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PRESENTATION

Operator

Good day, everyone, and welcome to American Outdoor Brands, Inc. Second Quarter Fiscal 2021 Financial Results Conference Call. This call is being recorded.

At this time, I would like to turn the call over to Liz Sharp, Vice President of Investor Relations, for some information about today's call.

Elizabeth A. Sharp - *American Outdoor Brands, Inc. - VP of IR*

Thank you, and good afternoon. Our comments today may contain predictions, estimates and other forward-looking statements. Our use of words like anticipate, project, estimate, expect, intend, should, indicate, suggest, believe, and other similar expressions is intended to identify those forward-looking statements.

Forward-looking statements also include statements regarding our product development, focus, objectives, strategies and vision; our strategic evolution; our market share and market demand for our products; market and inventory conditions related to our products and in our industry in general; and growth opportunities and trends.

Our forward-looking statements represent our current judgment about the future, and they are subject to various risks and uncertainties. Risk factors and other considerations that could cause our actual results to be materially different are described in our securities filings. You can find those documents as well as a replay of this call on our website at aob.com.

Today's call contains time-sensitive information that is accurate only as of this time, and we assume no obligation to update any forward-looking statements. Our actual results could differ materially from our statements today.

I have a few important items to note about our comments today. First, we reference certain non-GAAP financial measures. Our non-GAAP results exclude amortization of acquired intangible assets, stock compensation, transition costs, COVID-19 expenses, related-party interest income and the tax effect related to all of those adjustments. The reconciliations of GAAP financial measures to non-GAAP financial measures, whether or not they are discussed on today's call, can be found in our filings as well as today's earnings press release, which are posted on our website.

Also, when we reference EPS, we are always referencing fully diluted EPS.

Joining us on today's call is Brian Murphy, President and CEO; and Andy Fulmer, Chief Financial Officer.

And with that, I'll turn it over to Brian.

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Thanks, Liz. I'm excited to join you on today's call and share what we believe our exceptional results for our second quarter. We believe our financial performance demonstrates the diversity and innovation of our brand portfolio as it continues to capture the attention of consumers. As a result, we delivered net sales growth of over 65% and our gross margins expanded by 690 basis points to nearly 47%.

Based on our performance this quarter and our outlook for the second half, today, we are raising our guidance for fiscal 2021.

I want to especially thank our employees who helped us deliver outstanding results this quarter, while positioning us for an exciting, groundbreaking first year as a public company. Their hard work and commitment to the health of their coworkers, combined with our award-winning products, made it possible for consumers to continue exploring their connection with the outdoors during these challenging times.

To kick things off, I think it would be helpful to share with you some of the trends that we're seeing across markets impacting our business. In general, we believe we're witnessing a new higher foundational level of consumer participation in outdoor activities, responsible firearms ownership and adjacent home-based hobbies that surround outdoor adventure. So what do I mean by that? Put simply because of restrictions surrounding COVID-19, more people have been going outside. Data suggests that there's been a meaningful shift in the number of people engaging in outdoor activities, which we believe has driven a new, higher baseline, adding to a larger installed base of long-term participants when compared to 2019. We believe American Outdoor Brands, in particular, is uniquely positioned to benefit from this shift.

Let me share some market information with you to further illustrate my point. First, camping participation has been on the rise in recent years and saw further acceleration in 2020.

According to a KOA study released in October, nearly 50% of campers surveyed, so they went camping for the first time ever in 2020, or for the first time in recent years. In addition, a separate study by the Outdoor Industry Association in 2019, estimated that there were 42 million campers in the U.S. This, combined with the KOA survey outlining new camper trends in 2020, suggest that overall participation this year has been extraordinary compared to prior years. Further, KOA estimates that 82% of first-time campers have children in their household, which data suggests, increases the likelihood that these new young entrants will be in the market for some time to come.

Second, there is strong participation in firearms ownership in shooting sports with a record number of new entrants this year. Background check data gathered by the FBI indicates that a record number of firearms have been purchased in calendar 2020, with background checks through November 30, numbering 19 million. The National Shooting Sports Foundation estimate that 40% of those checks represent individuals, who purchased a firearm for the first time, suggesting about 8 million new consumers entered the market this year. This new and larger installed base of owners suggest strong future participation in shooting sports and the need for accessories.

Third, hunting has also been on the rise this year and many states across the U.S. have seen meaningful increases in the number of new hunters. A review of 2 recent Wall Street Journal articles indicates that hunting license sales are up more than 12% nationwide from last year, according to the National Shooting Sports Foundation. If the trend continues through the end of the year, they say, those license sales translate to 1 million more hunters this year than last. Michigan alone has seen a 67% year-over-year increase in new hunters through the end of November, with hunters under the age of 17, increasing nearly 100% during the same period. The introduction of new hunters is critical to the long-term growth and participation of hunting.

Lastly, fishing has seen similar trends. According to the same Wall Street Journal article, the Recreational Boating & Fishing Foundation stated that there were 3 million more licenses sold nationwide this year than last, a 14% increase. In Louisiana alone, between March and July of this year, the Louisiana Department of Wildlife and Fisheries sold approximately 60% more basic fishing and saltwater licenses than for the same period in the prior year.

In addition to creating a larger market for many of our brands, growth in hunting and fishing also has the benefit of generating more money for fish and wildlife agencies in support of wildlife management and sustainability.

This, in turn, creates a more sustainable future for hunting and fishing as participants return to these activities year after year. Weather measured by the record number of new firearm owners or by the extraordinary number of consumers, who have taken their first camping trip this year, the data indicates to us that an outdoor renaissance is underway and that it effects may be long lasting.

Our 4 brand lanes, Defender, Marksman, Harvester and Adventurer, position us well to capitalize on this increased participation in shooting sports, hunting, fishing and camping as well as address personal protection and home security needs. The sales momentum that began during our first quarter continued and remained steady throughout the second quarter. Net sales of over $79 million represented exceptional growth, as we benefited from the activities I just outlined, combined with the normal seasonality, namely the fall hunting and holiday seasons, which occur in our second quarter each year. We believe that sales growth across both our traditional and e-commerce channels in the quarter demonstrates that the investments we've made over time are paying off. And we continue to achieve our objectives to place our brands wherever the consumer expects to find us, whether in a store or online. This strength is especially important in times like this, where consumer spending patterns are continually changing.

In the second quarter, sales in our e-commerce channels grew over 213% compared to the prior year and included a notable increase in our direct-to-consumer sales. Net sales in our traditional channels grew as well, increasing by over 34% year-over-year.

Turning to profitability. Our adjusted EBITDAS performance for the quarter was also extremely strong. In addition to higher gross margins year-over-year, we delivered a greater percentage of profitability that fell to the bottom line, demonstrating, we believe, just how leverageable our business is, thanks to the unique structure of our brand lanes.

I'm happy to report that during the quarter, we experienced growth across nearly all of our 20 brands and within each of the major activities we serve. In fact, nearly half of our brands experienced triple-digit sales growth in the quarter. Furthermore, of our top 4 selling products in the quarter, each came from 1 of our 4 brand lanes, demonstrating the diversity that we have built across our business.

Our brand lanes provide us with what we believe is an ideal competitive advantage for developing exciting, on trend and highly innovative new products year after year that turn new consumers into lasting advocates as we take our brands from niche to known. In fact, it's not uncommon for us to launch over 300 new products annually. And as I've shared before, that process is rooted in our dock-and-unlock strategy. Once a brand is docked into 1 of 4 brand lanes, we can then begin to unlock a brand's true potential by leveraging the respective lanes' resources. Including brand marketing, product development, sourcing and e-commerce. Our dock-and-unlock process is proprietary, was developed internally. And we believe provides a meaningful moat for our brands as they grow. Our continued entry into new, larger addressable markets utilizing this strategy continues to bear fruit as our brands progress along their transformation.

Today, I want to provide you with some examples, starting with the home-grown favorite, one where we believe that best growth is yet to come. In March of this year, we launched our newest brand, MEAT! Your Maker. This is a bold, fun and contemporary brand that offers an innovative and affordable line of meat processing equipment, such as grinders, slicers and dehydrators, sold direct to consumer at meatyourmaker.com. While the entire product line was conceived within our Harvester brand lane to address the meat processing needs of hunters. We are excited to share that these products are finding their way into home kitchens as well. Following the field of table trend, and the desire of consumers to control every aspect of processing the food they harvest, developed organically, completely in-house and launched just 9 months ago. MEAT! Your Maker has gone from literally nonexistent to self-sufficient, quickly becoming a multimillion-dollar brand in our portfolio, and it's just getting started.

We believe we have several brands in-house that harbor the same exciting potential. In fact, based on our research and consumer studies, we believe that most of our brands remain under infancy and have yet to be fully explored. Specifically, this translates into 3 distinct priorities: first, expanding our brands by growing into new product categories; second, entering new customer channels of distribution; and third, entering entirely new and larger addressable markets.

We believe this strategy provides our brands with significant runway for long-term growth, and the dock-and-unlock strategy is designed to unleash that growth. Situated within our Harvester brand lane is BOG, a brand with its origins in the shining sticks and rests used in hunting. That is well on its way to becoming a broader lifestyle hunting brand with versatile products that are engineered for the unknown.

One of our newest product launches, which also enters us into the large game camera product category, demonstrates this evolution perfectly. For those of you who are unfamiliar with game cameras, these devices allow the user to monitor wildlife activity in a hunting area, and they represent a significant dollar investment for most hunters. Introduced in 2020, our Blood Moon game camera recently received a top-rated ranking from trailcampro.com, which is considered by many to be one of the leading reviewers of game camera performance and testing. Here's what they like, and I quote "Excellence photos and videos. 20-plus months of battery life and insanely fast detection capability." And we didn't just create a game camera for the sake of it. We built ours from the ground up to include a patent-pending removable viewing screen, that allows the user to quickly adjust camera settings and flip through pictures on the fly without logging into their computer.

Next up is an example from our Defender brand lane. Our lockdown brand, began at the line of vault accessories, such as dehumidifying rods and vault organizers. Today, it is in the process of expanding beyond the vault with products that help consumers secure their lifestyle. Our new patent-pending Lockdown Puck, recently received the Guns and Ammo gun tech of the year award for 2020. With built-in WiFi, the Puck pairs with a free Logic App that allows the user to remotely monitor the humidity, temperature and security status of any safe, cabinet or other storage area. The Puck allows the consumer to know that their firearms, jewelry or other valuables are safe and secure from anywhere in the world.

Lastly, in our Adventurer lane, we are excited to include our UST brand, which provides another example of taking one of our brands from niche to known. UST has recently undergone a major brand relaunch. With its origins and camp accessories, such as lanterns and fire starters, we rebranded UST to expand into a broader offering that includes new, innovative and higher ASP items geared around the camp lifestyle, such as tents, sleeping bags and mattress pads.

Let me highlight one of our especially exciting new products, the Monarch Sleeping Bag. The cacoon-like monarch lends itself to a wide variety of environmental conditions, with patent-pending wing sections that allow the user to transition from a 17-degree bag to a 37-degree bag. The wings can also be detached and used as a pillow. This fall, backpacker.com listed our UST Monarch Sleeping Bag as the #1 item on their list of the 27 best gifts for backpackers of 2020. These awards not only demonstrate the level of innovation that exists as a result of our brand lane structure, but they punctuate the very exciting path that these brands travel, as they evolve from niche to known.

And with that, I'll ask Andy to cover the financial results. Andy?

H. Andrew Fulmer - *American Outdoor Brands, Inc. - Executive VP, CFO & Treasurer*

Thanks, Brian. I'm excited to share insights into what we believe are exceptional results for our Q2. We showed significant top line growth, exceeded our own expectations with gross margins, and we're able to leverage our fixed operating expenses to yield almost 20% adjusted EBITDAS margins. Net sales for the quarter were $79.1 million compared to $40.7 million in the prior year, an increase of approximately 66%. As Brian noted, almost half of our 20 brands experienced growth of over 100%, with nearly all brands showing some level of growth over last year.

This performance was driven by the increased participation in outdoor activities as well as our continued discipline with certain retailers to take a more balanced approach to their ongoing replenishment orders as we've discussed on earlier calls. We believe this approach allows our shipments to be better aligned to underlying consumer demand at retail.

Net sales in our e-commerce channels increased 213.4% over the prior year to $26.2 million. As a reminder, our e-commerce channels include our direct-to-consumer sales. They also include sales to retailer customers that do not traditionally operate a physical brick-and-mortar store, but instead, generate most of their sales from consumer purchases on their retail websites.

Sales in our traditional channels were $52.9 million, an increase of 34.3% over the prior year quarter. As Brian mentioned, we have made significant investments over time to ensure our brands are located where the consumer expects to find us. Whether that is in a physical store, our retailer's website or on our own branded online storefronts. We believe these results reflect our success in those efforts.

Our Q2 gross margins were 46.9%, a 690 basis point increase from gross margins of 40% last year. We participated in some annual promotional programs in certain product categories as originally planned, and margins were unfavorably impacted by increased tariff costs and inventory reserves. All of that said, however, favorable product mix and the general lack of promotions on other products greatly offset these decreases and drove margins to levels that we haven't achieved since the introduction of tariffs. We have previously discussed our initiative to discount certain slower moving inventory in order to convert that product to cash. We originally expected a portion of those sales to occur in our Q2, but due to shifts in timing, they'll now occur in the second half of the year. That initiative commenced in our current Q3, and so far, we have sold over $2 million of this slower moving inventory with a goal of selling a total of $5 million to $6 million across Q3 and Q4. When they occur, we expect these sales will yield minimal gross margins. And of course, we have already included that impact in our updated guidance.

In the quarter, GAAP operating expenses were $27.5 million compared to $20.6 million in Q2 last year. The $6.9 million increase included $3.1 million of variable selling and distribution costs, about $740,000 from product development initiatives, over $600,000 from the build-out of our brand websites and the creation and distribution of marketing content and $1.6 million from compensation-related expenses in G&A. Intangible asset amortization decreased approximately $700,000 from $4.7 million to $4 million.

Consistent with Q1, our Q2 operating expenses were lower than planned, largely due to the impact of the pandemic, which obviously drove meaningful restrictions in travel and the elimination of most trade shows, including SHOT Show, where companies like ours launched the bulk of their new shooting sports and hunting related products. In order to ensure that we keep our marketing momentum going, we plan to take those funds and redirect them into developing rich media content in support of our new product launches.

Non-GAAP operating expenses in Q2 were $22.5 million compared to $15.3 million last year. Non-GAAP operating expenses exclude intangible amortization, stock compensation and certain nonrecurring expenses as they occur.

For the second quarter, GAAP EPS was $0.52 as compared with an EPS loss of $0.03 last year. Our non-GAAP EPS was $0.77 as compared to $0.20 in the year ago quarter. These figures are based on our fully diluted share count of approximately 14 million shares.

Adjusted EBITDAS came in at $15.8 million for a 19.9% EBITDAS margin compared to an 11.7% EBITDAS margin last year. The increase was driven by improvements in gross margin noted previously and what we believe is significant leverage of the fixed cost investments we have made in the business.

Turning to the balance sheet and cash flow. On August 24, we completed the spin-off and were capitalized with $25 million from our former parent company. We generated approximately $3.9 million in cash from operations during the quarter, and we had cash outflows of $1.1 million for capital expenditures and patent costs. We ended the quarter with a cash position of $33.9 million.

Accounts receivable increased by approximately $16 million in the quarter, driven by the sequential increase and quarterly net sales of roughly $29 million. At the end of Q2, we successfully completed 2 initiatives that will help reduce our overall DSOs and should provide meaningful improvements in cash flow going forward.

Inventory increased by approximately $4 million, mainly due to our previously discussed investment to help mitigate potential pandemic-related supply chain risks, increased tariff costs that were capitalized as well as new products arriving for launch in calendar 2021.

Here, I'd like to take a step back for a minute and talk about our long-term plans for inventory management and what you can expect to see. You'll recall, Brian mentioned that we are focusing on higher ASP items in 2 of our brands. This initiative is actually taking place across many of our brands, and that higher ASP focus will increase our inventory value somewhat.

In addition, as Brian noted, we launched a large number of new products each year, and our pipeline remains robust. Therefore, our inventory will reflect our preparation for those launches. We anticipate that new product timing and its velocity, along with our focus on higher ASP products, will combine to elevate our inventory values over time. While we anticipate this activity will be somewhat offset by sales of the slower-moving inventory I mentioned earlier, we believe it will still increase the inventory dollars on our balance sheet. That said, in total, we are actively managing our working capital turns, remaining focused on maximizing our cash flow.

At the end of Q2, we had no borrowings on our $50 million asset-based line of credit. As a reminder, this facility also provides an additional $15 million of availability under certain conditions. The combination of revolver capacity and the roughly $34 million of cash on our balance sheet gives us nearly $100 million of capital. We believe this level of resource prepares us adequately to support, both our organic and inorganic initiatives, as we remain actively involved in looking for potential complementary acquisitions.

Finally, we continue to expect approximately $4 million in total CapEx spending for the fiscal year, with a portion of that being onetime in nature related to the spin-off.

Now turning to our guidance. We are pleased to announce increases in our net sales, EPS and adjusted EBITDAS guidance. Based on financial performance through Q2, and our expectations for continued strength in the second half of the year, we are now estimating full year net sales in the range of $235 million to $245 million, which would represent growth of roughly 40% to 46% year-over-year.

With net sales in that range, we would expect full year GAAP EPS in the range of $0.52 to $0.70 and non-GAAP EPS in the range of $1.49 to $1.67. We would also expect adjusted EBITDAS in the range of $34 million to $36 million, which would represent growth of approximately 176% to 193% year-over-year.

While our non-GAAP EPS guidance at the midpoint implies an increase of $0.45 in the second half of the year, you'll notice that our GAAP EPS is expected to decline. This is attributable to approximately $8 million of acquisition-related intangible asset amortization as well as approximately $1.5 million in stock compensation that we anticipate, we will record between Q3 and Q4. This effectively will take our GAAP EPS from its current $0.65 year-to-date to an estimated end of year midpoint of $0.61.

Our Q2 tax rate of 24.7% includes discrete items related to the spin-off. And our guidance reflects a tax rate for the remainder of the year of approximately 27%.

Lastly, all of our estimates are based on our forecasted fully diluted share count of approximately 14.2 million shares. Brian?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Thank you, Andy. Calendar 2020 has delivered us a set of unprecedented circumstances. Among them is what we believe to be a new foundational level of participation in outdoor activities and firearms ownership. This healthy market has provided us with an opportunity to demonstrate how our unique brand lane structure, combined with our dock-and-unlock strategy, allows us to expand our reach by maintaining a connection with the consumer and using that dialogue to fuel our innovative process. We believe our approach provides a truly unique and leverageable platform that will allow us to continue harnessing the power of our growing brand portfolio to drive our future growth and profitability.

With that, operator, please open the call for questions from our analysts.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

First question comes from Mark Smith with Lake Street Capital Markets.

Mark Eric Smith - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

A couple of questions for me here. Any categories or brands that were supply-constrained or overly supply-constrained during the quarter?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Mark, this is Brian. So no, that's the short answer. We -- our supply chain was in good order this quarter, and we had no disruptions.

Mark Eric Smith - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. And then one thing that we've heard from some retailers in the space is strong out of season demand for certain products, for example, this late fall, early winter fishing products doing really well. Can you talk about if you're kind of seeing these same trends in any categories like BUBBA or camping, as we kind of move into colder months?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Yes. That's a great question. We -- kind of glad you asked that, we are, frankly, across the entire portfolio. I made mention that all 4 of our brand lanes were represented in our top 4 selling products when we did that review prior to this call, and it was pretty evenly distributed.

So certainly, BUBBA would fall into that same trend. So we -- so camping, sleeping bags, mattress pads, tents, the BUBBA products, brands like Schrade, which is typically more of a summer brand, have done well even well into the fall.

Mark Eric Smith - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Excellent. And then as we look at e-commerce and the growth that you've had there, can you guys walk through, at all, any of the impact that, that had on gross profit margin or even on an EBITDAS margin basis?

H. Andrew Fulmer - *American Outdoor Brands, Inc. - Executive VP, CFO & Treasurer*

Mark, it's Andy. We can't really get into too much detail there. As Brian said in the prepared remarks, our direct-to-consumer was up. That was again, great result. And obviously, those have higher margins. Outside of that, I can't really get into too much detail.

Mark Eric Smith - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. And the last one for me. You guys talked a little bit about some new places, new addressable markets that you're really looking at. Can you give us any more insight into kind of what you're looking at what are these hot new categories you think maybe are?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Sure. So are you asking specifically about markets or some of the new product categories because we viewed it to a little bit differently.

Mark Eric Smith - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Why don't we talk about both of them then?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Okay. Sure. So on the product side, so BOG was a good example of -- BOG, one of our hunting brands, definitely focused on the lifestyle side of hunting. And going from those very specific products to begin with in shooting sticks and rests to now getting into areas like game cameras, and which I mentioned is a very large portion of the hunting purchases outside of the firearm itself.

And also, BOG has now gotten into like ground blinds. We weren't there a year ago, but now getting into each of those different areas. They represent big categories in hunting and significant wallet share for those hunters. So again, kind of progressing along where these brands have permission to play. And I can give you more examples. But that's a great one for how we're getting into some of these new product categories where our brands have permission to play.

New addressable markets. So we talked about the Lockdown Puck, getting into, we say, rethinking the vault is how we describe it internally. And so going from vault accessories, something very specific for a specific use, and we were a market share leader there inside of vault. To now thinking outside of that and positioning Lockdown as more of a techy, so high-tech patent-pending technology with our logic system. So that now -- it reaches outside of that traditional firearm owner and is accessible to other consumers who maybe want to secure something, maybe it's their wine cellar, maybe it's humidor, something like that.

So those are much bigger markets, MEAT! another great example. Meat processing is estimated at $10 billion and obviously includes a wide array of different products. And you start getting into talking to markets like commercial and restaurants. We have a restaurant here in town in Colombia that uses our meat processing equipment. They love it so much. It's all commercial-grade product. So getting into some of those markets, some of our brands are being pulled more and more into those that we're finding, which was all part of our plan as -- and that's based to the dock-and-unlock strategy.

Operator

Our next question comes from John Kernan with Cowen.

John David Kernan - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Great. Andy, Brian, congrats on the momentum and the upside on the quarter and for the year. I was just curious, what -- can you walk us through what categories and brands, in particular, drove this material upside to your guidance relative to where it was 3 months ago, on both the sales and really the EBITDAS line?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Yes. John, this is Brian. I would say there hasn't been a meaningful shift in our brand portfolios. If you look at the 4 brand lanes, Marksman, Defender, Harvester and Adventurer. We haven't seen a significant shift outside of any seasonal changes. So obviously, in the fall, we tend to sell more hunting products. In the spring, we tend to sell more BUBBA, and UST going into the summer camping season. So outside of some of those seasonal trends, we really haven't seen a shift in our portfolio. Does that answer your question?

John David Kernan - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

A bit. I mean, it sounds like it was pretty broad-based. There wasn't any one brand or category. What was seasonally strong was strong and now as we look into spring, you expect that to kind of continue in the more seasonal spring and summer stuff?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Yes. Yes, that's correct.

H. Andrew Fulmer - *American Outdoor Brands, Inc. - Executive VP, CFO & Treasurer*

And John, this is Andy. I can answer the EBITDAS question. So when you look at -- you kind of take the guidance, last guidance to this guidance, it implies almost a 38% contribution down to EBITDAS. That really -- as we talked about in the prepared remarks, that really goes to the leverageability of our platform. So our fixed costs were fixed. And you see that as revenues rise, we're able to really pull a lot of that down to the EBITDAS line.

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Yes. And John, maybe -- I'm just thinking more about your question. I think, I have something here that maybe more helpful. So if you think about the increase, let's say, in personal protection and 8 million, an estimated 8 million or so new firearm owners entering the market.

That trend certainly impacts brands like Crimson Trace, which is all about aiming solutions and really helping, in particular, new buyers, as they enter the market. And then as they go to the range and practice firing that new firearm brands like Caldwell, which is all about owning the range. And helping them eliminate variables that makes them missed. Caldwell, Tipton, Wheeler, Frankford, so gunsmithing tools, gun cleaning, all of those are part of that kind of phase 2 after that initial buyer purchases of that firearm.

And then we talked about the fishing, camping, hunting trends. So this fall, huge increase in hunting participation. So we certainly saw a bump from that with our -- with brands exactly like BOG and many others. So hopefully, that gets a little bit more context to my original answer.

John David Kernan - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Yes, that is helpful. It sounds like your firearms hunting, fishing, really strong, and that really plays across your whole portfolio.

Andy, maybe can you walk us through the puts and takes to gross margin and SG&A for the quarter, but also embedded in the guidance, you talked about the leverageability and the fixed cost leverage that you're generating now on this tremendous sales growth. So maybe just a little more detail and color as much as you can give us on expectations for gross margin, SG&A in the back half?

H. Andrew Fulmer - *American Outdoor Brands, Inc. - Executive VP, CFO & Treasurer*

Yes. No, it's a great question, John. On the gross margin side, during the quarter, as I said in the remarks, we were pleased to see -- we participated in our annual promotional programs that we always do in certain product categories. But some of the other types of promotions, again, really weren't necessary kind of dovetailing from Q1.

So definitely favorable margins in Q2 with respect to that. The rest of the year, the way that I would kind of look at the rest of the year is, I would probably estimate -- we expect probably mid-40s as far as margin percentage. And that's really driven by what I said in the comments about the $5 million to $6 million of revenue on that slower moving inventory that we expect to kind of little to no margin on.

So that has a pretty decent effect on gross margin percentage when you look at it like that. And then with respect to OpEx, I would say, we expect Q2 to be kind of a peak level of OpEx, especially when you look at the variable selling and distribution costs that were related to the $79 million in revenue, and we also had some -- a number of website costs from launches that we had in the quarter.

So that will drop a little bit going forward. But I think with that, hopefully, you can kind of do the math based on our EPS and EBITDAS guidance.

John David Kernan - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. That's helpful. Maybe one more final question for me. Just what are you most excited about as we go into -- we change seasons here and we get into spring of next year, just by brand and channel?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Yes. This is Brian. Obviously, for us, the Adventurer lane hits its stride coming out of the winter season into the spring. And we've got some exciting new product launches planned for those brands, in particular, that you'll see, and I think, should be well received.

Like I mentioned earlier in the call, we launched upwards of more than 300 new products each year. So really, beginning in January, I would say, through April and May, you're going to see a lot of new products coming out from all of our brands and should create quite a bit of excitement across the board. But UST is one that I think very highly of we, again, went through a rebrand. We went from low ASP items to now much higher ASP items.

Those products, tents, sleeping bags, mattress pads have been very well received by our customer base. And in fact, have drawn a lot of interest there from certain large customers that we can report on more down the road.

But that's where we're excited at. And then you've got brands like MEAT! Your Maker, that is really appealing to a trend that transcends beyond just the hunting season. And people -- just personal interest in this field to table trend where they want to, again, control every aspect of preparing their own meat. And then putting it on the grill. That's just -- they're becoming much more intimate in that process. So I'd say, it's good, really need to watch. And I think our brands are well positioned.

Operator

Our next question comes from Scott Stember with CL King.

Scott Lewis Stember - *CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst*

Congrats on a great start to being a publicly traded company. You guys earlier talked about some new initiatives that you're really focusing on. One of them was new distribution areas. Can you maybe go a little bit more into that?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Sure. Scott, this is Brian. So when I talk about new customer channels of distribution, we have brands such as Hooyman. So Hooyman started out -- again, this is also a good niche to known story, but Hooyman started out primarily selling tree saws used for clearing shooting lanes for hunters.

So they would go up in their stand. They want to make sure their shooting lane is clear of any branches. And that's where the brand started. But as part of our dock-and-unlock process, we saw Hooyman more as a land management brand that could extend well beyond just tree saws.

And so now we have, in the last year, we've come out with rakes, shovels, mallets, machetes, things like that, that have a very distinct grip, that has become pretty popular, we call it the H grip. Well that product, which would have been found traditionally in a sporting good -- or sport specialty store, I should say, is now being pulled into new channels distribution.

So you can now find that brand in home and hardware type channels. When a year ago, you really wouldn't find them there, honestly. So areas like that where some of our brands are being pulled into those other sections. Wheeler is another great example. Wheeler was really known as a gunsmithing brand, but we're finding that consumers use that brand, use those products on their cars, fixing their cars, they use them on DIY projects in the home. And so more of those requests are finding their ways to our customers and as a result, that's where those brands are beginning to pop up.

Scott Lewis Stember - *CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst*

Got it. And just taking a step back, bigger picture, you talked about some of the new foundational layers within the market that should stick. But now with a vaccine coming around, could you just talk to that narrative of people being worried that with the vaccine coming out, you're going to see a whole bunch of people ditching their outdoor -- newly found outdoor activities. So essentially, just talk about the stickiness that you see to what's happening here in the years to come?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Sure, sure. This is Brian, again. I would say, this is my perspective, no one knows quite what's going to happen. I have looked at quite a few surveys, whether it's camping, fishing, some of the industry associations out there have done a good job of trying to capture what portion of this is going to be sticky, long term. And it appears the overwhelming majority, at least the studies that I've looked at, show that people still intend to engage in these activities.

And also, I believe that there's been a -- there's already been a wallet shift. So if you look at some of the macro data out there and look at consumer spending just before COVID, and you can look at different parts of the U.S., so credit card and debit card spending. And there's a massive drop-off in kind of March, April time frame.

And then it begins to slowly come back up to really pre COVID levels. It's pretty remarkable. And to me, that says that there has already been a wallet share shift of sorts, where some of those folks were spending that money on other areas of entertainment, maybe it's going to a movie theater, going to sporting events. And obviously, there'll be some return that once a vaccine is widely distributed. But it's people, at least, again, what we're seeing, intend to continue this, now that they have this new found activity that a lot of times, they didn't have the time for before or to even try.

And you look at camping, 50% of the people that they surveyed, KOA surveyed said that they went camping for the first time ever or for the first time in recent years.

So it's just -- it's been a big shot in the arm for the industry. I know other public companies said the same thing. And it just bodes well for the long term viability. One last thing on this is just the youth. There was a statistic. I can't recall the source of hand, but essentially, it pulled adults who fish and asked them, when -- did you start fishing before the age of 12? 91% of the respondents said that they had started fishing before the age of 12. And so you can see there is a very sticky component to a lot of these activities. That makes us very excited about the long-term growth in a new baseline.

Scott Lewis Stember - *CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst*

Got it. And just a quick last question. In the back half of the year. Is there anything you can give us as far as cadence between the 2 quarters. Should we assume, I guess, essentially evenly split across the board, whether it's revenues and margins. Anything you can give us?

H. Andrew Fulmer - *American Outdoor Brands, Inc. - Executive VP, CFO & Treasurer*

Yes, Scott, this is Andy. What I would say is, if you look at historically, our -- the trends quarterly on revenue are pretty -- are relatively predictable when you go like fiscal '18, '19, '20, our peak is always in Q2, and then it kind of evens off out in Q3 and 4. You might see -- we believe that Q3 will probably be a little higher than Q4, but you can kind of take a look at historical trends.

Operator

(Operator Instructions)

Our next question comes from the line of James Hardiman with Wedbush.

James Lloyd Hardiman - *Wedbush Securities Inc., Research Division - MD of Equity Research*

So a couple of follow-ups on the guidance. Obviously, you put up an unbelievable number here in the second quarter, $79 million in terms of revenues. The back half guidance assumes a pretty big step down from there. You touched on this a little bit. How much of that is seasonality versus just conservatism, hard to anticipate just how long this surge can last?

H. Andrew Fulmer - *American Outdoor Brands, Inc. - Executive VP, CFO & Treasurer*

Yes, James, this is Andy. It's a great question. When you take a look at Q1 and Q2 last year, those quarters were both down. Q1 was down almost 11%. Q2 was down almost 15%. So when you look at what we've done so far, and I don't want to take anything away from what we've done, but the comps were slightly easier. Probably the better comp is to actually go back to fiscal '19. And if you go back to fiscal '19, those numbers in Q1, our current year numbers, '21 to '19 go 35% and 41%.

So it kind of -- it starts to make sense. As you look at our implied growth in the second half of the year is almost 28%. So that kind of gives you a little more perspective when you take a look at fiscal '19.

James Lloyd Hardiman - *Wedbush Securities Inc., Research Division - MD of Equity Research*

Got it. That's helpful. And then I wanted to dig in a little bit. I think it was a comment from you, Brian. When you were talking about some of the brand lanes and the idea that certain purchases would be maybe concurrent with a new firearm for people that are new to the sport versus follow-on.

Can you dig into that a little bit? I'm curious how much of a ripple effect that there might be from all of these new customers they got into not only firearms, but maybe some of the other products, right? As you had that surge in demand. Is there sort of a secondary effect from some of your brand lanes that we should be keeping in mind?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Sure. So I would -- so I will start kind of in that pathway with the consumer walks into the store. And I would say there's kind of 2 -- I'll start with Crimson Trace in this example.

So Crimson Trace, we sell Crimson Trace directly to OEMs, folks like Smith & Wesson, who we have a, obviously, a great relationship with, along with other OEMs and now -- so the Crimson Trace Red Dots, for example, are gaining a lot of momentum in the market.

And so we've seen an increase in demand from OEM partners. So when the customer goes into that store, there's a good chance there's a Crimson Trace Red Dot on that firearm to begin with, on that hand gone. And if not, we're right there at the counter as well.

So the dealer typically will try to get a sense for their comfort level and other things that they're interested in purchasing. But when it comes to aiming solutions, Crimson Trace really is the leader, in our opinion. And then from there, there are other products that consumer would look to buy, gun cases, if they're looking to -- and this is really very relevant for some of the new purchasers who tend to be a little bit more tech forward, our product like the Puck.

So they're going to have to go home, store that firearm, and they want to know that it's going to be safe and secure and have constant connectivity to that.

So we're able to sell them a product like that. And then also, just as I said, like as they go along on this journey -- so those are kind of some of the brands that tend to be closer to the purchase itself. But then, as they go along and again, go to the range when they are looking for ammo. They -- and ammo, obviously, is still very much in shortage at many retailers. They may turn to things like reloading. So reloading is -- for those on the call that don't know what that is. Basically, you're creating your own ammunition using different components. And so we sell -- under our Frankford Arsenal brand, we sell different products and accessories that allow the user to essentially make their own ammunition safely. And so now they're able to make their own ammunition, go to the range and use our Caldwell products when they get to the range, on and on and on.

So it's -- that's kind of part of the process that we look at. And I think -- does that answer your question? And I think your follow-up was around...

James Lloyd Hardiman - *Wedbush Securities Inc., Research Division - MD of Equity Research*

Let me just quickly ask. And so the idea is that some of that -- those follow-up brands that you spoke to it's sort of post purchase. Do you think we're seeing the full brunt of that? Or is that yet to come?

And you're right, the second part of the question was, are there other sort of brand lanes that acted in a similar way to that, where there's sort of a accessorizing as opposed to some replacement that's years down the line?

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Sure. Okay. So I would say there -- the brands on the -- in the Marksman, Defender side, certainly, there is that pathway for the consumer from the point of purchase through to continuing to use those products.

I think the timing of those is, obviously, the Defender -- I would say the Defender brand lane is more closely aligned with that initial purchase. The Marksman lane is, if I had to put a best guess out there, we've seen data in different time periods. There's a little bit of a lag.

So they typically get that firearm. They'll have a gun case that they'll walk out of the store with, a lockdown product that will help secure that firearm. And then if you can get time at the range, which maybe it's a month or 2, but go to the range, and then they'll see people wearing hearing protection and eye protection, they're like, yes, I should get some of that.

And so that's when we make that sale typically. And they'll also see a field of green, a sea of green when they go to the range. And that means that a lot of people are using Caldwell shooting rests to help zero in their firearms. And then they'll go, I should probably look into that. I suppose that would make me better at aiming and setting my rifle or my hand gun.

So I think to put a book in on the question, we can see that anywhere from 1 month to, I would say, 6 months, and I think that's most of the sweet spot after that first firearm purchase.

And then for the other brand lanes, like BUBBA, I'm just -- I'll just go Adventurer, first. So like in BUBBA, people will be introduced to the brand typically through a fillet knife, where they'll go out fish, come back to the dock and to go beat the means to fillet fish. So BUBBA, in my opinion, dominates the fillet knife industry.

And -- but we've taken that brand as part of this niche and now into a lifestyle fishing brand. And once they use that BUBBA knife, it has a very distinct texture we call it our Bubba Rubba, and it gets tackier as it gets wet. Well, we have that same texture on the other BUBBA products. So if you're going to go out, deep-sea fishing and you can use a BUBBA gaff for BUBBA net, which now we've done as part of expanding in some of these new product categories.

So we see certain products like that really be the entry way into the broader brand portfolio. Or -- sorry, the broader product portfolio within each of those brands.

UST is another great example. They buy fire starters and lanterns, and they have a good experience with the brand. It's very -- it's high quality. And now they start venturing into some of those other products like tents and sleeping bags or the other way around.

I saw a neighbor of mine this last summer. We were camping in our backyards at the same time with our kids. And I looked over and they had a good, they had a UST tent, and they were curious about some of the other products that UST makes. So it's kind of across the board.

Operator

That concludes our question-and-answer session for today. I'd like to turn the call back to Mr. Murphy for closing remarks.

Brian Daniel Murphy - *American Outdoor Brands, Inc. - President, CEO & Director*

Thank you, operator, and thank you, everyone, for joining us today. On behalf of all of us at American Outdoor Brands, we wish you all a very safe and healthy holiday season and a prosperous New Year. We look forward to speaking with you again next quarter. Thanks.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
