

Vista Outdoor

Third Quarter Fiscal Year 2022 Earnings Call

February 3, 2022

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PRESENTATION

Operator

Hello all, and a warm welcome to the Vista Outdoor Third Quarter Fiscal Year 2022 Earnings Call.

It's my pleasure to now hand you over to our host, Shelly Hubbard, Vice President of Investor Relations.

Please go ahead when you're ready, Shelly.

Shelly Hubbard

Thank you, and good morning to everyone joining us for our Third Quarter Fiscal Year 2022 Earnings Call.

With me this morning is Chris Metz, Vista Outdoor Chief Executive Officer; Sudhanshu Priyadarshi, Senior Vice President and Chief Financial Officer; and Vishak Sankaran, President of Outdoor Accessories and Golf.

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Before we begin, I'd like to remind everyone that during today's call, we will be making several forward-looking statements and we make these statements under the Safe Harbor provisions of the Private Securities Litigation Reform Act. These forward-looking statements reflect our best estimates and assumptions based on our understanding of information known to us today. These forward-looking statements are subject to the risks and uncertainties that face Vista Outdoor and the industries in which we operate. We encourage you to review today's press release and Vista Outdoor's SEC filings for more information on these risk factors and uncertainties.

Please note that we have posted presentation materials on our website at investors.vistaoutdoor.com which supplement our comments this morning and include a reconciliation of non-GAAP financial measures.

Before I turn the call over to Management, let me provide a few comments regarding the changes in segment reporting.

As you read in our earnings release this morning, beginning with our third quarter results, we realigned our reportable segments to more closely reflect the important factors that affect each business' financial performance, including supply chain and logistics. We believe this will provide clearer sight into the puts and takes that are affecting each of our businesses.

As such, we are now including our Hunting and Shooting Accessories business in our Outdoor Products reporting segment, renaming it Outdoor Accessories. Our Outdoor Accessories businesses share similar manufacturing and logistics needs as the other brands in our Outdoor Products segment. We believe that this change will allow our investors to better understand trends in those businesses which predominantly rely on non-U.S.-based manufacturing unlike our ammunition businesses. Our ammunition businesses will now be reported as a standalone reporting segment named Sporting Products.

Importantly, these changes have no impact on our historical financial results. We have provided historical segment information restated to conform to the new reporting structure as supplemental financial information on our IR website. Please refer to our earnings release for more details.

With that said, I'll turn the call over to you, Chris.

Chris Metz

Thank you, Shelly, and good morning, everyone. I appreciate you joining us today.

Q3 marks our sixth consecutive quarter of record-breaking financial results. Sales were up 38% from Q3 last year driven by double-digit growth in both our reporting segments, with Sporting Products and Outdoor Products up 60% and 17%, respectively.

We delivered another quarter of increased profitability as we continued to successfully navigate industry-wide supply chain and inflationary challenges. For example, gross margin expanded more than 700 basis points from Q3 last year to 35%. EPS more than doubled, EBIT increased over 80% and EBITDA margins expanded over 400 basis points to 22%.

Overall, our performance through the first three quarters of Fiscal Year 2022 has exceeded the three-year targets we introduced at our investor day last May. These outstanding results demonstrate the strength of our value creation strategy and our team's ability to successfully execute on our plan, our five strategic pillars aimed to achieve one overarching goal; to leverage shared resources across our brands and achieve levels of excellence and financial performance that would be out of reach for any one brand on its own.

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The first strategic pillar is to build the right team as well as the right culture, a culture that puts people first, empowering them and enabling them to surmount challenges, grow, and succeed. Our team's perseverance through the unprecedented challenges over the past two years is nothing short of remarkable. Their continued dedication to deliver against our goals is one reason I am so proud to lead this Company.

The second strategic pillar is organic growth. We now have 10 power brands, each of which currently generate more than $100 million in annual sales. This achievement reflects a multi-year effort to expand the business and grow each of our brands in three distinct areas.

The first area is innovation, and we're continuing to launch new products at a rapid pace across our portfolio of brands to continue meeting customer needs and expanding market share.

The second is marketing, and our team has outstanding expertise at getting the word out about our brands and new products to outdoor and shooting sports consumers.

The third organic growth driver is e-commerce. We're continuing to make significant e-commerce investments, all aimed at creating a seamless experience for our consumers, meeting them wherever and whenever they want to shop with us. This e-commerce capability is a priority for us. Three years ago, we created an in-house center of excellence to help our brands accelerate their efforts and achieve positions of e-commerce leadership in their markets. We are seeing this investment pay off as we've grown our e-commerce business nearly 10% and D2C nearly 30% in Q3 as compared to the prior year.

Our centers of excellence from e-commerce to supply chain represent the third pillar of our value creation strategy. Our supply chain center of excellence is focused on enabling our brands to leverage shared resources and perform at higher levels than they could on their own similar to our e-commerce center of excellence. Driven by the efforts of our supply chain team, our brands have dramatically improved their performance over the past three years in areas including procurement, tariffs, hedging, sea (phon) rationalization, and freight optimization. This has resulted in significant efficiencies and improved ROI for our overall Company.

Given the current issues related to supply chain and logistics that our industry is facing, it's been challenging to make products fast enough to meet the high demand we're experiencing. However, as a result of our supply chain center of excellence, we've been successful in getting more product, including innovative new products, manufacturing delivery from overseas on a timely basis. At the same time, driven by our brand leadership, we've maintained the pricing power to sustain our profitability despite the pressures associated with higher commodity, supply chain, and SG&A costs.

The fourth pillar of our value creation strategy is our ability to make prudent acquisitions of fast-growing outdoor brands and successfully integrate and grow them within our portfolio in order to deliver long-term returns for our shareholders that exceed our industry peers.

In late December, we announced the acquisition of Stone Glacier, another high-growth business that increases our total addressable market in the backcountry, which has exploded in popularity in recent years and offers an outstanding line of packs, equipment, and technical apparel. Stone Glacier is an enthusiastic, cult-like brand that is well-managed and a great cultural fit. We're excited to welcome the team to Vista Outdoor.

This marks our seventh acquisition in less than 18 months, another milestone in our journey to become the acquirer of choice in the outdoor industry as brands realize the power of our scale, centers of excellence advantages, and nimble decentralized operating model. When brands join our family, we have

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a successful track record of quickly leveraging our shared strength to help them reach the next level of growth and leadership economics more quickly and more effectively than they would be able to do under any other ownership. In fact, our M&A center of excellence has developed a highly-effective and repeatable integration process that has greatly contributed to us beating the business case for every acquisition that we have made to date.

Turning to the fifth pillar in our value creation strategy, our capital deployment strategy is aimed at keeping our balance sheet strong and generating the cash flow necessary to provide financial flexibility for value creation. We have continued to opportunistically repurchase shares of our stock with excess cash and lower our leverage. Following the acquisition of Stone Glacier, our net debt leverage ratio was approximately 1 times, at the low end of our stated target of 1 to 2 times. In addition, today, we announced another $200 million share repurchase program, which is a testament to the confidence we have in our brands, our team, and the valuable opportunities ahead.

Now, let's move on to our reportable segments.

Overall, the level of consumer demand remains unprecedented across our portfolio of brands, and the 2021 holiday season was strong. Our e-commerce and supply chain centers of excellence teams worked tirelessly to seamlessly serve customers and ease the purchasing experience, while ensuring that each of our brands delivered products to our consumers in time for Black Friday. Our Black Friday and Cyber Monday D2C sales were up substantially from Q3 last year as a result. Average order value for the holiday season increased 30%, and our conversion rate on Black Friday increased more than 15%, a significant accomplishment given the record comps in Calendar 2020.

Moving on to Outdoor Products.

This segment was up 17% to a record $335 million driven by double-digit growth in outdoor recreation and action sports, as well as growth in outdoor accessories. EBIT increased 10% to $42 million. As we previously noted, our M&A efforts have been primarily focused on adding fast-growing brands to our Outdoor Products segment. In addition to Stone Glacier in December, our acquisitions of Foresight Sports and Fiber Energy have added growth, profitability, and expanded our total addressable market within our Outdoor Products portfolio.

Let me share a few highlights from our Outdoor Product brands.

Our CamelBak brand drove revenue up over 30% year-over-year in the third quarter, marking the fourth consecutive quarter with growth over 30%, driven by strong demand for bike products, hydration packs, and custom bottle designs. With the support from our e-commerce center of excellence, CamelBak has also dramatically improved its direct-to-consumer capability which posted record sales in the third quarter. Importantly, CamelBak continues to deliver innovative new products to capture additional market share and meet customers' needs. Most recently, it launched a product collaboration with the water purification brand, LifeStraw, which captured the coveted Gear of the Year Award from Gear Patrol.

Our backcountry electric bike brand, QuietKat, which we acquired last May, reported another record quarter, and has been significantly expanding its distribution across the U.S. We have also leveraged our shared resources to help QuietKat continue its rapid growth most recently by opening a larger and more strategically-located shared distribution center in Arkansas with our other brands. We're also pleased to announce that QuietKat extended the Jeep partnership for another three years, with an option for a two-year extension.

Camp Chef continues to focus on new product innovation with the spring launch of its Apex grill, expanding the brand's leadership position and giving consumers its choice for wood pellet or propane fuel

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cooking in a single platform. This innovation offers a breakthrough design with several Camp Chef features including the Sidekick, thus creating a unique offering in the marketplace. Fiber Energy also has capacity to expand which will support Camp Chef's pellet business in a macro environment where pellet capacity is limited.

Another highlight was Giro's Snow business, which had strong performance in the U.S. due to product availability, early-season snowfall, and innovation. Giro Snow received multiple Gear of the Year awards for seven different helmets and four different goggles from sources such as *Outside Magazine, Gear Junkie, Popular Science,* and TripSavvy. Our new Grid Envil (phon) lightweight helmet and Contour RS goggle were Editor Picks in *Freestyle Magazine*, expanding on prior recognition from *Outside Magazine.*

As for Bell, its recent video, Under the Helmet with Motocross Racer, Eli Tomac, was the biggest video release in the brand's history, expanding their brand awareness and consumer loyalty through viral digital channels.

We're also seeing strong momentum from our bike accessory brand, Blackburn, which is expanding shelf space with new categories at Walmart, as well as expanding into additional doors, and we had another quarter of very strong performance across our golf brands, including Bushnell Golf and Foresight. I'll have Vishak Sankaran provide an update in a moment.

Now, let's move on to our ammunition business, which are being reported separately as our Sporting Products segment.

Sales in Sporting Products rose 60% to $460 million, with EBIT margin expansion of over 1,400 basis points to nearly 33%, driven by improved pricing, volume, and mix, including the scaling of Remington.

Federal Premium will celebrate its 100th anniversary this year, a milestone that few companies reach, and we are proud of the team for this achievement and the tremendous growth and leadership position we've created over the last year, and Federal is more nimble, lean, and dynamic today than ever before. Consider the team's recent accomplishments. The FBI recently awarded Federal and Speer contracts for all four categories of its handgun ammunition.

Even with strong consumer demand, we've been able to provide products to important government and law enforcement customers and secure those contracts. Federal's 22 LR product was recently awarded NRA Women's Gear of the Year Golden Bullseye Award, and within new product innovation, Federal recently launched 30 Super Carry, around which will revolutionize the personal defense ammunition market, as well as the High Over All, which was engineered to be the industry's best competition shotshell and to service a high-demand market.

Remington's first product launch since the acquisition has been a huge success. The Core-Lokt Tipped reception in the marketplace is yet another signal that Big Green ammo is back, and finally, Federal's Terminal Ascent continues to garner awards and accolades alike, and has become the most sought-after hunting load on the market.

We are proud of these accomplishments, and taken against the backdrop of today's evolved market, we believe our ammunition business is far stronger and more resilient than it was five years ago. This business continues to benefit from strong consumer demand and trends that we see continuing for the foreseeable future. This is supported by nearly 14 million new diverse entrants into the sport, including a high percentage of people of color and women. These new enthusiasts are contributing to high participation rates at shooting ranges and youth shooting leagues, as well as increased sales of hunting licenses which continues to grow to the highest levels in over 60 years. This available data indicates that

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the influx of new entrants into hunting and shooting sports has produced a new pool of enthusiasts that we expect to be repeat customers for our consumable ammunition products for years to come.

Channel inventories remain quite low, with the exception of small rifle ammunition products produced at the Lake City Army Ammunition Plant. However, we've discussed on prior calls, following our purchase of Remington, we are now far less reliant on Lake City's small rifle ammunition sales than we were in prior years, and our strategic goal of shifting our product mix into more stable and more profitable hunting and shotshelling ammunition is paying dividends in terms of both top-line sales and bottom-line profitability.

We have also implemented strategic pricing actions to offset rising material, labor, and transportation costs, and we continue to drive increased efficiencies as our team increases output.

I want to emphasize that we are not resting our optimism for the future solely on heightened demand. We're continuing to modernize our ammunition business and reach consumers wherever they shop through our D2C and e-commerce platforms which are leading the industry, and our brands are actively building loyalty among new users as evidenced from Federal's aforementioned Gear of the Year Award.

We are also continuing to target Capex for incremental capacity expansion and efficiency improvement to increase volume at our existing plants. We believe that our latest investments will allow us to achieve higher output, productivity, and operational efficiency rates than any other manufacturer, further expanding our long-term competitive advantage.

Now, I'll turn it over to Vishak and he'll talk more about the exciting new opportunities in this operating segment.

Vishak?

Vishak Sankaran

Thanks, Chris, and good morning, everybody.

The third quarter was a transformative one for Vista Outdoor as we expanded our leadership position in the golf technology sector. Our acquisition of Foresight Sports enabled us to quickly penetrate an emerging category in launch monitors and simulation, while also bringing together one of the strongest technology brands in Foresight with one of the strongest consumer brands in Bushnell Golf. These two assets give Vista a distinct competitive advantage in golf, which itself is undergoing an incredible transformation. Younger, more diverse participants are driving growth across both on and off-course categories and opening new audiences for our golf teams.

In 2021, total golf participation was up 2% to 37.5 million. One-third or 12.4 million people are off-course participants. This demographic is younger, diverse, and growing. On-course rounds grew 5%, which is remarkable given the 13% growth in 2020. This growth is driven in part through heightened off-course interest and engagement. This means that the off-course experience is sticky and bringing new demographics to the golf course, a winning cycle for the game. Foresight Sports positions Vista well for these evolving and diversifying trends by expanding our leadership position within on-course products, while enabling deeper entry into the off-course segments.

During the third quarter, the Vista Outdoor Golf operating segment grew triple digits, led by strong results from our Foresight acquisition and double-digit growth from Bushnell Golf. Q3 included the first full quarter with Foresight, which over-delivered, posting strong double-digit top- and bottom-line growth. Foresight's performance was driven by the new GC3 launch monitor, the latest model in the GC line-up.

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The GC3 delivers professional-level ball, club, and biometric data to everyday golfers, and we are pleased with the early results.

Foresight is also launching its upgraded FSX Play software, which is an engine that powers the growing off-course simulation experience. Our combined hardware/software ecosystem is unique in the industry and gives us access to a large and dynamic installed user base and recurring revenue streams.

The brand new Bushnell Golf Launch Pro powered by Foresight Sports was released for pre-sale on multiple occasions during the quarter with each stack selling out in minutes. The Launch Pro enables us to expand launch monitor technology to a broader consumer demographic which accelerates penetration and drives expansion of our installed user base and recurring revenue opportunity.

Lastly, international sales grew double digits in Q3, and we expect additional growth as Europe and Asia ease pandemic-related restrictions.

I would also like to commend the Outdoor Accessories team, formerly known as Hunt/Shoot, for a fantastic quarter. This segment posted its biggest quarter in the last five years and seventh consecutive quarter of year-on-year growth. Chris commented on the strength of the ammunition business and the overall category. Our performance validates this commentary and demonstrates that today's recreational shooter is more active and consumptive.

I'm fortunate to lead a team of dedicated, hardworking professionals across the entire business unit. My thanks and appreciation go to our employees whose effort, dedication, and ingenuity enable our success and progress. Thank you all for your efforts.

Now, I'll turn it over to you, Sudhanshu.

Sudhanshu Priyadarshi

Thanks, Vishak, and good morning, everyone.

In Quarter 3, we achieved another record quarter in sales, as Chris noted. At the same time, we have maintained a sharp focus on expense management as we continue to make important investments in growth, while delivering increased profitability and strong returns to our stakeholders in the environment of rising unit product costs. Having completed seven acquisitions in less than 18 months, we have proven that we can drive accretive growth and productivity across an expanded portfolio of high-growth outdoor brands.

In Quarter 3, our leverage ratio was approximately 1 times, in line with our guidance last quarter and unchanged following the acquisition of Stone Glacier. From a purchase price perspective, this was a relatively small transaction that had a strong growth and profitability profile. The acquisition is expected to be accretive to our consolidated financials (inaudible), excluding transaction and (inaudible) cost.

We also repurchased more than 750,000 shares in Quarter 3 for a total of $30 million. We've continued share repurchases in Quarter 4, and have nearly exhausted our current program. As Chris mentioned, we also announced another new $200 million share repurchase program today as we focus on delivering return for our shareholders.

Now, let's move on to our Q3 results.

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Earlier this morning, we provided both as-reported and adjusted results in our earnings release, including the slides accompanying our earnings conference call. My comments today focus on adjusted results compared with the same period a year ago unless otherwise noted.

Looking at Slide 16, we continue to drive strong growth, margin expansion, and profitability.

Q3 sales increased 38%, reaching a record $795 million.

Gross profit increased 73% to $283 million driven predominantly by Sporting Products, and to a lesser degree, Outdoor Products.

EBIT rose 127% to $166 million and margin increased to 21%, up over 815 basis points driven by gross margin expansion and operating leverage, and EBITDA margin expanded to 23%, increasing more than 775 basis points and continued to exceed our three-year targets.

EPS increased more than 100% to $2.10 compared with $1.03.

Lastly, we generated over $100 million of free cash flow in the quarter despite securing supplies to deliver sales growth.

Turning to Page 17 of our presentation, we are continuing to maintain a strong balance sheet.

Our net leverage ratio remains at the low end of our target, or 1 times, and we have more than $200 million of liquidity. At quarter-end, we had $220 million in outstanding borrowings on our ABL revolver driven by high-growth acquisitions.

Moving on to Page 18, you can see that our capital allocation priorities have remained unchanged. We've continued to focus on reinvesting in organic growth, making strategic acquisitions, repurchasing shares, and maintaining a low leverage ratio of 1 to 2 times. Our strong results over the past several quarters demonstrate that our capital investments are driving strong performance across our portfolio.

Now, let's shift to our new reporting segment highlights beginning on Page 19.

Within Outdoor Products, Q3 sales increased 17% to $335 million, driven by growth in outdoor recreation led by golf and CamelBak, as well as other accessories and action sports led by growth in QuietKat.

Gross profit was primarily driven by higher-margin acquisitions including Foresight Sports and QuietKat. This was partially offset by higher product cost and logistics, as well as mix across sales channels.

EBIT margin was 13%, down roughly 70 basis points, driven primarily by higher SG&A from acquisitions as we continue to invest in these brands to drive future growth, as well as higher selling and marketing expenses as our teams return to events, including trade shows.

Turning to Sporting Products on Page 20, we continue to experience broad-based demand across all categories of ammunition, really low channel inventories, and the continued ramp-up of Remington.

In Quarter 3, Sporting Products sales rose 60% to $460 million.

Gross profit increased due to strategic pricing actions, higher sales volume, mix in operating efficiencies, driven by a lean cost structure. This was partially offset by higher input, labor, and other supply chain-related costs.

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Lastly, EBIT margin increased more than 1,400 basis points to 33%, driven by higher gross margin and operating leverage. We noted earlier this fiscal year that our most favorable hedges were rolling off in the first half of the year and input costs would increase in the second half of this fiscal year.

Lastly, let's turn to our outlook on Slide 21.

Similar to last quarter, we expect continued strong consumer demand across our portfolio. We remain confident in our business model, in our ability to continue executing successfully across our brands, and in our potential to deliver another record performance this fiscal year.

As a result, we are raising Full Fiscal Year 2022 guidance to revenue between $2.97 billion to $3 billion, up approximately 35% from previous records in Fiscal Year 2021; EBITDA margin of approximately 24% to 24.5% as compared to 15.5% in Fiscal Year 2021; earnings per share of $8 to $8.10, an increase of approximately 120% from last year; and free cash flow for the Fiscal Year 2022 is anticipated to be between $275 million to $325 million. This guidance includes acquisitions made to date.

Our Fiscal Year 2022 assumptions remain unchanged and can be found in our earnings release.

As we look beyond Fiscal Year 2022, we continue to see strong demand and growth opportunities across our portfolio. We are also reiterating the long-term targets provided at our investor day. We expect performance at the high end of each target, driven by strong organic growth and accretive acquisitions, as well as a disciplined financial strategy. We also see elevated long-term demand trends for Sporting Products as evidenced by 14 million new firearm owners, highly participation activity and trends, low channel inventories, and our multibillion-dollar backlog.

As we mentioned last quarter, we believe that our Sporting Products segment can continue to operate at high EBITDA margins, driven by the lean cost structure in our legacy facilities and opportunities to drive continued growth and operating efficiencies at our Remington plant. In addition, our acquisitions in Outdoor Products are quickly contributing to sales growth and margin expansion.

In summary, we remain highly confident in our business model and powerful portfolio brands. Vista Outdoor is well-positioned to continue to drive long-term growth, profitability, and return for our shareholders.

Now, I will hand it back to Chris for closing comments.

Chris?

Chris Metz

Thank you, Sudhanshu and Vishak.

Before we take your questions, I want to reiterate our confidence in Vista Outdoor's future growth and opportunities. Vista's well-positioned to win in this environment, with key competitive advantages that separate Vista Outdoor from others in the industry. We have a diverse portfolio of leading iconic and disruptive brands. Our multibillion-dollar organization, including our centers of excellence, bring size and resources to our brands. Our healthy balance sheet and strong free cash flow position us to support continued organic investments, as well as prudent M&A and return excess capital to shareholders via share repurchases, and we have a purpose and sustainability-driven culture with a proven track record of attracting outstanding talent and making an impact.

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We have confidence in the power of outdoor recreation and the sustainability of the trends, which continue to reflect that people value and prioritize time outdoors. Activity and participation rates across outdoor recreation continue to rise, whether it be golfing, camping, hiking, biking, hunting, or recreational shooting.

Two years into the pandemic, people are finding enjoyment in their newly-acquired and rediscovered outdoor passions. Whatever their chosen activity, Vista Outdoor will continue to be there with brands they trust to deliver innovative, quality products that enhance their outdoor experiences. While we are mindful of the risks associated with COVID, we believe we will continue to operate in a world in which COVID is epidemic, and our team is prepared to adapt and adjust to deliver continued success. Our brands have met the challenges head-on for the last two years. We are confident in their ability to continue to rise to the occasion no matter what comes our way in '22 or beyond.

We're excited about our future, and remain committed to executing on our strategy to deliver long-term value for all of our stakeholders.

Now, let's open it up for your questions.

Operator?

Operator

Thank you Chris.

Our first question today comes from Scott Stember of CL King & Associates. Your line is open.

Scott Stember

Good morning, guys, and congrats on the very, very strong results.

Chris Metz

Thanks, Scott. Good morning.

Scott Stember

Maybe talk about on the ammunition side from an inventory standpoint where we stand. Have we made any meaningful dents in filling the chain, and then maybe secondarily, just talk about the pricing environment?

Chris Metz

Sure.

Scott, in certain calibers, you'll walk the retail and you'll find that there's more stock than there were a few months ago, but in total, stocks remain still very low and it's kind of hand to glove, if you will, so the calibers that remain in need, all the hunting, all the shotshells, most of the center fire and gun calibers, and the calibers you'll see are more Lake City; small rifle, 223 5.56, and some of the 9 millimeter. Those are the ones that you see more in stock; not enough, but still more in stock, and in total, not enough stock. We still think we're in a position that if we had to restock all the channels, we're still a couple quarters of full production to restock the channels, so we're not there yet, but if we reach that point, that's

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how long it would take, and the pricing pretty much follows. So, pricing's compressed a little bit in 223 5.56, it's compressed a little bit in 9 millimeter, and all the other calibers are as strong as it's ever been.

Scott Stember

Okay, then on the—oh, so you did mention pricing. Got it.

Then on the Outdoor Products side, what was the contribution from Foresight, and just trying to get a sense of the organic performance in shooting—in Outdoor Products?

Chris Metz

Sure.

Sudhanshu, you want to take the Foresight question? I'll talk a bit about organic.

Sudhanshu Priyadarshi

Yes. Thanks, Chris.

Hi, Scott. This is Hanshu.

Foresight has done better than what we predicted, so we have said it's a $100 million a year business than we acquired, so roughly $25 million a quarter. It did slightly better than that, but all of our other businesses do, and overall, organically, we grew in Outdoor Products business.

Chris Metz

Yes, so Scott, to put a finer point on the Outdoor Products growth, so with the segment realignment, we grew 17% year-over-year. Now, if we used the old reporting, we would have been up 25% in Outdoor Products, and if you think about organically, we grew kind of low to mid-single digits organically, which is in keeping with our long-term guidance and our belief going forward, and then we used our acquisitions to super-drive our organic—or our total growth in Outdoor Products.

Scott Stember

Got it.

Just the last question, looking out to '23. I know it's early and you're not issuing guidance, but I'm just trying to get a sense of just early on, where does—how does '23 play in your target—your longer-term targets whether it's sales or margins?

Chris Metz

Yes, Scott, it's a really good question and something that we're looking forward to talking in a more fulsome way as we close through our fourth quarter, but suffice it to say that the guidance we gave last year at our investor conference, we still feel very good about, so when you look at the sales growth, you look at the EBITDA margins, we still think we're capable of continuing to perform in that range. We're not going to grow at the hyper rate that we grew last year or this year. That's not sustainable, and frankly, if you look at our EBITDA margins of being a kind of in those mid 20s, that's not sustainable either.

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We said long term that we're mid-to-high teens, and we think we can operate at the upper end of the high teens on EBITDA margin, and everything we've seen continues to lead us to believe we can do that, and that factors in what we think's going to happen in all of our end user markets, so it's not expecting demand to continue the way that we've seen it over the past couple of years, that type of thing. So, we're very bullish on the guidance we gave last year and being able to continue that, and that obviously doesn't include acquisitions or things of that nature which would take us beyond we are today.

Scott Stember

Got it. That's all I have. Thank you.

Chris Metz

Okay. Thanks, Scott.

Operator

Our next question today comes from Matt Koranda of ROTH Capital. Please go ahead.

Matt Koranda

Hey, guys. Good morning.

Just wanted to quickly touch on the gross margins in the ammo segment, so took a bit of a step-down sequentially, and I think you guys had already sort of telegraphed that given some hedges that are rolling off, but wanted to see if you could maybe put a finer point on how much of the step-down sequentially was hedges rolling off versus sort of inefficiencies like increased labor costs on a sequential basis. Any color you can provide there, and is this where gross margins sort of stabilized for the foreseeable future sort of given the strength in demand and the pricing environment being relatively firm?

Chris Metz

Sudhanshu, do you want to address that?

Sudhanshu Priyadarshi

Yes. Yes, Matt, it's a very good question.

As you said, we have talked before that first half we will have better input costs because of the hedges, but in Q3, in addition to those hedges rolling off, we also saw COVID disruptions in month of December, and then we also saw that in January. We have two plants running here and we saw some Omicron cases, so there was inefficiency also that impacted the gross margin. We don't break that down, but overall, as you said, we believe that we will continue to maintain (inaudible) the guidance for Q4, we will maintain this kind of gross margin going forward because we continue to see the demand, and so our Q4 guidance, what that gives you for gross margin, we will continue to maintain that in our Sporting Products segment.

Matt Koranda

Okay, thank you.

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Then one other one for me on the ammo segment. Just wanted to see if you could maybe provide a bit more color on sort of the Remington contribution. Any commentary that you can also provide on just sort of price versus volume in the organic component of ammo as well would be super helpful, and then just if you could put a finer point on pricing. It sounded like Chris was saying probably less opportunity to take price on a go-forward basis, but are there certain calibers where you can still price to sort of offset some of the labor and other component headwinds that you've got?

Sudhanshu Priyadarshi

Remington is organic for us. We closed last year in Q3, so it's—Remington's 12-month is up, so it's organic—part of organic growth. Remington is reaching to the $100 million quarter run rate. That's what we laid out. We still have some room to grow, but you're also facing the challenges of raw material, I talked about labor, but Remington is doing great, and they still have some work to do in terms of getting them to the margin of legacy ammo level, but sales, we are very happy they're reaching to a critical mass what we're expecting.

Chris Metz

Hey, Matt, on pricing, too, because there's two components of pricing, there's the pricing at retail and then there's our pricing to retail, and they generally correlate positively, as you might imagine. So, we announced our last price increase in January which will take effect in April, so that'll affect our next fiscal year, and we continue to see the ability to offset input costs, be they a variety of input costs, with both pricing, as well as efficiency. So, the inefficiencies that we saw with COVID-related vacancies or shortages in labor, we're quickly working our way through it, and we've—as you can imagine, we've been fighting this for the better part of two years, so we're—our team is very, very adept at working through those issues, and Omicron, we've worked through a lot of those issues, so as we go forward, we continue to believe that our facilities will operate highly efficiently and it'll be kind of normal course, if you will, going forward.

Matt Koranda

Excellent. Very helpful. I'll leave it there, guys. Thank you.

Operator

Thank you.

Our next question today comes from Mark Smith of Lake Street Capital Markets. Your line's open, Mark.

Mark Smith

Thank you.

Guys, can you talk a little bit about the backlog of orders in ammunition and any delta and change that we saw in that during the quarter?

Chris Metz

Mark, we've communicated previously that it's in the multi billions, and it hasn't changed, which is a very good indicator that demand continues to operate at the level that we've seen over the past couple of years, and no surprises when you see 14 million new entrants into the sports that we participate in, and hunting licenses up off of record numbers in '19 and '20, but still at the highest level we've seen since

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they started recording hunting licenses, so the demand is there and the backlog continues to be very, very high.

Mark Smith

Perfect.

Then, just, as we look at sales of ammo and accessories, in particular as you changed some of the—how you report or where you put kind of these outdoor accessories revenue, can you talk about how this is trending following the big firearm surge, and as we're seeing that maybe fall into a new normal, kind of how your accessories for firearms have settled in and kind of the tailwinds that you still have for those accessories?

Chris Metz

Sure.

The neat thing about our accessories business, and you can say it relates to a number of other Outdoor Products categories as well, is we saw a heightened demand over the past year or so and it hasn't fallen off. I mean, that demand continues to remain strong. Now, it doesn't have the hyper demand, if you will, that ammo has, but our accessories continues to grow and continues to grow at rates that we're very, very pleased with, and if you want the shotshell or if you read some of our new product introductions, you can't help but notice the innovation that we're bringing into the outdoor accessories space.

We've become a highly-innovative organization, and it's in keeping with the nimble culture we have and getting close to users and really doing the research, so what we've done in optics this year, what we've done in laser rangefinders, in slings and all sorts of things, reloading with RCBS, we've done a lot of neat things that I think will contribute to us continuing to take share, and we've certainly taken share over the past 12 to 18 months and we see that continuing.

Mark Smith

Excellent.

If I can just squeeze one more in, with the Fiber Energy products, we see almost some more vertical integration within kind of that Camp Chef outdoor cooking. Within ammunition, you've got more vertical integration. Is that an opportunity, maybe, in some of the other areas in the business to add more businesses that—and acquisitions that maybe give you more vertical integration?

Chris Metz

Mark, it certainly is, and I don't want to mislead folks on the phone that that's going to be our primary focus, because it's not. I mean, we look at the whole landscape and we look at vertical integration in kind of the same vein that we look at bolt-ons or, frankly, new platforms where we think we can achieve leadership economics, and where we feel like we've got the permission to play and add on to a particular business, we're absolutely interested in it. Fiber Energy is a unique opportunity for us to help enable the Camp Chef business, so when we sell in the Trojan horse of the pellet grill itself, there's a strong attachment rate and stickiness to the input consumables which are pellets and charcoal and what have you. So frankly, the industry has been capacity-constrained. The demand has just outstripped the ability to provide those consumables, so we're really excited about the potential that Fiber Energy has to contribute to Camp Chef's future.

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Mark Smith

Excellent. Thank you, guys.

Chris Metz

Thanks, Mark.

Operator

Our next question today comes from Jim Chartier of Monness, Crespi, and Hardt. Please go ahead.

Jim Chartier

Good morning. Thanks for taking my questions.

The acquisitions that you've made this year, QuietKat and Foresight, and now, Stone Glacier, seem to have really kind of raised the organic growth profile of the non-ammo business, so I was wondering if you could talk about what percentage on a pro-forma basis those businesses now represent, and then can you give a sense of what the medium-term growth outlook for those businesses is? Are they 30%, 40%, 50% growers? That'd be great. Thanks.

Chris Metz

Jim, appreciate the question, and a very insightful question, and we, for competitive reasons, have been very careful about where we disclose certain revenue size and what have you, particularly given the limitations in input materials and what have you. So, where it becomes material like a Foresight, we've disclosed. But, I think the best way to look at this is how I kind of describe the Outdoor Products profile, so we're growing 17% year-over-year. Old reporting, we were growing 25%, so if you think of the organic business growing low to mid-single digits and the rest of that growth being contributed by acquisitions, it gives you a sense and a feel for the magnitude of the acquisitions we're making.

Now, in fairness, some of the acquisitions, as we've said, like a QuietKat or a Stone Glacier, they're leaders in their own right, but they're still relatively small, but are growing exponentially. Each of those businesses we expect to double in size for the next couple of years. They're highly exciting for us, and at some point in the time in the not-too-distant future, they will become more material.

Jim Chartier

Okay.

Then, any capacity constraints in Foresight or QuietKat in the quarter, and what investments? You're talking about QuietKat, but what investments are you making to kind of grow those businesses?

Chris Metz

Yes, we are making growth investments in both of those businesses, and frankly, our other businesses where we see fast growth, and that is what you see borne into the SG&A increases. There's a lot of year-over-year stuff with COVID coming off with travel, this, that, and whatever, but most of our SG&A investments are in our higher-growth, newer businesses where we see the good ROIs, and as it relates to capacity constraint, both of those businesses are constrained. So, you think about Foresight, and it also extends into Bushnell Golf with our new Launch Pro, we honestly just can't get enough chips, and so the

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same supply chain constraints that you see in the automotive sector and other sectors that use chips in their controllers and everything else, we're fighting that supply chain. So, despite the strong results we're posting in these businesses, we still can't meet the demand that we know is out there, which is a very exciting sign for us, and there's nothing we can do as it relates to investing in capacity to relieve that log jam. Those are just supplied components that, frankly, a lot of sectors are facing the same issues.

Jim Chartier

Right. Thanks. Best of luck.

Chris Metz

Thanks, Jim.

Operator

The next question is Ryan Sundby of William Blair. Please go ahead.

Ryan Sundby

Yes. Hi. Good morning. Congrats on another great quarter there.

Chris Metz

Good morning. Thanks, Ryan.

Ryan Sundby

Hey. Yes.

With the stock price arguably not reflecting the current business fundamentals, can you talk a little bit about the Board's decision to approve the $200 million share repurchase authorization? I guess why was this the right amount, and what would it take to get even more aggressive in buying back your shares here given the current multiple?

Chris Metz

What we're really referring—what you're referring to there, Ryan, is our capital allocation, and it's something that the Board discusses regularly in depth, and we have very, very thoughtful strategic discussions on this. We believe that buying back stock, particularly at these levels, is very attractive for our shareholders. The Board authorized $100 million just six months ago. We've utilized that, and the Board thought another $200 million or 2X that was the appropriate amount.

As attractive as buying back our own stock is, we continue to see very, very attractive investments for our free cash flow in our organic businesses. We know that as we continue to innovate with new products, as we continue to build out our centers of excellence, as we continue to leverage the synergies within the Company, that's how you see the outsized margins that we're generating and the strong free cash flow that we're generating that will fuel continued cash flow to drive stock repurchases or however we want to invest in it, and then we also see the opportunity to deploy our cash into high-growth, high-margin acquisitions, and we really believe that as we continue to perform, you're going to see our stock price increase.

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It's easy to forget that just two years ago, we were trading at $4 to $5 a share, and today, we're trading over $40 a share, so we still think we're the best investment in America, and particularly in the outdoor product space given the investment theses that we believe investors should be looking at, so you look at our execution, you look at our continued results, you look at the forecast that we're delivering, we frankly think we're a flight to safety and a strong bet in this marketplace, and so you're going to see us continue to invest in organic growth, high-margin, high-growth, new acquisitions, as well as stock repurchases where we feel like we can be opportunistic and add value to shareholders.

Ryan Sundby

Got it. That makes a lot of sense.

Then, I guess just a follow-up on Jim's question on acquisitions. With regards to Stone Glacier, are there any major distribution or product innovation opportunities that you see as maybe low-hanging fruit for that business, and then are there any synergies between Stone Glacier and Venor as you maybe put those businesses kind of next to each other?

Chris Metz

Good questions, Ryan.

First, on the innovation front, this team is a highly-talented team, and it's made up of folks that have been in different companies around the industry headquartered in Bozeman, Montana, which is the epicenter of a lot of neat things going on in the consumer product space. I mentioned that they have a cult-like following. If you go look at the price points they sell at, people are paying up for the technical nature of the products, the innovation that they bring, the materials, the look, the fit. These guys are doing a superb job, and they honestly weren't looking to sell the company, but we've built a relationship with them over the past couple of years, and they came to the realization that growth requires growth capital, and so that's where we came in to help them. So, we're super excited about the opportunities and the synergies across our companies, so Venor is a perfect example where with the website database and user technologies that we've built, we can share consumer trends across our businesses and our brands, which we're doing today, and increasingly help smaller fledgling brands like Venor grow more than they normally would. We've also got nice (inaudible) capabilities in our Eagle facility and our Blackhawk facility where we can help the Stone Glacier team with more capacity.

Ryan Sundby

That's great. Thanks.

Operator

Our final question today comes from Eric Wold of B. Riley Securities. Please go ahead.

Eric Wold

Thanks, guys.

Just a couple of questions on ammo segment, obviously—kind of follow-up. You mentioned that you did see some impacts on production from COVID and labor and Omicron in December and January. Maybe give us a sense of kind of how much production capacity was held back in the quarter from that versus what you could have shipped.

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Chris Metz

Vishak, do you want to...

Vishak Sankaran

Eric, we don't disclose at that level, obviously, for the competitive reasons, but you saw what kind of number we posted in terms of the sales in Q3 in Sporting Products, and also the kind of guidance we gave for, so yes, there were some hiccups and it impacted more of our gross profit, but we had inventory build-up and we managed to get the sales number where we wanted. It just cost a little bit more and that impacted our gross margin.

Chris Metz

The other component, too, within ammunition, I think this—as you start to think about the general landscape and ammunition in total, the biggest constraint we see is not labor. It's really the material input, so if we were to expand capacity, there would still be a limit on the input materials, and I think that's why you're largely seeing people not expand capacity like they did in the last surge where material inputs were not as constrained, so where you see people maybe talking about capacity expansion, our view, given where we sit and as a leader in the industry, we're gathering as many materials as we possibly can, and we still know that there's a shortage in the future, so you've got to be careful when you think about capacity expansion that it may not all come to fruition because of the material shortages, which we don't see changing, really, anytime soon, so we're going to drive continued growth, really, through the efficiencies that we gain, and if we look at our Remington facility, we—we're doing—the team is doing remarkable things in that facility, beating all expectations, but we still can be more efficient there.

Eric Wold

Perfect.

Then obviously, you talked extensively about inventories in the channel being low. Maybe can you give us a sense on how POS sell-through has been trending year-to-date?

Chris Metz

Super. I mean, the POS is, frankly, a factor of what we can supply. So, if you talk to all the retailers, they continue to be able to sell through everything that we and our peers can deliver, and we spend an awful lot of time every day figuring out how to make sure that our customers get everything that they expect. As you might imagine, sometimes they're not the easiest conversations because we're working our factories and our folks as hard as we can to supply our trusted retail customers, and we're going to continue to do that.

Eric Wold

Perfect, and a final question, if I may.

Obviously, everyone being capacity-constrained on inputs and whatnot and cranking out as much ammo as they can, what are your thoughts on—kind of updated thoughts on the Russian ammo ban as that kind of comes to fruition over the coming months? Obviously, that supply coming out of the market, there's not much you can do to replace it. Where do you see the benefit of that, and when does that sort of going to come into play for you guys over the next 12 to 18, 24-plus months?

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Chris Metz

Well, just to refresh everybody on the call, the—our legislators, our Congress people have passed legislation which, over a period of the next 18—15 to 18 months, will ban imports from Russia, and we fully expect that those bans will come into play. So, how it plays out between now and then, I wouldn't expect a lot of changes. I mean, right now, the Russians and some of the others are filling in—predominantly Russia, are filling in some of the holes in demand that we can't supply, and to the extent that our supply comes on-stream because production—or materials are available, I think you'll see that wane a bit, and now, how the whole Ukraine situation plays out and whether they need to push some of the ammunition towards the front lines there may have an impact on their ability to export as well, but we won't speculate on that.

Eric Wold

Helpful. Thanks, guys.

Chris Metz

Yes. Thank you.

Operator

Thank you.

We've now run out of time, so I'll hand back to the Management for closing remarks.

Chris Metz

Ladies and gentlemen, we want to thank you again for your time today. We're excited about the position that we have within the industry, and we're looking forward to another great quarter in front of us and talking to you in another 90 days. Thank you so much.

Operator

This concludes today's call. Thank you for joining. You may now disconnect your line.

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