

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

Form 10-K

March 29, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 2, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-36401

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

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(Exact name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	39-1975614 (I.R.S. Employer Identification No.)
7035 South High Tech Drive	
Midvale, Utah (Address of principal executive offices)	84047 (Zip Code)

Registrant's telephone number, including area code: (801) 566-6681

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value \$0.01 Per Share; Common stock traded on the Nasdaq stock market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act:

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of August 3, 2018, the last business day of the registrant’s most recently completed second quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The Nasdaq Stock Market on such date, was \$204,983,741. Shares held by each executive officer and director and by each other person or entity deemed to be an affiliate have been excluded in such calculation. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Registrant’s Common Stock outstanding as of March 29, 2019 was 42,978,780.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Definitive Proxy Statement relating to the 2019 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the 2018 fiscal year, are incorporated by reference into Part III of this Report.

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References throughout this document to “Sportsman’s Warehouse,” “we,” “us,” and “our” refer to Sportsman’s Warehouse Holdings, Inc. and its subsidiaries, and references to “Holdings” refer to Sportsman’s Warehouse Holdings, Inc. excluding its subsidiaries.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “10-K”) contains statements that constitute forward-looking statements as that term is defined by the Private Securities Litigation Reform Act of 1995. These statements concern our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition, which are subject to risks and uncertainties. All statements other than statements of historical fact included in this 10-K are forward-looking statements. These statements may include words such as “aim,” “anticipate,” “assume,” “believe,” “can have,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “li,” “objective,” “plan,” “potential,” “positioned,” “predict,” “should,” “target,” “will,” “would” and other words and terms of similar nature in connection with any discussion of the timing or nature of future operating or financial performance or other events or trends. For example, all statements we make relating to our plans and objectives for future operations, growth or initiatives and strategies are forward-looking statements.

These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions. We derive many of our forward-looking statements from our own operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that predicting the impact of known factors is very difficult, and we cannot anticipate all factors that could affect our actual results.

All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- our retail-based business model is impacted by general economic conditions and economic and financial uncertainties may cause a decline in consumer spending;
- current and future government regulations, in particular regulations relating to the sale of firearms and ammunition, may impact the demand for our products and our ability to conduct our business;
- our concentration of stores in the Western United States makes us susceptible to adverse conditions in this region, which could affect our sales and cause our operating results to suffer;

- we operate in a highly fragmented and competitive industry and may face increased competition;
- we may not be able to anticipate, identify and respond to changes in consumer demands, including regional preferences, in a timely manner; and
- we may not be successful in operating our stores in any existing or new markets into which we expand.

The above is not a complete list of factors or events that could cause actual results to differ from our expectations, and we cannot predict all of them. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements disclosed under “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this 10-K, as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission (the “SEC”), including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, and public communications. You should evaluate all forward-looking statements made in this 10-K and otherwise in the context of these risks and uncertainties.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on any forward-looking statements we make. These forward-looking statements speak only as of the date of this 10-K and are not guarantees of future performance or developments and involve known and unknown risks, uncertainties and other factors that are in many cases beyond our control. Except as required by law, we undertake no obligation to update or revise any forward-looking statements publicly, whether as a result of new information, future developments or otherwise.

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PART I

Item 1. Business.

Overview

Sportsman's Warehouse is an outdoor sporting goods retailer focused on meeting the everyday needs of the seasoned outdoor veteran, the first-time participant, and every enthusiast in between. Our mission is to provide an omni-channel shopping experience that equips our customers with the right quality hunting, shooting, fishing and camping gear to maximize their enjoyment of the outdoors. We strive to accomplish this goal by tailoring our broad and deep merchandise assortment to meet local conditions and demand, offering everyday low prices, providing friendly support from our knowledgeable, highly trained staff, offering a top-tier e-commerce experience and extensive in-store events and educational programming. These core strategies help position Sportsman's Warehouse as the "local outdoor experts" and the preferred place to both shop and share outdoor-based experiences in the communities we serve. As a result, we are growing our loyal customer base in existing markets, expanding our footprint into new markets, and increasing our omni-channel presence new and existing markets, which we believe will further drive our growth and profitability.

Sportsman's Warehouse was founded in 1986 as a single retail store in Midvale, Utah and has grown to 92 stores across 23 states. Today, we have the largest outdoor specialty store base in the Western United States and Alaska. Our stores range from 15,000 to 65,000 gross square feet, with an average size of approximately 40,000 gross square feet. Our store layout is adaptable to both standalone locations and strip centers. We believe it is less capital-intensive for us to open new stores compared to our principal competitors because our "no frills" store layout requires less initial cash investment to build out and our stores generally require less square footage than the stores of our competitors. We also have the largest offering of firearms available online for in-store purchase by our customers when compared to the offerings of our major competitors. Together, these features enable us to effectively serve markets of multiple sizes, from Metropolitan Statistical Areas ("MSAs") with populations of less than 75,000 to major metropolitan areas with populations in excess of 1,000,000, while generating consistent four-wall Adjusted EBITDA margins and returns on invested capital across a range of store sales volumes. We may post information that is important to investors on our website from time to time. The information provided on our website is not part of this report and is, therefore, not incorporated herein by reference.

Our Competitive Strengths

We believe the following competitive strengths allow us to capitalize on the growth opportunity within the outdoor activities and sporting goods market:

Differentiated Shopping Experience for the Seasoned Outdoor Veteran, the First-Time Participant and Every Enthusiast in Between. We place great emphasis on creating an inviting and engaging store experience for customers of all experience levels. For the seasoned outdoor veteran, we offer a one-stop, convenient store layout that promotes “easy-in, easy-out” access to replenish supplies, learn about local conditions and test products. We also serve first-time participants and casual users who are interested in enjoying the outdoors but enter our store without a clear sense for what equipment they need for their chosen activity. Our highly trained employees, who often are outdoor enthusiasts themselves and users of the products we sell, engage and interact with our customers in order to educate them and equip them with the right gear. Our sales associates draw upon both formal vendor sales training as well as first-hand experiences from using our products in local conditions. This selling approach allows us to offer a broad range of products and to deliver a shopping experience centered on the customer’s needs, which we believe results in increased customer loyalty, repeat visits and frequent referrals to other potential customers.

A customer’s shopping experience in our stores is further enhanced by a variety of helpful in-store offerings and features, including the issuance of hunting and fishing licenses, local fishing reports, availability of Sportsman’s News (our proprietary in-store newspaper), access to the Braggin’ Board (where customers can post photos of their outdoor adventures), indoor test ranges for archery equipment and displays of customer-owned taxidermy. In addition, we host a variety of in-store programs (such as “ladies night”), contests (such as Bucks & Bulls, a free-to-enter, big-game trophy contest) and a wide range of instructional seminars, from turkey frying to firearm operation and safety. We also offer the ability for our customers to buy our product on-line and pick up their order in any of our stores. These programs are all designed to help our customers connect with the outdoors and build the skill sets necessary to maximize enjoyment of their chosen activities. As a result, we believe our stores often serve as gathering spots where local enthusiasts can share

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stories, product knowledge and advice on outdoor recreation activities, which both drives traffic and fosters customer loyalty.

Our in-store experience is further complimented by our top-tier e-commerce experience available on our website, sportsmans.com.

Locally Relevant Merchandise Serving the Comprehensive Needs of Outdoor Enthusiasts at a Compelling Value. We offer our customers an extensive and carefully selected assortment of branded, high-quality outdoor products at competitive prices. We accomplish this in three principal ways:

- **Locally Relevant Merchandise:** We carry over 68,000 SKUs on average in each store, out of a pool of approximately 150,000 total SKUs. Each store's merchandise is tailored to meet local conditions and consumer demand, taking into account seasonal requirements, regional game and fishing species, geographic diversity, weather patterns and key demographic factors, so that our customers have the right product, at the right time, for the right location.
- **Breadth and Mix of Product Assortment:** Our merchandise strategy is designed to serve a variety of purchasing occasions, from big-ticket items to replenishment activity, as well as to meet the wide-ranging needs of customers from first-time participants to seasoned outdoor veterans. We pride ourselves on carrying an extensive selection of branded, "good, better and best" hard goods at everyday low prices, including a broad array of in-stock consumable items. Approximately 35% of our unit sales and 19% of our dollar sales during fiscal year 2018 were consumable goods, such as ammunition, bait, cleaning supplies, food, some lures, propane and reloading supplies. We believe this pairing of product breadth and consumable goods appeals to a broad range of customers and drives both repeat traffic and increased average ticket value.
- **Strong Vendor Relationships:** We believe our vendors find our "brand-centric", high-service store concept to be unique among national specialty outdoor retailers. Our attractive store locations, consistent presentation of merchandise and thorough product training present a compelling opportunity for our vendors to offer their brands to local markets that historically have been served primarily by "mom & pop" retailers. As a result, we believe we are able to negotiate terms with our vendors that are similar to those offered to our principal competitors that are larger in size. We share the benefits of these strategic vendor relationships with our customers through better pricing and enhanced access to certain products that are limited in production.

Flexible and Adaptable Real Estate Strategy. We believe that our store model, combined with our rigorous site selection process, is uniquely customizable to address the needs of the different markets we serve. Our stores vary in size from approximately 15,000 to 65,000 gross square feet. We have had success with leasing existing sites as well as constructing new build-to-suit sites. Our flexible store model permits us to serve both large metropolitan areas, like Phoenix, Arizona, and smaller MSAs, like Soldotna, Alaska, while generating consistent four-wall Adjusted EBITDA margins and returns on invested capital across a range of store sales volumes. In small- to medium-sized markets, we are often able to establish ourselves as a standalone destination for our customers; in larger markets, we have successfully leveraged existing infrastructure to open stores in shopping plazas near complementary retailers, drawing

upon existing foot traffic. We believe our low-cost, flexible model allows us to access both large and small markets more economically than many of our peers.

We maintain a disciplined approach to new store development and perform comprehensive market research before selecting a new site, including partnering with specialized, third-party local real estate firms. We select sites based on criteria such as local demographics, traffic patterns, density of hunting and fishing license holders in the area, abundance of hunting and fishing game and outdoor recreation activities, store visibility and accessibility, purchase data from our existing customer database and availability of attractive lease terms. We have established productive relationships with well-regarded commercial real estate firms and believe that we are a sought-after tenant, given the strength of the Sportsman's Warehouse brand, the high volume of customers that visit our stores and our flexible approach to site locations. As a result, we continue to have access to desirable retail sites on attractive terms.

Low Cost Operating Structure with Attractive and Replicable Store Economics. We strive to maintain a lower operating cost structure than our principal competitors, which allows us to serve small- to medium-sized markets as well as larger MSAs. We achieve this by exercising tight control over store-level expenses, real estate costs and corporate overhead. In addition, our growing store base, efficient, localized marketing spend and "no frills" warehouse store layout

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helps us maintain comparatively low operating costs and provide us with the opportunity to achieve four-wall Adjusted EBITDA margins of 10% or more for stores in most new markets. Our typical new store requires an average net investment of approximately \$2.0 million, which includes store build-out (net of contributions from landlords) and pre-opening cash expenditures. In addition, we stock each new store with initial inventory at an average cost of approximately \$2.2 million. We target a pre-tax return on invested capital within one year after opening of over 50% excluding initial inventory cost (or over 20% including initial inventory cost), although our historical returns have often exceeded these thresholds. As of the end of fiscal year 2018, the majority of our stores that had been open for more than twelve months were profitable and those stores had an average Adjusted EBITDA margin of 12.0%. We believe this low-cost, capital-efficient approach also allows us to successfully serve markets that are not well-suited for the more capital-intensive store models of our principal competitors. Approximately 61% of our markets currently lack another nationally recognized outdoor specialty retailer, which we believe is a result of these dynamics.

Significant New Store Growth Opportunity within Existing and New Markets. As of February 2, 2019, we operate 92 stores across 23 states, primarily in the Western United States and Alaska, with a presence in these markets that is nearly three times that of the next largest outdoor retailer. We believe our leadership position in the Western United States, combined with our existing scalable infrastructure, provides a strong foundation for continued expansion within our core markets.

Passionate and Experienced Management Team with Proven Track Record. We are focused on delivering an unsurpassed shopping experience to anyone who enjoys the excitement of the outdoors. This passion and commitment is shared by team members throughout our entire organization, from senior management to the employees in our stores. Our senior management team has an average of 23 years of retail experience, with extensive capabilities across a broad range of disciplines, including merchandising, real estate, finance, compliance, store operations, supply chain management and information technology. We also pride ourselves on the long tenure of our more than 200 store managers and corporate employees, who have been with us for an average of approximately nine years.

Our Growth Strategy

We are pursuing a number of strategies designed to continue our growth and strong financial performance, including:

Growing Our Omni-Channel Presence and Increasing Our Same Store Sales Growth. We are committed to growing our omni-channel presence and increasing same store sales through a number of ongoing and new initiatives, including: developing our website to improve functionality, expanding our product assortment through drop ship and buy online, pick-up in store capabilities, continuing to improve the ability and increase our selection of firearms that can be bought using our website and picked up in the store, expanding our clothing offerings and private label program (such as our proprietary Rustic Ridge™ and Killik™ clothing lines), continuing to improve our loyalty program, and continuing our “store-within-a-store” programs with major brands such as Carhartt, Columbia Sportswear and Under Armour. Each of these ongoing and new initiatives is designed to foster additional shopping convenience, add deeper merchandise selection and provide more product information to the customer. We believe these initiatives have

driven and will continue to drive additional traffic, improved conversion and increased average ticket value.

Continuing to Enhance Our Operating Margins. We believe that our expansion of our store base and growth in net sales will result in improved Adjusted EBITDA margins as we take advantage of economies of scale in product sourcing and leverage our existing infrastructure, supply chain, corporate overhead and other fixed costs. Furthermore, we expect to increase our gross profit margin by expanding product offerings in our private label program, including our proprietary Rustic Ridge™ and Killik™ clothing lines, and continuing marketing initiatives in our higher-margin clothing and footwear departments.

Growing the Sportsman's Warehouse Brand. We are committed to supporting our stores, product offerings and brand through a variety of marketing programs, private label offerings and corporate partnerships. Our marketing and promotional strategy includes coordinated print, digital and social media platforms. In-store, we offer a wide range of outdoor-themed activities and seminars, from turkey frying to firearm operation and safety. In addition, we sponsor community outreach and charity programs to more broadly connect with our local communities with the aim of promoting our brand and educating consumers. Finally, we are committed to local chapters of national, regional and local wildlife federations and other outdoor-focused organizations, such as Ducks Unlimited and the Rocky Mountain Elk Foundation. Many of our store managers and employees serve in senior positions in these organizations, which

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further strengthens our place as leaders in the local outdoor community. We believe all of these programs promote our mission of engaging with our customers and serving outdoor enthusiasts.

Expanding Our Store Base. We believe that our compelling new store economics and our track record of opening successful new stores provide a strong foundation for continued growth through new store openings in existing, adjacent and new markets. Over the last three fiscal years, we have opened an average of nine stores per year. We currently plan to open three new stores in fiscal year 2019. In 2019, we expect we will grow our square footage approximately 3% as we continue to shift some of our cash use to reducing our debt balance. Over the long term, however, our target is to grow our square footage at a rate of greater than 5% annually. Our longer-term plans include expanding our store base to serve the outdoor needs of enthusiasts in markets across the United States. We believe our existing infrastructure, including distribution, information technology, loss prevention and employee training, is capable of sustaining 100 or more stores without significant additional capital investment.

Our Stores

We operate 92 stores across 23 states as of February 2, 2019. Most of our stores are located in power, neighborhood and lifestyle centers. Power centers are large, unenclosed shopping centers that are usually anchored by three or more national supercenters, such as Target, Wal-Mart and Costco. Neighborhood centers are shopping centers anchored by a supermarket or drugstore that provide convenience goods and services to a neighborhood. Lifestyle centers are shopping centers that combine the traditional functions of a shopping mall with leisure amenities such as pedestrian friendly areas, open air seating and inviting meeting spaces. We also operate several single-unit, stand-alone locations. Our stores average approximately 40,000 gross square feet.

The following table lists the location by state of our 92 stores open as of February 2, 2019:

	Number of Stores		Number of Stores
Washington	12	South Carolina	2
California	11	Tennessee	1
Utah	9	Minnesota	1
Oregon	8	Iowa	1
Arizona	8	Kentucky	1
Colorado	6	Louisiana	1
Idaho	6	Mississippi	1
Alaska	5	North Dakota	1
Wyoming	5	Virginia	1
Nevada	4	North Carolina	1
New Mexico	3	West Virginia	1
Montana	3		

Store Design and Layout

We present our broad and deep array of products in a convenient and engaging atmosphere to meet the everyday needs of all outdoor enthusiasts, from the seasoned veteran to the first-time participant. We maintain a consistent floor layout across our store base that we believe promotes an “easy-in, easy-out” shopping experience. All of our stores feature wide aisles, high ceilings, visible signage and central checkouts with multiple registers. Sportsman’s Warehouse stores, true to their name, are designed in a “no frills” warehouse format that welcomes customers directly from or on the way to an outdoor activity. All of our stores also feature “store-within-a-store” concepts for certain popular brand partners, such as Carhartt, Columbia Sportswear and Under Armour, through which we dedicate a portion of our floor

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space to these brands to help increase visibility and drive additional sales. The diagram below demonstrates our typical store layout.

Our stores include locally relevant features such as a large fishing board at the entrance that displays current fishing conditions in local lakes and rivers with coordinating gear in end-cap displays in the fishing aisles. We actively engage our customers through in-store features such as the Braggin' Board, various contests (such as Bucks & Bulls and Fish Alaska), and customer-owned taxidermy displays on the walls. We also host in-store programs such as "ladies night" and a wide range of instructional seminars, from Dutch oven cooking to choosing the right binocular. Annually, we organize approximately 3,000 programs across our stores for the benefit of our customers. We believe these programs help us connect with the communities in which we operate and encourage first time participants to build the skills necessary to become outdoor enthusiasts and loyal customers.

The retail stores and the distribution center have loss prevention employees who monitor an average of 60 cameras at each store and 200 at the distribution center. These cameras are connected to digital video recorders (DVR) that record at least 30 days of video. Cameras are monitored locally during store hours. In addition, all cameras are monitored centrally at our headquarters in our dedicated surveillance room, which has capacity to monitor over 120 stores. This room is staffed continuously and provides off-hours monitoring and backup for all stores. Digital recorded video can be searched by pixel movement, which can quickly identify any loss prevention issue. Our sophisticated systems are a key factor in our shrink rates of less than 1% and an important component of our comprehensive compliance program.

Expansion Opportunities and Site Selection

We have developed a rigorous and flexible process for site selection. We select sites for new store openings based on criteria such as local demographics, traffic patterns, density of hunting and fishing license holders in the area, abundance of hunting and fishing game and outdoor recreation activities, store visibility and accessibility, purchase data from our existing customer database and availability of attractive lease terms. Our store model is adaptable to markets of

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multiple sizes, from MSAs with populations of less than 75,000 to major metropolitan areas with populations in excess of 1,000,000. We have been successful both in remodeling existing buildings and in constructing new build-to-suit locations.

Our store model is designed to be profitable in a variety of real estate venues, including power, neighborhood and lifestyle centers as well as single-unit, stand-alone locations. In small- to medium-sized markets, we generally seek anchor locations within high-traffic, easily accessible shopping centers. In larger metropolitan areas, we generally seek locations in retail areas with major discount retailers (such as Wal-Mart), wholesale retailers (such as Costco), other specialty hardline retailers (such as The Home Depot) or supermarkets. As we continue to expand our store base, we believe that small- to medium-sized markets offer a significant opportunity. In these markets, we believe our store size, which is smaller than many of our national competitors but larger than many independent retailers, enables us to find convenient, easily accessible store locations while still offering the broad and deep selection of merchandise that our customers desire. In addition, our store format and size allow us to open multiple stores in local areas within major MSAs, which gives our customers convenient, easy access to our products without having to travel long distances.

Members of our real estate team spend considerable time evaluating prospective sites before bringing a proposal to our real estate committee. Our real estate committee, which is comprised of senior management including our Chief Executive Officer, Chief Financial Officer, Vice President of Real Estate, and Senior Vice President of Stores, approves all prospective locations before a lease is signed.

We opened five new stores in fiscal year 2018. We currently plan to open an additional three new stores in fiscal year 2019. In 2019, we expect we will grow our square footage approximately 3% as we continue to shift some of our cash use to reducing our debt balance. Over the long term, however, our target is to grow our square footage at a rate of greater than 5% annually. Our new store openings are planned in existing, adjacent and new markets.

Our new store growth plan is supported by our target new unit economics, which we believe to be compelling. A typical store location ranges in size from 15,000 to 65,000 gross square feet. Our net investment to open a new store is approximately \$2.0 million, consisting of pre-opening expenses and capital investments, net of tenant allowances. In addition, we stock each new store with initial inventory at an average cost of approximately \$2.2 million. For the first twelve month period after opening a new store, we target net sales of \$8.0 million to \$11.0 million, a four-wall Adjusted EBITDA margin of more than 10% and a pre-tax return on invested capital of over 50% excluding initial inventory cost (or over 20% including initial inventory cost). Our new stores typically reach a mature sales growth rate within three to four years after opening, with net sales increasing approximately 25% in the aggregate during this time period. For the 52 stores opened since 2010 that have been open for a full twelve months (excluding our 10 acquired stores), we achieved an average four-wall Adjusted EBITDA margin of 12.0% and an average ROIC of 63.3% excluding initial inventory cost (and 24.6% including initial inventory cost) during the first twelve months of operations. In addition, we achieved an average pre-tax payback period of less than one year (excluding initial inventory cost) and expect to achieve an average pre-tax payback period of approximately 2.5 years (including initial inventory cost).

Omni-Channel Strategy

We believe our website is an extension of our brand and our retail stores. Our website, www.sportsmans.com, serves as both a sales channel and a platform for marketing and product education, and allows us to engage more fully with the local outdoor community. In 2018, we redeveloped our website to improve functionality. Our website features a similar merchandise assortment as offered in our stores as well as certain products found exclusively online.

Regulatory restrictions create certain structural barriers to the online sale of a portion of our revenue, such as firearms, ammunition, certain cutlery, propane and reloading powder. As a result, this portion of our business is currently more protected from online-only retailers, such as Amazon.

We also provide our online customers with convenient omni-channel services. To ensure that our customers have access to our entire assortment of products available on the e-commerce website, our retail stores feature kiosks that allow customers to place orders for items that are available only on our website or that are out of stock or not regularly stocked. We view our kiosk offering as an important complement to our larger format stores, as well as a key differentiator and extension of our smaller format stores. Our in-store pickup offering allows customers to order products through our e-commerce website and pick up the products in our retail stores without incurring shipping costs. We believe our ship-to-store functionality is a valuable service offering to customers, as well as a means to generate additional foot traffic to our retail stores.

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In addition, our website features local area content, including fishing reports and event schedules, as well as online educational resources, including tips, advice and links to video demonstrations on our dedicated YouTube channel. We have also rolled out our social media strategy through our Facebook page and Instagram feed. These platforms allow us to reach our customers more directly with targeted postings of advertisements and in-store events. We believe our online educational resources and community outreach drive traffic to our website and retail stores, while improving user engagement as shoppers move from single-purchase users to loyal customers. We provide online customer service support and fulfill all orders in-house through our distribution center and through select partner drop ship integration. In fiscal year 2018 our website received greater than 29.2 million visits, which we believe demonstrates our position as a leading resource for outdoor products and product education.

Our Products and Services

Merchandise Strategy

We offer a broad range of products at a variety of price points and carry a deep selection of branded merchandise from well-known manufacturers, such as Browning, Carhartt, Coleman, Columbia Sportswear, Federal Premium Ammunition, Honda, Johnson Outdoors, Remington, Shakespeare, Shimano, Smith & Wesson and Under Armour. To reinforce our convenient shopping experience, we offer our products at competitive, everyday low prices. We believe our competitive pricing strategy supports our strong value proposition, instills price confidence in both our customers and our sales associates and is a critical element of our competitive position.

We believe we offer a wider selection of hard goods than many of our principal competitors. We employ a “good, better, and best” merchandise strategy, with an emphasis on “better” products that meet the needs of customers of all experience levels. We strive to keep our merchandise mix fresh and exciting by continuously searching for new, innovative products and introducing them to our customers. Our hunting and shooting department, which is strategically located at the back of the store, is a key driver of store traffic and one of the reasons for our high frequency of customer visits. We carry a large array of consumable goods, which includes ammunition, bait, cleaning supplies, food, select lures, propane and reloading supplies. During fiscal year 2018, sales of consumable goods accounted for approximately 35.0% of our unit sales and 19.0% of our dollar sales. We believe the sale of consumables and replenishment items drives repeat traffic, with approximately 66% of our customers visiting our stores seven or more times per year (according to our internal surveys). During such visits, our customers frequently browse and purchase other items, including additional gear and accessories.

We also carry a variety of private label and special make-up offerings under the Rustic Ridge™, Killik™, Vital Impact™, Yukon Gold, Lost Creek and Sportsman’s Warehouse brands as well as special make-up items through vendors such as Tikka, Camp Chef, and various others. These products are designed and priced to complement our branded assortment, by offering our customers a quality alternative at all price points. We believe the clothing,

footwear and camping categories present a compelling near-term opportunity to expand our private label offering. In order to address these segments, we previously introduced our proprietary Rustic Ridge™ and Killik™ clothing lines. During fiscal year 2018, private label offerings accounted for approximately 3.6% of our total sales with special make-up offerings accounting for an additional 1.4% of our total sales. This combined total of 5.0% compares to more than 20% for many of our sporting goods retail peers. We believe our private label and special make-up products are an important opportunity to drive sales and increase margins alongside our branded merchandise.

In addition to outfitting our customers with the correct gear, we provide our customers with various in-store, and inner company options, along with value-added, technical support services, such as gunsmithing and firearm service plans.

Our stores offer full-service archery technician services, fishing-reel line winding, gun bore sighting and scope mounting, and cleaning services. We also help first-time participants enjoy the outdoors responsibly by issuing hunting and fishing licenses. We believe the support services provided by our highly trained staff technicians differentiate us from our competitors and drive customer loyalty and repeat traffic to our stores.

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Products

Our stores are organized into six departments. The table below summarizes the key product lines and brands by department:

Department	Product Offerings
Camping	Backpacks, camp essentials, canoes and kayaks, coolers, outdoor cooking equipment, sleeping bags, tents and tools
Clothing	Camouflage, jackets, hats, outerwear, sportswear, technical gear and work wear
Fishing	Bait, electronics, fishing rods, flotation items, fly fishing, lines, lures, reels, tackle and small boats
Footwear	Hiking boots, socks, sport sandals, technical footwear, trail shoes, casual shoes, waders and work boots
Hunting and Shooting	Ammunition, archery items, ATV accessories, blinds and tree stands, decoys, firearms, firearms safety and storage, reloading equipment, and shooting gear
Optics, Electronics, Accessories, and Other	Gift items, GPS devices, knives, lighting, optics (e.g. binoculars), two-way radios, and other license revenue, net of revenue discounts

Each department has buying and planning teams that are responsible for monitoring product availability from vendors and sales volume within the department and across all stores. We actively monitor the profitability of each product category within each department and adjust our assortment and selling space accordingly. This flexibility enables us to provide customers with more preferred product choices and to enhance the profit potential of each store.

Hunting and shooting have historically been the largest contributor to our sales. Hunting and shooting department products are generally sold at significantly higher price points than other merchandise but often have lower margins. Camping is our second largest department, and family-oriented camping equipment in particular continues to be a high growth product category. Clothing sales have grown as we have introduced new brands and styles, including our selections for women and children. We view clothing sales as an important opportunity, given this department's high gross margins and appeal to a broad, growing demographic.

The following table shows our sales during the past three fiscal years presented by department:

Department	Product Offerings	Fiscal Year Ended		
		February 2, 2019	February 3, 2018	January 28, 2017

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Camping	Backpacks, camp essentials, canoes and kayaks, coolers, outdoor cooking equipment, sleeping bags, tents and tools	14.2%	15.1%	14.6%
Clothing	Camouflage, jackets, hats, outerwear, sportswear, technical gear and work wear	8.9%	9.3%	8.7%
Fishing	Bait, electronics, fishing rods, flotation items, fly fishing, lines, lures, reels, tackle and small boats	10.6%	10.7%	10.0%
Footwear	Hiking boots, socks, sport sandals, technical footwear, trail shoes, casual shoes, waders and work boots	7.3%	7.4%	7.1%
Hunting and Shooting	Ammunition, archery items, ATV accessories, blinds and tree stands, decoys, firearms, reloading equipment and shooting gear	48.3%	48.7%	50.9%
Optics, Electronics, Accessories, and Other	Gift items, GPS devices, knives, lighting, optics (e.g. binoculars), two-way radios, and other license revenue, net of revenue discounts	10.6%	8.8%	8.7%
Total		100.0%	100.0%	100.0%

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Camping. Camping represented approximately 14.2% of our net sales during fiscal year 2018. Our camping assortment addresses both the technical requirements of the heavy-use camper, including gear for long-duration or deep-woods excursions, as well as the needs of the casual camper. We offer a broad selection of tents and shelters for both multi-day back country use and weekend outings, sleeping bags for the most extreme conditions as well as the summer overnight trip, backpacks and backpacking gear, including camouflaged styles for hunting, generators for home and camp use, cooking and food preparation equipment, including stoves and extended-use coolers, as well as dehydrated foods. Our camping department also includes canoes, kayaks and a selection of recreational family camping equipment, including basic automotive accessories, camp chairs and canopies. Our camping department includes brands such as Alps Mountaineering, Camp Chef, Coleman, Honda, Teton Sports, and Yeti Coolers.

Clothing. Clothing represented approximately 8.9% of our net sales during fiscal year 2018 and includes camouflage, outerwear, sportswear, technical gear, work-wear, jackets and hats. We primarily offer well-known brands in our clothing department, such as Carhartt, Columbia, Sitka, and Under Armour. We also intend to grow our private label clothing lines, including Rustic Ridge™ and Killik™. Our clothing selection offers technical performance capabilities for a variety of hunting activities, including upland game, waterfowl, archery, big game hunting, turkey hunting and shooting sports. Performance attributes include waterproofing, temperature control, scent control features and visual capabilities, such as blaze orange and camouflage in a wide range of patterns. Outerwear, particularly performance rainwear, is an important product category for customers who are fishing, hiking, hunting or marine enthusiasts. We further complement our technical clothing with an assortment of casual clothing that fits our customers' lifestyles, including a variety of branded graphic t-shirts, and private label motto t-shirts.

Fishing. Fishing represented approximately 10.6% of our net sales during fiscal year 2018 and includes products for fresh-water fishing, salt-water fishing, fly-fishing, ice-fishing and boating. Our broad assortment appeals to the beginning and weekend angler, as well as avid and tournament anglers. In addition to lures, rods and reels, our fishing assortment features a wide selection of products in tackle management and organization, electronics, fly-fishing, ice-fishing and marine accessories sub-categories. We also provide fishing-reel line winding services in all of our stores and live bait in most of our stores. We offer products for boat care and maintenance, as well as safety equipment and aquatic products such as float tubes and pontoons. All of our stores also sell fishing licenses. Our fishing department includes brands such as Johnson Outdoors, Normark, Plano, Pure Fishing, Rivers Wild Flies, and Shimano.

Footwear. Footwear represented approximately 7.3% of our net sales during fiscal year 2018 and includes work boots, technical footwear, hiking boots, trail shoes, socks, sport sandals and waders. As with clothing, our footwear selection offers a variety of technical performance capabilities, such as different levels of support and types of tread, waterproofing, temperature control and visual attributes. Our footwear department includes brands such as Danner, Keen, Merrell, Red Wing, and Under Armour.

Hunting and Shooting. Hunting and shooting is our largest merchandise department, representing approximately 48.3% of our net sales during fiscal year 2018. Products such as ammunition, cleaning supplies, firearms, firearms safety and storage, and reloading selections are typically key drivers of traffic in our stores. Our hunting and shooting merchandise assortment provides equipment, accessories and consumable supplies for virtually every type of hunting

and shooting sport. A backroom shop staffed with technicians allows us to support our hunting assortments for the benefit of the hunter, shooter, and archery enthusiast. Our merchandise selection includes a wide variety of firearms designed for hunting, shooting sports and home and personal defense, including air guns, black powder muzzle loaders, handguns, rifles and shotguns. We carry a wide selection of ammunition, archery equipment, dog training products, hunting equipment, reloading equipment and shooting accessories. Our hunting and shooting department includes brands such as Federal Premium Ammunition, Hornady, Remington Arms, Ruger, Smith & Wesson, and Winchester.

Optics, Electronics, Accessories and Other. Our optics, electronics, accessories and other department represented approximately 10.6% of our net sales during fiscal year 2018. This department supplements our other equipment departments with complementary products, such as optics (including binoculars, spotting scopes and rangefinders), GPS devices and other navigation gear, GoPro video cameras, two-way radios, specialized and basic cutlery and tools, including hunting and other knives, lighting, bear spray and other accessories. Our optics, electronics and accessories department includes brands such as Garmin, Leica, Nikon, Swarovski Optik and Vortex Optics. Our other department includes miscellaneous products and services.

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Loyalty Programs

We have a loyalty program through which our consumers are able to earn “points” towards Sportsman’s Warehouse gift cards on most of their purchases. The program is free to join and accepted through all channels for both purchases and the use of redemption cards. As of February 2, 2019, we had approximately 1.9 million participants in our loyalty program.

Customers may obtain a loyalty program card when making a purchase in-store or online. After obtaining a card, the customer must register on our website in order to redeem loyalty rewards. Customers earn one point for each dollar spent, with the exception of certain items, such as gift cards and fish and game licenses. For every 100 points accumulated, the customer is entitled to a \$1.00 credit in loyalty rewards, which may be redeemed by logging into our website to request a redemption card for any whole dollar amount (subject to the customer’s available point balance). The redemption card is then mailed to the customer and operates as a gift card to be used for both in-store and online purchasing. The rewards points expire after 18 months of dormancy.

In addition, we offer our customers the multi-use Sportsman’s Warehouse Rewards VISA Platinum credit card issued by US Bank. US Bank extends credit directly to cardholders and provides all servicing for the credit card accounts, funds the rewards and bears all credit and fraud losses. This card allows customers to earn points whenever and wherever they use their card. Customers may redeem earned points for products and services just as they would redeem loyalty card points.

Sourcing and Distribution

Sourcing

We maintain central purchasing, replenishment and distribution functions to manage inventory planning, allocate merchandise to stores and oversee the replenishment of basic merchandise to the distribution center. We have no long-term purchase commitments. During fiscal year 2018, we purchased merchandise from approximately 1,500 vendors with no vendor accounting for more than approximately 6% of total merchandise purchased. We have established long-standing, continuous relationships with our largest vendors.

Our sourcing organization is currently managed by our merchant team in our corporate headquarters. We also have field merchants that coordinate certain merchandising functions at the store level to provide a more localized merchandising model. To ensure that our product offerings are tailored to local market conditions and demand, our merchant teams regularly meet one-on-one with our vendors, and attend trade shows, review trade periodicals and

evaluate merchandise offered by other retail and online merchants. We also frequently gather feedback and new product reviews from our store management and employees, as well as from reviews submitted by our customers. We believe this feedback is valuable to our vendor-partners and improves our access to new models and technologies.

Distribution and Fulfillment

We currently distribute all of our merchandise from our 507,000 square foot distribution center in Salt Lake City, Utah. The distribution center supports replenishment for all 92 stores and manages the fulfillment of direct-to-consumer e-commerce orders. We use preferred carriers for replenishment to our retail stores. We ship merchandise to our e-commerce customers via courier service. An experienced distribution management team leads a staff of approximately 400 employees at peak inventory levels heading into the fourth quarter.

The distribution center has dynamic systems and processes that we believe can accommodate continued new store growth. We use the HighJump Warehouse Management System (“WMS”) to manage all activities. The system is highly adaptable and can be easily changed to accommodate new business requirements. For example, our WMS enabled us to support full omni channel distribution under one roof by allowing us to comingle inventory to optimize space requirements and labor. Additionally, we have developed customized Radio Frequency and Voice Directed processes to handle the specific requirements of our operations. We have the capability to both case pick and item pick, which is designed to ensure that our stores have sufficient quantities of product while also allowing us to maintain our in stock levels. This balance allows us to stock the right products at the necessary locations, all at the right time and in the correct quantity.

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Marketing and Advertising

We believe, based on internal surveys, that the majority of our customers are male, between the ages of 35 and 65, and have an annual household income between \$40,000 and \$100,000. We also actively market to women and children and have expanded our product offerings of women's and children's outerwear, clothing and footwear to address rising participation rates in hunting and shooting sports, as well as overall outdoor activity.

Our primary marketing efforts are focused on driving additional consumers to the stores and increasing the frequency and profitability of visits by customers of all types. We employ a two-pronged marketing approach:

- regional advertising programs; and
- local grass roots efforts to build brand awareness and customer loyalty.

Our regional advertising programs emphasize seasonal requirements for hunting, fishing and camping in our various store geographies. Our advertising medium is typically newspaper inserts (primarily multi-page color inserts during key shopping periods such as the Christmas season and Father's Day), supplemented with modest amounts of direct mail, seasonal use of local and national television ads and a variety of out-of-home media buys. We proactively modify the timing and content of our message to match local and regional preferences, changing seasons, weather patterns and topography of a given region. In addition, the use of co-op funding with select vendors to supplement our out-of-pocket media expenses allows us to improve brand exposure through various advertising vehicles, while partnering with national brands in relevant media channels. This program also reinforces the general consumer's impression of Sportsman's Warehouse as a preferred retailer for those brands. Finally, we sponsor regional and national television programming, including sponsoring the, Angler's Channel, Fishful Thinking, Hooked on Utah and Eastman's Hunting TV. Our total marketing expenses for fiscal year 2018 were approximately \$10.3 million, excluding co-op reimbursement of \$1.9 million.

The second prong of our marketing effort is the time and resources devoted to fostering grass roots relationships in the local community. Each Sportsman's Warehouse store employs a variety of outreach tools to build local awareness. One key component to a successful store is hosting events throughout the year, targeting a variety of end user customer profiles (such as hunters, campers, anglers, women and children). In total, our store base hosts or facilitates approximately 3,000 in-store and offsite seminars and events per year, such as "ladies night," Eastman's Deer Tour, Waterfowl Weekend, Conservation Days contest and Bucks & Bulls. We are also active in supporting a variety of conservation groups, such as Ducks Unlimited, Rocky Mountain Elk Foundation, Mule Deer Foundation and the National Wild Turkey Federation, both at the corporate level and through store employee local memberships and participation. Company representatives attend more than 600 events annually in the aggregate, both to provide support for these organizations and to solidify ties between their members and the Sportsman's brand. Furthermore, we believe that the Sportsman's News newspaper, offered in-store, provides a unique point of contact with our customers by offering outdoor stories, product reviews, how-to articles and new product introductions to keep all of our customers

up to date on the latest trends and technology. Finally, such grass roots campaigns enable us to reduce our initial marketing spend in connection with new store openings. We believe that these initiatives are highly cost-effective tools to create brand awareness and engender a loyal community of local customers, as well as a key differentiator versus other national retailers.

Hiring, Training and Motivating our Employees

We believe that the recruitment, training and knowledge of our employees and the consistency and quality of the service they deliver are central to our success. We emphasize deep product knowledge for store managers and sales associates at both the hiring and training stages. We hire most of our sales associates for a specific department or product category. As part of the interview process, we test each prospective employee for knowledge specific to the department or category in which he or she is applying to work. All of our managers and sales associates undergo focused sales training, consisting of both sales techniques and specialized product instruction, both immediately upon hiring (approximately 20 hours) and continuing throughout their career (approximately 16 hours annually). In addition, our sales associates receive loss prevention instruction and departmental training upon hiring. For example, in our hunting department, all employees receive an additional nine hours of training on ATF and company policies initially upon hire, with continuing education throughout the year. Our store managers complete two to six months of on-the-job training at another store with an existing district manager, as part of which they receive approximately 80 hours of dedicated

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managerial training and instruction. Our department heads receive extensive online training as well as on-site instruction, totaling approximately 40 hours. As a result of these programs, our employees are highly trained to provide friendly and non-intimidating education, guidance and support to address our customers' needs.

Our employees are often outdoor enthusiasts themselves, participating in outdoor activities alongside our customers in the local community. Our employees spend a portion of their gross wages in-store, underscoring their passion for both our company and the outdoor lifestyle. We believe our level of employee store patronage is unique among our competitors in this industry and enhances our differentiated shopping experience.

One of our unique assets is a specially designed training room located at our headquarters. Our training room is used frequently for firm-wide training programs and by vendors to stage training demonstrations for new products. Training room sessions are broadcast real-time in high definition to each store location and are recorded for future viewing. Vendor training is especially interactive, permitting vendor representatives to present a uniform message simultaneously to all employees, while allowing managers and sales staff in individual stores to ask questions of the vendors and provide real-time feedback on products. This system decreases the vendor's promotion and education costs and provides more meaningful training to our employees. Training room sessions are particularly important for technical products, especially those with numerous features and a high unit price, because they enable our sales associates to better educate customers and provide additional assurance that a given product fits the customer's needs. Given its utility as a cost-effective sales tool, our training room is reserved well in advance by vendors. We believe our training program has been a critical factor in increasing conversion and average ticket growth.

Information Technology

Business critical information technology ("IT") systems include our supply chain systems, merchandise system, point-of-sale ("POS") system, warehouse management system, e-commerce system, loss prevention system and financial and payroll systems. Our IT infrastructure is robustly designed to be able to access real-time data from any store or channel. The network infrastructure allows us to quickly and cost effectively add new stores to the wide area network ("WAN"). The private WAN is built on a CenturyLink backbone with all of its resources and support. Additionally, we have implemented a redundant wireless WAN on Verizon's infrastructure. All key systems will continue to run in the event of a power or network outage. All data is backed up daily from one storage array to another storage array.

We have implemented what we believe to be best-of-class software for all of our major business critical systems. Key operating systems include Oracle Applications for ERP, SAP Commerce for our e-commerce channel, Salesforce's (formally Tomax's) Retail.net and JPOS for in-store functionality and HighJump for WMS. Our physical infrastructure is also built on products from best-in-class vendors Cisco, Dell, Oracle Sun and VMWare. Originally designed with the goal of being able to run a significantly larger retail business, our IT systems are scalable to support our growth.

We furthermore have incorporated enhanced reporting tools that have allowed for more comprehensive monitoring of business performance, which has been critical to management's ability to drive strong store level performance. Management has access to a reporting dashboard that shows key performance indicators ("KPIs") on a company, store, department and category level. KPIs include sales, margin, budget, conversions, payroll, shrinkage and average order value all on a daily, weekly, monthly and yearly basis. All KPIs are compared to comparable prior year periods. District, store and department managers have access to the data relevant to their area of responsibility. Real-time, up to the second, sales data is available on demand. The system allows for custom-created reports as required.

Intellectual Property

Sportsman's Warehouse®, Sportsman's Warehouse America's Premier Outfitter®, Lost Creek®, LC Lost Creek Fishing Gear and Accessories®, Rustic Ridge™, Killik™, K Killik & Design™, LC & Design™, and Vital Impact™ are among our service marks or trademarks registered with the United States Patent and Trademark Office. In addition, we own several other registered and unregistered trademarks and service marks involving advertising slogans and other names and phrases used in our business. We also own numerous domain names, including www.sportsmans.com, among others. The information on, or that can be accessed through, our websites is not a part of this filing.

We believe that our trademarks are valid and valuable and intend to maintain our trademarks and any related registrations. We do not know of any material pending claims of infringement or other challenges to our right to use our marks in the United States or elsewhere. We have no franchises or other concessions that are material to our operations.

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Our Market and Competition

Our Market

We compete in the large, growing and fragmented outdoor activities and sporting goods market, which we believe is currently underserved by full-line multi-activity retailers. We believe, based on reports by the National Sporting Goods Association and other industry sources, that U.S. outdoor activities and sporting goods retail sales in our related product categories totaled over \$70 billion in 2018. The U.S. outdoor activities and sporting goods sector is comprised of three primary categories—equipment, clothing and footwear—with each category containing distinct product sets to support a variety of activities, including hunting, fishing, camping and shooting, as well as other sporting goods activities.

We believe growth in the U.S. outdoor activities and sporting goods market is driven by several key trends, centered around enhancing performance and enjoyment while participating in sporting and outdoor activities, including new product introductions, and the resilience of consumer demand for purchases in these categories versus other discretionary categories. We believe these factors will continue to foster growth in the outdoor activities and sporting goods market in the future.

Within the retail sporting goods sector, we operate primarily in the outdoor equipment, clothing and footwear segment, which includes hunting and shooting, fishing, camping and boating. This segment is growing at a faster rate than the sporting goods industry at large. The 2016 U.S. Fish and Wildlife national survey, published once every five years, found that fishing participation increased 9% and participation in wildlife relation recreation increased 6%, for Americans aged 16 and older from 2011 to 2016.

A 2018 National Sporting Goods Association report indicated a 2% increase in hunting and firearm equipment sales from 2017 to 2018.

Furthermore, we believe that specialty retailers have generated additional sales volume by expanding their presence, especially in smaller communities, which has increased customers' access to products that formerly were less available. The nature of the outdoor activities to which we cater requires recurring purchases throughout the year, resulting in high rates of conversion among customers. For example, active anglers typically purchase various fishing tackle throughout the year based on seasons and changing conditions. Hunting with firearms typically is accompanied by recurring purchases of ammunition and cleaning supplies throughout the year and multiple firearm styles for different hunted game.

Competition

We believe that the principal competitive factors in our industry are breadth and depth of product selection, including locally relevant offerings, value pricing, convenient locations, technical services and customer service. A few of our competitors have a larger number of stores, and some of them have a greater market presence, name recognition and financial, distribution, marketing and other resources than we have. We believe that we compete effectively with our competitors with our distinctive branded selection and superior customer service, as well as our commitment to understanding and providing merchandise that is relevant to our targeted customer base. We cater to the outdoor enthusiast and believe that we have both an in-depth knowledge of the technical outdoor customer and a “grab and go” store environment that is uniquely conducive to their need for value and convenience. We believe that our flexible box size, combined with our low-cost, high-service model, also allows us to enter into and serve smaller markets that our larger competitors cannot penetrate as effectively. Finally, certain barriers, including legal restrictions, exist on the sale of our product offerings that comprise a portion of our revenue, such as firearms, ammunition, certain cutlery, propane and reloading powder, create a structural barrier to competition from many online retailers, such as Amazon.

Our principal competitors include the following:

- independent, local specialty stores, often referred to as “mom & pops”;
- other specialty retailers that compete with us across a significant portion of our merchandising categories through retail store, catalog or e-commerce businesses, such as Bass Pro Shops and Cabela’s;

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- large-format sporting goods stores and chains, such as Academy Sports + Outdoors and Dick's Sporting Goods; and
- mass merchandisers, warehouse clubs, discount stores, department stores and online retailers, such as Amazon, Target and Wal-Mart.

Independent, Local Specialty Stores. These stores generally range in size from approximately 2,000 to 10,000 square feet, and typically focus on one or two specific product categories, such as hunting, fishing or camping, and usually lack a broad selection of product.

Other Specialty Retailers. Some of the other specialty retailers that compete with us across a significant portion of our merchandising categories are large-format retailers that generally range in size from 40,000 to 250,000 square feet. These retailers seek to offer a broad selection of merchandise focused on hunting, fishing, camping and other outdoor product categories. Some of these stores combine the characteristics of an outdoor retailer with outdoor entertainment and theme attractions. We believe that the number of these stores that can be supported in any single market area is limited because of their large size and significant per-store cost.

Other specialty retailers are smaller chains that typically focus on offering a broad selection of merchandise in one or more of the following product categories—hunting, fishing, camping or other outdoor product categories. We believe that these other outdoor-focused chains generally do not offer a similar depth and breadth of merchandise or specialized services in all of our product categories.

Large-Format Sporting Goods Stores And Chains. These stores generally range from 20,000 to 80,000 square feet and offer a broad selection of sporting goods merchandise covering a variety of sporting goods categories, including baseball, basketball, football and home gyms, as well as hunting, fishing and camping. However, we believe that the amount of space at these stores devoted to our outdoor product categories limits the extent of their offerings in these areas.

Mass Merchandisers, Warehouse Clubs, Discount Stores, Department Stores and Online Retailers. With respect to retailers in this category with physical stores, these stores generally range in size from approximately 50,000 to over 200,000 square feet and are primarily located in shopping centers, free-standing sites or regional malls. Hunting, fishing and camping merchandise and clothing represent a small portion of the stores' assortment, and of their total sales. We believe that less than 10% of our product offering, and less than 5% of our hunting and shooting product offering, overlap with these stores.

Over the past decade, specialty retailers, such as us, have gained market share of equipment sales at the expense of mass merchants, discount stores and independent retailers, or "mom & pop" shops, which we believe comprise approximately 65% of the market. In addition, while there are over 60,000 Type 01 Federal Firearms Licenses, or

FFLs, in the United States today, only 4,000 are currently held by national or regional specialty stores. Since FFLs are issued at the store level, these statistics imply that the remaining 95% of the market is fragmented among mom & pop stores. We believe this fragmentation within the total addressable market presents an attractive opportunity for us to continue to expand our market share, as customers increasingly prefer a broad and appealing selection of merchandise, competitive prices, high levels of service and one-stop shopping convenience.

Seasonality

We experience moderate seasonal fluctuations in our net sales and operating results as a result of holiday spending and the opening of hunting seasons. While our sales are more level throughout the year than many retailers, our sales are still traditionally somewhat higher in the third and fourth fiscal quarters than in the other quarterly periods. On average over the last three fiscal years, we have generated 27.0% and 29.0% of our net sales in the third and fourth fiscal quarters, respectively, which includes the holiday selling season as well as the opening of the fall hunting season. However, Spring hunting, Father's Day and the availability of hunting and fishing throughout the year in many of our markets counterbalance this seasonality to a certain degree. For additional information, see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operation."

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Regulation and Compliance

Regulation and Legislation

We operate in highly regulated industries. There are a number of federal, state and local laws and regulations that affect our business. In every state in which we operate, we must obtain various licenses or permits in order to operate our business.

Because we sell firearms at all of our retail stores, we are subject to regulation by the Bureau of Alcohol, Tobacco, Firearms and Explosives, or the “ATF”. Each store has a federal firearms license permitting the sale of firearms, and our distribution center has obtained a federal firearms license to store and distribute firearms. Certain states require a state license to sell firearms, and we have obtained these licenses for the states in which we operate that have such a requirement.

We must comply with federal, state and local laws and regulations, including the National Firearms Act of 1934, or NFA, the Gun Control Act of 1968, or GCA, the Arms Export Control Act of 1976 and Internal Revenue Code provisions applicable to the Firearms and Ammunition Excise Tax, all of which have been amended from time to time. The NFA and the GCA require our business to, among other things, maintain federal firearms licenses for our locations and perform a pre-transfer background check in connection with all firearms purchases. We perform this background check using either the FBI-managed National Instant Criminal Background Check System, or NICS, or a comparable state government-managed system that relies on NICS and any additional information collected by the state, a state point of contact. These background check systems either confirm that a transfer can be made, deny the transfer or require that the transfer be delayed for further review, and provide us with a transaction number for the proposed transfer. We are required to record the transaction number on an ATF Form 4473 and retain this form in our records for auditing purposes for 20 years for each approved transfer and five years for each denied or delayed transaction.

The federal categories of prohibited purchasers are the prevailing minimum for all states. States (and, in some cases, local governments) on occasion enact laws that further restrict permissible purchasers of firearms. We are also subject to numerous other federal, state and local laws and regulations regarding firearm sale procedures, record keeping, inspection and reporting, including adhering to minimum age restrictions regarding the purchase or possession of firearms or ammunition, residency requirements, applicable waiting periods, importation regulations and regulations pertaining to the shipment and transportation of firearms.

In September 2004, Congress declined to renew the Assault Weapons Ban of 1994, or AWB, which prohibited the manufacture of certain firearms defined as “assault weapons”; restricted the sale or possession of “assault weapons,” except those that were manufactured prior to the law’s enactment; and placed restrictions on the sale of new high

capacity ammunition feeding devices. Various states and local jurisdictions, including Colorado, California, and Washington (states in which we operate stores), have adopted their own versions of the AWB or high capacity ammunition feeding device restrictions, some of which restrictions apply to the products we sell in other states. If a statute similar to the AWB were to be enacted or re-enacted at the federal level, it would impact our ability to sell certain products. Additionally, state and local governments have proposed laws and regulations that, if enacted, would place additional restrictions on the manufacture, transfer, sale, purchase, possession and use of firearms, ammunition and shooting-related products. For example, several states, such as California, Colorado, Connecticut, Florida, Maryland, New Jersey, New York, and Washington have enacted laws and regulations that are more restrictive than federal laws and regulations that limit access to and sale of certain firearms and ammunition. Connecticut and New York impose mandatory screening of ammunition purchases; California and the District of Columbia have requirements for microstamping (that is, engraving the handgun's serial number on each cartridge) of new handguns; Washington recently passed legislation that, among other things, raises the minimum age to purchase any firearm to 21 from 18 and imposes a three-day waiting period on gun purchases. California also raised the minimum age to purchase any firearm to 21 and enacted several restrictions regarding ammunition sales. Some states prohibit the sale of guns without internal or external locking mechanisms. Other state or local governmental entities may also explore similar legislative or regulatory initiatives that may further restrict the manufacture, sale, purchase, possession or use of firearms, ammunition and shooting-related products.

The Protection of Lawful Commerce in Arms Act, which became effective in October 2005, prohibits civil liability actions from being brought or continued in any federal or state court against federally licensed manufacturers, distributors, dealers or importers of firearms or ammunition for damages, punitive damages, injunctive or declaratory

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relief, abatement, restitution, fines, penalties or other relief resulting from the criminal or unlawful misuse of a qualified product by third parties. The legislation does not preclude traditional product liability actions.

We are also subject to a variety of federal, state and local laws and regulations relating to, among other things, protection of the environment, human health and safety, advertising, pricing, weights and measures, product safety, and other matters. Some of these laws affect or restrict the manner in which we can sell certain items, such as handguns, smokeless powder, black powder substitutes, ammunition, bows, knives and other products. State and local laws and regulations governing hunting, fishing, boating, ATVs and other outdoor activities and equipment can also affect our business. We believe that we are in substantial compliance with the terms of such laws and that we have no liabilities under such laws that we expect could have a material adverse effect on our business, results of operations or financial condition.

In addition, many of our imported products are subject to existing or potential duties, tariffs or quotas that may limit the quantity of products that we may import into the United States and other countries or impact the cost of such products. To date, quotas in the operation of our business have not restricted us, and customs duties have not comprised a material portion of the total cost of our products.

Our e-commerce business is subject to the Mail or Telephone Order Merchandise Rule and related regulations promulgated by the Federal Trade Commission, or FTC, which affect our catalog mail order operations. FTC regulations, in general, govern the solicitation of orders, the information provided to prospective customers, and the timeliness of shipments and refunds. In addition, the FTC has established guidelines for advertising and labeling many of the products we sell.

Compliance

We are routinely inspected by the ATF and various state agencies to ensure compliance with federal and local regulations. While we view such inspections as a starting point, we employ more thorough internal compliance inspections to help ensure we are in compliance with all applicable laws. With the IT infrastructure systems we have in place, certain components of recall inspections can be done remotely.

We dedicate significant resources to ensure compliance with applicable federal, state and local regulations. Since we began operations in 1986, none of our federal firearm licenses have been revoked, and none of our ATF compliance inspections within the last ten years have resulted in a major violation.

We are also subject to a variety of state laws and regulations relating to, among other things, advertising and product restrictions. Some of these laws prohibit or limit the sale, in certain states and locations, of certain items, such as black powder firearms, ammunition, bows, knives, and similar products. Our compliance department administers various restriction codes and other software tools to prevent the sale of such jurisdictionally restricted items.

We have particular expertise in the California market and have passed several California Department of Justice, or CA DOJ, firearm audits with zero violations or only minor violations. The CA DOJ communicates with us for policy discussion, recognizing the strength of our compliance infrastructure.

Employees

As of February 2, 2019, we had approximately 5,100 total employees. Of our total employees, approximately 200 were based at our corporate headquarters in Midvale, Utah, approximately 400 were located at our distribution center, and approximately 4,500 were store employees. We had approximately 1,700 full-time employees and approximately 3,400 part-time employees, who are primarily store employees. None of our employees are represented by a labor union or are party to a collective bargaining agreement, and we have had no labor-related work stoppages. Our positive relationship with our employees is one of the keys to our success.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available on our web site at www.sportsmanswarehouse.com, free of charge, as soon

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as reasonably practicable after the electronic filing of these reports with, or furnishing of these reports to, the SEC. In addition, the SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

ITEM 1A. RISK FACTORS

Our business faces significant risks and uncertainties. Certain important factors may have a material adverse effect on our business prospects, financial condition and results of operations, and you should carefully consider them.

Accordingly, in evaluating our business, we encourage you to consider the following discussion of risk factors, in its entirety, in addition to other information contained in or incorporated by reference into this 10-K and our other public filings with the SEC. Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

Risks Related to Our Business

Current and future government regulations, in particular regulations relating to the sale of firearms and ammunition, may negatively impact the demand for our products and our ability to conduct our business.

We operate in a complex regulatory and legal environment that could negatively impact the demand for our products and expose us to compliance and litigation risks, which could materially affect our operations and financial results. These laws may change, sometimes significantly, as a result of political, economic or social events. For instance, Washington recently passed legislation that, among other things, raises the minimum age to purchase any firearm to 21 from 18 and imposes a five-day waiting period on gun purchases. Some of the federal, state or local laws and regulations that affect our business and demand for our products include:

- federal, state or local laws and regulations or executive orders that prohibit or limit the sale of certain items we offer, such as firearms, black powder firearms, ammunition, bows, knives and similar products;
- the ATF, regulations, audit and regulatory policies that impact the process by which we sell firearms and ammunition and similar policies of state agencies that have concurrent jurisdiction, such as the CA DOJ;
- laws and regulations governing hunting and fishing;
- laws and regulations relating to the collecting and sharing of non-public customer information;

- laws and regulations relating to consumer products, product liability or consumer protection, including regulation by the Consumer Product Safety Commission and similar state regulatory agencies;
- laws and regulations relating to the manner in which we advertise, market or sell our products;
- labor and employment laws, including wage and hour laws;
- U.S. customs laws and regulations pertaining to proper item classification, quotas and the payment of duties and tariffs; and
- FTC regulations governing the manner in which orders may be solicited and prescribing other obligations in fulfilling orders and consummating sales.

Over the past several years, bills have been introduced in the United States Congress that would restrict or prohibit the manufacture, transfer, importation or sale of certain calibers of handgun ammunition, impose a tax and import controls on bullets designed to penetrate bullet-proof vests, impose a special occupational tax and registration requirements on manufacturers of handgun ammunition and increase the tax on handgun ammunition in certain calibers. Because we carry these products, such legislation could, depending on its scope, materially harm our sales.

Additionally, state and local governments have proposed laws and regulations that, if enacted, would place additional restrictions on the manufacture, transfer, sale, purchase, possession and use of firearms, ammunition and shooting-related products. For example, in response to mass shootings and other incidents in the United States, several

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states, such as Colorado, Connecticut, Maryland, New Jersey, and New York, have enacted laws and regulations that limit access to and sale of certain firearms in ways more restrictive than federal laws. Other state or local governmental entities may continue to explore similar legislative or regulatory restrictions that could prohibit the manufacture, sale, purchase, possession or use of firearms and ammunition. In New York and Connecticut, mandatory screening of ammunition purchases is now required. In addition, California and the District of Columbia have adopted requirements for micro-stamping (that is, engraving the handgun's serial number on the firing pin of new handguns), and at least seven other states and the United States Congress have introduced microstamping legislation for certain firearms. Lastly, some states prohibit the sale of firearms without internal or external locking mechanisms, and several states are considering mandating certain design features on safety grounds, most of which would be applicable only to handguns. Other state or local governmental entities may also explore similar legislative or regulatory initiatives that may further restrict the manufacture, sale, purchase, possession or use of firearms, ammunition and shooting-related products.

The regulation of firearms, ammunition and shooting-related products may become more restrictive in the future. Changes in these laws and regulations or additional regulation, particularly new laws or increased regulations regarding sales and ownership of firearms and ammunition, could cause the demand for and sales of our products to decrease and could materially adversely impact our net sales and profitability. Sales of firearms represent a significant percentage of our net sales and are critical in drawing customers to our stores. A substantial reduction in our sales or margins on sales of firearms and firearm related products due to the establishment of new regulations could harm our operating results. Moreover, complying with increased or changed regulations could cause our operating expenses to increase.

Our retail-based business model is impacted by general economic conditions in our markets, and ongoing economic and financial uncertainties may cause a decline in consumer spending that may adversely affect our business, operations, liquidity, financial results and stock price.

As a retail business that depends on consumer discretionary spending, we may be adversely affected if our customers reduce, delay or forego their purchases of our products as a result of job losses, bankruptcies, higher consumer debt and interest rates, increases in inflation, higher energy and fuel costs, reduced access to credit, falling home prices and other adverse conditions in the mortgage and housing markets, lower consumer confidence, uncertainty or changes in tax policies and tax rates, uncertainty due to potential national or international security concerns and adverse or unseasonal weather conditions. Decreases in same store sales, customer traffic to our stores and e-commerce site or average ticket sales negatively affect our financial performance, and a prolonged period of depressed consumer spending could have a material adverse effect on our business. Promotional activities, vendor incentives, and decreased demand for consumer products could affect profitability and margins. In addition, adverse economic conditions may result in an increase in our operating expenses due to, among other things, higher costs of labor, energy, equipment and facilities. Due to fluctuations in the U.S. economy, our sales, operating and financial results for a particular period are difficult to predict, making it difficult to forecast results to be expected in future periods. Any of the foregoing factors could have a material adverse effect on our business, results of operations and financial condition and could adversely affect our stock price.

Our concentration of stores in the Western United States makes us susceptible to adverse conditions in this region.

The majority of our stores are currently located in the Western United States, comprising Alaska, Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. As a result, our operations are more susceptible to regional factors than the operations of more geographically diversified competitors. These factors include regional economic and weather conditions, natural disasters, demographic and population changes and governmental regulations in the states in which we operate. Environmental changes and disease epidemics affecting fish or game populations in any concentrated region may also affect our sales. If a region with a concentration of our stores were to suffer an economic downturn or other adverse event, our operating results could suffer.

Competition in the outdoor activities and sporting goods market could reduce our net sales and profitability.

The outdoor activities and sporting goods market is highly fragmented and competitive. We compete directly or indirectly with the following types of companies:

- independent, local specialty stores, often referred to as “mom & pops”;

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- other specialty retailers that compete with us across a significant portion of our merchandising categories through retail store, catalog or e-commerce businesses, such as Bass Pro Shops, Cabela's and Gander Outdoors;
- large-format sporting goods stores and chains, such as Academy Sports + Outdoors and Dick's Sporting Goods; and
- mass merchandisers, warehouse clubs, discount stores, department stores and online retailers, such as Amazon, Target and Wal-Mart.

A few of our competitors have a larger number of stores, and some of them have a greater market presence (both brick and mortar and online), name recognition and financial, distribution, marketing and other resources than we have. As a result of this competition, we may need to spend more on advertising and promotion than we anticipate. In addition, the ability of consumers to compare prices on a real-time basis through the use of smartphones and digital technology puts additional pressure on us to maintain competitive pricing. If our competitors reduce their prices, we may have to reduce our prices in order to compete, which could harm our margins. Furthermore, some of our competitors may build new stores in or near our existing locations or in locations with high concentrations of our e-commerce business customers. As a result of this competition, we may need to spend more on advertising and promotion. Some of our mass merchandising competitors, such as Wal-Mart, do not currently compete in many of the product lines we offer. However, if these competitors were to begin offering a broader array of competing products, or if any of the other factors listed above occurred, our net sales could be reduced or our costs could be increased, resulting in reduced profitability.

If we fail to anticipate changes in consumer demands, including regional preferences, in a timely manner, our operating results could suffer.

Our products appeal to consumers who regularly hunt, camp, fish and participate in various shooting sports. The preferences of these consumers cannot be predicted with certainty and are subject to change. In addition, due to different game and fishing species and varied weather conditions found in different markets, it is critical that our stores stock products appropriate for their markets. Our success depends on our ability to identify product trends in a variety of markets as well as to anticipate, gauge and quickly react to changing consumer demands in these markets. We usually must order merchandise well in advance of the applicable selling season. The extended lead times for many of our purchases may make it difficult for us to respond rapidly to new or changing product trends or changes in prices. If we misjudge either the market for our products or our customers' purchasing habits, our net sales may decline significantly and we may not have sufficient quantities of merchandise to satisfy customer demand or we may be required to mark down excess inventory, either of which would result in lower profit margins and harm our operating results.

Our expansion into new, unfamiliar markets presents increased risks that may prevent us from being profitable in these new markets.

We intend to continue to expand by opening stores in new markets, which may include small- to medium-sized markets and which may not have existing national outdoor sports retailers. As a result, we may have less familiarity with local customer preferences and encounter difficulties in attracting customers due to a reduced level of customer familiarity with our brand. Other factors that may impact our ability to open stores in new markets and operate them profitably, many of which are beyond our control, include:

- our ability to identify suitable locations, including our ability to gather and assess demographic and marketing data to determine consumer demand for our products in the locations we select;
- our ability to obtain financing on favorable terms or negotiate favorable lease agreements;
- our ability to properly assess the profitability of potential new retail store locations;
- our ability to secure required governmental permits and approvals;
- our ability to attract, hire and train skilled store operating personnel, especially management personnel;

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- the availability of construction materials and labor and the absence of significant construction delays or cost overruns;
- our ability to provide a satisfactory mix of merchandise that is responsive to the needs of our customers living in the areas where new retail stores are built;
- our ability to supply new retail stores with inventory in a timely manner;
- our competitors building or leasing stores near our retail stores or in locations we have identified as targets for a new retail store;
- consumer demand for our products, particularly firearms and ammunition, which drives traffic to our retail stores;
- regional economic and other factors in the geographies in which we expand; and
- general economic, political, and business conditions affecting consumer confidence and spending and the overall strength of our business.

Once we decide on a new market and find a suitable location, any delays in opening new stores could impact our financial results. It is possible that events, such as delays in the entitlements process or construction delays caused by permitting or licensing issues, material shortages, labor issues, weather delays or other acts of god, discovery of contaminants, accidents, deaths or injunctions, could delay planned new store openings beyond their expected dates or force us to abandon planned openings altogether. In addition, new retail stores typically generate lower operating margins because pre-opening expenses are expensed as they are incurred and because fixed costs, as a percentage of net sales, are higher. Furthermore, the substantial management time and resources which our retail store expansion strategy requires may result in disruption to our existing business operations, which may decrease our profitability.

As a result of the above factors, we cannot assure you that we will be successful in operating our stores in new markets on a profitable basis.

If we are unable to successfully develop and maintain our omni-channel strategy, we may not be able to compete effectively and our sales and profitability may be adversely affected.

Our e-commerce business is an important element of our brand and relationship with our customers, and we expect it to continue to grow. For instance, in 2018, we launched a redesign of our website and significantly enhanced the online shopping experience for our customers. While e-commerce has been a rapidly growing sales channel and an

increasing source of competition in our industry, sales from our e-commerce channel are not yet material to our operations. If we are unable to continue to successfully develop and maintain our omni-channel platform, we may not be able to compete effectively and our sales and profitability may be adversely affected.

Online shopping is rapidly evolving, and we expect competition in the e-commerce market to continue to intensify as the Internet facilitates competitive entry and comparison shopping. Consumers are increasingly embracing shopping online and through mobile commerce applications. As a result, a growing portion of total consumer expenditures with retailers is occurring online and through mobile commerce applications. Our future success could be adversely affected if we are unable to identify and capitalize on retail trends, including technology, e-commerce and other process efficiencies to gain market share and better service our customers. In addition, many of our competitors already have e-commerce businesses that are substantially larger and more developed than ours, which places us at a competitive disadvantage. There are also regulatory restrictions on the sale of a portion of our product offerings, such as ammunition, certain cutlery, firearms, propane and reloading powder. If we are unable to expand our e-commerce business, our growth plans will suffer and the price of our common stock could decline.

We are also vulnerable to additional risks and uncertainties associated with e-commerce sales, including rapid changes in technology, website downtime and other technical failures, security breaches, cyber-attacks, consumer privacy concerns, changes in state tax regimes and government regulation of internet activities. Our failure to successfully respond to these risks and uncertainties could reduce our e-commerce same store sales, increase our costs,

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diminish our growth prospects and damage our brand, which could negatively impact our results of operations and stock price.

Our planned growth may strain our business infrastructure, which could adversely affect our operations and financial condition.

Over time, we expect to expand the size of our retail store network in new and existing markets. As we grow, we will face the risk that our existing resources and systems, including management resources, accounting and finance personnel and operating systems, may be inadequate to support our growth. We cannot assure you that we will be able to retain the personnel or make the changes in our systems that may be required to support our growth. Failure to secure these resources and implement these systems on a timely basis could have a material adverse effect on our operating results. In addition, hiring additional personnel and implementing changes and enhancements to our systems will require capital expenditures and other increased costs that could also have a material adverse impact on our operating results.

Our expansion in new markets may also create new distribution and merchandising challenges, including strain on our distribution facility, an increase in information to be processed by our management information systems and diversion of management attention from existing operations towards the opening of new stores and markets. To the extent that we are not able to meet these additional challenges, our sales could decrease and our operating expenses could increase.

Our ability to operate and expand our business and to respond to changing business and economic conditions will depend on the availability of adequate capital.

The operation of our business, the rate of our expansion and our ability to respond to changing business and economic conditions depend on the availability of adequate capital, which in turn depends on cash flow generated by our business and, if necessary, the availability of equity or debt capital. We will also need sufficient cash flow to meet our obligations under our existing debt agreements. We paid total cash interest on our credit facilities of \$13.2 million, \$13.7 million, and \$12.0 million, in fiscal years 2018, 2017 and 2016, respectively, and our term loan requires us to make quarterly principal payments of \$2.0 million.

The amount that we are able to borrow and have outstanding under our revolving credit facility at any given time is subject to a borrowing base calculation, which is a contractual calculation equal to roughly (1) 90% of the net orderly liquidation value of our eligible inventory, multiplied by (2) 90% of the eligible credit card receivables, less the term loan reserve and certain reserves against outstanding gift cards, layaway deposits and amounts outstanding under commercial letters of credit, each term as defined in the credit agreement for the revolving credit facility. As a result, our ability to borrow is subject to certain risks and uncertainties, such as a deterioration in the quality of our inventory

(which is the largest asset in our borrowing base), a decline in sales activity and the collection of our receivables, which could reduce the funds available to us under our revolving credit facility.

We cannot assure you that our cash flow from operations or cash available under our revolving credit facility will be sufficient to meet our needs. If we are unable to generate sufficient cash flows from operations in the future, and if availability under our revolving credit facility is not sufficient, we may have to obtain additional financing. If we obtain additional capital by issuing equity, the interests of our existing stockholders will be diluted. If we incur additional indebtedness, that indebtedness may contain significant financial and other covenants that may significantly restrict our operations, and our ability to fund expansion or take advantage of future opportunities. We cannot assure you that we could obtain refinancing or additional financing on favorable terms or at all.

Our revolving credit facility and term loan contain restrictive covenants that may impair our ability to access sufficient capital and operate our business.

Our revolving credit facility and term loan contain various provisions that limit our ability to, among other things:

- incur, create or assume certain indebtedness;

- create, incur or assume certain liens;

- make certain investments;

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- make sales, transfers and dispositions of certain property;
- undergo certain fundamental changes, including certain mergers, liquidations and consolidations;
- purchase, hold or acquire certain investments; and
- declare or make certain dividends and distributions.

These covenants may affect our ability to operate and finance our business as we deem appropriate. If we are unable to meet our obligations as they become due or to comply with various financial covenants contained in the instruments governing our current or future indebtedness, this could constitute an event of default under the instruments governing our indebtedness.

If there were an event of default under the instruments governing our indebtedness, the holders of the affected indebtedness could declare all of that indebtedness immediately due and payable, which, in turn, could cause the acceleration of the maturity of all of our other indebtedness. We may not have sufficient funds available, or we may not have access to sufficient capital from other sources, to repay any accelerated debt. Even if we could obtain additional financing, the terms of the financing may not be favorable to us. In addition, substantially all of our assets are subject to liens securing our revolving credit facility and term loan. If amounts outstanding under the revolving credit facility or term loans were accelerated, our lenders could foreclose on these liens and we could lose substantially all of our assets. Any event of default under the instruments governing our indebtedness could have a material adverse effect on our business, financial condition and results of operations.

Our same store sales may fluctuate and may not be a meaningful indicator of future performance.

Our same store sales may vary from quarter to quarter, and an unanticipated decline in net sales or same store sales may cause the price of our common stock to fluctuate significantly. A number of factors have historically affected, and will continue to affect, our same store sales results, including:

- changes or anticipated changes to regulations related to some of the products we sell;
- consumer preferences, buying trends, including a shift of consumer spending from brick-and-mortar to online, and overall economic trends;

- our ability to identify and respond effectively to local and regional trends and customer preferences;
- our ability to provide quality customer service that will increase our conversion of shoppers into paying customers;
 - the success of our omni-channel strategy and our e-commerce platform
- competition in the regional market of a store;
- atypical weather;
- new product introductions and changes in our product mix; and
- changes in pricing and average ticket sales.

Our operating results are subject to seasonal fluctuations.

We experience moderate seasonal fluctuations in our net sales and operating results. On average over the last three fiscal years, we have generated 27.0% and 29.0% of our annual net sales in the third and fourth fiscal quarters, respectively, which includes the holiday selling season as well as the opening of the fall hunting season. We incur additional expenses in the third and fourth fiscal quarters due to higher purchase volumes and increased staffing in our

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stores. If, for any reason, we miscalculate the demand for our products or our product mix during the third or fourth fiscal quarters, our sales in these quarters could decline, resulting in higher labor costs as a percentage of sales, lower margins and excess inventory, which could cause our annual operating results to suffer and our stock price to decline. Due to our seasonality, the possible adverse impact from other risks associated with our business, including atypical weather, consumer spending levels and general economic and business conditions, is potentially greater if any such risks occur during our peak sales seasons.

We currently rely on a single distribution center for our business, and if there is a natural disaster or other serious disruption at such facility, we may be unable to deliver merchandise effectively to our stores or customers.

We currently rely on a single distribution center in Salt Lake City, Utah for our business. Any natural disaster or other serious disruption at such facility due to fire, tornado, earthquake, flood or any other cause could damage our on-site inventory or impair our ability to use such distribution center. While we maintain business interruption insurance, as well as general property insurance, the amount of insurance coverage may not be sufficient to cover our losses in such an event. Any of these occurrences could impair our ability to adequately stock our stores or fulfill customer orders and harm our operating results.

Any delay or disruption of the supply of products from our vendors could have an adverse impact on our net sales and profitability.

We cannot predict when, or the extent to which, we will experience any delay or disruption in the supply of products from our vendors. Any such delay or disruption could negatively impact our ability to market and sell our products and serve our customers, which could adversely impact our net sales and profitability. If any of our significant vendors were to become subject to bankruptcy, receivership or similar proceedings, we may be unable to arrange for alternate or replacement products, transactions or business relationships on terms as favorable terms, or at all, which could adversely affect our sales and operating results. For instance, in March 2018, Remington, one of our largest vendors, filed for Chapter 11 relief under the United States Bankruptcy Code. Remington's bankruptcy may impact our ability to get products to our customers, result in disruptions to our operations, increase our costs and decrease our profitability.

We depend on merchandise purchased from our vendors to obtain products for our stores. We have no contractual arrangements providing for continued supply from our key vendors, and our vendors may discontinue selling to us at any time. Changes in commercial practices of our key vendors or manufacturers, such as changes in vendor support and incentives or changes in credit or payment terms, could also negatively impact our results. If we lose one or more key vendors or are unable to promptly replace a vendor that is unwilling or unable to satisfy our requirements with a vendor providing equally appealing products at comparable prices, we may not be able to offer products that are important to our merchandise assortment.

We also are subject to risks, such as the price and availability of raw materials and fabrics, labor disputes, union organizing activity, strikes, inclement weather, natural disasters, war and terrorism and adverse general economic and political conditions, that might limit our vendors' ability to provide us with quality merchandise on a timely and cost-efficient basis. We may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality and more expensive than those we currently purchase. Any delay or failure in offering products to our customers could have a material adverse impact on our net sales and profitability.

Political and economic uncertainty and unrest in foreign countries where our merchandise vendors are located and trade restrictions upon imports from these foreign countries could adversely affect our ability to source merchandise and operating results.

In fiscal year 2018, approximately 3.0% of our merchandise was imported directly from vendors located in foreign countries, with a substantial portion of the imported merchandise being obtained directly from vendors in China and El Salvador. In addition, we believe that a significant portion of our domestic vendors obtain their products from foreign countries that may also be subject to political and economic uncertainty. We are subject to risks and uncertainties associated with changing economic, political and other conditions in foreign countries where our vendors are located, such as:

- increased import duties, tariffs, border-adjusted taxes, trade restrictions and quotas;

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- work stoppages;

- economic uncertainties;

- adverse foreign government regulations;

- wars, fears of war and terrorist attacks and organizing activities;

- adverse fluctuations of foreign currencies;

- natural disasters; and

- political unrest.

We cannot predict when, or the extent to which, the countries in which our products are manufactured will experience any of the above events. Any event causing a disruption or delay of imports from foreign locations would likely increase the cost or reduce the supply of merchandise available to us and would adversely affect our operating results.

In addition, trade restrictions, including increased tariffs or quotas, embargoes, safeguards and customs restrictions against clothing and other items, as well as U.S. or foreign labor strikes, work stoppages or boycotts could increase the cost or reduce the supply of merchandise available to us or may require us to modify our current business practices, any of which could hurt our profitability. For instance, general trade tensions between the U.S. and China began escalating in 2018, with multiple rounds of U.S. tariffs on Chinese goods taking effect during 2018. Furthermore, China or other countries may institute retaliatory trade measures in response to existing or future tariffs imposed by the U.S. that could have a negative impact on our business. If any of these events continue as described, we may need to seek alternative suppliers or vendors, raise prices, or make changes to our operations, any of which could have a material adverse effect on our sales and profitability, results of operations and financial condition.

Finally, potential changes in federal restrictions on the importation of firearms and ammunition products could affect our ability to acquire certain popular brands of firearms and ammunition products from importers and wholesalers, which could negatively impact our net sales until replacements in the United States can be obtained, if at all.

We rely on information technology in our operations and any material failure, inadequacy, interruption or security breach or failure of that technology could disrupt our business and lead to reputational damage.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, and maintaining personal identifying information and customer data. We rely on commercially available systems, software, tools and monitoring to provide security for the processing, transmission and storage of confidential tenant and customer data, including individually identifiable information relating to financial accounts. We have taken steps to protect the security of our information systems and the data maintained in those systems. It is possible, however, that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including those caused by physical or electronic break-ins, computer viruses, malware, worms, attacks by hackers or foreign governments, disruptions from unauthorized access and tampering (including through social engineering such as phishing attacks), coordinated denial-of-service attacks and similar breaches, could create system disruptions, shutdowns or unauthorized disclosure of confidential information. The risk of security breaches has generally increased as the number, intensity and sophistication of attacks and intrusions from around the world have increased. In some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. In addition, due to the fast pace and unpredictability of cyber threats, long-term implementation plans designed to address cybersecurity risks become obsolete quickly. Any failure to maintain proper function, security and availability of our information systems and the data maintained in those systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a materially adverse effect on our business, financial condition and results of operations.

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Unauthorized disclosure of sensitive or confidential customer information could harm our business and standing with our customers.

The protection of our customer, employee and company data is critical to us. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as payment card and personally identifiable information. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our third party service providers, could damage our reputation, expose us to risk of litigation and liability, disrupt our operations and harm our business.

Our business depends on our ability to meet our labor needs

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including district managers, store managers, department managers and sales associates, who understand and appreciate our outdoor culture and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply, especially during times of low unemployment rates like we are currently experiencing, and the turnover rate in the retail industry is high. If we are unable to hire and retain sales associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our business could be materially adversely affected. Although none of our employees are currently covered by collective bargaining agreements, our employees may elect to be represented by labor unions in the future, which could increase our labor costs. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. An inability to recruit and retain a sufficient number of qualified individuals in the future may delay the planned openings of new stores. Any such delays, any material increases in employee turnover rates at existing stores or any increases in labor costs could have a material adverse effect on our business, financial condition or operating results.

Increases in the minimum wage have recently adversely affected our financial results.

Recently, several states in which we operate have enacted minimum wage increases and it is possible that other states or the federal government could also enact minimum wage increases. In fiscal year 2018, 58 of our stores were impacted by the minimum wage increases, which increased our selling, general and administrative expenses. Base wage rates for some of our employees are at or slightly above the minimum wage. As more state minimum wage rates increase or if the federal government enacts a minimum wage increase, we may need to increase not only the wage rates of our minimum wage employees, but also the wages paid to our other hourly employees as well. Further, should we fail to increase our wages competitively in response to increasing wage rates, the quality of our workforce could decline, causing our customer service to suffer. Any increase in the cost of our labor could have an adverse effect on

our operating costs, financial condition and results of operations.

We may incur costs from litigation relating to products that we sell, particularly firearms and ammunition, which could adversely affect our net sales and profitability.

We may incur damages due to lawsuits relating to products we sell, including lawsuits relating to firearms, ammunition, tree stands and archery equipment. We may incur losses due to lawsuits, including potential class actions, relating to our performance of background checks on firearms purchases and compliance with other sales laws as mandated by state and federal law. We may also incur losses from lawsuits relating to the improper use of firearms or ammunition sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from manufacturers and retailers of firearms and ammunition. Our insurance coverage and the insurance provided by our vendors for certain products they sell to us may be inadequate to cover claims and liabilities related to products that we sell. In addition, claims or lawsuits related to products that we sell, or the unavailability of insurance for product liability claims, could result in the elimination of these products from our product line, thereby reducing net sales. If one or more successful claims against us are not covered by or exceed our insurance coverage, or if insurance coverage is no longer available, our available working capital may be impaired and our operating results could be materially adversely

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affected. Even unsuccessful claims could result in the expenditure of funds and management time and could have a negative impact on our profitability and on future premiums we would be required to pay on our insurance policies.

Our net sales and profitability could be impacted if the strength of our brand is not maintained, and our sales of firearm-related products could present reputational risks and negative publicity.

Our success depends on the value and strength of the Sportsman's Warehouse brand. The Sportsman's Warehouse name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide high quality merchandise and a consistent, high quality customer experience both in-store and online. Our brand could be adversely affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity, any of which could result in decreases in net sales. In addition, the sale of firearm-related products also may present reputational risks and negative publicity that could affect consumers' perception of us or willingness to shop with us, which could harm our results of operations and financial condition

Our inability or failure to protect our intellectual property could have a negative impact on our operating results.

Our trademarks, service marks, copyrights, patents, trade secrets, domain names and other intellectual property are valuable assets that are critical to our success. The unauthorized reproduction or other misappropriation of our intellectual property could diminish the value of our brands or goodwill and cause a decline in our net sales. Any infringement or other intellectual property claim made against us, whether or not it has merit, could be time-consuming, result in costly litigation, cause product delays or require us to enter into royalty or licensing agreements. As a result, any such claim could have a material adverse effect on our operating results.

Our computer hardware and software systems are vulnerable to damage that could harm our business.

Our success, in particular our ability to successfully manage inventory levels, largely depends upon the efficient operation of our computer hardware and software systems. We use management information systems to track inventory information at the store level, communicate customer information and aggregate daily sales, margin and promotional information. These systems are vulnerable to damage or interruption from:

- fire, flood, tornado and other natural disasters;

- power loss, computer system failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic loss of data or security breaches, misappropriation and similar events;
- hacking by third parties and computer viruses; and
- upgrades, installations of major software releases and integration with new systems.

Any failure that causes an interruption in our systems processing could disrupt our operations and result in reduced sales. We have centralized the majority of our computer systems in our corporate office. It is possible that an event or disaster at our corporate office could materially and adversely affect the performance of our company and the ability of each of our stores to operate efficiently.

Our private brand offerings expose us to various risks.

We expect to continue to grow our exclusive private brand offerings through a combination of brands that we own and brands that we license from third parties. We have invested in our development and procurement resources and marketing efforts relating to these private brand offerings. Although we believe that our private brand products offer value to our customers at each price point and provide us with higher gross margins than comparable third-party branded products we sell, the expansion of our private brand offerings also subjects us to certain specific risks in addition to those discussed elsewhere in this section, such as:

- potential mandatory or voluntary product recalls;

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- our ability to successfully protect our proprietary rights (including defending against counterfeit, knock offs, grey-market, infringing or otherwise unauthorized goods);
- our ability to successfully navigate and avoid claims related to the proprietary rights of third parties;
- our ability to successfully administer and comply with obligations under license agreements that we have with the licensors of brands, including, in some instances, certain minimum sales requirements that, if not met, could cause us to lose the licensing rights or pay damages; and
- other risks generally encountered by entities that source, sell and market exclusive branded offerings for retail.

An increase in sales of our private brands may also adversely affect sales of our vendors' products, which may, in turn, adversely affect our relationship with our vendors. Our failure to adequately address some or all of these risks could have a material adverse effect on our business, results of operations and financial condition.

We may pursue strategic acquisitions or investments, and the failure of an acquisition or investment to produce the anticipated results or the inability to fully integrate the acquired companies could have an adverse impact on our business.

We may from time to time acquire or invest in complementary companies, businesses or assets. The success of such acquisitions or investments will be based on our ability to make accurate assumptions regarding the valuation, operations, growth potential, integration and other factors relating to the respective business or assets. Our acquisitions or investments may not produce the results that we expect at the time we enter into or complete the transaction. For example, we may not be able to capitalize on previously anticipated synergies. Furthermore, acquisitions may result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses or write-offs of goodwill or other intangibles, any of which could harm our financial condition or results of operations. We also may not be able to successfully integrate operations that we acquire, including their personnel, financial systems, supply chain and other operations, which could adversely affect our business. Acquisitions may also result in the diversion of our capital and our management's attention from other business issues and opportunities.

We may not achieve projected goals and objectives in the time periods that we anticipate or announce publicly, which could harm our business and cause the price of our common stock to decline.

We set targets and timing to accomplish certain objectives regarding our business. We have included some of these targets in this filing and may make similar future public statements. For example, we state in this filing that:

- we currently plan to open three additional new stores in fiscal year 2019 and, for the next several years thereafter, intend to grow our square footage at a rate greater than 5% annually; and
- we target a minimum 10% four-wall Adjusted EBITDA margin and a minimum return on invested capital of 50% excluding initial inventory cost (or 20% including initial inventory cost) in the first twelve months of operation for a new store.

This filing also includes other forecasts and targets. These forecasts and targets are based on our current expectations. We may not achieve these forecasts and targets, and the actual achievement and timing of these events can vary due to a number of factors, including currently unforeseen matters and matters beyond our control. You should not unduly rely on these forecasts or targets in deciding whether to invest in our common stock.

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Risks Related to Our Common Stock

Our bylaws, our certificate of incorporation and Delaware law contain provisions that could discourage another company from acquiring us and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of our bylaws, our certificate of incorporation and Delaware law may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace or remove our board of directors. These provisions include:

- establishing a classified board of directors;
- providing that directors may be removed only for cause;
- not providing for cumulative voting in the election of directors;
- requiring at least a supermajority vote of our stockholders to amend our bylaws or certain provisions of our certificate of incorporation;
- eliminating the ability of stockholders to call special meetings of stockholders;
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings;
- authorizing the issuance of “blank check” preferred stock without any need for action by stockholders.

In addition, we are subject to Section 203 of the Delaware General Corporation Law. In general, subject to some exceptions, Section 203 prohibits a Delaware corporation from engaging in any “business combination” with any “interested stockholder” (which is generally defined as an entity or person who, together with the person’s affiliates and associates, beneficially owns, or within three years prior to the time of determination of interested stockholder status

did own, 15% or more of the outstanding voting stock of the corporation), for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

Further, our certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be, to the fullest extent permitted by law, the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law; or any action asserting a claim against us that is governed by the internal affairs doctrine. This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees and agents, which may discourage such lawsuits against us and our directors, officers, employees and agents.

Together, these charter and statutory provisions could make the removal of management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock. The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby potentially reducing the likelihood that our stockholders could receive a premium for their common stock in an acquisition.

We expect that the price of our common stock will fluctuate.

The price of our common stock is volatile and may fluctuate significantly. During our fiscal year ended February 2, 2019, the closing price of our stock ranged from a high of \$6.29 per share to a low of \$3.71 per share. Volatility in the

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market price of our common stock may prevent our stockholders from being able to sell their common stock at or above the prices they paid for their common stock. The market price for our common stock could fluctuate significantly for various reasons, including:

- our operating and financial performance and prospects, including seasonal fluctuations in our financial performance;
- conditions that impact demand for our products;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- changes in earnings estimates or recommendations by securities analysts who track our common stock;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions, store closures, or restructurings;
- actual or anticipated changes in federal and state government regulation, including regulations related to the sale of firearms and ammunition;
- changes in accounting standards, policies, guidance, interpretations or principles;
- arrival or departure of key personnel;
- sales of common stock by us or members of our management team; and
- changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural disasters, terrorist attacks, acts of war and responses to such events.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and distract our management.

We are currently an emerging growth company (“EGC”) within the meaning of The Jumpstart our Business Startups Act (“JOBS Act”), and the reduced reporting requirements applicable to EGCs may make our common stock less attractive to investors.

Because we currently qualify as an EGC under the JOBS Act, we have elected to comply with some of the reduced disclosure and other reporting requirements available to us as an EGC for a period of up to five years following our initial public offering if we remain an EGC. For example, for as long as we remain an EGC, we are not subject to certain governance requirements, such as holding a “say-on-pay” and “say-on-golden-parachute” advisory votes, we are not required to include a “Compensation Discussion and Analysis” section in our proxy statements and reports filed under the Exchange Act, and we do not need to obtain an annual attestation report on our internal control over financial reporting from a registered public accounting firm pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). We could be an EGC for a period up to the end of the fifth fiscal year after our initial public offering, which is February 1, 2020., although we will cease to be an EGC earlier than this five-year period if our total annual gross revenues equal or exceed \$1 billion in a fiscal year, if we issue more than \$1 billion in non-convertible debt over a three-year period or if we become a “large accelerated filer” (which requires, among other things, the market value of our common stock held by non-affiliates to be at least \$700 million as of the last business day of our second fiscal quarter of any fiscal year).

Accordingly, our stockholders may not receive the same level of disclosure that is afforded to stockholders of a non-EGC. It is possible that investors will find our common stock to be less attractive because we have elected to comply with the reduced disclosure and other reporting requirements available to us as an EGC, which could adversely

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affect the trading market for our common stock and the prices at which stockholders may be able to sell their common stock.

The requirements of being a public company may strain our resources and divert management's attention, and management will be required to devote substantial time to new compliance initiatives as a result of transitioning out of EGC status.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and other applicable securities rules and regulations. Compliance with these rules and regulations have increased our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations and proxy or information statements in connection with matters upon which our stockholders may vote. As a result of our public disclosure of information in filings required of a public company, our business and financial condition have become more visible, which could result in threatened or actual litigation, or other adverse actions taken by competitors and other third parties. The time and resources necessary to comply with the requirements of being a public company and contend with any action that might be brought against us as a result of publicly available information could divert our resources and the attention of our management and adversely affect our business, financial condition and results of operations.

In addition, we currently expect that we will cease to be an EGC at the end of the fifth fiscal year after our initial public offering, which is February 1, 2020. As a result, we will become subject to the additional regulatory requirements described above (unless we are able to rely on other exemptions), including the requirement to have our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting so long as we qualify as an accelerated filer under Rule 12b-2 of the Exchange Act. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

If we are unable to implement and maintain effective internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our common stock may be adversely affected.

As a public company, we are required to implement and maintain effective internal control over financial reporting and to disclose any material weaknesses identified in our internal controls. Our management is required to furnish an annual report regarding the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act ("Section 404"). We have refined, implemented, and tested the internal controls required to comply

with Section 404. If we identify material weaknesses in our internal control over financial reporting, if we fail to comply with the requirements of Section 404 in a timely manner or if we are unable to assert that our internal control over financial reporting is effective, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be adversely affected. We could also become subject to investigations by The Nasdaq Stock Market, the SEC or other regulatory authorities, which could require additional financial and management resources.

Additionally, beginning with our first Annual Report on Form 10-K for the fiscal year ending February 2, 2020, our independent registered public accounting firm will be required pursuant to Section 404 to attest to the effectiveness of our internal control over financial reporting on an annual basis so long as we qualify as an accelerated filer under Rule 12b-2 of the Exchange Act. Even if management finds such controls to be effective, our independent registered public accounting firm may decline to attest to the effectiveness of such internal controls. If our independent registered public accounting firm cannot provide an unqualified attestation report on the effectiveness of our internal control over financial reporting, investor confidence and, in turn, the market price of our common stock could decline.

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We do not expect to pay any cash dividends for the foreseeable future.

We currently expect to retain all available funds and future earnings, if any, for use in the operation and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors, subject to compliance with applicable law and any contractual provisions, including under the credit agreements governing our term loan and revolving credit facility and agreements governing any additional indebtedness we may incur in the future, that restrict or limit our ability to pay dividends, and will depend upon, among other factors, our results of operations, financial condition, earnings, capital requirements and other factors that our board of directors deems relevant. Further, because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends from our operating subsidiaries, which may further restrict our ability to pay dividends as a result of the laws of their jurisdiction of organization, agreements of our subsidiaries or covenants under our existing or future indebtedness. All of our business operations are conducted through our wholly owned subsidiaries, Sportsman's Warehouse, Inc. and Minnesota Merchandising Corporation and their subsidiaries. The ability of Sportsman's Warehouse, Inc. and Minnesota Merchandising Corporation to pay dividends to us, and our ability to pay dividends on our capital stock, is limited by our term loan. Our revolving credit facility also limits our ability to pay dividends on our capital stock. Our ability to pay dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred equity securities of ours or of our subsidiaries.

If securities or industry analysts publish inaccurate or unfavorable research about us, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research reports that securities or industry analysts publish about us, our business and our industry. Assuming we obtain securities or industry analyst coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about us, our business or our industry, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not plan to own any material real property, but rather intend to lease all of our store locations. From time to time we will self-develop one of our properties with the intention to enter into a sale-leaseback transaction with a third party. Depending upon where we are in the process of completing the sale-leaseback transaction, we may legally own real property at any particular balance sheet date. Our corporate headquarters is located in an approximately 60,000 square foot building in Midvale, Utah. The building is leased under an agreement expiring on December 31, 2019.

Our distribution center is located in a 507,000 square foot facility in Salt Lake City, Utah. The building is leased under an agreement expiring on December 31, 2023, with three options that each allow us to extend for an additional five years. We believe that our distribution center is of sufficient scale to support a network of 100 or more stores.

We currently operate 92 retail stores in 23 states. See above under “Business – Our Stores” for a breakdown of our stores by state. In total we have approximately 3.6 million gross square feet across all of our stores. All of our stores are leased from third parties with lease terms typically ranging from five to fifteen years, and many of our lease agreements have additional five-year renewal options. All of our leases provide for additional payments associated with common area maintenance, real estate, taxes and insurance. In addition, many of our lease agreements have defined escalating rent provisions over the initial term and extensions.

ITEM 3. LEGAL PROCEEDINGS

When we become aware of a claim or potential claim, we assess the likelihood of any loss or exposure. If a loss contingency is probable and the amount of the loss can be reasonably estimated, we record an accrual for the loss. In such cases, there may be an exposure to potential loss in excess of the amount accrued. Where a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of

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the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible losses is not material to our financial position, results of operations or cash flows. The ability to predict the ultimate outcome of such matter involves judgments and inherent uncertainties. The actual outcome could differ.

We are subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that arise in the ordinary course of our business. While the outcome of these and other claims cannot be predicted with certainty, we do not believe that the outcome of these matters individually or in the aggregate will have a material adverse effect on our business, results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Registrant's Common Equity

Our common stock is listed on the Nasdaq under the symbol "SPWH." As of March 1, 2019, there were 134 holders of record of our common stock. This number does not include persons who hold our common stock in nominee or "street name" accounts through brokers or banks.

Dividend Policy

We did not pay any dividends in fiscal year 2018 or fiscal year 2017. We currently expect to retain all available funds and future earnings, if any, for use in the operation and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors, subject to compliance with applicable law and any applicable contractual provisions.

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ITEM 6. SELECTED FINANCIAL DATA.

	Fiscal Year Ended				
	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015
(in thousands, except per share amounts)					
Consolidated Statements of Income Data:					
Net sales (1) (2)	\$ 849,129	\$ 809,671	\$ 779,956	\$ 706,764	\$ 639,869
Cost of goods sold (1)	564,199	535,811	516,726	468,234	424,662
Gross profit	284,930	273,860	263,230	238,530	215,207
Selling, general and administrative expenses	240,911	227,292	202,543	179,218	170,315
Income from operations	44,019	46,568	60,687	59,312	44,892
Interest expense	(13,206)	(13,738)	(13,402)	(14,156)	(22,480)
Income before income taxes	30,813	32,830	47,285	45,156	22,412
Income tax expense	7,063	15,088	17,616	17,385	8,628
Net income	\$ 23,750	\$ 17,742	\$ 29,669	\$ 27,771	\$ 13,784
Earnings per share:					
Basic	\$ 0.55	\$ 0.42	\$ 0.70	\$ 0.66	\$ 0.34
Diluted	\$ 0.55	\$ 0.42	\$ 0.70	\$ 0.66	\$ 0.34
Weighted average shares outstanding:					
Basic shares	42,878	42,496	42,187	41,966	39,961
Diluted shares	42,979	42,522	42,485	42,334	40,141
Fiscal Year Ended					
	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015
(in thousands, except number of stores and per share amounts)					
Consolidated Balance Sheet Data:					
Total current assets	\$ 293,570	\$ 280,755	\$ 255,924	\$ 232,710	\$ 203,339
Total assets	388,897	379,661	346,248	301,328	268,784
Long-term debt (including current portion), net of discount	35,632	133,339	134,704	155,016	156,107
Total liabilities	310,237	329,863	316,247	303,387	300,116
Total stockholders' equity/(deficit)	78,660	49,798	30,001	(2,059)	(31,332)
Total liabilities and stockholders' equity	388,897	379,661	346,248	301,328	268,784
Other Data:					
Adjusted EBITDA (3)	\$ 68,496	\$ 72,799	\$ 82,254	\$ 73,024	\$ 66,252

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Adjusted EBITDA margin (3)	8.1%	9.0%	11.0%	10.0%	10.0%
Number of stores open at end of period	92	87	75	64	55
Same store sales growth/(decline) for period (4)	1.5%	(6.5)%	(0.8)%	1.1%	(8.4)%

(1) Prior to fiscal year 2016, we presented our sales and costs of state fish and game licenses, duck stamps, and state government-mandated firearm background checks in net sales and cost of goods sold under the gross method. In fiscal year 2016, our management determined that the revenue from these transactions should have been presented under the net method, thereby recognizing only the commission received in net sales for acting as the agent under the principal versus agent model. Net sales and cost of goods sold for fiscal years 2014 and 2015 shown above have been revised to reflect this revision. This revision did not have any impact upon gross profit, net income or earnings per share.

(2) Fiscal year 2017 contained 53 weeks of operations

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- (3) Adjusted EBITDA has been presented in this filing as a supplemental measure of financial performance that is not required by, or presented in accordance with, generally accepted accounting principles, or GAAP. We define Adjusted EBITDA as net income plus interest expense, income tax expense, depreciation and amortization, stock-based compensation expense, pre-opening expenses, and other gains, losses, and expenses that we do not believe are indicative of our ongoing expenses. In addition, Adjusted EBITDA excludes pre-opening expenses because we do not believe these expenses are indicative of the underlying operating performance of our stores. The amount and timing of pre-opening expenses are dependent on, among other things, the size of the new stores opened and the number of new stores opened during any given period. Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period.

Adjusted EBITDA and Adjusted EBITDA margin are included in this filing because they are key metrics used by management and our board of directors to assess our financial performance. Adjusted EBITDA and Adjusted EBITDA margin are frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. In addition to assessing our financial performance, we use Adjusted EBITDA and Adjusted EBITDA margin as additional measurement tools for purposes of business decision-making, including evaluating store performance, developing budgets and managing expenditures.

Adjusted EBITDA is not a GAAP measure of our financial performance or liquidity and should not be considered as an alternative to net income as a measure of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP, and it should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, Adjusted EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures, store openings and certain other cash costs that may recur in the future. Adjusted EBITDA contains certain other limitations, including the failure to reflect our cash expenditures or future requirements for capital expenditures or contractual commitments. In evaluating Adjusted EBITDA, you should be aware that, in the future, we will incur expenses that are the same as or similar to some of the adjustments reflected in this presentation, such as income tax expense (benefit), interest expense, depreciation and amortization and pre-opening expenses. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using Adjusted EBITDA supplementally. Our measures of Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation. See below for a reconciliation of net income to Adjusted EBITDA.

- (4) Fiscal years 2016 and 2015 do not include sales from e-commerce but would not differ had e-commerce sales been included in the same store sales calculation.

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A reconciliation of net income to Adjusted EBITDA is set forth below:

	Fiscal Year Ended				
	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015
	(in thousands)				
Net income	\$ 23,750	\$ 17,742	\$ 29,669	\$ 27,771	\$ 13,784
Plus:					
Interest expense	13,206	13,738	13,402	14,156	22,480
Income tax expense	7,063	15,088	17,616	17,385	8,628
Depreciation and amortization	18,250	17,706	13,974	11,569	9,150
Stock-based compensation expense (a)	1,742	2,294	3,186	2,257	3,293
Pre-opening expenses (b)	1,838	3,971	4,264	3,159	2,717
CEO retirement (c)	2,647	—	—	—	—
IPO bonus (d)	—	—	—	—	2,200
Litigation accrual (reversal) (e)	—	—	—	(4,000)	4,000
Secondary offering expenses (f)	—	—	143	727	—
Acquisition expenses (g)	—	1,744	—	—	—
Asset write-off (h)	—	516	—	—	—
Adjusted EBITDA	\$ 68,496	\$ 72,799	\$ 82,254	\$ 73,024	\$ 66,252
Adjusted EBITDA Margin	8.1%	9.0%	11.0%	10.0%	10.0%

(a) Stock-based compensation expense represents non-cash expenses related to equity instruments granted to employees under our 2013 Performance Incentive Plan and Employee Stock Purchase Plan.

(b) Pre-opening expenses include expenses incurred in the preparation and opening of a new store location, such as payroll, travel and supplies, but do not include the cost of the initial inventory or capital expenditures required to open a location.

(c) Payroll and stock compensation expenses incurred in conjunction with the retirement of our former CEO.

(d) As a result of the completion of our initial public offering and pursuant to the terms of the employment agreements with our executive officers, we paid \$2.2 million in bonuses to our executive officers.

(e) In fiscal year 2014, we accrued \$4.0 million for a pending litigation matter in which a jury trial assessed damages against us. In fiscal year 2015, a court reversed the damages assessed against us and granted a motion for judgment as a matter of law in our favor. As a result of that judgment, in fiscal year 2015, we reversed our

previous accrual of \$4.0 million. On December 21, 2017, after appeal of the judgment in our favor, the appeals court ruled there to be no judgment against us.

- (f) We incurred certain costs related to secondary offerings of our common stock by affiliates of Seidler Equity Partners III, L.P. on September 15, 2015 and April 18, 2016. These costs were expensed as incurred.
- (g) Professional fees for fiscal year 2017 relate to fees incurred in connection with the evaluation of a strategic acquisition.
- (h) We identified certain assets relating to our e-commerce platform that were no longer planned to be placed into service. These assets were expensed through selling, general, and administrative expenses during fiscal year 2017.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion below contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those which are discussed in the "Risk Factors" section in Part I, Item 1A of this 10-K. Also see "Statement Regarding Forward-Looking Statements" preceding Part I.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the notes thereto included in this 10-K.

Overview

We are an outdoor sporting goods retailer focused on meeting the everyday needs of the seasoned outdoor veteran, the first-time participant and every enthusiast in between. Our mission is to provide an omni-channel shopping experience that equips our customers with the right quality, brand name hunting, shooting, fishing and camping gear to maximize their enjoyment of the outdoors.

Our business was founded in 1986 as a single retail store in Midvale, Utah. Today, we operate 92 stores in 23 states, totaling approximately 3.6 million gross square feet. During fiscal year 2018, we increased our gross square footage by 3.9% through the opening of five stores in the following locations:

- Sheridan, Wyoming on March 8, 2018
- Walla Walla, Washington on April 19, 2018
- Anderson, South Carolina on June 21, 2018
- Coon Rapids, Minnesota on August 2, 2018
- Milpitas, California on August 16, 2018

Individual stores are aggregated into one operating and reportable segment.

Fiscal Year

We operate using a 52/53 week fiscal year ending on the Saturday closest to January 31. Fiscal years 2018, 2017 and 2016 ended on February 2, 2019, February 3, 2018, and January 28, 2017, respectively. Fiscal years 2018 and 2016 contained 52 weeks of operations. Fiscal year 2017 contained 53 weeks of operations.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures for determining how our business is performing are net sales, same store sales, gross margin, selling, general and administrative expenses, income from operations and Adjusted EBITDA.

Net Sales and Same Store Sales

Our net sales are primarily received from revenue generated in our stores and also include sales generated through our e-commerce platform. When measuring revenue generated from our stores, we review our same store sales as well as the performance of our stores that have not operated for a sufficient amount of time to be included in same store sales. We include net sales from a store in same store sales on the first day of the 13th full fiscal month following the store's opening or acquisition by us. We have historically excluded e-Commerce from our calculation of same store sales, However, beginning with fiscal year 2017 and for subsequent periods, same store sales results will include our e-commerce sales. For fiscal years consisting of 53 weeks, such as fiscal year 2017, we exclude net sales during the 53rd week from our calculation of same store sales. Some of our competitors and other retailers may calculate same store

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sales differently than we do. As a result, data regarding our same store sales may not be comparable to similar data made available by other retailers.

Measuring the change in year-over-year same store sales allows us to evaluate how our retail store base is performing. Various factors affect same store sales, including:

- changes or anticipated changes to regulations related to some of the products we sell;
- consumer preferences, buying trends and overall economic trends;
- our ability to identify and respond effectively to local and regional trends and customer preferences;
- our ability to provide quality customer service that will increase our conversion of shoppers into paying customers;
 - the success of our omni-channel strategy and our e-commerce platform
- competition in the regional market of a store;
- atypical weather;
- changes in our product mix; and
- changes in pricing and average ticket sales.

Opening new stores is also an important part of our growth strategy. For fiscal year 2018 we opened 5 stores and plan to open 3 locations in fiscal year 2019. While our target is to grow square footage at a rate of greater than 5% annually, we expect we will grow our square footage approximately 3% for fiscal year 2019 as we continue to shift some of our cash use to reducing our debt balance.

For our new locations, we measure our investment by reviewing the new store's four-wall Adjusted EBITDA margin and pre-tax return on invested capital ("ROIC"). We target a minimum 10% four-wall Adjusted EBITDA margin and a minimum ROIC of 50% excluding initial inventory costs (or 20% including initial inventory cost) for the first full twelve months of operation for a new store. The 52 new stores that we have opened since 2010 and that have been

open for a full twelve months (excluding the 10 acquired stores) have achieved an average four-wall Adjusted EBITDA margin of 12.0% and an average ROIC of 63.3% excluding initial inventory cost (and 24.6% including initial inventory cost) during their first full twelve months of operations. Four-wall Adjusted EBITDA means, for any period, a particular store's Adjusted EBITDA, excluding any allocations of corporate selling, general and administrative expenses allocated to that store. Four-wall Adjusted EBITDA margin means, for any period, a store's four-wall Adjusted EBITDA divided by that store's net sales. For a definition of Adjusted EBITDA and Adjusted EBITDA margin and a reconciliation of net income to Adjusted EBITDA, see "—Non-GAAP Measures." ROIC means a store's four-wall Adjusted EBITDA for a given period divided by our initial cash investment in the store. We calculate ROIC both including and excluding the initial inventory cost.

We also have been scaling our e-commerce platform and increasing sales through our website, www.sportsmans.com.

We believe the key drivers to increasing our total net sales will be:

- increasing our total gross square footage by opening new stores;
- continuing to increase and improve same store sales in our existing markets;
- increasing customer visits to our stores and improving our conversion rate through focused marketing efforts and continually high standards of customer service;
- increasing the average ticket sale per customer; and

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- expanding our e-commerce platform.

Gross Margin

Gross profit is our net sales less cost of goods sold. Gross margin measures our gross profit as a percentage of net sales. Our cost of goods sold primarily consists of merchandise acquisition costs, including freight-in costs, shipping costs, payment term discounts received from the vendor and vendor allowances and rebates associated directly with merchandise and shipping costs related to e-commerce sales.

We believe the key drivers to improving our gross margin are increasing the product mix to higher margin products, particularly clothing and footwear, increasing foot traffic within our stores, improving buying opportunities with our vendor partners and coordinating pricing strategies among our stores and our merchandise group. Our ability to properly manage our inventory can also impact our gross profit. Successful inventory management ensures we have sufficient high margin products in stock at all times to meet customer demand, while overstocking of items could lead to markdowns in order to help a product sell. We believe that the overall growth of our business will allow us to generally maintain or increase our gross margins, because increased merchandise volumes will enable us to maintain our strong relationships with our vendors.

Selling, General and Administrative Expenses

We closely manage our selling, general and administrative expenses. Our selling, general and administrative expenses are comprised of payroll, rent and occupancy, depreciation and amortization, acquisition expenses, pre-opening expenses and other operating expenses, including stock-based compensation expense. Pre-opening expenses include expenses incurred in the preparation and opening of a new store location, such as payroll, travel and supplies, but do not include the cost of the initial inventory or capital expenditures required to open a location.

Our selling, general and administrative expenses are primarily influenced by the volume of net sales of our locations, except for our corporate payroll, rent and occupancy and depreciation and amortization, which are generally fixed in nature. We control our selling, general and administrative expenses through a budgeting and reporting process that allows our personnel to adjust our expenses as trends in net sales activity are identified.

We expect that our selling, general and administrative expenses will increase in future periods due to our continuing growth and expansion of employee benefits. In fiscal year 2018, 58 of our stores were impacted by minimum wage increases that increased our selling, general and administrative expenses during fiscal year 2018.

Income from Operations

Income from operations is gross profit less selling, general and administrative expenses. We use income from operations as an indicator of the productivity of our business and our ability to manage selling, general and administrative expenses.

Adjusted EBITDA

We define Adjusted EBITDA as net income plus interest expense, income tax expense, depreciation and amortization, stock-based compensation expense, pre-opening expenses, and other gains, losses, and expenses that we do not believe are indicative of our ongoing expenses. In evaluating our business, we use Adjusted EBITDA and Adjusted EBITDA margin as an additional measurement tool for purposes of business decision-making, including evaluating store performance, developing budgets and managing expenditures. See “—Non-GAAP Measures.”

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Results of Operations

The following table summarizes key components of our results of operations as a percentage of net sales for the periods indicated (prior year numbers have been revised):

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Percentage of net sales:			
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	66.4	66.2	66.3
Gross profit	33.6	33.8	33.7
Selling, general, and administrative expenses	28.4	28.1	26.0
Income from operations	5.2	5.7	7.7
Interest expense	1.6	1.7	1.7
Income before income taxes	3.6	4.0	6.0
Income tax expense	0.8	1.9	2.3
Net income	2.8%	2.1%	3.7%
Adjusted EBITDA	8.1%	9.0%	11.0%

The following table shows our sales during the periods presented by department:

Department	Product Offerings	Fiscal Year Ended		
		February 2, 2019	February 3, 2018	January 28, 2017
Camping	Backpacks, camp essentials, canoes and kayaks, coolers, outdoor cooking equipment, sleeping bags, tents and tools	14.2%	15.1%	14.6%
Clothing	Camouflage, jackets, hats, outerwear, sportswear, technical gear and work wear	8.9%	9.3%	8.7%
Fishing	Bait, electronics, fishing rods, flotation items, fly fishing, lines, lures, reels, tackle and small boats	10.6%	10.7%	10.0%
Footwear	Hiking boots, socks, sport sandals, technical footwear, trail shoes, casual shoes, waders and work boots	7.3%	7.4%	7.1%

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Hunting and Shooting	Ammunition, archery items, ATV accessories, blinds and tree stands, decoys, firearms, reloading equipment and shooting gear	48.3%	48.7%	50.9%
Optics, Electronics, Accessories, and Other	Gift items, GPS devices, knives, lighting, optics (e.g. binoculars), two-way radios, and other license revenue, net of revenue discounts	10.6%	8.8%	8.7%
Total		100.0%	100.0%	100.0%

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Fiscal Year 2018 Compared to Fiscal Year 2017

Net Sales. Net sales increased by \$39.5 million, or 4.9%, to \$849.1 million in fiscal year 2018 compared to \$809.7 million in fiscal year 2017. Net sales increased due to \$36.8 million in incremental sales from our new stores and stores not yet included in same store sales, partially offset by \$10.6 million in sales from an additional week in fiscal year 2017 that did not occur in fiscal year 2018. Our five new stores opened in fiscal 2018 generated net sales of \$16.0 million during this period. Existing stores that were not included in same store sales generated \$20.8 million in additional net sales in fiscal year 2018 over fiscal year 2017. Our increase in net sales was also positively impacted by a 1.5% increase in same store sales.

With respect to same store sales, our footwear, fishing, optics, electronics, accessories, and other, and hunting departments realized an increase in same store sales of 3.3%, 2.6%, 2.4% and 1.8%, respectively. Our camping and clothing departments incurred decreases in same store sales of 0.6% and 0.4%, respectively. Firearms same store sales increased by 5.8% and ammunition same store sales decreased by 0.3% during fiscal year 2018 compared to fiscal year 2017. We had increased sales in our hunting category as we are continuing to gain increased market share in firearms. We experienced a decrease in demand for camping and clothing gear as the fall was warmer than normal and due to the extensive forest fires seen in the Western United States, which had an impact on several key recreational areas in our markets. As of February 2, 2019, we had 87 stores included in our same store sales calculation. As fiscal year 2017 contained 53 weeks of operations, we exclude net sales during the 53rd week from our calculation of same store sales.

Gross Profit. Gross profit increased by \$11.0 million, or 4.0%, to \$284.9 million for fiscal year 2018 from \$273.9 million for fiscal year 2017. As a percentage of net sales, gross profit decreased to 33.6% compared to gross profit of 33.8% in the prior year. Gross margin was negatively impacted by increased freight charges and a sales mix change compared to fiscal year 2017 from our high margin product categories (clothing, fishing and camping) to our lower margin product categories (hunting and shooting).

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$13.6 million, or 6.0%, to \$240.9 million for fiscal year 2018 from \$227.3 million for fiscal year 2017. Selling, general and administrative expenses were 28.4% of net sales in fiscal year 2018 compared to 28.1% of net sales in fiscal year 2017. A large contributor to the increase in Selling, general, and administrative expenses during fiscal year 2018 relates to \$2.6 million of compensation expense for our former Chief Executive Office that was recognized during the first quarter of fiscal year 2018. We also incurred additional payroll, rent, depreciation and amortization and other operating expenses of \$9.9 million, \$4.2 million, \$0.5 million and \$2.9 million, respectively, during fiscal year 2018 compared to fiscal year 2017, which were caused by the opening of new stores, our planned e-commerce investment, and the impact of minimum wage increases across most of our stores. These increases were partially offset by decreases of \$2.1 million in pre-opening expenses, \$1.7 million of professional fees incurred in connection with our bid for certain inventory and other assets of Gander Mountain Company in fiscal year 2017, \$0.5 million in relation to the write-off of IT related assets in fiscal year 2017, and \$0.9 million in a one-time bonus expense paid to non-executive employees in connection with the Tax Cuts and Jobs Act (the "Tax Act") in fiscal year 2017.

Interest Expense. Interest expense decreased by \$0.5 million, or 3.9%, to \$13.2 million in fiscal year 2018 from \$13.7 million for fiscal year 2017. Interest expense decreased primarily as a result of the refinancing of our credit facility in May 2018, which resulted in lower interest rates than our prior term loan, combined with a reduction in our total debt balance during the year. This decrease was partially offset by the write-off of \$1.6 million in deferred financing fees and debt discount associated with our prior term loan.

Income Taxes. We recorded an income tax expense of \$7.1 million for fiscal year 2018 compared to income tax expense of \$15.1 million for fiscal year 2017. Our effective tax rate changed from 46.0% in 2017 to 22.9% in 2018 primarily due to the Tax Act enacted on December 22, 2017. For the year ended February 2, 2019, the Company recorded a discrete net benefit of \$1.3M related to Tax Reform. This was a result of certain accounting method changes and other permitted timing adjustments that were ultimately reflected on the Company's fiscal 2017 tax return filed in fiscal 2018 resulting in a net benefit due to changes in the federal tax rates under the Tax Act.

The Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%. We recognized an additional \$2.6 million in tax expense associated with U.S. tax reform in fiscal year 2017. This amount was primarily comprised of the remeasurement of federal net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate from 35% to 21%. In addition to

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the reduction of the corporate tax rate due to the Tax Act the change in our effective tax rate from fiscal year 2017 to fiscal year 2018 was impacted by limitations on the deductibility of certain executive compensation and a discrete item relating to a change in tax depreciation methods filed with the fiscal year 2017 federal tax return in fiscal year 2018 for specific classes of fixed assets which accelerated taxable depreciation.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provided guidance on accounting for the tax effects of the Tax Act. Pursuant to SAB 118, we were allowed a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. However, we did not have any provisional estimates associated with the Tax Act and, therefore, did not record any adjustments relating to the Tax Act.

Fiscal Year 2017 Compared to Fiscal Year 2016

Net Sales. Net sales increased by \$29.7 million, or 3.8%, to \$809.7 million in fiscal year 2017 compared to \$780.0 million in fiscal year 2016. Net sales increased due to \$72.1 million in incremental sales from our new stores and stores not yet included in same store sales and \$10.6 million in sales from an additional week in fiscal year 2017. Our increase in net sales was partially offset by a 6.5% decrease in same store sales, including an 11.5% decrease in same store sales for our hunting department. Our twelve new stores opened in fiscal 2017 generated net sales of \$48.6 million during this period. Existing stores that were not included in same store sales generated \$23.6 million in additional net sales in fiscal year 2017 over fiscal year 2016.

With respect to same store sales, our clothing department realized an increase in same store sales of 1.4%. Our other 5 departments (camping, fishing, hunting, footwear, and optics, electronics, and accessories) incurred decreases in same store sales. In particular, we saw decreases of 2.5%, 0.6%, 11.5%, 0.2% and 4.7%, respectively in these departments. The main contributing factor to the decrease in these departments was a decrease in foot traffic in our stores, which was a result of a decreased demand in firearms and ammunition. Firearms and ammunitions decreased by 9.4% and 15.8%, respectively, during fiscal year 2017 compared to fiscal year 2016. We experienced a decrease in demand for firearms and ammunition due in part to the change in the U.S. government administration and anticipated less regulation being put forward to tighten restrictions on gun ownership. As of February 3, 2018, we had 75 stores included in our same store sales calculation. As fiscal year 2017 contained 53 weeks of operations, we exclude net sales during the 53rd week from our calculation of same store sales.

Gross Profit. Gross profit increased by \$10.6 million, or 4.0%, to \$273.9 million for fiscal year 2017 from \$263.2 million for fiscal year 2016. As a percentage of net sales, gross profit increased to 33.8% compared to gross profit of 33.7% in the prior year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$24.8 million, or 12.2%, to \$227.3 million for fiscal year 2017 from \$202.5 million for fiscal year 2016. Selling, general and administrative expenses were 28.1% of net sales in fiscal year 2017 compared to 26.0% of net sales in fiscal year 2016. Specifically, we incurred additional payroll, rent, depreciation and amortization and other operating expenses of \$8.9 million, \$5.5 million, \$3.7 million and \$5.3 million, respectively, during fiscal year 2017 compared to fiscal year 2016, which were caused by the increase in the number of stores open during the year as compared to the prior year. We also incurred an additional \$1.7 million of professional fees incurred in connection with our bid for certain inventory and other assets of Gander Mountain Company. Gander Mountain filed for Chapter 11 bankruptcy protection and we participated in a bankruptcy auction for the assets, but we ultimately chose not to continue in the auction. We also incurred \$0.5 million in relation to the write-off of IT related assets. Additionally, we incurred \$0.9 million in a one-time bonus expense paid to non-executive employees in connection with the Tax Cuts and Jobs Act. These increases were offset slightly by a reduction in preopening expenses of \$0.3 million during fiscal year 2017 compared to fiscal year 2016. Overall selling, general, and administrative expenses were lower on a per-store basis when compared to 2016.

Interest Expense. Interest expense increased by \$0.3 million, or 2.5%, to \$13.7 million in fiscal year 2017 from \$13.4 million for fiscal year 2016. Interest expense increased primarily as a result of rate increases by the Federal Reserve that impacted the rate of interest paid on our line of credit and term loan facilities.

Income Taxes. We recorded an income tax expense of \$15.1 million for fiscal year 2017 compared to income tax expense of \$17.6 million for fiscal year 2016. Our effective tax rate changed from fiscal year 2016 of 37.3% to 46.0% in 2017 due to the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017. We recognized an additional

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\$2.6 million in tax expense associated with U.S. tax reform. The 2017 effective tax rate before U.S. tax reform adjustments would have been 39.2%. The increase compared with 2016 is primarily due to tax shortfalls relating to the vesting of restricted stock units during 2017.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides for a measurement period that may not extend beyond one year from the Tax Act enactment date for companies to complete the required accounting under ASC 740. In accordance with SAB 118, a company must reflect, as of the end of the accounting period that includes the date of enactment of the Tax Act, only those income tax effects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that the company's accounting for certain income tax effects of the Tax Act is incomplete, but the company is able to determine a reasonable estimate, the company must record a provisional estimate in the financial statements. If the company cannot determine a provisional estimate, it must continue to apply ASC 740 on the basis of the provisions of the tax law that were in effect immediately before the enactment of the Tax Act.

Pursuant to SAB 118, the Company is allowed a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. However, the Company does not have any provisional estimates associated with the Tax Act and has recorded a tax expense related to the net change in deferred tax assets of \$2,600 for 2017.

Additional information pertaining to the Tax Act can be found in Note 14 to the Consolidated Financial Statements included in this report

Seasonality

Due to holiday buying patterns and the openings of hunting season across the country, net sales are typically higher in the third and fourth fiscal quarters than in the first and second fiscal quarters. We also incur additional expenses in the third and fourth fiscal quarters due to higher volume and increased staffing in our stores. We anticipate our net sales will continue to reflect this seasonal pattern.

The timing of our new retail store openings also may have an impact on our quarterly results. First, we incur certain one-time expenses related to opening each new retail store, all of which are expensed as they are incurred. Second, most store expenses generally vary proportionately with net sales, but there is also a fixed cost component, which includes occupancy costs. These fixed costs typically result in lower store profitability during the initial period after a new retail store opens. Due to both of these factors, new retail store openings may result in a temporary decline in operating profit, in dollars and/or as a percentage of net sales.

Weather conditions affect outdoor activities and the demand for related clothing and equipment. Customers' demand for our products, and, therefore, our net sales, can be significantly impacted by weather patterns on a local, regional and national basis.

Quarterly Results of Operations

The following table sets forth unaudited financial and operating data for each fiscal quarter of fiscal years 2018 and 2017. This quarterly information has been prepared on a basis consistent with our audited financial statements and includes all normal recurring adjustments that we consider necessary for a fair presentation of the information shown. This information should be read in conjunction with "Part II, Item 6. Selected Financial Data" and "Part II, Item 8. Financial Statements and Supplementary Data" of this 10-K. Our quarterly operating results may fluctuate significantly as a result of the factors described above and a variety of other factors, and operating results for any fiscal quarter are not necessarily indicative of results for a full fiscal year.

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	Fiscal Year 2018				Fiscal Year 2017			
	Fourth Quarter (unaudited)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter (2)	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data, percentages and number of stores)							
Net sales	\$ 242,683	\$ 223,099	\$ 203,288	\$ 180,059	\$ 243,165	\$ 218,115	\$ 191,493	\$ 156,8
Gross profit	79,506	77,581	72,277	55,566	79,664	76,963	68,618	48,61
Income (loss) from operations (1)	16,969	17,511	13,189	(3,557)	16,581	19,520	14,236	(3,76
Net income (loss) (1)	10,629	12,398	6,551	(5,828)	5,888	9,808	6,554	(4,50
Diluted earnings (loss) per share	0.25	0.29	0.15	(0.14)	0.14	0.23	0.15	(0.11
As a percentage of full year results:								
Net sales	28.6%	26.3%	23.9%	21.2%	30.0%	26.9%	23.7%	19.4%
Gross profit	9.4%	9.1%	8.5%	6.5%	9.8%	9.5%	8.5%	6.0%
Income (loss) from operations	2.0%	2.1%	1.6%	(0.4)%	2.0%	2.4%	1.8%	(0.5)%
Net income (loss)	1.3%	1.5%	0.8%	(0.7)%	0.7%	1.2%	0.8%	(0.6)%
Operating data:								
Number of stores open at end of period	92	92	91	89	87	86	83	79

(1) This line includes \$2.6 million of severance paid to our former Chief Executive Officer in the first quarter of 2018. This line includes for the first quarter of 2017, \$1.7 million, of professional fees incurred in connection with our bid for certain inventory and other assets of Gander Mountain Company. Gander Mountain filed for Chapter 11 bankruptcy protection and we participated in a bankruptcy auction for the assets, but we ultimately chose not to continue in the auction.

(2) Contains 14 weeks of operations.

Liquidity and Capital Resources

Our primary capital requirements are for seasonal working capital needs and capital expenditures related to opening new stores. Our sources of liquidity to meet these needs have primarily been borrowings under our revolving credit facility, operating cash flows and short and long-term debt financings from banks and financial institutions. We believe that our cash on hand, cash generated by operating activities and funds available under our revolving credit facility will be sufficient to finance our operating activities for at least the next twelve months.

For fiscal year 2018, we incurred approximately \$17.2 million in gross capital expenditures. We also received \$1.7 million from deemed sale-leaseback transactions. We expect gross capital expenditures between \$18.0 million and \$23.0 million for fiscal year 2019. We intend to fund these capital expenditures with our operating cash flows and funds available under our revolving credit facility. Other investment opportunities, such as potential strategic acquisitions or store expansion rates in excess of those presently planned, may require additional funding.

Cash flows from operating, investing and financing activities are shown in the following table:

	Fiscal Year Ended	
	February 2, 2019	February 3, 2018
	(in thousands)	
Cash flows provided by operating activities	\$ 32,173	\$ 30,775
Cash flows used in investing activities	(16,252)	(32,136)
Cash flows (used in) provided by financing activities	(16,143)	1,219
Cash at end of period	1,547	1,769

Net cash provided by operating activities was \$32.2 million for fiscal year 2018, compared to \$30.8 million for fiscal year 2017. Our net cash provided by operating activities increased primarily due to decreased inventory purchases as we continue to manage our in-store inventory more efficiently as well as an increase in accounts payable, partially offset by an increase in net income.

Net cash used in investing activities was \$16.3 million for fiscal year 2018 compared to \$32.1 million for fiscal year 2017. The decrease in cash used in investing activities was primarily a result of fewer store openings in fiscal year 2018 where we only opened 5 stores in fiscal year 2018 compared to 12 stores in fiscal year 2017.

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Net cash used in financing activities was \$16.1 million for fiscal year 2018 compared to net cash provided by financing activities of \$1.2 million for fiscal year 2017. The increase in net cash used in financing in fiscal year 2018 compared to the net cash provided by financing activities in fiscal year 2017 is primarily due to the repayment of our prior term loan in May 2018 from the cash flows we generated and borrowings under our revolving credit facility.

Amended and Restated Credit Facility. On May 23, 2018, we amended and restated our credit agreement with a consortium of banks led by Wells Fargo Bank, National Association (“Wells Fargo”). The amended credit agreement, among other things, increased our available borrowing capacity under our revolving credit facility from \$150.0 million to \$250.0 million, subject to a borrowing base calculation, and provided for a new \$40.0 million term loan. Both the revolving credit facility and new term loan will mature on May 23, 2023. On May 23, 2018, we borrowed \$135.4 million under the revolving credit facility and used the proceeds from the new term loan and the revolving credit facility to repay our prior term loan that had an outstanding principal balance of \$134.7 million and was scheduled to mature on December 3, 2020. As of February 2, 2019, we had \$151.3 million outstanding under the revolving credit facility, with \$19.3 million available for borrowing and \$1.7 million in stand-by commercial letters of credit.

Each of the subsidiaries of Holdings is a borrower under the revolving credit facility, and all obligations under the revolving credit facility are guaranteed by Holdings. All of our obligations under the revolving credit facility are secured by a lien on substantially all of Holdings’ tangible and intangible assets and the tangible and intangible assets of all of our subsidiaries, including a pledge of all capital stock of each of our subsidiaries. The lien securing the obligations under the revolving credit facility is a first priority lien as to certain liquid assets, including cash, accounts receivable, deposit accounts and inventory. In addition, the credit agreement contains provisions that enable Wells Fargo to require us to maintain a lock-box, or similar arrangement, for the collection of all receipts.

Borrowings under the revolving credit facility bear interest based on either, at our option, the base rate or LIBOR, in each case plus an applicable margin. The base rate is the higher of (1) Wells Fargo’s prime rate, (2) the federal funds rate (as defined in the credit agreement) plus 0.50% and (3) the one-month LIBOR (as defined in the credit agreement) plus 1.00%. The applicable margin for loans under the revolving credit facility, which varies based on the average daily availability, ranges from 0.25% to 0.75% per year for base rate loans and from 1.25% to 1.75% per year for LIBOR loans. The weighted average interest rate on the amount outstanding under the revolving credit facility as of February 2, 2019 was 4.18%.

Interest on the revolving credit facility or base rate loans is payable monthly in arrears and interest on LIBOR loans is payable based on the LIBOR interest period selected by us, which can be 7, 30, 60 or 90 days. All amounts that are not paid when due under our revolving credit facility, or base rate loans, will accrue interest at the rate otherwise applicable plus 2.00% until such amounts are paid in full.

Our new term loan was issued at a price of 100% of the \$40.0 million aggregate principal amount and has a maturity date of May 23, 2023. The new term loan will bear interest at a rate of LIBOR plus 5.75%. The new term loan

requires quarterly principal payments of \$2.0 million which began on November 1, 2018 and continues up to and including May 23, 2023, at which time the remaining balance is due in full. Each of the subsidiaries of Holdings is a borrower under the revolving credit facility and the new term loan, Holdings guarantees all obligations under the revolving credit facility and new term loan. All obligations under the revolving credit facility and new term loan are secured by a lien on substantially all of Holdings' tangible and intangible assets and the tangible and intangible assets of all of Holdings' subsidiaries, including a pledge of all capital stock of each of the Holdings' subsidiaries. The lien securing the obligations under the revolving credit facility and new term loan is a first priority lien as to certain liquid assets, including cash, accounts receivable, deposit accounts and inventory. In addition, our credit agreement contains provisions that enable Wells Fargo to require us to maintain a lock-box, or similar arrangement, for the collection of all receipts. As of February 2, 2019, the balance remaining on our term loan was \$36 million.

We may be required to make mandatory prepayments under the revolving credit facility in the event of a disposition of certain property or assets, in the event of receipt of certain insurance or condemnation proceeds, upon the issuance of certain debt or equity securities, upon the incurrence of certain indebtedness for borrowed money or upon the receipt of certain payments not received in the ordinary course of business.

The credit agreement governing our revolving credit facility and new term loan contains customary affirmative and negative covenants, including covenants that limit our ability to incur, create or assume certain indebtedness, to create, incur or assume certain liens, to make certain investments, to make sales, transfers and dispositions of certain

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property and to undergo certain fundamental changes, including certain mergers, liquidations and consolidations. The credit agreement also contains customary events of default. As of February 2, 2019, we were in compliance with all covenants under the revolving credit facility.

Prior Term Loan. Prior to May 23, 2018, we had a \$160.0 million senior secured term loan facility with a financial institution. The term loan was issued at a price of 99% of the aggregate principal amount and had a maturity date of December 3, 2020. The term loan required quarterly principal payments of \$0.4 million payable on the last business day of each fiscal quarter continuing up to and including October 30, 2020, with the final installment payment consisting of the remaining unpaid balance due on December 3, 2020.

The prior term loan bore interest at a rate per annum equal to the one-, two-, three-, or six-month LIBOR (or, the nine- or 12-month LIBOR), as defined in the term loan agreement, at our election, which could not be less than 1.25%, plus an applicable margin of 6.25%.

On May 23, 2018, we repaid the term loan in full with proceeds from our revolving credit facility and new term loan.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. In connection with the preparation of the financial statements, we are required to make assumptions, make estimates and apply judgment that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time the consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2 of the Notes to our consolidated financial statements. We believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results.

Revenue Recognition

Accounting Standard Codification Topic 606 (“Topic 606”) has required changes to how our revenue is recognized. Updates to our accounting policies have been made as part of the adoption of this new standard. The changes to our accounting policies and procedures under the new standard have most significantly impacted the method that we use to record breakage for gift cards and loyalty reward points associated with the our loyalty reward programs. The new breakage calculations for these items apply assumptions allowable under Topic 606, which require judgments. In applying these new assumptions, and in the application of Topic 606, we have determined that the updated accounting policies, to ensure compliance under Topic 606, continue to be critical accounting policies.

Revenue recognition accounting policy

We operate solely as an outdoor retailer, which includes both retail stores and an e-commerce platform, that offers a broad range of products in the United States and online. Generally, all revenues are recognized when control of the promised goods is transferred to customers, in an amount that reflects the consideration in exchange for those goods. Accordingly, we implicitly enter into a contract with customers to deliver merchandise inventory at the point of sale. Collectability is reasonably assured since we only extend immaterial credit purchases to certain municipalities.

Substantially all of our revenue is for single performance obligations for the following distinct items:

Retail store sales

E-commerce sales

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Gift cards and loyalty reward program

For performance obligations related to retail store and e-commerce sales contracts, we typically transfer control, for retail stores, upon consummation of the sale when the product is paid for and taken by the customer and, for e-commerce sales, when the products are tendered for delivery to the common carrier.

The transaction price for each contract is the stated price on the product, reduced by any stated discounts at that point in time. We do not engage in sales of products that attach a future material right which could result in a separate performance obligation for the purchase of goods in the future at a material discount. The implicit point-of-sale contract with the customer, as reflected in the transaction receipt, states the final terms of the sale, including the description, quantity, and price of each product purchased. Payment for our contracts is due in full upon delivery. The customer agrees to a stated price implicit in the contract that does not vary over the contract.

The transaction price relative to sales subject to a right of return reflects the amount of estimated consideration to which we expect to be entitled. This amount of variable consideration included in the transaction price, and measurement of net sales, is included in net sales only to the extent that it is probable that there will be no significant reversal in a future period. Actual amounts of consideration ultimately received may differ from our estimates. The allowance for sales returns is estimated based upon historical experience and a provision for estimated returns is recorded as a reduction in sales in the relevant period. The estimated merchandise inventory cost related to the sales returns is recorded in prepaid expenses and other. If actual results in the future vary from our estimates, we adjust these estimates, which would affect net sales and earnings in the period such variances become known.

Contract liabilities are recognized primarily for gift card sales and our loyalty reward program. Cash received from the sale of gift cards is recorded as a contract liability in accrued expenses, and we recognize revenue upon the customer's redemption of the gift card. Gift card breakage is recognized as revenue in proportion to the pattern of customer redemptions by applying a historical breakage rate of 3.0% when no escheat liability to relevant jurisdictions exists. We do not sell or provide gift cards that carry expiration dates. We recognized revenue for the breakage of loyalty reward points as revenue in proportion to the pattern of customer redemption of the points by applying a historical breakage rate of 30% when no escheat liability to relevant jurisdictions exists.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by us from a customer, are excluded from revenue.

Sales returns

We estimate a reserve for sales returns and record the respective reserve amounts, including a right to return asset when a product is expected to be returned and resold. Historical experience of actual returns, and customer return rights are the key factors used in determining the estimated sales returns.

Inventory Valuation

Inventory is measured at the lower of cost or net realizable value. Cost is determined using the weighted average cost method. We estimate a provision for inventory shrinkage based on our historical inventory accuracy rates as determined by periodic cycle counts. The allowance for damaged goods from returns is based upon our historical experience. We also adjust inventory for obsolete or slow moving inventory based on inventory productivity reports and by specific identification of obsolete or slow moving inventory. Had our estimated inventory reserves been lower or higher by 10% as of February 2, 2019, our cost of sales would have been correspondingly lower or higher by approximately \$0.7 million.

Valuation of Long-Lived Assets

We review our long-lived assets with definite lives for impairment whenever events or changes in circumstances may indicate that the carrying value of an asset may not be recoverable. We use an estimate of the future undiscounted net cash flows of the related asset or group of assets over their remaining useful lives in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is

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recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the estimated costs to sell. No impairment charge to long-lived assets was recorded during the fiscal year ended February 2, 2019 or February 3, 2018.

Off Balance Sheet Arrangements

We are not party to any off balance sheet arrangements.

Non-GAAP Measures

In evaluating our business, we use Adjusted EBITDA and Adjusted EBITDA margin as supplemental measures of our operating performance. We define Adjusted EBITDA as net income plus interest expense, income tax expense, depreciation and amortization, stock-based compensation expense, pre-opening expenses, and other gains/losses, and expenses that we do not believe are indicative of our ongoing expenses. Adjusted EBITDA excludes pre-opening expenses because we do not believe these expenses are indicative of the underlying operating performance of our stores. The amount and timing of pre-opening expenses are dependent on, among other things, the size of new stores opened and the number of new stores opened during any given period. Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period. We consider Adjusted EBITDA and Adjusted EBITDA margin important supplemental measures of our operating performance and believe they are frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Other companies in our industry, however, may calculate Adjusted EBITDA and Adjusted EBITDA margin differently than we do. Management also uses Adjusted EBITDA and Adjusted EBITDA margin as additional measurement tools for purposes of business decision-making, including evaluating store performance, developing budgets and managing expenditures. Management believes Adjusted EBITDA and Adjusted EBITDA margin allow investors to evaluate our operating performance and compare our results of operations from period to period on a consistent basis by excluding items that management does not believe are indicative of our core operating performance.

Adjusted EBITDA is not defined under GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with GAAP. Adjusted EBITDA has limitations as an analytical tool, and when assessing our operating performance, you should not consider Adjusted EBITDA in isolation or as a substitute for net income or other consolidated income statement data prepared in accordance with GAAP. Some of these limitations include, but are not limited to:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA may be defined differently by other companies, and, therefore, it may not be directly comparable to the results of other companies in our industry;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; and
- Adjusted EBITDA does not reflect income taxes or the cash requirements for any tax payments.

For a reconciliation of net income, the most directly comparable financial measure presented in accordance with GAAP, to Adjusted EBITDA, see “Item 6. Selected Financial Data” included elsewhere in this 10-K.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Note 2 to our consolidated financial statements included elsewhere in this 10-K. Under the Jumpstart Our Business Startup Act, “emerging growth companies”

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(“EGCs”) can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not EGCs.

We will continue to be an EGC for a period up to the end of the fifth fiscal year after our initial public offering, which is February 2, 2020. We could cease to be an EGC earlier than this five-year period if our total annual gross revenues equal or exceed \$1 billion in a fiscal year, if we issue more than \$1 billion in non-convertible debt over a three-year period or if we become a “large accelerated filer” (which requires, among other things, the market value of our common stock held by non-affiliates to be at least \$700 million as of the last business day of our second fiscal quarter of any fiscal year). For further information, see Part I, Item 1A. “Risk Factors—We are an EGC within the meaning of the JOBS Act and we cannot be certain if the reduced reporting requirements applicable to EGCs will make our common stock less attractive to investors.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are not required to provide the information under this item.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Sportsman's Warehouse Holdings, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Sportsman's Warehouse Holdings, Inc. (and subsidiaries) (the Company) as of February 2, 2019 and February 3, 2018, the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the three year period ended February 2, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the years in the three year period ended February 2, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Salt Lake City, Utah

March 29, 2019

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Amounts in Thousands, Except Per Share Data

	February 2, 2019	February 3, 2018
Assets		
Current assets:		
Cash	\$ 1,547	1,769
Accounts receivable, net	249	319
Merchandise inventories	276,600	270,594
Prepaid expenses and other	15,174	8,073
Total current assets	293,570	280,755
Property and equipment, net	92,084	94,035
Deferred income taxes	2,997	4,595
Definite lived intangibles, net	246	276
Total assets	\$ 388,897	379,661
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 24,953	36,788
Accrued expenses	56,384	50,602
Income taxes payable	1,838	2,586
Revolving line of credit	144,306	59,992
Current portion of long-term debt, net of discount and debt issuance costs	7,915	990
Current portion of deferred rent	5,270	4,593
Total current liabilities	240,666	155,551
Long-term liabilities:		
Long-term debt, net of discount, debt issuance costs, and current portion	27,717	132,349
Deferred rent, noncurrent	41,854	41,963
Total long-term liabilities	69,571	174,312
Total liabilities	310,237	329,863
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 20,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$.01 par value; 100,000 shares authorized; 42,978 and 42,617 shares issued and outstanding, respectively	430	426
Additional paid-in capital	84,671	82,197
Accumulated deficit	(6,441)	(32,825)
Total stockholders' equity	78,660	49,798

Total liabilities and stockholders' equity	\$ 388,897	379,661
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See accompanying notes to the consolidated financial statements

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Amounts in Thousands, Except Per Share Data

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Net sales	\$ 849,129	\$ 809,671	\$ 779,956
Cost of goods sold	564,199	535,811	516,726
Gross profit	284,930	273,860	263,230
Selling, general, and administrative expenses	240,911	227,292	202,543
Income from operations	44,019	46,568	60,687
Interest expense	(13,206)	(13,738)	(13,402)
Income before income taxes	30,813	32,830	47,285
Income tax expense	7,063	15,088	17,616
Net income	\$ 23,750	\$ 17,742	\$ 29,669
Income per share:			
Basic	\$ 0.55	\$ 0.42	\$ 0.70
Diluted	\$ 0.55	\$ 0.42	\$ 0.70
Weighted average shares outstanding:			
Basic	42,878	42,496	42,187
Diluted	42,979	42,522	42,485

See accompanying notes to the consolidated financial statements

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

Amounts in Thousands

	Common Stock		Restricted nonvoting common stock		Additional paid-in- capital	Accumulated deficit	Total stockholders' (deficit)equity
	Shares	Amount	Shares	Amount	Amount	Amount	Amount
Balance at January 30, 2016	42,004	\$ 420	—	\$ —	\$ 77,757	\$ (80,236)	\$ (2,059)
Vesting of restricted stock units	207	2	—	—	(2)	—	—
Payment of withholdings on restricted stock units	—	—	—	—	(1,228)	—	(1,228)
Issuance of common stock for cash per employee stock purchase plan	58	—	—	—	433	—	433
Stock based compensation	—	—	—	—	3,186	—	3,186
Net income	—	—	—	—	—	29,669	29,669
Balance at January 28, 2017	42,269	\$ 422	—	\$ —	\$ 80,146	\$ (50,567)	\$ 30,001
Vesting of restricted stock units	260	3	—	—	(3)	—	—
Payment of withholdings on restricted stock units	—	—	—	—	(635)	—	(635)
Issuance of common stock for cash per employee stock purchase plan	88	1	—	—	395	—	396
Stock based compensation	—	—	—	—	2,294	—	2,294
Net income	—	—	—	—	—	17,742	17,742
Balance at February 3, 2018	42,617	\$ 426	—	\$ —	\$ 82,197	\$ (32,825)	\$ 49,798
Impact of change for ASC 606 adoption	—	—	—	—	—	2,634	2,634
Vesting of restricted stock units	275	3	—	—	(3)	—	—

Payment of withholdings on restricted stock units	—	—	—	—	(703)	—	(703)
Issuance of common stock for cash per employee stock purchase plan	86	1	—	—	351	—	352
Stock based compensation	—	—	—	—	2,829	—	2,829
Net income	—	—	—	—	—	23,750	23,750
Balance at February 2, 2019	42,978	\$ 430	—	\$ —	\$ 84,671	\$ (6,441)	\$ 78,660

See accompanying notes to the consolidated financial statements

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Thousands

	Fifty-two/Fifty-three Weeks Ended		
	February 2 2019	February 3 2018	January 28, 2017
Cash flows from operating activities:			
Net Income	\$ 23,750	\$ 17,742	\$ 29,669
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property and equipment	17,961	15,864	12,169
Amortization and write-off of discount on debt and deferred financing fees	2,043	708	1,122
Amortization of definite lived intangible	289	1,842	1,805
Change in deferred rent	568	8,098	6,307
Loss on asset dispositions	30	516	—
Deferred income taxes	714	502	167
Excess tax benefits from stock-based compensation arrangements	—	—	(449)
Stock-based compensation	2,829	2,294	3,186
Change in operating assets and liabilities:			
Accounts receivable, net	70	92	58
Merchandise inventories	(6,006)	(24,305)	(28,495)
Prepaid expenses and other	(5,339)	(681)	(1,064)
Accounts payable	(11,726)	7,536	(15,530)
Accrued expenses	7,739	(1,040)	6,888
Income taxes payable and receivable	(749)	1,607	(351)
Net cash provided by operating activities	32,173	30,775	15,482
Cash flows from investing activities:			
Purchase of property and equipment	(17,936)	(41,172)	(39,417)
Purchase of intangible asset	(259)	—	—
Proceeds from deemed sale-leaseback transactions	1,717	9,022	11,923
Proceeds from sale of property and equipment	226	14	—
Net cash used in investing activities	(16,252)	(32,136)	(27,494)
Cash flows from financing activities:			
Net borrowings on line of credit	84,314	(980)	35,709
Increase in book overdraft	353	4,589	(1,827)
Proceeds from issuance of common stock per employee stock purchase plan	351	396	433
Payment of withholdings on restricted stock units	(703)	(635)	(1,228)
Borrowings on term loan	40,000	—	—
Payment of deferred financing costs	(1,331)	(551)	—

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Principal payments on long-term debt	(139,127)	(1,600)	(21,273)
Net cash (used in) provided by financing activities	(16,143)	1,219	11,814
Net change in cash	(222)	(142)	(198)
Cash at beginning of period	1,769	1,911	2,109
Cash at end of period	\$ 1,547	\$ 1,769	\$ 1,911

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest, net of amounts capitalized	\$ 13,240	13,532	11,965
Income taxes, net of refunds	7,094	12,839	18,444

Supplemental schedule of noncash investing activities:

Purchases of property and equipment included in accounts payable and accrued expenses	\$ 1,189	1,142	5,972
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See accompanying notes to the consolidated financial statements

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Dollars in Thousands, except per share amounts

(1) Nature of Business

Description of Business

Sportsman's Warehouse Holdings, Inc. ("Holdings"), a Delaware Corporation, and subsidiaries (collectively, the "Company") operate retail sporting goods stores. As of February 2, 2019, the Company operated 92 stores in 23 states.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of its four wholly owned subsidiaries, Sportsman's Warehouse, Inc. ("Sportsman's Warehouse"), Pacific Flyway Wholesale, LLC ("Pacific Flyway"), Sportsman's Warehouse Southwest, Inc., and Minnesota Merchandising Corporation. All intercompany transactions and accounts have been eliminated in consolidation.

Fiscal Year

The Company operates using a 52/53 week fiscal year ending on the Saturday closest to January 31. Fiscal year 2018 ended February 2, 2019 and contained 52 weeks of operation. Fiscal year 2017 ended February 3, 2018 and contained 53 weeks of operations. Fiscal year 2016 ended January 28, 2017 and contained 52 weeks of operations.

Seasonality

The Company's business is generally seasonal, with a significant portion of total sales occurring during the third and fourth quarters of the fiscal year.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segment Reporting

The Company operates solely as a sporting goods retailer whose Chief Operating Decision Maker ("CODM") is the Chief Executive Officer. The CODM reviews financial information presented on a consolidated and individual store and cost center basis, for purposes of allocating resources and evaluating financial performance. The Company's stores typically have similar square footage and offer essentially the same general product mix. The Company's core customer demographic remains similar chainwide, as does the Company's process for the procurement and marketing of its product mix. Furthermore, the Company distributes its product mix chainwide from a single distribution center. Given that the stores have the same economic characteristics, the individual stores are aggregated into one single operating and reportable segment.

Cash

The Company considers cash on hand in stores and highly liquid investments with an initial maturity of three months or less as cash. Checks issued pending bank clearance that result in overdraft balances for accounting purposes are classified as accrued expenses in the accompanying consolidated balance sheets.

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In accordance with the terms of a financing agreement (Note 7), the Company maintains depository accounts with two banks in a lock-box or similar arrangement. Deposits into these accounts are used to reduce the outstanding balance on the line of credit as soon as the respective bank allows the funds to be transferred to the financing company. At February 2, 2019 and February 3, 2018, the combined balance in these accounts were \$7,035 and \$6,629, respectively. Accordingly, these amounts have been classified as a reduction in the line of credit as if the transfers had occurred on February 2, 2019 and February 3, 2018, respectively.

Accounts Receivable

The Company offers credit terms on the sale of products to certain government and corporate retail customers and requires no collateral from these customers. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for doubtful accounts receivable based upon historical experience and a specific review of accounts receivable at the end of each period. Actual bad debts may differ from these estimates and the difference could be significant. At February 2, 2019 and February 3, 2018, the Company had no allowance for doubtful accounts receivable.

Merchandise Inventories

The Company measures its inventory at the lower of cost or net realizable value. Cost is determined using the weighted average cost method. The Company estimates a provision for inventory shrinkage based on its historical inventory accuracy rates as determined by periodic cycle counts. The Company also adjusts inventory for obsolete, slow moving, or damaged inventory based on inventory activity thresholds and by specific identification of slow moving or obsolete inventory. The inventory write downs for shrinkage, damaged, or obsolescence totaled \$7,012 and \$7,139 at February 2, 2019 and February 3, 2018, respectively.

Property and Equipment

Property and equipment are recorded at cost. Leasehold improvements primarily include the cost of improvements funded by landlord incentives or allowances. Maintenance, repairs, minor renewals, and betterments are expensed as incurred. Major renewals and betterments are capitalized. Upon retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts and the related gains or losses are credited or charged to earnings.

Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the useful lives of the improvements or the term of the lease. Furniture, fixtures, and equipment, are depreciated over useful lives ranging from 3 to 10 years.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets with definite lives for impairment whenever events or changes in circumstances may indicate that the carrying value of an asset may not be recoverable. The Company uses an estimate of the future undiscounted net cash flows of the related asset or group of assets over their remaining useful lives in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the estimated costs to sell. No impairment charge to long-lived assets was recorded during the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017.

Prepaid Expenses and Other

Prepaid expenses and other primarily consists of prepaid expenses, vendor rebates receivable, vendor advertising receivables and miscellaneous deposits.

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Revenue Recognition

The Company adopted Accounting Standard Codification (“ASC”) Topic 606 on February 4, 2018, using the modified retrospective approach to all open contracts, with the cumulative effect of adopting the new standard being recognized in retained earnings at February 4, 2018. Therefore, the prior periods comparative information has not been adjusted and continues to be reported under Topic 605. The adoption of Topic 606 resulted in an increase in prepaid expenses and other assets of \$1,054 for the recognition of the right of return assets; an increase in accrued expenses relating to the sales return liability of \$1,054 for the recognition of the sales return liability on a gross basis; a decrease in accrued expenses of \$3,521 relating to the breakage of loyalty rewards and gift cards in order to adjust the breakage pattern of the loyalty program and gift cards to match the usage; a decrease of \$884 in deferred tax assets relating to the tax impact of the entries recorded for the gift card and loyalty program liabilities; and a decrease in accumulated deficit of \$2,634 as a cumulative effect of the adoption.

The largest driver of changes for the adoption of Topic 606 was the change in the method of estimating breakage for the Company’s outstanding gift cards and loyalty reward liabilities. Under Topic 605, this breakage was historically recorded when it was determined that the gift cards or loyalty reward points were not going to be redeemed, which was after two years for gift cards and 18 months for loyalty reward points. Topic 606, the breakage recognized for the loyalty reward program and gift cards is now estimated based off of historical breakage percentages, and is recognized in-line with the expected usage of the loyalty points and gift cards.

The accounts that changed under the adoption of Topic 606 for the condensed consolidated balance sheet as of and for the fiscal year ended February 2, 2019 have been outlined as follows:

Condensed Consolidated Balance Sheet Changes	As Reported	Adjustments	Balances without adoption of Topic 606
Prepays expenses and other	\$ 15,174	\$ (1,496)	\$ 13,678
Accrued expenses	56,384	2,025	58,409
Deferred income taxes	2,997	884	3,881
Accumulated deficit	(6,441)	(2,634)	(9,075)

Revenue recognition accounting policy

The Company operates solely as an outdoor retailer, which includes both retail stores and an e-commerce platform, that offers a broad range of products in the United States and online. Generally, all revenues are recognized when control of the promised goods is transferred to customers, in an amount that reflects the consideration in exchange for those goods. Accordingly, the Company implicitly enters into a contract with customers to deliver merchandise

inventory at the point of sale. Collectability is reasonably assured since the Company only extends immaterial credit purchases to certain municipalities.

Substantially all of the Company's revenue is for single performance obligations for the following distinct items:

- Retail store sales

- E-commerce sales

- Gift cards and loyalty rewards program

For performance obligations related to retail store and e-commerce sales contracts, the Company typically transfers control, for retail stores, upon consummation of the sale when the product is paid for and taken by the customer and, for e-commerce sales, when the products are tendered for delivery to the common carrier.

The transaction price for each contract is the stated price on the product, reduced by any stated discounts at that point in time. The Company does not engage in sales of products that attach a future material right which could result in a separate performance obligation for the purchase of goods in the future at a material discount. The implicit point-of-sale contract with the customer, as reflected in the transaction receipt, states the final terms of the sale, including the description, quantity, and price of each product purchased. Payment for the Company's contracts is due in full upon delivery. The customer agrees to a stated price implicit in the contract that does not vary over the contract.

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The transaction price relative to sales subject to a right of return reflects the amount of estimated consideration to which the Company expects to be entitled. This amount of variable consideration included in the transaction price, and measurement of net sales, is included in net sales only to the extent that it is probable that there will be no significant reversal in a future period. Actual amounts of consideration ultimately received may differ from the Company's estimates. The allowance for sales returns is estimated based upon historical experience and a provision for estimated returns is recorded as a reduction in sales in the relevant period. The estimated merchandise inventory cost related to the sales returns is recorded in prepaid expenses and other. The estimated refund liabilities are recorded in accrued expenses. If actual results in the future vary from the Company's estimates, the Company adjusts these estimates, which would affect net sales and earnings in the period such variances become known.

Contract liabilities are recognized primarily for gift card sales and our loyalty reward program. Cash received from the sale of gift cards is recorded as a contract liability in accrued expenses, and the Company recognizes revenue upon the customer's redemption of the gift card. Gift card breakage is recognized as revenue in proportion to the pattern of customer redemptions by applying a historical breakage rate of 3.0% when no escheat liability to relevant jurisdictions exists. Based upon historical experience, gift cards are predominantly redeemed in the first two years following their issuance date. The Company does not sell or provide gift cards that carry expiration dates. ASC 606 requires the Company to allocate the transaction price between the goods and the loyalty reward points based on the relative stand-alone selling price. The Company recognized revenue for the breakage of loyalty reward points as revenue in proportion to the pattern of customer redemption of the points by applying a historical breakage rate of 30% when no escheat liability to relevant jurisdictions exists.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Sales returns

The Company allows customers to return items purchased within 30 days provided the merchandise is in resaleable condition with original packaging and the original sales/gift receipt is presented. We estimate a reserve for sales returns and record the respective reserve amounts, including a right to return asset when a product is expected to be returned and resold. Historical experience of actual returns and customer return rights are the key factors used in determining the estimated sales returns.

Contract Balances

The following table provides information about right of return assets, contract liabilities, and sales return liabilities with customers as of fiscal year ended February 2, 2019:

	February 2, 2019
Right of return assets, which are included in prepaid expenses and other	\$ 1,496
Estimated contract liabilities, net of breakage	(20,298)
Sales return liabilities, which are included in accrued expenses	2,233

For the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017 the Company recognized \$1,007, \$1,337, and \$347 in gift card breakage, respectively. For the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, the Company recognized \$1,439, \$1,022, and \$611 in loyalty reward breakage, respectively. The impact of these adjustments on the statement of cash flow for the year ended February 2, 2019 were recorded in cash provided by in operating activities.

The current balance of the right of return assets is the expected amount of inventory to be returned that is expected to be resold. The current balance of the contract liabilities primarily relates to the gift card and loyalty reward program liabilities. The Company expects the revenue associated with these liabilities to be recognized in proportion to the pattern of customer redemptions over the next two years. The current balance of sales return liabilities is the expected amount of sales returns from sales that have occurred.

Practical expedients and policy elections

The Company applies the following practical expedients in its application for Topic 606:

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- The Company elected to apply the practical expedient, relative to e-commerce sales, which allows an entity to account for shipping and handling as fulfillment activities, and not a separate performance obligation. Accordingly, the Company recognizes revenue for only one performance obligation, the sale of the product, at the shipping point (when the customer gains control). Revenue associated with shipping and handling is not material. The costs associated with fulfillment are recorded in costs of goods sold.
- The Company elected to apply the practical expedient, relative to sales tax collected, which allows an entity to exclude from its transaction price any amounts collected from customers for all sales (and other similar) taxes.

Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by department. The percentage of net sales related to our departments for the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017 were as follows:

Department	Product Offerings	Fiscal Year Ended		
		February 2, 2019	February 3, 2018	January 28, 2017
Camping	Backpacks, camp essentials, canoes and kayaks, coolers, outdoor cooking equipment, sleeping bags, tents and tools	14.2%	15.1%	14.6%
Clothing	Camouflage, jackets, hats, outerwear, sportswear, technical gear and work wear	8.9%	9.3%	8.7%
Fishing	Bait, electronics, fishing rods, flotation items, fly fishing, lines, lures, reels, tackle and small boats	10.6%	10.7%	10.0%
Footwear	Hiking boots, socks, sport sandals, technical footwear, trail shoes, casual shoes, waders and work boots	7.3%	7.4%	7.1%
Hunting and Shooting	Ammunition, archery items, ATV accessories, blinds and tree stands, decoys, firearms, reloading equipment and shooting gear	48.3%	48.7%	50.9%
Optics, Electronics, Accessories, and Other	Gift items, GPS devices, knives, lighting, optics (e.g. binoculars), two-way radios, and other license revenue, net of revenue discounts	10.6%	8.8%	8.7%
Total		100.0%	100.0%	100.0%

Cost of Goods Sold

Cost of goods sold primarily consists of merchandise acquisition costs, including freight-in costs, shipping costs, terms discounts received from the vendor and vendor allowances and rebates associated directly with merchandise. Vendor allowances include allowances and rebates received from vendors. The Company records an estimate of earned allowances based on purchase volumes. These funds are determined for each fiscal year, and the majority is based on various quantitative contract terms. Amounts expected to be received from vendors relating to purchase of merchandise inventories are recognized as a reduction of cost of goods sold as the merchandise is sold. Historical program results and current purchase volumes are reviewed when establishing the estimate for earned allowances.

Shipping and Handling Fees and Costs

All shipping and handling fees billed to customers are recorded as a component of net sales. All costs incurred related to the shipping and handling of products are recorded in cost of sales.

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Vendor Allowances

Vendor allowances include price allowances, volume rebates, store opening costs reimbursements, marketing participation and advertising reimbursements received from vendors under the terms of specific arrangements with certain vendors. Vendor allowances related to merchandise are recognized as a reduction of the costs of merchandise as sold. Vendor reimbursements of costs are recorded as a reduction to expense in the period the related cost is incurred based on actual costs incurred. Any cost reimbursements exceeding expenses incurred are recognized as a reduction of the cost of merchandise sold. Volume allowances may be estimated based on historical purchases and estimates of projected purchases.

Operating Leases and Deferred Rent

The Company has various operating lease commitments on its store locations. Certain leases contain rent escalation clauses that require higher rental payments in later years. Leases may also contain rent holidays, or free rents, during the lease term. Rent expense is recognized on a straight-line basis over the lease term. Rent expense in excess of rental payments is recorded as deferred rent on the accompanying consolidated balance sheets.

Tenant Allowances

The Company enters into various types of lease agreements in the operation of its stores, including remodel and build-to-suit arrangements. Under any type of lease agreement, the Company may receive reimbursement from a landlord for some of the costs related to occupancy or tenant improvements per lease provisions. These reimbursements may be referred to as tenant allowances or landlord reimbursements. Reimbursement from a landlord for occupancy or tenant improvements is treated differently depending on the type of arrangement. Under most of the Company's lease agreements, tenant allowances are included within deferred rent on the accompanying consolidated balance sheets. The deferred rent credit is amortized as rent expense on a straight-line basis over the term of the lease. Landlord reimbursements from these transactions are included in cash flows from operating activities as a change in deferred rent.

In lease agreements where the Company is the deemed owner of the building during the construction period, a deemed sale-leaseback of the building occurs when construction is complete and the lease term begins. Under these lease agreements, as the tenant allowances are received, the value of the Company's construction-in-progress or leasehold improvements is reduced accordingly. The proceeds from deemed sale-leaseback transactions are included in cash flows from investing activities.

Health Insurance

The Company maintains for its employees a partially self-funded health insurance plan. The Company maintains stop-loss insurance through an insurance company with a \$100 per person deductible and aggregate claims limit above a predetermined threshold. The Company intends to maintain this plan indefinitely. However, the plan may be terminated, modified, suspended, or discontinued at any time for any reason specified by the Company.

The Company has established reserve amounts based upon claims history and estimates of claims that have been incurred but not reported ("IBNR") for this plan. As of February 2, 2019, and February 3, 2018, the Company estimated the IBNR for this plan to be \$900 and \$922, respectively. Actual claims may differ from the estimate and such difference could be significant. These reserves are included in accrued expenses in the accompanying consolidated balance sheets.

Workers Compensation Insurance

The Company maintains for its employees a high-deductible workers compensation plan. The Company maintains stop-loss insurance through an insurance company with a \$150 per claim deductible and aggregate claims limit above a predetermined threshold. The Company intends to maintain this plan indefinitely. However, the plan may be terminated, modified, suspended, or discontinued at any time for any reason specified by the Company.

The Company has established reserve amounts based upon claims history and estimates of IBNR for this plan. As of February 2, 2019, and February 3, 2018, the Company estimated the IBNR for this plan to be \$1,045 and \$659, respectively, related to the workers compensation plan. Actual claims may differ from the estimate and such difference could be significant. These reserves are included in accrued expenses in the accompanying consolidated balance sheets.

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Advertising

Costs for newspaper, television, radio, and other advertising are expensed in the period in which the advertising occurs. The Company participates in various advertising and marketing cooperative programs with its vendors, who, under these programs, reimburse the Company for certain costs incurred. Payments received under these cooperative programs are recorded as a decrease to expense in the period that the advertising occurred. For the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, net advertising expenses totaled \$8,437, \$7,760, and \$7,513, respectively. These amounts are included in selling, general and administrative expenses in the accompanying consolidated statements of income.

Stock-Based Compensation

Compensation expense is estimated based on grant date fair value on a straight-line basis over the requisite service or offering period. Costs associated with awards are included in compensation expense as a component of selling, general, and administrative expenses.

Income Taxes

The Company recognizes a deferred income tax liability or deferred income tax asset for the future tax consequences attributable to differences between the financial statement basis of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided against deferred income tax assets when it is more likely than not that all or some portion of the deferred income tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the relevant tax authorities, based on the technical merits of the position. Interest and potential penalties are accrued related to unrecognized tax benefits in the provision for income taxes.

Fair Value of Financial Instruments

As of February 2, 2019, and February 3, 2018 the carrying amounts of financial instruments except for long-term debt approximate fair value because of the general short-term nature of these instruments. The carrying amounts of long-term variable rate debt approximate fair value as the terms are consistent with market terms for similar debt instruments.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average shares of common stock outstanding, reduced by shares repurchased and held in treasury, during the period. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding share option awards, nonvested share awards and nonvested share unit awards.

Comprehensive Income

The Company has no components of income that would require classification as other comprehensive income for the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017.

Recently Adopted Accounting Updates

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updated (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which was further clarified and amended in 2015 and 2016 and supersedes most preexisting revenue recognition guidance with a comprehensive new revenue recognition model. The core principle is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires disclosures regarding the nature, amount, timing and uncertainty

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of revenue and cash flows arising from contracts with customers. The Company adopted this standard on February 4, 2018 using the modified retrospective approach. Further disclosures relative to the adoption of this standard are provided in the Revenue Recognition section of this Note 2 to the Consolidated Financial Statements.

Recent Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current accounting principles generally accepted in the United States of America (“GAAP”), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU can be applied at the beginning of the earliest period presented using the modified retrospective approach, which includes certain practical expedients that an entity may elect to apply, including an election to use certain transition relief. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which make improvements to Accounting Standards Codification (“ASC”) 842 and allow entities to not restate comparative periods in transition to ASC 842 and instead report the comparative periods under ASC 840.

The Company plans to adopt ASU No. 2016-02 using the modified retrospective approach at the beginning of the first quarter of fiscal 2019, coinciding with the standard’s effective date. Adoption of the standard will result in the initial recognition of right-of-use assets of approximately \$175 to \$195 million and lease liabilities for operating leases of approximately \$205 to \$225 million in the first quarter of fiscal 2019. These amounts are based on the present value of such commitments using the Company’s incremental borrowing rate. The adoption of this standard will have a material impact on the Company’s consolidated statement of income, stockholders’ equity(deficit) and cash flows, with a \$9.3 million dollar net adjustment recorded to beginning retained earnings in fiscal 2019 due to the acceleration of recognition of a deferred gain and derecognition of related deferred tax asset the Company was amortizing relating to the historical sale of owned properties. At the time of adoption, the deferred gain had a remaining amortization period of 7 years. The Company has implemented new lease administration and accounting software. In addition, the Company has completed its evaluation of the practical expedients offered and enhanced disclosures required in the ASU, as well as identified arrangements that contain embedded leases, among other activities, to account for this standard upon adoption. The Company plans to elect the transition package of practical expedients permitted within the new standard which, among other things, allows it to carryforward the historical lease classification. The Company does not plan to elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of right-of-use assets. In accordance with ASU No. 2018-11, the Company will not restate comparative periods in transition to ASC 842 and instead will report comparative periods under ASC 840.

(3) Secondary Offering

On April 18, 2016, 6,000 shares of common stock were sold in a secondary offering by Seidler Equity Partners III, L.P. On April 22, 2016, the underwriters of the secondary offering fully exercised the option granted at the time of the secondary offering to purchase an additional 900 shares of common stock at the secondary offering price of \$11.25 per share, less underwriting discounts and commissions, which consisted solely of shares sold by affiliates of Seidler Equity Partners III, L.P. The Company received no proceeds from the secondary offering or full exercise of the option. Total expenses incurred related to the secondary offering and the exercise of the option were \$143 and are recorded in selling, general, and administrative expenses in the accompanying consolidated statements of income.

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(4) Property and Equipment

Property and equipment as of February 2, 2019 and February 3, 2018 are as follows:

	February 2, 2019	February 3, 2018
Furniture, fixtures, and equipment	\$ 71,820	\$ 65,437
Leasehold improvements	94,573	84,345
Construction in progress	1,743	2,434
Total property and equipment, gross	168,136	152,216
Less accumulated depreciation and amortization	(76,052)	(58,181)
Total property and equipment, net	\$ 92,084	\$ 94,035

Depreciation expense was \$17,961, \$15,864, and \$12,169, for the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, respectively.

(5) Definite Lived Intangible Asset

The following table summarizes the definite lived intangible assets:

	February 2, 2019			
	Amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizing intangible assets:				
Non-compete agreement	5 years	\$ 9,063	(9,063)	-
Domain Name	10 years	257	(11)	246
Total		\$ 9,320	(9,074)	246
	February 3, 2018			
	Amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizing intangible assets:				