Boot Barn Holdings, Inc.
First Quarter Fiscal 2017
Conference Call Remarks Outline
July 26, 2016

Operator:

Opens the call and turns it over to Jim Watkins, Vice President of Investor Relations and External Reporting.

Jim Watkins

Thank you. Good afternoon, everyone. Thank you for joining us today to discuss Boot Barn's first quarter Fiscal 2017 earnings results. With me on today's call are Jim Conroy, President and Chief Executive Officer, and Greg Hackman, Chief Financial Officer. A copy of today's press release is available on the Investor Relations section of Boot Barn's website at BootBarn.com. Shortly after we end this call, a recording of the call will be available as a replay for 30 days in the Investor Relations section of the Company's website.

I would like to remind you that certain statements we will make in this presentation are forward-looking statements. And these forward-looking statements reflect Boot Barn's judgment and analysis only as of today, and actual results may differ materially from current expectations based on a number of factors affecting Boot Barn's business. Accordingly, you should not place undue reliance on these forward-looking statements. For a more thorough discussion of the risks and uncertainties associated with the forward-looking statements to be made on this conference call and webcast, we refer you to the disclaimer regarding forward-looking statements that is included in our first quarter 2017 earnings release, as well as our filings with the SEC referenced in that disclaimer.

We do not undertake any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. Please note that we have not presented adjusted measures for the first quarter of fiscal 2017 as there were no adjustments.

I will now turn the call over to Jim Conroy, Boot Barn's President and Chief Executive Officer. Jim?

Jim Conroy

Thank you, Jim, and good afternoon. Thanks, everyone, for joining us.

On today's call, I'll be providing a review of our results, followed by a discussion around the key drivers of our business. Following that, Greg will review our financial performance in more detail, and comment on our outlook for Fiscal year 2017. Finally, we will open the call up for your questions.

I am pleased that we achieved positive same-store sales growth of 0.4% on a consolidated basis in the first quarter. This same store sales growth, coupled with the sales contribution of the acquired Sheplers business and the 17 new Boot Barn stores opened over the past 12 months, contributed to consolidated net sales growth of 39%.

Our results reflect strong sales growth in both E-Commerce brands, while the stores business declined year over year with the Boot Barn stores outperforming the rebranded Sheplers stores.

In our stores, we saw continued growth in many core markets, particularly in the West, but we continued to face sales headwinds in Colorado, Wyoming, and North Dakota associated with the softness of local economies dependent on oil and other commodities. Same store sales in our Texas stores continued to be negative, but showed sequential improvement over each of the last two quarters.

In our e-commerce channel, our efforts to expand this business yielded positive results. We continued to make progress in the integration of the back-office operations of our two e-commerce businesses, which we believe will create further efficiencies, allow us to provide an even better customer experience, and result in further expense reduction. As part of this integration, we are converting our e-commerce businesses to a new technology platform. The conversion to the upgraded platform is expected to be completed in the second half of this fiscal year.

Looking at our core Boot Barn merchandise performance, we saw improvement in our work category as we continued the positive growth we experienced in the fourth quarter, reflecting further traction in the merchandising initiatives we implemented in fiscal 2016. We also grew comp sales of men's and ladies' western apparel, achieving positive results by expanding our assortment in dresses, skirts, and graphic tees in an effort to target the country music festival customer. However, we again experienced weakness in our ladies boots business, primarily attributed to sluggish sales in regions impacted by low oil and commodities prices.

Turning now to the Sheplers business:

Same store sales at the Sheplers business, including e-commerce and the rebranded Sheplers stores were positive during the quarter. This sales growth was led by Sheplers' e-commerce business, outpacing the single-digit decline at the Sheplers stores that continued to anniversary heavy promotions in the 1st quarter of fiscal year 2016, prior to the Sheplers acquisition.

Looking at Sheplers e-commerce, this business has continued to experience double-digit sales growth, with increases in every major merchandise department and particularly outsized growth in boots. In terms of site metrics, we saw an increase in both traffic and conversion, along with a shift to mobile from desktop traffic.

In the quarter, we completed the transition of Sheplers' store merchandise to the Boot Barn assortment. Looking at those stores now compared to one year ago, you would see a significantly larger offering of western boots, work boots and work apparel. The team has done a terrific job enhancing the store aesthetics and expanding our offering, positioning the rebranded Sheplers stores as a key destination for both the western and work customer. We believe the authoritative assortment in each of these categories differentiates us from our competitors.

Although we saw growth in some of the expanded merchandise categories, we did continue to see weakness in western apparel, as we continue to cycle the heavy Sheplers price promotion activity in the prior year. We expect this trend to continue for a few more months until we begin to anniversary the Boot Barn promotional calendar in our third fiscal quarter.

Looking at the profitability of these stores, we continued to work through some of the slower moving apparel at the Sheplers stores, which had some negative impact on merchandise margin rate. This pressure was more than offset by the merchandise margin rate improvement achieved by our purchase economies, introduction of private brands, and our efforts to reduce the amount of promotional activity in the stores relative to the prior year period. While we are disappointed in the same store sales results in these stores, we are encouraged by the healthy increase in merchandise margin rate and feel that we are positioned well for profitable sales growth going forward in this part of the business.

Turning to current business. While still very early in the fiscal second quarter, our consolidated same store sales were slightly negative in the month of July. For context, July of last year was the toughest comparison in the second quarter, particularly in the core Boot Barn business. We have continued to generate strong sales in our e-commerce channel, particularly at Sheplers.com, and our Western region stores continue to comp positively. However, while we hoped we would see some stabilization in sales in Colorado, Wyoming and North Dakota as we anniversary the beginning of the sales erosion in these commodity impacted markets, that has not yet materialized, and those markets continue to see sales declines.

Looking forward, visibility into sales trends is difficult, and week-to-week performance continues to be variable. Nonetheless, I am relatively pleased with our performance in the first quarter, and believe we have the appropriate strategies in place to manage through the current cycle as we search for more opportunity to drive same store sales growth, strategically open new stores in areas with strong potential, and further enhance our e-commerce capabilities.

Now I'd like to turn the call over to Greg Hackman.

Greg Hackman

Thank you, Jim. Good afternoon, everyone. I will begin by reviewing our first-quarter results, and then comment on our outlook for Fiscal Year 2017.

In my discussion, I will be commenting on both actual and adjusted results, excluding any one-time costs, to facilitate comparability. Please reference today's press release for all definitions, and for a reconciliation of GAAP numbers to these non-GAAP adjusted numbers.

In the first quarter, net sales increased 39%, to $133.4 million. As Jim mentioned, this was driven by the sales contribution from Sheplers, the 17 new Boot Barn stores opened over the past 12 months, and same-store sales growth of 0.4%.

Gross profit increased 32.4%, to $40.8 million, or 30.5% of net sales, compared to gross profit of $30.8 million, or 32.1% of net sales, in the prior year period. Consolidated merchandise margin rate declined 210 basis points. Merchandise margin rate declined as the result of the historically lower merchandise margin rate at Sheplers compared to the merchandise margin rate at core Boot Barn. The composition of the businesses this year with Sheplers, as compared to last year when the Company did not own Sheplers, was the primary driver of the decline in the consolidated merchandise margin rate. Also pressuring merchandise margin rate was the outsized growth in e-commerce, slightly more promotional activity online, additional shrink provision, and increased freight. Importantly, we did not change our full-price selling philosophy in our store base.

Operating expense for the quarter increased 40% to $36.3 million, or 27.2% of net sales, compared to adjusted operating expenses of $25.1 million, or 26.1% of sales, in the prior year period. The increase in operating expense is primarily attributable to the operating costs related to the Sheplers business and the 17 Boot Barn stores opened since the first quarter of fiscal year 2016. The adjusted operating expenses in the prior year period exclude $0.9 million of acquisition-related expenses.

Our adjusted EBITDA increased to $9.4 million in the first quarter of Fiscal Year 2017, compared to $8.8 million in the prior year period.

Our income from operations was $4.5 million in the first quarter of fiscal year 2017, compared to $5.7 million of adjusted income from operations in the prior-year period. The decrease in income from operations is primarily the result of higher depreciation and amortization expense.

Interest expense was $3.6 million, an increase of $2.8 million, or $0.06 per diluted share, compared to the prior year period, which results from additional debt associated with the acquisition of Sheplers in the second quarter of fiscal year 2016.

Net income for the quarter was $0.6 million, or $0.02 per diluted share, compared to $2.3 million or $0.08 per diluted share in the prior year period. Excluding acquisition-related expenses and the adjusted provision for income taxes, adjusted net income was $3.0 million or $0.11 per diluted share in the first quarter of fiscal year 2016.

Turning to the balance sheet:

We continue to manage our inventory very closely. Excluding the converted Sheplers stores, inventory was flat to last year on an average store basis. On a consolidated basis, inventory rose 31%, to $179 million, compared to a year ago. This increase is primarily driven by an 18% increase from the addition of the Sheplers stores business, a 7% increase from the new stores added in the last 12 months, and a 7% increase related to the Sheplers e-commerce business.

As of June 25, 2016, we had a total of $253.5 million outstanding on our revolver and term loan. At the end of the quarter, we had $60.2 million drawn on our $125 million revolving credit facility and $5.8 million of cash and cash equivalents. Our net debt leverage ratio was 4.1 times.

Fiscal 2017 Outlook

Our Outlook for the full fiscal year 2017 remains unchanged from prior guidance. While we are beginning to cycle the external headwinds associated with softness of local economies dependent on oil and other commodities, we continue to expect same-store sales for the consolidated company to be between slightly negative to slightly positive.

We expect income from operations of between $42.4 million and $46.8 million and net income to be between $16.9 million and $19.6 million for fiscal year 2017. Earnings per diluted share is expected to be in the range of $0.63 to $0.73 per share, based on an estimated weighted average diluted share count of 26.8 million shares for the full fiscal year.

Second Quarter Guidance

As we look to the second quarter of Fiscal Year 2017, we expect same store sales to be slightly negative to slightly positive when compared to the prior year period. We estimate our second quarter earnings per diluted share to be in the range of zero to $0.02 per share, based on an estimated weighted average diluted share count of 26.7 million shares for the second fiscal quarter.

Now, I would like to turn the call back to Jim for some closing remarks.

Jim Conroy

Thank you, Greg.

We are working extremely hard to offset some of the pressures in our business and I am encouraged that we were able to achieve a slightly positive same store sales result in the first quarter. Having said that, we remain in a challenging retail environment which makes forecasting difficult. During this uncertain time, we continue to manage our expenses and inventory levels carefully, while remaining focused on building new stores, growing same store sales, improving our merchandise margin, and enhancing our omni-channel capabilities.

Now I would like to open up the call to take your questions. Operator?

AFTER ANALYST QUESTIONS CONCLUDE

Operator

Thank you. I would now like to turn the conference back over to management for any additional or closing remarks.

Jim Conroy

Thank you everyone for joining the call today. We look forward to speaking with you all on our 2nd quarter earnings call this fall. Take care.