VIAVID
communications simplified.

**Sportsman's Warehouse Holdings, Inc.**

**First Quarter 2016 Earnings Conference Call**

**May 24, 2016**

## CORPORATE PARTICIPANTS

**Rachel Schacter,** *Investor Relations, ICR, Inc.*

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

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

## CONFERENCE CALL PARTICIPANTS

**Seth Sigman,** *Credit Suisse*

**Stephen Tanal,** *Goldman Sachs*

**Lee Giordano,** *Sterne Agee*

**Daniel Hofkin***, William Blair & Company*

**Andrew Burns,** *DA Davidson*

**Justin Kleber,** *Robert W. Baird*

## PRESENTATION

**Operator:**

Good afternoon, ladies and gentlemen. This is Sportsman's Warehouse First Quarter Earnings Conference Call. At the request of Sportsman's Warehouse, today's conference is being recorded. All lines are only in listen-only mode.

I would now like to turn the conference over to Ms. Rachel Schacter of ICR.

**Rachel Schacter:**

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

Before we get started, I would like to remind you of the Company's Safe Harbor language. The statements we make today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which includes statements regarding our expectations about our future results of operations, demand for our products and growth of our industry. Actual future results may differ materially from those suggested in such statements due to a number of risks and uncertainties, including those described in the Company's most recent 10-K filed with the SEC on March 24, 2016.

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 reviewing the highlights of our first quarter performance and then discuss our progress on our strategic initiatives and thoughts on the remainder of the fiscal year. Kevan will then go over our financial results in more detail and review our outlook, after which we will open up the call to your questions.

We're pleased with our first quarter results which came in within our guidance. While the overall retail environment was difficult and we faced some of the same headwinds affecting the retail industry generally, we do believe the unique characteristics of our business model and our execution of that model allowed us to navigate these headwinds in the first quarter. Similar to the previous several quarters, we met each of our financial performance objectives and performed within our guidance. Our continued focus on maintaining and, where possible, enhancing gross margin has allowed us to meet our ROIC objectives and earnings guidance.

While we are not immune to the traffic declines facing retail, there were a number of initiatives put in place in previous quarters as well as our positioning as a strong hard goods retailer that have allowed us to successfully weather this headwind in the first quarter. We continue to grow the Company while also meeting our twin objectives of a 20% ROIC on new stores and creating free cash flow to pay down debt. We opened three stores in the first fiscal quarter of 2016 and are on pace with our plan to open 11 stores in fiscal year 2016.

Net sales for the quarter increased 9% to $151.6 million. Same store sales decreased 2.2% versus the prior-year period. Breaking down this number tells an interesting story and confirms our position as a go-to source for our customers. In Q1 and continuing into Q2 of fiscal year 2016, we have two factors impacting same store sales that should show improvement in the back half of the year.

The first is the effect of competition, which we have talked about many times. Competition impacted same store sales in the quarter by 170 basis points. This included two new competitive openings in the first quarter of this year, impacting three of our stores versus no new competitive openings in the first quarter of last year.

As a reminder, when one of our larger competitors opens a store in our market, the impact of this new competition lasts approximately 18 months. However, the biggest impact is in the first five months as we believe the retail theater environment of the competitor's store results in significant curiosity and increased customer traffic for the competitor in the impacted market. The second item is the impact of the economy on our oil and gas-dependent stores. This impact was 90 basis points in the first quarter. Excluding the impact of these two factors, our same store sales would have been up 70 basis points for the quarter over the prior year's first quarter. We believe these two factors will subside as we move into the second half of the year.

On the competitive opening side, we expect this impact to increase in the second quarter based on an additional competitive opening. However, given the already announced competitive opening dates and our relatively consistent historical experience with the associated impact beginning in Q3 through Q4, we believe we should see this impact decrease substantially. On the oil side, as we anniversary the big declines in oil prices in late Q2, we should see the impact of this dynamic on our same store sales comparisons diminish as well.

Continuing to look more closely at our store sales performance for the quarter, firearm sales were up 18% versus the first quarter of last year and versus the NICS data for our states being up 14.8%. Keep in mind, as we pointed out in our Q4 earnings release, that we saw what we believed was a $5 million pull forward of firearms and ammunition sales into Q4 last year and out of Q1 this year.

Also, as you may recall, in Q1 of last year, we had the green tip ammo scare resulting in a run on ammunition in the first quarter of last year, which we have now anniversaried. These factors reiterate that on an ongoing basis firearm sales are returning to historical trends and are moving with the overall growth in the industry. Ammunition sales on a same store basis declined 4.4% over the prior year as a result of the pull forward and the green tip ammo scare last year.

While on an overall basis it still appears customers are continuing to reduce their stockpiles of ammunition, it appears that the three to four month lag in ammunition growth following firearms growth that we discussed previously is still relevant. As a result, we are very pleased with the overall growth in firearms and ammunition even after considering timing differences and we believe we are the best positioned brand in our niche to continue to capture market share in the category.

Our store growth performance in the firearm and ammunition categories and ancillary businesses as well as the growth in our non-hunting categories all point to continued share gains and traction in markets of all sizes as either complementary alternatives to major competitors in larger markets or at the expense of mom and pops and the direct channel in smaller markets.

From a composition standpoint, conversion and average order size continue to increase. Once again, as we move through the quarter, it became clear that our customers were focusing their dollars on the use categories within hunting, camping and fishing versus the ancillary categories within hunting, camping and fishing and the clothing, footwear and electronics categories. As we stated last quarter, we see this trend continuing through the first half of 2016 as customers gauge the potential impact of both the overall economic environment as well as the continuing presidential election process.

Now, on to profitability, gross profit increased 12.3% versus last year, with gross margin as a percentage of sales increasing 100 basis points over the same period. Once again, we delivered on our sales goals and held individual product gross margin across most of our categories and across both our branded and private label businesses, which reflects our planning, buying and pricing discipline as well as our gradually increasing private label penetration.

Adjusted operating income for the quarter was $2.5 million, a 100% improvement over the prior year as we continue our dual objectives of both investing in our future while ensuring we are operating as efficiently as possible on a day-to-day basis. Adjusted earnings per share was $0.00, at the high end of our guidance and an improvement over the adjusted loss per share of $0.03 in the prior-year period.

We believe our results continue to demonstrate that our customer base enjoys shopping in our stores based on our unique environment as well as our convenience as a neighborhood store in larger markets or our big box appeal in smaller communities where we provide a greater assortment than the mom and pop competition.

We also believe that we have an advantage versus online-only options by providing outdoor enthusiasts with the touch and feel of product they may not have been physically exposed to before. Our pricing is similar to and in many cases better than the prices that can be found online and as we've noted before many key product lines are not available or very difficult to purchase via the direct channel.

Looking ahead, we remain focused on our strategic growth initiatives and key priorities. Let me discuss a few, including progress made in the first quarter.

Number one, we remain focused on the significant store growth opportunity we see in existing and new markets that we expect will support an expected unit growth rate of greater than 10% annually for the next few years.

With the opening of stores in Slidell, Louisiana; South Jordan, Utah; and Rohnert Park, California in the first quarter, we are on track to open 11 stores previously announced in 2016. Our operating discipline and prudent use of cash have continued to allow us to self-fund our store growth, while also reducing our leverage and we expect to continue our pace of new store openings into fiscal year 2017 and beyond.

Number two, we have seen consistent performance out of our 45,000 square foot boxes and executed a successful fixturing strategy grounded in analytics around SKU productivity and customer preferences, among other things, that has enabled our success in smaller 30,000 square foot boxes as well.

As I discussed in previous quarters, our 15,000 to 17,000 square foot stores in Klamath Falls, Oregon and Heber City, Utah are performing as we expected and that has given us the confidence to continue to pursue this unique strategy going forward, including opening three additional locations of this size in 2016 in Rock Springs, Wyoming; Gillette, Wyoming; and Prescott, Arizona.

Number three, we continue to focus on maximizing the potential of our loyalty program, which continues to post strong gains. We now have over 900,000 members, an increase of approximately 70% over the prior year and the transactions from our loyalty members continued to increase, representing almost 44% of our net sales in the first quarter.

Number four, while still a very small part of the revenue of our business, we continue to invest in e-commerce with the focus on increasing our digital presence to build our brand awareness and drive customer interaction. Traffic on our website increased 31.5% in the first quarter versus the prior-year period as we continue to improve all aspects of our site.

As we have noted before, driving traffic to our site is a key component in our e-commerce strategy as we know customers use our site for product knowledge and availability as much as they do for pricing information.

So, in summary, we are pleased that we delivered Q1 results within our range of expectations despite some headwinds and are encouraged by the progress we continue to make against all of our strategic growth priorities as well as the consistent performance of the vast majority of our store locations in a choppy environment.

As we look toward the remainder of 2016, as I mentioned earlier, we expect the impact of competitive openings to continue in the second quarter before abating in the back half of the year. In addition, we do not expect a significant improvement in the macro backdrop as it relates to the consumer spending patterns in the second quarter. However, on the positive side, we feel very good about the continued positive momentum we have seen in the past few months in the used categories of hunting, fishing and camping, indicating our customers are continuing to take advantage of the activities available to them in the outdoors.

In addition, as oil prices continue to rise and we anniversary the impact of falling oil prices from last year in the second quarter, we expect this competitive headwind to abate as we move into the second half of the fiscal year. Finally, while the weather continues to move in an unpredictable fashion, the drought conditions that existed in many parts of the Northwest last year have lessened and in many areas the availability of water for fishing is back to more user-friendly conditions.

Before I end, I want to thank all of our team members for their tireless work and dedication to executing with discipline every single day. They are the reason for our customers enjoy shopping our stores and reward us with their loyalty.

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 a review of our first quarter results and then discuss our outlook for the remainder of fiscal year 2016. My comments today will focus on adjusted results. We have provided these results as well as an explanation of each line item and the reconciliation to GAAP net income and earnings per share in our earnings press release which was issued earlier today.

As we disclosed in our press release, we have historically presented the sales of state fish and game licenses, duck stamps and state government-mandated firearm background checks in sales and cost of goods under the gross method. We have determined that the presentation for these transactions should be under the net method, thereby recognizing only the commission received in the net sales for acting as the agent under the principal versus agent model. This revision does not have any impact on gross profit, net income or earnings per share. As a result of the revision, all references to net sales and cost of goods sold including our revenue guidance conform to the net presentation.

We are pleased with our first quarter 2016 results. Net sales increased 9% to $151.6 million from $139.2 million in the first quarter of last year, with a 17.5% increase in stores and a same store sales decrease of 2.2%. When adjusting for the revision in revenue presentation related to hunting and fishing license sales, our first quarter revenue was within our previously issued first quarter guidance.

As John discussed, our same store sales faced headwinds from the pull forward in demand for firearms and ammunition, weak economies in oil and gas markets and the impact of new competition. These factors impacted all of our categories, while sales in our clothing and footwear departments were negatively impacted by our inventory position and significant decrease in items sold on clearance, this had a positive impact on gross margin rate.

We continue to be excited about our opportunity to grow our store base by not only increasing the number of markets in which we are located, but also by increasing our market penetration within our existing market. During the first quarter, we opened three of our announced 11 planned store locations for our 2016 class of stores. By the end of fiscal year 2016, we will operate 75 stores in 20 states.

Turning to our same store sales by each of our three store groupings, which are: one, base stores; two, new stores or acquired stores that have been in the comp base for two years or less; and three, stores that were subject to competitive openings which we define as a new competitive entrant into a market within the past 18 months.

In the first quarter, excluding the eight stores in our comp base that were subject to new competitive openings, our same store sales decreased 0.6% compared to the first quarter of last year. Our 37 base stores saw same store sales decreases of 0.7% in the first quarter. In addition, our 11 new stores saw a same store sales decrease of 0.2% in the first quarter compared to the corresponding period of the prior year. Finally, our eight stores that were subject to new competitive openings experienced a same store sales decrease of 11.1% in the first quarter of this year.

Gross profit increased 12.3% in the quarter to $48.5 million compared to $43.2 million in the first quarter of fiscal year 2015. During the first quarter of fiscal year 2016, gross profit as a percentage of net sales increased 100 basis points to 32% from 31% in the corresponding period from last year.

This gross margin increase was primarily driven by the following two factors. One, we did not have as much promotional pricing during the first quarter this year as we did during the first quarter of last year. Importantly, we were able to realize an increase in our gross margins as a percentage of net sales in five of our six major departments.

We saw particular gross margin strength in our clothing and footwear department, given our tight inventory position heading into the first quarter and associated reduction in clearance sales. So while our sales in these two departments declined during the quarter, our gross margins in these two departments were up 700 basis points and 510 basis points, respectively, since we did not mark down end of season products.

Two, we also continued to see an increase in vendor incentives in the first quarter that had a positive impact on our gross margin year over year. In addition, certain cooperative marketing programs shifted from a direct reimbursement program to an allowance based on our inventory purchases which resulted in this vendor benefit being recognized in gross margin as opposed to SG&A expenses.

SG&A expenses, excluding the $0.1 million in secondary offering expenses in the first quarter of 2016, were $46 million compared to $41.9 million in the first quarter of last year. As a percentage of net sales, adjusted SG&A expenses in the quarter increased to 30.3% from 30.1% in the corresponding fiscal quarter of 2015, primarily because of the shift in cooperative marketing programs that I previously discussed.

Adjusted income from operations for the quarter increased to $2.5 million from $1.2 million in the first quarter of fiscal year 2015. We recorded an income tax benefit of $1.5 million for the 13 weeks ended April 30, 2016, compared to an income tax benefit of $0.9 million for the corresponding period of fiscal year 2015.

The income tax benefit was higher in fiscal year 2016 primarily due to two discrete items that were recognized in the first quarter of fiscal year 2016. We recognized $0.6 million in federal and state tax credits from prior years that we identified during this quarter. As a result of the impact of similar future tax credits, our estimated annual effective tax rate decreased to 38.2% for the 13 weeks ended April 30, 2016 from 38.5% for the 13 weeks ended May 2, 2015.

In addition, with the adoption of a new accounting pronouncement during the quarter, we recognized additional tax benefits of $0.5 million related to the vesting of restricted stock units during the 13 weeks ended April 30, 2016.

Our net interest expense in the first quarter of fiscal year 2016 was $3.6 million compared to $3.5 million of interest expense in the first quarter of fiscal year 2015. The increase in interest expense is associated with a $0.2 million prepayment penalty on the voluntary portion of our term loan payment that we made during the first quarter.

As we discussed on our last earnings call, through a combination of mandatory as well as voluntary prepayments, we used approximately $20 million of borrowings under our line of credit to pay down our term loan in the first quarter as we remain committed to debt reduction. As a reminder, we estimate that this debt paydown will reduce our interest expense by approximately $0.9 million annually and increase our earnings per share by more than $0.01. We will start to realize this interest rate savings during the second quarter.

Adjusted net loss for the quarter was $0.1 million or $0.00 per share based on a diluted weighted average share count of 42.3 million as compared to net loss of $1.4 million or $0.03 per share based on diluted weighted average share count of 41.9 million shares last year.

Adjusted EBITDA for the first quarter increased $2 million or 37% to $7.4 million compared to Adjusted EBITDA of $5.4 million in the prior-year period.

As of April 30, 2016, the end of our fiscal first quarter, ending inventory was $251 million as compared to $216.7 million in inventory as of the end of the first quarter of fiscal year 2015. On a per store basis, inventory decreased by 1.5% over this period of time.

During the first quarter of fiscal year 2016, we incurred approximately $8.7 million in capital expenditures

Now turning to our outlook, we expect the headwinds we discussed earlier to continue into the second quarter. As we stated earlier, we do not expect competition and oil market headwinds to decrease; we do expect the competition and oil market headwinds to decrease in the second half of the year. We also expect the current positive trends in firearms to continue and to stabilize over the next several months and expect ammunition to move in the same direction.

Taking these factors into account, as we plan fiscal year 2016, our outlook for the second quarter includes: three new store openings; revenue to be in the range of $178 million to $183 million; same store sales in the range of down 1% to positive 1% compared to the second quarter of last year; and earnings per diluted share of $0.15 to $0.17 on a weighted average of approximately 42.6 million estimated common shares outstanding.

For the full year, fiscal year 2016, we are reiterating our earnings outlook initially provided with our 2015 year end release. We are revising our sales outlook to conform to the revision of revenue presentation for our hunting and fishing licenses from a gross basis to a net basis. As I said earlier, this change in presentation has no impact on gross profit dollars, operating profit dollars, net income or earnings per share.

For fiscal year 2016, we expect revenue of $770 million to $790 million; same store sales change in the range of flat to positive 2% compared to fiscal year 2015; and adjusted earnings per diluted share of $0.65 to $0.73 on a weighted average of approximately 42.5 million estimated common shares outstanding. We are still on track to open all 11 stores in our 2016 class of stores, including three smaller format stores.

We continue to expect operating margins to be flat year over year as slightly higher gross margins are offset by SG&A deleverage as a result of the previously announced investments in personnel and resources to support our planned growth in the back half of the year. We ended the quarter with $63.3 million in outstanding borrowings and $49.6 million in borrowing availability under our credit facility.

As it relates to capital expenditures, we anticipate incurring approximately $35 million to $40 million in capital expenditures in fiscal year 2016, which will include the 11 stores in our 2016 class of stores as well as work on our 2017 new stores.

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

**Operator:**

At this time, we will be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

The first question comes from Seth Sigman from Credit Suisse. Please go ahead.

**Seth Sigman:**

Thanks. Good afternoon guys. Just one clarification question. When you look at the sales guidance, the $770 million to $790 million, the change from the prior guidance, is that just the accounting change, because it seems like there's no real change in the comp outlook, just wanted to clarify that?

**Kevan P. Talbot:**

That is correct.  It is simply a result of the gross versus net revenue presentation.

**Seth Sigman:**

Got it, okay.  Then outside of the competitive headwinds that you pointed to, a number of retailers have pointed to weather impacting sales in April, maybe a little bit in March too.  Can you talk about any variability that maybe you saw in performance across your store base from a regional perspective?

**John V. Schaefer:**

Seth, our clothing and footwear is really used clothing and footwear except in the second half of the year where you have all kinds of outerwear being sold.  So we're seeing some movement in things like waders. Activewear I think where you're seeing depressed sales throughout the retail environment and in general activewear we're seeing that as well.

Frankly the first two quarters aren't that big of a deal for us in terms of camel clothing and things like that, so we expect that from an overall retail environment that our activewear would be down and we really don't make that up with the kind of product that we sell in clothing and footwear.  So bottom line, the weather is actually getting better in the west in terms of being wet enough to fill up some of the dry waterways that we had last year, so fishing can take off a little better.  In terms of the unpredictability of weather is—that's an ongoing thing that really just keeps hitting everybody.

**Seth Sigman:**

Okay.  Well, just to follow up on that, John, in light of maybe conditions getting a little bit better, the guidance for the second quarter of comps down 1 to up 1.  Can you give us a sense of where you may be tracking currently within that range or above that range, and how to think about some of the headwinds and tailwinds for the quarter?

**John V. Schaefer:**

I think it's really too early to talk about the second quarter.  I know various other retailers, some have said things have and some haven't and I don't want to, you know, be coy or anything, but frankly, Seth, we've got Memorial Day weekend ahead of us, Father's Day and July 4 in the second quarter and those are—for our business, those are all major events because they have to do with outdoor activities, they have to do with sales.  So it's really just too early to say what's going on in the second quarter.

I think our guidance on the second quarter is really reflective of what we talked about in the fourth quarter. We see people paying attention to the presidential election.  We see people being a little bit cautious with their spending.  We see our customer really focusing on the used categories as opposed to the ancillary categories.  Really we expect that to continue until we get into the back half of the summer, when the fall hunting seasons begin and people really start gearing up and we have a little more clarity on which way the Senate is going to go, and which way the presidential election is going to go or at least people start having an opinion on that.

**Seth Sigman:**

Okay, got it.  Thanks guys.

**Operator:**

Our next question comes from Stephen Tanal from Goldman Sachs.  Please go ahead.

**Stephen Tanal:**

Thanks guys. Good afternoon. Just thinking about the gross margin number, so up about 100 bps, it sounds like clothing and footwear together probably contributed about 80, if my math is right, then you've got probably another 20. Is that right? If so, on the other 20, sort of what's going on there that's driving the upside?

**John V. Schaefer:**

I think your math is relatively close. We haven't done it ourselves to that detail. Our customer is really telling us they're coming in with an intent to purchase. That's why our average ticket is up and that's why our conversion is up. So we're doing things on an inventory basis to basically say listen there are several times a year where the customer expects you to have a sale event and I just mentioned three of them, Memorial Day, Father's Day, July 4. But there are also times where you would do events, whether it'd be a balloon pop or a customer appreciation event to try to drive incremental traffic and we have chosen not to do that in the first quarter and we will not be doing that in the second quarter.

In the first quarter, just to give you an example, on the customer appreciation sale, that probably cost us $250,000 in sales, but increased our gross profit dollars by almost $600,000. So I think our customer is telling us they have a reason to come in and we're not going to get them to come in if we just put random things on sale and I think that's the biggest reason for the additional 20 to 30 basis points you're talking about.

**Stephen Tanal:**

Okay, interesting. All right. On SG&A, that number looked pretty good, much lower than we had modeled. Is there anything in the quarter that we should know about whether one-time issued nature or what just enabled that discipline there?

**Kevan P. Talbot:**

There's really nothing to call out that we didn't call out in our prepared remarks. Really, the SG&A was impacted by the offering expenses and then the shift in the cooperative marketing. Those were the two biggest factors there. We've tried to do a good job of controlling our expenses and managing through our budgets and I think the first quarter was a good example of how we were able to successfully achieve that.

**Stephen Tanal:**

Got it. Just lastly, would you mind quantifying the vendor shift, just so we can get our heads around that a little bit?

**Kevan P. Talbot:**

Yes. That shift is 10 to 15 basis points. Of that that 100 basis points came from that shift in cooperative marketing.

**Stephen Tanal:**

Got it. Okay, thanks.

**Operator:**

Our next question comes from Lee Giordano from Sterne Agee. Please go ahead.

**Lee Giordano:**

Thanks. Good evening everybody. Just following up on the firearms category, up 18%, and you talked about you're expecting that to continue to normalize at this pace. Are you expecting sales to be up double digits for the rest of the year? Is that how we should think about it or is it going to be varied? Thanks.

**John V. Schaefer:**

I think in the past we've always said that the NICS data has been a little higher than we had anticipated and we thought a steady state was in that 7% to 9% range. So we're modeling still in that 7% to 9% range. I don't know that that's overly conservative. I don't think it's aggressive. I think it's probably ultimately realistic.

**Lee Giordano:**

Got it. Then just secondly on the competitive openings, are you seeing anything differently from your competitors when they come into your markets? Are they being more aggressive on their promotions out of the gate? Just anything new there would be helpful. Thanks.

**John V. Schaefer:**

We've seen two new competitive openings impacting three stores in this first quarter and other than some layout changes within the stores themselves that I think our competitors have talked about, we really haven't seen anything that's been unusual on the marketing side or the promotions side. So it's pretty much following the historical path that we've seen for the last several years.

**Lee Giordano:**

Great. Thank you.

**Operator:**

The next question comes from Daniel Hofkin from William Blair. Please go ahead.

**Daniel Hofkin:**

Good afternoon. Just to clarify a little bit more on the sales pattern in the quarter, is it fair to say that things kind of slowed over the course of the quarter with the weather and now you're seeing things pick up a little bit so far? Is that a fair way to categorize the quarter plus so far in 2Q?

**Kevan P. Talbot:**

We've never talked about our inter-quarter sales patterns or cadences or anything else there. As John indicated earlier with respect to 2Q, there's still a lot ahead of us with respect to that in terms of events there. So I don't know that we can provide anything there with respect to cadences within the quarter itself. There's been no surprises.

**Daniel Hofkin:**

Okay. Then in terms of your full-year comp outlook and your expectation that things ease in the second half, you obviously have a little tough comparison to the fourth quarter, but is there anything that you're seeing within your sales pattern right now that suggests acceleration, or is it mostly kind of the items that you highlighted, reduced competition and whatnot in the second half?

**Kevan P. Talbot:**

Those are the two biggest factors as we look to the second half of the year. The big spike—or I guess I should say the impact in oil occurred really in late second quarter of last year, that's when we really started to notice that. So as we get past—anniversary those events, we have seen some, a little bit of a rebound in oil prices and some talk in our markets that that is going to have a positive impact on the employment in those markets, so that remains to be seen.

But as we anniversary that significant decline in oil prices of a year ago, we expect those—that factor to wane, as well as additional stores coming into our store base and getting further along into that curve on the competitive openings that John discussed by the end of the year, we anticipate that the headwind from competitive openings will have a significant benefit for us as far as improving our comp position and that's why we're comfortable with that flat to positive 2% guidance for the year.

**Daniel Hofkin:**

All right. Thanks very much.

**Operator:**

Our next question comes from Andrew Burns from DA Davidson. Please go ahead.

**Andrew Burns:**

Good afternoon. Congrats on 1Q performance in this environment. A couple of follow-ups. In terms of the average ticket increase, is that really just firearms is what we are looking at or were there any trends outside of that category to call out in terms of driving average ticket (cross talking)?

**John V. Schaefer:**

On an overall basis, I think it's more due to our loyalty customers. They tend to buy more items and spend more money. I will give you one—you know, while we're certainly selling more firearms, we're still selling the same amount of units of clothing. But the average price of the clothing is decreasing. So it's a little bit of a mix to firearms, but I think the bigger deal is the people who are buying from us are the users and they're buying products for use which obviously includes firearms.

**Kevan P. Talbot:**

Our loyalty customers obviously have had a significant impact on that. As John mentioned in his prepared remarks, 44% of our sales dollars are now flowing through the loyalty program. Our loyalty customer spend almost twice as much as our non-loyal customers. As we're able to continue to get penetration into our loyal customers, we're seeing the increase in the frequency of those customers go up as well as the positive benefits from that two times average ticket and that is helping us as well. So clearly firearms at—you know, a large portion of our business, drives the average ticket, but the impact of our loyalty program we believe that we're starting to see the benefits from as well.

**Andrew Burns:**

Okay, thanks. It didn't come up in your prepared remarks, so I'd assumed this is immaterial, but just any implications from store closures from Sports Chalet, Sports Authority, whether it's real estate locations or some indirect impact to your apparel or soft goods performance embedded into that quarter guidance? Thanks.

**John V. Schaefer:**

I don't think it's a material impact. There were about three of our—you know what happened in the first quarter were as TSA moved from a sale to a liquidation, you go through a process of first markdown, second markdowns, third markdowns. Some of our markets that TSA also was in happen to be some of their better markets and we saw a relatively large influx of goods coming into those stores, so they continued their first markdown process, but the effect was actually pretty minimal.

On the real estate side, we've looked at all 450 locations and frankly there really aren't a lot that are intriguing to us. So I don't know that there's any real estate benefit moving forward and that's probably why we just didn't see it necessary to bring up the topic.

**Andrew Burns:**

Thanks and good luck.

**John V. Schaefer:**

Thank you.

**Operator:**

Our next question comes from Peter Benedict from Robert W. Baird. Please go ahead.

**Justin Kleber:**

Yes. Hey guys. It's Justin Kleber on for Pete. Just wanted to clarify the comment on firearms business. John, that 18%, I assume that was a net sales number. Can you help us out on what the comps were in firearms for the first quarter?

**John V. Schaefer:**

We've not disclosed comps. That is a overall store, the 18% is what we were up in total for firearms. We do not disclose the comps on the firearms.

**Justin Kleber:**

Okay. So on the ammo being down 4.4%, that was a comp number though?

**John V. Schaefer:**

That is correct; that is a comp number.

**Justin Kleber:**

Okay.

**Kevan P. Talbot:**

(Cross talking) the mix so that's why we use the total number on firearms and on ammo it's better to talk on a same store basis because that makes more sense.

**Justin Kleber:**

Got you, okay. Then on the oil and gas regions, 90 basis point hit, can you remind us what that was 3Q and 4Q last year?

**Kevan P. Talbot:**

It was between 70 and 80 bps in 4Q, it was 60 bps in 3Q. I don't recall the 2Q hit off the top of my head from a year ago. But I want to say it was 30 or 40 bps.

**Justin Kleber:**

Then, Kevan, just this new overtime rule that's being enacted later this year, have you guys had time to dig into those changes? What, if any, type of financial impact do you foresee later this year or into 2017? How are you guys planning for that? Thanks.

**Kevan P. Talbot:**

We have not had a chance yet to dig into that guidance. In fact, I've got a call scheduled later this week to begin that process. I'll be able to speak to it better in our next quarterly release.

**Justin Kleber:**

All right. Thanks guys.

**Operator:**

If there are no further questions, I'd like to turn the floor back over to Management for any closing remarks.

**John V. Schaefer:**

Thanks everyone for joining us today and have a great rest of your week. Thank you very much.

**Operator:**

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.