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Boot Barn Holdings, Inc. (BOOT)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

Mark Dedovesh

Senior Vice President, Investor Relations & Financial Planning, Boot Barn Holdings, Inc.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

OTHER PARTICIPANTS

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Alexia Morgan

Analyst, Piper Sandler & Co.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Max Rakhlenko

Analyst, TD Cowen

Dylan Carden

Analyst, William Blair & Co. LLC

Janine Stichter

Analyst, BTIG LLC

Jay Sole

Analyst, UBS Securities LLC

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Mitch Kummetz

Analyst, Seaport Research Partners

Corey Tarlowe

Analyst, Jefferies LLC

Sam Poser

Analyst, Williams Trading LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Boot Barn Holdings Fourth Quarter 2024 Earnings Call. As a reminder, this call is being recorded.

Now, I'd like to turn the conference over to your host, Mr. Mark Dedovesh, Senior Vice President of Financial Planning. Please go ahead, sir.

Mark Dedovesh

Senior Vice President, Investor Relations & Financial Planning, Boot Barn Holdings, Inc.

Thank you. Good afternoon, everyone. Thank you for joining us today to discuss Boot Barn's fourth quarter and fiscal 2024 earnings results. With me on today's call are Jim Conroy, President and Chief Executive Officer; and Jim Watkins, Chief Financial Officer. A copy of today's press release, along with a supplemental financial presentation, 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 on 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. 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 forward-looking statements to be made during this conference call and webcast, we refer you to the disclaimer regarding forward-looking statements that is included in our fourth quarter and fiscal 2024 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.

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

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

Thank you, Mark, and good afternoon. Thank you, everyone, for joining us.

On this call, I will review our fourth quarter fiscal 2024 results, discuss the progress we have made across each of our four strategic initiatives and provide an update on current business. Following my remarks, Jim Watkins will review our financial performance in more detail, and then we will open the call up for questions.

We are pleased with fiscal 2024 results, as we grew, revenue to record levels, opened 55 new stores, which exceeded our original plan and expanded exclusive brands by 370 basis points. Our full-year fiscal 2024 revenue grew to approximately \$1.7 billion, which is nearly 100% growth over pre-pandemic levels. Just four years ago.

When excluding the 53rd week of fiscal 2023, total revenue grew 2% year-over-year, with growth driven by the new stores added over the last 12 months, which offset a mid-single-digit same store sales decline. Full-year

merchandise margin grew 160 basis points, comprised of 120 basis points of freight improvement and 40 basis points of product margin expansion.

The growth in product margin was driven by another healthy increase in exclusive brand penetration and buying economies of scale. For the year, we achieved earnings per diluted share of \$4.80, which while down from last year, is nearly triple our pre-pandemic earnings from four years ago.

Turning to our fourth quarter results, same-store sales declined 5.9% on a consolidated basis, slightly better than the high-end of our guidance range and meaningfully better than our third quarter performance. We also saw sequential improvement from February to March driven by better comp growth in our retail stores.

From a margin perspective, fourth quarter merchandise margin expanded a 160 basis points, driven by freight improvements and supply chain efficiencies, which offset slight pressure from a 20 basis point decline in exclusive brands penetration which we anticipated and called out on our last earnings call. Overall, I am pleased with the company's ability to hold on to the market share gains we achieved over the past few years in addition to introducing the Boot Barn brand to new markets.

I believe the company's foundation is solid and we will – and we have multiple growth levers that have proven their effectiveness and I'm confident in the runway for future growth. We have seen some exciting recent trends in the performance of the business, which I will summarize at the end of my remarks.

But I do want to start with our traditional review of our four strategic initiatives. Let's begin with expanding our store base. I would like to take a moment to recognize and celebrate the team as they opened 55 stores in fiscal 2024, a more than one store per week on average. Over the past 12 years, the company has transformed from a regional retailer with 86 stores in eight states to a true national lifestyle brand with 400 stores across 45 states.

This accelerated growth is a testament to the careful coordination across nearly every function in the company, from locating and building the stores, creating a compelling product assortment, staffing the stores, and attracting a loyal set of customers in each of our new markets.

In addition to opening a high number of stores each year, we also are opening stores with much higher first year sales volumes than our historical average. The store portfolio is extremely healthy and we see no signs of slowing momentum as new stores are generating a 60% cash on cash return on capital in their first year.

As we look at the road map for the future, we continue to believe that we have the opportunity to open at least 500 more stores in the United States alone and plan to maintain our recent pace of adding 15% new units annually.

Moving to our second initiative, driving same-store sales growth. Fourth quarter same-store sales declined 5.9%, driven by fewer transactions, partially offset by a modest increase in AUR and a larger transaction size. From a merchandise category perspective, we are seeing some encouraging trends in the business with broad based sequential improvement across virtually every major product department from our third quarter to our fourth quarter.

Our B REWARDED customer database grew 18% year-over-year, reaching 8.4 million total active customers. This growth represents more than 1 million customers being added to the program each year for the past three years. We continue to harness the power of this information to assist with planning our media spending,

customizing our customer communications, and tailoring our merchandise assortments by store based on local demographics.

From a geographic standpoint, each of the four regions showed sequential improvement in the quarter versus Q3. The West, North and South regions were in line with chain average and the East was slightly below the chain average. Our stores team continues to execute well, as evidenced by another solid year-over-year improvement in customer service scores in the fourth quarter.

I do want to explicitly thank the entire field team for their efforts and hard work in driving sales, opening new store locations, and supporting our omni-channel initiatives by fulfilling online orders.

Moving to our third initiative, strengthening our omni-channel leadership. In the fourth quarter, our e-commerce sales declined 7.6% better than the high end of our guidance range. Our branded side of bootbarn.com, which is approximately 75% of our online sales in Q4, comped down low single-digits in the quarter.

The digital team continues to make progress on our development of artificial intelligence. As mentioned on a prior call, we already have a working model of generative AI embedded in our in-store branded platform that helps both customers and sales associates build full outfits, which has been slowly gaining traction.

We are in the process now of taking the learnings from that platform and will be adding new AI-enabled functionality to our bootbarn.com site over the next few months. Additionally, we are in the beginning stages of using AI to help create more fulsome product descriptions and landing pages to further support our organic search results.

We expect the immediate benefits of this additional AI functionality to be minor, but believe we will have an early advantage of what we expect will become an increasingly complicated online channel in the near future.

Now to our fourth strategic initiative, exclusive brands and margin expansion. During the fourth quarter, exclusive brands penetration decreased 20 basis points to 37.1%, which is in line with the expectations outlined on our last earnings call. For the full-year, exclusive brands penetration increased 370 basis points to 37.7%, which is an increase of more than 1,400 basis points over the last three years, far exceeding our stated goal of 250 basis points per year.

We believe we have additional opportunities to expand exclusive brand penetration to augment the product assortments from our third-party national brands, which continue to build our merchandise margin. Additionally, we have been able to grow our markup on merchandise from third-party vendors and expect to see continued tailwind to merchandise margin as that higher markup product works through our inventory.

Consistent with recent years, we expect merchandise margin to continue to build through a combination of exclusive brand penetration buying economies of scale and ongoing supply chain efficiencies. I would like to commend the merchandising and exclusive brands organizations for continuing to develop compelling assortments with appropriate regional variation to drive the business forward.

Turning to current business and some of the positive trends I noted earlier. Through the first six weeks of Q1 quarter-to-date, same-store sales are flat and these business has turned comp positive. It is great to see the momentum in the business and the sequential improvement from Q4.

To summarize, we have seen broad based sequential improvement across virtually all major merchandise departments, both stores and e-commerce channels and in all four regional geographies. This trajectory began as we progressed from our third quarter into the fourth quarter, then improved in April and again into May, where we have seen positive same-store sales in both channels on a month-to-date basis.

While we are quite pleased to see the inflection in this business, we are careful to note that we are commenting on a relatively short recent trend and are about to cycle the most difficult year ago trend in the month of June.

Additionally, the macro environment continues to be somewhat uncertain and our core customer is still facing persistent inflationary pressure. Accordingly, we have incorporated these considerations into our guidance and plan to manage the business cautiously until we feel this trend will endure or continue to improve.

I'd like to now turn the call over to Jim.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

Thank you, Jim. In the fourth quarter, net sales decreased 8.7% to \$388 million. As a reminder, the fourth quarter of fiscal 2023 was a 14 week quarter. The decrease in net sales was the result of the decrease in consolidated same-store sales and the impact of a 13-week quarter when compared to a 14-week quarter in the prior year period, partially offset by the incremental sales from new stores opened during the past 12 months.

The 5.9% decrease in same-store sales is comprised of a decrease in retail store same-store sales of 5.7% and a decrease in e-commerce same-store sales of 7.6%. Gross profit decreased 11% to \$139 million, or 35.9% of sales compared to gross profit of \$156 million, or 36.6% of sales in the prior year period. The 70 basis point decrease in gross profit rate was comprised of 230 basis points of deleverage in buying occupancy and distribution center costs, partially offset by a 160 basis point increase in merchandise margin rate.

The deleverage in buying occupancy and distribution center costs was driven primarily by the higher occupancy costs of new stores, the impact of the 14th week in the fourth quarter of fiscal 2023 and the depreciation expense related to the opening of our new Kansas City distribution center. The increase in merchandise margin rate was driven by a 160 basis point improvement in freight expense and supply chain efficiencies.

Selling, general and administrative expenses for the quarter were \$101 million, or 26.1% of sales, compared to \$93 million, or 21.9% of sales in the prior year period. Selling, general and administrative expenses as a percentage of net sales increased by 420 basis points, primarily as a result of higher marketing expenses, normalized incentive based compensation when compared to the prior year reversal of incentive-based compensation, a \$2 million partial impairment of the Sheplers trademark, higher store labor and the impact of a 13-week quarter when compared to a 14-week quarter in the prior year.

Income from operations was \$38 million, or 9.8% of sales in the quarter, compared to \$63 million, or 14.7% of sales in the prior year period. Net income was \$29 million, or \$0.96 per diluted share, compared to \$46 million, or \$1.53 per diluted share in the prior year period.

Turning to the balance sheet. On a consolidated basis, inventory increased 2% over the prior year period to \$599 million and increased approximately 1% on a same-store basis. We finished the quarter with \$76 million in cash and zero drawn on our \$250 million revolving line of credit.

Turning to our outlook for fiscal 2025. The supplemental financial presentation we released today lays out the low- and high-end of our guidance ranges for both the full-year and first quarter. I will only be speaking to the high end of the range for both periods in my following remarks.

For the year, we expect total sales at the high end of our guidance range to be \$1.8 billion, representing growth of 8% over fiscal 2024. We expect same-store sales to decline 1.6% with a retail store, same-store sales decline of 2%, and e-commerce same-store sales growth of 2%.

We expect gross profit to be \$664 million, or approximately 36.9% of sales. Gross profit reflects an estimated 110 basis point increase in merchandise margin. We expect to grow exclusive brand penetration by 110 basis points, and we anticipate 110 basis points of deleverage in buying occupancy and distribution center costs and 70 basis points of deleverage in SG&A.

Regarding leverage points for fiscal 2025, we expect to leverage buying occupancy and distribution center costs with the 6% comp. We expect to leverage SG&A with the 2% comp and expect to leverage EBIT at 3.5% consolidated same-store sales growth.

Our income from operations is expected to be \$201 million, or 11.2% of sales. We expect net income for fiscal 2025 to be \$149 million and earnings per diluted share to be \$4.85.

We expect our capital expenditures to be \$120 million and for the year we expect our effective tax rate to be 26.2%. We plan to grow new units by 15%, adding 60 new stores during the year. We anticipate opening roughly 25 stores in the first half of the year and 35 stores in the second half of the year. As we look to the first quarter, we expect total sales at the high end of our guidance range to be \$407 million. We expect the same-store sales decline of 2.5% with retail store, same-store sales declining 3% and e-commerce same-store sales increasing 2%.

We expect gross profit to be \$146 million, or approximately 36% of sales. Gross profit reflects an estimated 70 basis point increase in merchandise margin, and we anticipate 170 basis points of deleverage in buying, occupancy and distribution center costs, primarily resulting from higher occupancy from new stores and negative same-store sales.

Our income from operations is expected to be \$41 million or 10.1% of sales. We expect earnings per diluted share to be \$1.

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

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

Thank you, Jim. As we embark on fiscal 2025, I do want to reflect on the performance of the business versus pre-pandemic levels. In that four year period store count has grown by 141 stores. Comp sales have increased by more than 50% on a stacked basis. Total revenue has grown by nearly a 100%. Merchandise margin has expanded by 450 basis points, and earnings per share has nearly tripled from a \$1.64 to \$4.80.

This performance is a result of the incredible teamwork and superb execution by the entire Boot Barn team operating in a challenging retail environment. I want to explicitly recognize this performance and express my tremendous gratitude to each and every one of the partners across the Boot Barn organization for your

commitment and hard work. I also want to thank our shareholders for their engagement with the company, belief in our growth strategy and support of the management team.

Now, I would like to open the call to take your questions. Julie?

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Matthew Boss from JPMorgan, Canada. Please go ahead.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. Thanks. So, Jim, maybe if you could elaborate on drivers of the same-store sales acceleration in April and May, if it was possible to break down performance across categories, maybe notably your core replenishment business relative to the inflection in ladies. And then just how you're assessing the potential sustainability of current momentum over the balance of the year relative to the macro backdrop that it seems that you've embedded?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Okay, great. Thanks for the question, Matt. In terms of categories, it's just incredible. Every single department from work boots to ladies apparel, has seen sequential positive improvement, and we saw that building from Q3 into Q4 and then Q4 into April and then April into May. So that the sequential improvement story is just fantastic and it's across the board.

So ladies' Western boots from Q3 into the current quarter has improved sequentially by 15 points. Work boots have improved 5 points, work apparel has improved 11 points. Men's western boots has improved 9 points. So it's – I could just keep going at every single category on the schedule that I'm looking at.

And it's – when I think about the other ways to dissect the business. We've seen it in both channels, where we saw it on our e-commerce business and in our stores. We've seen it in every region of the country. It's been a build-up and a sequential improvement in transactions. So it's not higher AUR or higher ticket, it's literally just more healthy transactions on an average store basis.

I don't see any significant difference between fashion and non-fashion, the ladies business has improved slightly more than the men's business, but it also had further to go. In terms of sustainability, where we clearly put out a guide that we think has some conservatism in it. But there's no reason to believe that these numbers will turn the opposite direction on us.

And at the risk of getting too far over our skis, we just got through Mother's Day, which is our weakest business and we're positive comping in May, and we're heading into Father's Day, which is our strongest business and a much bigger holiday for us than Mother's Day. So I don't want to play out too bullish of a tone, but if I just take the composition of the business, that will shift from a little over-indexing ladies to over-indexing Men's and June being a much bigger month than May, you could get yourself comfortable that there's more sales to be had in the very foreseeable future.

Jim did call out some conservatism in our third quarter with election and a shortened holiday period. So we'll see how that plays out. But right now, what we're seeing, all the indications in the business are telling us that the performance has started to inflect positively.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. And then maybe just a follow-up on the bottom line. If you could just help break down your EBIT margin forecast between puts and takes on the flattish gross margin guide relative to the de-leverage on SG&A embedded in the forecast.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Sure. So, yeah, as you pointed out, we're planning the year with 110 basis points of merch margin expansion, Matt. And, with the similar or the exact same amount of de-leverage and buying occupancy and distribution center cost. And so, as we look at what's driving the merchandise margin growth for the year, about two-thirds of that expansion will be supply chain efficiencies. And the other one-third will be improvements from exclusive brand penetration and better pricing from vendors due to economies of scale, including things like bulk purchases and better discounts from vendors. The de-leverage is really just coming from the negative same-store sales guide that we have on the buying occupancy and distribution center costs.

And then as you look at the – as we look at the SG&A with 70 basis points of de-leverage there, it's really just the deleverage that we're seeing from the negative same-store sales guide. Included in there we have a little bit of pressure from health insurance and some other inflationary cost increases.

And then as we called out on the last call, we've got the new corporate headquarters, that's worth about 30 basis points in the current year, or about \$6 million higher than last year. And just the reminder on that facility, as we get into fiscal 2026, the run rate – incremental cost of that is more like \$4.8 million, more or less.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Congrats on the improvement. Best of luck.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thank you. Matt.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Thank you. Matt.

Operator: Your next question comes from Peter Keith from Piper Sandler. Please go ahead.

Alexia Morgan

Analyst, Piper Sandler & Co.

Q

Hi, this is Alexia Morgan on for Peter Keith. Thanks for taking our question. One question that we're getting a lot from investors is whether you might be experiencing a lift from the Beyoncé album. Are you able to give any detail around the possible impact you're seeing there if you're getting a lift from that at all?

And then my second question would just be how, and you touched on this a little bit, how you might think about sequencing comps throughout the year and what are the drivers to eventually get to positive?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Okay, great. On the first question around Beyoncé, I suppose we anticipated this question because first it was Yellowstone and then it was Taylor Swift, and now it's Beyoncé. We love Beyoncé. We love the fact she's wearing hats. We love the fact that she seems to continue to be leaning into Western.

Notably, she's been doing this for five years now, but now she's got a new album, and I think that's sort of hit [indiscernible] (00:26:57) of the people that are newer to watching country music. And it's not apparent to us that she's having a meaningful impact on our business. If the sequential improvement that we saw was being entirely driven by ladies' fashion cowboy boots or ladies' Western fashion apparel, then I would feel differently.

But we've seen just very broad based improvement for several months now, going back to the third quarter that it would kind of be foolhardy to tie it all to or really any of it to Beyoncé. But we did – we did ask our customers, many people were aware that she had released an album. Right. And this was a proper customer survey.

Very few people commented that like 3% commented that it was going to change their buying behavior in a positive way. So some of the qualitative comments were almost like, are you joking that Beyoncé is going to impact our business? It's more you we've been in this category forever. That said, hopefully she'll introduce a new customer to Boot Barn and that might help us get some additional business. But it's just a fringe piece or an icing on top of our typical customer database.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

And just to give you a little bit of cadence of the year and how we're looking at same-store sales, again, just backing up, the way we've provided the guide is similar to what we've done the last two years. We've taken the last few months of sales and projected the sales for the balance of the year using the historical seasonality of the business.

And then one of the things that was a little bit different this year what we did in the guidance is we reduced the sales from what the output was for the second half of the year to account for distraction around the upcoming President election, a shorter holiday shopping period between Thanksgiving and Christmas and some of the continued macro uncertainty.

And so, as we look at how the guidance lays out for the year, we expect the second quarter same-store sales to look similar to what we've guided for the first quarter. As we get into the third quarter, we expect store comps to be slightly better than the second quarter and then strengthen to be a slightly positive comps in the fourth quarter.

Alexia Morgan

Analyst, Piper Sandler & Co.

Q

Great. Thank you.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

You're welcome.

A

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

Thanks, Alexia.

A

Operator: Your next question comes from Steven Zaccone from Citi. Please go ahead.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Great. Thanks very much for taking my question. I wanted to follow-up on Matt Boss from Canada's question. If you think about, where you're running now, quarter-to-date and then as you think about the guidance for the year, where are the potential areas of conservatism? Is it somewhat of the ladies' business doing better now that maybe that could moderate over the next couple of quarters?

Q

Because it seems like the overall business is seeing a pretty broad based improvement. So just help us understand why embed so much conservatism in the year.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

Yeah, I would say as we look at the next month-and-a-half, if you look at June, that was our toughest comp on a one-year comp basis to lap. And so we're looking square that. We've embedded a kind of a softening of our current comp just because we're going up against tougher numbers. If you look at the two-year stack, May and June, we're comping a two-year stack that's the toughest of the year.

A

And so, it's really early in the year for us to declare victory. So we've – we have embedded some conservatism there. I would say that, as I just mentioned a minute ago, Steven, putting some – a reduction or some conservatism in the second half of the year, particularly in the third quarter, when we do have some more macro events or some calendar shifts that are little bit harder to plan through, that's probably where I would say we have the most conservatism in the guide.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Okay. That's helpful. And then you gave some comments around the leverage points for this year with buying and occupancy SG&A and then overall EBIT margin. Do you see those as the run rate going forward beyond fiscal 2025 is the right level to leverage?

Q

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

I think so. I think for right now, that's where we've got them. Again that the, the EBIT leverage at a 2% to 3% or somewhere, I'm sorry, the 3.5% is really kind of the rate that I would key in on, again the SG&A leverage at 2%, I think that stays there. It's been roughly around that level, was just a little bit higher last year. And so I think it stays at 2%, maybe comes down a little bit more.

A

And then on the buying occupancy and distribution center costs, the way we've been layering in the new stores and their occupancy rate as they open, lower sales volume and a higher occupancy rate than a more mature store, that's just a little bit higher of a hurdle that we've got to clear out a 6% comp to get leverage there.

The nice thing is that with the merchandise margin growth that we've seen, 650 basis points over the last six years and another guide this year at 110 basis points, it's really, allowing our margin to continue to be strong and the EBIT margin to have a really nice leverage point for a company that's growing units at 15%.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for all the detail.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thank you.

Operator: Your next question comes from Max Rakhlenko from TD Cowen. Please go ahead.

Max Rakhlenko

Analyst, TD Cowen

Q

Great. Thanks a lot guys. So first, can you remind us how you're thinking about the new store comp waterfall? And then, if historically the chain was able to comp at a high single-digit rate, what do you think the normalized go forward rate could be for the business?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

On the new store waterfall, it'll be interesting to see what happens now with the business starting to inflect positively. What we had seen in the most recent years, couple of years is new stores when they turned comp their one-year comp was sort of in line with the rest of the business. I see no reason to believe that over time we shouldn't be able to get back to a new store waterfall, sort of a more traditional waterfall.

The only other thing that sort of is in the mix there is our new stores are opening at so much higher volumes than they had when we had a really strong waterfall. As you know, we used to open stores of \$1.7 million, now they're north of \$3 million. But I expect that over time we'll get that new store waterfall back. I don't think that will be in the next couple of quarters, though.

In terms of the underlying comp performance of the business, if you go back to our long-term algorithm, we would always say low to mid single-digit comps.

I think that's where the business should ultimately settle in at. We are victim, of course, to posting a 53.7% a few years ago. And when we look at that step function change in sales and then realize that we gave back almost nothing the year after that and just a small piece in the next year, we're pretty encouraged that we've held on to sort of a once in a lifetime comp, but I think over time we'll get back to that low-to-mid single-digit comp growth.

And based on what we're seeing right now. We think it could come sooner rather than later. We're clearly not guiding that for this year. But perhaps as we get into the next fiscal year.

Max Rakhlenko

Analyst, TD Cowen

Q

Right. That's great. Thanks a lot. And then just given the conservatism in the comp guide, is there a rule of thumb that we should consider for potential margin upside if comps do outperform expectations?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Yeah, I think Max just using the leverage points that I just provided. I mean, that should get you that the best indicator of that. You can also look at the low and the high end of the range and see kind of how we've got that modeled in there from an EBIT margin perspective. Again, if you just look at gross margin, we'll get an improvement on gross margin year-over-year just by beating the high end of the comp guide range and then kind of work through the leverage points on your way down from there.

Max Rakhlenko

Analyst, TD Cowen

Q

Great. Thanks a lot, guys, and best of luck.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thanks, Max.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Thanks, Max.

Operator: Your next question comes from Dylan Carden from William Blair. Please go ahead.

Dylan Carden

Analyst, William Blair & Co. LLC

Q

Okay, great. Thanks. First, just a real simple one. Jim W, I think you talked in the past about the private label penetration maybe getting or continued to decline before it starts to grow and want to [indiscernible] (00:37:17) the first couple of quarters, I believe that's the first one?

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Yeah, the exclusive brand penetration will be back to growth. I think I said on the last quarter call, it would be a one quarter situation where the exclusive brand penetration would be negative. This quarter we're planning that to be up 50 to 80 basis points. The following quarter will be less than the 110 basis points of exclusive brand penetration we guided for the year. And then as we get into Q3 and Q4, we're going to really see that ramp back up again north of 110 basis points for the rest of the year.

Dylan Carden

Analyst, William Blair & Co. LLC

Q

Great. And then to kind of ask the question [indiscernible] (00:38:01) on this call, but does it makes sense that the business is inflecting here? I mean, if you look at new customer file, repurchase trends or the latest business, how much of that you've lost relative to peak? What might be happening in some of your end markets?

I mean, is there more – are there more tangible drivers that give you [indiscernible] (00:38:26-00:38:32)? And I guess one embedded question to that is if you look at or if you think about the new store waterfall are you starting to see that sort of flat in year one in some of these newer stores that might [indiscernible] (00:38:46) fleet. Does that make sense?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Yeah, I think the drivers, I think there's a couple of macro drivers, but I think inflation, while persistent, is a little bit less of a shock to the system for our customer. And they're sort of back and shopping again. I think many of our functional industries and functional customers are buying functional product are starting to return because we're seeing some improvement in some of those businesses, where we've done some things, also, I think from an assortment perspective that has helped drive additional sales. I'll give you an example. We over the last few years in an inflationary environment, we've continued to pass cost increases through in terms of our retail pricing.

And when we did that, we started vacating some more affordable price points. In Men's Cowboy Boots, Ladies' Cowboy Boots as two examples. I think the Merchant team has done a really nice job of filling in some of those price points and we're starting to see some nice momentum in sort of the more moderately priced goods where we had sort of inflated our way out of some of those price bands.

So hopefully that answers your question. It's nice to see sort of all of the categories strengthening, both channels strengthening and having the sales – the sequential improvement in sales being driven by a sequential improvement in transactions on average store.

Dylan Carden

Analyst, William Blair & Co. LLC

Q

Thank you.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thanks. Dylan.

Operator: Your next question comes from Janine Stichter from BTIG. Please go ahead.

Janine Stichter

Analyst, BTIG LLC

Q

Hi. Thanks for taking my question. So on the 60 stores opening this year, what's the split between new markets and legacy markets? And maybe give us an update on somehow – have some of the newer stores are performing and some of the newer markets you've opened? Thank you.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Sure. It's a little hard to say new markets versus existing markets because we're now in almost every state, at least in that 48 contiguous states. The new store – so let me give you a number that might guide you. I would say two-thirds of the stores that were opening are in markets where we have some presence and maybe one-third of the stores are in either brand new markets, which serves fewer and fewer or markets that are very underpenetrated.

In terms of the new store performance, it's a – it just continues to be a very good news story. We underwrite on average, we underwrite new stores to do about \$2 million in sales. And at \$2 million, they achieve the return on invested capital threshold that we hope for. And they're doing more than \$3 million. And that is pretty consistent across the country in all sorts of markets, including markets that you wouldn't necessarily think are traditional Western markets.

Janine Stichter

Analyst, BTIG LLC

Q

Great. And maybe just on the e-commerce business, it was nice to see that start to improve. And I know it's been a longer haul than expected there. Just maybe for your thoughts on what's been driving that, is that just kind of the broader improvement that you've seen in the business? Or is there anything different that you're doing on the marketing side?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

I think it's a couple of things. The – let's just focus on the bootbarn.com business because that's the bigger piece of the business. It's very much a traffic story. Our traffic on bootbarn.com continues to build quite nicely and we attribute that to the brand building, the marketing team in general, the presence of new stores in new markets. So I'll give you a real number, in the first quarter, quarter to date, the traffic to the site is up 20%. So conversion is down slightly. So, our revenue is up nicely there.

From a marketing standpoint, we have a pretty consistent approach to our digital spend. We are somewhat algorithmic and we set a return on ad spend target. And we spend up to that point. When the cost per click increases, we spend a little bit less. We still maintain our ROAS target, and when the cost per click comes down, the reverse happens. We get some more sales.

We've been able to be a little bit more efficient with our pay-per-click recently. And we've using some new tools typically or mostly through Google, and they seem to be working nicely. So it's nice to see that part of the business increasing. A reminder, though bootbarn.com isn't really driven by pay traffic. It's a smaller piece of the business. So the bootbarn.com sequential improvement is just a very organic, positive and healthy growth, driven by more customers coming to the site.

Janine Stichter

Analyst, BTIG LLC

Q

Great. Thanks so much for the color.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thanks, Janine.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Thank you.

Operator: Your next question comes from Jay Sole from UBS. Please go ahead.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thanks so much, Jim, I'm sort of curious what you see in the competitive landscape from sort of the smaller independent mom-and-pop type retail stores out there. I think there's a perception that maybe some of those closed during the pandemic, maybe they reopened. Is that true? And have you seen them be sustainable or are they starting to sort of lose some share again? Thanks.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Sure. Good question. Well, we just continue to take share from the mom-and-pops. So there's fewer now than there were pre-pandemic. It's hard to give you an exact count, but we do know that there's been more closings than openings. There was a time when their supply chains were struggling more than ours. We probably had some opportunistic growth there. And now I think they're back to sort of a normal business.

Over time, we will continue to build our market share and take it from within the industry and from the mom-and-pop part of the business. We, of course, have other competitors out there, right. We've got big players like Tractor Supply, we've got online players, etcetera. We've got the whole farm and ranch channel. But where we operate, there's one direct competitor of meaningful size based in Texas that's a very strong company.

And we go head-to-head with them in many of our markets. But after that, we're typically going up against an operator that has one or two stores and they just don't have the professional management team, the systems, et cetera, to operate effectively against us. I think if you were to look at our sales growth over the last few years and compare it to the industry sales growth, you'd see that we've taken sort of an enormous amount of share. We've doubled the business in the last few years and the industry certainly hasn't doubled.

Jay Sole

Analyst, UBS Securities LLC

Q

Okay, that's helpful. Thank you so much.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

You're welcome.

Operator: Your next question comes from Jonathan Komp from Baird. Please go ahead.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, Hi. Good afternoon. Thank you. Jim, can I just follow-up? There's been some scrutiny by some about your store growth strategy, maybe the predictability of your stores, the amount of CapEx that you're spending. Could

you maybe just address sort of the consistency or degree of variability you see in the average store performance? If you break that down by types of markets or are there other indicators that you watch? Both maybe on the returns and also on the CapEx side?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Sure. And so we called out a 60% return on invested capital for new store, right. And that's also covering the cost of inventory. That's I don't -we think that's a pretty good number. It's certainly higher than our cost of capital. It is extremely consistent. I wouldn't say every single store achieves 60% of it, but the vast majority do.

We also have some just crazy, very unique metrics in the world of retail where every single store in the company is EBITDA positive contributing, which is just remarkable, right. So if you were just gambling, you would open as many stores as you possibly could because the likelihood of success is extremely high and the likelihood of failure is extremely low.

We have a whole operation and a field team that needs to manage these businesses, these new stores. We've got buyers, we need to fill them with inventory, we've got supply chain challenges, et cetera. So we can't just open 300 stores overnight, but if we could, we would. And if we had an investment opportunity that would give us better than 60% return on cash, we'd probably divert some cash to it.

I haven't seen one of those in a long time, so we're going to continue to open up our stores. When we look at it by state, we see incredible returns in tried and true two states like Texas and California. And similarly, we see great returns in states like New York and New Jersey that you wouldn't necessarily think are Western, but the stores are doing extremely well.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, that's really helpful. Thanks for sharing the additional color. And then really for either Jim, a broader question, how you think about the right margin structure for the business. I know two years ago you had a high level that was a function of a unique environment. But as you think about the fiscal 2025 guidance in context of ultimately the operating margin potential for the entire business, what's your current thinking on that opportunity?

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Yeah, I continue to think that we'll get back up to 12% to 14% with a range that was put out there a couple years ago. We've been, again, going back to fiscal 2018, 2019, our target was to get to 10% for the benefit of everyone on the call. And as we got to fiscal 2021, we were just about at 10%. We had the year in fiscal 2022 where we were able to exceed 17%.

And then we came down to that 11% to 14% range. Our expectation is that as we return to positive comps and we'll continue to grow EBIT margin that we will march right back, past the 12% to 14% and back up to 15% over the course of the next five years or so.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

That's really helpful. Thanks again.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

Thanks, Jon.

A

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

Thanks, Jon.

A

Operator: Your next question comes from Jeremy Hamblin from Craig-Hallum Capital Group. Please go ahead.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Thanks, and congrats on the improved results. I wanted to just quickly touch on sourcing for a second and get a sense of – with your exclusive brands continuing to penetrate and industry conditions improving a bit, with your comps improving, just first to get a sense from what you are seeing from some of your suppliers in terms of pricing.

Q

And then secondly, as it relates to your sourcing in general and the noise around potential for tariffs to increase on a go forward basis in 2025. Obviously, hypothetically, what type of exposure do you have at this point in China? And how does that compare to, let's say, 2018 when tariffs really ramped up for the first time?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

Okay, great question, Jeremy. On the first piece, many of our big vendors have really stepped up with us recently and are passing along some of their efficiency. So whether that be the reversal in freight rates – inbound freight rates that had spiked up and are now back down, they've done a nice job of passing that along.

A

We also have the ability to buy in quantity discounts from many of our big vendors. So what we'll do is we'll look at product that has very low fashion risk, which is a great deal of our merchandise, and we will buy vendor direct containers, which is lower cost to serve for our vendors. So therefore they'll pass along a nice discount to us.

And then some of the input costs are going down for them and we're benefiting from that to some degree. I always wish it was more, but to some degree we're getting some of that pass through to us as well. So when we look at the IMU in our on order, both from third-party vendors and from our exclusive brand vendors, we see an improved IMU kind of inbound.

And as those goods get received and then turned through our average cost methodology of how we account for our inventory, we know that improved markup is coming. On the second part of your question, in terms of our exposure to tariffs or potential tariffs countries, the exclusive brand team has done a really nice job of diversifying our risk.

And while historically we would say 50% of our inventory comes from China. When we look at the on order, it's closer to 40% – actually a little bit under 40%. So they have done a really nice job of stepping down our exposure to China over the last few years. And of course, we'd prefer to operate in an environment without tariffs, but if it were to go in that direction, we think we can manage through it.

We've done that once before, perhaps were even strengthened competitively, given the other levers that we have within our supply chain and with our ability to shift into exclusive brands, et cetera. So I think that answers both of your questions. But if not, come back to me.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

No, I think it does. Thanks and congrats and good luck this year.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thanks very much.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Thanks, Jeremy.

Operator: Your next question comes from Mitch Kummetz from Seaport Research. Please go ahead.

Mitch Kummetz

Analyst, Seaport Research Partners

Q

Yeah, thanks for taking my questions. First question, I was hoping to just get a little bit more color on the compares, because you did mention that some of your conservatism around same-store sales is the tougher compares. I'm looking at slide 16, which is the store comp, but I can see that May is a tough one-year. That's particularly a tough two-year.

Can you tell us, so you're running a [ph] plus 11% (00:56:28) in stores for the first two weeks. Can you tell us what those two weeks were up against last year and on a two-year basis?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

I can tell you for last year, I don't know if I know it off the top of my head on a two-year basis. The month of May last year was pretty consistent week to week to week.

Mitch Kummetz

Analyst, Seaport Research Partners

Q

Okay. [indiscernible] (00:56:55), what it was on a two-year for what it was two years ago?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

I'm sorry. The weekly cadence of the business of two weeks – two years ago has escaped my memory. Let me see if I can pull it for you. I know we have a follow-up call with you. If it's helpful, maybe we can provide it there.

Mitch Kummetz

Analyst, Seaport Research Partners

Q

Yeah.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

I can tell you, you called it out, though. You're right. On a one-year basis, June and July are more difficult, on a two-year basis, at least on a consolidated basis, May is our most difficult comparison on a two-year basis. And yeah, I don't want to read too much into that and say the business is going to just continue to get even better from where it is today. But we are cycling our strongest month on a two-year basis right now.

Mitch Kummetz

Analyst, Seaport Research Partners

Q

Yeah. And then my second question, just trying to preempt the emails, I might be getting here, but you guys have obviously shown some nice sequential comp acceleration. One way to potentially do that is to just buy comp with promotions. The merch margin guide on the quarter would suggest that you guys are not doing that. But I just want to hear it from you that that is not contributing necessarily to the comp acceleration.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Yeah, I think that's a very fair statement. We are not buying our comp. Our margin rate quarter-to-date is up year-over-year. So we haven't really changed our promotional posture. I think it's a very fair question. I know you get that all the time, but I think you can ask us that question for the next five years and the answer will be exactly the same, which is we don't really change our promotional posture from year-to-year. We occasionally ebb and flow a little bit more or less into moving through some clearance.

Clearance is a very small part of our business, but by and large, our promotional posture is almost exactly the same, at least big picture every year for the last 12 years, I've been CEO of this company.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Mitch coming back to you.

Mitch Kummetz

Analyst, Seaport Research Partners

Q

Yeah.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

On the two-week – two-year ago, May number it was plus 17%.

Mitch Kummetz

Analyst, Seaport Research Partners

Q

Okay. Plus 17% is the compare on a two-year for the first two weeks. All right. That's very helpful. Thank you.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Of course. Thanks. Mitch.

James M. Watkins

Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.

A

Thanks Mitch.

Operator: Your next question comes from Corey Tarlowe from Jefferies. Please go ahead.

Corey Tarlowe

Analyst, Jefferies LLC

Q

Hi. Good afternoon. I was wondering if you could talk a little bit about what you've seen in the oil markets and in your core functional business. Jim, I think you mentioned in response to an earlier question that – and you can correct me if I'm wrong, but I think you said your functional business is doing a little bit better. So could you just remind us what you're seeing, how big that is as a percentage of your business?

And clearly that's not product that you'd have to be marking down either. So should be potentially beneficial from a margin standpoint as well.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Yeah, so it's a very good question. Work boots has gotten sequentially better. In the spirit of full transparency, work boots quarter-to-date is down about 1.5%. So it's not completely turning positive yet. And you're right to call out that that piece of our business has virtually no significant markdown exposure.

We do have a significant functional business in men's western, both boots and apparel. So men's western denim has been a very strong business for us for several months now and has accelerated even further to kind of mid single-digits for the current quarter, high single-digits, almost double-digits in May. And a good portion of our men's western denim business is exactly what you're describing, very functional in nature.

Similarly, men's cowboy boots has turned positive in April, strengthened slightly in May. So that business is sort of a mid single-digit comp now and a good portion of that business is functional in nature as well. So it's nice to see those businesses sort of lead the charge in terms of turning positive. We're also seeing and it's a little bit too early to declare victory on this, but we also are seeing our ladies' business while still comp eroding, not dragging as much in terms of pulling the overall comp down.

So those businesses, not all of it is fashion, but the ladies' business tends to be split between function and fashion. And those businesses have improved sequentially, but are still slightly negative.

Corey Tarlowe

Analyst, Jefferies LLC

Q

Great. That's very helpful. I was just curious as well on the newer exclusive brands that you've launched. I believe there were four of them maybe within the last 18 months or so. How are those trending and are there any new developments that you could share around those?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

So the exclusive brand portfolio across the board is doing quite well. So our number one brand in the company right now is Cody James. Just nudging out a fantastic brand called Ariat who is our number two brand now. And if we look at our top eight brands, half of them are exclusive brands and half of them are third-party brands.

Getting to the heart of your specific question, the new brands have been overall, I'd say, pretty good and they've sort of met or exceeded our expectations. We're tweaking some of the styling for some of it, but we don't foresee any significant downside risk, and we do expect those to sort of grow and continue to build around their footprint over the next few years of where they started.

So I'll give you one example. We have a brand called Rank 45, which is very strongly targeting a rodeo customer and a slightly younger rodeo customer. And that brand has really started to build on the men's side quite nicely. We have a great spokesperson there who's a rodeo athlete named Rocker Steiner, and that is sort of as core of a customer as we can get.

And it's nice to be able to put a brand out there that's going after a core Western consumer and a younger consumer, and a rodeo athlete and have it do so well. So we're pretty encouraged by the new brand launches.

Corey Tarlowe

Analyst, Jefferies LLC

Q

Great. Thank you so much. And best of luck.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thanks Corey.

Operator: Your next question comes from Sam Poser from Williams Trading. Please go ahead.

Sam Poser

Analyst, Williams Trading LLC

Q

Good afternoon. Thanks for taking my questions. I just had a question, in the fashion businesses can you talk a little bit about how the difference or how the management of those business are evolving from the management of the core if they are?

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Sure, they are managed quite differently, right. So when we, if I use complete and extreme ends of the spectrum and I look at ladies' cowboy boots, and certainly the fashionable side of that or the fashionable side of ladies' western apparel. And I compare that to men's denim or work boots. The fashion pieces turn faster. We manage inventory much more tightly.

We are even more regional in our assortment there, and we operate with a tremendous amount of agility there, which is why in the most recent fiscal year, despite the fact that we've seen sort of very significant negative same-store sales in our ladies' businesses, we still continue to build the merchandise margin.

So hats off to the team that manages that fashionable piece of the business, still the much smaller part of our overall company and able to manage and fuel an upcycle, right, they comped up 100% a few years ago. And on the downside, that [ph] erode (01:06:02) merchandise margins. So they've done a really good job. And on the

basic side, the more staple or commodity side of the business, we have a philosophy. We want to be in stock, buy size in our stores.

So if you go into our stores, you see a lot of full shelves. And that is an intention is that's very intentional. And that's the goal there is to never disappoint a customer because the cost of a loss sale far exceeds the cost of a potential markdown on some of these very basic oriented product.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks. I have two more things. One, what are you doing – I guess, what are you doing? You added a lot of customers to the [ph] loyalty file (01:06:50), comps are still negative, though we're seeing some improvement. What are you doing really to make sure that you're improving the way you get to those customers and keep them coming back more frequently?

And then secondly, you mentioned that there are eight top brands, but wonder if you could read them off to us.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Okay. Sure. On the first piece, we have a very [indiscernible] (01:07:22) sheet of paper, but on the first piece, we continue to sort of tailor our customer communication by customer and segment, right? So if you are introduced to Boot Barn and you're a work customer, you will hear about us on our work businesses, may not be the exact industry that you work in, but you'll hear more from us about the work side of the business.

And if you're a younger, more fashionable customer on the ladies' side, you'll hear from us about more in ladies fashion and country music festivals, et cetera. In terms of the top eight vendors, that's a very specific question, Sam. But I'll see if I can get through it. I am not going to read them specifically in order on, although I don't think the order is necessarily a big surprise.

So Cody James and Shyanne, Idyllwind and Hawks are the four biggest exclusive brands and the four biggest third-party brands Ariat and Wrangler are the two biggest. The other two are Twisted X and Justin. And so those are the top eight.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

A

Thanks, Sam.

Operator: And there are no further questions at this time. I will turn the call back over to Jim Conroy for closing remarks.

James G. Conroy

President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.

Very good. Thank you, everyone, for joining the call today. We look forward to speaking with you all on our first quarter earnings. Take care.

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

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