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Q4 2018 Sportsmans Warehouse Holdings Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Sportsman's Warehouse Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Rachel Schacter with ICR. Please go ahead.

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

Thank you. Good morning, everyone. With me on the call is Jon Barker, Chief Executive Officer; and Kevan Talbot, Chief Financial Officer.

Before we get started, I'd like to remind you of the company's safe harbor language. The statements we make today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which includes statements regarding our expectations about our future results of operations, demand for our products and growth of our industry. Actual future results may differ materially from those suggested in such statements due to a number of risks and uncertainties, including those described under the caption Risk Factors in the company's 10-K for the year ended February 2, 2019, and the company's other filings made with the SEC.

We will also disclose non-GAAP financial measures during today's call. Definitions of such non-GAAP measures as well as reconciliations to the most directly comparable GAAP financial measures are provided as supplemental financial information in our press release included as Exhibit 99.1 to the Form 8-K we furnished to the SEC today, which is also available on the Investor Relations section of our website at investors.sportsmanswarehouse.com.

As a reminder, fiscal year 2018 was a 52-week year and fiscal 2017 was a 53-week year. Same-store sales is a comparable number. So all figures are presented on a 13-week basis for the fourth quarter and on a 52-week basis for the full year. Our fiscal year 2018 same-store sales compares to the shifted corresponding period in fiscal 2017.

Now I'd like to turn the call over to Jon Barker, Chief Executive Officer of Sportsman's Warehouse.

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

Thank you, Rachel. Good morning, everyone, and thank you for joining us today. I'll begin by reviewing the highlights of our fourth quarter and full year performance and then discuss the progress on our strategic initiative and thoughts on the coming fiscal year. Kevan will then go over our financial results in more detail and review our outlook, after which we will open up the call to your questions.

We are pleased with the solid end to the year as our fourth quarter results were in line with expectations on the top and bottom line. For the quarter, net sales declined 0.2% to $242.7 million or increased 4.4%, excluding the $10.6 million in net sales in the 53rd week of fiscal 2017. Comparable sales increased 3.1%, which was above our outlook driven by strong performance from our existing stores and our e-commerce platform. We believe this is a testament that the investments we've made are gaining traction. We held gross margins flat for the quarter, which was modestly better than expectations due to fewer promotions versus last year, with product margins offsetting transportation headwind. This combined with disciplined cost control resulted in adjusted earnings per share of $0.25.

Drilling down on the composition of our fourth quarter comparable sales results. Firearm units across the company were again better than the adjusted NICS data within our states as we continue to capitalize on market share opportunities through our positioning as the leader in the category, combined with the investments we've made across the business to further strengthen our capabilities within the industry. For the fourth quarter, firearm units saw a slight increase of 0.3% versus a 5.1% decline in the adjusted NICS data in the states we serve. Ammunition sales decreased 5.1% in the fourth quarter. The primary driver of the decrease was due to our decision to run pure promotions around ammunition this year compared to the prior year. For our nonhunting categories, fishing was up 4.5% and camping increased 7.5%. Favorable weather contributed to positive growth across our soft goods categories of footwear and clothing, which increased 9.2% and 2.0%, respectively.

Looking at the full year. We delivered on the expectations we set for ourselves. We generated top line growth of 4.9% or 6.3% adjusted for the 53rd week with a comparable sales increase of 1.5%. Gross margins declined 20 basis points and operating margin declined 60 basis points as we invested in an expanded e-commerce team and a more robust customer-centric e-commerce platform in 2018. Adjusted net income increased 21.5%, which drove adjusted earnings per share of $0.60.

I'm also pleased with the progress we made on our strategic initiatives this past year. We significantly advanced our omnichannel strategy on both the brick-and-mortar and e-commerce sides of the business. In terms of our stores, we completed our 5-store growth plan or 3.9% square footage growth. The moderation of store openings allowed us to invest in our digital initiatives. We launched our new website, sportsmans.com, ahead of schedule in December, which integrates our online platform with our stores, distribution center and drop ship vendors in a far more effective manner. The customer can now see and purchase online the majority of our inventory within the stores, leveraging our deep assortment and convenient locations to satisfy consumer demand.

From a merchandising perspective, we increased our exclusive product offering, which includes private label and special makeup products to 5% of sales as of the end of the year, up from 4.3% in 2017. This exclusive product offering complemented by our branded product continues to differentiate us within the outdoor sporting goods space.

We strengthened our customer engagement through our loyalty program with over 50% of our sales being generated by loyalty members in Q4. We made investments in system capabilities and innovative technologies that allowed us to begin utilizing more personalized marketing strategies. We also launched our in-store firearm service plan, discussed on our last call, that enhances in-store support and further strengthens the relationship with our consumers.

Lastly, our solid progress and all of these strategic priorities, combined with the unique changes within the competitive landscape in fiscal 2018, allowed us to continue to build on our market share gains.

We are pleased to have delivered a year in line with our expectations and, more importantly, to have made great strides on our key strategic priorities. As we look to fiscal 2019, we will continue to make investments to further strengthen our competitive positioning. We remain focused on delivering against our strategic priorities, which are leveraging our growing omnichannel capabilities to gain market share, customer acquisition and engagement, as well as a differentiated merchandising assortment.

Beginning with our omnichannel strategy, we will continue to maintain our strategy of moderated store growth in fiscal 2019 with plans to open 3 standard format stores or 2.4% square footage growth for the year. Our approach to store growth remains disciplined and this is reflected in our decision to open one less store in 2019 than originally planned as the financial modeling did not meet our requirements on that fourth location. The 3 new stores will be in Lansing, Michigan; Murfreesboro, Tennessee; and Fort Wayne, Indiana. The moderated store growth will allow us to continue to reduce our debt while also continuing to invest in our e-commerce initiatives in fiscal 2019, of which I will discuss in a moment.

Given the fragmented nature of the outdoor sporting goods industry, we believe over 50,000 small chains, independent dealers sell approximately 50% of the firearm units. We continue to see significant white space opportunity for Sportsman's Warehouse with our dominant positioning in the firearm category and peer national players who provide nearly as extensive of a hunting, shooting sports and in related accessory offering as we do. As we look ahead, we plan to better position ourselves to capitalize on this market share opportunity, leveraging these categories as the key drivers of customer engagement.

In addition to the 3 standard format stores I just discussed, this year, we are looking at testing a much smaller store format with a more curated assortment focused on hunting and shooting sports products. If successful, this concept will complement our existing flexible real estate model while allowing us to grow market share by leveraging our expertise, everyday low pricing, seamless omnichannel inventory leverage and unique assortment in the underserved markets that are difficult for other national players to enter.

Turning to e-commerce. We are very pleased with the meaningful growth we continue to see from our e-commerce platform and are encouraged by the initial success of our new website, sportsmans.com. Real-time inventory visibility and buy online, pick up in store are features that our customers have been responsive to, particularly with our expansive selection of firearms allows the customer to order ahead and have the product ready in-store upon their arrival for regulatory processing.

During January, which was the first full month of the enhanced platform being usable by customers, we increased "buy online, pick up in store" orders approximately 90% versus the prior year. This was realized from an improved customer experience and the rollout of additional categories outside of firearms. During Q1 of fiscal 2019, we will have completed the rollout of this functionality to all categories. We also plan to make disciplined investments of approximately $1 million in database tools, user functionality enhancement and digital marketing to engage customers both in-store and online. As we continue to invest and improve our e-commerce capabilities, we expect our e-commerce-generated sales penetration to increase over time to 10% of sales as we focus on improving convenience and driving loyalty and engagement.

In terms of customer acquisition and engagement, we continue to invest in new ways to engage with our very loyal customer base and further strengthen their relationship with Sportsman's Warehouse. Our research shows there are over 300 million firearms in our country with very limited options for quality repair and personalization services. This void creates an ideal opportunity for greater customer engagement both within our current store base as well as a new, nationwide opportunity to build the Sportsman's Warehouse brand. We are excited to announce that we launched nationwide gunsmithing services through The Gunsmith at Sportsman's Warehouse. Deployment of these value-added services are aimed at increasing our customers' confidence in the purchase cycle while maximizing lifetime value of the customer relationship.

Lastly, with regards to merchandising, our breadth of assortment is unlike any other with a vast offering of branded product, combined with our exclusive product offering that creates a one-stop shop for our customers' outdoor sporting goods needs. As mentioned, we continue to see success from our exclusive product offering. For 2019, we will focus on exclusive opportunities in the optics, kayaks, backpack and firearm categories. On the heels of our firearm service plans, gunsmithing program and new small market test store, we will be framing up a stronger assortment and presence in hunting, shooting sports and related categories this year. Again, given the fragmented nature of the industry and our expertise and commitment to the category, it's a meaningful opportunity for us to gain market share.

So in summary. Our financial results for fiscal 2018 were in line with our expectations and was a year of strong operational progress. We are pleased with the traction we are seeing for omnichannel investments across the business and we'll remain focused on our strategic priorities in fiscal 2019.

In terms of our outlook for 2019, which Kevan will discuss, we will make investments that continue to differentiate Sportsman's Warehouse and better enables to both strengthen our relationship with our existing customers as well as capitalize on market share opportunities as we acquire new customers. Key investment areas that we will focus on this year are our e-commerce platform as well as our team. We, like the rest of the industry, are managing through mandated minimum wage increases and we're also focused on competitive wages and benefit packages for our team members as we aim to recruit and retain the very highest quality talent.

Finally, before turning the call over to Kevan, I'd like to acknowledge today's announcement that Kevan will be leaving Sportsman's Warehouse in the coming months to spend more time with his family before pursuing other interest. Kevan has been an incredible partner to me since I joined the company in March 2017. In his 17 years with the company, he's made significant contributions, and in his

10 years as CFO, not only did he help take the company public, he has been key in our relationship with the investment community. He has driven improvements in our capital structure and has built a strong and capable finance team. I want to thank Kevan for his hard work and dedication to Sportsman's Warehouse and we're very appreciative that he will be here to facilitate a very orderly and structured transition while we conduct a search for a successor. We wish Kevan well in his future endeavors.

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

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

Thank you for your generous comments, Jon. It's been a great 17-year run and a true privilege to serve the company and our shareholders.

Now turning to our results. I'll begin my remarks with a review of our fourth quarter and full year results and then discuss our outlook for fiscal year 2019. My comments today will focus on adjusted results. We have provided these results as well as an explanation of each line item and reconciliation to GAAP net income and earnings per share in our earnings press release, which was issued earlier today.

Net sales for the quarter declined 0.2% to $242.7 million. Excluding the $10.6 million in net sales during the 53rd week of fiscal year 2017, net sales increased 4.4%. Same-store sales increased 3.1%, above our expectations as we saw strong results from the expansion of our omnichannel strategies. We ended the quarter with 92 stores in 23 states or square export footage growth of 3.9% from the end of fiscal year 2017.

Gross profit decreased 0.2% to $79.5 million compared to $79.7 million in the fourth quarter of fiscal year 2017. Gross profit as a percentage of net sales was flat with the prior year at 32.8%, which was better than our expectations as product margin expansion resulting from a less promotional selling environment offset freight headwinds.

SG&A decreased 0.9% to $62.5 million for the fourth quarter of fiscal year 2018 from $63.1 million in the fourth quarter of fiscal year 2017. As a percentage of net sales, SG&A expenses in the quarter decreased approximately 10 basis points to 25.8% from 25.9% due to less preopening expenses incurred during the fourth quarter of fiscal year 2018. Income from operations for the quarter was $17 million as compared to $16.6 million in the fourth quarter of fiscal year 2017. Our net interest expense in the fourth quarter of 2018 was $2.7 million compared to $3.7 million in the fourth quarter of 2017 as we realized the interest expense reduction associated with our new debt structure. We recorded an income tax expense of $3.7 million for the 13 weeks ended February 2, 2019, compared to $7 million in the corresponding period of fiscal year 2017.

Our effective tax rate decreased to 25.6% in the fourth quarter of fiscal year 2018 versus the adjusted effective tax rate of 37.8% in the prior year period. The change in the effective tax rate for the 13 weeks ended February 2, 2019, was primarily due to U.S. tax reform enacted during 2017, which reduced the federal statutory tax rate of 35% to 21%.

Net income for the quarter was $10.6 million or $0.25 per diluted share based on a diluted weighted average share count of 43 million shares as compared to $5.8 million or $0.14 per diluted share based on a diluted weighted average share count of 42.6 million shares last year. For the fourth quarter of fiscal year 2017, adjusted net income, which excludes the net impact of tax reform and the asset write-off, was $8.4 million or $0.20 per diluted share.

Adjusted EBITDA for the fourth quarter was $22 million compared to $23 million in the prior year period.

Looking at our fiscal year 2018 results. Net sales increased 4.9% to $849.1 million from $809.7 million in fiscal year 2017 or an increase of 6.3% on a 52-week basis. Same-store sales for the year increased by 1.5% towards the high end of our expectations.

Gross profit increased 4% to $284.9 million compared to $273.9 million in fiscal year 2017. Gross profit as a percentage of sales decreased 20 basis points year-over-year to 33.6% from 33.8% primarily as a result of increased freight cost.

SG&A expenses increased 6% for the year to $240.9 million from $227.3 million in fiscal year 2017. As a percentage of sales, SG&A was 28.4% in fiscal year 2018 compared to 28.1% in fiscal year 2017. The increase was due to investments in our new e-commerce platform in addition to increased labor pressures. Income from operations decreased 5.5% to $44 million as compared to $46.6 million in fiscal year 2017. Interest expense decreased 3.9% to $13.2 million in fiscal year 2018 from $13.7 million in the prior year.

Our annual effective tax rate was 22.9% compared to 46% in the prior year, excluding the impact of a $1.3 million benefit related to tax -- U.S. tax reform in fiscal year 2018 and a $2.6 million expense related to U.S. tax reform in fiscal year 2017. Our annual effective tax rate was 27.2% and 39.2%, respectively.

Adjusted net income in fiscal year 2018 increased 21.5% or $25.9 million or $0.60 per share based on a diluted weighted average share count of 43 million shares compared to $21.3 million or $0.50 per share in fiscal year 2017 based on a diluted weighted average share count of 42.5 million shares. For fiscal year 2018, adjusted EBITDA decreased 5.9% to $68.5 million compared to $72.8 million in fiscal year 2017.

Turning to our balance sheet. As of February 2, 2019, ending inventory was $276.6 million as compared to $270.6 million as of the end of the prior year period. Inventory decreased by 3.3% on a per store basis versus the prior year. This decrease was driven by the implementation of more robust inventory planning tools and an increased focus on our inventory productivity. Our liquidity remains strong as we ended the quarter with $144.3 million in outstanding borrowings on our $250 million credit facility. During fiscal year 2018, we successfully reduced our debt by approximately $14 million as deleveraging our business remains one of our key initiatives. We incurred approximately $16.2 million in capital expenditures, net of approximately $1.7 million in proceeds from deemed sale leaseback transactions during fiscal year 2018.

Turning to our outlook. As we look toward fiscal year 2019, we are considering the following items in our guidance. As Jon already mentioned, we are making key investments in our team for the long-term success of our organization. In fiscal year 2019, in addition to minimum wage increases, we are planning to invest increased resources and new hires and benefits for our team members. The combined investment in our team will be just under $5 million. This investment will make Sportsman's Warehouse a more competitive retailer as we continue to execute our growth plans.

During fiscal year 2018, we invested approximately $3 million in our new e-commerce platform. In fiscal year 2019, as Jon mentioned, we will continue to invest in the platform and the modernization of our systems. We expect this investment to be approximately $1 million. We are very pleased with the early results of our new platform, and continued investments this year will allow us to realize the benefits of this improved platform.

As we enter our sixth year as a public company, we will incur additional expenses related to be in a public company of approximately $0.7 million. These expenses include the additional costs associated with Section 404(b) compliance with Sarbanes-Oxley.

In Q1 of 2019, we will implement the new lease accounting standard. As a result of this implementation, we will no longer be amortizing the deferred gain from of our 2012 sale leaseback transaction. We expect our occupancy expense to increase by approximately $1.4 million, resulting in an EPS reduction of approximately $0.02 per share for fiscal year 2019.

Given the positive results we saw from our focus on inventory management in the second half of 2018, we are planning on continuing to implement inventory initiatives in fiscal year 2019 that we expect will allow us to improve the leverage of our working capital through increased inventory turnover. We're assuming approximately $10 million in interest expense for 2019 as we realize the benefits of the refinance of our debt structure in fiscal year 2018 compounded with our debt reduction strategies. For fiscal year 2019, we're planning to open 3 stores total or approximately 2.4% square footage growth in addition to the 1 concept store that Jon discussed.

Taking these factors into account, for the year, we expect revenue of $860 million to $890 million. We expect the same-store sales change in the range of down 1% to positive 2% compared to fiscal year 2018. Our gross margins are planned to be relatively flat for the year as we expect increased vendor incentives to offset rising freight cost. We expect operating margin to decline for the year, driven by SG&A deleverage resulting from our planned investments. Our fiscal year 2019 expectations for adjusted earnings per diluted share are $0.52 to $0.64 on a weighted average of approximately 43.2 million estimated common shares outstanding.

Our outlook for the first quarter is as follows: revenue in the range of $174 million to $180 million; a same-store sales decrease in the range of down 2% to down 5% compared to the first quarter of fiscal year 2018 as we anniversary strong firearms and ammunition sales from the first quarter of fiscal year 2018; diluted loss per share of $0.08 to $0.11 on a weighted average of approximately 43 million estimated common shares outstanding.

We expect a gross margin benefit from the sales mix shift to higher margin categories offset by the SG&A investments and other factors that I just described. As it relates to capital expenditures, we expect to incur approximately $18 million to $23 million in total capital expenditures in fiscal year 2019 or net capital expenditures of $16 million to $20 million, inclusive of approximately $2 million to $3 million in landlord incentives that we expect to receive for the year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Peter Benedict from Robert W. Baird.

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

Kevan, best of luck going forward. My first question, just around the firearms. Jon, you mentioned the units were up 0.3%. Was that a total number or a comp number? Just curious what the comp units were and maybe what the comp sales were in firearms. That's my first question.

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

Peter, good morning. That was total non-comp. So we may have to circle back. I don't have the exact on the comp. There was one underlying thing to share since you asked. In 2017, we had a significant promotional event from a manufacturer in Cyber 5 days that we did not comp this year. So the rest of our categories, except that one particular class, performed much better than the 0.3%, but we were comping a pretty tough promo from a brand that then went bankrupt a few months later. So that was the one thing that was a little bit of a headwind for us in '18 as compared to '17, but we were still very pleased with the overall performance of the category as compared to the market.

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

Yes. No, okay. Now that's helpful.

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

But we can get you the comp. We can absolutely follow up with that one, Peter.

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

Sure. Yes, no problem. Next just on the competitive landscape. I mean, you spoke to it a little bit, and obviously, there's a lot of folks that are pulling back from the category at least among the public companies. You guys seem to be one that's well positioned to kind of step in and maybe fill the gap. Just curious kind of the competitive impact on comp, it's something you guys have spoken to in the past. How is that kind of set up right now? How do that look this year? And then maybe as you look to next year, anything that's kind of noteworthy there? And then on the smaller store test, any more info? I mean, what -- how large is this store going to be? Is this going to go in the same markets in which you currently operate? Or is it opening up kind of new, even smaller markets to the current -- versus the current format?

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

Great questions. Let me see if I can take the competitive landscape on firearms first, Peter. The -- we are not aware of any competitive openings during 2019 in the markets in which we serve. There were a couple on the horizon that have, I believe, been canceled by one of the individuals. We think that Scheels might have a store in a couple of years in Colorado that can be competitive or in our markets, but otherwise, we are not aware of any major retailer opening up in 2019. So from a headwind standpoint, that puts us in a good spot. As you might be referencing other major retailers that have decided to pull hunting and shooting out of their stores, we saw a little bit of that in 2018. We understand they've announced some number of stores. They'll will be removing those categories. We are unaware of where those stores are located, and I don't believe that data has been available. So I think it will be a little while before we understand whether that change will have a material influence on -- or material impact on where our stores exist today. But we are certainly staying close to that. Where we see opportunity, not only in the brands that are -- retailers I just referenced, is the combination of smaller markets, Peter, where historically, we might not have wanted to go in with even a 15,000-square-foot store, but there's a high-demand, high-user base for our products around firearms, shooting sports and hunting. And this store concept, call it, something smaller than the existing 15,000-square-foot store, allows us not only to go into small markets and serve those customers, but also it can allow us to go into large markets and fill in voids with a smaller format and a less capital structure. So we see it as opening up 2 large areas, 2 large quantities of locations that there is demand underserved and then other retailers will not pursue because of their lack of flexibility in real estate.

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

Okay, that's helpful. My last question is just on loyalty. I don't know if I heard the number kind of what the count is at the end of the year. And as you think about the growth for loyalty going forward, I know you've got a number of engagement initiatives on path, but how do you think about the growth in just the number of loyalty members? Do you feel like that's tapped out in the existing markets and it will grow just by your new store growth? Or do you think there's still an opportunity to bring more people in your existing markets into the loyalty program?

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

I do think that over time, it starts to -- the growth curve starts to slow. We're a little bit over 1.8 million, Peter, in the program right now. What we're focused on more from numbers of customers is making sure that the loyalty accounts that we create in those relationships are complete and allow us to reengage. So making sure that numbers of engaged and active loyalty customers where we have the contact information and all the information for the engagements, we're -- really where we're focused. We see opportunity to grow dollars significantly over time, greater than 50% of our sales, as we improve on the technologies and the engagement personalization tools that are coming. I do suspect though that the 1.8 million slows down in its growth over time as we saturate the core customer, but the dollars per customer will grow materially.

Operator

Our next question is coming from Peter Keith from Piper Jaffray.

Peter Jacob Keith ***Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst***

I wanted to get a sense on the recent firearm demand trend. So we're coming off of 2 tough years overall just based on the NICS data. Curious to kind of what you're seeing maybe with the 2019 year-to-date. And then what's your outlook for firearms that's embedded in that comp guidance?

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

I think the overall market, if I got the data correct, we're still running about 13 million units as far as the adjusted NICS go on, on TBM. So it's still a very large market over the last 12 months. We will see in Q1, which were reflected in our guidance, a material drop compared to '18. The events that happened in February of '18, along with changes in certain retailers' own approach to regulations did drive demand across the market. We were successful in capturing a good portion of that extra demand last year in creating new relationships. We expect Q1, the adjusted NICS will continue to be a headwind for us before it normalizes back in -- Kevan help me, kind of June-ish probably before it gets back to normal.

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

And you will also see as we continue to go forward -- and this was demonstrated in our Q4 numbers, we are gaining market share. Because of the policy changes and everything else that's going on there and our increased assortment, we continue to pick up market share in the firearms space. So one of the things that we're really focused on this year is our ability to gain and pick up that market share.

Peter Jacob Keith ***Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst***

So maybe just to follow up. So when, Jon, you were saying, "Get back to normal," I guess I'm curious what that means because we don't know what normal is at this point. You talked about negative 5% NICS data in your markets for Q4. Are you talking about getting back to that level? Or do you think that kind of in your outlook NICS is going to flatten out after Q1?

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

We expect it to be closer to flat after Q1, call it, down slightly to up slightly. But Q1 is going to be the most significant, right, variance we've seen in a while in the last at least 4 quarters in the industry because we're confident of the events in 2018.

Peter Jacob Keith ***Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst***

Okay, good enough. I wanted to pivot the next question over to working capital and inventory management because you did show some really nice improvement in Q4 particularly on a per store basis. Could you give us a sense of maybe how you're viewing working capital by the end of 2019? Do you have a target for maybe inventory turn by the end of the year or even looking out further? Inventory turns have come down over the last couple of years. Is there a level that you think is reasonable to get back to?

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

Peter, we are evaluating that and that is one of our key focuses for 2019. As we discussed back in the third quarter earnings call, we hired a Director of Inventory Planning that his job is to focus on the inventory on a daily basis, and he's implemented some great tools and some discipline that's helped us turn the tide. We have looked at the inventory turnovers and we see the same trends that you do, and we're planning for a significant increase this year because of the focus on the tools that we now have in place. We saw a little bit of those with the inventory reduction by the end of the year. We expect that trend to continue and to see roughly a 20 basis point increase in our inventory turnover for 2019 with these focuses that we've now put in place.

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

And I think, Peter, we're pleased with the progress, but we're far from satisfied as a business. And the entire buying, planning, finance team, supply chain team are working diligently to make sure that we've got our in-stock rates correctly because this is not a one -- the metric doesn't work by itself. It's got to work both ways. We've got to have the right product in stock seasonally but we've got to turn our inventory better. So we've got the processes happening. We've got the structure in place. We've got the tools coming online. The e-comm platform is the other component. I just can't say how much leverage we are already seeing from that platform, especially on the high consideration product, Peter, where you're online, you're looking for a particular -- I'll use firearm as example. You're looking for a particular caliber. We might only have one of those guns in the 92 stores, but I can literally source that firearm to your store wherever you're at and have it there in 2 days from our existing working capital. It's creating some nice leverage and turnover from that perspective.

Peter Jacob Keith ***Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst***

Okay, that sounds interesting. Then lastly, I just want to ask a question on the gunsmithing. A couple of things on that topic, are there any start-up costs that we should be thinking about? And then secondarily, do you think there will be any revenue impact that's noticeable in 2019? Or is this something that will build over time? And then lastly, is it -- is that revenue margin accretive or margin dilutive?

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

On the -- first of all, let me talk about the investment. We have a very large-scale operation compared to the industry. We located that within an existing distribution square footage. We carved out a corner of that. The capital investment was minimal to get started. It's a few hundred thousand dollars in machinery and equipment to get started.

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

Most of which was acquired in 2018. So it's already reflected, so no additional capital required.

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

So it's going to be growing over time. I don't expect it will be a material financial improvement in 2019. It is margin accretive over time.

Operator

Our next question today is coming from Michael Kawamoto from D.A. Davidson & Co.

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

Just for the full year 2019 on your comp guidance at the low end call for down 1%, you started -- the year was a little tough around the firearm side just given you're anniversary-ing a strong period last year. But here, what is contemplating the low end of the guidance range there?

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

Well, as we look at 2019, obviously, the first quarter is going to be a tough quarter for us. That's reflected there. Clearly, the firearms and ammunition are driving that comp. One of the things as well in the first quarter, while the late -- or the heavy winter helped us in the fourth quarter from soft goods sales, in the first quarter, it's going to hurt us in our camping and our fishing. So there's some impact there that will also be residual. So as we look forward, Jon mentioned the firearms to be right around that flat for the remainder of the year. So those are the big drivers that keep us there. We've got some initiatives that we're implementing that we're optimistic will be able to help drive us -- drive our same-store sales to the high end of that guidance, but those are some of the concerns that we're facing as we look to the low end of the guidance.

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

Got it. And do you think you'll get a mix benefit on gross margin in 1Q just given you'd expect firearms to be down a little bit from last year?

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

Yes, we do expect that, a mix benefit to come in the gross margin line.

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

Cool. And then you talked about testing some local inventory ads with Google on the last call and trying some new things on the marketing and customer acquisition front. How are you thinking about customer acquisition in markets where maybe you historically haven't had a store but are now a little more in play with the updated site and now the smaller format hunting and shooting stores?

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

Michael, it's Jon. The -- as I had mentioned before, we -- our investment and, I'll call it, utilization of digital marketing is limited and it's something -- it's part of the million dollars I mentioned. There is a little bit of that million dollars going into new digital marketing. We have the local inventory feeds live with Google, but they're just in testing. They have website itself. Most of the sessions or visitors are in our regions, but we start -- we're going to start branching out to look at other regions because we have products that certainly can fulfill needs nationwide. And the gunsmithing component is another piece of that, Michael. Again, there are people across the entire country looking for services. They can't find them. You're going to start to see us marketing traditional ways with the hunting magazines and shooting magazines but also on forums and other digital ways to announce and engage consumers nationwide on the gunsmithing service.

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

Got it. And then maybe much further down the line, but could you see a point where that data you're getting from your website could help make decisions on where you want to open new store just given where that traffic is coming from in the future?

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

Absolutely. We're already -- we already have that data as part of our modeling.

Operator

Our next question is coming from Daniel Hofkin from William Blair.

Daniel Harry Hofkin ***William Blair & Company L.L.C., Research Division - Analyst***

Just wanted to follow up a little bit on the comp guidance and specifically as it relates to firearms and ammo. I guess, what are you seeing that kind of gives you some confidence that things would sort of stabilize closer to flat for the category post 1Q? That's my first question. And then I'll follow up after that.

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

So as we looked at the trends that we're seeing, particularly the market share gains that we've been experiencing, that's what gives us confidence at getting back to that level post Q1. So basically it's the market share gains. And we believe that the market share gains are going to continue past the first quarter. We've been implementing -- expanding our assortment. We've been implementing the online firearms options, partnering with our drop ship vendors. That's going to help us in the market share.

Daniel Harry Hofkin ***William Blair & Company L.L.C., Research Division - Analyst***

Okay. And in what you're contemplating for the first quarter, you're seeing evidence that you're gaining market share quarter-to-date from what you can tell on those -- based on those initiatives?

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

That is correct. Keep in mind that there's only 1 month so far that's complete within the -- with the first quarter for us so far.

Daniel Harry Hofkin ***William Blair & Company L.L.C., Research Division - Analyst***

Yes, yes, okay. And then in terms of some of the investments, can you just discuss a little bit to what degree you view those as sort of near to intermediate term things that will roll off after 2019 and -- versus continuing beyond that at a similar level? Just trying to get an idea of -- this is a bit of stepped up investment year. Do we expect to kind of return to some degree of earnings growth in 2020 and beyond?

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

Yes. I think there's 2. -- Daniel, it's Jon. There's 2 parts. Now on the e-comm investment side, we are starting to model out where the leverage starts to return on the business. So in 2020, we're feeling comfortable that the investment will continue -- will start to slow and we'll start to see leverage. On the minimum wage, we have -- I'm looking at Kevan to clarify. We have several years left on the minimum wage increases and those are the other major component of what's happening on the investment side. So we do not expect that to slow down.

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

In addition, the public company costs, Sarbanes-Oxley compliance, that is going to be an investment that's going to continue as that's going to be a requirement of us going forward.

Daniel Harry Hofkin ***William Blair & Company L.L.C., Research Division - Analyst***

Okay. In terms of that -- how about in terms of separate from the minimum wage, some of the headcount investments that you're making. Is this a year of a sort of a one-time year of step-up and then you expect that it's more normalized looking forward beyond 2019?

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

Should be more normalized looking beyond. We should get to the point where we can -- as Jon mentioned, particularly with respect to the e-comm investment as we start to leverage the investments and the people that we've been hiring to help us operate this new platform.

Daniel Harry Hofkin ***William Blair & Company L.L.C., Research Division - Analyst***

And I guess, lastly, can you just sort of qualitatively evaluate the performance? You obviously talked about some good comp results in the other half of the business, but how do you feel you're executing there relative to the opportunity and where there might be more opportunities to even improve further?

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

One of the things that we're very pleased within the fourth quarter was that our comp was across all of our categories, with the exception of our hunting and shooting categories, and that was primarily driven by our ammunition comps, which, as Jon mentioned in his remarks, was driven by the fact that we did not feel we needed to be as promotional this year versus last year. So we were very pleased that it was across all categories. And the one that it wasn't was a decision that we purposely made. So we were very excited to see the results from Q4 and are optimistic that those results will carry over into 2019 once we get past the first quarter.

Operator

Our next question is coming from Seth Sigman from Crédit Suisse.

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

Kevan, best of luck, and to the rest of the team, congrats on the progress, definitely some encouraging signs here. My first question is around the comment about running fewer promotions in the fourth quarter, the negative impact on comps. Was that specific to the ammo category and just the fourth quarter? Or is that something that you expect to continue in 2019?

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

There were numerous promotional events. The biggest impact was on the ammunition. We ran an ammunition sale in 2017 that we did not anniversary. There were a couple of other smaller promotions that we chose not to because the environment was not as promotional. So it hurt the top line, but it certainly helped us from a product margin perspective and that flowed through, we feel, to the bottom line and that helped us hit our goals for the quarter.

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

Seth, it's Jon. As we look at the competitive environment, the promotional activity that we're seeing in our categories has more -- is more normalized than it was previously. We've seen some, I'll call it, more static responses from competitors that have combined, and some of the manufacturers have been more static on their promotions. As we think about the future in 2019, we're going to stay true to our everyday low pricing. We're going to stay true to our promotional cadence, which is seasonally based. We do not see anything on horizon that would cause us to have to get heavier in the promotional cadence like we have in previous years. So we want to be more rigorous in how we think about each promotion going forward.

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

Right. And can you just remind us of that promotional cadence in 2018, what we're going to be lapping here? Obviously, to your point in the fourth quarter, you were lapping something from the prior year. How do we think about this year?

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

This year, '18 -- most of '18, we were pretty back to normal. I mean, we hit our spring seasons, our summer seasons and our fall hunting seasons and, of course, the holiday season in our normal cadence in '18, pulling back from some of the unique promotions that we ran in '17. So we expect '19 to be similar to '18 in our cadence. And we haven't seen anything from the competitor, Seth, that would indicate they're approaching '19 differently than they did '18.

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

Okay, great. And then just following up on the first quarter guidance. It seems like the guidance is mostly a function of the comparison from last year, specifically firearms. Is there any other consideration here around weather or may be other factors, other demand drivers that could be weather on the comps?

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

Yes. There's 2. The heavy winter is hurting our camping and our fishing department as we're starting out the first quarter. So while the weather helped us during the fourth quarter and we saw that in our clothing and footwear sales, it's having a bit of a damper on the camping and the fishing as it limits people's ability to get in the outdoors and participate in those activities. So yes, there is some weather impacts that are impacting that Q1 guidance as well.

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

Okay. And then just finally on -- as it relates to the online business, I may have missed it, but can you guys size up how big is online for Sportsman's Warehouse today? How much is BOPUS? And I guess, now that you're a couple of months into the new platform, it sounds like you're pleased with the response. Just any more color on -- or learnings on what you're seeing, where maybe traffic is coming from. Is it different than where your store base is? How incremental is it, et cetera?

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

We -- Seth, we don't provide the exact numbers. I think the last time we provided, it was less than 2%, but we've got, internally, goals to get to 10% of our business over the next 3 years coming from the e-commerce platform that will put us very close to the industry standard depending on which category look at being high single digits to low teens. As far as where we're seeing traffic, a majority of our traffic is coming from the regions in which we operate, from our existing consumer base that knows the brand and is used to shopping the brand. As we look at '19, we will start to utilize digital marketing tools to reach additional areas of the country. And we feel that that's an opportunity that's been under-penetrated for us. And we will ease into that, make sure that our learnings and our marketing expenses are utilized in an effective manner. But we do believe that's an opportunity.

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

Got it, okay. And then just on the BOPUS penetration today and, I guess, just how important do you think that is to the overall omnichannel offering?

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

It's critical. We have -- again, depending on the time of the year, you've got $250 million, $300 million with the inventory in the stores. Our customers are researching products. Some of these products are high consideration. Some of these products are extremely large. You can imagine moving a 900-pound gun safe. So our ability to bring that forth in an effective way using the website and content is critical. For that customer to be able to go online, order that item, whether again it's small or large, and pick it up the same day is powerful. So I can be sitting at lunch on my phone, need something for fishing, hunting, camping trip that's coming up tonight or next week or whenever. And within 2 hours, I can swing by the store and pick it up and not have to worry about whether or not we have it, how long it's going to take on my lunch hour to get it, and I'm back out the door. So we're seeing nice growth in that area and great response from the customer, which we literally just launched it in December. And by the end of Q1, we will have all categories rolled out. So they're shoppable from the consumer for the buy online, pick up in store, so lots of opportunity there.

Operator

We reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

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

I'd like -- as I wrap up today, I want to thank all of our team members, over 5,000 employees in our 92 stores, distribution center and corporate office and care center. Their passion is what keep our loyal customers coming back to Sportsman's Warehouse. We look forward to building on our progress and further strengthening our market position. Thank you again for joining our earnings call today.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.

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