

Boot Barn

F3Q recap: Waiting for an inflection

Reiterate Rating: BUY | PO: 85.00 USD | Price: 71.74 USD

EPS and comps in-line with preliminary results

Boot Barn (BOOT) reported F3Q EPS of \$1.81 on (9.7)% comps, roughly in line with the preliminary results announced at ICR. Net sales increased 1.1% to \$520.4mn driven by the incremental sales from new stores, partially offset by the decrease in comps. Store comps were (8.8)% in October and decelerated to (11.5)% in November and improved to (8.5)% in December driven by soft industry demand. Retail comps were (9.4)% and e-commerce comps were (11.5)%. Gross margin improved 176bp YoY to 38.3%, driven primarily by a 250bp tailwind from freight. Exclusive brand penetration also contributed to margin improvement as it rose to 37.3%, compared to 34.1% in F3Q 2023.

FY sales and earnings guidance lowered

For FY24, BOOT now expects \$1.654-1.664bn in sales vs. \$1.677-1.702bn prior and (7.0)-(6.3)% comps vs. (6.5)-(5.0)% prior with (6.3)-(5.5)% retail comps vs. (5.5)-(4.0)% prior and e-commerce comps (11.7)% vs. (13.0)-(11.0)% prior. BOOT now expects gross margin of 36.6-36.7% vs. 36.9-37.1% prior driven by 170bp of merchandise margin expansion including 130bp of lower freight costs but partially offset by 180bp of buying, occupancy, and DC deleverage. SG&A is expected to be 24.9%-24.8% of sales, vs. 22.9% for the prior year. Net income is expected to be between \$142.8mn and \$145.8mn. Mgmt. still expects to open 52 stores.

Lowering estimates to reflect more cautious outlook

Reflecting the earnings results and updated guidance, we're lowering our F24-26 EPS estimates by 5%/13%/21% respectively and lowering our PO from \$95 to \$85 still based on 18x '24 P/E. We reiterate our Buy rating given our continued confidence in BOOT's long-term store growth potential and the ability to take share in the highly fragmented western wear market. BOOT is still well-positioned as the largest operator in a niche industry competing largely against mom & pop and small regional operators. Although investors remain concerned that BOOT will see earnings revert back to pre-pandemic levels, we expect a stabilization will come in time. Every store is EBITDA positive on a 4-wall basis. Functional continues to outperform discretionary, which was the first category to experience a downturn, so if it shows improvement, it could serve as a leading indicator for comps to improve.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.34	5.62	4.70	4.71	4.80
EPS Change (YoY)	215.4%	-11.4%	-16.4%	0.2%	1.9%
Consensus EPS (Bloomberg)			4.95	5.49	6.34
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	11.3x	12.8x	15.3x	15.2x	14.9x
EV / EBITDA*	8.7x	9.3x	10.7x	10.5x	10.1x
Free Cash Flow Yield*	1.3%	-1.6%	4.7%	2.7%	2.9%

* For full definitions of *IQmethod*SM measures, see page 5.

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	95.00	85.00
2024E Rev (m)	1,682.3	1,659.7
2025E Rev (m)	1,867.3	1,848.6
2026E Rev (m)	2,091.4	2,070.4
2024E EPS	4.95	4.70
2025E EPS	5.38	4.71
2026E EPS	6.09	4.80

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Stock Data

Price	71.74 USD
Price Objective	85.00 USD
Date Established	31-Jan-2024
Investment Opinion	C-1-9
52-Week Range	64.33 USD - 104.91 USD
Mrkt Val (mn) / Shares Out (mn)	2,173 USD / 30.3
Free Float	98.9%
Average Daily Value (mn)	66.87 USD
BofA Ticker / Exchange	BOOT / ASE
Bloomberg / Reuters	BOOT US / BOOT.N
ROE (2024E)	16.9%
Net Dbt to Eqty (Mar-2023A)	6.2%
ESGMeter™	Medium

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iQprofileSM Boot Barn

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	24.5%	16.7%	11.3%	10.2%	9.4%
Return on Equity	38.7%	24.8%	16.9%	14.4%	12.8%
Operating Margin	17.4%	14.0%	11.8%	10.7%	9.8%
Free Cash Flow	28	(36)	102	58	63

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.5x	0.5x	1.4x	1.0x	1.0x
Asset Replacement Ratio	2.2x	3.5x	2.8x	2.3x	2.1x
Tax Rate	23.8%	24.5%	25.9%	25.8%	25.8%
Net Debt-to-Equity Ratio	1.3%	6.2%	-5.8%	-10.4%	-14.1%
Interest Cover	45.0x	39.2x	NM	NM	NM

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,488	1,658	1,660	1,849	2,070
% Change	66.6%	11.4%	0.1%	11.4%	12.0%
Gross Profit	575	611	608	673	756
% Change	95.0%	6.2%	-0.4%	10.7%	12.3%
EBITDA	286	268	232	237	247
% Change	158.6%	-6.3%	-13.4%	2.3%	4.1%
Net Interest & Other Income	(6)	(6)	(2)	(2)	(2)
Net Income (Adjusted)	192	171	144	145	149
% Change	224.1%	-11.4%	-15.6%	0.8%	2.6%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	192	171	144	145	149
Depreciation & Amortization	27	36	36	40	45
Change in Working Capital	(186)	(182)	12	(45)	(50)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	55	64	10	11	12
Capital Expenditure	(60)	(125)	(100)	(93)	(93)
Free Cash Flow	28	-36	102	58	63
% Change	-77.7%	NM	NM	-42.9%	8.1%
Share / Issue Repurchase	6	1	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	21	18	120	179	242
Trade Receivables	10	13	13	15	16
Other Current Assets	511	638	626	700	783
Property, Plant & Equipment	155	257	321	374	421
Other Non-Current Assets	503	591	591	591	591
Total Assets	1,200	1,517	1,672	1,858	2,053
Short-Term Debt	29	66	66	66	66
Other Current Liabilities	308	309	310	339	374
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	264	366	366	366	366
Total Liabilities	600	741	742	772	806
Total Equity	600	776	930	1,086	1,247
Total Equity & Liabilities	1,200	1,517	1,672	1,858	2,053

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Hardlines

Company Description

Boot Barn operates over 300 stores across the US averaging over 10k selling sq. ft. carrying a wide selection of western, work, and country lifestyle footwear and apparel including boots, denim, western shirts, cowboy hats, belts, belt buckles, jewelry, and accessories. Boot Barn carries a mix of national and exclusive (private) brands. Many of its customers are employed in the agriculture, oil and gas, manufacturing and construction industries, and are often country and western enthusiasts.

Investment Rationale

Boot Barn has a multi-year runway to grow its store count and take share in the fragmented western, work, and country lifestyle footwear and apparel market. With larger scale comes better pricing, better selection, more exclusive brands, and better customer service. Much of what Boot Barn sells are basic, everyday necessities for work and recreation.

Stock Data

Average Daily Volume 932,093

Quarterly Earnings Estimates

	2023	2024
Q1	1.29A	1.13A
Q2	1.06A	0.90A
Q3	1.74A	1.81A
Q4	1.53A	0.86E



Price objective basis & risk

Boot Barn (BOOT)

Our price objective is \$85, based on 18x our F2025 EPS estimate, in-line with Boot Barn's five-year historical average (20x).

Downside risks are a return to pre-pandemic retail sales per store and e-commerce sales (if demand was heavily pulled forward during the pandemic due to migration trends, more time outside, and stimulus checks), Western wear and cowboy boots going out of fashion, a slowdown in the US energy and broader industrial economy, an inability to grow the store base, and margin pressure from higher costs such as freight and store labor.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L. Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc.	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L. Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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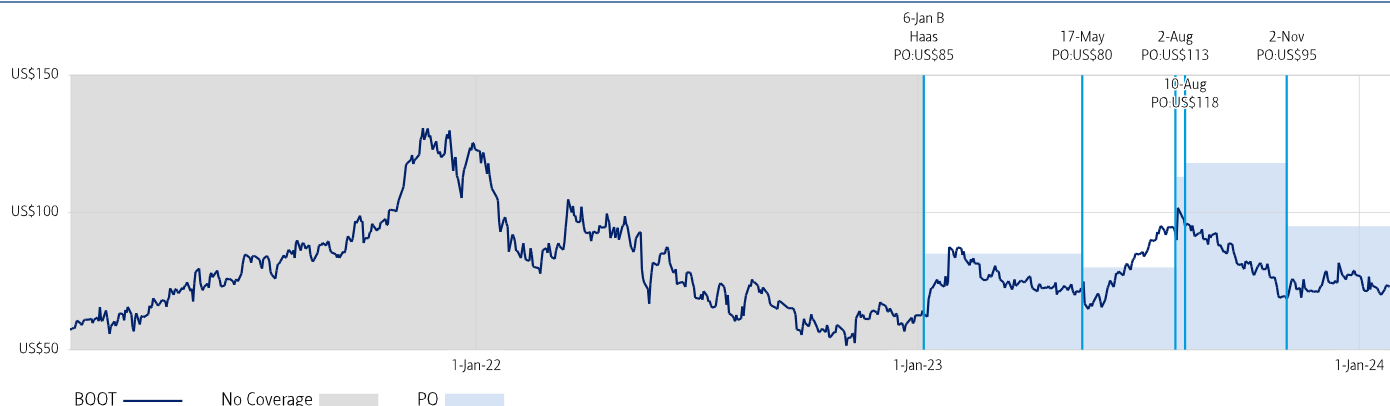
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Boot Barn (BOOT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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