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Q3 2019 Sportsmans Warehouse Holdings Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Sportsman's Warehouse Third Quarter 2018 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Rachel Schacter, of ICR. Thank you, you may begin.

Rachel Schacter ***ICR, LLC - SVP***

Thank you. Good morning, everyone. With me on the call is Jon Barker, 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 under the caption, Risk Factors, in the company's 10-K for the year ended February 3, 2018, and the company's other filings made with the SEC.

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 Jon Barker, Chief Executive Officer of Sportsman's Warehouse.

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Thank you, Rachel. Good morning, everyone, and thank you for joining us today.

I'll begin by reviewing the highlights of our third quarter and then discuss the progress on our strategic 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 third quarter performance as our top- and bottom-line results were in line with expectations. For the quarter, total sales grew 2.3% to $223.1 million versus the third quarter of fiscal year 2017 and comparable sales decreased 0.5%, which was towards the high end of our outlook.

Drilling down further on the composition of comparable sales for the third quarter. Firearm units across the company were again better than the adjusted mixed data, reflecting our continued investments across the business that we believe have positioned us well to capture additional market share within the firearm category. For the third quarter, our firearm unit sales increased 8.8% versus an 8.3% decline in adjusted NICS data within the states we serve. Ammunition sales decreased 3.4% in the third quarter. The primary drivers of

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the decrease were in: reloading components, magazine and the rimfire segments within our ammunition category.

Looking to our nonhunting categories. Footwear was positive 2.9% with solid performance from hiking and workboots along with waders.

Fishing was positive 1.4%, driven by the core products of rods, reels and fly fishing.

In the camping department, we saw a negative impact from generator sales, which were down 34% as we comped prior year natural disasters and a change in promotion from a key vendor.

We achieved adjusted diluted earnings per share of $0.26 for the third quarter of fiscal year 2018, which was in line with our expectations.

Our gross margins for the quarter came in towards the high end of expectations despite increased supply chain costs.

Our operating expenses were in line with our expectation. Kevan will discuss the Q3 financial performance in greater detail in a moment.

Now I'd like to spend a few moments highlighting the progress we made in the third quarter against our key strategic priorities for 2018, beginning with our omni-channel strategy. In terms of brick-and-mortar, as previously mentioned, we opened our 11th California location in Milpitas during August, which completed our 5-store growth plan or 4.4% square footage growth since the end of third quarter fiscal 2017.

Looking ahead, our store site selection for fiscal year 2019 is well underway. We plan to open between 4 and 5 stores next year or between 3% and 4% square footage growth. The first of these stores is scheduled to open during summer of 2019 in Lansing, Michigan. We will continue to maintain our strategy of moderated store growth, which will allow us to further invest in our e-commerce capabilities and allocate free cash flow towards debt reduction.

On the e-commerce side. We are pleased with the continued strong growth we saw within our e-commerce segment across all categories during the third quarter. I'm excited to announce today that our new front-end platform, sportsmans.com, is up and running in beta and in parallel with our legacy platform operating as sportsmanswarehouse.com. Launching a platform of this scale and complexity ahead of schedule is a testament to the passion and commitment of our team and partners on this strategic initiative.

Over the next several weeks, we will continue to load test and improve the new platform before transitioning all of our website visitors to the new site and URL, sportsmans.com. While still very early, we received positive customer response to the improved usability and content on the new site. Earlier than scheduled, the new platform in beta is already providing our customers the ability to shop our immense selection of firearms across our stores in real-time and place a "buy online pick up in store" order with the firearm being ready for regulatory processing and pickup within hours.

The "buy online pick up in store" orders increased approximately 75% versus the prior year during the key Cyber weekend period that just ended. Over the coming months, we will continue to roll out this functionality across other categories allowing us to leverage our existing store inventory and footprint along with our expense of assortment to satisfy our customers.

Looking at customer acquisition and engagement. We are excited about our recently launched in-store program around our firearms category aimed to increase customer confidence in the purchase cycle while increasing lifetime value of the customer relationship. We now offer a firearm service plan across the majority of our store base, which includes a concurrent warranty as well as cleaning and accessory installation services. As a market leader in firearms, the launch of this service enhances in-store support and further strengthens the relationship with our customers.

We also continue to be pleased with our customer engagement efforts through our loyalty program. Our loyalty members grew more than 23% to 1.8 million members versus Q3 of 2017 and represent approximately 46% of our revenue. We continue to use -- utilize

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personalized marketing strategies for our loyalty members based on information we know about their shopping preferences and look forward to increasing these efforts through innovative technology in conjunction with our new e-commerce platform.

Turning to merchandising. Our branded and exclusive products complemented by our private label offerings differentiate us within the outdoor sporting goods space. On the branded side, our store-within-a-store concept shops are proving successful. This initiative drove a significant comp store increase for Q3 with these concept shops highlighting the opportunity in how we present key brands across categories.

Regarding private label. We are staying relevant with our customers by providing a strong value proposition with our private label products across categories and price points. During Q3, given the opportunity we saw to fill a void within the workwear category, we launched our first workwear private label, Wasatch Outdoor gear, in key markets and are encouraged by the strong initial performance. The positive customer response to the private label extensions are a testament to our customer's desire for a quality product at good value across good, better and best price points.

So in summary, we are pleased with our third quarter performance and the solid progress made on our key strategic priorities. As you saw in our press release, we are narrowing our previously provided full year guidance.

Before turning the call over to Kevan, I wanted to mention a few recent key hires as we continue to strengthen our talented team. First, Steve Stoner has been brought onboard as our new Senior Vice President of Human Resources. Additionally, Erik Flugstad has been hired as Director of Inventory Planning. Both positions are newly created and will add tremendous value to the organization. Also, as announced earlier this month, we added Rich McBee to our Board of Directors. We are looking forward to benefiting from the expertise of these additions as we continue to capitalize on the growth opportunities that lie ahead for Sportsman's Warehouse.

Finally, I want to thank all of our hard-working team members who contributed to a productive and successful third quarter. We believe we have an attractive runway ahead as we continue to strengthen our competitive positioning and build on our market share.

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

Kevan P. Talbot ***Sportsman's Warehouse Holdings, Inc. - CFO & Secretary***

Thanks, Jon. Good morning, everyone. I'll begin my remarks with a review of our third quarter results and then discuss our outlook for the remainder of fiscal year 2018. My comments today will focus on adjusted results. We have provided these results as well as an explanation of each line item and reconciliation to GAAP net income and earnings per share in our earnings press release, which was issued earlier today.

Before I review our results, as a reminder, due to the 53rd week in fiscal year 2017, all references to same-store sales for fiscal year 2018 are compared to the shifted period for the comparable period for fiscal year 2017. For the third fiscal quarter, same-store sales for the period ended November 3, 2018, are compared to the same number of weeks for the period ended November 4, 2017, which is the comparable period.

Net sales for the quarter increased 2.3% to $223.1 million from $218.1 million in the third quarter of last year. Same-store sales decreased 0.5%, in line with our expectations. We opened 1 store during the third quarter in Milpitas, California and ended the quarter with 92 stores in 23 states or a square footage growth of 4.4% from the end of the third quarter of fiscal year 2017. As Jon mentioned, this new store opening was the last of our 5 planned store openings for fiscal year 2018.

In the third quarter, the competitive headwinds from new store openings were 60 basis points, which was better than the second quarter headwind of 130 basis points with only 2 stores of our 86 comparable store base impacted by new competition. We continue to be pleased with broad-based comp performance across geographies, including our stores in oil and gas markets, which provided a 20 basis point comp tailwind in the third quarter.

Gross profit increased 0.8% to $77.6 million compared to $77 million in the third quarter of fiscal year 2017. As expected, gross profit as a

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percentage of net sales decreased 50 basis points towards the high end of our expectations to 34.8% from 35.3% in the prior year period, primarily due to the impact of increasing cost of transportation in our supply chain.

SG&A increased 4.6% to $60.1 million for the third quarter of fiscal year 2018 from $57.4 million in the third quarter of fiscal year 2017. As a percentage of net sales, SG&A expenses in the quarter increased approximately 60 basis points to 26.9% from 26.3%. This deleverage was driven by our planned e-commerce investment and increased wages in our stores and distribution center.

Income from operations in the quarter was $17.5 million as compared to $19.5 million in the third quarter of fiscal year 2017.

Our net interest expense in the third quarter of 2018 was $2.6 million compared to $3.5 million in the third quarter of 2017 as we have begun to realize the interest expense reduction associated with our new debt structure.

We recorded an income tax expense of $2.5 million for the 13 weeks ended November 3, 2018, compared to $6.2 million in the corresponding period of fiscal year 2017, a decrease in our effective tax rate from 38.8% in the third quarter of the prior year to 16.7% during the current year. The change in the effective tax rate for the 13 weeks ended November 3, 2018, was primarily due to discrete items relating to a change in tax depreciation methods used on specific classes of fixed assets and U.S. tax reform enacted during 2017, which reduced the federal statutory tax rate of 35% to 21%.

Net income for the quarter was $12.4 million or $0.29 per diluted share based on diluted weighted average shares of 43 million as compared to net income of $9.8 million or $0.23 per share based on diluted weighted average shares of 42.6 million last year.

Adjusted net income, which excludes a nonrecurring benefit of $1.3 million related to the tax change I just described, was $11.1 million or $0.26 per share in the third quarter of 2018 compared to net income of $9.8 million or $0.23 per share in the third quarter of last year.

Adjusted EBITDA for the third quarter decreased to $22.6 million compared to $25.1 million in the prior year period.

Turning to our balance sheet. As of November 3, 2018, ending inventory was $369.1 million as compared to $318.3 million as of the end of the prior year period. Inventory increased by 8.4% on a per-store basis versus the third quarter of the prior year. This increase was driven as a result of the 1-week shift in the end of our quarter being closer to the holidays as well as our decision to accelerate receipts of inventory for the holidays and ahead of the new tariffs. We expect to end this fiscal year with inventory consistent with the prior fiscal year on a per-store basis.

Our liquidity remained strong as we ended the quarter with $181.6 million outstanding in borrowings on our $250 million credit facility. We incurred approximately $6.3 million in capital expenditures during the third quarter.

Turning to our outlook. We are narrowing our outlook for the full year. Our outlook for the fourth quarter is as follows: revenue in the range of $238 million to $246 million; a same-store sales change in the range of down 1% to positive 2% compared to the fourth quarter of fiscal year 2017 as adjusted for the 1-week shift; diluted earnings per share of $0.23 to $0.26 on a weighted average of approximately 43 million estimated common shares outstanding.

Embedded in our fourth quarter outlook is modest gross margin pressure driven by continued freight headwinds in our supply chain; SG&A deleverage given our planned e-commerce investment and wage pressures due to expectations for continued minimum wage headwinds, combined with increased competitive wage pressures in our distribution center.

For fiscal year 2018, we expect revenue of $844 million to $852 million and a same-store sales change in the range of flat to positive 2% compared to fiscal year 2017 as adjusted for the 1-week shift.

We continue to expect approximately $11.5 million in interest expense for 2017 when adjusted for the $1.6 million write-off of deferred financing fees related to our old term loan during the second quarter.

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We anticipate adjusted earnings per diluted share of $0.59 to $0.62 on a weighted average of approximately 43 million estimated common shares outstanding. Continuing to pay down debt and reduce our leverage remains a priority for the remainder of 2018.

As it relates to capital expenditures, we expect to incur approximately $17 million to $18 million in total capital expenditures in fiscal year 2018 or net capital expenditures of $12 million to $14 million inclusive of approximately $5 million to $6 million in deemed sale-leaseback transactions and landlord incentives that we expect to receive for the year. Approximately $800,000 of our CapEx for fiscal year 2018 is attributed to the e-commerce investment.

Lastly, on the topic of tariffs. Our direct import exposure to tariff-impacted items is in the very low single-digit range, and with indirect purchases, this rises to the low double-digit range. Vendor negotiations to help manage any potential impacts are well underway and we expect to use price as an additional tool to mitigate any tariff-related impact to our operating income dollars for the rest of the year as well as for fiscal year 2019.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Peter Benedict with Robert W. Baird.

Peter Sloan Benedict ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

So Kevan, just following up on the tariff comments you just had there. Have you made -- given the sense, have you made any price adjustments so far on items? And curious kind of what items are most exposed for you guys to the tariffs, and I guess, what's been the historic kind of elasticity on those items when prices have gone up or down?

Kevan P. Talbot ***Sportsman's Warehouse Holdings, Inc. - CFO & Secretary***

Great questions, Peter. So as we've looked at it, we have not made any price changes quite yet, although we are evaluating that and anticipate that we will see some price changes as these tariffs come into play after the first of the year. The primary categories that we're seeing these are in our camping furniture, a lot of that comes from -- directly from China. That's the biggest category, although there are some other items that are interspersed throughout others. The one that surprised me the other day that I heard about was hats starting in January as well. So we're monitoring this, we're having discussions with our vendors and we're prepared to make the changes as necessary there to mitigate those. With respect to your question on elasticity, it'll be interesting to see what happens there. While we've had price changes in the past, some of these changes are going to be pretty significant price changes. So it'll be interesting to see what kind of impact that it has on the elasticity there. I don't know that we've seen and can speak to what we expect there because I don't know that we've seen price changes of this magnitude before.

Peter Sloan Benedict ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay, that's definitely helpful. Can you talk about the promotional environment? I think at the end of the last quarter, you guys had mentioned that maybe some of the promotional activity within firearms had moderated a little bit. Just curious, kind of any update there not just on firearms, but also just kind of the broader outdoor sporting goods market as we head into holidays here.

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Yes. Specific, let's start with -- Peter, this is Jon. Let's start with firearms first. We've had definitely a moderated or more normalcy in firearm promotion this peak season compared to last. If you remember, last October, we had the finalization of the acquisition of the 2 large players in our market and we saw significant promotional activity immediately afterwards. And my understanding is that was to reduce inventory. We also saw, I think, the independents cleared through some of their excess inventory that came out of the 2016 election cycle. So we've seen a more normalized promotional cadence from our competitors. We did see some very deep discounting in the last week from one of the, what I would consider, of less specialized big-box retailers that's in firearms and ammunition. We did see some significant promotional activity for about a week or so. I don't know if that again was to clear inventory or customer acquisition. But it was very, very deep discounts that we haven't seen from that big-box retailer in the past. On the other hand, we did see some

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manufacturers pull back this year on their promotional activity and I think it was partially clearing of their supply chains that they went through last fall and then some reorganization of one of the major players in the industry, both in the firearms and ammunition. So we saw less promotion from that manufacturer this year. So it's been mixed, but more normal from our competitive set and somewhat of a pullback from one major manufacturer. On the nonfirearm side, it's been pretty base standard. We've seen some deep discounting on the apparel side from, again, the 2 primary competitors that went through the acquisition. We've seen some pullback in promotion in camping and I specifically called out generators. The major vendor in the industry did not have the promotional cadence this fall that they did prior year on their highest-selling or highest-velocity SKU. It's been a little bit of a mix outside of the firearms.

Peter Sloan Benedict ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

That's very helpful. I guess my last question would just be around like the firearm comps and the ammo comps. I wasn't sure if the unit numbers you cited earlier were a comp store number or total, I think you said up 8.8%. So just kind of curious, like what were hunting and shooting comps for the quarter? And then how did the comps look at firearms and ammo and then units if you had it.

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Yes. Peter, on the firearm unit metric that I shared, that was total units and Kevan can talk about the comp store information here briefly so we can ensure we get the data in front of us.

Kevan P. Talbot ***Sportsman's Warehouse Holdings, Inc. - CFO & Secretary***

Yes. Our hunting and shooting category was basically flat. It was up positive 10 basis points. Our firearm revenue on a comp store basis was up 3.2%. Ammunition was down 3.4%. They basically offset one another. And the category was, in total, was flat for the quarter.

Peter Sloan Benedict ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

That's great. Do you have a firearms comp unit number, Kevan?

Kevan P. Talbot ***Sportsman's Warehouse Holdings, Inc. - CFO & Secretary***

I don't have that in front of me.

Operator

Our next question comes from the line of Peter Keith with Piper Jaffray.

Robert Adam Friedner ***Piper Jaffray Companies, Research Division - Research Analyst***

It's actually Bobby Friedner on for Peter. A quick question around private label. It seems like there's a couple interesting initiatives going on there. Just hoping that could scale to the point where you guys have positive impact on margin, any color would be great.

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Yes, Bobby, this is Jon. As we've talked in the past, private label, meaning that it's something we're developing either on our own or in conjunction with a vendor with our brand on it, is roughly 3.5% to 3.8% of the business. I can see that growing over time into the high single digits. Strategically, our intent is not to be a majority of the product in our store our own brands. Our customers are looking for the key brands in their categories and we expect to only fill in the gaps within the assortment where there's a missing item in a good, better best, whether that be an extreme cooler, a gun case or workwear. The margins, as you would expect, are much better on a private label that we're direct sourcing versus the branded product and that ranges and varies depending on category. The other thing that's unique about our model that we haven't necessarily talked a lot about in the past is the amount of special makeups or exclusives that we have. Throughout our store in nearly every category, you will find product that's being developed on our behalf by our manufacturers specific to us where we're actually helping design improvements. It still stays under their brand name, but it's an item that you can only receive within our store. And sometimes, that's geographic based. There are certain things about a rifle, for instance, in the West that a consumer might be looking for that are different than a rifle in the East and the manufacturers have helped us design those items specific to our business. And I think that's one of the things that also contributes to the uniqueness of our assortment for the consumer.

Operator

Our next question comes from the line of Michael Kawamoto with D. A. Davidson.

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Michael Milton Yuji Kawamoto ***D.A. Davidson & Co., Research Division - Research Associate***

Just first off, comps held out better than expected in 3Q. 4Q looks promising given the guide, which is good to see. Did the elongated wildfire season in California have any material impact on what you're seeing maybe in camping?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Yes. Michael, it's Jon. We did. We saw continued impact from drought and fires in camping nearly all season. As we have talked in the past, the summer we saw public land shutdown in Arizona, New Mexico, you couldn't even access it. Then we had fires throughout the west, Utah, Wyoming, Montana, most recently the devastating fires throughout California have elongated. So we definitely saw an impact in that. We did have stores very close to that, our Chico store, we had associates impacted by that terrible fire that just, I think, had wrapped up. And it definitely impacted the business to some extent and directly in camping.

Michael Milton Yuji Kawamoto ***D.A. Davidson & Co., Research Division - Research Associate***

Got it. And then just on the omni-channel buyer. What does that "buy online pick up in store" customer look like? Are they buying additional products when they do come in to pick up their order?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Yes, absolutely, Michael. That's one of the greatest things about this tool, right, is we can provide the full assortment to the consumer online without having to have all that inventory in the store. We can have it in the store within a couple of days. Then we're contacting them to pick up that firearm. And at the same time, we're able to fully outfit security, ammunition, optics, accessories, protection. And then as well, the firearm service plan that I mentioned is a great contributor to that sale to help build confidence with the consumer that we're their full-service shop to not only sell them the items, but fully outfit the items and then stand behind it with our service plan going forward.

Michael Milton Yuji Kawamoto ***D.A. Davidson & Co., Research Division - Research Associate***

Got it, good to hear. And then just last one, one of your manufacturers noted they thought hunting season maybe got off to a later or slower start this year. I was just wondering if you were seeing something similar to that or if you noted customers were buying closer to new year or anything like that?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Michael, I'm not sure I have any data that I can speak to on that. Overall, we were pleased with the hunting season. It may have started a little bit late, again, weather can be a major contributor and I think we had at least 1 deer season pushed back a week in the Northwest that moved some things around for us this year. But overall, we were pleased with the performance.

Operator

Our next question comes from the line of Seth Sigman with Crédit Suisse.

Seth Ian Sigman ***Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst***

A couple of follow-up questions here. First, just in terms of the regional performance, specifically on the oil and gas markets, it sounds like those stores outpaced the rest of the chain. I think it was accretive overall, but maybe a little bit less than in prior quarters. So I'm just wondering, are you guys starting to see some moderation perhaps in those markets? I guess I'm wondering if that coincides with the recent pullback in oil prices. And then, separately, on the comments around camping and the wildfires, any way to quantify what that impact could have been this past quarter?

Kevan P. Talbot ***Sportsman's Warehouse Holdings, Inc. - CFO & Secretary***

Seth, with respect to the oil and gas markets, you're correct. The tailwind from the oil and gas markets certainty has reduced over what we've seen over the past few quarters. We're still pleased with how those markets are performing and it could be because of the pullback in the oil prices. But we do still see continued growth in those markets. We're very optimistic that, that employee base, the customer base in those markets is having their wallet replenished and returning to some good spending habits there with respect to that. So -- and I've drawn a blank on the second question, my apologies.

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Seth Ian Sigman ***Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst***

Just in terms of quantifying the impact on the camping business from the fires this quarter.

Kevan P. Talbot ***Sportsman's Warehouse Holdings, Inc. - CFO & Secretary***

Yes. We know it had an impact, but we don't necessarily have a good way to quantify that. So I wish we had some good statistics there. Certainly, it was a factor, as Jon indicated. The fires were widespread across a lot of our markets in the West. So -- but unfortunately, we don't have a good way to quantify that.

Seth Ian Sigman ***Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst***

Okay. And then just to clarify, in the energy markets, the moderation in the tailwind that you're seeing, could it be weather or some other factor? Or do you think it is that consumer may be moderating a bit?

Kevan P. Talbot ***Sportsman's Warehouse Holdings, Inc. - CFO & Secretary***

I don't know specifically the weather patterns in those markets. I'd have to do some more research on that one with respect to the weather. The consumer is moderating a little bit there, but it is still growing and is still providing a tailwind to us.

Seth Ian Sigman ***Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst***

Okay. And then my follow-up question is around the store growth strategy, and if you could just elaborate on the decision to open up 4 to 5 stores next year versus reaccelerating the growth. And as you think about that CapEx plans for next year, should we expect it to be similar to this year?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Seth, it's Jon. Moderating the store growth in '18 and then continuing with that in '19 is part of the strategy. Two part, one is we need to be able to focus our efforts and resources to bring our omni-channel and e-commerce capabilities up to where they can be to serve our customers. At the same time, it allows us to reduce our capital spending and get our debt ratios into a, what I would say, a more conservative level, so that going into 2020, we have more flexibility to consider growing stores or similar in a greater way.

Seth Ian Sigman ***Crédit Suisse AG, Research Division - United States Hardline Retail Equity Research Analyst***

Okay. And Jon, you've made a lot of progress online over the last few quarters. As it relates to the strategy online, I'm just curious maybe just update us on the progress, and specifically, I'm wondering how incremental is that customer that you're appealing to, that you're attracting? Just any more color and that would be great.

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Sure. So Seth, hopefully you'll have a chance today to check out the new site. As I mentioned, it's up and running in beta, the Hybris platform. Just go to sportsmans.com versus sportsmanswarehouse.com. Again, it will take us a few more weeks to work through the minor bumps in the road and get load testing. But the response has been fantastic and it's providing not only new content, but new functionality for the consumer and access to our inventory real-time. And we are literally updating hundreds of thousands of combinations of inventory from our store in -- every couple of minutes. So the unlock that's here in the experience and the leverage on our locations and inventory, I think, could be immense. As far as new customer acquisition, what I would say is we're in the very -- I don't usually use sports analogies, but we're in the very first inning of new customer acquisition when it comes to digital marketing. We've just started to test some local inventory as with Google. It's a new feed for us, and again, it will take us a little while to optimize. We also are starting to look geographically to bid in a greater way and acquire more online customers in markets where we historically haven't had physical locations. So if you look today where most of our e-comm business is coming from, it wouldn't surprise you it's close to our stores and our current base. We have a huge opportunity in front of us to acquire customers throughout this entire country and tell the story of our brand and what we can bring forward. So we're really excited about the opportunity. But I do want to be -- I do want to temper that in that we haven't really started that in a material way and it will probably be many months before you start to see us ramp that up because the new site needs to be, again, we need to be comfortable that it's working in all forms and fashions, the way that we expect before we present it to a whole new customer base.

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Operator

Our next question comes from the line of Ronald Bookbinder with IFS Securities.

Ronald Cunningham Bookbinder ***IFS Securities, Inc., Research Division - Analyst***

On the e-commerce of firearms, with you being able to drop ship specialty items from the manufacturer to the store, how did those items from e-commerce impact the firearm unit comp? And what sort of difference is there on those items from the in-store items especially on price point?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

So Ron, specific to how it was incremental, I probably don't have that data in front of me. What I can tell you is about 1/3 of the firearm units that we sell on the website that are picked up in the store are units coming from our drop ship relationships. They tend to be more unique on the long tail, meaning they're either unique calibers or unique configurations in a rifle or shotgun or handgun that we might not carry in all stores or in the local market in which a consumer is in. So they tend to be a little higher on the average selling price with some of them being extremely high. We sell firearms well over $10,000 on the website and nearly every one of those are drop ship item and being able to bring that assortment to a consumer with no working capital investment is a nice win. And we're really pleased with some of the unique items that we're able to sell. And there's more opportunity to come with that. I can see growing this assortment significantly over the next year, so to increase that long tail and be able to provide anything in the market or nearly anything in the market to our consumer while utilizing our drop ship relationships.

Ronald Cunningham Bookbinder ***IFS Securities, Inc., Research Division - Analyst***

Okay. And on the private label, the new workwear looks great. Do you have private label in footwear, especially boots?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

We don't at this time, Ron. It's something that we continue to talk about. We've got experiences in the organization in design and manufacturing around footwear. It's something we will continue to evaluate, but it's not on our 2019 plan. I can go ahead and say that for now.

Ronald Cunningham Bookbinder ***IFS Securities, Inc., Research Division - Analyst***

Joe Schneider is still on your Board of Directors. Wouldn't he be a great asset in helping develop private label boots?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Yes. Yes, he is. And that was kind of my reference. Joe and I and the team have talked a lot about the opportunity within that, Ron. And that may very well be something we look at in the future. It's not on the immediate road map. There are some unique components about the footwear design development or manufacturing that we would want to be prepared for before we got into that category.

Ronald Cunningham Bookbinder ***IFS Securities, Inc., Research Division - Analyst***

Okay. And lastly, on labor. Last time I was in your store, it'll probably warm your heart to hear this, at least 7 people offered me help in the store. With labor being tight and cost being up, is there an opportunity to maybe cut back a bit? Or is that one of the things that really makes your store special, is the availability of knowledgeable staff to help you in whatever department you happen to be shopping?

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

It's always a balance, Ron. And it's not only a balance in day of the week, but can be a balance time of the day and it could be a balance geographically as seasons come in and out. And we've got pretty good history in our stores on what days and what time are going to be up and our labor models are aligned to that. So there are -- we're never satisfied, I think, is the way to look at it. We sometimes feel like we're understaffed at certain stores certain times of the day and we're pushing to make sure we get the right service to our consumer. At the same time, we're constantly watching our labor expenses and our reports to make sure that we're adjusting downward the labor hours within the store in slower periods. So it's a fine line that we are talking about on a daily basis as an organization. We've got to be there with the expertise to service our consumer, but during a slow period, we need to make sure we manage those labor hours down.

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Operator

We have reached the end of our question-and-answer session. I would like to turn the call back over to management for any closing remarks.

Jon Barker ***Sportsman's Warehouse Holdings, Inc. - CEO, President & Director***

Again, I want to thank everyone for their time today and especially the over 5,000 employees and associates of Sportsman's Warehouse that have worked diligently to continue to progress our business forward, which can be seen through our strategic initiatives and the performance we've posted in Q3. With that, I will end the call and thank you again for your time.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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