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Sportsman's Warehouse Holdings, Inc.

Fourth Quarter and Full Year 2015 Earnings Conference Call

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CORPORATE PARTICIPANTS

Rachel Schacter, *Investor Relations, ICR*

John V. Schaefer, *President and Chief Executive Officer and Director*

Kevan P. Talbot, *Chief Financial Officer and Secretary*

CONFERENCE CALL PARTICIPANTS

Seth Sigman, *Credit Suisse*

Stephen Tanal, *Goldman Sachs*

Peter Benedict, *Robert W. Baird*

Lee Giordano, *Sterne Agee*

Andrew Burns, *DA Davidson*

Daniel Hofkin*, William Blair & Company*

Peter Keith, *Piper Jaffray*

Patrick McKeever, *MKM Partners*

PRESENTATION

Operator:

Greetings and welcome to the Sportsman's Warehouse Fourth Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Ms. Rachel Schacter of ICR. Thank you, Ms. Schacter. You may begin.

Rachel Schacter:

Thank you. Good afternoon, everyone. With me on the call is John Schaefer, President and Chief Executive Officer and Kevan Talbot, Chief Financial Officer.

Before we get started, I would like to remind you of the Company's Safe Harbor language. The statements we make today will contain forward-looking statements within the meaning of the Private

Securities Litigation Reform Act of 1995, which includes statements regarding our expectations about our future results of operations, demand for our products, and growth of our industry. Actual future results may differ materially from those suggested in such statements due to a number of risks and uncertainties including those described in the Company's 10-K for the year ending January 30, 2016, which we expect to file in the next few days.

We will also disclose non-GAAP financial measures during today's call. Definitions of such non-GAAP measures as well as reconciliation to the most directly comparable GAAP financial measures are provided as supplemental financial information in our press release included as Exhibit 99.1 to the Form 8-K we furnished to the SEC today which is also available on the Investor Relations section of our website at investors.sportsmanswarehouse.com.

Now, I'd like to turn the call over to John Schaefer, President and Chief Executive Officer of Sportsman's Warehouse.

John V. Schaefer:

Thank you, Rachel. Good afternoon, everyone and thank you for joining us today. I will begin by reviewing the highlights of our fourth quarter and full-year performance and then discuss our progress on our strategic initiatives and thoughts on the coming fiscal year. Kevan will then go over our financial results in more detail and review our outlook after which we will open up the call to your questions.

We are very pleased to have ended the year with a strong fourth quarter which came in above our guidance and included net sales growth of 14.6%, same-store sales growth of 4%, and adjusted EPS growth of 22.7%. As I look back at our financial performance for the entire fiscal year 2015, I am very proud that we once again delivered on each of the goals that we set for ourselves at the beginning of the year. For the fiscal year, net sales increased 10.6% to $729.9 million, same-store sales increased 1.1%, adjusted net income increased 22.3%, and adjusted EPS increased 22.0% to $0.61.

Looking more closely at the fourth quarter, the sequential improvement in the hunting categories that became evident the last two quarters continued into Q4. However once again, our clothing and footwear business was impacted by the unseasonably warm weather that we have seen in most of our markets. Despite this headwind, as well as the choppy overall retail environment, and the challenges facing our niche in particular, we have a number of highlights that made up what we consider to be an outstanding fourth quarter. Building on our track record of delivering against our goals, in Q4, we once again achieved our internal financial performance targets. We accomplished this despite the just mentioned weather headwinds and continued competition in many of our markets, the latter of which has been a consistent theme. As I said last quarter, with our growing store base and increasing brand awareness, we continue to perform better against the competition. We again held margins by adhering to our traditional pricing and promotional calendar despite the combination of the unseasonably warm weather and resulting sales shortfall of our higher margin categories of clothing and footwear in the fourth quarter.

Our inventory position at year-end was strong and our prudent buying strategy throughout the year allowed us to increase margins and achieve desired sell through in clothing and footwear despite the weather. This conservative purchasing approach in clothing and footwear actually allowed us to reduce our discounting versus last year despite numerous peers discounting at rates dramatically higher than last year. We continue to differentiate ourselves from our competitors and the mom-and-pop players through our unique everyday low pricing strategy, best-in-class customer service, and our presence in larger markets as the neighborhood store as well as in smaller markets where a compelling array of merchandise options is lacking. As a result of these attributes and our disciplined execution, we have consistently delivered on our goals every quarter since our IPO.

We continue to self-fund our growth while also meeting our twin objectives of a 20% ROIC on new stores and creating sufficient free cash flow to pay down debt. We opened nine stores in fiscal year 2015 and reduced our debt-to-Adjusted EBITDA leverage ratio by 20% to less than 2.5 times at the end of fiscal year 2015 compared to the end of fiscal year 2014. Additionally, debt reduction remains a priority for us in fiscal year 2016 and through a combination of mandatory as well as voluntary prepayments we expect to use $20 million to pay down our term loan. Kevan will discuss this payment in more detail.

Net sales for the quarter increased 14.6% to $212.7 million. Same-store sales increased 4% versus the prior year period despite the unseasonably warm weather which again caused our clothing area to post negative year-over-year results on the same-store sales basis. Excluding the nine stores that were impacted by new competition, our same-store sales were up 6.2% in total with the majority of our stores without competition generating positive year-over-year results, once again confirming our expectation that the normalization of the industry would begin in the second half of this year. I should note that the delta between same-store sales in locations with and without competition is decreasing, indicating both our ability to successfully operate in markets that are not as financially productive to our larger competitors, but also corroborating our premise that we are complementary to our larger competitors and can peacefully coexist with them in the markets in which we compete.

Looking more closely at our store sales performance for the quarter, firearms sales increased 32.9% versus the fourth quarter of last fiscal year with all major categories being up. We do however believe there was approximately $5 million in sales that were pulled forward beginning in the last two weeks of December and carrying through all of January that caused this significant increase in firearms and ammunition. That said, on an ongoing basis, firearms sales are returning to historical trends and are moving with the overall growth in the industry. Ammunition sales increased 26.3% over the prior year. While on an overall basis it still appears customers are continuing to reduce their stockpiles of ammunition, it appears that the three to four month lag in ammunition growth following firearms growth that we discussed previously is still relevant.

We also believe that there has been some pull forward of sales of ammunition consistent with the pull forward of sales in the firearm category. Based on our analysis, we believe that the overall impact on the fourth quarter of this pull forward in firearms and ammunition had a positive effect of approximately $5 million in sales and we have adjusted our guidance for Q1, 2016 accordingly. In our view, if we exclude the pull forward of firearms and ammunition sales into Q4 of 2015, our total same-store sales increase would have been approximately 2% and our firearms and ammunition same-store sales increase would have been approximately 11% in each category. These metrics are somewhat better than our previous expectations.

As we discussed at our last conference presentation that was webcast in January, we believe the surge that we saw beginning in late December was much different than the 2012-2013 surge, in that it appeared this surge was largely driven by current firearm owners accelerating their purchases as opposed to the last surge that was also fueled by new entrants into the field resulting in incremental purchases. We continue to believe that is the case and therefore the small surge noted is both shorter in duration and not driving incremental sale. The only real impact we believe is one of timing.

All that said, we are very pleased with the overall growth in firearms and ammunition even after considering timing differences and we believe we are the best positioned brand in our niche to continue to grow our market share. We continue to believe we are gaining market share as a result of our store growth. Performance in the firearm and ammunition categories and ancillary businesses as well as the growth in our non-hunting categories in markets of all sizes, as we believe we offer either complementary alternatives to the major competitors in larger markets, or a superior alternative to the local mom-and-pop operator and the direct channel in smaller markets.

Conversion and average order size improvement continued to offset customer frequency declines. As we moved through the quarter, it became clear that our customer was focusing their dollars on the use categories within hunting, camping, and fishing, versus the ancillary categories in the clothing, footwear, and electronics categories. We see this trend continuing through the first half of 2016 as customers gauge the potential impact of both the overall economic environment as well as the continuing presidential election process. Clothing and footwear combined on a same-store sales basis decreased

5.9% versus the prior year. Though not apparent from our weather impact to clothing and footwear category same-store sales performance this quarter, based on customer feedback and shopping behavior, our brand-focused offering supplemented with private label, our good, better, best product offering and pricing strategy, and our presentation within the store resonated with customers.

Now, on to profitability, gross margin increased 10 basis points for the quarter from the same period last year mainly as a result of reduced discounting in all categories but especially clothing as we were able to move merchandise without resorting to multiple markdowns. Once again, we delivered on our sales goals and held individual product gross margin across most of our categories. It is especially noteworthy that we were able to maintain margin in both our branded lines as well as our private label line, the former being a result of our prudent buying practices and the latter a result of a continued increase in our private label penetration without us having to resort to substantial discounting that could potentially negatively impact the integrity of our brand.

Adjusted operating income for the quarter was $22.1 million with adjusted earnings per share of $0.27 above our guidance and an improvement over the adjusted earnings per share of $0.22 in the prior year period. The clarity, as we noted above, we believe approximately $5 million sales was pulled forward into Q4 due to the late December through January surge in firearms and ammunition. The impact of this pull forward sale dollars was approximately one penny to Q4 EPS.

Looking at competition. In the fourth quarter, we saw the presence of new competition within the last 18 months in nine stores or 14.1% of our store base. Stores facing competition once again performed well and while we will continue to provide this data for the next few quarters, it is evident that our stores facing both new and mature competition ultimately perform consistent with our non-competition stores over a long period of time. As I said earlier this continues to confirm our belief that we are complementary to our larger format competitors and can peacefully coexist with them and provide a differentiated and complementary buying experience in the markets that they choose to enter. This has been a consistent theme throughout the year and is a testament to our differentiation and focus on providing both the outdoor enthusiast and the first time participant, a memorable outdoor experience in informal, easy-to-shop, non-intimidating environment.

Our absolute and relative performance versus our peers reflects the attributes of our store, both the convenient location as well as the easy-to-shop format, our merchandise offering, our price points, and our customer service, all of which resonate with our customers. We also enjoy an advantage versus online only options by providing outdoor enthusiasts with the touch and feel of product. Our pricing is similar too and in many cases better than the prices that can be found online and as we've noted before, many key product lines are not available or very difficult to purchase via the direct channel. Our performance was also the direct result of the progress we are making across our strategic growth initiatives.

Let me briefly outline what our priorities were heading into 2015, discuss our progress on each, as well as share how we are approaching fiscal 2016. The first priority for 2015 was capitalizing on the significant white space opportunity we saw in existing and new markets that we expected would support an expected unit growth rate of greater than 10% annually for the next few years. In 2015, we achieved our store growth goal of nine stores or 16.4% unit growth for the year or square footage growth of just over 250,000 square feet. In the last few weeks, we opened stores in Slidell, Louisiana and South Jordan, Utah and have also announced the planned openings of our Avondale, Arizona and Fairfield, California stores which brings our total planned store openings to 11 for 2016. This class of stores represents 17% unit growth or growth in square footage of approximately 315,000 square feet. Our operating discipline and prudent use of cash has continued to allow us to self fund our store growth while also reducing our leverage and we expect to continue our pace of new store openings into fiscal year 2017 and beyond.

Second, our successful fixturing strategy has allowed us to profitably open and operate smaller stores ranging from 15,000 square feet to 45,000 square feet. We have enjoyed many quarters of success with this strategy in both, 45,000 square foot boxes as well as 30,000 square foot boxes, and are very pleased with the results in our 15,000 square foot to 17,000 square foot stores in Klamath Falls, Oregon, and Heber City, Utah, locations that were opened this past year. This gives us the confidence to continue to pursue this unique strategy going forward including opening three additional stores of this size in 2016 which are included in our 11-store 2016 target. These openings will be in Rock Springs, Wyoming, Gillette, Wyoming and Prescott, Arizona.

Our third focus for fiscal year 2015 was to continue to enhance operating margins through increased sales of our private label products while simultaneously expanding our brand focused programs in clothing and footwear. While sales in clothing and footwear in 2015 were down versus the prior year, our fixturing presentation and store design continue to successfully drive traffic to those areas of the store where we highlight our brand focus. We also supplement our branded offering with private label options that carry attractive associated price points in product categories where this makes sense. For fiscal year 2016, we are continuing to build the integrity of our private label brand through function and fit that deliver great value to the customer and as such we see continued growth in private brand penetration from our current level of 2.8% of sales. We remain focused on enhancing operating margins over the long-term. However, the mix-driven margin headwinds that we anticipate in 2016 will prevent us from achieving this objective in 2016. Kevan will discuss this in more detail in a few minutes.

Number four, maximizing the potential of our Loyalty Program was another key priority during this past fiscal year. We continued to post strong member gains and are pleased with the success we saw with various strategies that have enhanced conversion and average ticket. We now have over 850,000 members and Loyalty member transactions continue to increase. Our focus in 2016 will shift from member acquisition to utilizing the customer data we have collected to develop more effective marketing strategies that are more personalized and targeted in nature.

Number five, associate training was another key priority for us in 2015 and we will continue to focus on in-store customer experience going forward by ensuring our great associates receive adequate training, so they can continue to deliver the very high service level that our customers have come to expect from us. Despite the difficult industry conditions, we have been able to add over 500 employees to our Team over the past year, while continuing to grow with free cash flow. This fact has and will continue to allow us to develop the bench strength we need to continue to grow our Company. Our overall operating performance, adherence to cost control and clear, concise, key performance indicators, have resulted in us achieving all of our financial objectives while increasing our corporate staff, store department, and general manager compensation this year. This continues to attract additional employees to our Company.

Finally, our Executive Team's ability to develop a few key actionable strategies and communicate these strategies to all levels of our Organization and our employees' ability to quickly comprehend and execute these key strategies on a day-to-day basis, differentiates us and allows us to continue to succeed and there is simply no way to express the gratitude and appreciation I have for every single person on our Team.

So in summary, we are pleased to have ended the year with a strong fourth quarter. Despite some headwinds as well as some timing benefits on an underlying basis, our Q4 results came in ahead of our guidance. We are very encouraged by the progress we made in 2015 against our strategic growth priorities and we remain focused on these key priorities in 2016. As we look toward 2016, we expect the unseasonably warm weather to continue to negatively impact our clothing and footwear categories in the first half of 2016. The warmer weather patterns have continued through much of 2016 to-date in our markets and given these categories are not large volume ones in the spring and summer months, there is not the opportunity to offset the softer Q1 category performance. However, on the positive side, we feel very good about the continued momentum we have seen in the past few months in the use categories of hunting, fishing, and camping, indicating our customers are continuing to take advantage of the activities available to them in the outdoors. Based on what we see, we believe it is prudent to take a conservative posture when planning 2016, reflecting the expectation that our customers will continue to be cautious and selective with their spending, focusing their dollars on the used categories.

Overall, 2015 was a great year. We delivered on our goals with self funded store growth, steady product margins, disciplined cost management, and responsible capital allocation, and we made progress against each of our strategic priorities. We invested in the business while simultaneously paying down debt to end the year with a leverage ratio of less than 2.5 times, down from three times last year and moving towards our goal of 1.5 to two times. Before I end, I want to thank all of our Team Members for their tireless contributions to both our Company and our Customers. They have driven our success to date and we look forward to building on this track record in 2016.

With that, I'll turn the call over to Kevan to discuss our financials.

Kevan P. Talbot:

Thanks John. Good afternoon, everyone. I'll begin my remarks by providing additional details on some of the accomplishments John highlighted in his comments followed by a review of our fourth quarter and fiscal year 2015 results, and then discuss our outlook for fiscal year 2016. My comments today will focus on the adjusted results for the fourth quarter and fiscal year 2015. We have provided these results as well as an explanation of each line item and reconciliation to GAAP net income and earnings per share in our Earnings Press Release which was issued earlier today.

As John said, we are pleased with both our fourth quarter and fiscal year 2015 results. These results highlight the success that we've had so far in delivering on important objectives that we set out for our Company when we initiated our store growth strategy, including our ability to fund our growth with free cash flow. We have consistently self funded our growth in recent years, strictly adhering to that goal and we are proud to have accomplished this objective again in fiscal year 2015. Our debt to Adjusted EBITDA leverage ratio decreased 20% to just below 2.5 times at the end of fiscal year 2015 from just over three times at the end of fiscal year 2014. We accomplished this reduction by increasing our Adjusted EBITDA by more than 10% to $73 million in fiscal year 2015, from $66.3 million in fiscal year 2014, through the execution of our growth strategies including the opening of nine additional stores.

During fiscal year 2015, we generated enough cash to open those nine stores while also reducing our total debt by approximately 9% from $199.9 million at the end of fiscal year 2014, to $182 million at the end of fiscal year 2015. Because we generated free cash flow in fiscal year 2015, the covenants on our term loan require us to make a mandatory prepayment of approximately $8 million which we expect to make during the first quarter of fiscal year 2016. We intend to make an additional $12 million voluntary prepayment at the same time. This combined $20 million payment reflects our continued commitment to debt reduction while we deliver on our top and bottom line growth. We estimate that this payment will reduce our interest expense by approximately $0.9 million annually and increase our earnings per share by more than one penny.

We remain excited about the significant white space opportunity we see to grow our store base in new areas of the country as well as increase our penetration within our existing markets. With the two additional stores we announced this afternoon, we now have announced all stores in our 2016 class of new stores. We plan on opening 11 stores during this fiscal year in the following locations; Slidell, Louisiana; South Jordan, Utah; Rohnert Park, California; Juneau, Alaska; Prescott, Arizona; Roseburg, Oregon; Las Cruces, New Mexico; Rock Springs, Wyoming; Gillette, Wyoming; Avondale, Arizona; and Fairfield, California. These stores represent a 17% annual unit growth rate or approximately 315,000 square feet which is well above our expected unit growth rate of greater than 10% annually for the next few years. Two of these stores, Slidell, Louisiana and South Jordan, Utah, opened early in the first quarter. We anticipate opening one additional store during the first quarter with three stores to open in the second quarter, and five stores during the third quarter. The Slidell, Louisiana store represents our first store in the state of Louisiana while the others continue to strengthen our market position within the Western United States. We will continue to roll out our small format stores during fiscal year 2016 with three of the locations I just mentioned; Prescott, Arizona; Rock Springs, Wyoming; and Gillette, Wyoming.

Similar to fiscal year 2015, we plan to continue to self fund our growth while remaining disciplined with costs in using excess free cash flow to continue paying down debt.

Now onto our results. Our topline results for the fourth quarter came in ahead of the high end of our guidance by nearly $5 million which was largely attributed to the pull forward of the firearm and ammunition sales that John just discussed. Net sales increased by 14.6% to $212.7 million from $185.6 million in the fourth quarter of last year, with a16.4% increase in stores and same-store sales of 4%. From a category perspective, our same-store sales were led by strong results from our hunting, camping, and fishing categories, partially offset by weakness in clothing and footwear due to the unseasonably warm winter weather.

Turning to our same-store sales by each of our three store groupings, which are; one, base stores; two, new stores or acquired stores that have been in the comp base for two years or less; and three, stores that were subject to competitive openings which we define as a new competitive entrant into a market within the past 18 months. In the fourth quarter, excluding the nine stores in our comp base that were subject to new competitive openings, our same-store sales increased 6.2% compared to the fourth quarter of last year. Our 29 base stores saw same-store sales increases of 5.7% in the fourth quarter compared to the fourth quarter of last year. In addition, our 17 new stores saw a same-store sales increase of 7.6% in the fourth quarter compared to the corresponding period of the prior year. Finally, our nine stores that were subject to new competitive openings experienced a same-store sales decrease of 4.7% in the fourth quarter of this year compared to the fourth quarter of last year. Also in the fourth quarter we again saw underperformance of those stores located in markets with exposure to the oil and gas industry versus the rest of our store base.

Gross profit increased 14.9% in the quarter to $70.8 million compared to $61.6 million in the fourth quarter of fiscal year 2014. During the fourth quarter of fiscal year 2015, gross profit as a percentage of net sales increased 10 basis points to 33.3% from 33.2% in the corresponding period from last year. We are pleased to have preserved our gross margin percentage despite the mix shift towards lower margin hard goods category and a continued elevated promotional environment within the industry as well as across the broader retail landscape in the fourth quarter. During the fourth quarter, our Loyalty patrons increased by more than 13% to approximately 850,000 members. As John mentioned, in 2016 our focus will shift from signing up members to beginning to create more personalized marketing strategies from the customer data we have already collected.

SG&A expenses for the quarter were $48.7 million compared to SG&A expenses of $43.5 million excluding the one-time $4 million litigation accrual in the fourth quarter of fiscal year 2014. As a percentage of net sales, adjusted SG&A expenses in the quarter decreased to 22.9% from 23.4% in the corresponding fiscal quarter of 2014. Our SG&A expenses increased due to the increased number of stores operated during the fourth quarter versus last year but the revenue contribution from those stores as well as the pull forward of demand allowed us to leverage those expenses leading to the lower ratio year-over-year despite the dollar increase. Income from operations for the quarter was $22.1 million, an increase of 22% as compared to adjusted income from operations of $18.1 million in the fourth quarter of fiscal year 2014. Net income for the quarter was $11.4 million and earnings-per-share was $0.27 based on a diluted weighted average share count of 42.4 million as compared to adjusted net income of $9.1 million or adjusted earnings per share of $0.22 based on a diluted weighted average share count of 42 million shares last year. Adjusted EBITDA for the fourth quarter of fiscal year 2015 was $26.2 million compared to Adjusted EBITDA of $21.6 million in the prior year period.

Looking at our fiscal year 2015 results, for the full fiscal year, we grew our same-store sale—we grew our store base by 16.4% with the opening of nine new stores and increased net sales by 10.6% to $729.9 million from $660 million in fiscal year 2014. These nine new stores represented square footage growth of approximately 250,000 square feet for the year. Same-store sales for the year increased by 1.1% over the prior year, primarily as a result of the rebound in demand for firearms and ammunition, especially in the fourth quarter. Adjusted income from operation—operations was $56 million as compared to $51.1 million in fiscal year 2014. Adjusted net income in fiscal year 2015 was $25.8 million compared to adjusted income of $21.1 million in fiscal year 2014. Adjusted diluted earnings per share in fiscal year 2015 was $0.61 based on 42.3 million diluted weighted average shares outstanding compared to adjusted diluted earnings per share of $0.50 in fiscal year 2014 based on 42 million adjusted diluted weighted average shares outstanding. For the full fiscal year 2015, Adjusted EBITDA was $73 million compared to $66.3 million in fiscal year 2014. As of January 30, 2016, the end of our fiscal year, ending inventory was $217.8 million as compared to $185.9 million in inventory as of the end of fiscal year 2014. On a per store basis, inventory increased by 0.7%. During fiscal year 2015, we incurred approximately $34 million in capital expenditures.

Turning to our outlook, we expect our clothing and footwear categories to continue to be unfavorably impacted by warmer weather through the first half of fiscal year 2016. As a reminder, the first and second quarters of the year are not seasonally high volume quarters in our business which makes it difficult for us to counteract softer category results. However, we are encouraged by the traction we have seen in the hunting, camping, and fishing categories, as our customers continue to engage in outdoor activities. Taking these factors into account as we plan fiscal year 2016, our outlook for the first quarter includes; three new store openings, revenue to be in the range of $155 million to $160 million, same-store sales in the range of flat to down low single digits compared to the first quarter of last year, and loss per diluted share of $0.00 to $0.02 on a weighted average of approximately 42.4 million estimated common shares outstanding. Our first quarter guided revenue range and same-store sales guidance have been adjusted for the approximately $5 million in pull forward revenue that occurred in the fourth quarter of 2015.

For the full year 2016, we plan to open 11 stores for the year, including three smaller format stores. We expect revenue of $800 million to $820 million, same-store sales in the range of flat to positive 2% compared to fiscal year 2015, and earnings per diluted share of $0.65 to $0.73 on a weighted average of approximately 42.5 million estimated common shares outstanding. For fiscal year 2016, we anticipate a modest SG&A increase as a percentage of net sales as a result of increased investments in payroll to support our planned growth. We expect the greatest impact from these investments to be in the back half of the year. Additionally, as John mentioned, while we remained focused on enhancing operating margins over the long-term, the mix-driven margin headwinds that we anticipate in 2016 will prevent us from achieving operating margin expansion in 2016. As a result, we expect operating margins to be relatively flat for the year. We ended the year with $25.3 million in outstanding borrowings and $89.5 million in borrowing availability under our credit facility. As it relates to capital expenditures, we anticipate incurring approximately $35 million to $40 million in capital expenditures in fiscal year 2016 which will include the 11 stores in our 2016 class of stores as well as work on our 2017 new stores.

With that, I will now turn the call back over to the Operator as we open up the call to questions.

Operator:

Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handsets before pressing the star keys and we do ask that you limit yourself to one question and one follow-up so everyone has a chance to participate.

With that, the first question is from Seth Sigman of Credit Suisse. Please go ahead.

Seth Sigman:

Thanks. Good afternoon, guys, a nice quarter. I wanted to first check in on the Q1 guidance. So, comp's flat to down low single digits. You discussed the $5 million shift into Q4, which equates to about 350 basis points of an impact to Q1. If you adjust for that, it seems to imply comps pretty similar to the adjusted comp in Q4 of 2%. But I'm just wondering if you could offer any other commentary on what you've seen from Q4 to Q1, if you're seeing any improvement in kind of the base business?

John V. Schaefer:

Well, I think as it relates to clothing and footwear, it's trending as it has been for the last couple of quarters. The improvement in firearms and ammunition continues to be strong and when I say it's following industry trends, we're talking about trends that started in 2010. So we're talking about industry trends that are in the high-single to low teens kind of growth which we believe is very strong and really kind of relates to a number of things in our outlook for 2016, the first of which being that I think we're going to see more people buying for use, which means more hard goods, which means a little bit lower gross margin but nice sales dollars and good margin dollars overall as those used categories continue and increase. Camping has always been a strong area for us and it's continued to grow and we see that continuing. So as it relates to the first quarter of 2015, the numbers from the NICS data from December and January were very strong. February was not quite as strong but I think February is kind of indicative of what's ahead and that really kind of is what caused us to imply that some of it had to have moved into the Q4.

Seth Sigman:

Got it, okay and then my follow up is about the operating margin commentary which is basically flat for the year, maybe some slight improvement at the high end of the sales range, but you discussed the mix having an effect there. Does that mean gross margin is expected to be down this year and how should we be thinking about whether there's offsets to that?

John V. Schaefer:

Well I'll let Kevan define what flat means. What I will tell you is we are increasing margin in virtually every category of the business on an item basis and we have been very prudent in both, our buying strategies, our pricing strategies, and frankly our promotional strategies and as we go through the year, we really see that if we maintain those disciplines, we can offset the difference between what you get in margin in clothing and footwear versus what you get in margin percent in the hunting, camping, and fishing categories and I think to see that change based on the purchasing habits of our customers at least at it started the year, we have no reason to believe it will change and in fact I think the presidential process through the back half of the year may cause more shifting into the hard goods category. I think we're doing a really nice job being able to structure a process that allows us to keep margins flat. What do you think about that, Kevan?

Kevan P. Talbot:

So on the operating margin side, I think Seth, what we are looking out there is we have made our plans for 2016, we've planned for some particularly at the corporate side of things, some investments in headcount in our systems area, in other administration as well to help us meet the continued growth demands and that's coming primarily, as I mentioned in my comments, in the back half of the year. So as we look at the additional payroll dollars that's going to hit us in the SG&A expense line, our operating margins are going to be flat for the year. We would have hoped to have gained some additional operating margin there from a percentage perspective, but with the flat gross margins that John just described as well as the increases in payroll, we're guiding to flat operating margins as well.

Operator:

Thank you. The next question is from Stephen Tanal of Goldman Sachs. Please go ahead.

Stephen Tanal:

Okay. Good afternoon. Thanks guys. I guess just a follow up on the last question, are you guys seeing wage pressure at all or is this truly just headcount increases?

John V. Schaefer:

We're not seeing any wage pressure. I mean there are a couple of markets that are doing some minimum wage increases but I think as you've found in the City of Seattle, the end result is payroll dollars are staying consistent. It's really headcount and it's really expertise headcount especially in the IT area.

Kevan P. Talbot:

We continue to monitor the legislative environment with respect to wage pressures and while there is increased discussion out there of those changes that have been enacted, we have factored those in and they have been very immaterial thus far. But we do continue to monitor that ever changing landscape and as things get enacted, we will reflect that in our guidance accordingly.

Stephen Tanal:

All right. Fair enough and clothing and footwear, I guess the weather pattern from where we're sitting and we do wait weather by stores, by state, so we are looking at your stores specifically. It didn't look so bad. Is there any reason to think that clothing and footwear weakness maybe more than just weather or are you guys pretty confident in that view?

John V. Schaefer:

There could be other factors involved. I think there could be the desire of our customers to spend more on the used categories and not so much on the ancillary categories. A couple of years ago, there was a tremendous influx of new camo patterns that I think caused a bump in clothing in 2014, late 2013-2014. We are not seeing a whole lot of innovation in camo patterns. Under Armour introduced the Ridge Reaper line a couple of years ago and we've seen no new introductions of that nature lately. So there could be other factors. Clothing and footwear is a complementary part of our business, not a structural need of our business. So I don't know that our sales or our view on clothing/footwear generally may or may not match the global environment.

Operator:

Thank you. The next question is from Peter Benedict of Robert W. Baird. Please go ahead.

Peter Benedict:

Hey guys. First question's is just on the inventory. I know John you had mentioned you are comfortable with the inventory position. I mean it's up 17%, a little less than 1% per store but can you just maybe talk about the complexion of the inventory and what gives you comfort that you are well positioned as you head into '16 here?

John V. Schaefer:

Sure. The risk categories, if there are risk categories which we don't believe they are because we're not in the fashion business, would be clothing and footwear and our inventory position is relatively low in those categories. What we have done in the last part of Q4, we took advantage of some buying opportunities in the firearms and ammunition categories and because of those buying opportunities, we are able to get either discounts or extended dating terms. We had to take those goods into Q4 and all it's really done is required us to bring in less in Q1. So it's really a timing difference and it's a timing difference that is actually to our advantage. So we took advantage of the opportunity.

Peter Benedict:

Okay, that makes sense and then moving to the Loyalty Program, 850,000 members. Now that you've got that built up, I mean is there any surprises in terms of the complexion of those members, age, income. I don't know, just trying to think about now that you've got this increased visibility into your customer base, what maybe you are learning and how that's going to help guide your marketing strategies for '16?

John V. Schaefer:

I don't think it's anything. We haven't seen any surprises in terms of demographic makeup. What we have been very pleased with is frequency of visit and average ticket of our Loyalty customer and inter-departmental purchasing of our Loyalty member and we see a whole lot of opportunities in enhancing those, we see a whole lot of opportunities in increasing conversion of those Loyalty members based on the frequency of the visits versus the buying patterns when they visit. So I think the quality of our Loyalty member is probably a little better than we had anticipated and therefore I think the opportunity is a little better than we had anticipated.

Operator:

Thank you. The next question is from Lee Giordano of Sterne Agee. Please go ahead.

Lee Giordano:

Thanks. Good evening, guys. It sounds like the small store opportunity—I know it's early but it's working well here. Can you just update us on your long-term goals there for real estate growth and does this still look like you can go above 300 stores in the US than the smaller markets? Thanks.

John V. Schaefer:

Well, I think the 300 store number becomes more and more justifiable and easier to validate as we see the opportunities in the small store format. We really haven't talked much about over 300 stores, because 300 stores is a long way away from where we are today but we get more and more comfortable that that is in fact a very, very real number. As it relates to the small stores as a mix issue, we've talked—we're doing three of 11 this year just under 30%. I don't think it will ever get to the point where it's the majority of our stores, but as we continue to move forward, if we continue to have the same types of initial results and first year ROIC and for all EBITDA that we're getting out of these stores, I certainly see it as a growing factor in our store growth.

Lee Giordano:

Got it and it sounds like all the stores that you are opening this year on the Western half of the US, any plans in the future to kind of move towards the Eastern half? Thanks.

John V. Schaefer:

I think there are all kinds of opportunities along that I-10 Corridor through Louisiana, Mississippi, Alabama, into Georgia. I think there are opportunities in the Southeast that are no different than the opportunities we see in the West. As we've talked in previous calls, we're exploring all areas of the country. I think in our previous presentations, we've shown slides that show the opportunity in terms of MSA availability in areas of the country and we've also said before we're targeting the south and we'll continue to do that as we get into 2016. We haven't announced any stores in there but keep in mind that we started looking at the Slidell, Louisiana area in early 2012 and we opened it in first quarter of 2016. So, it's very important to us that we understand a market and we know what's going on in the market and we're very comfortable with the market before we go into it because as we said a number of times, and hammer in Ohio is not the same as a hammer in Arizona and you have to understand what the customer wants, what the customer needs, so that when you open a store, you have credibility and you have the right product and in fact the largest feedback we've gotten in Slidell, there's two comments that have been made. The first comment is, 'finally a store that focuses on hunting, fishing, and camping and you guys have everything we need'. So I think we're very pleased with the work we've done there and we're doing that work in the South right now. So whether we open stores in 2017 or 2018, will be a result of what we learn about those markets and that will determine how we approach those markets.

Operator:

Thank you. Our next question is from Andrew Burns of DA Davidson. Please go ahead.

Andrew Burns:

Good afternoon. Two quick ones here. First for Kevan, just curious on the $20 million debt reduction, on that $12 million voluntary portion in the first quarter, that's a quarter where you typically burn cash. Just curious if there's any sort of planned sale-leaseback type cash coming in, in the first quarter or how to think about that the timing of the voluntary portion?

Kevan P. Talbot:

There is not any planned sale-leaseback transaction. We completed all the sale-leaseback transactions in 2016. There was one that we completed in the third quarter and one in the fourth quarter with respect to sale-leaseback transactions there. So we currently are sitting on about $85 million of availability on the line of credit. As we continue to look out through the year and my cash forecast, we're still comfortable that we have enough room on the line to grow our business as well as make this voluntary payment. So basically we're going to be using the line of credit to pay for that.

Andrew Burns:

Okay, thank you and John, in a portion of your prepared remarks, one point, you mentioned difficult industry conditions and there's a lot of things that could potentially be pointed to there, whether it's economic, economics, weather economic, retail store traffic competition. From what I heard, it sounds like there's a pretty encouraging hunt-fish-camp trend right now so I just wanted to maybe pick your brain about what that commentary was about?

John V. Schaefer:

Well, when I talk about difficult industry conditions, the oil and gas is affecting three of our stores rather substantially as you might have guessed. I think the uncertainty of what's going on in the presidential process is causing some people to hesitate and I think the press that's happened relative to others in our industry, is resulting in people wondering what's going on. All of those things combined tend to cause a prudent person to hesitate and when a prudent person hesitates, in our opinion, our prudent person hesitates, they tend to gravitate toward what they are comfortable with and what they are comfortable with is hunting, fishing, and camping in the clothes they wore last year and that's what I was getting it.

Operator:

Thank you. The next question is from Daniel Hofkin of William Blair. Please go ahead.

Daniel Hofkin:

Good afternoon, guys. Nice quarter. Just maybe if I could follow-up a little bit to the degree you are able to or comfortable giving this sort of commentary. If you could talk a little bit just about your comp expectations by major category for 2016 and then just from a longer-term standpoint, if you could—if you had a normalized comparison kind of across the board which never happens, but what is a reasonable comp expectation the next—in a typical year, if you would?

John V. Schaefer:

We don't normally talk about that—those specifics. The general comment I can make to you is that we see our customer focusing in on the hard goods categories. We see a stronger trend in hunting, firearms, and ammunition, relative to a weaker trend in the ancillary categories and those in hunting and fishing and the clothing and footwear categories. So we see a mix differentiation coming for, but that's probably as far as we would go in terms of category comments.

Daniel Hofkin:

It sounds like that that even, let's say if you had normalized weather, it sounds like you feel like given some of the uncertainty and conservatism out there, that that's still—there still might be some of that mix going on.

John V. Schaefer:

At this point, we see our customers focusing in on items that they can use as opposed to items that they can wear.

Operator:

Thank you. The next question is from Peter Keith of Piper Jaffray. Please go ahead.

Peter Keith:

Hey. Good afternoon, guys. Congrats on wrapping up a solid year overall. I was curious on the competitive openings, just looking back in 2015 it looks like it was running at a slightly over 200 basis point headwind, just what you see coming out of the competitive horizon with new openings, how should we think about that as an overall headwind for 2016?

Kevan P. Talbot:

We actually expected to decline a little bit. From an overall perspective, as of the end of the year, we had nine stores in that new competitive grouping. Four of those nine stores are rolling out before the end of the first quarter. There are three new announced competitors, three stores that will be impacted here within the next—in the first half of the year and then one that we're aware of at the end of the year and there will be, I think, one more or two more that rolls out by the end of the year. I think by the end of next year that competitive number goes from nine of a base of 55, to seven of a base of 64. So as a result, we expect the competitive headwinds to decline during 2016.

Peter Keith:

Okay, good and Kevan, one clarification question. You plan to pay down $20 million on the term loan. Is that a net debt reduction or is that just specific to the term-loan overall?

Kevan P. Talbot:

Specific to the term-loan overall, net debt because we're going to be utilizing our line of credit essentially gets us to a zero on the net debt, but it does save us significantly on the interest rate which I referred to in my comments of almost a million dollars.

Peter Keith:

Okay, I understand and maybe just to follow on that, should we think about a leverage target of where you might be at year end?

Kevan P. Talbot:

In 2016, our expectations is, it is going to be somewhere just over two. As John indicated, our long-term goals are somewhere between one and a half to two times.

Operator:

Thank you and our final question comes from Patrick McKeever of MKM Partners. Please go ahead.

Patrick McKeever:

Okay. Thank you. Just a question on the firearms piece of your business and it seems like—I mean you saw more of a I guess correlation to some of the mix numbers that we were all looking at that than some of your competitors. So one of which said that it was more—some of the more recent demand has been more oriented toward handguns which they don't sell too many of, that kind of thing. My question is really, what do you attribute the outperformance there to relative to some of your competitors?

John V. Schaefer:

Well, I think we were born a hard goods store. We carry—our product offering is as good, or better than most, and certainly better than those of our competitors that dabble in other things other than hunting, camping and fishing. We've seen growth in all categories of firearms in the fourth quarter. I think there is consistent demand in all categories and we, for some reason I don't know how this is explainable, for some reason, we usually correlate relatively well, not necessarily on a month-by-month basis but usually on a quarter-by-quarter basis with the NICS data so really that's all I can comment on. I can't speculate on what—why the others don't.

Patrick McKeever:

Okay and then a question on, I mean I know we haven't been talking too much about the drought in the West. But looking at some of the—recently anyway, looking at some of the maps that are out there, it looks like it's still pretty intense in parts of the West, maybe a little less so right now in the Pacific Northwest, but how—what are you thinking there in terms of the next few months as we move more into spring especially as it relates to your fishing business?

John V. Schaefer:

Well, I think it's certainly getting wetter. When we talked in previous quarters about lakes and ponds and streams being dry, I think the winter weather especially in Northern California, the Pacific Northwest has certainly changed that. The weather in the South has certainly changed that dynamic. The snowpack in the Rocky Mountain areas seems to be certainly adequate. There is a blizzard going on in Colorado right now which certainly doesn't hurt for the snow melt in the next month or two. So I'm not going to speculate on what fishing is, but I think the conditions, if you were to look at the conditions that are required for a decent fishing growth, you would say these look like normal conditions.

Operator:

Thank you. That's the end of the question-and-answer portion. I would like to turn the conference back over to Management for closing remarks.

John V. Schaefer:

Well, thanks everybody for chatting with us today and we appreciate you being on the line with us. Have a good one.

Operator:

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and thank you for your participation.