And then structurally, how we're going about bringing the SharkNinja brands to the balance of EMEA is largely through our distributor strategy. And what this does is it lets us – it allows us to enter into marketplaces in much more of a test and learn – from a test-and-learn methodology standpoint. And the net of that is we typically go in, we split our profit model with our distributor, they take margin, we take a little bit less margin than we have in our other EMEA markets, but we have very little operating expense. So from an EBITDA standpoint, it's roughly in line with what we see from the balance of the SharkNinja operating model. So hopefully, that gives you a little bit of context in terms of international margin.

Operator: Thank you. As a reminder, we do ask that you please limit yourself to one question. And we have the next questioner from the line of Randy Konik with Jefferies. Please go ahead.

Randal J. Konik

Analyst, Jefferies LLC

Q

Yeah. Thanks a lot. I guess what I want to ask about is the evolution of your channel partnerships. I guess, first, maybe give us some perspective of how we've come so far with like key partners across Walmart, Costco, Amazon. Because I guess what we're seeing in the field is enhanced presentations, shelf space increases to your products. And then, on top of that, can you give us an update on where we are in the beauty, grocery and sporting goods channel, and where we should expect that those areas of distribution to go in the next couple of years? Thanks, guys.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. Thanks, Randy, for the question. Look, on the channel partner side, I think you can just walk through those retailers that you mentioned and see increased placement that we've been able to generate. I mean, we've got great placement in whether it's Costco or Walmart or Target or Best Buy or the European retailers as well. I mean, we were placed extensively in Amazon's holiday gift book that's gone out. So, I think that these retailers are very, very supportive of our innovation. I mean, we're driving growth for them. We're driving consumers into their stores. I think what's super exciting is you take a product like our Ninja Café Luxe at \$499. I mean, we're bringing in great consumers into buying high ASP items into their stores or online.

So, on the channel partnership side, we've got great support from these channel partners. I mean, at the same time, our direct-to-consumer business is growing as well. And we still continue to see that as a really viable growth channel that will grow even faster than our retail business over the course of the next couple of years.

On the side of beauty, groceries, sporting goods. Look, I'll start with beauty. We launched in the quarter – at the end of the quarter, our Shark FlexFusion, our new hairstyler product that brings kind of hot tool finish without the hot tool damage. We launched our Shark CryoGlow that will go on sale in the UK and Mexico on November 4th. So in the beauty space, you're going to see, as we enter 2025, a lot more placement, a lot more placement in the office, in the Sephora's, and also our regular retailers as well. I think everyone's really excited about our expansion into skin. It won't contribute a lot from a revenue standpoint this fiscal year, but it's well set up to be able to do that for next fiscal year.

On the grocery side, look, I – we've mentioned that the Ninja SLUSHi is doing great. I mean, we're having conversations with people like Walmart to put it into their grocery areas. We're having conversations with other grocery chains to partner it with premier ready-to-drink beverage brands. So, I think SLUSHi presents a great opportunity there. You might have just seen that a week ago, we launched for the first time sodas into our Thirsti product, colas, other types of soda flavors. We're getting a great response on social media to that, and I think that's going to continue to help us broaden into the grocery space.

And then in sporting goods, I mean, look, honestly speaking, I mean, we missed the season this year on the cooler side. I mean, we captured whatever demand we could have captured this year. But we're going to be really well set up in 2025 with more SKUs, our earlier in the season, with more inventory and with more support from a number of these sporting good retailers.

So, I think the innovation and the steps that we're taking are all leading us to broaden out our channel partners and to gain more placement in some of these new retailer channels.

.....
Operator: Thank you. We have the next questioner, Andrea Teixeira with JPMorgan. Your line is open.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

Thank you, operator. And good morning, everyone. I understand that you want to be prudent, as usual, given the macro and political uncertainties, but what are you seeing in Q4 so far in terms of consumption? Looking at Nielsen in the US, you up about 50% in consumer takeaway so far in the quarter and it's just three weeks. But even with your raised guidance, the implied Q4 sales growth would be around 15% in the midpoint, I mean, acknowledging the shorter holiday season. But I understand there's also a policy of giving guidance more

backward-looking, meaning like just including the beat of the third quarter, or are you seeing more of a slowdown due to the shifts in Mexico and the UK and moving some of that to the – some of that upside to the Q1 2025?

And if you can please quantify [ph] those effects (00:52:24) approximately as we speak about the underlying consumptions? And lastly, related to that, can you please speak to the inventory levels because it was super useful last quarter when you gave us perspective of how retail inventory had been unfolding and there was a destocking at that point and restocking, I'm assuming, happened in the third quarter? So how we should be positioned again into the holiday season vis-à-vis last year? Thank you.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. So, Andrea, on your first question, we're seeing solid demand in the fourth quarter. We have had a strong Amazon second Prime Day. We took share in that. We hit our forecast. We're seeing good demand in North America. We're seeing good demand in international. I think if there's any challenge for us in Q4 right now is that some of our hit products, in particular SLUSHi, CRISPi, Café Luxe, are going to be constrained from an inventory perspective and we won't be able to capture all of the upside in Q4 that we would have anticipated.

So, on the demand side, though, I think we're seeing solid demand and I think we expect to see solid demand as we go through the holiday season. Also, our ASPs are strong. I mean, we're not expecting to see more discounting this holiday season than last holiday season. So, I think, from that perspective, Q4 is off to a good start.

On the ship and POS side, that story, Andrea, really in the US has kind of quieted down. I mean, roughly speaking, our ship and our POS were flat in Q3. We anticipate it being flat in Q4 as well. So there really isn't a lot of conversations around that. I think areas where we are inventory-constrained probably has more to do with us just not being able to capture the demand that we're seeing from some of the new products than it does from the retailers not buying the inventory. But I'll let Patraic talk about the inventory side.

Patraic Reagan

Chief Financial Officer, SharkNinja, Inc.

A

Yeah. Hey. Thanks, Andrea, for asking the question, something that we focus on every single day. So, I think there's really three quick things and then one overall overarching comment. One is as I said in the prepared remarks, both our owned inventory and channel inventory at very healthy levels, very clean levels. We feel really good about where we are as we closed out Q3 and look into Q4.

As Mark mentioned, kind of the restocking/destocking, that's largely behind us. We don't really see that in at play anywhere near the level of significance we saw from more of a historical standpoint. So we think that's in the rearview largely.

And then, just more from a data point standpoint as we look at Q3 inventory, we finished up about 35%, 36%. And if you remember back to the last few calls, we also tried to guide and provide some transparency on our inventory to revenue relationship using a two-year stack because we've had particularly low levels of inventory in the beginning part of 2024. That is now normalized. So, if you now take a look at a two-year stack, inventory is up roughly 50% on a two-year basis and net revenue is up roughly 50% on a two-year basis. And so, we feel really, really good, number one, about those levels; and then number two as we've communicated to the community previously, that's what we expected to happen. And so, I think from a data point standpoint, from an analytics standpoint, we feel good.

And then finally, just to use a quick 30 seconds to say, this really speaks to the strength of our supply chain. So, we have a very nimble, agile supply chain. I heard Mark speak a little bit earlier about the continued investments that we're continuing to make to preserve that nimbleness and that flexibility. And we view it as one of the core underlying strengths and competitive advantages of what we have here at SharkNinja.

Operator: Thank you. We have time for one more question, and we have Megan Alexander with Morgan Stanley. Please go ahead.

Megan Alexander

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks so much for squeezing me in. I'll maybe just ask a follow-up. So, I think it was Brooke's question a little bit earlier, just maybe ask it in a different way. I'm just trying to understand how to think about maybe the margin trajectory in 2025 as you think about some of the investments you're making. Is there any way to kind of contextualize how much is pull-forward in a way to kind of set you up for continued growth in 2025 versus maybe what could linger in 2025 related to some of the supply chain work, which is obviously prudent to get ahead of potential tariffs and move things out of China? But just trying to understand kind of the puts and takes around how we should think about the expense drivers into 2025.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. Look, I think the way that you should think about them, Megan, is that we want to make sure that our business is set up for long-term success. And it's not in our interest to try to – we need to spend in the quarters that we need to spend it in. And I think on the supply chain side, we looked at things and said, maybe we could drive this expense through 2025. I think what we're realizing is there's a number of things that are happening in our supply chain. We're having to scale much faster than what we anticipated, just the overall total sheer volume of our supply chain, the complexity of the products that we're selling today, I mean, we're in a lot of new categories that are requiring a lot of new quality competencies and manufacturing expertise competencies, and then the diversification of the supply chain outside of China. And I think that we could either look at it and say, let's make these investments over the course of 12 months or let's really go after this and make very significant investments in the third and fourth quarter. And I think that's what we've chosen to do.

Do I think that some of it is pulled forward through 2025? I would say that I think some of it is accelerated into 2024 from 2025. I think we anticipate our business growing in 2025 and we've got to make sure that our supply chain is well set up to be able to support it. So that's as it relates to the supply chain side.

On the side of international growth, look, we're really driving scale right now in Germany and France and a number of other European markets. And again, I think we can look at the business and say, should we haircut it 4% or 5% spend as a percentage of sales right now or should we make the investments and set ourselves up really great for 2025 and beyond? And I think we've made the decision that we think we should spend now in advance of what we think that could materialize for 2025.

So I would say, look, we're not trying to manage this by quarter. We're not trying to manage this by year. We look at kind of what's in front of us right now and we say, what's the right thing for our business Christmas 2025. And the right thing for our business Christmas 2025 is to invest in R&D, to make the supply chain moves that we're making and to continue to keep investing in our brands in these new markets. And we do believe that long term, it's going to pay off well for us. Patraic?

Patraic Reagan

Chief Financial Officer, SharkNinja, Inc.

A

Yeah. I would just – I would echo exactly what Mark says. We really feel like at this point in time and for the foreseeable future, we're dealing from a position of strength. And so, what we're trying to do at this moment is if you think about the innovation that we brought in the marketplace just in last three months, much less the last 12 or 18 months, it's been an incredible pipeline of innovation. And so how we think about that is very much on an end-to-end basis. It's like to bring that innovation to market to solve the consumer problems that requires investment in our product design, product development, engineering space to produce that product, especially in a shifting macroeconomic environment where, at this point in time, we're not certain where tariffs may lie 180 days from now. We're building in the – and we're building flexibility into our supply chain.

And then finally, as we get product into market, we have amazing, amazing product stories to tell that are solving consumer problems. But the products just don't show up and sell themselves. We have to educate our consumers. The great thing is our consumers are discerning, they engage with our products on a very heightened level. But we do have to educate in terms of what's coming in the marketplace. And I think that Café Ninja – Ninja Café Luxe is a great example. It's like to the average consumer, an espresso machine is intimidating. But what we're bringing to market is something that is so streamlined, so easy to use. It pulls the consumer in. But we've got an obligation to the consumer to really educate him or her in terms of what that value proposition is and what that product can bring his or her life.

And so that's a little bit of the end to end strategy around investments. As I said, everything that we do from an investment standpoint is informed by your three-pillar growth strategy, so a little bit more context for you there.

Megan Alexander

Analyst, Morgan Stanley & Co. LLC

Q

But – I don't know if they're going to come off, but could I like one quick follow up, I guess, from a supply chain standpoint? You obviously talked about you're not – you're maybe missing some demand in the holiday season. What's your expectation for how quickly that can catch up? And you can get back to the point where we're able to supply to that demand. And do – how do you give the thought to the pace of innovation in the context of you're maybe missing out on some demand this holiday season

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

A

Yeah. In terms of how fast can we catch up, I would say, some products in first quarter, some products not until the second quarter. We are pushing out some of our new product launches from the UK, just to keep that demand and be able to continue to fulfill US customers. So, I would say, some will catch in Q1 and some will catch in Q2.

In terms of how does it impact our R&D or innovation approach, I don't think it does. Listen, it's hard to forecast new products. It's hard to think about which are the ones that are going to kind of be runaway successes and which are the ones that are just going to be really solid products that sell every day on the shelf.

But I think what's encouraging, Megan, more than anything is the hit rate of the innovation is increasing. And I think that's testament to our consumer insights approach to all the testing that we do before we launch these products, the price testing, the feature testing, the marketing testing. So if anything, I think what 2024, is showing us is we're just getting better and better at product developing and ensuring that we're giving the consumer the right performance at the right quality at the right price.

What we probably need to do as we move forward is kind of think about more flexibility in our supply chain and maybe how do we get kind of earlier read signals as it relates to which of these products are going to really take off and accelerate. But that's obviously a tough one that we're going to continue to work on for the next 10 years.

Operator: Thank you. I would now like to turn it back to Mark Barrocas, CEO, for some final closing remarks.

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Yeah. Well, look, thank you for joining us, and we look forward to speaking with you again soon. So, have a wonderful day. Thanks.

Operator: Thank you all for joining the SharkNinja's third quarter 2024 earnings conference call. I can confirm today's call has now concluded, and you may now disconnect from the call. And please enjoy the rest of your day.

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