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# Boot Barn Holdings, Inc. (BOOT)

Q2 2024 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to the Boot Barn Holdings Second Quarter 2024 Earnings Call. As a reminder, this call is being recorded. Now, I would like to turn the conference over to your host, Mr. Mark Dedovesh, Senior Vice President of Investor Relations and Financial Planning. Please go ahead.

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### Mark Dedovesh

*Senior Vice President-Investor Relations & Financial Planning, Boot Barn Holdings, Inc.*

Thank you. Good afternoon, everyone. Thank you for joining us today to discuss Boot Barn's second quarter fiscal 2024 earnings results. With me on today's call are Jim Conroy, President and Chief Executive Officer; and Jim Watkins, Chief Financial Officer. A copy of today's press release, along with a supplemental financial presentation, 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 2024 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?

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### James G. Conroy

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

Thank you, Mark. And good afternoon. Thank you, everyone, for joining us. On this call, I will review our second quarter fiscal 2024 results, discuss the progress we have made across each of our four strategic initiatives, and provide an update on current business. Following my remarks, Jim Watkins will review our financial performance in more detail, and then we will open the call for questions. We are pleased with our second quarter results, which reflect the continued expansion of the brand's national footprint.

During the quarter, total sales increased 6.5%, driven by the 50 new stores added over the last 12 months, including the 10 stores opened during the second quarter. New store sales were partially offset by mid-single-digit decline of 4.8% in consolidated same store sales, which was within our guidance range. We feel good about this performance considering that the business was cycling a plus-2% comp last year on top of a plus-62% in the prior-year period.

Additionally, we achieved 50 basis points of merchandise margin expansion during the quarter, driven primarily by more than 600 basis points of growth in exclusive brand penetration. The strength in sales and margin, combined with solid expense control, drove earnings per diluted share of \$0.90 during the quarter, which was at the high-

end of our earnings range. Our consistent success is a result of the team's execution of our four strategic initiatives, and underscores the future growth potential of the brand.

I will now spend some time discussing each of our four strategic initiatives. Let's begin with expanding our store base. A key growth tenet for Boot Barn is to build out our store portfolio across the country to solidify our position as the market leader. With the opening of 10 new units in the second quarter, we have now opened 50 new stores in the last 12 months, and 93 stores in the last two years.

We continue to be quite pleased with the success of our store rollout as the group of stores opened over the past two years is projected to pay back within 18 months, with each individual store expected to pay back in less than three years. We believe we have the potential for 900 or more stores in the United States, which will provide a significant lever for future growth in sales and earnings.

In addition to opening new stores, we are continuing with our store remodel and relocation program. We evaluate every store in our portfolio on a continual basis, looking for opportunities to either secure better real estate or to remodel the store in place. Given the progress over the past few years, we are encouraged that only about 60 stores remain to be refreshed or moved. This ongoing focus not only provides the financial payback in many cases, but ensures that our stores are keeping pace with the recent transformation of the Boot Barn brand.

Moving to our second initiative, driving same store sales growth. Second quarter consolidated same store sales declined 4.8%, with retail store same store sales declining 3.8%, and e-commerce same store sales declining 11.7%. Average store sales remain at elevated level with a three-year stack in retail store same store sales growth of more than 66%. Our comp sales were in line with expectations through August, but September experienced softer-than-expected results. The softening trend in same store sales was broad based across both geographies and merchandise categories, leading us to believe that the change in trajectory was driven by macro pressures and a decline in consumer spending.

The trend in our more functional categories, such as work boots and [ph] men's Western (00:05:45) merchandise, has experienced less of a decline than our more discretionary categories, like women's Western merchandise. It is also worth noting that while we have seen a greater decline in our more discretionary businesses, we are cycling a three-year comp growth in ladies Western boots and apparel of more than 100%.

Geographically, our Texas business was weaker than chain average with our North and West regions outperforming the chains. While we believe that the macro pressures are transitory, we are managing our inventory levels, markdown plans and expense structure closely to maximize earnings despite pressure in same store sales growth. In fact, the team has done a very good job of positioning our assortment and inventory levels as we enter the holiday season.

At the end of the quarter, our inventory was down 9% year-over-year in total, and down 14% on a comp store basis. It is partly due to this rigor and discipline that we're able to expand merchandise margin by 50 basis points in the second quarter despite softening sales and moving through additional markdown inventory. From a marketing perspective, the team is building the brand nationally and fueling the ongoing growth in customer count.

Over the past few years, we have created several new partnerships with NASCAR teams, additional rodeos, country music artists and professional athletes. We have two new collaborations that we are particularly excited about. First, we have entered into a partnership with the Dallas Cowboys as the official sponsor for this NFL season. As America's team, we believe the Cowboys organization is a strong partner for us to connect with consumers across the country, as well as strengthen our position locally in the important Dallas market.

Second, Boot Barn will be the 2024 headline tour sponsor for Morgan Wallen, a country music megastar that has tremendous appeal with a very broad consumer market. Morgan has an undeniable connection with his fans across the world, as evidenced by his recent tour spanning 57 shows across five countries and three continents. His latest album, *One Thing at a Time*, topped the Billboard 200 chart for 12 consecutive weeks upon release, which is the most for a country artist in over 30 years. And his prior record, *Dangerous: The Double Album*, is the longest running Billboard top 10 album in history for any solo artist. As part of our sponsorship of his *One Night At A Time World Tour*, we will have in-arena exposure, tour bus marketing, product placement opportunities, and the chance to use him in our merch. We are excited for both of these new partnerships as we expect they will continue to expand the Boot Barn brand nationally, and enable us to reach new customer segments.

Moving to our third initiative, strengthening our omni-channel leadership. In the second quarter, e-commerce sales, which represent approximately 10% of total revenue, declined 11.7%. Our main site, [bootbarn.com](https://bootbarn.com), posted a modest low-single-digit sales decline, faring much better than the balance of our e-commerce business.

It is encouraging that our namesake Boot Barn site is maintaining its volume, and while we would like to grow our other sites, they serve a different strategic purpose and cater to a more price-sensitive customer. The digital team has contributed greatly to the broader business, adding numerous omni-channel capabilities over the past few years. One significant improvement led by the omni-channel team, is the ability to fulfill consumer demand from any store or any distribution facility. This enables us to fulfill orders more quickly and efficiently than shipping everything from a single e-commerce fulfillment center. It also allows us to move through in-store markdowns quicker and with less erosion in price.

Now to our fourth strategic initiative, exclusive brands. During the second quarter, our exclusive brands continued to demonstrate strong double-digit sales growth, with penetration increasing by over 600 basis points to 38.6%. This is the fourth consecutive quarter of greater than 500 basis points of year-over-year growth, significantly outstripping our historical stated goal of 250 to 300 basis points of growth. The product design and development team continues to find opportunities to build market share, and our exclusive brand business alone is on track to generate more than \$600 million in annual revenue.

Turning to current business, we have seen the softness in same store sales in September continue into October. On a consolidated basis, October same store sales declined 9.2% with our retail store same store sales declining 8.2%, and our e-commerce business down 16.7%. Fortunately, we have other growth drivers that continue to perform. We expect to build approximately 26 stores in the final two quarters of the year, which will drive top line sales and build our market share.

We also expect to see ongoing expansion in our merchandise margin rate for the balance of the year, despite a decline in same store sales, which is a testament to nimble execution by the entire merchandising team.

In summary, we believe we have positioned our inventory levels and holiday staffing plans to maximize sales and profitability for the remainder of the quarter and the year. I'd like to now turn the call over to Jim.

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## James M. Watkins

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

Thank you, Jim. In the second quarter, net sales increased 6.5% to \$374 million. Our sales performance benefited from new stores opened during the past 12 months, partially offset by a same store sales decline of 4.8%, comprised of a decrease in retail store same store sales of 3.8%, and a decrease in e-commerce same store

sales of 11.7%. Gross profit increased 4% to \$134 million or 35.8% of sales compared to gross profit of \$129 million or 36.7% of sales in the prior-year period.

The 90-basis-point decrease in gross profit rate resulted from 140 basis points of deleverage in buying occupancy and distribution costs, partially offset by a 50-basis-point increase in merchandise margin rate. The increase in merchandise margin rate was driven by 35 basis points of product margin expansion, resulting primarily from a 620-basis-point increase in exclusive brand penetration, and a 15-basis-point improvement from lower freight expense as a percentage of sales.

Selling, general and administrative expenses for the quarter were \$95 million or 25.5% of sales, compared to \$85 million or 24.2% of sales in the prior-year period. The increase in SG&A expenses compared to the prior-year period was primarily a result of higher store payroll and store-related expenses associated with operating an additional 50 stores when compared to the prior-year period, and general and administrative costs in the current year.

Income from operations was \$39 million or 10.3% of sales in the quarter, compared to \$44 million or 12.6% of sales in the prior-year period. Net income was \$28 million or \$0.90 per diluted share, compared to \$32 million or \$1.06 per diluted share in the prior-year period.

Turning to the balance sheet. On a consolidated basis, inventory decreased 9% from the prior-year period to \$586 million. We finished the quarter with \$39 million in cash, and zero drawn on our \$250 million revolving line of credit.

Turning to our outlook for the remainder of fiscal 2024, as outlined in our supplemental financial presentation, we are lowering our guidance for both the third quarter and full year. As the presentation lays out the low- and high-end of our guidance range for both periods, I will only speak to the high-end of the range in my following remarks. As we look to the third quarter, we expect total sales to be \$535 million. We expect the same store sales decline of 8.0% with retail store same store sales declining 7%, and e-commerce same store sales declining 12.5%.

We expect gross profit to be \$204 million or approximately 38.2% of sales. Gross profit reflects an estimated 310-basis-point increase in merchandise margin, including a 260-basis-point improvement in freight expense year-over-year, and a 50-basis-point improvement in product margin. We anticipate 150 basis points of deleverage in buying, occupancy and distribution center costs. Our income from operations is expected to be \$75 million or 14% of sales. We expect earnings per diluted share to be \$1.79.

As a result of our year-to-date performance and our updated estimates for the rest of the year, we are lowering our full-year guidance. For the full fiscal year, we now expect total sales to be \$1.70 billion, representing growth of 2.7% over fiscal 2023, which as a reminder was a 53-week year. This compares to our previous guidance of \$1.75 billion. We expect same store sales to decline 5% with the retail store same store sales decline of 4% and an e-commerce same store sales decline of 11%. This update compares to our previous guidance of the same store sales decline of 3%.

We now expect gross profit to be \$631 million or approximately 37.1% of sales. Gross profit reflects an estimated 190-basis-point increase in merchandise margin, including a 130-basis-point improvement from freight expense, and a 60-basis-point improvement from product margin. We anticipate 170 basis points of deleverage in buying, occupancy and distribution center costs. Our income from operations is expected to be \$210 million or 12.3% of sales. We expect the net income for fiscal 2024 to be \$153 million and earnings per diluted share to be \$5. We also expect our interest expense to be \$2.4 million, and capital expenditures to be \$105 million.

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

## James G. Conroy

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

Thank you, Jim. We are pleased with our financial performance during the second quarter, and are looking forward to the balance of the year. I do want to thank the entire Boot Barn team across the country for their hard work, and briefly acknowledge some well-deserved third-party recognition. Last month, Boot Barn was recognized by Fortune magazine as one of the top 100 global companies evaluated by three-year growth in sales, earnings and shareholder returns.

It was humbling to be included on a list that includes the world's fastest growing businesses across all sectors, not just retailing. It was a great demonstration of strong teamwork and solid execution, and congratulations to the entire Boot Barn family.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] The first question comes from the line of Matthew Boss with JPMorgan. Please go ahead.

### Matthew R. Boss

*Analyst, JPMorgan Securities LLC*

Great. Thanks. So, Jim, maybe could you help elaborate on the monthly volatility in trends that you're seeing? Maybe if we looked at it by category or by region. And I know you cited the macro. What factors from the macro backdrop do you believe have worsened for your core consumer? And lastly, just as you think about the back half of the year, maybe, how did you dissect or what's your comfort today on the negative high-single-digit comp guide as we think about the back half?

### James G. Conroy

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

I can start, and maybe Jim Watkins will contribute to the tail-end of your question. On a monthly basis, we had a very strong July. Our August business was sort of right in line with our expectations. And then, we started to see a slowing in September. And there is two different things that happened. Number one, it was broad based, so essentially every category saw a step-down. The step-down, though, was more market and more significant in ladies Western boots and ladies Western apparel, which we tend to believe are more discretionary spend businesses than the more functional businesses. And we've seen that same dynamic roll forward into October.

So, I think when we look at all the news out there about inflation, a pullback in consumer spending, potentially the repayment of college loans, geopolitical risk and tensions across the world, that does feel like a bit of a pullback in consumer spending across the board, and it makes sense that we would see that more in the discretionary businesses versus our more functional businesses.

In terms of the outlook for the balance of the year, I'll let Jim complete the response.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Yeah. So, similar to how we guided last quarter and frankly, the quarter before, if we looked at the most recent business and for this period, we look at the last 4 to 6 weeks of sales volume and projected those sales for the balance of the year using our historical weekly sales curves. And that contributed to the guidance that we've got for the second half of the year, which equates in Q3 to a minus 8% at the high-end of the range consolidated. And then, for the full year, a minus 5% at the high-end range consolidated from the same store sales perspective. As far as our comfort level, if we go back three months and the guide that we provided in July using the similar methodology where we had guided August to be minus 4% in the stores and September to be minus 4%, it played out pretty nicely as we got through August. We were a minus 3.7% in September. As Jim mentioned, the sales trend softened, and we were below that.

And so, we felt good using October, which was our probably our toughest month of the year and projecting that forward. If things soften further from here, then that's not reflected in the high-end of the range. It is reflected in the low-end of the range. And if things improve, then obviously we'd be above that.

**Matthew R. Boss**

*Analyst, JPMorgan Securities LLC*

Q

Great. And then, maybe as a follow-up, just in light of the softening, how are you proactively managing inventories today? Are there any areas of markdown exposure across the categories in the back half? And could you just maybe break down the updated gross margin outlook as we think about the drivers, both back half and runway remaining beyond this year?

**James G. Conroy**

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

A

Sure. Maybe we'll [indiscernible] (00:22:14) as well. On the first piece on the merchandise margin part of it, we've been, I think, very vigilant about continuing to work through slower-moving inventory in the categories that aren't performing as well. And most of our fashion risk is in ladies Western boots and ladies Western apparel, and those businesses are down the most. As we called out, our inventory on comp store basis is down 14%. And our inventory in those categories, those categories that you might otherwise think are riskier, we've actually managed inventory down more than we've managed the chain-wide inventory down. So, we feel like we've been on top of markdowns, and the margin erosion that we would expect from that is already embedded in the quarter. And when you think about a slowing same store sales line and an increase in markdowns, we're pretty proud of the fact that we were still able to grow merchandise margin in the quarter.

In terms of the outlook on gross profit for the balance of the year, I'll let Jim Watkins take that one.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Yeah. So, for the full year, we're planning 190 basis points of merch margin expansion, which includes 130 basis points of freight improvement, which is up from the 100 basis points we saw – we had previously guided, and we continue to expect 60 basis points of product margin improvement. And that's really the product margin improvement coming primarily from the increase in exclusive brand penetration of 500 basis points. And Q3 is going to drive more of that. We're expecting it to drive more of the freight improvement in the margin rate. As we get into next year, it's still a little bit early to call that.

But as we're thinking about our inventory planning and the make-up of it, we continue to expect to drive exclusive brand penetration growth as we go into next year. We're not expecting that to be 500 basis point. It probably looks something more like what we've historically guided, maybe it's 200 basis points as we get into next year, we'll update in a few months, and then we're continuing to work with our vendors and really refocus on getting volume discounts and improving our IMU as we've doubled the size of the business over the last few years, and continuing to get some merchandise margin growth, on top of what we would see from exclusive brands.

**Matthew R. Boss**

*Analyst, JPMorgan Securities LLC*

That's great color. Best of luck.

**James G. Conroy**

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

Thanks, Matt.

**Operator:** Thank you. Next question comes from the line of Steven Zaccone with Citi. Please go ahead.

**Steven Zaccone**

*Analyst, Citigroup Global Markets, Inc.*

Great. Thank you very much for taking my question. I wanted to dig into the softness that you've seen in the past couple of months. Can you just talk about what you've seen from customer behavior? Has it been weaker traffic trends or has conversion been more of the issue? And if you think about pricing going forward, the category has taken a good amount of price. Do you see less opportunity to take price up going forward?

**James G. Conroy**

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

Sure. On the same store sales line, from a stores perspective, essentially all of the decline in same store sales is an erosion in average transactions per store. We don't have traffic counters. I can't tell you if that's fewer people coming in the store or fewer of them converting. My intuition tells me that it's just lighter foot traffic into the store. When we look at our customer database, we're still seeing decent repeat customer frequency, both for our legacy customers and for newly added customers. I just think in total, they're shopping a little bit less frequently, which is why our transactions are down, helped a little bit by our basket size being up modestly in the quarter.

In terms of pricing opportunities, I think pricing going forward will be either neutral. There may be opportunities as we've been in an inflationary environment for a while where if we start seeing any input costs come down or if we are able to negotiate better discounts from vendors on cost, we'll likely pass that through to the consumer as lower retail prices maintaining our merchandise margin rate. So, I don't think there is price inflation going forward. I don't think there is – or significant price inflation going forward, nor do I expect to see opportunities to grow our same store sales from that going forward. But we do want to uphold sort of our position in the market as essentially an everyday low price provider of high-quality product at good value.

**Steven Zaccone**

*Analyst, Citigroup Global Markets, Inc.*

Okay. Thanks for that. Just a brief follow-up then. I mean, weather has been choppy. One of your farm and ranch competitors talked about choppy weather, especially in Texhoma. So, have you seen anything as weathers changed?

**James G. Conroy**

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

A

So, the weather in Texas, if you were to play out over the summer, and we tend to not refer back to weather as an excuse or a big reason for changes in our business. Our Texas business was pretty soft for the quarter, like minus-10-ish, and if the weather was slightly better or cooler, it would still have been significantly depressed. So, I think it would have been specious thinking for us to blame it all on weather. That said, as it's cooled off, and it's only been in the last few days, our Texas business has seen a nice improvement. It's less than a week's worth of time.

I certainly don't want to extrapolate that for the balance of the quarter, but at least in this very short window, there does seem to be some reaction to a more traditional fall-like temperatures going across Texas.

**Steven Zaccone**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay, very helpful. Thanks, guys.

**James G. Conroy**

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

A

Thank you.

**Operator:** Thank you. Next question comes from the line of Max Rakhlenko with TD Cowen. Please go ahead.

**Max Rakhlenko**

*Analyst, TD Cowen*

Q

Great. Thanks a lot, guys. So first, can you remind us how much of your business you view to be discretionary? And then, how are you thinking about that part of the portfolio could trend if the consumer backdrop softens versus the more functional part?

**James G. Conroy**

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

A

Sure. I would say discretionary businesses are between 20% and 25% of total sales. Ladies boots and ladies apparel are each roughly 10% of sales. Not all of that is discretionary, but that's sort of how we think about it. And the balance of our business, work boots and work apparel, men's Western boots, and men's Western apparel tend to be just much more functional in nature. And while many of those categories are also down, they tend to fluctuate much less variability than the more fashionable categories of ladies boots and apparel.

**Max Rakhlenko**

*Analyst, TD Cowen*

Q

Great. Thanks a lot. And then, can you just remind us how you're [indiscernible] (00:30:38) versus last year just by month? And then, you lost some very heavy sale days last December, right around the holiday period. So just, any changes in how you're looking to attack those days to maybe make up some of the comp? Thanks and best regards.

**James G. Conroy**

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

A

Sure. From a stores basis, as we look at last year, we were plus-1.5% to 2% in October and November. And then, we got into December, we were about a negative-3% from the stores perspective. As a reminder, and as 5 minutes after I say we don't use weather as an excuse, the last three or four days leading into Christmas Day last year, there was a pretty pronounced snow storm. And we did at some point talk about a \$4 million sales erosion in December due to that. So, if you think about where we're running now and what our guide is, part of the bridge is that \$4 million, which on the balance of the quarter is about 1 point, a little bit more than 1 point of comp.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

And Max, we've got on slide 10 the same store sales by month laid out too, that's easier to reference.

**Max Rakhlenko**

*Analyst, TD Cowen*

Q

Great. Thanks a lot.

**James G. Conroy**

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

A

Thanks, Max.

**Operator:** Thank you. Next question comes from the line of Jason Haas with Bank of America. Please go ahead.

**Jason Haas**

*Analyst, BofA Securities, Inc.*

Q

Hey. Good afternoon, and thanks for taking my questions. I'm curious, Jim Conroy, what gives you confidence that this slowdown is a macro issue and it's not that sales per store are starting to revert back to pre-pandemic levels?

**James G. Conroy**

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

A

Well, the sales per store, we've grown them from roughly \$2.7 million to about \$4.5 million. And our comp is down 3% or 3.8% in the quarter, and a bit more than that towards the end of the quarter. So, we would have to give up much more of that to get back to the \$2.7 million, right. You'll have to get about 30% or 40% of your sales to get back to that number. And I think when you look just across retail and what other people are reporting, there's been a pretty pronounced and, I think, pretty widespread callout of a pullback in consumer spending from Target to Tractor to Floor & Décor, you can kind of go through the growth retailers, and they're all sort of saying the same thing.

**Jason Haas**

*Analyst, BofA Securities, Inc.*

Q

Got it. That certainly makes sense. And then, I was curious about the non-Boot Barn, I believe that's the Sheplers e-commerce business. I think there was an expectation that we would start to lap some of those declines, but it sounds like it's continuing to be soft there. So, I'm just curious what's changed there and, yeah, why hasn't that business started to show some signs of improvement?

**James G. Conroy**

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

A

So, it's a good question. And candidly, that surprised us a little bit. We did expect, as we cycled softer business that would see some relief there. One of the unique aspects of that business is as different than bootbarn.com more of the sheplers.com traffic is driven by paid search. And what we have found is that paid search has become relatively more expensive for us or perhaps relatively less effective, and we just manage that part of our business almost algorithmically where we spend to drive traffic with a certain return on ad spend hurdle to meet, and if we fall below that hurdle, we pull back on the spend. So, that's been the biggest, I think, surprise.

And there's been a number of changes in Google and how they manage their AdWords and the shift towards shopping, et cetera. But when we put all of that together, we've just made a decision to not overspend to get that business back. But again, in the spirit of full transparency, we did expect that business to be a bit better than it has been. If we had our druthers, we'd certainly prefer to have softness outside of bootbarn.com. So, that's fortunately where it is. But we do hope that we can get that business back to, if not growth, at least less of a drag on same store sales.

**Jason Haas**

*Analyst, BofA Securities, Inc.*

Got it. That's helpful. Thank you.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

Thanks, Jason.

**Operator:** Thank you. Next question comes from the line of Janine Stichter with BTIG. Please go ahead.

**Janine Stichter**

*Analyst, BTIG LLC*

Hi, everyone. Just was wondering if you could walk us through some of the changes in the store paybacks. They're still super-strong, but did notice that there's a slightly higher investment embedded in your expectation for new store buildouts, and it looks like slightly lower sales per store. Just walk us through how you're thinking about the cost of the new store, the paybacks and what's changed. Thank you.

**James G. Conroy**

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

Sure. Well, the change since we first went public is quite positive, right. We used to model a three-year payback and \$1.7 million first year sales. And we're essentially at double that now and paying back in a year-and-a-half. So, it's been quite good and much better than we sort of ever anticipated when we laid out our original earnings algorithm.

Over the last couple of years, as we were comping up so strongly in that the tone of the business was extremely positive, that probably flowed over to new stores as well. And I think we've given back a little bit of that layer at the top, but still at a \$3.3 million first year sales, 66% return on invested capital.

It's just a phenomenal use of our capital, and we're pretty excited about our ability to continue to blanket the United States, and add 15% new units going forward for the foreseeable future.

**Janine Stichter**

*Analyst, BTIG LLC*

Q

Great. And then, just maybe anything you're seeing in terms of new markets that you've opened stores in, any differences there between the broader fleet?

**James G. Conroy**

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

A

Nothing significant on a market-by-market basis. We're quite pleased that essentially all of our new stores are performing extremely well. I think in the script, we talked about every new store has either achieved at least a three-year payback or is projected to hit a three-year payback. And as a basket of stores, the payback is about 18 months.

So, as we think about our continued growth in sales, the 52 stores this year and, call it, 50-plus stores next year, we'll give you a specific number when we guide, that will contribute several hundred million dollars over the next couple of years. And just it's a very low beta and high payback investment for us. So, we're going to continue to build the business. We think we can add 600 more stores. And we feel great about the team that's doing that.

**Janine Stichter**

*Analyst, BTIG LLC*

Q

Great. Thanks so much.

**Operator:** Thank you. Next question comes from the line of Dylan Carden with William Blair. Please go ahead.

**Dylan Carden**

*Analyst, William Blair & Co. LLC*

Q

Okay. Thanks. Just trying to sort of think through – I take the point and I think you're right that there are some broad-based sort of macro headwinds from a discretionary spend standpoint. But your business has historically been viewed as somewhat above that. And if you look at some of your bigger end markets, construction, oil and gas, you're seeing general stability, if not strong, wage growth there. How do you kind of square that in your thinking about sort of what's happening right now?

**James G. Conroy**

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

A

I think our business has puts and takes across the board, like any good portfolio, and we have some solid businesses. Our work boots business was down slightly, so kind of much more stable than our more fashionable ladies Western apparel business. So, I think we do have a bit of a risk spread across businesses. And I think the second piece is, as you well know, right, I mean, our business has grown so much and frankly, so much more than essentially every other retailer that as we go up against the comparisons, we're up against [indiscernible] (00:40:34) solid part of our business, we're comping 60%, 70%, two- or three-year comp numbers. So, if we give back 3% of that, I view that as a success, if I'm honest.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Yeah.

**James G. Conroy**

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

A

And I think most people have expected us to give back all of it, and it doesn't appear that that's happening.

**Dylan Carden**

*Analyst, William Blair & Co. LLC*

Q

Got it. And then, on the 600 or just the continued sort of monster growth in your own brands, is part of that a function of a decline in other parts of the business? And is there a, then, I guess, a risk that you kind of give some of that back if the broader box recovers?

**James G. Conroy**

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

A

No, I wouldn't go that way. I think...

**Dylan Carden**

*Analyst, William Blair & Co. LLC*

Q

Okay.

**James G. Conroy**

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

A

...we've expanded legacy brands and we've added some new brands at least in the last year or two, and that has given us some nice growth. There was a time where we had some of our third-party brands struggling to keep up with our sales growth, and the math then worked against them, and their penetration came down. Most of our big brands now are past that and have the ability to ship us. So, I think now we sort of have a fair horse race between brands that we've developed and the third-party brands.

So, I don't think we expect to see a slowdown in exclusive brands based on that. I do think, though, as Jim Watkins called out, with 500 or 600 basis points of growth over the last four quarters, I'm not sure that's sustainable. It was sort of never really planned that way. It's just that the businesses have done so well, and the brand launches have gone so well that we'd outperformed our expectations. But our [indiscernible] (00:42:43) anyway doesn't need to have 5 points of increased penetration. We would do just fine with half of that. So, I don't think your sort of composition concern or percent to total concern would play out, but I do expect that 500 or 600 basis points, this quarter with 620 basis points, I don't expect that's going to continue forever going forward.

**Dylan Carden**

*Analyst, William Blair & Co. LLC*

Q

Got it. Thanks a lot.

**James G. Conroy**

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

A

Sure.

**Operator:** Thank you. Next question comes from the line of Jonathan Komp with Baird. Please go ahead.

**Jonathan R. Komp**

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

Q

Yeah, hi. Good afternoon. Thank you. I want to follow up on the merchandise margin. You're doing an excellent job of holding and growing that. I want to just ask, are you seeing any incremental discounting competitive pressure that you would need to respond to? Just trying to think through any levers you may have to pull if you choose to or not, and maybe separate up discounting. What are some of the ways you can move the needle to offset the trend you're seeing?

**James G. Conroy**

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

A

So, as you know, we compete typically against a single store operator, and there's one regional competitor that's about a fourth of our size. We don't really follow their promotional calendar. We don't really respond to other people in the industry doing – running sales or discounting. If I wanted to or we wanted to drive same store sales, sure, we could discount and advertise more, but we'd make less money and then have to cycle it next year and wind up down a sort of vicious cycle that essentially every other retailer has found themselves in. So, we don't intend to do that just to drive same store sales. We're really happy that sales grew 6.5% in the quarter, and to try to artificially boost comps, we just don't have that in our DNA.

We are trying to do other things though, like how do we make the most of the traffic that we do have coming into the stores, how do we build the size of the basket. The field team is doing a really nice job of trying to increase units per transaction. We try to incent them in different ways to do more of that. We are trying to sort of build the basket as much as we possibly can. We're also doing a number of things from an e-commerce perspective, resorting the site, remerchandising it, trying to really showcase bestselling items more prominently, continually tweaking our marketing and media mix. So, we're doing everything we can to try to get as much same store sales in a healthy way that we can. But we also are managing the downside, which is why I think we feel pretty good about the fact that we've gotten our inventory into a position that if the same store sales trend turns around, I think we'll be fine and can maximize our business. And if it doesn't, I don't expect it'll have any significant merchandise margin erosion. And as Jim called out for the quarter, we expect to see merchandise margin accretion in the third quarter and for the balance of the year.

**Jonathan R. Komp**

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

Q

Yeah. That's really encouraging to hear. And just one other follow-up on the new unit growth, Jim, I think you mentioned 50-plus is the right way to think about next year again without committing today, but maybe to ask differently, what would have to change or are there any scenarios where you would slow unit growth if the macro piece became even more impactful or just trying to think about how set you are on the units or not and how [indiscernible] (00:46:53)?

**James G. Conroy**

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

A

I think retailers tend to slow their new unit growth if one or two different things happen: one is new stores are cannibalizing existing stores more than they expected; or two, they feel like their underlying model is broken or they can't execute anymore. And I don't think either of those are true with us. So, when we look at our business and we look at sort of very laser-focused on same store sales line, we can look at a quarter or a month that we're down or we can look at a multi-year period and say we're up massively.

We also don't see any outsized cannibalization, and we don't see any significant changes in competition. So, at this point, I see certainly no reason to slow down our new store growth. And many would argue that if we could do more, we should because the payback is so strong. But right now, we feel good about the 15% planned for this year, and likely roughly 15% for our next fiscal year.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

And I would just add, Jon, that with a really strong balance sheet, no debt, every comp store in the chain is contributing positive EBITDA, we're in a really nice situation, particularly compared to eight years ago when that wasn't the case. And maybe we did have to slow that a little bit or chose to slow that.

**Jonathan R. Komp**

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

Q

That makes sense. Thank you, guys.

**James G. Conroy**

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

A

Thanks, Jon.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Thanks, Jon.

**Operator:** Thank you. Next question comes from the line of Corey Tarlowe with Jefferies. Please go ahead.

**Corey Tarlowe**

*Analyst, Jefferies LLC*

Q

Hi. Good afternoon. So, just wanted to ask about marketing, so correct me if I'm wrong, but I think this is the first time that Boot Barn has been the sponsor for an NFL team. So, with sales continuing to grow, obviously that's fed your marketing machine with, I believe, marketing relatively consistent at a mid-single-digit percentage of sales. So curious, as sales have continued to grow, the marketing budget seemingly has grown as well, which has unlocked the opportunity to do things or partnerships like with the Dallas Cowboys or being the 2024 headline tour sponsor for Morgan Wallen. So, just curious how you think about the opportunity and scale of Boot Barn's marketing budget as sales have continued to grow, and what that means from a brand awareness and sales perspective.

**James G. Conroy**

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

A

Corey, it's a great question. Very strategic question. You're right, right. Our total revenue in the last three years has essentially doubled, and our marketing as a rate of sale is roughly exactly the same as it was three years ago. So, our marketing dollars have essentially doubled as well. And that does give us the ability to just continue to beat the drum of national brand, larger player in the industry, leading, market leader, and there is an overused term, but there is that virtuous cycle of reaching out, getting more consumers, expanding the reach of the brand outside of sort of a pure Western customer.

Maybe we shouldn't have gone after the Cowboys specifically, maybe that's a little bit narrow minded. But as we go to sort of professional athletes or country music stars, they have a broader reach than sort of our core legacy customer. Yeah, with twice as much marketing dollars spend, we have a competitive advantage that nobody else in the industry has to sort of play sort of at the major leagues. And we're going to continue to do that. And that will build the brand, that will build brand awareness. We hope that will be a national phenomenon. It, of course, is opportunistic, but it's also in Dallas specifically, which is in our top three markets in the country.

So, it's a very insightful callout to recognize that our marketing has continued to evolve as we've gone from a small regional player 10 years ago to pretty big national player today. And I'd expect more of that as we go forward.

**Corey Tarlowe**

*Analyst, Jefferies LLC*

Q

Great. That's very helpful. And then, I just had a longer-term strategic or structural question around merchandise margin. So clearly, exclusive brand penetration has continued to grow. And it seems as if there's still pretty substantial opportunity for merchandise margins and freight. It seems like there's also a slight benefit as well in the quarter. So just curious, given the momentum that you've seen within that component of the gross margin, how high do you think or what do you think the opportunity could be longer term for merchandise margin and gross margin over time?

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Yeah. I'll take that, Corey. You're right. We've seen some nice benefit, whether that's from exclusive brand penetration growth, and also better IMU from our third-party vendors, some really great partners who have helped us as we've grown in size and we've been able to get better volume discounts and purchasing or container loads at times have been helpful, and that will continue to be a driver as we head into the long term.

As far as freight is concerned, I think as we get through this year, we will have recouped some of the headwinds that we've seen over the last couple of years. But we're continuing to look at freight rates with our vendors and how we can get those down, and are pretty optimistic of what that means going forward. And then, as we return to comp growth and we're able to leverage some more of the buying, occupancy, distribution center costs, that's something that we already expect to continue to drive our gross margin rate back up above 38% this year at the high-end of the range, we're guiding that at 37.1%. So, we feel like there are plenty of drivers ahead.

And I would just also throw in, as it relates to SG&A expense and as we look at some of the service providers we have there, and we get through some of these inflationary costs that we've been fighting the last few years, we think there's opportunity to focus and bring some of those cost down as we move into the long term. So, all those things obviously helping to drive EBIT margin back up.

**Corey Tarlowe**

*Analyst, Jefferies LLC*

Q

Great. That's very helpful. Thank you so much, and best of luck.

**James G. Conroy**

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

A

Thank you.

**Operator:** Thank you. Next question comes from the line of Jay Sole with UBS. Please go ahead.

**Jay Sole**

*Analyst, UBS Securities LLC*

Great. Thank you so much. Jim, I just want to follow up on some of the marketing discussion. With someone like Morgan Wallen, can you just talk a little bit more about what you want him to accomplish for the company? Are you looking for him to raise awareness of the Boot Barn brand? Are you looking maybe to just elevate the Boot Barn brand, or maybe promote some of the private – some of the own brands that the company has? [indiscernible] (00:55:20) about what specifically how he can help the company and sort of what the KPIs are that you're using to measure the return on that investment.

**James G. Conroy**

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

Sure. It's a great question. I think it's brand awareness, and he is just an absolute megastar in our industry. He also uniquely has a younger fan base, younger follower. So, if you look at the demographics of a Boot Barn customer, one of the implied objectives we've had for the last several years is to ensure that our customer doesn't age out, and we've made some progress on lowering our average age, and he will help us continue to do that.

We do have the ability to use him, and we very much view it as a partnership. I mean, he's got some really great ideas as well. So, we've already contemplated using him as a spokesperson, maybe if you try a way to describe it, but someone to really get behind one of our existing exclusive brands or just Boot Barn in general or potentially do a line specifically with him. So, all of those things are on the table right now. The actual agreement [ph] really (00:56:50) focuses on his tour at the moment, but we do have the ability to use him and his likeness and his image in much of our marketing on social media when he's out and performing, we'll have a lot of prominence in arenas on his tour buses, et cetera. So, I think it's a number of those things, but the biggest strategic purpose is to bring in more customers that age younger. And he's got a very strong following on the female side. So, that might help kind of get that business sort of back on more solid ground.

**Jay Sole**

*Analyst, UBS Securities LLC*

Got it. Thank you so much.

**James G. Conroy**

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

Of course.

**Operator:** Thank you. Next question comes from the line of Sam Poser with William (sic) [Williams] (00:57:50) Trading. Please go ahead.

**Samuel Poser**

*Analyst, Williams Trading LLC*

Good afternoon. Thank you for taking my question. I've got four, I'm just going to read through them. One, outside of work, what other categories outperformed in the quarter? Two, have you seen any benefit from store traffic or anything from the Cowboys? Three, what are you doing to – I understand the macro, but what's being done to actively drive traffic to the stores and conversion, so how are you using your omni-channel activities or whatever to bring more people to the stores, hopefully getting to buy something? And then, there had been a big differential

with the exclusive brands, between the online and store performance, and I sort of wonder how that gap – is that gap is closing and what that variances is. Thanks.

**James G. Conroy**

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

A

Okay. On the first part of your question, outside of work, what's outperforming, it does fall somewhat tightly into the functional business of work boots and men's Western boots and men's Western apparel are doing better than ladies Western boots and ladies Western apparel. So, the notion of our functional business as less volatile is playing out, just as you might expect. In terms of store traffic from the Cowboys, it's a little bit early to see if we've had specific change in store traffic. I don't have a great answer for you on that one.

What's being done to drive traffic to the stores? We've got a pretty good playbook for driving traffic, right. And our business is twice what it was three years ago. So, it's not a lack of ability to add customers to drive them into the store. We are making some changes or some modifications kind of on the [ph] fringe (00:59:53). So, we are marketing, as I mentioned earlier, we have no intention of becoming more promotional or more sales driven or more markdown focused, but there are times when we've made a decision to have the marketing feel a little bit more commercial and a little bit less pure branding or brand aesthetic.

I mentioned on this call, we've got the field really focused on how do we build the basket when somebody comes into the store. We are constantly trying to build an omni-channel customer from a digital customer. So, your question alluded to what are we doing with the digital customer and how do we build them into a bigger Boot Barn customer. Well, if that digital customer is near a store, and we know that, we market to them differently than if they are a digital customer that has shopped on bootbarn.com, but isn't within a radius of a drive time to a store.

And then, in terms of the exclusive brand penetration between stores and online, in total, we're approaching 3% stores or a little bit higher than that. And our e-commerce business is roughly 30%, a little bit north of 30%. So, that gap has changed substantially. And what drove that mostly is our ability to ship our exclusive brands out of our stores to our digital customers. So, while our e-commerce sales on a same store sales basis are down a bit, our margin rate is being helped by the exclusive brand penetration going up.

**Samuel Poser**

*Analyst, Williams Trading LLC*

Q

Thank you.

**James G. Conroy**

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

A

Hope that helps.

**Samuel Poser**

*Analyst, Williams Trading LLC*

Q

It does. [indiscernible] (01:02:00)

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Okay. Thanks, Sam.

**Operator:** Thank you.

**James G. Conroy**

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

Thanks, Sam.

A

**Operator:** Thank you. Next question comes from the line of Jeremy Hamblin with Craig-Hallum. Please go ahead.

**Jeremy Scott Hamblin**

*Analyst, Craig-Hallum Capital Group LLC*

Thanks. First, I wanted to start with just returning to the gross margin visibility. So, it's pretty impressive given where the comp trends are, your expectations here on gross margins, both in the December quarter, but also for the year. In terms of getting back to what you might feel like is the baseline, can you give us a sense for either kind of the comps you need to produce to get back to, let's say, the 38%-plus for the full fiscal year, or maybe another way to think about it might be just like an AUV level that you think you need to achieve given the buildout costs you've had on the real estate side?

Q

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

Yeah, sure. So, I guess just kind of level-setting, and you know this, Jeremy, but, for everyone else, I guess if you go back to fiscal 2020, our gross profit rate was 32.7%. And we're able to grow that up to a peak of above 38% two years later. And that was up from fiscal 2018 was 30%. So, we feel really good about the 37.1% that we're marching towards this fiscal year, and think that we'll continue to find that opportunity as I mentioned earlier, to march towards 38%.

A

As far as drivers and getting there, I think with the new stores that we've opened over the last two years and the stores we'll continue to open as those march towards maturity and the average unit volume of those stores rise, that's going to help drive some profitability and leveraging the occupancy cost of those stores. We've got the new Kansas City distribution center that we've brought online.

There's some duplicative costs we had this year between the legacy distribution center and the new one that will go away, and we'll get more efficient in those operations, and then continuing to drive just the merchandise margin rate from a product margin and the things we talked about. So, I think we're not far away from the 38%. We're thrilled with the growth that we've seen over the few short years, and that it's sustainable, particularly in this environment when we're seeing little bit of a growth on the full year, and as we return back to our regular growth, what opportunity that provides us.

**Jeremy Scott Hamblin**

*Analyst, Craig-Hallum Capital Group LLC*

Great. And then, a follow-up here. In terms of thinking about how the macro could play out, that's out of your control, we've got low unemployment rates. If that were to track back up to 5%, 6%, and we end up in a recessionary environment, consumer discretionary spend slows further, what type of ability do you think you have to reduce SG&A spend overall?

Q

And then, kind of connected to this question is, how would you think about potentially changing, if at all, the unit growth plan of kind of this mid-teens level that you guys have been delivering on?

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Yeah. I think Jim kind of alluded to the answer on the unit growth question earlier. The fact that we've got such a strong financial position, these stores payback in a year-and-a-half, even if those stores were to slip and pay back in two years or even three years, which is the model we had when we went public, we would continue to expect to open those new stores at that rate. It's hard for us, I guess, to imagine a scenario where we would slow that to any significant degree.

As far as reducing SG&A spend, about roughly half of our spend is variable in nature. And so, as the sales come down, we're able to reduce labor in the stores and some of the store-related costs over time, and the fixed level of expenses, it gets a little bit tougher. But one of the things that we've really been focused on over the last few months and as we look forward, is the last three years, we've just seen this explosive growth, and we've been very focused on meeting the needs of those customers and keeping our pace with the business. And we've seen that in the growth of earnings, and up and down the P&L and the improvement in the balance sheet.

However, we haven't been able to focus as much on driving those expenses down. And so, we've hired up in our procurement department, and we're looking at where in all departments and are starting in earnest really over the last few months to start to drive to get those SG&A expenses down as tight as we can. And so, that's something we're looking forward to regardless of what happens with the overall macro that we'll start to see some benefit from.

**Jeremy Scott Hamblin**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Great. Thanks for taking the questions. Best wishes.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Thanks, Jeremy.

**James G. Conroy**

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

A

Thanks, Jeremy.

**Operator:** Thank you. Next question comes from the line of Mitch Kummetz with Seaport Research. Please go ahead.

**Mitch Kummetz**

*Analyst, Seaport Research Partners*

Q

Yes. Thanks for taking my questions. Can you give us the 2Q comp for ladies boots and ladies apparel, and then can you also tell us how those businesses were in the quarter on a three year?

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Out of the three, there were approximately 100%, and on the quarter we'll look it up, but they were like minus 15% or something. Let's give you a real number.

**James G. Conroy**

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

A

Yeah. In Q2 – I think what you're really asking is how did those businesses evolve throughout the quarter. So, in the quarter specifically, now keep in mind in the quarter, the business didn't change all that much from the first quarter to the second quarter. It just all happened in September and October. So, for the quarter, ladies boots and ladies apparel were around minus 8%, minus 9%. As we got into September and October, that became like a minus 17%. So, it was really more the tail-end of the quarter. And as we turned the page into the third quarter or into October, where those businesses got sort of meaningfully worse, and so that's where we stand.

But to your point, as we look at that business and the team that runs that business that they've doubled the business in a few years and they're giving a bit of it back now. And they've sort of demonstrated their ability to now play defense, and skate backwards a bit. So, we feel good about the fact that they've been able to take inventory levels down more in line with spend, and been kind of very vigilant in working through their markdowns.

**Mitch Kummetz**

*Analyst, Seaport Research Partners*

Q

Got it. And then, Jim, you guys ran double-digit positive comps from late-2021 into early-2023. And if I recall correctly, a healthy portion of that came from acquiring new customers. Can you speak to kind of any metrics with regard to kind of new customer retention? How are you thinking about how well you've been able to retain some of those customers that you added over that period, in particular?

**James G. Conroy**

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

A

So, it's a very good question. You're right. If we look at sort of big picture, roughly half of our growth over the last two or three years, so like 60-ish-percent growth was transaction based, and much of that was from new customers. And they've proven to be loyal to us, sticky, if you will. So, we continue – we were a bit worried that we were going to get an influx of customers, either due to a snapback coming out of COVID, or we had product during difficult supply chain times and nobody else did or we were open, and other people were closed, et cetera. But it seems – more than seems, what we see in the data now is that those customers are now Boot Barn customers, and they're shopping with us at roughly the same frequency that our legacy customers would shop with us.

And while we're comping slightly negative now, if we were to have lost all those customers, we'd be down sort of significant double-digit. So, we feel pretty good about the customer file, the B Rewarded program, the growth in our customer count, I just think in general, they're shopping less frequently.

**Mitch Kummetz**

*Analyst, Seaport Research Partners*

Q

That's helpful. Thanks. Good luck.

**James M. Watkins**

*Chief Financial Officer & Secretary, Boot Barn Holdings, Inc.*

A

Thanks, Mitch.

**Operator:** Thank you. Next question comes from the line of John Lawrence with Benchmark Company. Please go ahead.

**John Lawrence**

*Analyst, The Benchmark Co. LLC*

Q

Yeah. Thanks, guys. Thanks for squeezing me in. Jim, it's only a few quarters ago that you threw out the number of 40% for private label. And that's back when you were in the 28s and 30s, and now we're there. Can you speak to a little bit when you look at the softness overall, which one of these – I was in some stores in last couple of weeks, and surprised that Rank 45 and Shyanne or I'm sorry, Cody James really were presented right in your face at the front of the store. Can you speak to obviously to the strong private-label names just getting stronger or some of the newer names really taking off with traction?

**James G. Conroy**

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

A

I see. Good question. Well, Cody James tends to be very prominently featured in the store, right. It's our number one brand of all brands in the company. So, we tend to lead with that in the front. In terms of broadening to – coming back to your question, we've seen really nice growth in our two most historical brands, which are Cody James and Shyanne, we added Idyllwind in 2018, about five years ago, and that's just been a runaway success and a great partnership for us.

And now, we have some new brands that we've launched, Brothers & Sons, Cleo + Wolf, Blue Ranchwear, Rank 45, and they're emerging, and we've seen some nice pockets of success there. And we expect that they'll continue to build their market share within the store as well over the next few years, which will enable us to take the 40% up to 50% EVE in, call it, three or four years. So, we just feel great about the product design and development team, their partnership with our buyers, our field team that gets behind the exclusive brands, and understands the functions and features of the product to showcase that to our customers.

And we do that in the context of still being a really important customer for the top Western brands in the space, Wrangler, Ariat, Justin, Carhartt, et cetera. So, I think we feel really good about the composition of brands in general, and still believe there's some growth opportunities ahead for us for our exclusive brands.

**John Lawrence**

*Analyst, The Benchmark Co. LLC*

Q

Great. Thanks. And the last question for me, does the Cowboys agreement include any retail placement at the Cowboys shops or at AT&T?

**James G. Conroy**

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

A

No. it's really a marketing agreement. We can do brand activations there, but we won't see significant product selling at all.

**John Lawrence**

*Analyst, The Benchmark Co. LLC*

Q

Great. Thanks. Congrats.

**James G. Conroy**

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

A

Than you.

**Operator:** Thank you. There are no further questions at this time. I would now like to turn the floor over to Jim Conroy for closing comments.

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## James G. Conroy

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

Well, thank you, everybody, for joining the call today. And we look forward to speaking with you on our third quarter earnings call. Take care.

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

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