THE WALL STREET JOURNAL.

http://www.wsj.com/articles/yeti-how-a-67-million-investment-became-a-3-3-billion-windfall-1474714801

MARKETS

Yeti: How a $67 Million Investment Became a $3.3 Billion Windfall

Private-equity firm Cortec stands to make 50 times its money in red-hot cooler maker's IPO

Yeti has grown from a niche supplier to hunters and fishermen into a mass-market phenomenon. *PHOTO: YETI*

By MATT JARZEMSKY

Updated Sept. 24, 2016 11:41 a.m. ET

A small private-equity firm is about to get a big payoff from a bet on $400 coolers.

If all goes as hoped, Cortec Group, with just 20 employees in Midtown Manhattan, could make a profit on paper of about $3.3 billion in the coming initial public offering of Yeti Holdings Inc., according to people familiar with the matter.

The company is seeking a valuation of $5 billion in its IPO, which could come as soon as October, the people said. Cortec bought a roughly two-thirds stake in 2012 for about $67 million, some of the people said.

Yeti, which in July filed to go public, still has to convince investors it is worth the hefty price tag. The marketing process for the IPO has yet to begin, and the company could adjust its projected valuation based on conversations with investors.

RELATED

- Yeti Coolers Are Hot! No Really, People Are Stealing Them (Aug. 31)

A $5 billion valuation would put Yeti at a steep 36 times its 2015 earnings before interest, taxes, depreciation and amortization of $137 million. The company is growing quickly, however, and will be basing its proposed value on newer data and forecasts.

With U.S. stock indexes near all-time highs and economic growth subdued, the companies behind hot products are trading for high prices relative to their earnings. Under Armour Inc. is valued at 67 times its projected profit for this year, while ski-jacket-maker Moncler SpA trades for 20 times this year's expected income, according to FactSet.

Still, making back 50 times an investment in four years is nearly unheard of in private-equity circles. It is pretty rare even in the high-return world of investing in tech startups. Cortec already has collected a $312 million dividend payment from Yeti earlier this year, according to a regulatory filing.

The gains reflect Yeti's growth from a niche supplier into a mass-market phenomenon. Texas brothers Roy and Ryan Seiders founded the company a decade ago selling coolers to Gulf Coast hunters and fishermen. It has since expanded into soft coolers and other products such as drinkware, which now account for 62% of its sales.

The company's stainless-steel mugs were a hard-to-find holiday gift item in 2015, thanks in part to a wave of tweeting by owners marveling at their ability to keep drinks hot or cold for hours. Its ice chests are so popular they have become a favorite among thieves. Coolers start at $250 and run to $1,300 for a model Yeti says "can hold multiple elk."

Yeti's sales more than tripled in 2015 to $469 million. The company touts its coolers' seamless construction and the two walls of stainless steel that give its mugs an insulating vacuum. The company has also benefited from social media, which has made it possible for niche products to get widespread publicity and post explosive growth.

Cortec's potential windfall comes from a strategy that many of its peers aim to follow. Private-equity firms have their eyes out for hot products, said Jay Sammons, head of the consumer and retail team at Carlyle Group LP. Mr. Sammons helped oversee a roughly $500 million investment in Beats Electronics that made Carlyle a profit of about $1 billion when Apple Inc. bought the headphone maker.

In Yeti's case, the risk for potential investors—including Cortec, which will continue to own a majority of the company after the IPO—is that sort of popularity can be fickle. For every Under Armour, whose market capitalization has risen to $16.1 billion from about $600 million in its 2005 stock-market debut, there is a GoPro Inc., whose shares are down 29% from their IPO price.

"The real question is can Yeti keep innovating, and how far can they take this brand and broaden it without losing their authenticity?" said Matt Hyde, chief executive of West Marine, a boating-products retailer that carries Yeti products. "Those are tricky waters to navigate."

Yeti lost $38.2 million in the first quarter as expenses for selling and general and administrative purposes rose to $149.8 million from $13.9 million in the year-earlier quarter, according to a regulatory filing. Igloo Products Corp., Coleman Co. and others have introduced new coolers with features similar to Yeti's at lower prices.

The Seiders brothers grew up working with their father, Roger, who founded fishing-rod materials company Flex Coat Co. out of his garage in Houston, according to Yeti's website.

Cortec's 2012 investment gave Yeti the funding it needed to expand to a more mainstream market of beachgoers, campers and backyard grillers. It began licensing the logos of dozens of colleges to win over football tailgaters, and it rolled out lines of mugs and stainless-steel drink koozies.

Cortec is run by four partners, including a former assistant to the chairman of annuities seller SunAmerica and a former executive of building-supply company Ply Gem Industries Inc. It is currently investing its sixth fund, a $1.1 billion pool of capital. Its other investments include Barcodes Inc. and Community Veterinary Partners, according to its website.

Most of Cortec's earnings on the stake in Yeti will go to its own investors. The fund Cortec used to buy Yeti has notched annual returns of about 53% through 2015, according to Palico SAS, which operates an online marketplace for fund stakes.

Write to Matt Jarzemsky at matthew.jarzemsky@wsj.com