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Boot Barn Holdings, Inc. (BOOT)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Boot Barn Holdings, Inc. Second Quarter 2022 Earnings Call. As a reminder, this call is being recorded.

I would now like to turn the conference over to your host, Mr. Jim Watkins, Senior Vice President of Finance and Investor Relations. Mr. Watkins, please go ahead.

Jim Watkins

Senior Vice President-Finance & Investor Relations, Boot Barn Holdings, Inc.

Thank you. Good afternoon, everyone. Thank you for joining us today to discuss Boot Barn's second quarter fiscal 2022 earnings results. With me on today's call are Jim Conroy, President and Chief Executive Officer; and Greg Hackman, Chief Operating Officer and Chief Financial Officer.

A copy of today's press release is available on the Investor Relations section of Boot Barn's website at bootbarn.com. Shortly after we end this call, a recording of the call will be available as a replay for 30 days on the Investor Relations section of the company's website.

I would like to remind you that certain statements we will make in this presentation are forward-looking statements. These forward-looking statements reflect Boot Barn's judgment and analysis only as of today, and actual results may differ materially from current expectations based on a number of factors affecting Boot Barn's business. Accordingly, you should not place undue reliance on these forward-looking statements.

For a more thorough discussion of the risks and uncertainties associated with the forward-looking statements to be made during this conference call and webcast, we refer you to the disclaimer regarding forward-looking statements that is included in our second quarter fiscal 2022 earnings release, as well as our filings with the SEC referenced in that disclaimer. We do not undertake any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

I will now turn the call over to Jim Conroy, Boot Barn's President and Chief Executive Officer. Jim?

James G. Conroy

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

Thank you, Jim, and good afternoon. Thank you, everyone for joining us. On today's call, I'll review our second quarter fiscal 2022 results, highlight each of our key strategic initiatives and provide an update on current business. Following my remarks, Greg will review our financial performance in more detail, and then we will open the call up for questions.

Consistent with our last earnings call and given the impact COVID had on our performance in fiscal 2021, we believe that a comparison of our second quarter results to the same period two years ago provides the most helpful view into our performance. Our business remained extremely strong during the second quarter, we saw broad based growth online and in-stores.

Total sales growth on a two-year basis was 67% with retail stores up 69% and e-commerce up 57%. I think it is important to begin with some additional color into the underlying strength of the business. First, a significant

portion of the sales increase can be attributed to the addition of new customers added to the Boot Barn brand with only a small portion of the increase attributable to increased retail prices. Second, we've achieved this growth while dealing with a challenging supply chain, where some of our vendors are not shipping us in full.

Third, the growth is extremely broad based with nearly every department in the company experiencing strong double-digit growth. And finally, the consistency of the business has been remarkable with 32 consecutive weeks of more than 55% growth in sales on a two-year basis, with every one of the 13 weeks in Q2, 60% or better. I must express my appreciation to the entire organization across each functional area and every store team that has contributed to this tremendous sales growth. The entire team continues to demonstrate an ability to execute successfully during this exponential surge in the business.

In combination with strong top line performance, merchandise margin during the quarter was very healthy, increasing 320 basis points over the same period two years ago, driven primarily by better full price selling and growth in exclusive brand penetration. This increasing margin is even more notable, as it includes some modest margin deterioration from freight expense.

The strength in sales, both in-stores and online helped drive earnings of a \$1.25 per diluted share, compared to \$0.26 in the same period two years ago. When adjusting for the tax benefit in both years, we grew earnings per diluted share more than 400% to a \$1.22 compared to \$0.24 in the same period two years ago. Well, this year is somewhat of a unique period of growth, it is worth noting that we continue to outperform our 20% annual earnings algorithm when you look at the past several years of EPS.

Digging deeper into the drivers of our performance, I would now like to provide an update on each of our four initiatives, beginning with driving same-store sales growth. During the second quarter, we saw consistently strong sales growth across our storage business, continuing the momentum that began building in the fourth quarter of last year and accelerated during the first quarter. Total sales in our retail stores during the second quarter grew 69% when compared to the same period two years ago.

Geographically, we again saw broad based double-digit growth across every district and region, all regions were extremely strong with the two-year same-store sales growth in the West outperforming the rest of the chain. Texas, while still growing by double digits was below the chain average.

From a merchandise perspective on a two-year basis, we saw broad based double-digit growth across almost all major merchandise categories. We saw particular strength in the growth of ladies' western boots and apparel, to expand on this point slightly, we do believe we're experiencing and perhaps we have helped create a western fashion trend that is adding to the growth of the business. That said, if you exclude the ladies western business from total company sales, the balance of the business, which has very little fashion influence, would still have grown by approximately 60%.

The men's western business was also very strong with outsized growth in boots, apparel, and hats. Work boots and non FR work apparel grew strong double digits, albeit less than the chain average. Once again, flame resistant work apparel remained the only category that declined when compared to the same period two years ago, while FR is a small percentage of our business, it is indicative that sales in the oil markets have not yet returned to the levels they were at two years ago.

From a marketing perspective, I'm very pleased with the work the team continues to produce, they have successfully elevated the aesthetic of Boot Barn and greatly expanded the brand's reach. Their ability to develop and communicate world-class branding to each customer segment that ties back to an annual overarching

campaign has proven to attract new shoppers, both in-store and online. There appears to be a growing presence of western-inspired fashion in more mainstream channels. I would attribute a portion of that groundswell to the work that the Boot Barn marketing team has been doing to redefine our brand over the past few years and communicate that message to a broader audience.

From an operational perspective, our store associates and field leadership team have been working extremely hard to meet the needs of our customers. The team continues to rise to meet every challenge, including the surge in sales, a significant flow of inventory, expanded omni-channel requirements, a difficult hiring environment and of course the ongoing issues associated with the pandemic. My hat is off for the sales associates and store leadership teams that are on the frontlines, taking care of customers and representing the Boot Barn brand so professionally every day.

Moving to our second initiative, strengthening our omni-channel leadership. E-commerce sales in the second quarter grew 57% compared with the same period two years ago. While we are extremely pleased with the top line growth in sales, we were even more encouraged by the outsized growth in earnings we have seen in the e-commerce channel. We believe the many omni-channel initiatives we have put in place over the last few years have contributed significantly to the profitability improvement in our online business.

We have improved merchandise margin by becoming less promotional, particularly on Sheplers, and by continuing to increase the penetration of exclusive brands online. We've also managed to limit outbound freight expense in a very difficult shipping environment by leveraging our store network across the country. And finally, the team continues to become more efficient with our marketing and pay-per-click spend. The combination of these changes has improved the profit contribution of this channel meaningfully over the last two years.

While COVID served as a catalyst for us to further develop our omni-channel ability, we recently have been focusing more specifically on our capability to fulfill online orders from our store inventory. This new offering has resulted in a multitude of benefits, including faster and less expensive order fulfillment, an increase of exclusive brand penetration online, and the ability to sell-through the relatively small amount of clearance merchandise that we carry at a higher markup.

This was a project that required careful coordination across merchandising, store operations, and e-commerce with tremendous facilitation by our technology group and once again demonstrates the team's ability to execute successfully and to outpace our competition.

Now, to our third strategic initiative, exclusive brands. Our exclusive brands performance continued its momentum in the first quarter with growth of 750 basis points compared to the same period two years ago, amounting to 28.8% of net sales in the second quarter. Our portfolio of exclusive brands are showing consistent performance over time, and we are very pleased with the ongoing customer receptivity we are seeing.

We have seen significant growth in every one of our major exclusive brands with three of them now being included in our top five brands. Not only has the product development team been able to continue to produce highly-desirable merchandise, but the team has done a great job in both fulfilling the increased product need and controlling inflationary pressures. The team's execution on these two points has enabled us to continue to grow our penetration of exclusive brands with only modest increases in retail prices to cover additional freight costs.

Finally, our fourth initiative, expanding our store base. During the second quarter, we opened three new stores and closed one, bringing our total store count to 278 stores across 36 states. We continue to believe we can expand our footprint across the US, and have been extremely happy with recent new store performance. New

stores, both in new and existing markets, have been performing above our expectation and are on track to pay back well ahead of our targeted three-year period.

Our pipeline for new store openings is very strong, and we expect to open a total of 27 stores in the current fiscal year, including 11 stores in the third quarter and 10 in the fourth quarter. We are particularly excited to continue to expand the geographic reach of the brand with approximately half of the upcoming new store openings in new markets, further looking at the strength of the future pipeline, we believe we're well-positioned to grow new units by at least 10% annually going forward.

Now, I would like to touch on our readiness for the upcoming holiday period. While we're facing a multitude of challenges, I feel that the company is well-positioned for the upcoming seasonal build and sales. From a supply chain perspective, we're encouraged that our merchants have been able to increase our inventories 34% compared to last year, or 9% on a comparable store basis. And I would like to thank them for their relentless effort in securing merchandise. Their accomplishment is particularly remarkable given that more than 60% sales growth during the past seven months. For context when business began to strengthen last summer, we commenced placing purchase orders to ensure that we would be in stock with the necessary product to meet customer demand.

This early and aggressive action has allowed us to stay in stock during this period of record sales growth. This, coupled with some terrific operational execution in our distribution center, has us well positioned from an inventory standpoint as we head into the holiday shopping season. The other area of intense focus has been securing seasonal hiring for our stores and distribution centers. While the labor market has been extremely tight, I'm pleased to share that we have made considerable early progress in building our holiday staffing. At this point, we have fulfilled approximately 80% of our total store staffing needs for the holidays, which is an improvement versus our preparation last year at this time in the season.

Turning to current business, our third quarter is off to a strong start with total consolidated sales growth on a two-year basis through the first four weeks of our third quarter increasing 67%, with the continuation of strong expansion in merchandise margin. Once again, the sales growth has been extremely consistent and broad based across both merchandise categories and geographies.

Finally, as we have announced in our press release, we have promoted Jim Watkins to Chief Financial Officer effective Monday, November 1. We brought Jim to Boot Barn to assist with our IPO more than seven years ago and his role has since expanded to include Investor Relations and external reporting. He will now add accounting and financial planning to his responsibilities. This new structure has been contemplated for some time as part of our organizational succession planning. Jim will continue to work closely with Greg to ensure an orderly transition of the finance function. I look forward to working even more closely with Jim as he steps into this new leadership role.

Greg will continue as Executive Vice President and Chief Operating Officer. Greg will continue to be my partner in running overall company and this change will enable him to spend more time on the sales support functions to help ensure we can continue to scale the business to a multi-billion dollar national retailer.

I would like to recognize both Jim and Greg for their ongoing partnership and look forward to continuing to work with them as we grow the Boot Barn brand and geographic footprint.

I'd like to now turn the call over to Greg.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Thank you, Jim. Good afternoon, everyone. Compared with two-years-ago period, net sales increased 67% to \$313 million, driven by a consolidated same-store sales increase of 54%. Retail store same-store sales were up 53% and e-commerce same-store sales were up 57% versus two years ago. The increase in net sales was primarily a result of the increase in same-store sales and the incremental sales from new stores opened over the past 24 months.

Gross profit increased 99% to \$118 million, or 37.8% of sales compared to gross profit of \$59 million, or 31.7% of sales in the two-year-ago period. The 610 basis point increase in gross profit resulted from a 320 basis point increase in merchandise margin rate and 290 basis points of leverage in buying and occupancy. The merchandise margin rate increase was primarily a result of better full price selling and growth in exclusive brand penetration.

Operating expense for the quarter was \$68 million, or 21.8% of sales, compared to \$46.4 million, or 24.8% of sales in the two-year-ago period. Operating expense increased primarily as a result of higher store payroll and overhead in addition to an increase in incentive based compensation. Operating expense as a percentage of sales decreased by 300 basis points, primarily as a result of expense leverage on higher sales.

Income from operations was \$50 million, or 16% of sales in the quarter compared to \$13 million, or 6.9% of sales in the two-year-ago period. Net income was \$37.9 million, or \$1.25 per diluted share, compared to \$7.7 million or \$0.26 per diluted share in the two-year-ago period. Excluding the \$0.03 tax benefit in the current year and \$0.02 tax benefit in the two-year-ago period, net income per diluted share in the current year was \$1.22 compared to \$0.24 in the two-year-ago period.

Our second quarter typically looks like the first quarter in terms of sales volume. In Q2, we increased store staffing as we saw the consistency of the business and invested in additional marketing to match the sales growth. We were very pleased to see the sales growth in the first quarter. We believe sales were helped by the increase in labor hours that helped provide better customer service, while increases in marketing helped drive traffic. We also saw increases in freight expense, but we're able to offset them with extremely strong product margins.

Turning to the balance sheet, on a consolidated basis, inventory increased 34% over the prior-year period to \$350 million. This increase was primarily driven by inventory held at both our Fontana and Wichita distribution centers, a 9% increase in same-store inventory, and inventory for new stores added in the past 12 months. As a reminder, our inventory turns approximately twice a year. The vast majority of our inventory is on a replenishment model and is not subject to a high level of fashion risk. Approximately half of what we sell is manufactured in China, 25% in Mexico, 10% in the US and 5% from Vietnam.

As of September 25, 2021, we had a total of \$50 million of debt outstanding on our term loan with zero drawn on our \$180 million line of credit. During the second quarter, we expanded our revolving line of credit from \$165 million to \$180 million. We have \$39.5 million of cash on hand at the end of the quarter.

While our sales growth has been very consistent for the past seven months, we will not be providing guidance for the third quarter. The holiday period is typically the most difficult to guide, given the modest shift to e-commerce and the gift giving nature of the business. That said, we remain optimistic about the business, and we reiterate our previously provided select full year of fiscal 2022 guidance, which includes growing units at 10% and increasing exclusive brand penetration 350 basis points when compared to the prior year. We now expect capital expenditures to be in the range of \$36 million to \$39 million and our effective tax rate for the year to be 25.4%.

Finally, I would also like to congratulate Jim Watkins on his promotion to CFO. I've had the pleasure of working closely with Jim for the past seven years, and he has been a tremendous asset within the finance organization. As Jim noted, I will be focusing more of my time on my responsibilities as COO. But I look forward to working closely with Jim to ensure an orderly transitions of the finance function.

Now, I'd like to turn the call back to Jim for some closing remarks.

James G. Conroy

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

Thanks, Greg. I'm very pleased with the ongoing strength we have seen in the business through the first half of our fiscal year. The long standing strategies we have in place continue to drive sales, give us a competitive advantage and have enabled us to both broaden and strengthen our customer base. This has been a year of tremendous execution by the team, and the results are bearing that out. We look forward to continuing the momentum through the back half of the year.

Now, I would like to open the call to take your questions. Sonali?

QUESTION AND ANSWER SECTION

Operator: Sure. And at this time, we'll be conducting a question-and-answer session. [Operator Instructions] And our first question is from Matthew Boss with JPMorgan. Please proceed with your question.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Great. Thanks, and congrats on another exceptional quarter.

James G. Conroy

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

Thanks, Matt.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Thanks, Matt.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

So Jim, with 3Q to-date holding the high 60s trend relative to two years ago, stimulus largely behind us, reopening of events still on the horizon. What do you attribute the consistent strength of the business? Is this expansion of the total addressable market? Is it larger basket or increased purchase frequency? I guess the question is maybe as it all of the above or how best do you attribute this continued outsized strength that you're seeing?

James G. Conroy

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

Sure great question. We always want to acknowledge that there's some external factors at play. I think our business has been exceptionally strong. But in fairness, other retailers are posting pretty good growth as well. I think we are outsized growth. And I think the incremental piece of our growth is mostly the increase in customer count. I think we're executing across the board on a number of things where our conversion in the stores is good, our basket is up a bit. But the vast majority of the 67% growth versus two years ago is a result of increased customer count.

And I think the good news is, it really does appear that this is a step function change up. If you go back two earnings calls, we thought maybe it was the March stimulus to your point that's in the rearview mirror now. In our first quarter call, we thought maybe it was just a result of pent up demand. Candidly, now, after 32 consecutive weeks of this business, it's hard to say that it's transitory. And the growth has been so broad based that it's kind of accelerating to be honest.

So as we look forward, I think we're extremely well-positioned for the holiday. I think, we'll be well positioned as we turn the calendar into our fourth quarter. We will cycle a very strong January and a very strong end of March. But by and large, the rest of the time period that we're up against for the balance of the five months of the year is slightly positive numbers other than those two surges.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

And maybe a follow-up on the bottom line, is there a best way to think about a sustainable margin for this business over time, or I believe you've cited low to mid-teens operating margins as a potential target in the past. So maybe another way to ask it is other than maybe the fixed cost outsize leverage that you've seen tied to the top line. Is there any margin gains that you believe you need to give back or anything that's more transitory on that front that you would cite?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Matt, it's Greg, the only things I would point to would be, we continue to want to invest in store labor to make sure we're servicing the customer properly. We did a nice job. We increased our – I'll say it differently if I think about Q1, where we had 17.5% EBIT rate and Q2 has a 16% EBIT rate, the EBIT rate came down a 150 basis points, 90 of that basis points was in the store's organization between payroll and variable costs, et cetera. And we spent a little bit more on marketing.

But just coming back to answer your question, I do think that that low-to-mid teens is a reasonable place for us to land again and ending this quarter at 16% and investing some in – in some SG&A prices again, labor, maybe marketing, we should be able to do that. And we've got a freight headwind right now that we view as transitory but it's real. In Q1, freight was 40%, a 40 bps higher than the two-year ago period, and Q2 was 90 basis points higher. So that will come back to us at some point.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

That's great color. Congrats again, and best of luck, guys.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Thank you.

James G. Conroy

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

Thanks, Matt.

A

Operator: And our next question is from Steven Zaccone with Citigroup. Please proceed with your question.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Great. Thanks for taking my question. Congrats to Greg and Jim on the appointments. Well deserved. I wanted to focus a little bit more on the new customer strength you've seen. I guess, Jim, could you expand if there's a specific area of the business you've seen that customer come to? I guess like when you look at them, where were they shopping before? And now that you've seen this growth in the customer count, like, how are you focused on retaining these customers?

Q

James G. Conroy

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

Sure. Very good question. I would go all the way back to April 2020 was sort of the first decision that we took was to stay open and be there for our customer as an essential retailer. And we were able to do that because we carried a fair amount of work boots and flame resistant work apparel for the oil industry et cetera. And that decision enabled us to not only take care of our current customers, keep the stores' teams in place, the store managers, et cetera. But candidly most of our competition is mom and pop western only retailers.

A

So, those guys for the most part closed down during the beginning of the pandemic and we were able to take care of not only our customers but certainly picked up share from those players as competitors. I'd say the second thing is we have continually for the last three or four years expressed our desire to expand the brand's reach and it could be as simple as looking at some of our marketing materials from five years ago versus today. Five years ago we were squarely focused on a rancher, western customer and each successive year we've expanded the aperture a bit to be more inclusive.

The Just Country initiative was part of that and that came at a perfect time when customers from all sorts of retail channels and some mainstream retailers were looking to dress more casually. And we had what we call casual western product but hit a pretty broad swath of the US population. I'd say the next piece of it is, we really aggressively secured product, we went from playing defense to playing offense almost overnight in August of 2020. And wrote long-term purchase orders, secured our exclusive brands, et cetera and that just enabled us to take care of kind of any customer that walked through the store. So circling back to the specific of your question, I think we've taken share from the industry. I think we've added customers that are more casual Western customers.

I think we probably get into some mainstream retailers because we were available and present from a marketing standpoint and had product on the shelves. And then finally, and I do want to ensure that everybody recognizes this is a small piece. We're seeing a bit of a fashion trend in ladies western boots and ladies western apparel. We call that out a couple of quarters ago as a whisper, and now it's turning into more of a war. But I think if you couple all of those things together, most of the things I've just described, we would contend, are here to stay. And we don't really expect to be forfeiting those customers back to the retailers where they had shopped previously.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Q

Great. That's very helpful. Then just shifting to merchandise margin on a two-year basis. The second quarter was stronger than what you saw in the first quarter. So I guess just how should we think about the back half of the year from merchandise margin perspective? Thanks.

James G. Conroy

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

A

Steve, good question. It's Greg. We did see a little bit of expansion in merchandise margin to your point, and is about a 100 basis points higher than Q1. I'd say a small piece of that was we put some price changes into effect in Q1, those price changes helps and they helps the business and the merchandise margin rate and we got a bigger benefit of that in Q2.

So how do you think about it for the back half? I mean we continue to try to be less promotional and certainly in today's environment where people are struggling to get products, we don't see any reason to meaningfully discount even in the holiday period where we're fighting for share of wallet. We're going to be less promotional than we were in the prior year. So, I would expect us to continue to make inroads on expanding merchandise margin.

The caveat here is freight expense, right. We just – that's a headwind for everybody. Frankly, I'm happy to have the headwind, because it means we're getting the merchandise. But we saw a 50 basis point increase from Q1 to Q2, and I don't know if that grows by another 50 basis points in Q3 or not. I don't have a lot of visibility into that, but that'll be the one thing that will hurt markup or margins rate little bit. So I'm not trying to be too vague. We're not giving you specific guidance, but I do feel good about the growth from Q1 to Q2 and would continue us again to be paring back on promotions.

Steven Zaccone

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for the detail. Best of luck over holiday, guys.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Thank you.

James G. Conroy

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

A

Thanks.

Operator: And our next question is from Max Rakhlenko with Cowen and Company. Please proceed with your question.

Max Rakhlenko

Analyst, Cowen and Company

Q

Great. Thanks a lot, and congrats on the nice quarter and congrats to Jim on the promotion. So the first question is on the exclusive brand side, curious if the way that the last several quarters have played out has impacted your

long-term outlook for the opportunity set? And if it makes sense to accelerate growth, given your ability to control the supply chain and also the really nice customer receptivity?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Great question, Max. I think it probably has just accelerated our growth and emboldened us a little bit. We still believe that we will continue to be a house of brands. We have tremendously strong relationships with our vendor partners and yeah, our exclusive brands will continue to grow, I'm sure. But we don't envision a world where exclusive brands become 75% of our business, and we still want to offer the customer an assortment of brands, both ours and third-party brands.

But one of the things that that happened, and it was a good market test, not one we intended to do but some of the brands had difficulty securing products or shipping product. And some of them also were passing through freight expenses or freight charges that were more than what our exclusive brands was experiencing. So, when you think those two factors, less availability of the national brands and a relatively higher price point, given the fact that they're passing along the freight expense to us. When you couple that with our exclusive brands group that were able to steer the product and frankly did a better job of managing the freight expense. It made our exclusive brands more available and perhaps more price competitive.

And to your point, the customer receptivity has been extremely, extremely strong. So I don't think we intend to grow it, grow a part of our business by more than our kind of typical 3 points a year once we get to a normalized playing field, but it certainly has kind of accelerated a couple of years into one based on the dynamics that I just described.

Max Rakhlenko

Analyst, Cowen and Company

Q

Got it. That's very helpful. And can you just discuss the competitive landscape? Just anecdotally, are your peers able to work through some of their own supply chain issues or are they having a lot of difficulties putting products on the shelves and has this led to some easy wins as your competitors probably are feeling it more than you guys are? And then just as a follow-up, does this just embolden you a little bit more ahead of holiday or how do you think that that could play out? Thank you and best regards.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Sure. So the first question on competitors, if you accept the fact that our single biggest competitor is a mom and pop typically with one location. Presumably, they have zero exclusive brands, so they are completely at the mercy of national brands and the national brands, that I mean, they're working hard also to manage their business and to grow their business. But some of them got caught up in Vietnam more than we did. Some of them had distribution center supply chain bottlenecks, et cetera.

So if you walk into a mom and pop western retail store across the country, they're not going to be any better than kind of our worst national brands, where if you walk into a Boot Barn store, the holes that may have otherwise been there have been filled by our own brands. So it certainly plays out that we will take candidly another step forward versus the overall western industry. We do have one regional chain in our business that you know well I know called Cavender's. They have some exclusive brands, not nearly to the levels that we have, they probably got a little bit more priority from the national vendors, but we probably also took a step forward versus them.

And once again, I'd say this consistently they're very good company and very good operators. So I wouldn't count them out. On looking forward from a holiday standpoint, there's certainly a bullish thesis here and not signaling that the business is going to get better than 67%. I mean we would love to have any kind of really strong double digit growth for the balance of this quarter.

But the thing that really has emboldened us, I think a few things. One our competitive positioning against the mom and pops the point you made, the second is and this came recently right, this pig in the python of inventory is starting to arrive in the stores and the last call we were flat on a comp store basis, this call, we're saying our plus 9 and in total we're plus 34 from an inventory perspective. And when you're trying to feed a sales trend that's plus 67 to some degree air quotes finally, we have the product to support the outsized growth.

I would just wrap-up with the last piece, which is the combination of our HR function and recruiting function alongside our store operations and field function. They have done a masterful job of staffing our stores and we feel very good and frankly, relative to what we're hearing within the industry and outside with other retailers, I think we feel extremely good about our position in terms of staffing up for the holiday period.

One unique advantage that we have is our business is so strong now that we're giving a lot of hours already, right. So we may pay market or candidly, slightly below market in some places, but we can get the people that are looking for work a fair amount of hours much earlier than the retailers that don't see a surge now for three or four more weeks. And so again, there is definitely a positive sentiment and a bullish thesis that could play out. That said, we are four weeks and two days into a very long and high volume quarter and there's a lot of business left to be had.

Max Rakhlenko

Analyst, Cowen and Company

Q

Got it. That's very helpful. Congrats, guys.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Thanks, Max.

Operator: And our next question is from Janine Stichter with Jefferies. Please proceed with your question.

Janine Stichter

Analyst, Jefferies LLC

Q

Hi, everyone, and congrats on all the momentum. Once they get into the comments on unlimited outbound freight by using your [ph] store what network (40:46), can you talk about what penetration BOPIS is currently? And then maybe I'm wondering what kind of attachment rates you're seeing, if you can quantify that, when someone comes in to pick up an order, do you think that that's also contributing to the better conversion? Thank you.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Sure. I just need to expand the question slightly, when we talk about fulfilling orders from our stores, BOPIS is a piece of it. But we're also shipping product from our stores to directly to the customer. They're acting as a mini e-commerce fulfillment center. And candidly, that second piece is much bigger than BOPIS. So BOPIS is low single digits, in-store fulfillment or shipping from a store is 20-plus-percent of the outbound e-commerce orders, at least that don't have to come from our fulfillment center.

So it's considerable. It gives us the ability to – a few things have happened, right. We can – we've seen an immediate uptick in our exclusive brand penetration online, because we have more ample inventory of exclusive brands in the stores. We're also able to work through some of our clearance products, we don't have a lot of it, but we can use this to work through some of our clearance product.

And we're pretty excited about what the future might hold for this of do we bring what are more exciting, higher price point products into the stores that otherwise might not turn fast enough to make the cut. But if we can put it on the shelf and if it turns to slowly use our e-commerce channel to work through. So that there's some really strategic benefits of doing this and doing it so well.

You also asked the question around the attachment rate, this is not a too much information, but we see attachment rate on two different things, right, we see attachment rate on BOPIS. We also have customers that come in to the store to buy product that was shipped to the store from our DC on their online order. And in both cases, we're seeing a healthy attachment rate, maybe one in four, one in five customers are picking up another item. The exciting thing about that is we're – while I love both of our channels equally, we're exposing a lot of our e-commerce and digital customers to the store. And we just always feel better when they're in the store, we're more competitive, we can take – we can give them world-class customer service that customer tends to be more loyal. And so, we like the fact that we can get our digital customers to experience sort of both channels. I think I've covered both your questions, maybe perhaps at a very long-winded way.

Janine Stichter

Analyst, Jefferies LLC

Q

No, it was great. And then I just want to clarify on the inbound freight, I think you said 90 basis points in Q2 versus two years ago. Was that purely related to the exclusive brands? And have you absorbed any of the incremental freight from your third-party brands?

James G. Conroy

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

A

I would characterize it as it's largely exclusive brands, there's probably some element of container purchases and other things while we see we absorb that inbound freight typically, though inbound freight where the merchandise goes to the vendor's distribution center in the US and then it ships to our store, that tends to wind up in the cost of goods as opposed to freight. But we do make some container buys where we take on that freight expense and we have some inbound impact.

Janine Stichter

Analyst, Jefferies LLC

Q

Great. Thanks so much and best of luck.

James G. Conroy

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

A

Thanks, Janine.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Thanks Janine.

Operator: And our next question is from Jonathan Komp with Baird. Please proceed with your question.

Jonathan Robert Komp

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

Yeah. Thank you. Could I ask more of a near-term question but try to get away from some of the comparisons year-over-year? But when I look at the third quarter typically sales have been 50% or more higher than the second quarter, and you've typically had a peak operating margin significantly. So is there any factors to call out that would make us think differently about a sequential or seasonal basis this year?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Jon, as I think about the business in Q3, we're very pleased with how October looks a lot like Q2 for example. I don't see really any reason that November would be much different than that. The trick to me is what happens in December gift giving, shift to e-commerce all those things. But directionally from my perspective, there's I wouldn't think of it much different other than that's a really big month December to grow 67%. But, Jim, I don't know if you've got other thoughts, but ...

James G. Conroy

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

All right. And then the operating margin piece.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Yeah. And the operating margin will be – should be better of course, given even higher sales volume.

Jonathan Robert Komp

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

Yeah. That's really helpful. And then maybe at a big picture, when you think into fiscal 2023, are you planning the business to give back earnings or EPS, or how should we think about holding on to what you're gaining this year?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Jon, we're not guiding Q3, I can't guide next year, but I think Jim touched on it in his prepared remarks that we're extremely happy that for seven straight months, our business has been incredibly consistent. So – and then he talked about the fact that if you strip out fashion, we dropped 8 points or something from a plus 68 to plus 60, right. So there may be a little bit of macro tailwind that we lose, I would also say, there's some things that probably or in our favor, like what it was in concert. So I don't – I'm going to – I should probably turn this over to Jim Watkins, but I will do that for a moment, his first call or appointee. I don't think we would plan or expect to see any significant step back on the business. We will obviously learn a lot more, as Jim said, in January and March, as we go up against the stimulus and can we wrap those numbers.

Jonathan Robert Komp

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

Yeah. Excellent. And one more just quick one on the exclusive brand. It looks like to us, you're set to maybe develop or launch a bunch of new brands. Is there anything you're willing to talk about there?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Sure. Happy to provide a little bit of color. And I think two different things have happened. One, we have more explicitly overlaid some new brands back to our customer segmentation. So we have a couple of brands that will come out that are going for more of this casual western or we're calling, country customer. That's the bigger change. The second change is we have refined some of the tried and true brands Cody James and Shyanne. And we've created another sort of western ranch-wear brand and it'll be difficult to walk everybody through telephonically what they look like. The next time we're together with the benefit of visuals, we can kind of shine some light on this.

But it's exciting. We've got some new players back to the exclusive brands, hopefully taking us to even a whole another level. And that group continues to deliver. And the expansion of the brand portfolio, I think, should at bare minimum maintain our growth and circling only back to an earlier question, it might accelerate it a little bit from our typical 3 points a year.

Jonathan Robert Komp

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

Q

And are those fiscal 2022 or fiscal 2023 initiatives?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

I'd say fiscal 2023, in fairness, some of that product will hit the store before the end of this fiscal year, but it's not going to be a meaningful amount of business until we get into sort of Q1 of fiscal 2023.

Jonathan Robert Komp

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

Q

Okay, great. Thanks again.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Thank you.

James G. Conroy

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

A

Appreciate it, Jon.

Operator: And our next question is from Sam Poser with Williams Trading. Please proceed with your question.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks, guys, for taking my question. And Jim, congratulations on the new gig. What, I just have a list, so I'm just going to go through it, then we can deal with it. What are the top five brands? What percent of your product is coming from the, from not from Asia, more from the Americas? What is your loyalty member percent and how is that growing? Is Sheplers now a tailwind? And what percent of digital sales are the stores involved with?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

You were right in signaling that you have a list, Sam. So let me see if I can tick through these top five brands. We do disclosed this in the 10-K, so internally, our top fully exclusive brands are Cody James, Shyanne and Idyllwind. Our two national branded partners that are also in the top five, number one – our number one brand is Ariat, the other one is Wrangler, so that rounds out the top five brands.

In terms of sourcing and geographies of sourcing, these are broad brush strokes. Roughly half of our product comes from China, roughly 25% of our product comes from Mexico, the balance of the 25% is rest of world with a small portion 10%-ish from the Americas?

James G. Conroy

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

A

Yeah, US is 10%.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

And as it turns out, we were fortunate that we have a very small exposure, certainly our exclusive brands with very small exposure to Vietnam, and most of our vendors have a small exposure to Vietnam. We did have a couple that had some difficulty there with the unfortunate pandemic break out there.

In terms of loyalty, we typically say that the vast majority of our sales go through our rewards program, call it two-thirds of our sales. We can connect to a customer. That customer would have a B Rewarded number. We typically get some combination of email, phone number, home address, and those customers as you would expect are better customers, they shop across both channels more than a typical customer, their average basket is higher, their frequency is higher, et cetera, et cetera.

So that loyalty and our ability to understand all of their RFM analytics and to speak to them in the language that they want to hear from us in, is meaningful right, so. And to tie it back to our desire to expand our customer reach, we then had to be super careful to leverage our loyalty customer database, so we weren't sending hard core work mailers or emails to a younger female fashion western customer or vice versa, right. So the segmentation and the CRM work hand-in-hand, which is why the loyalty is so important to us.

Is Sheplers a tailwind? Sheplers is positive, but it's not quite as positive as the rest of the company. So that it's a "drag" on the plus 67%, but we're certainly not worried about that.

Sam Poser

Analyst, Williams Trading LLC

Q

Let me rephrase that one, if I may. Is it a tailwind in that it's no longer going to be margin dilutive? Are you cleared through the lapping the promotional?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Sam, great question. Great question. It is no longer margin dilutive. I mean, and if it is, it's minor basis points. It used to be significant and I appreciate you calling out and frankly giving us a platform to discuss it. The e-commerce team has completely extinguished. I might be overstating it, probably, but nearly extinguished the promotional stance that Sheplers have had in the past and it's almost in line with Bootbarn.com. Frankly, there are

couple of – there are some times when its every bit as margin accretive as Bootbarn.com. It's much more positive from a margin perspective than it has been historically.

And then in terms of the percent of our digital sales where the stores are involved. The quick answer is 50%, it might be slightly too high but because we have roughly a fourth of our digital sales that are shipped from a store and slightly less than 45% of our digital sales that are shipped to the store for pickup and call it 45%. But it's significant and we're lucky in a way that our stores are very capable in including shipping, packing products because as you know Sam much of our product, most of our product is directly from a vendor to a store.

So, there's a highly capable back room in the store, so when we rolled out these initiatives, it took literally a few days, not months of training and rearranging back rooms, et cetera, it was sort of very, very smooth rollout of some of these initiatives. So they're involved and when I described the you know what piece of our digital sales go through our stores, we typically think that from a Bootbarn.com perspective. So I think if you counted everything, it would be a little bit less than that including Sheplers and Marketplace on Amazon, et cetera.

Sam Poser

Analyst, Williams Trading LLC

Thank you very much. Continued success.

Q

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Thank you.

A

James G. Conroy

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

Thank you.

A

Operator: And our next question is from Dylan Carden with William Blair. Please proceed with your question.

Dylan Carden

Analyst, William Blair & Co. LLC

Hey. Thanks a lot. Just curious to what you attribute sort of the outperformance of recently opened stores, particularly those stores, maybe in newer geographies? I know the overall business is kind of ripping and roaring, but it seems like these openings are even kind of above and beyond internal expectations. And then kind of as part of that question, how you're thinking about the assortment in new markets? And maybe that's an opportunity to kind of speak to the new prototype store that you're trying out there in California?

Q

James G. Conroy

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

So on the new stores success, I think beautiful things. We opened up these stores and some of them right in the height of COVID emerging and frankly, we're quite nervous when we opened them. Paradoxically, we may have had the advantage that we were opening a brand new retail store when a lot of stores weren't available to shop at all, but western or otherwise, right. So if someone needed a pair of jeans or a shirt or perhaps a pair of boots, we had a brand new store in their backyard and the local mall and many of the other regional players were just closed. Again, regardless of whether there were western players or not.

A

The second thing is we have been [ph] finding the bump (58:43) in terms of bringing the brand to a more national level, and we have – we want to continue to invest in doing that. But we have shifted some of our marketing more to national radio versus spot market, local city radio, we do more social media than we've done in the past. So our brand is out there and we sponsor an awful lot of events that have national presence even though they might not be in Pennsylvania or Ohio, et cetera, but the finals of the Rodeo seasons in Las Vegas and we're a big sponsor and our name is reasonably well known.

In terms of the assortment there, the quick answer is our new stores are selling by category, very much in line with sort of the company average, if you will. So if I looked at sales by merchandise classification for our stores in Pennsylvania, Ohio, Virginia and I compare that to Colorado and Arizona, it would look very similar. There was a hypothesis early on that once we got into the Northeast, we would have to select the concept to be two-thirds work, one-third western. That turned out to be just not right. We're selling every bit as much.

Cowboy boots, men's and ladies, cowboy hats as we are in much of the rest of the country. So these stores are off to an incredibly strong start. The three-year payback will be an easy hurdle for them to get over. And we feel great about the upcoming pipeline and one of the things that all this leads back to is we have a new head of real estate that started ironically in, I think, February of 2020. So I think his first order of business wasn't opening up stores, but it was managing rent expense and landlords, and then he quickly pivoted to looking for new locations and many of these stores that are opening with one year paybacks are thanks to him and that team.

So go ahead, Charlie. There's your shout out.

Dylan Carden

Analyst, William Blair & Co. LLC

Q

Okay. And nothing, it's too early days on the prototype at this point?

James G. Conroy

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

A

So on the prototype, it's funny we try to avoid the word prototype because we then expect to get a 1,000 questions on how the new prototype is doing.

Dylan Carden

Analyst, William Blair & Co. LLC

Q

Apologies, sorry to be that guy.

James G. Conroy

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

A

I would say the new stores on Katella here in Orange County, California. And it is sort of a logical progression of where the brand has been evolving, so if you were to look at our marketing materials, our social media presence, if you get our mailers and then you walk into some of our stores, you'd realize that, our print media and our digital media has gotten elevated more quickly than we were able to elevate the in-store experience across 281 stores now, I guess. But the new store brings in some of those elements. It's more of an organic feel. There's much less signage and it's just much more open and more comfortable shopping experience.

But from an economic standpoint, from a payback standpoint, I think it will be every bit as good as, the three-year model or better. That particular store is doing extremely well. So if you really want to know how that one-off [indiscernible] (62:53) one sample size is doing, the answer is it's [indiscernible] (62:58).

Dylan Carden

Analyst, William Blair & Co. LLC

That's great. I really appreciate you, guys. Thank you.

Q

James G. Conroy

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

All right. No problem.

A

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Thank you.

A

Operator: And our next question is from Jay Sole with UBS. Please proceed with your question.

Jay Sole

Analyst, UBS Securities LLC

Great. Thank you so much. Jim, I'm interested in just the business being so steady over the last three months and six months, specifically maybe can you tell us a little bit about traffic into the store? Presumably traffic is up a lot with a lot of new customers. Or is that really not the case? I mean you're just seeing really high conversion plus some price. And have you seen the traffic change – traffic trend change over the last few months even as the total sales have been steady?

Q

James G. Conroy

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

So, a great question. One caveat, but we've been able to answer this in the past. And I'll give you a more direct answer in a second. We don't have traffic counters in the store. So, we can intuit what's happening a few other ways, how many customers entered database. We know if the basket size has grown or not, et cetera. So the coming back to giving you a real answer, recognizing the fact that we don't have specific traffic counters, 80-plus percent of the growth we're experiencing is from new customers coming into the brand.

A

The basket is up. On a two-year basis, I think it's up 7% or something, so that's helped a little bit. We might have higher conversion. We might have more frequency. But the vast majority of the increase in sales is new customers. And of course, we want that experience to be great. We want it to be – we want those customers to be air quotes, sticky customers and that's one of the reasons why we feel great about great about the fact that we have an in-stock position that I think is better than most of our competition.

Jay Sole

Analyst, UBS Securities LLC

Got it. There may be one more for me, Jimmy did mentioned Rodeos a moment ago. Just where are we in the total – in the reopening like phase? I mean, are all the group – you know big events are they all happening, we totally lapped all that stuff from last year. Are there any COVID costs that were in the SG&A last year that are not in there this year? And do you feel like really that everything is sort of back to normal from a reopening standpoint at this point?

Q

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

I can take the second part of that question, first, that the COVID expense, while we had some was de minimis and we never really spike it out when it was happening quite that much.

James G. Conroy

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

A

And we've been talking about our P&L on a two-year basis anyway, so that didn't have COVID in the two-year-ago period.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

In terms of events, they've ramped up, I wouldn't say they're at probably 90% now. You know, so we're getting the "benefit" from that now. With that said, we still haven't had some of the bigger events throughout the year in our [ph] numberish (66:12). But for two years ago, so I'll give you two of the bigger examples. The Finals of the Rodeo season in Las Vegas in December didn't happen last year. I guess it did, but it was much smaller and was moved out of Vegas and it was just a much different deal.

The second one, even bigger, is the Rodeo season in Texas during February and March. Essentially didn't happen this year, there are some exceptions to that, but the biggest one, Houston didn't happen at all, the others were much more minimized. So as we look forward, I would say we have the benefit and there might be a tailwind – of course might actually have some headwind also, but we will some tailwinds from these events from now through December which is the finals, through the first quarter which is Texas Rodeo and even into the spring where we have Stagecoach and some of the music festivals that didn't happen this year. So we're trying not to assign too great a value of that and get people too far ahead of their skis. But that's all in the future for us.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. And then maybe one more just because inflation is such a big topic you talked about some of the freight and shipping. But as far as just cost inflation next year, when you're placing orders for inventory, what are you hearing from vendors in terms of how much costs are going to go up across the board for the national brands and the categories like, boots and denim and things like that?

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

We've seen quite a varied response from vendors, some have pass along every dollar of increase that they're seeing, others have shared it with us. Our exclusive brand candidly has done probably the best job of managing inflationary pressures on raw materials and on freight. So with all of that said, we tend to pass long cost increases with a markup. So it really won't impact our margin rate.

So the next question is, will it impact negatively sales velocity? Well, if it made us uniquely less competitive, it might, I don't think it does make us uniquely less competitive. So I think most of the industry passes along price increase. And frankly, I think customers come to Boot Barn for the overall experience, and if the boot has gone up by \$5 as long as it's in stock and we have authoritative customer service taking care of them, we're still going to get the sale. [indiscernible] (69:19) sample size. We've got some price change or price increases in the first quarter. We passed those along with the markup as you described, and we haven't seen a real change in the demand, but for maybe a two-week period right after the price change.

Jay Sole

Analyst, UBS Securities LLC

Got it. Okay. Thank you so much.

Q

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

Okay. No problem. Thanks for joining the call.

A

James G. Conroy

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

Thank you.

A

Operator: And our next question is from Jeremy Hamblin with Craig-Hallum Capital Group. Please proceed with your question.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Thank you. And I'll add my congratulations on the exceptional performance. I wanted to ask about your clearance sales and the impressive expansion of your gross margins and your merch margin. Can you give us a sense of how much your sales that are on clearance have changed versus the last year and versus two years ago? Is it a 800 basis point change in the total sales that are on clearance? Can you give us a sense of how much of that has changed both versus last year and then versus two years ago?

Q

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

If I look – Jeremy, it's Greg. If I look at compared to last year – and I don't have the two-year information handy in front of me. But the level of clearances is half or maybe even a little bit more than it was last year. Having said that clearance and markdown inventories are relatively small portion of our overall business historically. And so it's even more – it's even lower this year, but that's not driving that the margin improvement. It's more driven by being a bit less promotional, more exclusive brand selling, and while we want to continue to manage our clearance down, that's not the main driver of what's going on here.

A

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Okay. And then, following up on the exclusive brands and how well you've handled supply chain issues out there, it sounds like your relative value perception of your exclusive brands has improved significantly in your customers' eyes. And maybe that's part of why you're taking some share. How do you think about heading into next year where you do have a lot of national brands that have taken some meaningful price increases in some cases? Is this something where you see the momentum in these brands, your customers responding really well and you maybe don't take much price simply because you have that much momentum? Or how are you thinking about price for your exclusive brands moving forward?

Q

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

It's a very good question and touches on one of the most strategic pieces of the business of should we hold pat on our exclusive brand pricing. We tend to kind of treat all the brands the same, and if we see an increase in price in our own brand or third-party brand, we would typically change the retail price to accommodate that.

One of the things that will be important to see is, in some cases, our vendors have passed along a transitory freight charge. And so we're going to expect that to go away and maybe that vendors prices come back down. From the exclusive brand standpoint, I think we will keep them in lockstep with their market expectations and if their costs to make increases, we'll have pass those all through to the retail of the product itself. That has been less of an issue in exclusive brands in our national brands. So again, hats off to the exclusive brand team and the sourcing folks that are working on that.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

All right. Thanks for taking the questions, and best wishes for awesome holiday season.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Thank you.

James G. Conroy

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

A

Thank you.

Gregory V. Hackman

Executive Vice President, Chief Operating Officer & Chief Financial Officer, Boot Barn Holdings, Inc.

A

Appreciate it, Jeremy.

James G. Conroy

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

All right. Well, thank you, everyone, for joining the call today and we look forward to speaking with you on our third quarter earnings call. Take care.

Jim Watkins

Senior Vice President-Finance & Investor Relations, Boot Barn Holdings, Inc.

Thank you.

Operator: And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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