

## Boot Barn

## ICR mgmt. meeting takeaways: EPS ahead on disciplined promos and cost control

Reiterate Rating: BUY | PO: 95.00 USD | Price: 76.59 USD

## Comp decline continues but EPS at high end of guidance

We hosted meetings with Boot Barn (BOOT) CEO Jim Conroy and CFO Jim Watkins at the ICR Conference in Orlando, FL on Monday, Jan 8th. BOOT preannounced preliminary F3Q (Oct-Dec) results on Friday, Jan 5<sup>th</sup> which included F3Q sales of +1.1% (vs. +1.4% to 4.0% guid.) on -9.7% comps (vs. -10.5% to -8.0% guid.) with retail comps -9.4% (vs. -9.5% to -7.0% guid.) and e-commerce comps -11.3% (vs. -15.5% to -12.5% guid.). Retail comps worsened from -8.8% in October to -11.5% in November but accelerated to -8.5% in December. E-commerce comp declines moderated from -16.8% in October to -15.1% in November and -8.1% in December. F3Q EPS was \$1.79 (vs. \$1.67-1.79 guid.). Exclusive brand penetration increased to 37.9% in F3Q24 vs 34.1% in F3Q23. Merch margin expanded 300bp YoY composed of a 250bp tailwind from freight. This is similar to guidance of merch margin up 310bp YoY including a 260bp tailwind from freight.

## Confident in the LT potential of this unit grower

We continue to view BOOT as well-positioned as the largest operator in a niche industry competing largely against mom & pop and small regional operators. Over the past quarter, BOOT opened 11 new stores, bringing the total store count to 382. Mgmt. remains confident in the new store performance in new markets. Every store is EBITDA positive on a 4-wall basis. Functional categories consistently outperformed BOOT's more discretionary categories (Ladies' currently accounts for 22% of sales). If discretionary products show improvement, that could serve as a leading indicator for an improvement in comps. Exclusive brand penetration contributed 220bp to margin expansion of 650bp from FY19, and the remaining 430bp came from improved full-price selling and buying economies of scale.

## Not fully reverting to pre-pandemic levels

Given the preannouncement, we are raising our estimates slightly to reflect EPS at the top end of guidance. Our PO remains \$95 based on 18x our F2025 EPS. We are reiterating our Buy rating given our continued confidence in BOOT's long-term store growth potential. Investors remain concerned that earnings will revert closer to pre-pandemic levels, but we expect a stabilization will come in time. We don't see BOOT pulling back on its 15% annual new store growth given a new store payback period of 1.5 years with a 66% ROI vs. its 2014 IPO model for a 3-year payback with a 32% ROI.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.34	5.62	4.95	5.38	6.09
EPS Change (YoY)	215.4%	-11.4%	-11.9%	8.7%	13.2%
Consensus EPS (Bloomberg)			4.91	5.55	6.35
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	12.1x	13.6x	15.5x	14.2x	12.6x
EV / EBITDA*	9.2x	9.8x	10.8x	9.8x	8.7x
Free Cash Flow Yield*	1.2%	-1.5%	4.6%	3.7%	4.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

09 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,690.3	1,682.3
2025E Rev (m)	1,876.2	1,867.3
2026E Rev (m)	2,101.4	2,091.4
2024E EPS	4.88	4.95
2025E EPS	5.30	5.38
2026E EPS	6.01	6.09

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## Stock Data

Price	76.59 USD
Price Objective	95.00 USD
Date Established	2-Nov-2023
Investment Opinion	C-1-9
52-Week Range	59.74 USD - 104.91 USD
Mkt Val (mn) / Shares Out (mn)	2,319 USD / 30.3
Free Float	98.9%
Average Daily Value (mn)	66.75 USD
BofA Ticker / Exchange	BOOT / ASE
Bloomberg / Reuters	BOOT US / BOOT.N
ROE (2024E)	17.7%
Net Dbt to Eqty (Mar-2023A)	6.2%
ESGMeter <sup>TM</sup>	Medium

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Timestamp: 09 January 2024 05:00AM EST

# iQprofile<sup>SM</sup> Boot Barn

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	24.5%	16.7%	11.9%	11.5%	11.6%
Return on Equity	38.7%	24.8%	17.7%	16.2%	15.6%
Operating Margin	17.4%	14.0%	12.3%	12.1%	12.3%
Free Cash Flow	28	(36)	108	85	105

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.5x	0.5x	1.4x	1.1x	1.0x
Asset Replacement Ratio	2.2x	3.5x	2.7x	2.3x	2.0x
Tax Rate	23.8%	24.5%	26.0%	25.9%	25.9%
Net Debt-to-Equity Ratio	1.3%	6.2%	-6.4%	-13.0%	-19.0%
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	1,682	1,867	2,091
% Change	66.6%	11.4%	1.5%	11.0%	12.0%
Gross Profit	575	611	622	696	783
% Change	95.0%	6.2%	1.8%	11.9%	12.6%
EBITDA	286	268	244	267	303
% Change	158.6%	-6.3%	-8.9%	9.5%	13.6%
Net Interest & Other Income	(6)	(6)	(2)	(2)	(2)
<b>Net Income (Adjusted)</b>	<b>192</b>	<b>171</b>	<b>152</b>	<b>166</b>	<b>189</b>
<b>% Change</b>	<b>224.1%</b>	<b>-11.4%</b>	<b>-11.1%</b>	<b>9.5%</b>	<b>14.0%</b>

## Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	192	171	152	166	189
Depreciation & Amortization	27	36	36	40	45
Change in Working Capital	(186)	(182)	9	(40)	(49)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	55	64	10	11	12
Capital Expenditure	(60)	(125)	(100)	(93)	(93)
<b>Free Cash Flow</b>	<b>28</b>	<b>-36</b>	<b>108</b>	<b>85</b>	<b>105</b>
<b>% Change</b>	<b>-77.7%</b>	<b>NM</b>	<b>NM</b>	<b>-20.9%</b>	<b>23.7%</b>
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	126	211	316
Trade Receivables	10	13	13	15	17
Other Current Assets	511	638	632	698	780
Property, Plant & Equipment	155	257	321	373	420
Other Non-Current Assets	503	591	591	591	591
<b>Total Assets</b>	<b>1,200</b>	<b>1,517</b>	<b>1,683</b>	<b>1,888</b>	<b>2,123</b>
Short-Term Debt	29	66	66	66	66
Other Current Liabilities	308	309	312	340	374
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	264	366	366	366	366
<b>Total Liabilities</b>	<b>600</b>	<b>741</b>	<b>745</b>	<b>772</b>	<b>807</b>
<b>Total Equity</b>	<b>600</b>	<b>776</b>	<b>938</b>	<b>1,115</b>	<b>1,317</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,200</b>	<b>1,517</b>	<b>1,683</b>	<b>1,888</b>	<b>2,123</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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 871,586

## Quarterly Earnings Estimates

	2023	2024
Q1	1.29A	1.13A
Q2	1.06A	0.90A
Q3	1.74A	1.79E
Q4	1.53A	1.12E

## Price objective basis & risk

### Boot Barn (BOOT)

Our price objective is \$95, 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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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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	Elizabeth L Suzuki
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Leslie's	LESL	LESL US	Elizabeth L Suzuki
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Elizabeth L Suzuki
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



## **IQmethod<sup>SM</sup> 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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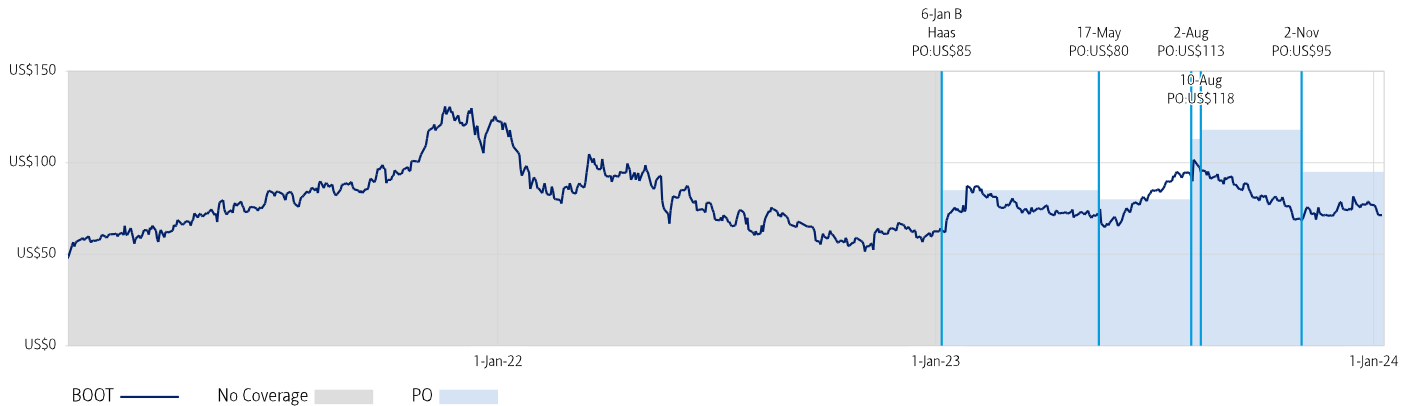
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### Boot Barn (BOOT) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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