Sportsman's Warehouse

First Quarter 2015 Earnings Conference Call

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Stephen Tanal, *Goldman Sachs*

Peter Benedict, *Robert W. Baird*

Matt Nemer, *Wells Fargo Securities*

Mark Miller, *William Blair*

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Michael Gunther, *Sterne Agee*

PRESENTATION

Operator:

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

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

Rachel Schacter:

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

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

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Securities Litigation Reform Act of 1995, which include statements regarding our expectations about our future results of operation, demand for our products and growth of our industry. Actual future results may differ materially from those suggested in such statements, due to a number of risks and uncertainties including those described in the Company's most recent 10-K filed with the SEC on April 2, 2015.

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

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

John V. Schaefer:

Thank you, Rachel. Good afternoon, everyone, and thank you for joining us today. I will begin by discussing the highlights of our first quarter, then comment on industry dynamics and discuss the progress we are making against our strategic growth initiatives. Kevan will then go over our financial results in more detail and review our outlook, after which we will open up the call to your questions.

We are pleased with our first quarter results, which came in at the high end of our guidance. The first quarter is typically our lowest-volume quarter; however, we were still able to make good progress on our strategic initiatives. A few highlights of the quarter. We opened two new stores during the first quarter, to strong initial results: Spokane, Washington, and Klamath Falls, Oregon. Since then, we have also opened a new store in Heber City, Utah, at the beginning of our second quarter. We continued to be number one in our peer group on customer service, based on a combination of industry sources, illustrating the outstanding performance and dedication of our passionate Associates.

As with the fourth quarter, we met each of our financial performance objectives, despite the continued impact of competition in many of our markets and the somewhat more aggressive promotional stance of some competitors, particularly a number of mom-and-pops who discounted firearms fairly aggressively during the quarter. Ammunition sales were up over the prior year on a same store basis, which we believe is a positive indicator that stabilization in the firearms category is on its way.

Net sales for the quarter increased 9.1% to $144.5 million. Same store sales declined 0.7% versus the first quarter of the prior year, but continued to show sequential improvement. Excluding the nine stores that were impacted by competition, our same store sales were up over 2% in total, with the majority of our stores without competition generating positive comps. We believe this is an encouraging sign that normalization of the industry is on its way.

Looking more closely at our comparable store sales performance for the quarter, while we saw reduction in average selling price on firearms in the first quarter, it was purely from mix shift as customers moved toward more mid-price product and vendors increased production of these products. Specifically, average selling price in firearms decreased 3.3% during the quarter on unit increases of 1.4%.

Consistent with the fourth quarter, our firearm unit sales trended above the adjusted mix data. On a unit basis, in the states in which we operate, and using an April 30 quarter-end date to correspond with the mix data, we were up 1.2% in the first quarter compared to the prior year, versus adjusted mix units in those states being down 1.3% over the same period. This fact, along with the growth in the number of our stores and the revenue they generate, as well as the growth in our non-hunting categories, shows we are gaining market share consistent with the trend we believe is happening with the other national retailers. For us specifically, when looking at the states in which we operate retail stores, we have gained

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market share in each of the five quarters that we have been a public Company, despite the increasing competition in many of our markets, which we believe speaks to the customer appeal of our model as well as our premise of peaceful coexistence with other national retailers.

Traffic on a same store basis, or more specifically customer frequency, remained negative but both conversion and average order size improved year over year. While February and March continued the warmer than normal weather pattern and resulted in negative comps in clothing and footwear, we did see the positive impact of this dynamic in our fishing and camping categories.

Now, on to profitability. As expected, and in line with our projections, in total for the first quarter, our gross margin decreased 44 basis points over the same period last year, mainly as a result of one-time vendor incentives in the first quarter of last year and the incremental impact of our loyalty program this year versus last year when the program was just starting. From a product gross margin perspective, we were able to maintain and in some cases continue to improve gross margin at the individual product level while adhering to our normal promotional calendar. This allowed us to achieve our traffic, conversion, market share and margin objectives while sticking to our customary promotional discipline. We were pleased to end the quarter with a clean inventory position. Our inventory, measured on a per store basis, declined 6% year over year.

Operating income for the quarter was $1.2 million, with a loss per share for the quarter of $0.03, at the high end of our guidance, an improvement over the adjusted loss per share of $0.05 in the prior year period.

Looking at competition. In the first quarter, we saw the presence of competition within the last 18 months in nine stores, or 16% of our store base. Stores facing competition once again performed better than plan during the quarter. Our first quarter store openings in both the larger market of Spokane, with a metropolitan service area over 470,000, and the small market of Klamath Falls, with an MSA under 70,000, illustrates our broad demographic appeal and ability to be successful in markets with varying population levels. We will continue to target these types of markets as either a neighborhood store or single market destination, each of which can generate our four wall EBITDA objectives and a return on invested capital of 20% or more. This dual strategy allows us to effectively compete with our national competitors in larger MSAs while also being able to access markets that are not conducive to the typical prototype of the large national players. This makes these smaller MSAs particularly attractive to us, given our flexible store format, our low cost-high service approach, our everyday low prices, convenient location and localized assortment. As I mentioned previously, we have outstanding customer service delivered by our passionate Store Associates.

Looking ahead, we remain focused on our strategic growth initiatives and key priorities.

Number one, we remain focused on capitalizing on the significant whitespace opportunity for new stores that we see within existing and new markets at a unit growth rate of greater than 10% annually for the next few years. With the opening earlier this month of our Heber City, Utah store, we are making progress towards achieving our goal of nine new locations, representing 16% store growth, in 2015. We expect that all of these openings will be funded with our free cash flow. In addition to Heber City, Utah, we expect to open Show Low, Arizona; Fresno, California; and Williston, North Dakota, in the second quarter, and three stores during our third quarter: Albany, Oregon; Flagstaff, Arizona; and Sheridan, Colorado.

Second, our improved fixturing strategy has been rolled out to all of our stores and continues to provide a major opportunity to focus on and achieve our return objectives in the under-100,000 population MSAs, as well as open more neighborhood stores in those larger MSAs, as evidenced by our 2015 store class.

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Third, another priority is enhancing operating margins through increased sales of our private label products while simultaneously expanding our programs in clothing and footwear with major brands. For the first quarter of fiscal 2015, sales of private label products increased 22.3% and represented over 2.1% of net sales, an increase of approximately 23 basis points when compared to the first quarter of fiscal year 2014.

Fourth, we are focused on maximizing potential of our loyalty program, and are implementing more effective marketing programs that better utilize the information we are capturing on the buying preferences of our loyalty program members. We are in the early stages of this initiative and expect to begin seeing the benefits of these programs in the back half of the year.

Number five, we will continue to focus on Associate training programs to maintain and further improve the great instore customer experience we pride ourselves on delivering, as best reflected in our customer service scores I mentioned earlier.

With respect to the remainder of 2015, we anticipate the competitive promotional environment will subside and return to more historical levels as we move through the second half of the year. Given we are the everyday low price provider already, our priorities will be to continue our normal promotional cadence and to generate profitable sales while maintaining margin. As a result, our guidance continues to reflect our expectation that same store sales trends should improve as we move through the year. We remain excited about our business in fiscal 2015 and the many opportunities that we have to expand the brand and grow the Company.

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

Kevan P. Talbot:

Thanks, John. Good afternoon, everyone. I'll begin my remarks with review of our first quarter 2015 results and then discuss our outlook for the remainder of fiscal year 2015. My comments today will focus on the comparison of our first quarter 2015 results with the adjusted results for the first quarter of 2014, which exclude the bonuses paid for our IPO completed in the first quarter of 2014. We did not have any similar adjustments for our first quarter of 2015. We describe these results in the financial tables in our earnings press release issued today. A reconciliation of GAAP net loss and loss per share to these adjusted numbers is contained in these tables along with an explanation of each adjustment.

As John said, our top line results came in consistent with our guidance. Net sales increased in the first quarter by 9.1% to $144.5 million from $132.4 million in the first quarter of last year. Same store sales during the quarter decreased by 0.7%. Excluding sales of firearms and ammunition, our same store sales increased 1%. Excluding firearms, ammunition and all shooting-related categories including optics, our same store sales increased 3.3%.

Turning to our same store sales by each of our three store groupings, which are: one, base stores; two, new stores or acquired stores that had been in the comp base for two years or less; and three, stores that were subject to competitive openings, which we define as a new competitive entrance into a market within the past 18 months. In the first quarter, excluding the nine stores in our comp base that were subject to competitive openings, our same store sales increased 2.3% compared to the first quarter of last year. Our 24 base stores saw same store sales increases of 0.5% in the first quarter compared to the first quarter of last year. In addition, our 15 new stores saw a same store sales increase of 5.8%. Finally, our nine stores that were subject to competitive openings experienced a same store sales decline of 13.5% in the first quarter compared to the first quarter of last year, which, as John mentioned, was better than our plan.

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Gross profit in the quarter was $43.2 million, compared to $40.1 million in the first quarter of fiscal year 2014. Gross profit as a percentage of net sales decreased approximately 40 basis points to 29.9% from the 30.3% in the corresponding period from the last fiscal year. The decrease in gross profit as a percentage of net sales was primarily driven by a decrease in the amount of vendor incentives during the period, compared to the same period of the prior fiscal year.

As John mentioned, our loyalty program also negatively impacted gross margin, as we continue to experience success in the adoption of the program. The associated awards from these transactions impacted gross margin more in the first quarter this fiscal year than in the first quarter last fiscal year when we were first launching our loyalty program. During the quarter, our loyalty patrons increased by more than 18% to approximately 550,000 members compared to the same period in the prior fiscal year. We continue to expect growth in the program across our customer base, generating more frequent customer visits over time and higher average ticket along with the benefits that come with these metrics.

SG&A expenses for the quarter were $41.9 million, compared to adjusted SG&A expenses of $38.1 million in the first quarter of fiscal year 2014. As a percentage of sales, adjusted SG&A expenses increased to 29% from 28.8% in the corresponding fiscal quarter of 2014, primarily as a result of increased legal expenses associated with ongoing litigation.

Income from operations for the quarter was $1.2 million, as compared to adjusted income from operations of $1.9 million in the first quarter of fiscal year 2014. The year-over-year decrease was driven by lower gross margins and the increased SG&A as a result of the factors I just described.

Our net interest expense in the first quarter of fiscal year 2015 was $3.5 million, compared to $5.3 million of interest expense in the first quarter of fiscal year 2014. Our average borrowings decreased over the prior year period, primarily due to the use of our IPO proceeds to pay down the term loan during the first quarter of fiscal year 2014 and the lowering of the interest rate on our term loan as a result of the refinancing of our term loan during the fourth quarter of fiscal year 2014.

For the quarter, our effective tax rate was 38.5%.

Net loss for the quarter was $1.4 million, or a loss per share of $0.03, based on 41.9 million diluted weighted average shares outstanding, as compared to adjusted net loss of $2 million or a loss per share of $0.05, based on 41.5 million adjusted diluted weighted average shares outstanding, in the first quarter of fiscal year 2014.

Adjusted EBITDA for the first quarter of fiscal year 2015 was $5.4 million, compared to Adjusted EBITDA of $6.8 million in the prior year period.

Ending inventory was $216.7 million as compared to $202.3 million in inventory as of the end of the first quarter of fiscal year 2014. On a per store basis, inventory decreased by 6% as we continue to focus on having the right product at the right place at the right time. As we enter the second quarter, we are very pleased with the quantity and quality of our inventory.

Turning to our outlook. We anticipate continued promotion by mom-and-pops and some national players through the second quarter of fiscal year 2015. As John mentioned, looking at the back half of the year, we expect the promotional and pricing environment to begin to normalize. As a result, our outlook includes second quarter revenue to be in the range of $167 million to $172 million; same store sales of negative 1% to positive 1%, compared to the second quarter of last fiscal year; and earnings per diluted share of $0.11 to $0.13 on the weighted average of approximately 42.3 million estimated common shares outstanding. For the full year fiscal—full fiscal year 2015, we are reiterating our outlook initially provided with our 2014 year-end release. We continue to expect revenue of $720 million to $740 million; same

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store sales of negative 1% to positive 2%; and earnings per diluted share of $0.56 to $0.63 on the weighted average of approximately 42.3 million estimated common shares outstanding.

We ended the quarter with $58.8 million in outstanding borrowings and $61.9 million in borrowing availability under our credit facility. During the first quarter, we incurred approximately $8.9 million in capital expenditures. Not including any landlord incentives, we expect to incur additional capital expenditures of approximately $20 million to $ 25 million during the remainder of fiscal year 2015, which will include our 2015 class of stores as well as work on our 2016 new stores and continued investments in IT infrastructure and our Distribution Center operations. We expect that this growth will be funded with our free cash flow and we do not anticipate any additional debt financing to be able to carry out our growth strategies.

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

Operator:

Thank you. Ladies and gentlemen, at this time we will be conducting a question and answer session. If you'd like to ask a question, you may press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key.

Our first question comes from the line of Seth Sigman from Credit Suisse. Please proceed with your question.

Seth Sigman:

Thanks. Good afternoon, guys. Nice progress in the quarter. I wanted to talk a little bit about the composition of comps in the quarter. It was nice to see conversion and average basket up. If we focus on the traffic side of the equation, which was down overall, with ammo now comping positive, I assume that's a big driver of recurring traffic to the stores; what categories are still seeing traffic or transactions lag the rest of the group? Then the second piece of that would be as you look at the Q2 guidance, which embeds potentially positive comps, what needs to happen from a category perspective to get you there? Thanks.

John V. Schaefer:

Well, I think with the warmer weather we had fewer people coming in for the cold weather gear in February and March. We've seen that turn in the second quarter and we're seeing improvement in the firearms category but it isn't there yet. Clearly, ammunition is a consumable, so we get a lot of people coming in for that, and we were very pleased with the traffic we had and the unit sales as well as the dollar sales in ammunition. The unit sales in firearms, people are coming in with an intent to buy, where in the normal circumstances under normal traffic, if you will, people would come in a couple of times before they purchase, so. I think we're going to see the normalization of all that, going into the second quarter and the rest of the year, and the weather is now back to what is as close to normal as you can hope. So I think all of that's starting to trend all in a basically a prior year or historical perspective.

Seth Sigman:

Okay, that's helpful; and then, you mentioned an expectation that the promotional activity across the industry would start to normalize past Q2? Can you elaborate on that and does that reflect a change in maybe the inventory situation or is it just confidence in demand in the category? Any color there would be helpful. Thanks.

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John V. Schaefer:

Well first of all I think there's two types of reasons for promotional activity going on. One is traffic drivers, and I think the traffic is returning to normal levels for most of the players that I can—that I can keep track of. So I think that part of the promotional environment is going to start to subside. Then to the inventory point, it is pretty clear now that finally the mom-and-pops have turned that inventory into cash. As we talked about in prior quarters, we were expecting them to turn it into cash in the fourth quarter; they didn't, they were trying to maintain price. In the first quarter was pretty obvious, they weren't going to maintain price and they were trying to get their inventory out of the way. Based on what happened in the back half of the first quarter and what's going on in the second quarter, it appears that their inventories are now back to a quote-unquote "normal basis" I guess.

Seth Sigman:

Got it. All right, thanks. Well, nice job gaining share despite that promotional activity.

John V. Schaefer:

Thanks.

Operator:

Our next question comes from the line of Matthew Fassler from Goldman Sachs. Please proceed with your question.

Stephen Tanal:

Thanks. Good afternoon, guys. Steve Tanal on for Matt. Wanted to focus just a little bit on the gross margin in the quarter, the—sort of help me think about kind of the promotional backdrop you guys may have participated in to some degree, versus fewer vendor incentives and whether that was an offset last year as your promotional or perhaps you sort of lost that this year, I mean, how did that ebb or flow through the quarter?

Kevan P. Talbot:

Well, as we've looked at that, last year the vendors were trying to continue to keep their products flowing, the mom-and-pop channels were flooded, and so we experienced a lot of opportunistic buys and a lot of other incentives. But now that the—as John just alluded to the fact that the mom-and-pops channel is starting to unclog, those incentives are not as readily available for us. We've been able to maintain our product gross margins but the dollars, the incentives that they were giving to us in various capacities just were not there. Quite frankly, we saw that coming, we met our expectations with respect to our gross margin, we didn't think that those incentives were going to repeat themselves, but that is the biggest component of the change in our gross margin, year over year.

Stephen Tanal:

Okay. So it wasn't as though you guys—I guess to some degree you must have participated in the promotions and I'm wondering how you're thinking about, kind of going forward—I'd assume the vendor incentives are no longer there, and maybe the promotional (inaudible) are also kind of about your stance as it relates to the overall category? Is that fair?

John V. Schaefer:

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Not really. We're not doing anything out of the ordinary promotions this year that we didn't do last year. The incentives we achieved last year were one-time rebates based on inventory purchases to help certain vendors move product through their channel while the mom-and-pop channel was clogged. We knew those were one-time rebates, we took them as one-time rebates; we knew they wouldn't occur this year. As it results—as it relates to the normal ongoing flow of our business, we have done absolutely nothing different in terms of margin or promotional cadence or promotional strategies this year than we did last year.

Stephen Tanal:

Got it. That's helpful. The vendor incentives, did they continue into 2Q or is it really just a 1Q kind of thing?

John V. Schaefer:

It was a 1Q in 2014 and they haven't occurred since.

Stephen Tanal:

Got it; and then just lastly, on the trade-down that's happening in firearms that's affecting the selling prices there, is that a bigger headwind than the mix between handguns and long guns? How are you thinking about that?

John V. Schaefer:

No. It's the normal—it's getting back to a normal mix of shotguns versus handguns versus MSRs versus bolt-action rifles. What I would say to you is that the trends are back to the historical mix that you would have seen in the 2009 through mid 2012 period. Beginning in that last half of 2012 into 2013 and the hangover from that, we saw a mix shift up toward more expensive-priced product and more MSR-type product, and now we're seeing that over the last couple of quarters make its way back down to what I would consider normal movement.

Stephen Tanal:

Got it. Thanks.

Operator:

Our next question comes from the line of Peter Benedict from Robert W. Baird. Please proceed with your question.

Peter Benedict:

Hey guys. Just turning to SG&A, done a nice job kind of managing that so far. Is there a level of comp or total sales growth that we should think about, that you need to leverage SG&A going forward? Related to that, have you seen any evidence of kind of wage inflation starting to come through as you're hiring folks for the new stores?

Kevan P. Talbot:

The analysis that we've done in our models, it's somewhere in that 1 to 2% comp range where we can start to leverage our SG&A. That's been pretty consistent there. I have not seen any wage inflation. As

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we've looked at that, as I indicated, the biggest contributor to the increase in SG&A was our legal expenses. So I—we've really not seen much wage inflation there.

Peter Benedict:

Okay, that's helpful. Thanks, Kevan; and then just following up on the prior question on the gross margin, so it sounds like some of the incentives kind of fall off. As we look out over the balance of the year, should we be expecting gross margin to be more on par with where it was last year? Could it be up? What's the view on gross margin as we look over the balance of the year?

Kevan P. Talbot:

As we have looked at our gross margin, we don't provide specific guidance on a quarter-by-quarter basis, but we have spoken to the fact that we expect gross margin for the year to be flat with last year. We're consistently maintaining that guidance; we're not changing that guidance at all. So, by implied nature it's got to be up a little bit to make up for the shortfall in the first quarter. So flat to slightly up over the remainder of the year would be our expectations for gross margins.

Peter Benedict:

All right, perfect. That's helpful. Thank you.

Operator:

Our next question comes from the line of Matt Nemer from Wells Fargo. Please proceed with your question.

Matt Nemer:

Afternoon, everyone. First I wanted to ask about the gun ASP mix shift. When do you think we anniversary that, or we kind of get back to a normal level? Is that something that persists for a couple more quarters? Do we see that kind of bleed into 2016? Love to get your thoughts on that.

John V. Schaefer:

I think our position has always been that the second half of our fiscal year, whether you want to call that late June or early July, has really been where we see based on the patterns, the inflection point. I think, as we sit here today, I think we still see that as probably the late June, July, second half of the—of our fiscal and the second half of the calendar year kind of a dynamic, getting that mix down to where it's been at its historical points and seeing some average selling prices that are either consistent with the prior year or hopefully slightly above, we'll see.

Kevan P. Talbot:

Matt, it really started to show itself, the average selling price, in the third quarter of last year. So, as we start to anniversary that impact in last third quarter, we don't expect it to decrease much significant beyond that. So last half of the year, as John indicated, really is when we expect that to kind of normalize and average out.

Matt Nemer:

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Okay, that's very helpful; and then, turning to the loyalty program impact on gross margin, when does that also start to level out? Or is that—am I not thinking about that the right way, as that sort of gets stronger as more people adopt and use the program?

Kevan P. Talbot:

I would expect it to kind of level out towards the end of the year, first part of next year. The impact this quarter versus the first quarter of last year, we went from 18 basis points last year to 25 basis points this year, so it's a 7 basis point impact, that's smaller than it was in the fourth quarter. I would expect that incremental impact to continue to decrease. But as we continue to grow our program and we get adoption of the program by our consumers, we're excited that it's growing this well and that we're having this kind of an impact, but I would expect it to normalize towards the end of the year, really about the two-year anniversary point of the time that we launched the program.

John V. Schaefer:

Just to add a little color on that, I think we're seeing what most people who implement an effective loyalty program see, and that's you're seeing customer frequency, you're seeing average selling price, you're seeing items to order, all those things are significantly better. So I think as we go through the next two quarters, we'll probably do even more to encourage people to join the loyalty program. While that may have a small impact on margin for a couple of quarters, the long-term benefits are absolutely clear, I think, and I think that's reiterated by anybody who has a successful loyalty program. So again, as Kevan says, I think probably we're going to—we're going to see some moderation and some comparability on a stable basis probably Q4 and into Q1 of next year.

Matt Nemer:

Okay, that's helpful; and then just lastly, anything change in terms of the competitive store count outlook, now that a lot of your competitors have announced their stores for 2016?

Kevan P. Talbot:

No. There have been no recent announcements that have impacted the anticipated competitive impact for the rest of 2015 or even 2016 that we're aware of.

Matt Nemer:

Okay, great. Thanks so much.

Operator:

Our next question comes from the line of Mark Miller from William Blair. Please proceed with your question.

Mark Miller:

Hi. Good afternoon, everyone. Could you frame the shift from the second quarter to the second half? Basically looking for a flat EPS at the midpoint in 2Q and then higher teens second half versus second half last year. What are the—obviously stronger comps, but beyond that, what are the key things that lead to the acceleration, whether it's comparison issues or things sequentially that are getting better?

Kevan P. Talbot:

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I think one of the big impacts, obviously the biggest impact is with that you've alluded to already with respect to stronger comps in the second half of the year. As we entered the third and fourth quarter of last year, because of the warmer weather that we experienced, we—our margins on our clothing and soft goods side of the business were not as strong as we anticipated; our expectations is that we're going to have a normal weather pattern there, and the return to better margins in those. So that is a significant impact there with respect to the clothing. Obviously that's going to impact the mix as well, which will have an overall shift in the gross margin, and that's really where you get the biggest drop through to the bottom line is through the gross margin in the mix area.

Mark Miller:

Okay. Kevan, I wanted to make sure I understood when you talked about the legal expenses, does that pertain to the suit that came out two months ago, two-and-a-half months ago, or is that something different? Is that material?

Kevan P. Talbot:

That is the suit that we're referring to. We recorded the accrual in the fourth quarter. The trial occurred during our first quarter, and so we had the legal expenses associated with that. The number was approximately $0.5 million in legal expenses associated with that. There will be some ongoing legal expenses associated with that, although we don't believe it will be quite to that magnitude; we are in the process of appealing and filing motions with the court. It will not be as costly as the actual trial itself, but there will be some ongoing expenses associated with that litigation.

Mark Miller:

Okay; and then, I know it's early still, but for 2016 as you're reviewing potential sites, do you have a sense whether the store development may shift a little bit more towards smaller MSAs, a balance, more neighborhood stores? I mean how are you thinking, in aggregate I guess the returns can't be exactly the same, I would assume one group is trending a little bit better than the other.

John V. Schaefer:

Yes, I think as you look at the number of MSAs available, particularly in the west and in the south and southeast where we're located, it makes sense to start looking at opportunities in the smaller markets. So while we don't have our 2016 class defined in total yet, there are a number of markets we're looking at, so I don't know exactly how it will finally hash itself out. I would say the mix will be relatively similar to 2015 with a slight movement toward the opportunities in the smaller markets.

Mark Miller:

All right, that's helpful. Keep up the good work. Thanks.

Operator:

Our next question comes from the line of Andrew Burns from D.A. Davidson. Please proceed with your question.

Andrew Burns:

Thanks, good afternoon. I was hoping to dive a little bit into your components of same store sales, particularly the competitive entrant and the newly acquired stores, both of which were very strong numbers, so on the newly acquired stores, wondering if there's any sort of store upgrades that are still

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going on that cause that 5.8% comp or is that just relative to the comparisons with (inaudible); and then the competitive entrants, you—when the IPO was underway, the first year impact was going to be 20 to 30%, it continues to get better. Just any color there on what's driving that. Thanks.

Kevan P. Talbot:

Let me first start on the new store—what we refer to as the new store tailwind. That includes not only the acquired stores but also any new stores as they ramp up to maturity. It usually takes our stores three to four years to hit maturity in a normal environment. Granted we're still getting back to what we refer to as a normal environment, but in a normal environment, a first year comp for a new store is typically 8 to 10%, a second year comp is typically 4 to 6%. It's that impact, as a store reaches maturity, that you're seeing there, so. Not only does it include the 10 stores that we acquired in 2013, but there's also new stores that we've opened since that point in time that are including that. That's just basically consistent with what we've shown, that as our stores reach maturity and ramp to maturity, they out-perform our base stores. Again this quarter is no exception; it's about a 5% difference between our base stores and those new stores that are within that first two years in the comp base.

With respect to the competitive impact that's there, that number that we've given and provided historically is usually that first impact, when a store—when a new competitor opens on top of our stores, obviously the more time goes on, the honeymoon, if you will, wears off and we start to decrease the impact that's there. So part of the 13.5% out of our new stores, that decline is due to the fact that some of these stores are approaching 18 months since the new competitor has opened. So a lot of that has to do with the timing and the newness; not all of those opened just a month ago; some of them are approaching the end of that tail. So that's—it's a blended rate, the 13.5%. As John indicated, that is better than what our expectations are as we look at this on a store-by-store basis, based upon where each of those stores are in that competitive curve.

Andrew Burns:

That's helpful, thanks; and then, I think in the prepared remarks, John, you mentioned the competitive promotional activity will likely subside as you move into the back half of the year, and I understand the dynamics that you outlined on the ma-and-pa discounting. Curious to your views and in confidence in the idea of national retailers, the promotional activities subsiding there. Thanks.

John V. Schaefer:

Well I can't really speak to what their promotional strategies are or why, but it—from my viewpoint, traffic is a very important driver to the sustained growth of the business, and as traffic patterns begin to normalize, as people come in to shop more, as you get better comps versus the prior year, I think the traffic numbers will begin to normalize and, as a result, the need to promote to generate traffic subsides. We've never done that, but I think the inventories of both us and what I can tell of our national competitors have always been really good, so it's been mainly a traffic incentive, and I think, as we get into the second half of the year, the normalization of firearms traffic will take care of itself for everybody.

Andrew Burns:

Great, thank you.

Operator:

Our next question comes from the line of Lee Giordano from Sterne Agee. Please proceed with your question.

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Michael Gunther:

Hi, this is Michael Gunther on for Lee. Thank you for taking our question. Could you provide us an update on the private label business? Do you see similar year-over-year increases in penetration for the next several quarters? Do you have any initiatives in place to sort of increase the pace of that going forward?

John V. Schaefer:

I don't know that we're increasing the pace. We're going at a pretty steady pace, but the pace at which we're going would, almost by definition, result in continued improvement. We've always said the private label process is a journey, and we are going about it in a very defined manner. It's starting in the clothing area, and it's mainly starting in the clothing area as it relates to fall hunting and fall outerwear. So I think as we go through the year, the first quarter, there's not a lot of private label stuff, although it's improved rather dramatically. Second quarter will probably be the same, then in the third and fourth quarter I think we'll see continued sequential improvement.

Michael Gunther:

Thank you.

Operator:

There are no further questions in queue. I'd like to hand the call back over to Management for closing comments.

John V. Schaefer:

Great, well, I appreciate everybody being on the call today. We look forward to speaking with you when we report second quarter results. Thanks, everyone, for joining us today.

Operator:

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

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