SPORTSMAN'S WAREHOUSE HOLDINGS, INC.
Form 10-Q
November 17, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 28, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-36401

SPORTSMAN’S WAREHOUSE HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	39-1975614 (I.R.S. Employer Identification No.)
7035 South High Tech Drive, Midvale, Utah (Address of principal executive offices)	84047 (Zip code)

Registrant’s telephone number, including area code: (801) 566-6681

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act:

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 17, 2017, the registrant had 42,579,145 shares of common stock, $0.01 par value per share, outstanding.

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

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We operate on a fiscal calendar that, in a given fiscal year, consists of the 52- or 53-week period ending on the Saturday closest to January 31st. Our fiscal third quarters ended October 28, 2017 and October 29, 2016, both consisted of 13 weeks and are referred to herein as the third quarter of fiscal year 2017 and the third quarter of fiscal year 2016, respectively. Fiscal year 2016 contained 52 weeks of operations ended January 28, 2017. Fiscal year 2017 contains 53 weeks of operations and will end on February 3, 2018.

References throughout this document to “Sportsman’s Warehouse,” “we,” “us,” and “our” refer to Sportsman’s Warehouse Holdings, Inc. and its subsidiaries, and references to “Holdings” refer to Sportsman’s Warehouse Holdings, Inc. excluding its subsidiaries.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “10-Q”) contains statements that constitute forward-looking statements as that term is defined by the Private Securities Litigation Reform Act of 1995. These statements concern our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition, which are subject to risks and uncertainties. All statements other than statements of historical fact included in this 10-Q are forward-looking statements. These statements may include words such as “aim,” “anticipate,” “assume,” “believe,” “can have,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “li “objective,” “plan,” “potential,” “positioned,” “predict,” “should,” “target,” “will,” “would” and other words and terms of simi in connection with any discussion of the timing or nature of future operating or financial performance or other events or trends. For example, all statements we make relating to our plans and objectives for future operations, growth or initiatives and strategies are forward-looking statements.

These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions. We derive many of our forward-looking statements from our own operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution predicting the impact of known factors is very difficult, and we cannot anticipate all factors that could affect our actual results.

All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- our retail-based business model is impacted by general economic conditions and economic and financial uncertainties may cause a decline in consumer spending;
- our concentration of stores in the Western United States makes us susceptible to adverse conditions in this region, which could affect our sales and cause our operating results to suffer;
- we operate in a highly fragmented and competitive industry and may face increased competition;
- we may not be able to anticipate, identify and respond to changes in consumer demands, including regional preferences, in a timely manner;
- we may not be successful in operating our stores in any existing or new markets into which we expand; and
- current and future government regulations, in particular regulations relating to the sale of firearms and ammunition, may impact the supply and demand for our products and our ability to conduct our business.

The above is not a complete list of factors or events that could cause actual results to differ from our expectations, and we cannot predict all of them. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements disclosed under "Part I. Item 1A. Risk Factors," appearing in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017 and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this 10-Q, as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, and public communications. You should evaluate all forward-looking statements made in this 10-Q and otherwise in the context of these risks and uncertainties.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on any forward-looking statements we make. These forward-looking statements speak only as of the date of this 10-Q and are not guarantees of future performance or developments and involve known and unknown risks, uncertainties and other factors that are in many cases beyond our control. Except as required by law, we undertake no obligation to update or revise any forward-looking statements publicly, whether as a result of new information, future developments or otherwise.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPORTSMAN’S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Amounts in Thousands, Except Per Share Data

(unaudited)

	October 28, 2017	January 28, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 2,155	$ 1,911
Accounts receivable, net	404	411
Merchandise inventories	318,323	246,289
Prepaid expenses and other	4,005	7,313
Total current assets	324,887	255,924
Property and equipment, net	98,890	83,109
Deferred income taxes	4,485	5,097
Definite lived intangibles, net	763	2,118
Total assets	$ 429,025	$ 346,248
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 69,453	$ 31,549
Accrued expenses	54,641	49,586
Income taxes payable	3,210	979
Revolving line of credit	78,454	60,972
Current portion of long-term debt, net of discount and debt issuance costs	935	983
Current portion of deferred rent	3,949	3,150
Total current liabilities	210,642	147,219
Long-term liabilities:		
Long-term debt, net of discount, debt issuance costs, and current portion	132,656	133,721
Deferred rent, noncurrent	42,793	35,307
Total long-term liabilities	175,449	169,028
Total liabilities	386,091	316,247

Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 20,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, $.01 par value; 100,000 shares authorized; 42,579 and 42,269 shares issued and outstanding, respectively	426	422
Additional paid-in capital	81,224	80,146
Accumulated deficit	(38,716)	(50,567)
Total stockholders' equity	42,934	30,001
Total liabilities and stockholders' equity	$ 429,025	$ 346,248

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Amounts in Thousands Except Per Share Data

(unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales	$ 218,115	$ 217,161	$ 566,506	$ 558,580
Cost of goods sold	141,152	142,896	372,310	369,658
Gross profit	76,963	74,265	194,196	188,922
Selling, general, and administrative expenses	57,443	53,719	164,207	149,348
Income from operations	19,520	20,546	29,989	39,574
Interest expense	(3,494)	(3,402)	(10,081)	(10,132)
Income before income taxes	16,026	17,144	19,908	29,442
Income tax expense	6,218	6,630	8,053	10,313
Net income	$ 9,808	$ 10,514	$ 11,855	$ 19,129
Earnings per share:				
Basic	$ 0.23	$ 0.25	$ 0.28	$ 0.45
Diluted	$ 0.23	$ 0.25	$ 0.28	$ 0.45
Weighted average shares outstanding:				
Basic	42,576	42,245	42,464	42,165
Diluted	42,611	42,558	42,501	42,465

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Thousands

(unaudited)

	Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016
Cash flows from operating activities:		
Net income	$ 11,855	$ 19,129
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	11,551	8,808
Amortization of discount on debt and deferred financing fees	534	932
Amortization of definite lived intangible	1,355	1,354
Change in deferred rent	8,284	5,015
(Gain) on asset dispositions	(14)	—
Deferred income taxes	612	362
Excess tax benefits from stock-based compensation arrangements	—	(449)
Stock-based compensation	1,437	2,463
Change in operating assets and liabilities:		
Accounts receivable, net	7	—
Merchandise inventories	(72,037)	(86,250)
Prepaid expenses and other	3,202	4,492
Accounts payable	40,638	24,709
Accrued expenses	(2,078)	4,346
Income taxes payable and receivable	2,231	(54)
Net cash provided by (used in) operating activities	7,577	(15,143)
Cash flows from investing activities:		
Purchase of property and equipment	(39,220)	(30,757)
Proceeds from deemed sale-leaseback transactions	6,130	2,741
Proceeds from sale of property and equipment	14	—
Net cash used in investing activities	(33,076)	(28,016)
Cash flows from financing activities:		
Net borrowings on line of credit	17,482	60,050
Increase in book overdraft	10,157	5,535
Proceeds from issuance of common stock per employee stock purchase plan	283	258
Payment of withholdings on restricted stock units	(638)	(1,228)
Payment of deferred financing costs	(341)	—
Principal payments on long-term debt	(1,200)	(20,874)
Net cash provided by financing activities	25,743	43,741
Net change in cash and cash equivalents	244	582
Cash and cash equivalents at beginning of period	1,911	2,109

Cash and cash equivalents at end of period	$ 2,155	$ 2,691
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 9,469	8,863
Income taxes	5,137	10,664
Supplemental schedule of noncash investing activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	$ 214	1,807

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Amounts reported in thousands, except per share data

(1) Description of Business and Basis of Presentation

Description of Business

Sportsman's Warehouse Holdings, Inc. ("Holdings") and its subsidiaries (collectively, the "Company") operate retail sporting goods stores. As of October 28, 2017, the Company operated 86 stores in 22 states. The Company also operates an e-commerce platform at www.sportsmanswarehouse.com. The Company's stores and website are aggregated into one single operating and reportable segment.

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared by management of the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The Company's condensed consolidated balance sheet as of January 28, 2017 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments that are, in the opinion of management, necessary to summarize fairly our condensed consolidated financial statements for the periods presented. All of these adjustments are of a normal recurring nature. The results of the fiscal quarter ended October 28, 2017 are not necessarily indicative of the results to be obtained for the year ending February 3, 2018. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 filed with the SEC on March 24, 2017 (the "Fiscal 2016 Form 10-K").

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Holdings and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Reporting Periods

The Company operates on a fiscal calendar that, in a given fiscal year, consists of the 52- or 53-week period ending on the Saturday closest to January 31st. The fiscal third quarters ended October 28, 2017 and October 29, 2016 each consisted of 13 weeks and are referred to herein as the third quarters of fiscal year 2017 and 2016, respectively. Fiscal year 2016 contained 52 weeks of operations ended January 28, 2017. Fiscal year 2017 contains 53 weeks of operations and will end on February 3, 2018.

Seasonality

The Company's business is generally seasonal, with a significant portion of total sales occurring during the third and fourth quarters of the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting

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period. Actual results could differ from those estimates. Certain costs are estimated for the full year and allocated to interim periods based on estimates of time expired, benefit received, or activity associated with the interim period.

Segment Reporting

The Company operates solely as a sporting goods retailer whose Chief Operating Decision Maker (“CODM”) is the Chief Executive Officer. The CODM reviews financial information presented on a consolidated and individual store, e-commerce, and cost center basis, for purposes of allocating resources and evaluating financial performance. The Company’s stores and e-commerce platform offer essentially the same general product mix, and the core customer demographic remains similar chain-wide, as does the Company’s process for the procurement and marketing of its product mix. Furthermore, the Company distributes its product mix chain-wide from a single distribution center. Given that the stores and e-commerce platform have the same economic characteristics, the individual stores and e-commerce platform are aggregated into one single operating and reportable segment.

Comprehensive Income

The Company has no components of income that would require classification as other comprehensive income for the 13 and 39 week periods ended October 28, 2017 and October 29, 2016.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, “Deferral of the Effective Date” (“ASU 2015-14”). ASU 2015-14 simply formalized a one year deferral of the effective date of ASU 2014-09. In March 2016, the FASB issued ASU 2016-08 “Principal versus Agent Considerations – Reporting Revenue Gross versus Net”, amending the principal-versus-agent implementation guidance set forth in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 “Identifying Performance Obligations and Licensing”, which amends certain aspects of the guidance set forth in the FASB’s new revenue standard related to identifying performance obligations and licensing implementation. As a result of these four standards updates, the Company will apply the new revenue standard to annual and interim reporting periods beginning after December 15, 2017. In adopting these standard updates, companies may use either a full retrospective or a modified retrospective approach. Management evaluated the provisions of these standard updates and has determined that the Company will adopt this standard using a modified retrospective approach with the cumulative effect of adoption recorded at the date of initial application. Management does not anticipate significant changes to the Company’s current revenue recognition policy resulting from adoption of the new guidance; however, management anticipates significant changes related to footnote disclosures to the consolidated financial statements as a result of the adoption of the new guidance.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, “Leases” (“ASU 2016-02”). The standard amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. Management is currently evaluating the impact of adopting ASU 2016-02 on the Company’s consolidated financial statements, including whether to elect the practical expedients outlined in the new standard. Management expects the new standard to have a material impact on its consolidated financial statements once adopted.

Recognition of Breakage for Certain Prepaid Stored-Value Products

In March 2016, the FASB issued ASU 2016-04, “Recognition of Breakage for Certain Prepaid Stored-Value Products” (“ASU 2016-04”). ASU 2016-04 entitles a company to derecognize amounts related to expected breakage in proportion to the pattern of rights expected to be exercised by the product holder to the extent that it is probable a significant reversal of the recognized breakage amount will not subsequently occur. ASU 2016-04 is effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. Early adoption is permitted. Management believes ASU 2016-02 will have no impact on the Company's consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). The update amends the guidance in Accounting Standard Codification 230, Statement of Cash Flows, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practices related to eight specific cash flow issues. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. Management has determined this will have no impact on the Company's consolidated financial statements.

Intangible – Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2019. All entities may early adopt the standard for goodwill impairment tests with measurement dates after January 1, 2017. Management believes ASU 2017-04 will have no impact on the Company's consolidated financial statements.

Compensation – Stock Compensation

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718)," which clarifies what constitutes a modification of a share-based payment award. This ASU is effective for all entities for annual and interim reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. Management believes ASU 2017-09 will have no impact on the Company's consolidated financial statements.

(3) Secondary Offering

On April 18, 2016, 6,000 shares of common stock were sold in a secondary offering by Seidler Equity Partners III, L.P. On April 22, 2016, the underwriters of the secondary offering fully exercised the option granted at the time of the secondary offering to purchase an additional 900 shares of common stock at the secondary offering price of $11.25 per share, less underwriting discounts and commissions, which consisted solely of shares sold by affiliates of Seidler Equity Partners III, L.P. The Company received no proceeds from the secondary offering or full exercise of the option. Total expenses incurred related to the secondary offering and the exercise of the option were $143 and are recorded in selling, general, and administrative expenses in the accompanying Statements of Operations.

(4) Property and Equipment

Property and equipment as of October 28, 2017 and January 28, 2017 were as follows:

	October 28, 2017	January 28, 2017
Furniture, fixtures, and equipment	$ 64,015	$ 52,719
Leasehold improvements	86,775	61,986
Construction in progress	1,968	10,746
Total property and equipment, gross	152,758	125,451
Less accumulated depreciation and amortization	(53,868)	(42,342)
Total property and equipment, net	$ 98,890	$ 83,109

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(5) Accrued Expenses

Accrued expenses consisted of the following as of October 28, 2017 and January 28, 2017:

	October 28,	January 28,