

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 29, 2022

OR

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

Commission File Number: 001-36401

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

1475 West 9000 South, Suite A, West Jordan, Utah
(Address of principal executive offices)

39-1975614
(I.R.S. Employer
Identification No.)

84088
(Zip code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$.01 par value	SPWH	The Nasdaq Stock Market LLC

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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 December 8, 2022, the registrant had 37,697,436 shares of common stock, \$0.01 par value per share, outstanding.

SPORTSMAN’S WAREHOUSE HOLDINGS, INC.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements (unaudited):</u>	4
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Operations</u>	5
<u>Condensed Consolidated Statements of Stockholders’ Equity</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4.</u> <u>Controls and Procedures</u>	30
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	32
<u>Item 1A.</u> <u>Risk Factors</u>	32
<u>Item 6.</u> <u>Exhibits</u>	35
<u>Signatures</u>	36

We operate on a fiscal calendar that, in a given fiscal year, consists of the 52- or 53-week period ending on the Saturday closest to January 31st. Our third fiscal quarters ended October 29, 2022 and October 30, 2021 both consisted of 13 weeks and are referred to herein as the third quarter of fiscal year 2022 and the third quarter of fiscal year 2021 respectively. Fiscal year 2022 contains 52 weeks of operations and will end on January 28, 2023. Fiscal year 2021 contained 52 weeks of operations and ended on January 29, 2022.

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 Quarterly Report on Form 10-Q (this “10-Q”) 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-Q are forward-looking statements. These statements may include words such as “aim,” “anticipate,” “assume,” “believe,” “can have,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “likely,” “may,” “objective,” “plan,” “positioned,” “potential,” “predict,” “should,” “target,” “will,” “would” and other words and terms of similar meaning 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:

- current and future government regulations, in particular regulations relating to the sale of firearms and ammunition, which may impact the supply and demand for our products and our ability to conduct our business;*
- our retail-based business model which is impacted by general economic and market conditions and economic, market and financial uncertainties that may cause a decline in consumer spending;*
- our concentration of stores in the Western United States which makes us susceptible to adverse conditions in this region, and could affect our sales and cause our operating results to suffer;*
- the highly fragmented and competitive industry in which we operate and the potential for increased competition;*
- changes in consumer demands, including regional preferences, which we may not be able to identify and respond to in a timely manner;*
- our entrance into new markets or operations in existing markets, which may not be successful; and*
- the impact of COVID-19 pandemic on our operations.*

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 “Part I. Item 1A. Risk Factors,” appearing in our Annual Report on Form 10-K for the fiscal year ended January 29, 2022 and “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this 10-Q, as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, 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-Q 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-Q 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPORTSMAN’S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
Amounts in Thousands, Except Per Share Data
(unaudited)

	October 29, 2022	January 29, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,560	\$ 57,018
Accounts receivable, net	1,685	1,937
Merchandise inventories	485,156	386,560
Prepaid expenses and other	19,182	21,955
Total current assets	508,583	467,470
Operating lease right of use asset	267,842	243,047
Property and equipment, net	147,031	128,304
Goodwill	1,496	1,496
Definite lived intangibles, net	404	264
Total assets	<u>\$ 925,356</u>	<u>\$ 840,581</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 130,119	\$ 58,916
Accrued expenses	93,054	109,012
Income taxes payable	4,984	9,500
Operating lease liability, current	43,440	40,924
Revolving line of credit	105,064	66,054
Total current liabilities	376,661	284,406
Long-term liabilities:		
Deferred income taxes	4,294	5,779
Operating lease liability, noncurrent	261,095	236,227
Total long-term liabilities	265,389	242,006
Total liabilities	<u>642,050</u>	<u>526,412</u>
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; 37,697 and 43,880 shares issued and outstanding, respectively	377	439
Additional paid-in capital	79,169	90,851
Accumulated earnings	203,760	222,879
Total stockholders' equity	283,306	314,169
Total liabilities and stockholders' equity	<u>\$ 925,356</u>	<u>\$ 840,581</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Amounts in Thousands Except Per Share Data
(unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Net sales	\$ 359,720	\$ 401,014	\$ 1,020,246	\$ 1,089,784
Cost of goods sold	238,898	271,392	682,794	736,061
Gross profit	<u>120,822</u>	<u>129,622</u>	<u>337,452</u>	<u>353,723</u>
Selling, general, and administrative expenses	102,322	99,974	295,430	286,263
Income from operations	18,500	29,648	42,022	67,460
Interest expense	1,187	413	2,521	905
Income before income taxes	17,313	29,235	39,501	66,555
Income tax expense	4,436	7,372	10,012	16,519
Net income	<u>\$ 12,877</u>	<u>\$ 21,863</u>	<u>\$ 29,489</u>	<u>\$ 50,036</u>
Earnings per share:				
Basic	<u>\$ 0.34</u>	<u>\$ 0.50</u>	<u>\$ 0.71</u>	<u>\$ 1.14</u>
Diluted	<u>\$ 0.33</u>	<u>\$ 0.49</u>	<u>\$ 0.71</u>	<u>\$ 1.13</u>
Weighted average shares outstanding:				
Basic	<u>38,414</u>	<u>43,878</u>	<u>41,438</u>	<u>43,809</u>
Diluted	<u>38,681</u>	<u>44,582</u>	<u>41,672</u>	<u>44,471</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Amounts in Thousands
(unaudited)

For the Thirteen Weeks Ended October 29, 2022 and October 30, 2021

	Common Stock		Restricted nonvoting Common Stock		Treasury Stock		Addition al paid-in- capital Amount	Accumulate d (deficit) earnings Amount	Total stockholder s' equity Amount
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at July 31, 2021	43,831	\$ 438	—	\$ —	—	\$ —	\$ 89,587	\$ 142,582	\$ 232,607
Payment of withholdings on restricted stock units	—	—	—	—	—	—	(88)	—	(88)
Stock based compensation	48	—	—	—	—	—	194	—	194
Net Income	—	—	—	—	—	—	—	21,863	21,863
Balance at October 30, 2021	43,879	\$ 438	—	\$ —	—	\$ —	\$ 89,693	\$ 164,445	\$ 254,576
Balance at July 30, 2022	—	—	—	—	—	(52,057)	—	—	—
Repurchase of treasury stock	—	—	—	—	5,348	\$ 7)	\$ 91,976	\$ 239,491	\$ 279,852
Retirement of treasury stock	—	—	—	—	1,193	(10,354)	—	—	(10,354)
Vesting of restricted stock units	(6,541)	(65)	—	—	(6,541)	1	(13,738)	(48,608)	—
Payment of withholdings on restricted stock units	23	—	—	—	—	—	—	—	—
Stock based compensation	—	—	—	—	—	—	(146)	—	(146)
Net income	—	—	—	—	—	—	1,077	—	1,077
Balance at October 29, 2022	37,697	\$ 377	—	\$ —	—	\$ —	\$ 79,169	\$ 203,760	\$ 283,306

For the Thirty-Nine Weeks Ended October 29, 2022 and October 30, 2021

	Common Stock		Restricted nonvoting common stock		Treasury Stock		Additional paid-in- capital Amount	Accumulate d (deficit) earnings Amount	Total stockholder s equity Amount
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at January 30, 2021	43,623	\$ 436	—	\$ —	—	\$ —	\$ 89,815	\$ 114,409	\$ 204,660
Vesting of restricted stock units	256	2	—	—	—	—	(2)	—	—
Payment of withholdings on restricted stock units	—	—	—	—	—	—	(2,356)	—	(2,356)
Stock based compensation	—	—	—	—	—	—	2,236	—	2,236
Net income	—	—	—	—	—	—	—	50,036	50,036
Balance at October 30, 2021	43,879	\$ 438	—	\$ —	—	\$ —	\$ 89,693	\$ 164,445	\$ 254,576
Balance at January 29, 2022	43,880	\$ 439	—	\$ —	—	\$ —	\$ 90,851	\$ 222,879	\$ 314,169
Repurchase of treasury stock	—	—	—	—	6,541	(62,411)	—	—	(62,411)
Retirement of treasury stock	(6,541)	(65)	—	—	(6,541)	62,411	(13,738)	(48,608)	—
Vesting of restricted stock units	294	2	—	—	—	—	(2)	—	—
Payment of withholdings on restricted stock units	—	—	—	—	—	—	(1,993)	—	(1,993)
Issuance of common stock for cash per employee stock purchase plan	64	1	—	—	—	—	525	—	526
Stock based compensation	—	—	—	—	—	—	3,526	—	3,526
Net income	—	—	—	—	—	—	—	29,489	29,489
Balance at October 29, 2022	37,697	\$ 377	—	\$ —	—	\$ —	\$ 79,169	\$ 203,760	\$ 283,306

The accompanying notes are an integral part of these condensed consolidated financial statements

SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in Thousands
(unaudited)

	Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021
Cash flows from operating activities:		
Net income	\$ 29,489	\$ 50,036
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	22,961	18,778
Amortization of deferred financing fees	146	188
Amortization of definite lived intangible	51	23
Noncash lease expense	21,169	21,204
Deferred income taxes	(1,486)	(558)
Stock-based compensation	3,526	2,236
Change in operating assets and liabilities, net of amounts acquired:		
Accounts receivable, net	252	(103)
Operating lease liabilities	(18,580)	(20,915)
Merchandise inventories	(98,596)	(185,063)
Prepaid expenses and other	3,135	(781)
Accounts payable	68,327	41,723
Accrued expenses	(11,369)	(2,694)
Income taxes payable and receivable	(4,516)	(2,417)
Net cash provided by (used in) operating activities	14,509	(78,343)
Cash flows from investing activities:		
Purchase of property and equipment, net of amounts acquired	(38,477)	(38,463)
Net cash used in investing activities	(38,477)	(38,463)
Cash flows from financing activities:		
Net borrowings on line of credit	39,010	57,551
Decrease in book overdraft	(5,113)	(1,382)
Proceeds from issuance of common stock per employee stock purchase plan	525	—
Payments to acquire treasury stock	(62,411)	—
Payment of withholdings on restricted stock units	(1,993)	(2,356)
Payment of deferred financing costs	(508)	—
Net cash (used in) provided by financing activities	(30,490)	53,813
Net change in cash and cash equivalents	(54,458)	(62,993)
Cash and cash equivalents at beginning of period	57,018	65,525
Cash and cash equivalents at end of period	\$ 2,560	\$ 2,532
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 2,349	\$ 905
Income taxes, net of refunds	16,014	19,494
Supplemental schedule of noncash activities:		
Noncash change in operating lease right of use asset and operating lease liabilities from remeasurement of existing leases and addition of new leases	\$ 46,050	\$ 27,979
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 7,223	\$ 6,606

The accompanying notes are an integral part of these condensed consolidated financial statements.

SPORTSMAN’S WAREHOUSE HOLDINGS, INC.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Amounts reported in thousands, except per share data and store count data

(1) Description of Business and Basis of Presentation

Description of Business

Sportsman’s Warehouse Holdings, Inc., a Delaware corporation (“Holdings”), and its subsidiaries (collectively, the “Company”) operate retail sporting goods stores. As of October 29, 2022, the Company operated 130 stores in 30 states. The Company also operates an e-commerce platform at www.sportsmans.com. The Company’s stores and website are aggregated into one operating and reportable segment.

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared by management of the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The Company’s condensed consolidated balance sheet as of January 29, 2022 was derived from the Company’s audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments that are, in the opinion of management, necessary to summarize fairly our condensed consolidated financial statements for the periods presented. All of these adjustments are of a normal recurring nature. The results of the fiscal quarter ended October 29, 2022 are not necessarily indicative of the results to be obtained for the year ending January 28, 2023. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 29, 2022 filed with the SEC on March 30, 2022 (the “Fiscal 2021 Form 10-K”).

(2) Summary of Significant Accounting Policies

The Company’s significant accounting policies are described in Note 2 to the Company’s Fiscal 2021 Form 10-K. Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements.

Share Retirement

The Company periodically repurchases and retires stock through a board authorized repurchase program. When shares are retired as part of this program the repurchased shares are returned to a status of authorized but unissued. The Company's policy to account for the retired shares is to allocate the excess of the repurchase price over the par value of shares acquired to Additional Paid in Capital ("APIC") and Retained Earnings. The portion allocated to APIC is determined by dividing the number of retired shares by the number of shares issued as of the retirement date. This ratio is applied to the balance of APIC as of the retirement date. Any remaining amount of the excess of the repurchase price over the par value not allocated to APIC reduces Retained Earnings.

Recently Adopted Accounting Pronouncements

In March 2020, the FASB issued (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as the London Inter-Bank Offered Rate (“LIBOR”), certain tenors of which were phased out in 2021, to alternate reference rates, such as the Secured Overnight Financing Rate ("SOFR").

The Company adopted ASU 2020-04 on May 27, 2022 in connection with the Amended and Restated Credit Agreement, which converted the reference rate from LIBOR to SOFR. In addition, the Company elected the optional expedient offered under the Accounting Standards Codification 848, *Reference Rate Reform*, which allows for leases to be accounted for as a continuation of an existing contract with no reassessment or remeasurement of the lease payments, classifications or discount rates.

See Note 7 for further discussion on the Revolving Line of Credit.

(3) Revenue Recognition

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 credit for immaterial 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.

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 the Company's 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 4.0% when no escheat liability to relevant jurisdictions exist. 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.

Accounting Standards Codification (“ASC”) 606 requires the Company to allocate the transaction price between the goods and the loyalty reward points based on the relative standalone 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 25%.

As it relates to e-commerce sales, the Company accounts for shipping and handling as fulfillment activities, and not as 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). The costs associated with fulfillment are recorded in costs of goods sold.

The Company offers promotional financing and credit cards issued by a third-party bank that manages and directly extends credit to the Company’s customers. The Company provides a license to its brand and marketing services, and the Company facilitates credit applications in its stores and online. The banks are the sole owners of the accounts receivable generated under the program and, accordingly, the Company does not hold any customer receivables related to these programs and acts as an agent in the financing transactions with customers. The Company is eligible to receive a profit share from certain of its banking partners based on the annual performance of their corresponding portfolio, and the Company receives monthly payments based on forecasts of full-year performance. This is a form of variable consideration. The Company records such profit share as revenue over time using the most likely amount method, which reflects the amount earned each month when it is determined that the likelihood of a significant revenue reversal is not probable, which is typically monthly. Profit-share payments occur monthly, shortly after the end of each program month.

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. The Company estimates a reserve for sales returns and records 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 October 29, 2022 and January 29, 2022:

	October 29, 2022	January 29, 2022
Right of return assets, which are included in prepaid expenses and other	\$ 2,729	\$ 2,142
Estimated gift card contract liability, net of breakage	(22,147)	(23,128)
Estimated loyalty contract liability, net of breakage	(5,585)	(7,211)
Sales return liabilities, which are included in accrued expenses	(4,073)	(3,197)

During the 13 and 39 weeks ended October 29, 2022, the Company recognized approximately \$333 and \$1,118 in gift card breakage and approximately \$829 and \$2,425 in loyalty reward breakage. During the 13 and 39 weeks ended October 30, 2021, the Company recognized approximately \$275 and \$948 in gift card breakage and approximately \$1,581 and \$4,202 in loyalty reward breakage. During the 13 and 39 weeks ended October 29, 2022, the Company recognized revenue of \$3,021 and \$18,404 relating to contract liabilities that existed at January 29, 2022.

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.

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 the Company's departments during the 13 and 39 weeks ended October 29, 2022 and October 30, 2021, was approximately:

Department	Product Offerings	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
		October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Camping	Backpacks, camp essentials, canoes and kayaks, coolers, outdoor cooking equipment, sleeping bags, tents and tools	12.6%	12.6%	13.5%	13.9%
Apparel	Camouflage, jackets, hats, outerwear, sportswear, technical gear and work wear	10.5%	9.1%	8.2%	7.4%
Fishing	Bait, electronics, fishing rods, flotation items, fly fishing, lines, lures, reels, tackle and small boats	6.8%	7.7%	10.2%	11.3%
Footwear	Hiking boots, socks, sport sandals, technical footwear, trail shoes, casual shoes, waders and work boots	7.2%	6.4%	6.7%	6.3%
Hunting and Shooting	Ammunition, archery items, ATV accessories, blinds and tree stands, decoys, firearms, reloading equipment and shooting gear	54.9%	55.4%	55.0%	53.7%
Optics, Electronics, Accessories, and Other	Gift items, GPS devices, knives, lighting, optics, two-way radios, and other license revenue, net of revenue discounts	8.0%	8.8%	6.4%	7.4%
Total		100.0%	100.0%	100.0%	100.0%

(4) Property and Equipment

Property and equipment as of October 29, 2022 and January 29, 2022 were as follows:

	October 29, 2022	January 29, 2022
Furniture, fixtures, and equipment	\$ 128,593	\$ 115,597
Leasehold improvements	156,801	143,064
Construction in progress	19,657	5,007
Total property and equipment, gross	305,051	263,668
Less accumulated depreciation and amortization	(158,020)	(135,364)
Total property and equipment, net	\$ 147,031	\$ 128,304

(5) Accrued Expenses

Accrued expenses consisted of the following as of October 29, 2022 and January 29, 2022:

	October 29, 2022	January 29, 2022
Book overdraft	\$ 11,139	\$ 16,252
Unearned revenue	37,603	42,058
Accrued payroll and related expenses	17,125	26,309
Sales and use tax payable	7,854	8,788
Accrued construction costs	942	416
Other	18,391	15,189
Total accrued expenses	<u>\$ 93,054</u>	<u>\$ 109,012</u>

(6) Leases

At the inception of the lease, the Company's operating leases have remaining certain lease terms of up to 15 years, which typically includes multiple options for the Company to extend the lease which are not reasonably certain.

The Company determines whether a contract is or contains a lease at contract inception. As the rate implicit in the lease is not readily determinable in most of the Company's leases, the Company uses its incremental borrowing rate based on the information available at commencement date to determine the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. The operating lease asset also includes any fixed lease payments made and includes lease incentives and incurred initial direct costs. Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease. Additionally, the Company's leases do not contain any material residual guarantees or material restrictive covenants.

In the 13 and 39 weeks ended October 29, 2022, the Company recorded a non-cash increase of \$22,078 and \$46,050 to the right of use assets and operating lease liabilities resulting from lease remeasurements from the exercise of lease extension options, acquired leases, and new leases added.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In accordance with ASC 842, total lease expense was comprised of the following:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Operating lease expense	\$ 14,729	\$ 14,365	\$ 43,674	\$ 42,067
Variable lease expense	4,635	4,173	13,697	12,730
Short-term lease expense	337	398	921	878
Total lease expense	<u>\$ 19,701</u>	<u>\$ 18,936</u>	<u>\$ 58,292</u>	<u>\$ 55,675</u>

In accordance with ASC 842, other information related to leases was as follows:

	Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021
Operating cash flows from operating leases	\$ (47,402)	\$ (44,094)
	As of October 29, 2022	As of October 30, 2021
Right-of-use assets obtained in exchange for new or remeasured operating lease liabilities	\$ 46,050	\$ 27,979
Terminated right-of-use assets and liabilities	—	—
Weighted-average remaining lease term - operating leases	5.83	5.83
Weighted-average discount rate - operating leases	8.06 %	8.29 %

In accordance with ASC 842, maturities of operating lease liabilities as of October 29, 2022 were as follows:

Year Endings:	Operating Leases
2022 (remainder)	\$ 16,359
2023	66,188
2024	58,391
2025	51,831
2026	46,666
Thereafter	174,520
Undiscounted cash flows	\$ 413,955
Reconciliation of lease liabilities:	
Present values	\$ 304,535
Lease liabilities - current	43,440
Lease liabilities - noncurrent	261,095
Lease liabilities - total	\$ 304,535
Difference between undiscounted and discounted cash flows	\$ 109,420

The Company has excluded in the table above approximately \$41.8 million of leases (undiscounted basis) that were entered into as of December 8, 2022. These leases will commence in 2023 with lease terms of 10 years.

(7) Revolving Line of Credit

On May 27, 2022, Sportsman's Warehouse, Inc. ("SWI"), a wholly owned subsidiary of Holdings, as lead borrower, Holdings and other subsidiaries of the Company, each as borrowers or guarantors, and Wells Fargo Bank, National Association ("Wells Fargo"), with a consortium of banks led by Wells Fargo, entered into an Amended and Restated Credit Agreement (as amended, restated, supplemented or otherwise modified, the "Credit Agreement"). The Credit Agreement governs the Company's senior secured revolving credit facility ("Revolving Line of Credit"). The Revolving Line of Credit provides borrowing capacity of up to \$350,000, subject to a borrowing base calculation.

In conjunction with the Credit Agreement, the Company incurred \$508 of fees paid to various parties which were capitalized. Fees associated with the Revolving Line of Credit were recorded in prepaid expenses and other assets.

As of October 29, 2022 and January 29, 2022, the Company had \$120,181 and \$76,976, in outstanding revolving loans under the Revolving Line of Credit and the Company's previous revolving line of credit, respectively. Amounts outstanding are offset on the condensed consolidated balance sheets by amounts in depository accounts under lock-box type arrangements, which were \$15,117 and \$10,923 as of October 29, 2022 and January 29, 2022, respectively. As of October 29, 2022, the Company had stand-by commercial letters of credit of \$1,967 under the terms of the Revolving Line of Credit.

Borrowings under the Revolving Line of Credit bear interest based on either the base rate or Term SOFR, at the Company's option, in each case plus an applicable margin. The base rate is the greatest of (1) the floor rate (as defined in the credit agreement as a rate of interest equal to 0.0%) (2) Wells Fargo's prime rate, (3) the federal funds rate (as defined in the Amended Credit Agreement) plus 0.50% or (4) the one-month Term SOFR (as defined in the Amended 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 0.50% per year for base rate loans and from 1.35% to 1.60% per year for Term SOFR loans. The Company is required to pay a commitment fee for the unused portion of the revolving credit facility, which will range from 0.20% to 0.225% per annum, depending on the average daily availability under the Revolving Line of Credit.

The Company may be required to make mandatory prepayments under the Revolving Line of Credit 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 contains customary affirmative and negative covenants, including covenants that limit the Company's 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 property and to undergo certain fundamental changes, including certain mergers, liquidations and consolidations. The Credit Agreement also requires the Company to maintain a minimum availability at all times of not less than 10% of the gross borrowing base and contains customary events of default. The Revolving Line of Credit matures on May 27, 2027.

Each of the subsidiaries of Holdings is a borrower under the Revolving Line of Credit, and all obligations under the Revolving Line of Credit are guaranteed by Holdings. All of the obligations under the Revolving Line of Credit are secured by a lien on substantially all of Holdings' tangible and intangible working capital assets and the tangible and intangible working capital assets of all of Holdings' subsidiaries, including a pledge of all capital stock of each of Holdings' subsidiaries. The lien securing the obligations under the Revolving Line of Credit is a first priority lien as to certain liquid assets, including cash, accounts receivable, deposit accounts and inventory.

As of October 29, 2022 and January 29, 2022, the Credit Agreement and the Company's prior credit agreement had \$695 and \$333, respectively, in deferred financing fees. During the 13 and 39 weeks ended October 29, 2022, the Company recognized \$38 and \$146 of non-cash interest expense with respect to the amortization of deferred financing fees. During the 13 and 39 weeks ended October 30, 2021, the Company recognized \$63 and \$188 of non-cash interest expense with respect to the amortization of deferred financing fees.

During the 13 and 39 weeks ended October 29, 2022, gross borrowings under the Revolving Line of Credit and the Company's prior revolving line of credit were \$409,465 and \$1,161,959, respectively. During the 13 and 39 weeks ended October 30, 2021 gross borrowing under the Company's prior revolving line of credit were \$477,879 and \$1,270,059, respectively. During the 13 and 39 weeks ended October 29, 2022, gross paydowns under the Revolving Line of Credit and the Company's prior revolving line of credit were \$396,192 and \$1,121,716, respectively. During the 13 and 39 weeks ended October 30, 2021, gross paydowns under the Company's prior revolving line of credit were \$441,531 and \$1,197,001, respectively.

Restricted Net Assets

The provisions of the Revolving Line of Credit restrict all of the net assets of the Company's consolidated subsidiaries, which constitute all of the net assets on the Company's condensed consolidated balance sheet as of October 29, 2022, from being used to pay any dividends without prior written consent from the financial institutions party to the Revolving Line of Credit.

(8) Income Taxes

The Company recognized income tax expense of \$4,436 and \$7,372, respectively, in the 13 weeks ended October 29, 2022 and October 30, 2021. The Company's effective tax rate during the 13 weeks ended October 29, 2022 and October 30, 2021 was 25.6% and 25.2%, respectively. The Company recognized income tax expense of \$10,012

and \$16,519, respectively, in the 39 weeks ended October 29, 2022 and October 30, 2021. The Company's effective tax rate for the 39 weeks ended October 29, 2022 and October 30, 2021 was 25.3% and 24.8%, respectively. The Company's effective tax rate will generally differ from the U.S. Federal statutory rate of 21.0%, due to state taxes, permanent items, and discrete items relating to stock award deductions.

(9) Stockholders' Equity

Earnings per Share

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares of common stock outstanding, reduced by the number of 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.

The following table sets forth the computation of basic and diluted earnings per common share:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Net income	\$ 12,877	\$ 21,863	\$ 29,489	\$ 50,036
Weighted-average shares of common stock outstanding:				
Basic	38,414	43,878	41,438	43,809
Dilutive effect of common stock equivalents	267	704	234	662
Diluted	38,681	44,582	41,672	44,471
Basic earnings per share	\$ 0.34	\$ 0.50	\$ 0.71	\$ 1.14
Diluted earnings per share	\$ 0.33	\$ 0.49	\$ 0.71	\$ 1.13
Restricted stock units considered anti-dilutive and excluded in the calculation	136	8	171	26

Repurchase Program

On March 24, 2022 the Company announced that its Board of Directors had authorized a share repurchase program (the "Repurchase Program") to allow for the repurchase of up to \$75.0 million of outstanding shares of the Company's common stock, \$0.01 par value per share commencing on March 31, 2022 (the "Commencement Date"). The Repurchase Program will terminate on the first anniversary of the Commencement Date. During the 13 weeks ended October 29, 2022, the Company repurchased approximately 1.2 million shares of its common stock for \$10.4 million, utilizing cash on hand and available borrowings under our revolving credit facility. During the 39 weeks ended October 29, 2022 the Company repurchased approximately 6.5 million shares of its common stock for \$62.4 million, utilizing cash on hand and available borrowings under our revolving credit facility. During the 13 weeks ended October 29, 2022 the Company has retired all repurchased stock.

(10) Stock-Based Compensation

Stock-Based Compensation

During the 13 and 39 weeks ended October 29, 2022 the Company recognized total stock-based compensation expense of \$1,077 and \$3,526. During the 13 and 39 weeks ended October 30, 2021, the Company recognized total stock-based compensation expense of \$194 and \$2,236. Compensation expense related to the Company's stock-based payment awards is recognized in selling, general, and administrative expenses in the condensed consolidated statements of operations.

Employee Stock Plans

As of October 29, 2022, the number of shares available for awards under the 2019 Performance Incentive Plan (the “2019 Plan”) was 1,744. As of October 29, 2022, there were 1,202 unvested stock awards outstanding under the 2019 Plan.

Employee Stock Purchase Plan

The Company also has an Employee Stock Purchase Plan (“ESPP”) that was approved by shareholders in fiscal year 2015, under which 800 shares of common stock were authorized. During the 13 weeks ended October 29, 2022, no shares were issued under the ESPP and, as of October 29, 2022, the number of shares available for issuance was 310.

Nonvested Performance-Based Stock Awards

During the 13 weeks ended October 29, 2022, the Company did not issue any nonvested performance-based stock awards to employees. During the 39 weeks ended October 29, 2022, the Company issued 188 nonvested performance-based stock awards to employees at a weighted average grant date fair value of \$10.88 per share. The nonvested performance-based stock awards issued to employees vest in full on the third anniversary of the grant date. The number of shares issued is contingent on management achieving fiscal year 2022, 2023, and 2024 performance targets for total revenue growth and adjusted EPS. If minimum threshold performance targets are not achieved, no shares will vest. The maximum number of shares subject to the award is 376, and the “target” number of shares subject to the award is 188 as reported below. Following the end of the performance period (fiscal years 2022, 2023, and 2024), the number of shares eligible to vest, based on actual performance, will be fixed and vesting will then be subject to each employee’s continued employment over the remaining service period.

During the 13 weeks ended October 30, 2021, the Company did not issue any nonvested performance-based stock awards.

The following table sets forth the rollforward of outstanding nonvested performance-based stock awards (per share amounts are not in thousands):

	Shares		Weighted average grant-date fair value
Balance at January 29, 2022	487	\$	5.13
Grants	188		10.88
Forfeitures	(169)		7.93
Vested	(168)		3.49
Balance at October 29, 2022	338	\$	7.75

	Shares		Weighted average grant-date fair value
Balance at January 30, 2021	624	\$	5.13
Grants	—		—
Forfeitures	(111)		5.14
Vested	(22)		4.91
Balance at October 30, 2021	491	\$	5.13

Nonvested Stock Unit Awards

During the 13 and 39 weeks ended October 29, 2022, the Company issued 6 and 424 nonvested stock units, respectively, to employees and directors of the Company at an average value of \$10.06 and \$10.81 per share, respectively. The shares issued to employees of the Company vest over a three-year period with one third of the shares vesting on each grant date anniversary. The shares issued to directors of the Company vest over a 12 month period with one twelfth of the shares vesting each month.

During the 13 and 39 weeks ended October 30, 2021, the Company issued 110 and 359 nonvested stock units, respectively, to employees and directors of the Company at an average value of \$17.44 per share, respectively. The shares issued to employees of the Company vest over a three-year period with one third of the shares vesting on each grant date anniversary. The shares issued to directors of the Company vest over a 12 month period with one twelfth of the shares vesting each month.

The following table sets forth the rollforward of outstanding nonvested stock units (per share amounts are not in thousands):

	Shares		Weighted average grant-date fair value
Balance at January 29, 2022	929	\$	11.56
Grants	424		10.81
Forfeitures	(173)		11.12
Vested	(317)		9.40
Balance at October 29, 2022	<u>863</u>	<u>\$</u>	<u>12.07</u>

	Shares		Weighted average grant-date fair value
Balance at January 30, 2021	779	\$	5.19
Grants	359		17.44
Forfeitures	(191)		7.72
Vested	(330)		5.54
Balance at October 30, 2021	<u>617</u>	<u>\$</u>	<u>11.37</u>

(11) Fair Value Measurements

Fair value measurements are reported based upon three categories, with the lowest level of measurement available applied. The levels of fair value measurement are as follows: Level 1 - quoted prices on active markets; Level 2 - observable market inputs other than quoted prices on active markets; Level 3 - unobservable data requiring the Company to develop its own approach that cannot be corroborated by market data.

The following table shows the fair value measurements of the Company on a recurring basis:

Asset	Type	Measurement Level	Fair Value as of	
			October 29, 2022	January 29, 2022
Short-term Investments (1)	Cash and Cash Equivalents (2)	Level 1	\$ —	\$ 55,000

(1) Fair value approximates carrying value because maturities are less than three months.

(2) Cash equivalents are money market funds held by the Company.

(12) Commitments and Contingencies

Legal Matters

The Company is involved in various legal matters generally incidental to its business. After discussion with legal counsel, management is not aware of any matters for which the likelihood of a loss is probable and reasonably estimable and which could have a material impact on its consolidated financial condition, liquidity, or results of operations.

TMS McCarthy, LP, Etc., Pltf. v. Sportsman's Warehouse Southwest, Inc. Etc. Et Al., Dfts.- On June 23, 2020 TMS McCarthy, LP filed a complaint in the Superior Court of CA, County of Santa Clara against Sportsman's Warehouse Southwest, Inc., a wholly owned subsidiary of Sportsman's Warehouse Holdings Inc., claiming the Company wrongfully terminated the lease relating to one of its stores. The Company terminated the lease pursuant to terms of the Lease after local authorities issued shelter in place orders which precluded the Company from operating its business due to COVID-19. The Plaintiff filed a motion for summary adjudication that the Lease did not authorize the Company to terminate the Lease. The court granted the Plaintiff's motion. The court's ruling leaves for trial any remaining defenses and the determination of damages. The Company intends to appeal the court's ruling on the motion for summary adjudication and to continue to vigorously defend the claims.

ITEM 2. 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 “Part I. Item 1A. Risk Factors” in our Fiscal 2021 Form 10-K. Also see “Statement Regarding Forward-Looking Statements” preceding Part I in this 10-Q.

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

Overview

We are an outdoor sporting goods retailer focused on meeting the everyday needs of the seasoned outdoor veteran, the first-time participant and everyone in between. Our mission is to provide outstanding gear and exceptional service to inspire outdoor memories.

Our business was founded in 1986 as a single retail store in Midvale, Utah. Today, we operate 131 stores in 30 states, totaling approximately 4.9 million gross square feet. We list the locations of our stores on our website, www.sportsmans.com. We also operate an e-commerce platform at www.sportsmans.com.

Our stores and our e-commerce platform are aggregated into one operating and reportable segment.

Impact of Macroeconomic Conditions

Our financial results and operations have been, and will continue to be, impacted by events outside of our control.

Since the beginning of the COVID-19 pandemic in mid-March 2020 and continuing into the third quarter of 2022, we experienced a significant increase in sales from pre-pandemic sales. A larger than normal portion of those sales came from certain product categories, particularly firearms and ammunition. While our net sales and same store sales remain elevated as compared to pre-COVID periods, we are experiencing a decrease in net sales and same store sales when compared with COVID-driven peak levels in 2021.

In addition to continued market disruptions caused by the COVID-19 pandemic, global economic and business activities continue to face widespread macroeconomic uncertainties, including labor shortages, inflation and monetary supply shifts, recession risks and potential disruptions from the Russia-Ukraine conflict. During the third quarter of 2022, our business continued to be impacted by consumer inflationary pressures and recession concerns. We continue to actively monitor the impact of these macroeconomic factors on our financial condition, liquidity, operations, suppliers, industry and workforce. The extent of the impact of these factors on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected time frame, will depend on future developments, and the impact on our customers, partners and employees, all of which are uncertain and cannot be predicted; however, any continued or renewed disruption resulting from these factors could negatively impact our business.

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 earnings before interest, taxes, depreciation and amortization (“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 exclude sales from stores that were closed during the period from our same store sales calculation. We include net sales from e-commerce in our calculation of same store sales. For fiscal years consisting of 53 weeks, 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 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:

- macroeconomic factors, such as political trends, social unrest, inflationary pressures and recessionary trends;
- consumer preferences, buying trends and overall economic trends;
- changes or anticipated changes to laws and government regulations related to some of the products we sell, in particular regulations relating to the sale of firearms and ammunition;
- the impact of the COVID-19 pandemic;
- 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.

We operate in a complex regulatory and legal environment that could negatively impact the demand for our products, which could significantly affect our operations and financial results. State, local and federal laws and regulations relating to products that we sell may change, sometimes significantly, as a result of political, economic or social events. For instance, in November 2022 Oregon passed legislation that will, among other things, impose complex permitting and training requirements for the purchases of firearms. As a result, sales of firearms in Oregon may be halted or substantially diminished until such permitting and training programs are developed by the state, which may take a significant amount of time. If that were to occur, it could result in a substantial decline in our sales of firearms and related products and reduce traffic to our stores in Oregon, which could have a substantial impact on our sales and gross margin. On December 6, 2022 a state court judge in Oregon temporarily blocked the enforcement of such legislation. We currently operate eight stores in the State of Oregon.

Opening new stores and acquiring store locations is also an important part of our growth strategy. We plan to open between 13 and 18 stores during fiscal year 2023 and are targeting 190 to 210 open store locations by the end of fiscal year 2025. We may deviate from these targets, including if attractive opportunities are presented to open stores or acquire new store locations outside of our target growth rate.

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 include:

- increasing our total gross square footage by opening new stores and through strategic acquisitions;
- increasing and improving 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;
- growing our loyalty and credit card programs; and
- expanding our omni channel capabilities through larger assortment and inventory, expanded content and expertise and better user experience.

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 apparel and footwear, increasing foot traffic within our stores and traffic to our website, 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 margin. 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. In addition, we have experienced increased payroll expenses due to increased minimum wages and generally increasing salaries and wages due to a competitive labor market and inflation.

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.”

Results of Operations

The following table summarizes key components of our results of operations as a percentage of net sales for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Percentage of net sales:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	66.4	67.7	66.9	67.5
Gross profit	33.6	32.3	33.1	32.5
Selling, general, and administrative expenses	28.4	24.9	29.0	26.3
Income from operations	5.2	7.4	4.1	6.2
Interest expense	0.3	0.1	0.2	0.1
Income before income taxes	4.9	7.3	3.9	6.1
Income tax expense	1.2	1.8	1.0	1.5
Net income	3.7%	5.5%	2.9%	4.6%
Adjusted EBITDA	8.1%	9.8%	7.1%	9.0%

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

Department	Product Offerings	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
		October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Camping	Backpacks, camp essentials, canoes and kayaks, coolers, outdoor cooking equipment, sleeping bags, tents and tools	12.6%	12.6%	13.5%	13.9%
Apparel	Camouflage, jackets, hats, outerwear, sportswear, technical gear and work wear	10.5%	9.1%	8.2%	7.4%
Fishing	Bait, electronics, fishing rods, flotation items, fly fishing, lines, lures, reels, tackle and small boats	6.8%	7.7%	10.2%	11.3%
Footwear	Hiking boots, socks, sport sandals, technical footwear, trail shoes, casual shoes, waders and work boots	7.2%	6.4%	6.7%	6.3%
Hunting and Shooting	Ammunition, archery items, ATV accessories, blinds and tree stands, decoys, firearms, reloading equipment and shooting gear	54.9%	55.4%	55.0%	53.7%
Optics, Electronics, Accessories, and Other	Gift items, GPS devices, knives, lighting, optics, two-way radios, and other license revenue, net of revenue discounts	8.0%	8.8%	6.4%	7.4%
Total		100.0%	100.0%	100.0%	100.0%

Thirteen Weeks Ended October 29, 2022 Compared to Thirteen Weeks Ended October 30, 2021

Net Sales. Net sales decreased by \$41.3 million, or 10.3%, to \$359.7 million during the 13 weeks ended October 29, 2022 compared to \$401.0 million in the corresponding period of fiscal year 2021. Our net sales decreased primarily due to lower demand across most product categories as we continued to see the impact of consumer inflationary pressures and recessionary concerns, partially offset by our opening of 11 new stores since October 30, 2021. Stores that have been open for less than 12 months and were, therefore, not included in our same store sales, contributed \$23.0 million to net sales. Same store sales decreased by 15.0% during the 13 weeks ended October 29, 2022 compared to the comparable 13-week period of fiscal year 2021, primarily driven by a decrease in demand across most product categories due to consumer inflationary pressures and recessionary concerns. Same store sales increased by 19.5% during the 13 weeks ended October 29, 2022 compared to the comparable 13-week period of fiscal year 2019, primarily driven by increased participation in most product categories.

Our apparel and footwear categories saw increases of \$1.4 million and \$0.3 million, respectively, in the third quarter of fiscal year 2022 compared to the comparable 13-week period of fiscal year 2021 due to the opening of 11 new stores since October 30, 2021. Our hunting and shooting, fishing, camping and optics, electronics and accessories categories saw decreases of \$25.0 million, \$6.5 million, \$5.1 million and \$4.7 million, respectively, in the third quarter of fiscal year 2022 compared to the comparable 13-week period of fiscal year 2021. Within the hunting and shooting department, our firearm and ammunition categories saw decreases of \$18.2 million and \$7.8 million or 21.6% and 12.3%, respectively, in the third quarter of fiscal year 2022 compared to the comparable 13-week period of fiscal year 2021. The decreases seen in the firearm and ammunition categories were primarily due to the impact of consumer inflationary pressures and softening of demand within certain types of firearm categories, partially offset by the opening of 11 new stores since October 30, 2021.

With respect to same store sales, during the 13 weeks ended October 29, 2022, our fishing, hunting and shooting, optics, electronics and accessories, camping, footwear and apparel departments saw decreases of 25.3%, 17.0%, 16.1%, 14.0%, 3.8% and 1.2%, respectively, compared to the comparable 13-week period of fiscal year 2021 as we continued to see the impact of consumer inflationary pressures and recessionary concerns. As of October 29, 2022, we had 115 stores included in our same store sales calculation.

Gross Profit. Gross profit decreased to \$120.8 million during the 13 weeks ended October 29, 2022 compared to \$129.6 million for the corresponding period of fiscal year 2021. As a percentage of net sales, gross profit increased to 33.6% during the 13 weeks ended October 29, 2022, compared to 32.3% for the corresponding period of fiscal year 2021 primarily driven by increased product margins, decreased shipping, freight and logistical expenses and favorable product mix.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased by \$2.3 million, or 2.3%, to \$102.3 million during the 13 weeks ended October 29, 2022 from \$100.0 million for the comparable 13-week period of fiscal year 2021. This increase was primarily due to an increase in other selling, general and administrative expenses of \$2.8 million, which was largely driven by a continued return to pre-pandemic levels of marketing and travel activities. We saw increases in depreciation, rent and management recruiting expenses of \$1.2 million, \$0.8 million, and \$0.3 million, respectively, during the 13 weeks ended October 29, 2022 primarily related to the opening of 11 new stores since October 30, 2021 and the recruiting and hiring of key senior managers. These increases were offset by a decrease in acquisition costs of \$1.1 million due to the terminated merger with Great Outdoors Group, a decrease in payroll expense of \$1.3 million primarily due to store operational efficiencies and by pre-opening expenses of \$0.3 million due to the timing of opening new stores. As a percentage of net sales, selling, general, and administrative expenses increased to 28.4% of net sales in the third quarter of fiscal year 2022, compared to 24.9% of net sales in the third quarter of fiscal year 2021, due to the same reasons disclosed for the increase in selling, general, and administrative expenses.

Interest Expense. Interest expense increased by \$0.8 million, or 200.0%, to \$1.2 million during the 13 weeks ended October 29, 2022 from \$0.4 million for the comparable 13-week period of fiscal year 2021. Interest expense

increased primarily as a result of increased borrowings on our revolving credit facility and higher interest rates during the third quarter of fiscal year 2022 compared to the third quarter of fiscal year 2021.

Income Taxes. We recognized income tax expense of \$4.4 million during the 13 weeks ended October 29, 2022 compared to an income tax expense of \$7.4 million during the comparable 13-week period of fiscal year 2021. Our effective tax rates during the 13 weeks ended October 29, 2022 and October 30, 2021 were 25.6% and 25.2%, respectively. Our effective tax rate will generally differ from the U.S. Federal statutory rate of 21.0%, due to state taxes, permanent items, and discrete items relating to stock award deductions.

Thirty-Nine Weeks Ended October 29, 2022 Compared to Thirty-Nine Weeks Ended October 30, 2021

Net Sales. Net sales decreased by \$69.5 million, or 6.4%, to \$1,020.2 million during the 39 weeks ended October 29, 2022 compared to \$1,089.8 million in the corresponding period of fiscal year 2021. Our net sales decreased primarily due to lower demand across most product categories as we anniversaried the increased demand during the first half of fiscal 2021 driven by the COVID-19 economic stimulus package (the American Rescue Plan) and social unrest and the impact of current year consumer inflationary pressures and recessionary concerns. These headwinds were partially offset by our opening of 11 new stores since October 30, 2021. Stores that have been open for less than 12 months and were, therefore, not included in our same store sales, contributed \$68.1 million to net sales. Same store sales decreased by 12.1% for the 39 weeks ended October 29, 2022 compared to the comparable 39-week period of fiscal year 2021, primarily driven by decreased demand in most of our product categories. Same store sales increased by 28.8% during the 39 weeks ended October 29, 2022 compared to the comparable 39-week period of fiscal year 2019, primarily driven by increased participation in most product categories.

Our apparel category saw an increase of \$2.9 million during the 39 weeks ended October 29, 2022 compared to the comparable 39-week period of fiscal year 2021 primarily due to the opening of 11 new stores since October 30, 2021. Our hunting and shooting, fishing, camping, optics, electronics and accessories, and footwear categories saw decreases of \$26.8 million, \$19.6 million, \$13.7 million, \$11.7 million and \$0.6 million, respectively, during the 39 weeks ended October 29, 2022 compared to the comparable 39-week period of fiscal year 2021. Within the hunting and shooting department, our firearm category saw a decrease of \$30.0 million or 12.2%, while our ammunition category saw an increase of \$6.4 million or 3.7% during the 39 weeks ended October 29, 2022 compared to the comparable 39-week period of fiscal year 2021. The decrease seen in the firearm category is primarily due to softening of demand within certain types of firearm categories as we anniversaried the increased demand during the first half of fiscal 2021 driven by the COVID-19 economic stimulus package (the American Rescue Plan) and social unrest and the impact of current year consumer inflationary pressures. These headwinds were partially offset by the opening of 11 new stores since October 30, 2021. The increase in the ammunition category is due to a decrease in supply chain disruptions in this category as well as the opening of 11 new stores since October 30, 2021.

With respect to same store sales, during the 39 weeks ended October 29, 2022, our fishing, optics, electronics and accessories, camping, hunting and shooting, footwear and apparel departments saw decreases of 20.5%, 16.7%, 14.0%, 11.5%, 5.8% and 2.1%, respectively, compared to the comparable 39-week period of fiscal year 2021 primarily due to lower demand across most product categories as we anniversaried the increased demand during the first half of fiscal 2021 driven by the COVID-19 economic stimulus package (the American Rescue Plan) and social unrest and the impact of current year consumer inflationary pressures and recessionary concerns. As of October 29, 2022, we had 115 stores included in our same store sales calculation.

Gross Profit. Gross profit decreased to \$337.5 million during the 39 weeks ended October 29, 2022 compared to \$353.7 million for the corresponding period of fiscal year 2021 primarily due to lower net sales. As a percentage of net sales, gross profit increased to 33.1% for the 39 weeks ended October 29, 2022, compared to 32.5% for the corresponding period of fiscal year 2021 primarily driven by increased product margins across most departments and decreased shipping, freight and logistical expenses.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased by \$9.2 million, or 3.2%, to \$295.4 million during the 39 weeks ended October 29, 2022 from \$286.3 million for the comparable 39-week period of fiscal year 2021. This increase was primarily due to an increase in other selling,

general and administrative expenses of \$9.2 million, which was largely driven by a return to pre-pandemic levels of marketing and travel activities. Depreciation, rent and management recruiting expenses of \$4.2 million, \$2.6 million, and \$1.2 million, respectively, during the 39 weeks ended October 29, 2022 primarily related to the opening of 11 new stores since October 30, 2021 and the recruiting and hiring of key senior managers. These increases were offset by a decrease in acquisition costs of \$6.4 million due to the terminated merger with Great Outdoors Group and a decrease in payroll expense of \$2.2 million primarily due to store operational efficiencies. Preopening expenses decreased by \$0.2 million. As a percentage of net sales, selling, general, and administrative expenses increased to 29.0% of net sales in the first 39 weeks of fiscal year 2022, compared to 26.3% of net sales in the 39 weeks of fiscal year 2021, due to the same reasons disclosed for the increase in selling, general, and administrative expenses.

Interest Expense. Interest expense increased by \$1.6 million, or 177.8%, to \$2.5 million during the 39 weeks ended October 29, 2022 from \$0.9 million for the comparable 39-week period of fiscal year 2021. Interest expense increased primarily as a result of increased borrowings on our revolving credit facility and higher interest rates during the first 39 weeks of fiscal year 2022 compared to the first 39 weeks of fiscal year 2021.

Income Taxes. We recognized income tax expense of \$10.0 million compared to an income tax expense of \$16.5 million during the 39 weeks ended October 29, 2022 and October 30, 2021, respectively. Our effective tax rate for the 39 weeks ended October 29, 2022 and October 30, 2021 was 25.3% and 24.8%, respectively. Our effective tax rate will generally differ from the U.S. Federal statutory rate of 21.0%, due to state taxes, permanent items, and discrete items relating to stock award deductions.

Seasonality

Due to the openings of hunting season across the country and consumers' holiday buying patterns, 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 sales volume and increased staffing in our stores. We anticipate that 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 non-recurring expenses related to opening each new retail store, 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 apparel 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.

Liquidity and Capital Resources

Overview; Sources and Uses of Cash

Our primary cash requirements are for seasonal working capital needs and capital expenditures related to opening and acquiring new store locations. For both the short-term and the long-term, 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. In addition, on December 2, 2021 we received a \$55.0 million cash payment from Great Outdoors Group, LLC ("Great Outdoors Group") in connection with the termination of our previously pending merger with a subsidiary of Great Outdoors Group. 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 and beyond.

Material Cash Requirements

Our material cash requirements are primarily for opening and acquiring new store locations, along with our general operating expenses and other expenses discussed below.

Purchase Obligations. In the ordinary course of business, we enter into arrangements with vendors to purchase merchandise in advance of expected delivery. We or the vendor can generally terminate the purchase orders at any time. These purchase orders do not contain any termination payments or other penalties if cancelled. During fiscal 2021, we used cash to increase our inventory levels after the increased demand during the pandemic reduced our inventory. We have returned to more historical levels of inventory purchases during fiscal 2022.

Operating Lease Obligations. Lease commitments consist principally of leases for our retail stores, corporate office and distribution center. Our leases often include options which allow us to extend the terms beyond the initial lease term. For the remainder of 2022, our expected operating lease payments will be \$16.4 million and our total committed lease payments are \$414.0 million as of October 29, 2022. Other operating lease obligations consist of distribution center equipment. Additional information regarding our operating leases is available in our Fiscal 2021 Form 10-K.

Capital Expenditures. For the 39 weeks ended October 29, 2022, we incurred approximately \$38.5 million in capital expenditures primarily related to the construction of new stores and the refurbishment of existing stores during the period. We expect capital expenditures between \$48 million and \$55 million for fiscal year 2022 primarily to refurbish some of our existing stores and to open 9 new stores in fiscal year 2022. We intend to fund these capital expenditures with our operating cash flows, cash on hand 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.

Principal and Interest Payments. We maintain a \$350.0 million revolving credit facility. As of October 29, 2022, \$120.2 million was outstanding under the revolving credit facility. Assuming no additional repayments or borrowings on our revolving credit facility after October 29, 2022 our interest payments would be approximately \$4.0 million for fiscal year 2022 based on the interest rate at October 29, 2022. See below under “Indebtedness” for additional information regarding our revolving credit facility, including the interest rate applicable to any borrowing under such facility.

Share Repurchase Authorization. Our board authorized a share repurchase program to allow for the repurchase of up to \$75.0 million of outstanding shares of our common stock for the period from March 31, 2022 to March 31, 2023. We may repurchase shares of our common stock at any time or from time to time, without prior notice, subject to market conditions and other considerations. Our repurchases may be made through Rule 10b5-1 plans, accelerated share repurchase transactions, open market purchases, privately negotiated transactions, tender offers, block purchases or other transactions. We intend to fund repurchases under the repurchase program using cash on hand or available borrowings under our revolving credit facility. We have no obligation to repurchase any shares of our common stock under the share repurchase program and we may modify, suspend or discontinue it at any time. As of October 29, 2022, we had repurchased 6,541,358 shares of our common stock for \$62.4 million, utilizing cash on hand and available borrowings under our revolving credit facility.

Cash Flows

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

	Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021
	(in thousands)	
Cash flows provided by (used in) operating activities	\$ 14,509	\$ (78,343)
Cash flows used in investing activities	(38,477)	(38,463)
Cash (used in) provided by financing activities	(30,490)	53,813
Cash at end of period	2,560	2,532

Net cash provided by operating activities was \$14.5 million for the 39 weeks ended October 29, 2022, compared to cash used in operating activities of \$78.3 million for the corresponding period of fiscal year 2021, a change of approximately \$92.8 million. The increase in our cash flows from operating activities was primarily the result of a normalization of our inventory levels in fiscal year 2022 compared to a focus on building up inventory during the first 39 weeks of fiscal year 2021.

Net cash used in investing activities was \$38.5 million for the 39 weeks ended October 29, 2022 compared to \$38.5 million for the corresponding period of fiscal year 2021. For the 39 weeks ended October 29, 2022, we incurred capital expenditures related to the construction of new stores and the refurbishment of existing stores.

Net cash used in financing activities was \$30.5 million for the 39 weeks ended October 29, 2022, compared to net cash provided in financing activities of \$53.8 million for the corresponding period of fiscal year 2021, a change of approximately \$84.3 million. The increase in cash used in financing activities was primarily the result of our use of \$62.4 million to repurchase our common stock.

Indebtedness

As of October 29, 2022, we maintained a \$350.0 million revolving credit facility, with \$120.2 million outstanding. Borrowings under our revolving credit facility are subject to a borrowing base calculation. Our revolving credit facility is governed by an amended and restated credit agreement with a consortium of banks led by Wells Fargo Bank, National Association. As of October 29, 2022, we had \$192.9 million available for borrowing, subject to certain borrowing base restrictions, and \$2.0 million in stand-by commercial letters of credit.

Borrowings under the revolving credit facility bear interest based on either the base rate or Term SOFR, at our option, in each case plus an applicable margin. The base rate is the greatest of (1) the floor rate (as defined in the credit agreement as a rate of interest equal to 0.0%) (2) Wells Fargo's prime rate, (3) the federal funds rate (as defined in the credit agreement) plus 0.50% or (4) the one-month Term SOFR (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 0.50% per year for base rate loans and from 1.35% to 1.60% per year for Term SOFR loans. We are required to pay a commitment fee for the unused portion of the revolving credit facility, which will range from 0.20% to 0.225% per annum, depending on the average daily availability under the revolving credit facility.

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 the obligations under the revolving credit facility are secured by a lien on substantially all of Holdings' tangible and intangible working capital assets and the tangible and intangible working capital assets of all of Holdings' subsidiaries, including a pledge of all capital stock of each of Holdings' 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.

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.

Our revolving credit facility requires us to maintain a minimum availability at all times of not less than 10% of the gross borrowing base. In addition, the credit agreement governing our revolving credit facility 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 property and to undergo certain fundamental changes, including certain mergers, liquidations and consolidations. The credit agreement also contains customary events of default. As of October 29, 2022, we were in compliance with all covenants under the credit agreement governing our revolving credit facility.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“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 condensed 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.

There have been no significant changes to our critical accounting policies as described in our Fiscal 2021 Form 10-K.

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 condensed consolidated statement of operations 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.

The following table presents a reconciliation of net income, the most directly comparable financial measure presented in accordance with GAAP, to Adjusted EBITDA during the 13 and 39 weeks ended October 29, 2022 and October 30, 2021.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
	(dollars in thousands)			
Net income (loss)	\$ 12,877	\$ 21,863	\$ 29,489	\$ 50,036
Interest expense	1,187	413	2,521	905
Income tax expense (benefit)	4,436	7,372	10,012	16,519
Depreciation and amortization	7,839	6,665	23,012	18,801
Stock-based compensation expense (1)	1,077	194	3,526	2,237
Pre-opening expenses (2)	1,432	1,712	2,936	3,090
Acquisition costs (3)	—	1,113	—	6,419
Executive transition costs (4)	289	—	1,214	—
Adjusted EBITDA	\$ 29,137	\$ 39,332	\$ 72,710	\$ 98,007
Net sales	\$ 359,720	\$ 401,014	\$ 1,020,246	\$ 1,089,784
Net income margin	3.7%	5.5%	2.9%	4.6%
Adjusted EBITDA margin (5)	8.1%	9.8%	7.1%	9.0%

- (1) Stock-based compensation expense represents non-cash expenses related to equity instruments granted to employees under our 2019 Performance Incentive Plan and Employee Stock Purchase Plan.
- (2) 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.
- (3) The 13 and 39 weeks ended October 30, 2021, included \$1.1 and \$6.4 million of expenses incurred relating to the terminated merger with Great Outdoors Group.
- (4) Expenses incurred relating to the recruitment and hiring of various key members of our senior management team. These events are not expected to be recurring.
- (5) We calculate net income margin as net income divided by net sales and we define Adjusted EBITDA margin as Adjusted EBITDA divided by net sales.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk relates to changes in interest rates. Our revolving credit facility and term loan carry floating interest rates that are tied to SOFR, the federal funds rate and the prime rate, and, therefore, our income and cash flows will be exposed to changes in interest rates to the extent that we do not have effective hedging arrangements in place. We historically have not used interest rate swap agreements to hedge the variable cash flows associated with the interest on our credit facilities. Based on a sensitivity analysis at October 29, 2022, assuming the amount outstanding under our revolving credit facility would be outstanding for a full year, a 100 basis point increase in interest rates would have increased our interest expense by \$1.2 million. We do not use derivative financial instruments for speculative or trading purposes. However, this does not preclude our adoption of specific hedging strategies in the future.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosures. Our management has evaluated, under the supervision and with the participation of

our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of October 29, 2022.

Inherent Limitations in Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures, or our internal controls, will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake or fraud. Additionally, controls can be circumvented by individuals or groups of persons or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements in our public reports due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the 13 weeks ended October 29, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 12, "Commitments and Contingencies" to our condensed consolidated financial statements for additional information, which is incorporated herein by reference.

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. Other than as stated below, there have been no material changes in our risk factors from those set forth in our Fiscal 2021 Form 10-K.

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. State, local and federal laws and regulations relating to products that we sell may change, sometimes significantly, as a result of political, economic or social events. For instance, in November 2022 Oregon passed legislation that will, among other things, impose complex permitting and training requirements on the purchases of firearms. As a result, sales of firearms in Oregon may be halted or substantially diminished until such permitting and training programs are developed by the state, which may take a significant amount of time. If that were to occur, it could result in a substantial decline in our sales of firearms and related products and reduce traffic to our stores in Oregon, which could have a substantial impact on our sales and gross margin. On December 6, 2022, a state court judge in Oregon temporarily blocked the enforcement of such legislation. We currently operate eight stores in the State of Oregon. In addition, Washington passed legislation that, among other things, raises the minimum age to purchase certain firearms to 21 from 18 and imposes a five to 10 day waiting period on gun purchases. Similarly, Florida has raised the minimum age for firearms purchases to 21 with some exceptions. 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 states, such as Colorado, Connecticut, Florida, Maryland, Minnesota, 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 has 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth certain information relating to the purchases of our common stock by us and any affiliated purchasers within the meaning of Rule 10b-18(a)(3) under the Exchange Act during the 13 weeks ended October 29, 2022 (dollars in thousands, except share and per share data):

Period	Total # of Shares Purchased	Average Price Paid per Share	Total # of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar Value of Shares that May yet Be Purchased Under the Program
July 31, 2022 to August 29, 2022	—	N/A	—	\$ 22,942
August 30, 2022 to September 28, 2022	926,360	\$ 8.69	926,360	\$ 14,891
September 29, 2022 to October 29, 2022	266,998	\$ 8.62	266,998	\$ 12,589
Total	<u>1,193,358</u>	<u>\$ 8.67</u>	<u>1,193,358</u>	<u>\$ 12,589</u>

On March 24, 2022 the Company announced that its Board of Directors authorized a share repurchase program (the “Repurchase Program”) to allow for the repurchase of up to \$75.0 million outstanding shares of the Company’s common stock, \$0.01 par value per share commencing on March 31, 2022 (the “Commencement Date”). The Repurchase Program will terminate on the first anniversary of the Commencement Date. During the 13 weeks ended October 29, 2022 the Company repurchased a total of 1,193,358 shares of its common stock for \$10.4 million, utilizing cash on hand and the Revolving Line of Credit.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith

+ Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

Date: December 8, 2022

By: _____ /s/ Jon Barker
Jon Barker
President and Chief Executive Officer
(Principal Executive Officer)

Date: December 8, 2022

By: _____ /s/ Jeff White
Jeff White
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification of Chief Executive Officer pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jon Barker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sportsman's Warehouse Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2022

/s/ Jon Barker

Jon Barker

President and Chief Executive Officer

**Certification of Chief Financial Officer pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jeff White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sportsman's Warehouse Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2022

/s/ Jeff White

Jeff White

Chief Financial Officer and Secretary

**Certification pursuant to 18 U.S.C. Section 1350,
as Adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Sportsman's Warehouse Holdings, Inc. (the "Registrant") for the fiscal quarter ended October 29, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jon Barker, as President and Chief Executive Officer of the Registrant, and Jeff White, the Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: December 8, 2022

/s/ Jon Barker

Jon Barker
President and Chief Executive Officer

Date: December 8, 2022

/s/ Jeff White

Jeff White
Chief Financial Officer and Secretary

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.
