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Q2 2019 Sportsmans Warehouse Holdings Inc Earnings Call

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PRESENTATION

Operator

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

I would now like to turn the conference over to your host, Rachel Schacter of ICR. Thank you. You may begin.

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

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

Before we get started, I would like to remind you of the company's safe harbor language. The statements we make today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which includes statements regarding our expectations about our future results of operations, demand for our products and growth of our industry. Actual future results may differ materially from those suggested in such statements due to a number of risks and uncertainties, including those described under the caption Risk Factors in the company's 10-K for the year ended February 3, 2018, and the company's other filings made with the SEC.

We will also disclose non-GAAP financial measures during today's call. Definitions of such non-GAAP measures as well as reconciliations to the most directly comparable GAAP financial measures are provided as supplemental financial information in our press release, also available on the Investor Relations section of our website at investors.sporstmanswarehouse.com.

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

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

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

We are pleased with our second quarter performance as our top line results were in line with expectation and bottom line results came in $0.01 above our outlook. For the quarter, total sales grew 6.2% to $203.3 million versus the second quarter of fiscal year 2017. Our top line growth was driven by strong new store performance and a slight comparable sales increase of 0.2%.

Drilling down further on the composition of comparable sales for the second quarter. Firearm units across the company were up 8.3%, better than the adjusted NICS decline of 7.2% for the quarter in the states in which we serve. Our continued outperformance of the industry and market share gains are attributed to our continued investments in assortment expansion, online capabilities and expertise for varying subcategories and all user types as we continue to capitalize on market share opportunities. These market share gains were more evident in Q2 after the pull-forward in Q1 dissipated.

Ammunition sales increased 0.6% in the second quarter compared to first quarter's 9.3% increase. This sequential deceleration is a reflection of a more normalized demand. Our non-hunting categories were relatively flat for the quarter.

Our earnings per share beat was primarily driven by our better-than-expected gross margins. Gross margins were down 20 basis points year-over-year in Q2, less than we had anticipated, primarily from a favorable sales mix to forecast. Kevan will discuss the Q2 financial performance in greater detail in a moment.

Now I'd like to spend a few moments highlighting the progress we made in the second quarter against our key strategic priorities for 2018. These priorities are: our comprehensive omni-channel growth strategy both in-store and online; customer acquisition and engagement; and our merchandising assortment.

Beginning with our omni-channel strategy. Looking at brick and mortar, we opened 2 new stores in the second quarter as planned in Anderson, South Carolina and Coon Rapids, Minnesota for a total of 91 stores at the end of the quarter. Subsequent to our quarter-end, we opened our 11th California location in Milpitas, which completed our 5-store growth plan or 3.9% square footage growth for 2018. As we look forward to fiscal year 2019, we will continue to maintain our strategy of moderated store growth and disciplined investment in our e-commerce capabilities. And we will continue to prioritize allocating free cash flow towards our debt paydown as we progress towards our long-term target leverage ratio of 2.0x.

On the e-commerce side, we accelerated our progress in creating an easier-to-use and content-rich site for our customers that brings to life our differentiated shopping experience online. Other digital initiatives that we continue to see a positive customer response from are our buy online, pick up in-store as well as real-time in-store inventory visibility for firearms. In the second quarter, we further expanded our assortment available online through our vendor dropship program and our -- and we are encouraged by the results of this program.

Looking at the customer acquisition and engagement. Our loyalty program members grew more than 25% versus Q2 of 2017. Our loyalty program, which comprise approximately 48% of our revenue, provides us with numerous opportunities to engage with our customers across multiple channels. Our targeted and personalized marketing strategy aimed at now over 1.7 million members are proving effective.

And in the second quarter, we had our most comprehensive in-store loyalty customer event yet. The event included exclusive access to our stores, complemented by special pricing on specific categories. And we are excited with the customer response to this event. We will continue to refine targeted loyalty member marketing strategy through personalized engagement, supported by innovative technologies that are being developed as part of our new e-commerce platform.

Turning to merchandising. We continue to make improvements in our merchandise offering both in-store and online by leveraging our strong vendor relationships. In Q2, we continued the rollout of our store-within-a-store concept shops with a key tactical clothing brand, which is now in 22 of our stores. Since launching this format, we've seen more than twice the growth for the sales of this brand in the stores utilizing the concept shop versus our stores utilizing the traditional merchandising presentation for this brand. The enhanced product offering and presentation creates a more appealing shopping experience for the customer. Based on the initial success, we are expanding this assortment to highlight women's tactical apparel in 13 stores over the coming months. Also in Q2, we secured exclusive rights to offer Under Armour's Ridge Reaper line for 2018, which is the pinnacle of their hunting clothing offering and is a testament to our strong vendor relationships.

Our customers continue to be very receptive to our expanded private label offering as we focus on filling in the gaps within our good, better, best branded product offering and providing greater value. In the second quarter, we saw success from the expression of the Killik brand into outdoor-focused casual clothing and expanded the offering of Lost Creek private label to the extreme cooler category. The sales of this line of private label extreme coolers exceeded our initial forecasts and is proof that a quality product in a niche price point resonates with our customers. During Q3, we will be launching our first workwear private label offering in key markets, given the void we see within this area.

So in summary, we are pleased with our second quarter performance and traction we are seeing from our key growth initiatives as we focus on further strengthening our competitive position. Based on the results to date, we are narrowing the range of our previously provided full year guidance.

Before turning the call over to Kevan, I want to thank our hardworking team members, who contributed to a strong first half of fiscal 2018. We look forward to building on this progress in the second half of the year.

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

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

Thanks, Jon. Good morning, everyone. I'll begin my remarks with a review of our second quarter results and then discuss our outlook for the remainder of fiscal year 2018. My comments today will focus on adjusted results. We have provided these results as well as an explanation of each line item and reconciliation to GAAP net income and earnings per share in our earnings press release, which was issued earlier today.

Before I review our results, as a reminder, due to the 53rd week in fiscal year 2017, all references to same-store sales for fiscal year 2018 are compared to the shifted period for the comparable period for fiscal year 2017. For the second fiscal quarter, same-store sales for the period ended August 4, 2018, are compared to that same number of weeks for the period ended August 5, 2017, which is the comparable period.

Turning to our results. Net sales for the second quarter of fiscal year 2018 increased 6.2% to $203.3 million from $191.5 million in the second quarter of last year. Sales were in line with our expectations. And same-store sales, which includes e-commerce, increased 0.2% from the prior year quarter, primarily driven by our hunting department.

We opened 2 stores during the second quarter and ended the period with 91 stores in 23 states for a square footage growth of 6.5% from the end of the second quarter of fiscal year 2017. As Jon mentioned, subsequent to quarter-end, we opened our fifth store this year in Milpitas, California, which marks our 11th location in the state of California.

The competitive headwinds were 130 basis points in the second quarter, similar to the first quarter headwind with only 2 stores of our 83 comparable store base impacted by competition. We were pleased with the broad-based comparable store performance across geographies, including our stores in oil and gas markets, which provided a 40 basis points comp tailwind in the second quarter.

Gross profit increased 5.3% to $72.3 million compared to $68.6 million in the second quarter of fiscal year 2017. During the second quarter of fiscal year 2018, gross profit as a percentage of net sales decreased 20 basis points to 35.6% from 35.8% in the prior year period. The decrease was primarily due to a sales mix shift toward lower-margin firearms and ammunition, which continue to be our strongest-performing categories.

SG&A increased 8.7% to $59.1 million for the second quarter of fiscal year 2018 from $54.4 million in the second quarter of fiscal year 2017. As a percentage of net sales, SG&A expenses in the quarter increased approximately 70 basis points to 29.1% from 28.4% in the prior year period with the expected deleverage driven primarily by the opening of our new stores, the expected impact of increased minimum wages across most of our stores and our planned e-commerce investment.

Income from operations for the quarter was $13.2 million compared to $14.2 million in the second quarter of fiscal year 2017. Our net interest expense in the second quarter of fiscal year 2018 was $4.3 million compared to $3.4 million in the prior year period with the increase due to the write-off of $1.6 million in discount and deferred financing fees associated with the refinancing of our old term loan in May. Excluding this write-off, our interest expense was $2.7 million as we have begun to realize the interest expense reduction as a result of our new debt structure.

We recorded an income tax expense of $2.3 million for the 13 weeks ended August 4, 2018, compared to $4.2 million in the corresponding period of fiscal year 2017. Net income of $6.6 million or $0.15 per diluted share was flat with the prior year based on diluted weighted average share count of 42.9 million shares this year and 42.6 million shares last year.

Adjusted net income, which excludes the $1.6 million write-off of the deferred financing fees related to our old term loan, was $7.8 million or $0.18 per share in the second quarter of 2018 compared to $6.5 million or $0.15 per share in the second quarter of last year. Adjusted EBITDA for the second quarter decreased to $19 million compared to $20.4 million in the prior year period.

Turning to our balance sheet. As of August 4, 2018, ending inventory was $329.1 million as compared to $302.2 million as of the end of the second quarter of last year. On a per-store basis, inventory was down 0.7% as of the end of the second quarter compared to the end of the second quarter of the prior year. We incurred approximately $6.1 million in capital expenditures during the second quarter.

Turning now to our outlook. We are narrowing the range of our previously provided fiscal year 2018 outlook. Our outlook for the third quarter is as follows: revenue in the range of $220 million to $228 million; a same-store sales change in the range of flat to down 3% compared to the third quarter of fiscal year 2017 as adjusted for the 1-week shift; adjusted diluted earnings per share of $0.24 to $0.27 on a weighted average of approximately 43 million estimated common shares outstanding.

Embedded in our third quarter guidance is the following: gross margin headwinds of 50 basis points to 90 basis points, primarily driven by the expected reversal of the sales mix benefit from Q3 of last year as well as an expected modest product margin headwind; SG&A deleverage, given our planned e-commerce investment and wage pressures due to the previously discussed minimum wage headwinds, combined with increased competitive wage pressures we are now seeing, particularly in our distribution center.

For fiscal year 2018, we now expect revenue of $841 million to $857 million and a same-store sales change in the range of down 1% to positive 2% compared to fiscal year 2017 as adjusted for the 1-week shift. We continue to expect approximately $11.5 million in interest expense for 2018 when adjusted for the $1.6 million write-off. We anticipate adjusted earnings per diluted share of $0.57 to $0.63 on a weighted average of approximately 43 million estimated common shares outstanding. As mentioned, we have completed our 5 total store openings for the year, representing approximately 3.9% square footage growth in fiscal year 2018. Continuing to pay down debt and reduce our leverage remains a priority in 2018.

As it relates to capital expenditures, we expect to incur approximately $17 million to $20 million in total capital expenditures in fiscal year 2018 or net capital expenditures of $12 million to $14 million, inclusive of approximately $5 million to $6 million in deemed sale leaseback transactions and landlord incentives that we expect to receive for the year. Approximately $600,000 of our CapEx for fiscal year 2018 is attributed to our e-commerce investment.

With that, I will now turn the call over to the operator to open the call up to questions.

QUESTIONS AND ANSWERS

Operator

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

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

My first question, maybe, Jon, on replatforming the e-commerce site, just help us understand kind of the progress you're having there. I think it's early '19 is the timing in terms of having that now up and running. Just remind us if that's the right timeline. And then what are some of the most notable changes that we should expect to see when that platform is up?

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

Thanks, Peter. There's really 3 primary components of the new platform that we'll launch over the next 15 to 18 months. Step one is the customers' shopping experience. That's the initial change-out of the site, online search, product page, results list and checkout. That launch is early in calendar '19. And we are still on track to make that happen. As a matter of fact, we're comfortably on track to make that happen. So I don't expect that to change. The second component, which is kind of a mid-2019 launch, will be leveraging the store inventory, really taking advantage of the 92 locations and all of the inventory to show that near real time to the consumers, allow them to pick up that near real time in the stores and allow us to start testing shipping from those stores to maximize time in transit and reduced shipping costs. So that's the second component. The third component, which is a little less technical and a little bit more creative, is on the content side. You've probably been in our stores. And one of the things that makes us unique in the market is the amount of expertise we have, not only in product but in the local activities surrounding our stores, such as the fishing reports. Some of our stores have up to 30 fishery reports that are updated weekly inside of the store. So the third component of the platform will be to bring that type of content forward on the site so that when somebody is looking to fish the Lower Provo or whatever the example is, depending on the market, they will be able to access that information, not only in the store but actually bring it up on their mobile device the morning they're headed out to fish or camp or hunt. So we're excited about that piece of the project. But that's the third component that will launch -- start launching late 2019.

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

That's super helpful. And then in terms of the investment behind this, so I guess the spend, how should we be thinking about that? I think Kevan may have mentioned something on CapEx. But just how we think about the spend this year and then next year.

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

Peter, we've said that our investment expected this year is going to be about $3.5 million. Of that investment, approximately $600,000, as I mentioned, was related to the CapEx. Everything, as Jon mentioned, is on track there with respect to that investment. So we're pleased thus far. We would expect a similar investment for 2019. We haven't given a specific number with respect to our 2019 investment yet. We will do so when we provide our guidance for 2019. But I would expect that it would be very similar to the investment that we've made in 2018.

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

Yes, I think, Peter, the way to think about that is we will continue to invest in team. A big part of the operating expense increases the team to install, manage and optimize of the platform. It will also be next year, a little bit more on the marketing side. We have not spent very much, if at all, comparable to our competition on digital marketing. And we will start easing forward and testing some of those channels in 2019.

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

Okay, great, makes sense. And just one other question, just around the loyalty program, good to see that continuing to grow. Can you remind us how often your average customer shops at Sportsman's and maybe how that's different for a loyalty member? And then anything around the spend profile, either per trip or on an annualized basis? Just trying to better understand that.

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

Absolutely. Our metrics show that our loyalty customers shop about 3 times a quarter. And as we've tracked this historically, the average ticket from that customer is almost twice as much as the non-loyal customer. So from a frequency perspective, they are in more frequently and they spend more. So obviously, our ability to market to them in an effective manner is key to the success of this program. And we have done a lot to increase our marketing to them. Part of the new platform is going to be a more targeted approach to being able to market to their preferences and their shopping habits and those things that we hope will increase that frequency and increase the average ticket as well.

Operator

Our next question is from Seth Sigman with Crédit Suisse.

Kieran McGrath ***Crédit Suisse AG, Research Division - Research Analyst***

This is Kieran McGrath on for Seth. Two questions for me. Firstly, can you give us an update on how the demand is shaping up for firearms? And what are you seeing on the competitive front since somebody has obviously left that category?

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

As you talk about the firearms, I think Jon referenced the fact that overall, the NICS -- the adjusted NICS data is down. But yes, our results are up. So we are picking up market share as we continue to focus on doing what we do correct. And obviously, our competitors have made certain decisions that are impacting that. But our customers have realized that we continue to do very well as far as sell firearms and move forward. And I think that's a testament to one of our strengths.

Kieran McGrath ***Crédit Suisse AG, Research Division - Research Analyst***

Okay. And then just follow-up, I mean, gross margin this quarter was pretty good, especially the mix headwinds you faced. I'm just curious, what offsets did you find to help offset that mix headwind?

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

There were some vendor incentives that were very helpful for us from that aspect. We actually had anticipated a little bit more of a mix headwind than what we realized. We did see a mix headwind, but it was a lot less than what we had originally anticipated in our guidance, which was very good for us. We were very pleased with how our gross margin finished for the quarter.

Operator

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

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

Just on the fires in California, can you maybe highlight maybe the impact you're seeing there? And maybe how camping is trending in those categories or how you expect it to trend in 3Q, just given what's going on?

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

Michael, great question. I think the drought, and fire as being part of the drought, that we've seen across the last -- over the last 2 months have impacted ammunition. The example being that as it's gotten drier and drier, your opportunity to shoot in the mountains here, while it's open in certain places, it's also closed in several places. In the South, we've seen actual large sections of open public land be closed. And I think the average shooter is actually shooting less in the mountains because of the drought and the risk of creating a fire. Specific to California, many of those areas for both camping and outdoor activities are closed. And we have certainly seen that impact in our Northern California stores. We are very close to the Carr Fire with Redding, so we've got a good pulse on how that's impacting the community and the retail. And we expect that to have an influence through Labor Day. Folks are not planning their Labor Day camping in certain parts of California because of that. So we've tried to build that in as we think about Q3's forecast specific to that department.

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

Got it, that's helpful. And then on the 5.11 shops you had in the quarter, I appreciate the color there. How do you see the capacity take on additional shop-in-shops in the future? Is that a possibility as well?

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

It is. It depends on the format of the store and the location. Some of our -- again, we spread across Fairbanks to Wilmington, North Carolina. So in those geographies, the tactical clothing is certainly a greater opportunity. In some of our stores, there's more space. Again, you're very familiar some of the smaller format stores, a little more difficult to do that shop-inside-a-shop concept. So we think there are more opportunities now that we've got some data to prove the success. Today, I don't have the exact number on how we're thinking about the next 6 months on the overall concept.

Operator

Our next question is from Daniel Hofkin with William Blair.

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

Just hoping for maybe a little more color. I may have missed it, but I think you talked about firearms units. So I think that was in total, not comps. But it sounded like kind of obviously of non-firearms are flattish, but therefore -- so are firearms and ammo collectively on a comp basis in dollars. Is that correct? And also can you give a little more color on other categories if you didn't already?

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

Yes, Dan. The firearms revenue on a same-store sales basis were up 3.6%. Our ammunition revenue was up 0.6%. Our hunting department in total, which includes the firearms and ammunition in total, was up 0.5%. So the accessories and other things, obviously you can do the math there. They were flattish as well and brought down the category slightly. So that's our overall hunting department.

Everything else was down 0.1%. We saw good results out of our footwear and our fishing department. Our optics, electronics and accessories was relatively flat. And as Jon alluded to, camping struggled little bit because of the drought conditions and the fires during this quarter.

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

Okay. And then in terms of your expectations, obviously looking for, at the midpoint, a little bit lower comp in the third quarter and then improvement in the fourth quarter on a 1- and particularly 2-year basis, just curious what you're seeing that's informing the third quarter view initially. And then is there, aside from comparisons -- and maybe you're looking back -- you're including maybe 2016 also. But what in this environment mix you feel better about the comp for the fourth quarter?

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

Well, there's some different factors there as we obviously have looked at historical numbers as well. We look at this on a store-by-store basis. As we alluded to the fact that we have 130 basis points of competitive headwinds, those 2 competitive headwind stores anniversary in September. So the fourth quarter, those -- that 130 basis points should decrease significantly. Obviously, we're going up against some promotional activity in the fourth quarter of last year. We've seen a decrease in the promotional activity from both the independent mom-and-pop dealers as well as to the national players. The promotional activity is declining. And so that gives us confidence as we head into the fourth quarter as well.

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

Okay. And how recently would you say that, on that segment, like how recently would you say you saw that start to happen?

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

We saw the promotional activity decline really in the start of the second quarter. There's really not a lot of promotional activities in the first quarter, not a lot of data points to measure. We started, as we get into Memorial Day, Father's Day, the key marketing events for our industry, that's when we started to see the decrease in the promotions that was really heightened through the fourth quarter of last year.

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

I think the primarily major competitor that we have has gone through the merger or the acquisition over the last 8 months. What we're starting to see is significant increase in brand-building marketing activities but a decrease in actual product promotion. So the next quarter, it'll be interesting how that all plays out.

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

Have you been able to measure any effect so far, maybe it's too early, but from some of those marketing initiatives?

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

No, it's been really broad-based top of the funnel, national TV, which is again very -- a very expensive manner in which to build a brand and what they're undertaking. That's early to see if that's having an impact.

Operator

Our next question is from Peter Keith with Piper Jaffray.

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

I was hoping on the nonhunting business, which was relatively flat, assuming the fires are having an impact but probably to a small percentage of the stores, why that, that area is where would still be running flat at this point? Particularly, because you would think there's pretty good traffic with that very healthy firearm unit growth.

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

If you take Northern California as an example, back to the California fires, Yosemite National Park, one of the major destinations for Northern California, was shut down to all camping for a extended period of time. It's reopened now, but people are still hesitant to get out and go. So it's just one example. But I think it's pretty indicative of the thought process of people wanting to get out in the outdoors when there's these significant fires that are burning and risks of fires.

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

We not only experienced a limitation or elimination of camping -- camp fires in regions. But we actually, in New Mexico and Arizona, saw entire sections of public land shut down to all activity because of the drought. So there was no camping happening in a large section of public land in the Southwest, which definitely was a contributing factor to camping.

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

Is there any way at this point to maybe frame up what that headwind has been on your business in recent months?

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

Our camping department for the quarter was down 2.5% on a same-store sales basis. So I think that's the indicative -- the measurement there.

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

Okay, very good. Secondly, just moving over to margin, a two-part question on the product margin. Kevan, you had indicated that Q3 would have some slight product margin headwind, if you could just expand on that. And then secondly, how was the growth of private label turning right now such that could we expect that to begin to have some decent margin uplift benefits?

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

Absolutely. So the product margin headwind that I referenced, we have seen some headwinds in our soft goods categories, both our clothing and our footwear department, here over the first half of the year. As we talked with our merchants and the stores, we expect that headwind to continue. And so we've factored that into our guidance. And that's what we're -- it's slight, but it is having an impact there and enough that we felt that we would call it out.

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

On the private label side, Peter, we did see -- we've continued to see a nice increase in private label as a percent of sales. I think we picked up about 20 basis points over prior quarters, around about 3.8% of sales now running through private label. We do see other opportunities to grow that. As you can imagine, the gross margins, even when you throw the freight, inbound, import, all of it in are still significantly better than some of the other or significant better than our branded product. So we will continue to find opportunities. I don't -- strategically, our intent is not to replace the core brands or the key brands we have but to fill in one of the good, better, best strategy, where there might be gaps such as we referenced with the extreme cooler line.

Operator

Our next question is from Ronald Bookbinder with IFS Securities.

Ronald Cunningham Bookbinder ***IFS Securities, Inc., Research Division - Analyst***

On the gross margin, you mentioned that there were vendor incentives that helped benefit the gross margin. Could you tell us what sort of general categories those vendor benefits were from?

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

It was across all of our vendors. I don't know they're specific to firearms or ammunition. Nothing was brought to my attention, which leads me to believe that it is across all categories of vendors.

Ronald Cunningham Bookbinder ***IFS Securities, Inc., Research Division - Analyst***

Okay. And continuing on the private label, I guess, the rotomolded extreme coolers did very well and which had a very competitive price point. But now that you have that rotomolded relationship, couldn't you expand private label in hard goods to canoes, kayaks, paddleboards that are specifically designed for the sportsman?

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

Ron, this is Jon. I believe -- let me make sure I say this the right way. There are many, many paddle sports vendors that will work with us. And the type of activity you're referring to, they exist. So we're working on that but maybe not as directly as a private label, meaning that there's assortment expansion. For instance, at Outdoor Retailer a couple of months ago, some fantastic fishing kayaks that are now pedal that have come out of a price point that, I think, are going to be a great fit for our consumer in the future. So that's not the highest priority for us right now, to create our own private label paddle sports. But we are working with many paddle sports vendors to bring expanded assortments to the business. But I think the next category is the workwear. We've got a line of workwear coming out this quarter. We'll be testing in certain markets. And we're excited about where that could lead us in the future.

Ronald Cunningham Bookbinder *IFS Securities, Inc., Research Division - Analyst*

Okay. And lastly, you mentioned that the new store performance was very strong. What made the difference on these new stores?

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

It's just -- we've been very pleased with how they've rolled out. We're trying some new things from a marketing perspective as far as at our grand openings that, I think, the consumers are receiving very well. We are trying to do a better job of localizing the products prior to going into a market. We still have some work to do there. But I think we're seeing improvements there on the product categories and product selection for those markets as well.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the call back over to management for closing remarks.

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

Thank you. I want to thank everyone again today for joining us this morning, allowing us to update you on our Q2 performance and provide guidance for the future quarter and end of year. We appreciate all your support. And on behalf of the employees of Sportsman's Warehouse, we look forward to continued success in Q3 and beyond. Thank you.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.