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Boot Barn Holdings, Inc. (BOOT)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Boot Barn Holdings, Incorporated Second Quarter 2025 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 Investor Relations and Finance. 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 second quarter fiscal 2025 earnings results. With me on today's call are Jim Conroy, President and Chief Executive Officer; John Hazen, Chief Digital Officer; and Jim Watkins, Chief Financial Officer.

The 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 during this call 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 the 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 second quarter fiscal 2025 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. As we announced in today's press release, I have made the decision to step down as President and CEO of Boot Barn to pursue an opportunity as CEO of Ross Stores. I am extremely proud of the accomplishments of the Boot Barn reorganization during my tenure and will be forever grateful to the team with whom I've shared this amazing journey.

John Hazen, our Chief Digital Officer, will assume the role of interim CEO after my departure on November 22 while the company conducts both an internal and external search before making a permanent decision. John is currently responsible for e-commerce, marketing and the customer experience. He has led many of our innovations over recent years and is partnered very closely with both merchandising and store operations as we built out the brand and our omni-channel experience. John's prior experience includes running both the stores and e-commerce businesses at True Religion. Prior to that role, John ran the digital business at Fox Racing, a leading

lifestyle action sports brand. John is a very collaborative leader, a solid contributor to the strong culture at Boot Barn and is highly regarded within the organization.

Additionally, Pete Starrett, the Chairman of the board for the past 12 years, will transition into the role of Executive Chairman. Pete knows the company extremely well and is committed to working through an orderly transition. John will be well-supported by the senior management team that includes Jim Watkins, our CFO, Laurie Grijalva, our Chief Merchandising Officer; and Mike Love, our Chief Retail Officer.

This group has worked together for over a decade and I have a great deal of confidence that the company will operate smoothly going forward despite my absence. I am confident in John's ability to lead as interim CEO, and I'm pleased to now turn the call over to him. John?

John Hazen

Chief Digital Officer, Boot Barn Holdings, Inc.

Thank you, Jim. I appreciate the vote of confidence from you and the board, and I'm excited to take on this new role. I feel fortunate that the company is healthy, has strong momentum, and has a solid team in place that has been working together for a long time.

At this point, I would like to turn our attention to our second quarter fiscal 2025 results to 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 for questions.

We are very pleased with our second quarter results, which reflect broad-based strength across all major merchandise categories, in stores and online and across all geographies. During the quarter, revenue increased by 14%, including consolidated same store sales growth of 4.9%. Same store sales in both the stores and e-commerce channels were positive and sequentially improved in the quarter, with stores increasing 4.3% and e-commerce increasing 10.1%. We believe both our revenue growth and new store expansion have significantly outperformed the industry, resulting in substantial market share gains.

Earnings per diluted share were \$0.95 during the quarter, compared to the high end of our guidance range of \$0.87 and versus the prior-year earnings per diluted share of \$0.90. I'm extremely pleased with our second quarter results and believe that our team's year-to-date execution will continue into the second half of the fiscal year.

I will now spend some time discussing each of our four strategic initiatives. Let's begin with expanding our store base. We opened 15 stores in the second quarter, ending the period with 425 stores across 46 states. Our new store engine continues to meet our sales, earnings and payback expectations. As a reminder, we modeled new store performance at \$3 million of revenue with a cash-on-cash return on capital approximately 60% in the first year of operation.

Our new store pipeline remains healthy, and we expect to open 60 new units this year, meeting our commitment of 15% new store growth annually. Given the ongoing success of our new store openings, we believe that we have the market potential to open an additional 500 stores in the US alone, more than doubling our current store count.

Moving to our second initiative, driving same store sales growth. Second quarter consolidated same store sales grew 4.9%, with brick-and-mortar same store sales increasing 4.3%. Store comp growth was driven by an

increase in transactions, plus an increase in AUR and UPT, which drove a larger average transaction. From a merchandise category perspective, we experienced broad-based growth during the quarter as all major merchandise categories comped positive, led by the combined men's western boots and apparel business, which comped positive high-single digits.

The largest sequential improvement was ladies western boots and apparel, which collectively comped positive mid-single digits in the second quarter, approximately 500 basis points better than the first quarter. Included in the men's and ladies comps is our denim business, which together comped nearly double-digit positive in the quarter. Our combined work boots and apparel business also comped low-single digit positive in the quarter.

Moving to our third initiative, strengthening our omni-channel leadership. E-commerce comp sales grew 10% in the second quarter, led by our bootbarn.com site, which posted sales growth of approximately 15%. We are very pleased with the momentum of our online business and the innovation from the omni-channel team, which continues to make progress on several fronts. The Boot Barn App that we launched two years ago has experienced solid growth and now comprises approximately 10% of Boot Barn's online sales.

Additionally, we are beginning to test an in-store consumer-driven AI solution in Cassidy, which we believe has the potential to help build transaction size through sales conversion and training set new store associates. The Cassidy experience is tailored to each unique customer in the specific store they visit.

Now to our fourth strategic initiative, merchandise margin expansion and exclusive brands. During the second quarter, merchandise margin increased by 70 basis points compared to the prior-year period, driven by supply chain efficiencies. Exclusive brand penetration decreased by 50 basis points, which was in line with guidance as it [ph] ramped (00:08:02) over 600 basis points of growth in the prior-year period.

Looking at the second half of the year, we expect to grow exclusive brand penetration at normal pace of approximately 200 basis points over the prior-year period, contributing to substantial merchandise margin growth. We continue to believe we can achieve merchandise margin expansion through a combination of supply chain efficiencies, better buying economies of scale, and growth in exclusive brand penetration.

Turning to current business. Through October, we have continued to generate broad-based growth in same store sales. On a consolidated basis, October same store sales were 5.1%, with our store comp increasing 4.3% and our e-commerce business increasing 12.5%. While we are pleased with the start to our third quarter, October historically represents 25% of the quarter's revenue, with December alone representing half of the third quarter's business and even more disproportionate share of the quarter's earnings. We feel very good about the current tone of the business and believe we are well-prepared for a successful holiday season with exciting marketing campaigns, fresh inventory and a well-prepared field organization ready to provide best-in-class customer service.

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

James M. Watkins

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

Thank you, John. In the second quarter, net sales increased 13.7% to \$426 million. The increase in net sales was the result of the incremental sales from new stores and the increase in consolidated same store sales. The 4.9% increase in same store sales is comprised of an increase in retail store same store sales of 4.3% and an increase in e-commerce same store sales of 10.1%.

Gross profit increased 14% to \$153 million, compared to gross profit of \$134 million in the prior-year period. Gross profit rate increased 10 basis points to 35.9% when compared to the prior-year period as the result of a 70 basis point increase in merchandise margin rate, partially offset by 60 basis points of deleverage in buying, occupancy and distribution center costs. The increase in merchandise margin rate was primarily the result of supply chain efficiencies while the deleverage in buying, occupancy and distribution center costs was driven by the occupancy costs of new stores.

Selling, general and administrative expenses for the quarter were \$113 million or 26.5% of sales, compared to \$95 million or 25.5% of sales in the prior-year period. SG&A as a percentage of net sales increased by 100 basis points, primarily as a result of higher incentive-based compensation, legal expenses and marketing expenses in the current year, partially offset by lower store payroll expenses.

Income from operations was \$40 million or 9.4% of sales in the quarter, compared to \$39 million or 10.3% of sales in the prior-year period. Net income was \$29 million or \$0.95 per diluted share, compared to \$28 million of net income or \$0.90 per diluted share in the prior-year period.

Turning to the balance sheet, on a consolidated basis, inventory increased 22% over the prior-year period to \$713 million and increased approximately 10% on a same store basis. We finished the quarter with \$37 million in cash and zero drawn on our \$250 million revolving line of credit.

Turning to our raised outlook for fiscal 2025. The supplemental financial presentation that we released today lays out the low and high end of our guidance range for both the full year and third quarter. I will be speaking to the high end of the range for both periods in my following remarks. Please note that our guidance excludes any benefits and costs related to the CEO transition.

As we look to the third quarter, we expect total sales at the high end of our guidance range to be \$595 million. We expect consolidated same store sales to increase 6%, with the retail store same store sales increase of 5% and an e-commerce same store sales increase of 10%. We expect gross profit to be \$232 million or approximately 38.9% of sales. Gross profit reflects an estimated 100 basis point increase in merchandise margin, partially offset by 30 basis points of deleverage in buying, occupancy and distribution center costs. Our income from operations is expected to be \$87 million or 14.7% of sales. We expect earnings per diluted share to be \$2.07.

As a result of our second quarter performance and our updated outlook for the remainder of the fiscal year, we are raising our full year guidance. For the full fiscal year, we now expect total sales at the high end of our guidance range to be \$1.91 billion, representing growth of 14% over fiscal 2024. This is a \$57 million increase over our previous sales guide of \$1.85 billion. We now expect same store sales to increase 5%, with the retail store same store sales increase of 4.5% and e-commerce same store sales growth of 9.5%. This is an increase from our previous guidance of consolidated same store sales growth of 1.2%.

We now expect gross profit to be \$713 million or approximately 37.4% of sales. Gross profit continues to reflect an estimated 110 basis point increase in merchandise margin, driven by supply chain efficiencies, better buying economies of scale and growth in exclusive brand penetration of 110 basis points. Our income from operations is expected to be \$233 million or 12.2% of sales. We expect net income for fiscal 2025 to be \$174 million and earnings per diluted share to be \$5.60, a \$0.25 increase from our prior guidance of \$5.35. We continue to expect our capital expenditures to be \$120 million. And for the remaining six months of the fiscal year, our effective tax rate is estimated to be 26.6%. We remain committed to our plan to grow new units by 15%, adding a total of 60 new stores during the year. We anticipate opening 14 stores in the third quarter and 21 stores in the fourth quarter.

I'd like to now take a moment to thank Jim for his contributions to Boot Barn and to all of us who have worked with him during the past 12 years. Jim's vision, passion, hard work and leadership style have not only grown Boot Barn into the company it is today, but have made Boot Barn a truly special place to work. From a personal standpoint, I can't say enough about what he has done for me. Jim has been an incredible mentor, partner and friend. Thank you, Jim.

I've had the pleasure of working with John for the last six years. He is an incredible leader with tremendous vision, and I'm looking forward to working with him in his new role.

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

John Hazen

Chief Digital Officer, Boot Barn Holdings, Inc.

Thank you, Jim. We are very pleased with our year-to-date performance and the continued momentum of the business. And we believe we are well-prepared for a successful holiday season. I would also like to extend my gratitude to the team across our stores, distribution centers, call centers and corporate offices for their hard work and dedication.

Now, I would like to open the call for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] In the essence of time, please limit yourself to one question and one follow-up. The first question comes from Matthew Boss from JPMorgan. Please go ahead.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Great. Thanks. And congrats on the news, Jim.

Q

James G. Conroy

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

Thank you.

A

Matthew R. Boss

Analyst, JPMorgan Securities LLC

So, Jim or John, could you elaborate on the material inflection in comps that you saw as the second quarter progressed? And maybe if you could just walk through trends that you've seen in October as we look across categories or just any notable outliers by region?

Q

James G. Conroy

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

Very good. Matt, I'm not sure if Jim or John maybe even – this is Jim Conroy. I'll take that one. As you know, the story has been unfolding over the last several quarters, where we've had broad-based sequential improvement

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across categories and channels and regions within the stores organization. And as we guide from the first quarter into the second quarter, we just continue to see that sequential improvement carry forward. Essentially, every single department got better between Q1 and Q2.

The other really nice fact for the second quarter was every major merchandise department that we track had positive same store sales growth and every region of the country had positive same store sales growth. So we felt very good about that improvement. And October is very much in line with the second quarter. There's most of the quarter is still ahead of us, of course, with December. But we think we're off to a very solid start with a plus-5% October. We feel great about the way the inventory is positioned and looking forward to a strong third quarter for us.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. And then maybe just to follow up on the margins side, could you elaborate on the drivers of merchandise margin expansion that you've embedded in the 3Q gross margin outlook and just runway you see remaining for gross margin multi-year?

James M. Watkins

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

A

Sure. So we expect merchandise margin to improve 100 basis points in the third quarter. A little more of half of that coming from supply chain efficiencies that we've been seeing for the last couple of quarters. And then about, call it, 40 basis points coming from better buying economies of scale and including expectations of exclusive brand penetration improving to 200 basis points. And then as we get into the fourth quarter, things will look pretty similar to that as well as we look at the merchandise margin, seeing continued expansion from supply chain efficiencies as well as better economies – buying economies of scale and exclusive brand penetration that should be in the similar ballpark of 200 basis points in Q4.

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

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

Hey, thanks, everyone. Jim, it's been great working with you, and I know you guys are coming right up on 10 years as a public company. So you've done a great job under your tenure. We'll miss you. One thing that we've noticed with the last quarter, the categories are the sort of the farm and ranch sector sells a lot of the same products you do not getting better with apparel, footwear, you guys are getting better. So it suggests some market share acceleration. Do you have opinions on where – what categories your market share might be – might be picking up the strongest and what might be the drivers to that?

James G. Conroy

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

A

Sure. Yeah. The report that you put out, I think, had footwear and apparel at minus 9% in the most recent quarter for farm and ranch. I think there is a couple of things that may benefit us a little bit more than them, because they – that group is a pretty formidable group of companies. We have seen some very nice sequential improvement in the ladies businesses, particularly ladies western and cowboy boots, which were better than company average. Not wildly better, but better than company average. So we skew a little bit more balanced where they tend to be extremely focused on functional product only.

So I think that coupled with the fact that I do think our brand is resonating more, we've been very actively connecting with our country music stars and feel like we're benefiting from that. So yes, and I think you're – the setup for the question was spot on, which is I do think we're taking market share based on the fact that we're out-comping many of the other competitors in our space. And if we were to add the additional sales that we're getting from new stores on top of the outperformance in comp, we're clearly taking share. So we feel great about that, and I think we're well-positioned going forward.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

Okay, great. And then you did reference the country music stars. I know we've talked in the past around the Morgan Wallen tour sponsorship, and it looks like there's been a few others that have been added maybe. Could you highlight what other stars you've added? Are there sort of demographic audiences that you're targeting with those? And how might those relationships evolve?

James G. Conroy

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

A

Sure, sure. Well, we've had longstanding relationships on the product side with both Brad Paisley and Miranda Lambert, and they have been just fabulous partners for us. You're right to call out the more recent sponsorship for Morgan Wallen, but now we're doing a bit more with artists that are rifle shots for a specific target customer segment. So we've done some work with Carin León. We overindexed with a Mexican-American customer and leaning into Hispanic music. We believe that is a good place for us to prospect for a larger customer base. We're doing some exciting things over the next month or so with an artist that's a bit of a bridge to country music called Jelly Roll. And that is part and parcel with our strategy to continue to try to expand our customer demographic in concentric circles around sort of a pure Western customer. And that strategy has been serving us well.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

Very good. Thanks so much, Jim.

James G. Conroy

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

A

Of course.

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

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks very much for taking my question. Jim, sad to see you go. Congrats on the success here and best wishes in the next step. I wanted to ask around the comps inflection and follow up on Matt's question. When you look at the business, what's been the biggest driver of upside? Clearly, you've beaten expectations in the first half of the year here. Is it better transactions? Is it basket size? Like, what are you seeing from the customer? And as you think about what's the incremental upside, where are there areas in the assortment that are still a drag or where can business get a little bit better?

James G. Conroy

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

A

Sure. From that perspective, the biggest change has been in transactions. So in the first quarter, transactions on an [ph] average/per basis (00:23:54) was down very slightly. But in the second quarter, that turned positive and that was the first time transactions were positive for us in eight quarters. The other thing that was great, so transactions were up about 2% and the basket size was up about 2%. And you put those two together and you get to the – because this is a stores number and you get to that 4.3% same store sales in the stores.

The other really great thing is, both AUR and UPT were up. So sort of all four components of the store transaction were up in the quarter. I think from a merchandise category standpoint, again, we saw sequential improvement in virtually every part of the business. A couple of the businesses that had been slight drags on our same store sales, meaning they were negative have turned positive. So it's nice to see the work apparel business turned positive. The work boot business turned slightly positive. We talked about that on the last call being slightly negative. Ladies western apparel turned slightly positive, low-single digits and was slightly negative in the last quarter. So a few of the drags on our business turned to the positive side, and we just feel great about how that whole quarter came together.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks for that. The follow-up I had is just as you've seen the category or maybe your own business start to do better, are there differences in performance, some of the newer stores versus some of your legacy boxes, like is there anything to call out there? Because some of the newer stores have been opening much larger sizes and more in the mid-Atlantic and Northeast. Anything to call out there are differences in performance.

James M. Watkins

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

A

Steve, this is Jim Watkins. The new stores continue to perform extremely well across the country. Whether that's in the west, the south, the east, the north. And so I wouldn't say that between geographies, there's much of a difference. I think your question was more around versus legacy stores. And I think the new stores open at a lower volume than the legacy stores, as you know. And we continue to see – we talked about this a little bit last quarter. We continue to see that, as we get to the second year of comp that we are seeing a little bit more of an outperformance in same store sales when compared to the mature stores. And I would say that that's not necessarily tied to a geography, but more just the class. And so year one, the stores or year one of comp, the stores have opened so big in their first year that they're kind of in line with the chain average comp. But then that second comp year is when we're seeing that outperformance against the more mature stores.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks for that detail.

James M. Watkins

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

A

No problem.

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

Max Rakhlenko

Analyst, TD Cowen

Q

Great. Thanks a lot for taking my questions. And Jim, congratulations. It's been a pleasure working with you.

James G. Conroy

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

A

Thank you. Likewise. I appreciate that.

Max Rakhlenko

Analyst, TD Cowen

Q

So first question, maybe just actually following up on the last one, but as we think about the new store waterfall over the course, say comps year, year one, year two, year three, how should we think about the lift to the overall business that you're seeing now as trends appear to be stabilizing? And then just bigger picture, historically, you've always or historically for a while you've been able to outperform with the [ph] algo ways (00:28:00). So how do you think about that moving ahead?

James G. Conroy

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

A

Sure. So it's still a little bit early to say what the year three comp is going to be with the new stores picking up volume over the last couple of years and how they're opening. What I would say is the second year comp for that store that is starting to get the outsized lift I was just talking about. We're talking about 3, 4 or 5 basis points of outperformance or not basis points – points of outperformance on the chain average, not 10 points of comp. And so, again, it's still early to call that a tailwind and to include that in our out-years model with any specificity. But as we get through the next couple of quarters, Matt, I imagine as we outline next year's sales guidance that we'll have some more detail around how those new stores are opening and waterfaling and providing a little bit of a lift to the comp.

As far as the long-term algorithm, again, it's nice to see the comp sales for the year get to that 5% comp. That has been kind of the highlight – high end of our long-term sales target. And to see the earnings per share growth get pretty close to the 20%. And so I think as we look forward into next year, again, we'll give you next year's guidance in a couple of quarters. But I think the components of what we've laid out over the years are coming back and are still intact, and we see no meaningful changes to that at this time.

Max Rakhlenko

Analyst, TD Cowen

Q

Got it. Okay. And then earlier this year, I think that you made a change to the ladies merchant team. So how would you assess how the assortment has evolved, if any, or if it's too soon? And then just how are you thinking about the right balance of fashion versus function and whether we should expect any changes ahead?

James G. Conroy

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

A

Sure. Yeah. I wouldn't try to tie it back to a specific person, but we did make some changes to the ladies western boot assortment mostly, and we had leaned a little bit too heavily into the fashion side of the business. We were looking at price points in terms of good, better, best and felt like because we had a couple of years of inflation year-over-year, we had eroded sort of the good, better, best. We had probably vacated some of the good price point.

So we took another hard look at it and sort of reset the assortment, leaning more into more functional and performance-based ladies western boots. And that's probably the – that is the strongest part of our ladies western

boots business now. And we were also able to bring in some lower price points between, call it, \$149 and \$179 that have done quite well for us. So I think it was just getting that assortment right-sized. On the apparel side, the apparel business has also turned positive. That's really been driven by denim. Our denim business is quite strong on the ladies side and the men's side, for that matter.

Max Rakhlenko

Analyst, TD Cowen

Q

Great. Thanks a lot. And best regards.

James G. Conroy

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

A

Of course. Thank you.

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

Janine Stichter

Analyst, BTIG LLC

Q

Hi. Thanks for taking my question. And Jim, we'll miss you.

James G. Conroy

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

A

Thanks, Janine.

Janine Stichter

Analyst, BTIG LLC

Q

So just want to ask about the inventory down 10.5% on a same store basis. It seems like it might be running a little bit lean. Just want to hear how you think about it. If there's any areas where you feel like maybe you're missing some sales or if that has anything to do with the mix of private brands versus third party brands. Thank you.

James G. Conroy

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

A

Yes, Janine, if I said it was down 10.5%, I misspoke and I apologize. The inventory on a same store basis is up...

Janine Stichter

Analyst, BTIG LLC

Q

Actually my mistake.

James G. Conroy

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

A

...yeah, up 10.5%. So since we're on the topic, we do feel great about the inventory heading into the holiday shopping period. We've grown our inventory very intentionally and we believe we're bought into the right categories. Markdowns as a percentage of inventory are down from a year ago. Weeks of supply is down year-over-year. So we really feel like we're in a great spot as we head into these a couple of busy months.

Janine Stichter

Analyst, BTIG LLC

Q

Perfect. And just as we're heading into the election, can you remind us of your exposure to China on both the third party brand side and on the exclusive brands [indiscernible] (00:33:09) how you're thinking about additional tariff risk potential?

James G. Conroy

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

A

Sure. So we used to be north of about 50% on our exclusive brand product coming out of China. I think we said on the last call that this last fiscal year we're about 37% of our product came out – comes out of China or came out last year. And what we have on order is approximately 30% coming out of China. So we have de-risked our exposure to China. And again, there's a lot of benefits to staying in China. I don't think that we will move completely out of China regardless of what tariff situation or happens. But I feel like we've done a nice job of balancing our exposure while limiting the risk to product and quality and deliverability of the product.

Janine Stichter

Analyst, BTIG LLC

Q

Great. Thanks so much.

James G. Conroy

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

A

Thank you.

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

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. Jim, just – love to just dig into the change. Just talk about why now? What was it? Is it – did you go any change in strategy at Boot Barn? Any insight you can elaborate on to give us a sense of why you made this choice would be helpful. Thank you.

James G. Conroy

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

A

Sure. This was more of a personal decision for me and the family. In terms of the Boot Barn's strategy going forward, we've had the same four strategies for 12 years. We've had the same senior team working on them and I think have performed pretty well. So I would add, as we've discussed this transition, I think I can safely say it's going to be a lot of continuity from what we've been doing for the last decade. And John will hopefully take us forward for the next decade.

So I wouldn't expect any significant changes in the strategy. I mean, we are stamping out a working model. We have 425-ish stores. We can more than double the store count. We've been able to find opportunities for same store sales growth on a consistent basis. So I think you can expect more of the same. I will certainly miss this place and be able to speak more to potential opportunities at my next role. But I don't think this is the proper forum for that.

Jay Sole

Analyst, UBS Securities LLC

Q

Okay. Understood. Thank you. If I can just add in one more, just, any updates on how the Cody James Black 1978 rollout is going? I think last quarter, I think you said it's 100 stores. Just talk about where it is today and how did that brand perform in the quarter relative to the full assortment?

James G. Conroy

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

A

It is performing quite well. It's now in 300 stores. It is the highest price point in the store. And one of the questions that we often get is, are we seeing a difference in spend by customer income or price point? And we haven't seen that. And part of that on the boot side is because the Cody James Black brand is outperforming and it's one of the more expensive products in the store, partly because it's an elevated brand and partly because it tends to skew more towards exotic skin versus plain leather.

That said, sort of harkening back to the last call where we're excited about it, it adds some real excitement in the business. Hopefully, it'll be a great part of our gift giving for holiday. But just in terms of quantifying it, it's not multiple points of same store sales. It's a relatively small piece of our overall business. And I don't want to diminish the excitement of it or the work that's gone into it, but it's not comprising 4 or 5 points of comp.

Jay Sole

Analyst, UBS Securities LLC

Q

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

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

Alexander Conway

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

Q

Hi, this is Alex Conway on for John.

James G. Conroy

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

A

Yeah.

Alexander Conway

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

Q

Jim Watkins, just looking at the comp guidance for Q2, there seems to be a bit of range. If you just take October, some to the upside, some to the downside. Could you just walk through maybe a bit of some of the assumptions you have on either side of that and what really you think the swing factors could be for holiday?

James M. Watkins

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

A

Sure. Yeah. So on the third quarter guidance, really what we did is a similar approach that we've taken the last few quarters where we looked at the July, August and September sales and we roll that forward applying historical seasonality across several years to see how that would play out in November, December and then through the balance of the year and set our guide accordingly. As we rolled up those numbers, we then took a

haircut for Q3, really, October – all month, October, November and December to take into consideration the impact of the election and that shortened holiday period.

And then we also took a little bit of a haircut in Q4 around some macro uncertainty. And so as far as the different ranges and how those can play out, October is behind us. Our fiscal October is behind us. As we look at November, we've got a nice range in there for those exact reasons, right, depending on how the holiday shopping season plays out, the election, and how big of a distraction that is for our customers. And sometimes weather can play into things as you get into November and December and January especially.

And so I think there are a range of outcomes depending on how the consumer is feeling financially and also the amount of time they have to shop. What we've seen over the last couple of quarters is really encouraging and how resilient our customer is. Again, we have a needs based product that our customer is visiting our stores to shop for and they continue to need that product. And so we're very optimistic and confident in the guidance that we put out there while considering that there are a few distractions and a few nuances coming our way over the next couple of months.

Alexander Conway

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

Q

That's helpful. And then maybe a bit longer term, as you go through this leadership transition, can you share, maybe it's a little early, but at least inequalities that you might be looking for in the permanent CEO?

James G. Conroy

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

A

Look, this is Jim Conroy, and I don't want to speak for the board, but I can give you a couple of pieces. Having spoken with them through over the last few years, over just our normal succession planning process, John was the number one choice a couple of years ago as the person that would succeed me, we didn't know the timing would be this quarter. So he certainly has all of the qualities that we would want in a go-forward leader, and I think the board, given changes like this happen in a very short order, they want to do their due diligence, make a considered choice and potentially look outside for other candidates. But I think John is extremely well-positioned to potentially just take the company going forward.

So while I don't want to speak for the board and I think I am accurately conveying their broad process to the investment community. And in terms of qualities and traits, I mean, we have a very, very strong and defined culture here of all of the six core values that we have, the one that always rises to the top is one of collaboration. The one of the reasons I feel very strongly that the company will continue forward successfully when I step away is that we already operate as a very solid team and I'm just one member of that team. And as I step away, the other 10,000 people on the team will move forward without me at the helm and do quite well. So I think that's how I – the best I can answer the question.

Alexander Conway

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

Q

Yeah. Thanks, Jim, and best of luck in your new role, Jim.

James G. Conroy

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

A

Thank you.

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

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you for taking my questions. Congratulations, Jim. I guess my question is, what – like within the stronger transactions and everything, do you have – one, well, what was your penetration on exclusive brands this year versus last year? Number two, can you track sort of your return customers versus new customers within, I mean – can you give us some breakdown on what you're seeing there with – that drove these strong comps and appear to be continuing to drive them?

James G. Conroy

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

A

Sure. Sure. So exclusive brands is up about. Do you want to take that?

James M. Watkins

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

A

Yeah. Yeah. I'll take it. For the quarter, Sam, I'm not sure if that was what you asked about. We were down 50 basis points. That was up against 620 basis points of growth last year. And for the year, we're expecting that to be up 110 basis points. So the next two quarters up about 200 basis points for each quarter.

Sam Poser

Analyst, Williams Trading LLC

Q

That was – a lot of that coming out of the big strength in denim that you're seeing, which is probably more branded than not?

James M. Watkins

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

A

We are seeing some nice – we are seeing some nice growth from our exclusive brand denim. We're in-stock on that. And I think as we get through the next couple of quarters, that will be a driver on the exclusive brand growth. Also, the ladies business in general has seen a nice improvement and that tends to penetrate a little more heavily on exclusive brands. So that's also a driver.

But I think as we look at the last couple of quarters, just being up against some really big numbers last year and taking some time to adjust through our assortment with the third party vendors that have had some nice product improvements across categories and getting those in the store, I think we're at a spot now where we've got a great assortment from our third party vendors. We've got some really nice product coming in from our exclusive brand team, and we'll be back to kind of our long-term target of growing exclusive brands in that 200 to 300 basis point penetration range. Not like the outsized growth that we've seen over the last few years. That was much higher than that.

Sam Poser

Analyst, Williams Trading LLC

Q

Got you. And then on customers?

James G. Conroy

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

A

Sure. The customer count is up again year-over-year and we reached about 8.9 million customers, up 14% versus last year. We feel really good about the retention of customers and the addition of new customers. And as new customers get introduced to the brand, as you know, Sam, our average number of transactions per customer is really only about twice a year do they shop with us and we're seeing that behavior pretty similar, being pretty similar for legacy customers and for newly added customers, their basket size is pretty similar.

And we feel really good. You've asked in the past about our ladies business. We feel really good about the ladies customer really re-engaging with us and seeing growth in both ladies boots and ladies apparel. That part of our business is now, when I put those together, almost 23% of total sales. And prior to the pandemic, it was 18% of total sales. So we feel really good about how we've been able to add more female customers, younger female customers and hold on to them.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you, and congratulations, again.

James G. Conroy

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

A

Thanks, Sam.

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

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Thanks. And I'll add my congratulations on a fantastic tenure.

James G. Conroy

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

A

Thank you.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

I wanted to come back to just some questions around the election potential implications. And just feel a sense for, as you look back 2016-2020, kind of the time period you've noted before that there's some distraction that happens and a bit of disruption on the typical trend. I want to understand, A, the magnitude of that, B, the length of period where you think there might be some distraction. And then also just related to the potential tariff stuff, what portion of your business or your products are produced in Mexico?

James G. Conroy

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

A

Sure. So the last election in 2020 is a little bit difficult to gain a lot of information from given that we're coming out of COVID. And so to quantify that was a little tricky. In 2016, we had called out in a slide in our January, I think it was Jim's presentation in January of that following year that we had a negative impact. We didn't quantify it. It was probably a couple of points of comp. If you look at the chart on the quarter, probably about 10 points of comp, maybe closer to 3 to 5 points of comp. But there's also some weather noise that was hurting us that quarter. So long-winded answer there, I think the time period that does tend to impact us is really now and until the election.

So I think we'll see over the next couple of weeks how big of a distraction that ends up being for us. And then as far as the Mexico question, about 25% of our exclusive brands comes out of Mexico.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Got it. And then just one other follow-up here on, I want to come back to, you had really strong comps in the quarter and a strong start to current quarter, in terms of just thinking about, you noted buying, occupancy costs, some deleverage there in the quarter, I think maybe about 60 basis points. And just wanted to get a sense in terms of that drag on a plus-5% comp quarter, is that just the real estate costs in some of the markets that you're getting into or a bit higher on a relative basis or just additional color you might be able to share on that?

James G. Conroy

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

A

Sure. Really, it's not so much that we're seeing more expensive real estate, but just that we're having new stores that we're opening and new stores even at a similar real estate cost. As existing stores are more mature stores, they have a lower sales volume. And so you have a higher rate of occupancy or occupancy as a rate of sales. Also, it's a small – Q2 is a smaller quarter than what we see in Q3 and even Q4. And so when we talk about deleverage, we like to look at it more on a full year basis when we provide leverage points. But I think your question was really around Q2 and why that was deleveraged. There is also a little bit of utilities. I think I talked about that on the last call that we tend to see higher utilities in the second quarter that hits that occupancy in line.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Got it. Thanks for taking the questions and best wishes on continued success.

James G. Conroy

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

A

Thank you.

James M. Watkins

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

A

Thank you.

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

Alexander Vasti

Analyst, William Blair & Co. LLC

Q

Hi, guys. This is Alex on for Dylan. Jim, congrats on the news and good luck with your move. And thanks for taking our questions here.

James G. Conroy

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

A

Thank you.

Alexander Vasti*Analyst, William Blair & Co. LLC*

Q

So just one on the macro, in light of the current macro and early start to the holiday season, what have you observed of your competitors, is promotional activity tracking similar levels relative to historicals or your expectations heading into the holidays, what it does look like and what are your thoughts for projections on promotional activity in the third quarter? Thanks.

James G. Conroy*President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.*

A

I think it's been much of the same across the competitive set, maybe a slight increase in promotional activity, but certainly nothing we would react to. What we have our strategy, we are an everyday low price model and we'll continue to follow a very similar cadence for the very few and pretty light promotions that we'll do during the holiday season. Yeah, they'll be pretty similar to last year. I don't expect anything. We haven't planned any increases in terms of leaning into deeper discounts or more promotions.

Alexander Vasti*Analyst, William Blair & Co. LLC*

Q

Got it. That's helpful. And then just one on margin, higher level, can you speak to your longer-term margin recovery efforts? Specifically what initiatives can you prioritize of late? And how are those trending to drive the business back towards your prior targets of EBIT margin in the mid-teens? I know a few on the gross margin side, you've spoken to supply chain efficiencies, buying economies of scale, that stuff. So is there anything else you would call out on that front?

James G. Conroy*President, Chief Executive Officer & Director, Boot Barn Holdings, Inc.*

A

Yeah, I think you call those out in the merchandise margin arena, really, we've worked hard to renegotiate contracts with suppliers. More than one supplier is driving that improvement, and we're seeing that come to fruition now. We've also – we also continue to ramp up our activity in our Kansas City distribution center, and that's helping us get some efficiencies in the quarter and we will continue to drive more and more of those efficiencies as we get through this year. And having two distribution centers that are up and running really allows us a lot of flexibility in how we support the stores and support the e-commerce business.

And as we get into the out-years, a couple of years down the road, we'll – or several years down the road, we'll likely open up a third facility and that will drive continued long-term efficiencies. We – also on the SG&A side of things, we're constantly negotiating with our vendors and our providers, recently saw some nice improvement in our corporate and general liability and property insurance and as we came up on renewals. And so that's something that we're looking at and are expecting to see some improvement on as we get through the balance of this year and it's included in our guidance but will carry on with us as we get into next year.

So it's really at every turn that we can try to renegotiate and drive the cost down. At last call, we talked about something we've been doing for years that continues to grow and scale, and that's the taking possession of four container loads of product from our third party vendors and getting a discount there and distributing that ourselves. We're able to pick up some additional margin. So we're not out of ideas. The team has done a fantastic job of working with our suppliers and our vendors to get that – the cost down as we move forward and march back towards that 15% EBIT margin.

Alexander Vasti

Analyst, William Blair & Co. LLC

Got it. Super helpful. I'll pass it on. Thanks.

Q

James G. Conroy

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

Thank you.

A

Operator: And we have a follow-up question from Sam Poser. Please go ahead.

Sam Poser

Analyst, Williams Trading LLC

Yeah, there's just follow-up on the margins. On the SG&A, you had said in the past that if you run at 6% comp, that that should be a leverage point. Why see as at the high end? Why see as much deleverage in the third quarter as we're seeing or thinking about here the same way?

Q

James G. Conroy

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

Yeah, no, it's a great – it's a fair question, Sam. We had a couple – we did say that our – I'll do just backing up. We did say that our – at a 2% comp, we would get SG&A leverage on the year and we're about as flat on a 5% comp guide. And I think a couple of things happened. One that we saw in the second quarter and it'll be with this the rest of the year, the incentive-based compensation was higher than anticipated and that was really the result of accelerated sales the last two quarters and adjustments that we're required to make and primarily relating to performance-based stock compensation, which we base it off of the three-year EPS projection, some from the annual bonus calculation as well.

A

And then we had some elevated legal expenses during the quarter that were unforeseen related to – primarily to a settled dispute we had with one of our properties. And so there are a couple of things that we probably could have modeled a little bit better, but we also weren't anticipating the sales guide that we have at the beginning of the year being a minus 1.6% comp at the high end of the range, accelerating as quickly to a 5% comp. And that creates some additional expense that prove to make our leverage points not exactly accurate.

Sam Poser

Analyst, Williams Trading LLC

And in the third quarter, though, you're talking about deleverage again on a stronger comp.

Q

James G. Conroy

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

Yeah. Again, like my previous comment, we will tend to look at the leverage points on a full year basis and so there's some timing that's in there. And it's – again, we're focused on the full year and what we're guiding there.

A

Sam Poser

Analyst, Williams Trading LLC

All right. Thank you very much.

Q

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to John Hazen for closing remarks.

John Hazen

Chief Digital Officer, Boot Barn Holdings, Inc.

Thank you, everyone, for joining the call today. I would like to give Jim Conroy an opportunity to make some closing remarks before we wrap up.

James G. Conroy

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

Thanks, John. After 12 incredible years at Boot Barn, I am filled with immense gratitude for this company and the extraordinary partners who have been by my side throughout this journey. Together, we built something truly special and will forever cherish with shared successes, challenges and memories that we created. I will step away from Boot Barn knowing that the company is incredibly healthy, in very good hands and poised for future growth. I would like to wish the entire Boot Barn family a heartfelt thank you. And with that, we will conclude today's call. Thank you, and take care.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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