

Opportunity Equity Research

Sportsman's Warehouse (SPWH)

Initiation Report (Date Published 12/4/2017)

Sportsman's Warehouse (SPWH) Stats

\$5.22 Current Price

\$222.3mil Market Cap

52 Week Range \$3.40 - \$9.87

Shares Outstanding: 42.6 mil

Enterprise Value: \$432.2 mil

Debt: \$212.1 mil

Institutional Holdings: 115.9% of float

Insider Holdings: 2.6%

Short Interest: 14.2 mil/38.9% of float

100 Day Avg Volume: 790k

Condensed Income Statement

FY (Jan)	Q1	Q2	Q3	Q4	Yr
EPS 15a	-\$0.03a	\$0.14a	\$0.24a	\$0.27a	\$0.61a
EPS 16e	\$0.00a	\$0.20a	\$0.25a	\$0.25a	\$0.69a
EPS 17e	-\$0.08a	\$0.15a	\$0.23a	\$0.27e	\$0.58e
Rev15a	\$144.5a	\$173.0a	\$199.7a	\$212.7a	\$729.9a
Rev16e	\$151.6a	\$189.8a	\$217.2a	\$221.4a	\$780.0a
Rev17e	\$156.9a	\$191.5a	\$218.1a	\$243.6e	\$814.1e

EV/Rev: 2015: .59a 2016: .55a 2017: .53e

P/E: 2015: 8.6a 2016: 7.6a 2017: 9.0e

Stock Chart-Short Term



Stock Chart-Long Term



Company Description: Sportsman's Warehouse is an outdoor sporting goods retailer with 86 stores across 22 Southeast and Western states including Alaska. With historical average store sizes of over 40,000 feet square, they are now ramping two main store footprints going forward, a "medium sized" 30,000 square-foot store and a 15,000 square-foot store meant to ramp in smaller markets. Their offering includes supplies for hunting and shooting, archery, fishing, camping, boating & ATV and clothing & footwear. The stores feature local fishing reports and bragging boards for their customers.

Opportunity Summary: Sportsman's Warehouse stock has been crushed over the past few years as multiple fears including the Amazoning of the entire retail space, incredibly tough gun and ammo sales comps, the bankruptcy of a competitor Gander Mountain, and the combination of industry gorillas Cabelas and Bass Pro Shops, all cast a cloud over the company and the industry.

- Although the stock has certainly popped from November lows, a look at the long-term stock chart to the left, a current valuation level that provides support even if near-term operating results are weak, and a gigantic short position all favor long positions in here.
- Trading at just over 5.5 times FY17s normalized EV/EBITDA numbers, this stock's valuation is a compelling long-term buy for patient investors.
- As the company heads into much easier comps (with the noise of choppy gun purchases behind them for now) results should start to improve, and investors can concentrate on the EBITDA, the valuation, and the debt paydown.

CEO Name: John Schaefer

President Name: Jon Barker

CFO Name: Kevan Talbot

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Company Overview/History:

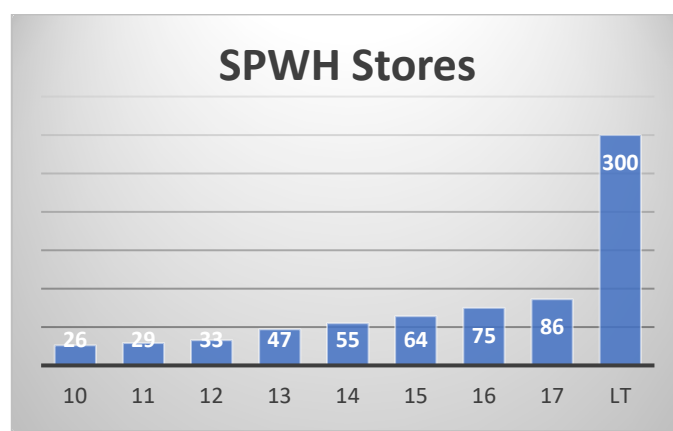
Starting as a single retail store in Utah in 1986, Sportsman's Warehouse has grown to 86 locations with large exposure to the Western U.S. (big exposure across the entire Pacific coast and the Rockies, 5 in Alaska) and expanding exposure in the Southeast with 7 locations and another opening soon. Management has mentioned a long-term unit opportunity of 300+ stores over time. The stores include a fishing board noting current fishing conditions on local lakes and rivers and may contain customer-owned taxidermy displays on the walls. The company tries to engage with their customer base as much as possible, hosting various contests and hosting in-store programs including ladies' nights and seminars (holding some 3,000 events annually).

Sportsman's Warehouse IPO'd in April of 2014 selling 9.5 million shares at \$9.50. Secondaries came in September of 2015 with 6.9 million shares at \$12.25 and again in April of 2016 with 6.9 million shares at \$11.25. All of these offerings were led by Goldman and Credit Suisse. Eight analysts currently cover SPWH (yes, this breaks our "underfollowed" rule). However, given the current set up for the company and the stock, it does fit into our "underloved" rule. It appears that most of the sell side is looking for everything to look positive again before they support the stock (just our opinion-most price targets are just slightly above where the stock is trading now). This provides a nice set-up for longs into potentially improving fundamental results, a positive change in business momentum, and potential for the company to start beating lowered revenue and earnings expectations going forward.

As further history of the group and to explain the stock pressure and volatility, there were three major events in 2016 that caused spikes in firearm and ammunition sales (can be 30%+ of SPWH's business). San Bernardino (Dec 2015), Orlando (June 2016), and the run-up to the election (Oct 2016) all caused spikes in this piece of their business. The company has just recently anniversaried all of these tough comps. Investors will now be able to focus on SPWH's focus on hunting sales in particular (vs. sales of weapons for home defense or MSR/tactical types of weapons). As further history of what can be a very choppy piece of

the company and the industry's business mix, a 1/1/2017 California ban on MSRs meant sales were strong for those weapons and pulled forward before that. These volatile gun/ammo category results (can be 1/3 of SPWH revenue) have now been comped over, with future results now much more dependent on growth in hunting or "for use" sales. They also sell used guns which were up 28% yoy.

The outdoor sporting goods industry that SPWH plays in has seen a number of key things happen in its recent history. Earlier this year, Gander Mountain, a large Midwest focused outdoor sporting goods retailer, went bankrupt again. Camping World purchased the assets and IP of Gander, and it is thought that they will end up closing the vast majority of the 162 Gander Stores (they are required to keep 17 open and were down to 40). Additionally, the two national heavyweights, Cabela's and Bass Sporting Goods, recently combined.



These moves have really put in to question the entire industry, its long-term competitiveness and the historical use of debt to fuel store unit growth. SPWH has a history of opening a large number of stores per year since their IPO. They recently completed their planned 12 new store openings for FY17, but pared down FY18 plans to only open 5 new stores and focus cash flow on debt paydown. This does temporarily change the growth profile, taking square footage growth from almost 11% to around 3% estimated for this upcoming year.

If management takes this time to focus on cash flow and paying down debt, a temporary pullback from growth should help long-term value and allow them to

come back to unit growth with an emphasis on the best new potential areas. Before the Gander bankruptcy, the management really considered the Midwest an area they weren't interested in. Post Gander's bankruptcy (and store shut downs) and the Cabela/Bass combination, SPWH has now given themselves time to see how the industry shakes out and determine where they want to concentrate on most going forward. They have indicated a desire to reramp store growth after a bit of a time out this upcoming fiscal year as they focus on debt paydown.

Management Brief:

This company is run by John Schaefer, current CEO and former President and CEO (he's been with the company for over eight years). His background includes time at Eastbay, Cornerstone Brands and Team Express. Jon Barker recently joined from Walmart where he was the CEO of HayNeedle.com (as the new President/Chief Operating Officer) and has been with the company since March of this year. He was brought on in part to help SPWH handle the online and omni-channel opportunities. Kevan Talbot has been CFO since June of 2009 (after serving as the former Controller and VP of Finance for the company), and has been with the company through the ups and downs of the sporting goods business and the gun and ammo business volatility.

Growth Opportunities/Company Guidance:

Historical IR documents highlight a new store investment for SPWH in the \$4.4 Million range (with \$2.4 of that initial inventory). Historical new store payback periods were noted as being in the 3 year range, with a 1 year ROIC including inventory at the 34% level. Average store four-walled EBITDA is around 15-16%, and they target a 20% ROIC, with both their 30,000 square foot stores and their 15,000 square foot stores.

When looking at the broader outdoor sporting goods category, markets with over half a million in population are largely already served by one or multiple national retailers. Future growth for SPWH will occur with further expansion to white space in markets with less than 250k population. They also have focused on

continued growth of units in the Southeast with further growth planned in this geography. The bankruptcy of Gander Mountain has also led the management team to consider potential openings in the Midwest, an area that beforehand they had largely dismissed.

One area of emphasis and growth for the company has been the online arena, helped by the addition of Jon Barker as the President back in March. SPWH now has 6,772 guns available on their website to look at, price compare and purchase online (goal is to have 7,500). Customers have to come into the stores for the official background check and delivery (35% of their revenue are goods with some type of online restriction). This not only gives them an ability to sell other products along with their gun and ammo sales, their EDLP strategy means they are often competitive or even better than the online-only players. Recent e-commerce revenue for the quarter came in at \$2.7 million, up 22% yoy. This masks some of the strength of additional sales that can occur when these online purchasers come in to pick up their online gun and ammo orders.

An additional interesting side note is that the move for many vendors in the space to go direct might actually help SPWH in the future. As these vendors ramp their own sites, they will be forced to police MAP pricing more diligently. This means third party vendors that constantly compete on price will have a much more difficult time, while companies like SPWH with an EDLP pricing strategy and a strong online presence should benefit. The item to note here is that once these vendors go direct, SPWH can tie in with them and offer 100% of the vendors product line (vs. maybe 15% in store now) and use simple drop-shipping from SPWH's site. An interesting twist in the ever-changing online retail space.

In terms of unit growth, SPWH has thrown out that 300 is a realistic number for them to eventually grow into (at 86 now). With the closing of the majority of Gander Mountain's 162 units in the Midwest, SPWH's options and unit growth opportunity have changed and improved. The management has talked about being able to open both a 30,000 and 15,000 square foot store that both can make 20% ROIC for them. This gives

them a lot of flexibility going forward to continue to add stores to their home markets in the West, continue to grow in the Southeast, and potentially ramp in the Midwest, picking up some of the best locations left from the aftermath of the Gander Mountain exits.

Also worth mention is SPWH's loyalty program, ending this past quarter at 1.5 million members up roughly 30% year over year. Management talked about this piece of the business now being about 45% of sales, with the ability to use targeted, personalized marketing to reach out to these best customers.

The management continues to focus on lowering total debt, with recent net debt to adjusted EBITDA ratio hitting just under 2.8 times last quarter. The guidance and long-term goal from the management is to get under 2 times. The reduction in new store growth for the upcoming fiscal year should help with that goal.

Recent results include same store sales numbers last quarter that came in at -7%, with -12.4% in their firearm category being a key negative driver over tough comps and with -19.4% results in their ammunition segment (with a noted weakness being consumers unwillingness to buy ammunition at full price). Excluding the important hunting and shooting departments, the other departments were up .2% on a same store sales basis. Management talked about seeing "movement from their vendors" on the ammunition pricing issue, an improvement that may begin to show in near-term results. They've also talked some about increased vendor rebates and the potential for some more opportunistic purchases in their current operating environment.

Guidance from the most recent quarter includes an upcoming Q4 guide of a same-store sales decline of 4-6% and revenue in the range of \$240-\$245 million (vs. \$221 last year Q4). EPS guide is for \$.26 to \$.29 for the quarter and \$.56 to \$.59 for the fiscal year (the stock is trading at roughly 9 times that now, a sign that investors either don't believe that number or that they are giving it a serious discount). Some recent news in the space includes that FBI gun background checks on Black Friday set a new record, rising to over 200,000 requests vs. 185,713 in 2016.

In terms of what comps the company is about to walk into for Q4, last year comp store sales were down -5.2% as they lapped post-election and San Bernardino tragedy comps (management noted that approximately 4.5% of the 5.2% negative sss number was firearms, ammunition and related gear and equipment). NICS background checks were down -17.8% year over year last year (so coming in to very easy relative comps).

Competitive Environment/Industry Thoughts:

Management has estimated that total industry size is in excess of \$50 billion, with approximately 2/3 of that number represented by smaller Mom & Pop retailers. National/chain competitors include Cabelas (nationwide), Bass Pro Shops (South), Gander Mountain (East) and Field & Stream (Midwest). One thing that stands out about SPWH is that their retail footprint is smaller (and more flexible) than their major competitors, with a 15k store size, they can move into much smaller markets than the major national competitors. They've talked about focusing on white-space new build opportunities that are simply in lower population areas vs. where the other national chains compete.

Another difference with SPWH's business model vs. the national competition is that they follow an every day low price strategy, while their national chain comps (and internet competitors) may be highly promotional, SPWH has built an EDLP model that often is similar or even lower than competitors promotional pricing. SPWH's private label business is relatively small (around 4% of sales). Part of this is because they want to focus on an EDLP/branding sales strategy, but they recently have been putting more focus on their private label offering. With the typically higher margins seen on private label segments, this can be a small area for long-term improvement for the company. The apparel area in general is about 8% of their business, and management has recently talked about focusing on this area with the potential for it to make up 15%ish type of revenue with 30-40% of that being private label potentially. They've also mentioned that both the clothing and footwear categories together can be roughly 15% of the sales mix combined historically.

Management has gone out of their way to highlight competitive store openings in their trading area on every quarterly conference call, most recently noting the addition of 2 additional competitive opening impacted stores this past quarter (for a 90 basis point projected impact in the Q). They expect those two stores to be the only ones impacted this year from new competition (for FY17), with an estimated 100 basis point headwind for the year, down from 170 the prior year.

The other trend they go out of their way to highlight is the impact on stores in “oil and gas markets” (9 stores). This has been a negative trend for a long time, and only recently have they begun to highlight this negative impact turning slightly positive for them (started in Q2, with easier comps coming on this front combined with continued improvement in energy markets and the price of oil).

Ownership Profile:

Sportsman’s Warehouse has a very interesting ownership profile. Top institutional holders include the Sportsman’s Warehouse SEP at 11.7%, Franklin Resources at 11.1%, T Rowe Price at 6.9%, Boston Partners at 6.4%, Arbiter Partners at 6.1%, Blackrock at 5.8% and Towle & Company at 5.8%. The top 7 holders control 53.8% of the company, with the top 10 coming in at 67.5%. Towle & Company was a major buyer in the past quarter, with the only large major sellers being Sheffield Asset Management and Grandeur Peak. The short interest in this small company is remarkable. 14.2 million shares are short or 38.9% of the float. This has steadily increased over the past 5 months, with the short interest at roughly 10 million shares in June, just recently spiking from the end of October to November from 12.4 million to the current 14.2 million shares short.

Two large prior shareholders have been selling large chunks of stock with Sheffield Asset Management and Grandeur Peak Global selling -476k and -418k during the past quarter (and potentially taking advantage of tax-loss strategies?) There was some modest insider buying at the \$4 and change level by Jon Barker, President in

August, 2017 and some selling by the CEO. Management ownership is noted at 2.6%.

Risk Profile:

Sportsman’s Warehouse has a number of risks that mirror all traditional retailers in this environment. Competition has historically been sharp in this space, and competitors that used too much leverage on their balance sheets in the past have been driven out of business. SPWH has \$212 million in debt. Focusing on paydown and pulling back some on near-term new store growth should help alleviate fears of this debt balance over time.

There is constant pressure from the move to online purchasing (the “Amazon Effect”) as well as the move by a number of their suppliers to try to drive incremental sales by going directly to their end consumers, bypassing traditional channels. SPWH has talked about multiple ways they are addressing these challenges, and time will tell how those efforts work. Minimum wage changes and pressure are another risk. Fifty six of SPWH’s stores were impacted by minimum wage increases in FY17 (with an estimated \$1.5-\$2 million impact), and legislated future yearly increases in their California store base will also need to be adjusted for in the future.

Weather is a significant short-term risk to any quarter’s results and can either help or harm them based on geographical results. Roughly 60-65% of their business comes in the last half of the year, which simply highlights the importance of the hunting season and Christmas for SPWH. The management team needs to continue to monitor inventory levels and quality (the key large asset on their balance sheet). The management team for SPWH has been in place for a long time and has seen the ups and downs of this market and has lived through volatility before.

A few other specific risks to Sportsman’s Warehouse stock include the interesting ownership profile. A huge short position (sitting on a profit at this point and controlling 39% of the float), concentrated large holders (top 10 at 67.5%), insider stock purchases and company share buybacks all will add to the volatility over time in this small cap stock. Although there is decent trading

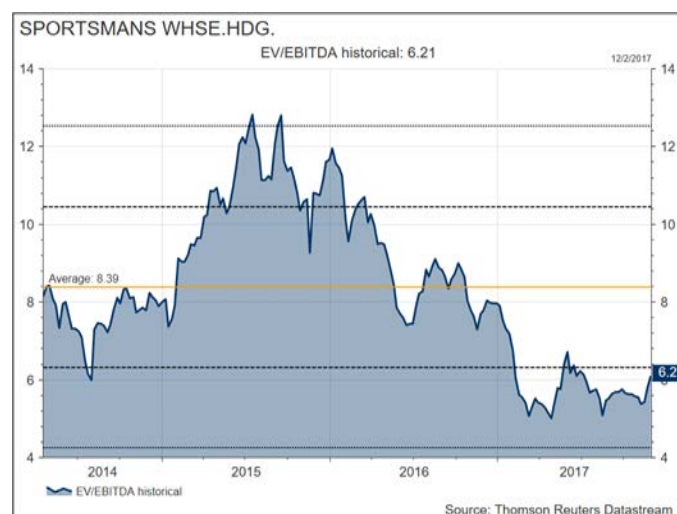
volume in this stock for a company this size, investors should be aware of the general illiquidity of small caps and choose position size and diversification accordingly.

Valuation:

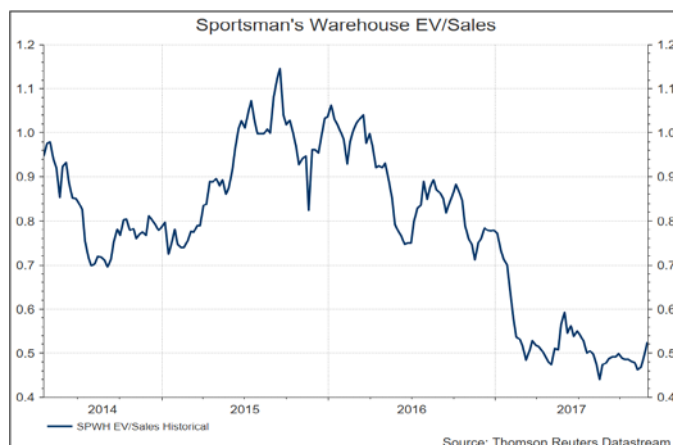
Recent short-term rebound aside, SPWH still trades at a very low EV/EBITDA ratio both looking back and considering out year estimates. The entire group has been under considerable pressure this year, and both the PE ratios and the EV/EBITDA ratios of the smaller players really stand out (see BGFV initiation report on www.oppequity.com for another option to invest in this retail area).

	Cap	EV	P/E	P/E	EV/TTM	EV/FY1	
			FY1	FY1	EBITDA	EBITDA	Yield
SPWH	222	432	9.6	9	6.2	5.9	NA
BGFV	153	199	7.3	8.2	3.6	3.9	8.40%
HIBB	385	327	10.8	12.7	4.4	4.5	NA
DKS	3100	3510	40.9	21.9	4.7	4.7	2.30%

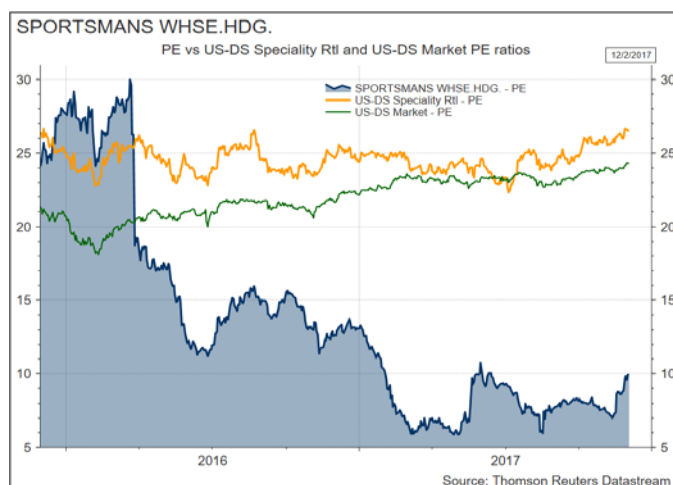
The EV/EBITDA historical graph below highlights how painful this group and stock has been to invest in over the past 1 ½ years, and also puts in to perspective the recent pop in SPWH (not a big move relative to the negative move in valuation for 1 ½ years). When investors were excited about this space and the unit growth opportunity that SPWH affords going forward (which the company still has now, post a debt-paydown time out), they paid over 12 times EV/EBITDA.



The below EV/Sales chart also highlights the extreme downturn this stock has had as they faced difficult gun/ammo sales comps and concerns over group saturation, debt levels and competition. As the company now moves in to easier comps, pays down debt levels, and refocuses unit growth in the future to the best possible markets, we believe this stock is well positioned for long positions. The short position in the stock at 39% of the float could provide serious fuel for a rally off of simply "fairly good" quarterly results.



The graph below shows how far off from the specialty retail group and market this stock trades at now. Even a small normalization of this metric could provide really strong percentage equity returns from these levels. Management focus on debt paydown and smart growth going forward can lead to normalization.



www.sportsmanswarehouse.com Company webpage/more information on the company/historical financials/links to IR/etc.

Historical Income Statement:

SPWH Income Statement (in millions)										
FY End January										
	2104	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Sales	639.9	706.8	151.6	189.8	217.2	221.4	780	156.9	191.5	218.1
(% sales growth year over year)	-0.5%	10.5%	9.0%	13.7%	13.0%	6.2%	10.4%	3.5%	0.9%	0.4%
Cost of Goods Sold incl. D&A	424.7	468.2	103.1	123.6	142.9	147.1	516.7	108.3	122.9	141.2
Gross Income	215.2	238.5	48.5	66.2	74.3	74.3	263.2	48.6	68.6	77
(% gross income growth yoy)	10.4%	10.8%	12.3%	14.1%	11.6%	4.9%	3.8%	0.3%	3.7%	3.6%
SG&A Expense	170.3	179.2	46.1	49.5	53.7	53.2	202.5	52.4	54.4	57.4
(% SG&A growth yoy)	17.6%	5.2%	6.9%	9.8%	13.6%	9.2%	13.0%	13.3%	20.1%	10.1%
EBIT (Operating Income)	44.9	59.3	2.4	16.7	20.5	21.1	60.7	-3.8	14.2	19.5
Interest Expense	22.5	14.2	-3.6	-3.1	-3.4	-3.3	13.4	-3.2	-3.4	-3.5
Pretax Income	22.4	45.2	-1.2	13.5	17.1	13.5	47.3	-6.9	10.8	16
Income Taxes	8.6	17.4	-1.5	5.2	6.6	7.3	17.6	-2.4	4.2	6.2
Net Income	13.8	27.8	0.3	8.3	10.5	10.5	29.7	-4.5	6.6	9.8
EPS (diluted) per share	0.34	0.66	0.01	0.2	0.25	0.25	0.7	-0.11	0.15	0.23
Normalized EBITDA	52.8	78	24.1	18.6	0.2	24.9	78.9	24.2	20	5.5

A look at SPWH's historical income statement shows the strong yearly revenue growth the company achieved in both 2015 and 2016 based largely on new store and square footage growth. Normalized EBITDA in those years at nearly \$80 million each year provides color on the company's ability to handle its \$212 million debt level. The minimum wage/SG&A impact has been seen in the past 3 quarters this year as SG&A has been increasing more than revenue growth. As the company is largely past the vast majority of the difficult "choppy gun buying" comps, with pre-election 2016 strength being the only piece left they need to comp over, future revenue growth should begin showing a more normalized growth pattern. When the management reramps unit growth in the future after their self-imposed debt paydown period, the stage will be set for this to return to being seen as a growth stock.

Historical Balance Sheet:

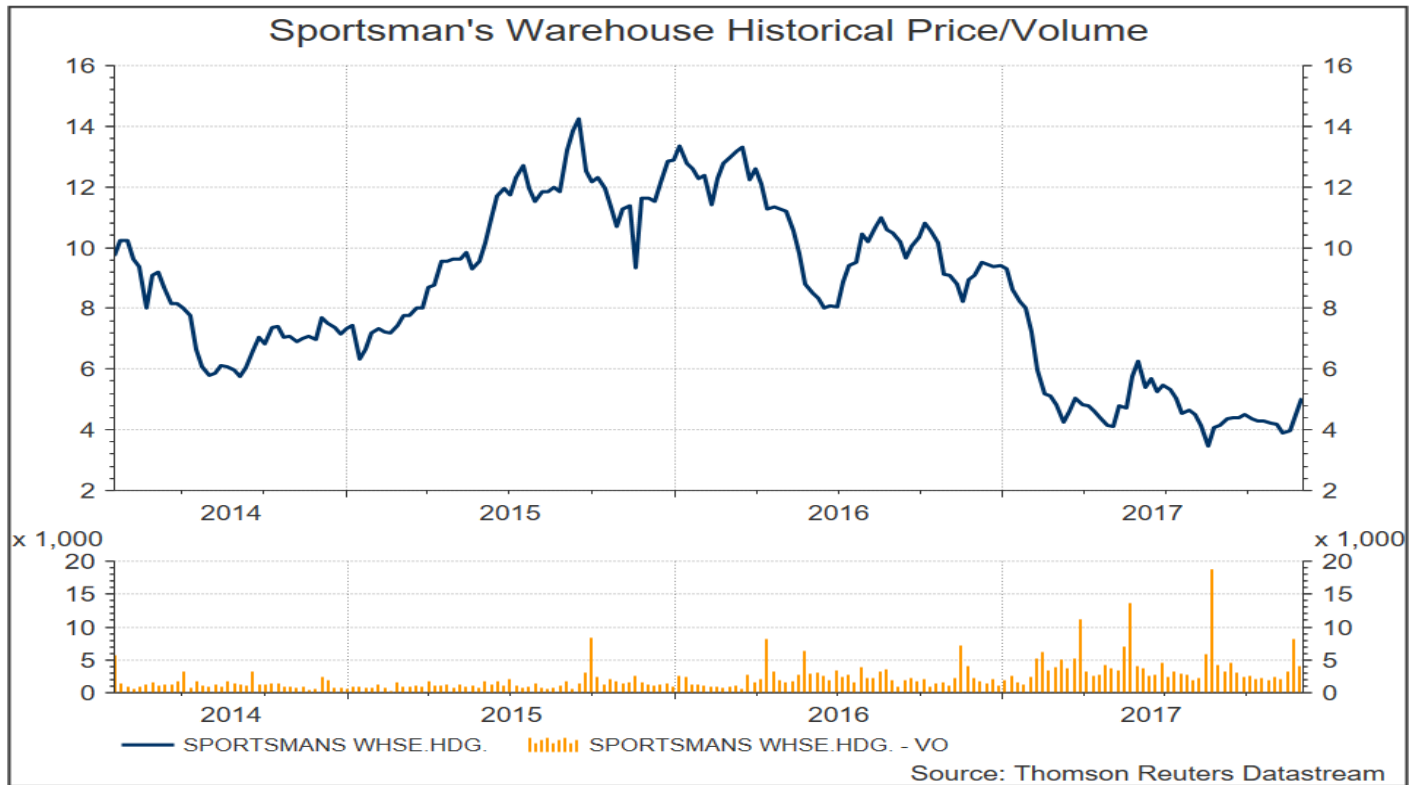
SPWH Balance Sheet (in millions)										
FY End January										
	2104	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Assets										
Cash & Short Term Investments	1.80	2.10	2.40	2.60	2.70	1.90	1.90	2.30	1.80	2.20
Accounts Receivable, Net	0.40	0.50	0.40	0.30	0.50	0.40	0.40	0.40	0.40	0.40
Total Receivables, Net	5.60	0.50	2.50	0.30	0.50	0.40	0.40	2.70	1.20	0.40
Total Inventory	185.90	217.80	251.00	265.70	304.00	246.30	246.30	288.30	302.20	318.30
Prepaid Expenses	7.50	9.30	4.80	6.80	4.70	7.30	7.30	11.50	7.10	4.00
Other Current Assets	2.90	3.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Current Assets	203.70	232.70	260.70	275.50	311.90	255.90	255.90	304.80	312.30	324.90
Gross Property, Plant and Equipment	74.70	92.60	102.90	118.10	122.40	125.50	125.50	140.80	153.60	152.80
Net Property, Plant and Equipment	54.30	62.40	70.00	82.40	83.40	83.10	83.10	94.90	103.80	98.90
Intangibles, net	5.70	3.90	3.50	3.00	2.60	2.10	2.10	1.70	1.20	0.80
Other Long Term Assets	7.00	2.30	4.60	5.00	4.90	5.10	5.10	4.20	4.40	4.50
Total Assets	270.70	301.30	338.80	365.80	402.80	346.20	346.20	405.60	421.70	429.00
Liabilities & SH Equity										
Accounts Payable	28.50	46.70	58.60	70.50	71.30	31.50	31.50	74.20	60.80	69.50
Accrued Expenses	24.70	20.50	20.80	23.30	26.80	26.20	26.20	25.10	19.80	21.90
Notes Payable/ST Debt	50.20	32.40	78.40	77.40	98.00	66.30	66.30	89.80	117.20	94.00
Current Port. Of LT Debt/Cap Leas	1.30	8.70	1.00	1.00	1.00	1.00	1.00	1.00	0.90	0.90
Other Current Liabilities	12.50	19.60	17.40	19.30	19.20	22.10	22.10	21.00	21.30	24.40
Total Current Liabilities	117.20	127.90	176.20	191.50	216.40	147.20	147.20	211.00	219.90	210.60
Total LT Debt	156.70	146.30	134.30	134.00	134.00	133.70	133.70	133.50	132.90	132.70
Total Debt	208.30	187.50	213.70	212.40	233.00	201.00	201.00	224.20	251.00	227.60
Other Liabilities, Total	28.10	29.10	42.80	36.10	35.70	35.30	35.30	33.90	33.20	30.70
Total Liabilities	302.10	303.40	341.10	358.70	384.30	316.20	316.20	380.10	389.00	386.10
Retained Earnings (Accum. Deficit)	-108.00	-80.20	-79.90	-71.60	-61.10	-50.60	-50.60	-55.10	-48.50	-38.70
Total Equity	-31.30	-2.10	-2.40	7.10	18.60	30.00	30.00	25.50	32.70	42.90
Total Liabilities & SHEquity	270.70	-80.20	338.80	365.80	402.80	346.20	346.20	405.60	421.70	429.00
Total Common Shares Outstanding	41.80	42.00	42.20	42.20	42.00	42.30	42.30	42.50	42.60	42.60

Management has noted a goal is to get their leverage ratio under 2 times (at 2.78 now). Management paid down \$24 million of debt in the most recent quarterly results. In the Q1 FY17 earnings call, management went into some detail about increasing the debt covenants on their term loan. They increased the leverage ratio covenant by from .2 to 1.3 times with an average of .75 times for the life of the loan. The largest increases were in FY2018, with increases of 1.1 to 1.3 times (Q1 2018 to 3.6, Q2 of 2018 to 3.7 and Q3 of 2018 to 3.8). They are now at LIBOR + 6.25% on their debt (an increase of 25 bps on the covenant change), and feel they have the flexibility now to execute their strategies. Continued future debt paydowns are prudent and should be looked at positively by the street. The recent growth in total inventory to \$318 million this past quarter vs. \$246 million at year end shows that we are going in to their key selling season. The sell-off of this seasonal inventory in to their strong period should yield nice cash flow for further debt paydowns in the near future.

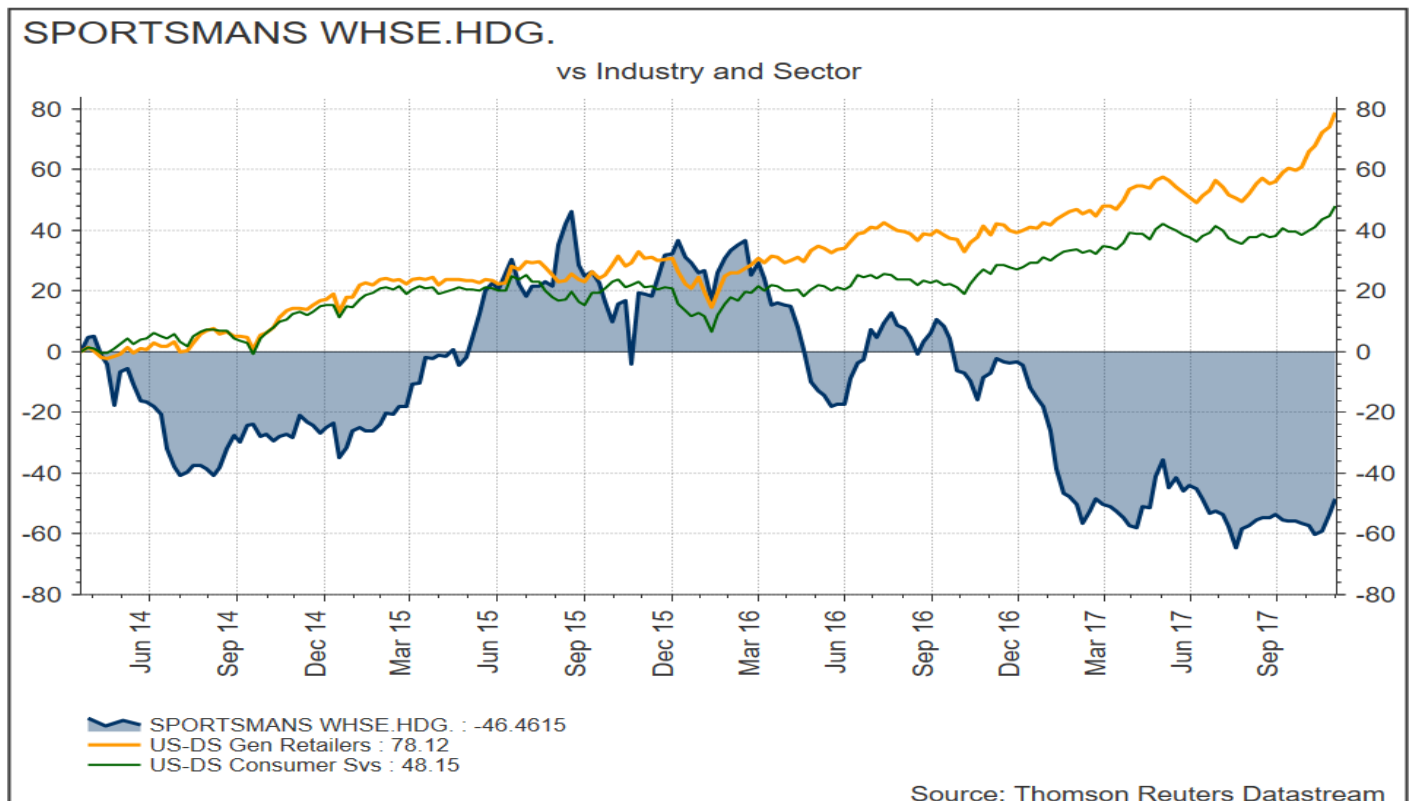
Historical Cash Flow Statement:

SPWH Cash Flow Statement (in millions)										
FY End January										
	2104	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Operating Activities										
Net Income/Starting Line	13.78	27.77	0.31	8.30	10.51	10.54	29.67	-4.51	6.55	9.81
Depreciation, Depletion	7.34	9.76	2.68	2.88	3.24	3.36	12.17	3.49	3.94	4.12
Deferred Taxes & Inv. Tax Credit	-0.05	3.06	0.63	-0.35	0.07	-0.20	0.17	0.89	-0.14	-0.14
Amortization	1.81	1.81	0.45	0.45	0.45	0.45	1.81	0.45	0.45	0.45
Non-Cash Items	15.19	3.95	2.42	3.13	2.42	2.21	10.17	1.45	1.47	7.32
Changes in Working Capital	-17.60	-10.93	-22.14	1.62	-32.24	14.26	-38.49	-10.62	-21.55	4.13
Net Operating Cash Flow	20.47	35.42	-15.65	16.05	-15.54	30.63	15.48	-8.85	-9.27	25.70
Investing Activities										
Capital Expenditures	-30.17	-33.96	-8.72	-14.68	-7.36	-8.66	-39.42	-13.20	-18.66	-7.36
Other Investing Cash Flow Items	0.00	19.01	0.00	0.00	0.00	9.18	11.92	0.00	0.00	5.63
Net Investing Cash Flow	-30.17	-14.95	-8.72	-14.68	-4.62	0.52	-27.49	-13.20	-18.14	-1.73
Financing Activities										
Financing Cash Flow Items	-2.93	-0.76	-1.23	0.00	0.00	0.00	-1.23	-0.64	-0.34	0.00
Issuance/Reduction of Stock, net	73.39	0.00	0.00	0.00	0.00	0.18	0.43	0.00	0.00	0.00
Issuance/Reduction of Debt, net	-60.37	-19.36	25.89	-1.45	20.28	-32.10	12.61	23.05	27.02	-23.64
Net Financing Cash Flow	10.09	-20.11	24.66	-1.20	20.28	-31.93	11.81	22.41	26.97	-23.64
Net Change in Cash	0.40	0.36	0.30	0.17	0.11	-0.78	-0.20	0.36	-0.45	0.33
Free Cash Flow	-9.69	1.47	-24.37	1.37	-22.90	21.97	-23.94	-22.06	-27.93	18.34

A couple of things stick out on SPWH's historical cash flow statement. Changes in working capital and capex are pretty large on a quarterly basis, with inventory needs and new store growth being a large use of capital for the company over these past few years. A "resetting" of unit growth from the 12 new stores/year level down to an anticipated 5 new stores in the upcoming FY2018 will take a lot of that "capital needs" pressure off of them and allows them to paydown the debt level for a while. Even if a debt/adj. EBITDA ratio at 2.8 times seems manageable, if this is a major concern for investors, management focus on this and further debt paydown from potentially strong Q4 cash flow should help alleviate some concern and can help lead to a future potential change in valuation-it's that simple.



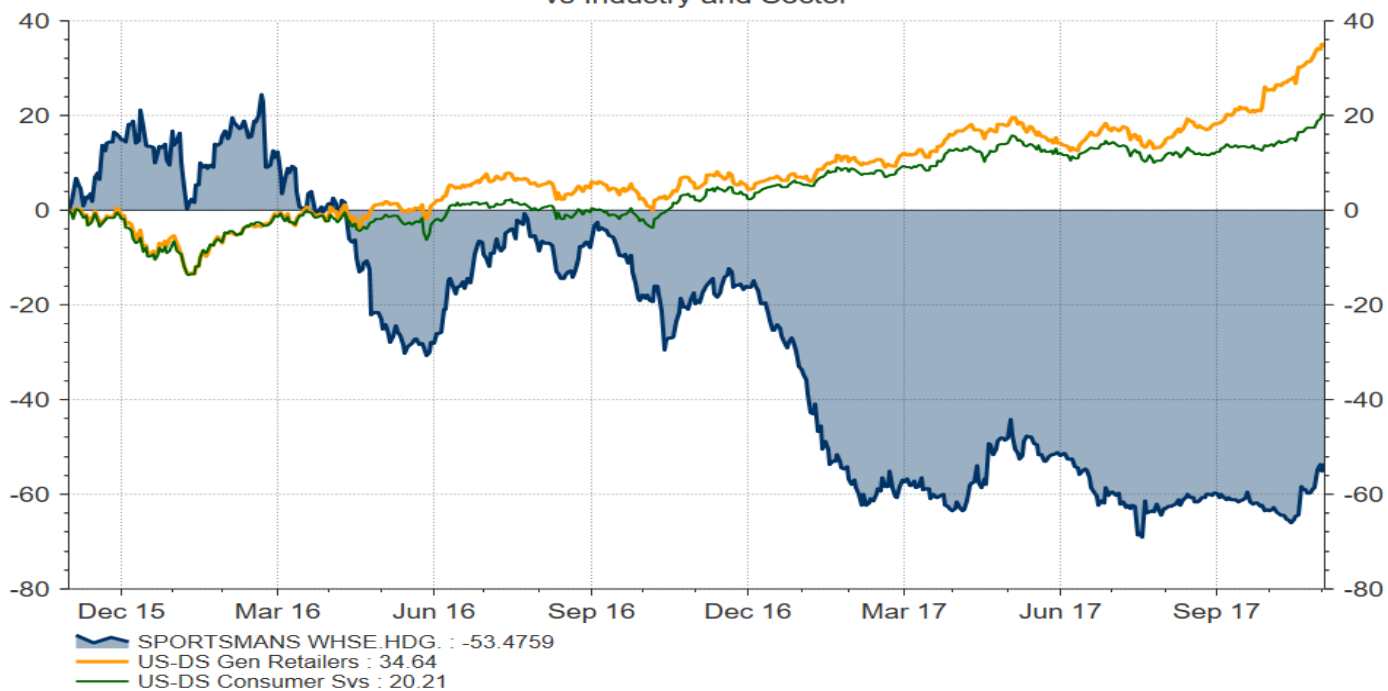
The above chart gives potential investors a look at where this stock has traded historically. If the management continues to pay down debt, focuses future new unit growth on the best potential markets going forward, and simply starts to show “normalized” business results post choppy historical gun and ammunition sales, valuation for the stock itself can normalize. $8 \times \text{EV} / \text{Normalized EBITDA} = \10 stock price . I would like to buy this entire company at the current price, can anyone lend me \$250 million?



Just two more looks at SPWH vs. the retail group and consumer services. These charts show just how much pain investors have felt over the past 1 ½ years in this stock. The chart below does highlight the recent pop in the stock, yet puts into perspective the return potential if the stock simply normalizes into easier comps.

SPORTSMANS WHSE.HDG.

vs Industry and Sector



Source: Thomson Reuters Datastream

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