

Vista Outdoor

First Quarter Fiscal Year 2023 Earnings Conference Call

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PRESENTATION

Operator

Good morning, and welcome to today's First Quarter Fiscal Year 2023 Vista Earnings Conference Call.

I would now like to pass the conference over to our host, Shelly Hubbard, to begin.

Shelly Hubbard

Thank you, Operator, and good morning to everyone joining us for our First Quarter Fiscal Year 2023 Earnings Call.

With me this morning is Chris Metz, Vista Outdoor Chief Executive Officer; Jason Vanderbrink, President, Sporting Products; and Sudhanshu Priyadarshi, Senior Vice President and Chief Financial Officer.

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

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assumptions based on our understanding of the 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.

Chris, I'll turn it over to you.

Chris Metz

Thank you, Shelly. Good morning, everyone, and welcome.

Today, I will cover five key topics which address why we are confident about our future despite current macroeconomic headwinds. These include our strong quarter one earnings performance, our planned acquisitions of Fox Racing and Simms Fishing, trends we are seeing across the marketplace in our businesses, strong growth from product innovations, and lastly, an update on our planned separation.

Let's start with our first-quarter performance. Fiscal 2023 is off to a great start with a strong Q1. We out-executed our plan and long-term targets and invested free cash flow in future returns while maintaining a strong balance sheet with ample liquidity, and doing so in a challenging macroeconomic environment. We believe Vista Outdoor is well positioned to deliver continued growth in Fiscal 2023 despite the economic headwinds. Our strategy and execution have positioned us to capture the lifestyle shifts we're seeing in outdoor recreation. Although sales are not as elevated as during the COVID bump, we're highly encouraged by the continued participation in outdoor activity in the post-pandemic environment.

I've always led with the mantra that we control our own destiny. As you can see on Slide 4, we've created a company with 39 coveted brands, and soon to be 41, as we continue to expand our addressable market through strategic acquisitions, such as the most recent planned acquisitions of Fox Racing and Simms Fishing. As a result, we will have amassed 12 power brands generating more than $100 million in annual revenue.

We're also maintaining our leading number one, number two category positions across multiple brands, as you can see on Slide 5.

Moving to Slide 6, both Fox Racing and Simms Fishing are iconic brands with cult-like following in their categories. Fox Racing, a global brand in performance motocross, mountain bike, and lifestyle gear, is on a path that is expected to generate $350 million in revenue this calendar year. Simms Fishing, a premium fishing brand and leading manufacturer of waders, outerwear, footwear, and technical apparel, is expected to generate $110 million in annual revenue this calendar year.

Before we dive into the quarter's results, I want to leave you with three key messages today as shown on Slide 7.

One, we're committed to unlocking value for our shareholders. Two, we will continue to grow and leverage our 12 $100 million-plus businesses, building number one and number two share positions in the market. And three, we're on track and continue to deliver growth and profitability. Our first-quarter results and full-year guidance are a testament to this commitment.

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Now moving to Slide 8. In Q1, we posted our second best sales record ever of $803 million, up 21% over the prior year, driven by continued shifts in outdoor lifestyles and recreation, the strength of our brand portfolio, new product innovation, and execution excellence.

Sporting Products segment revenue grew 40% year over year, driven by higher volume, better mix, and pricing. Revenue in the Outdoor Products segment was down slightly from Q1 last year in a more challenging demand environment, as expected, declining 2%, driven largely by outdoor accessories. This was partially offset by growth in our Outdoor Recreation operating segment.

Let me give you a bit more color on trends we're seeing. During Q1, demand was beginning to soften at opening price points due to the lack of stimulus money this year and higher inflation. However, we believe this is short term, as underlying participation rates remain elevated. At higher price points, we continue to see strong demand, and participation rates remain steady. Within Outdoor Recreation, Golf posted exceptional growth, and sales at CamelBak also increased, primarily driven by new products. Our outdoor cooking platform was impacted by high comps from sell-in last year, as retailers were replenishing low inventory to keep up with elevated demand. This year, brick-and-mortar retailers are in an overstock position, particularly at lower price and medium price point grills.

We're beginning to see a normalization within the domestic commercial ammunition market, and we're seeing consumer demand and consumption settling to an elevated run rate that is higher than prior post-peak levels. Our outlook for ammo remains positive. The ranks of new shooters are increasing both in quantity and diversity. Recent growth has not been politically driven, but culturally driven by new entrants who are participating more frequently and consuming more ammunition than legacy shooters. We expect demand to remain solid through midterm elections, as we're confident this event won't have a large impact on demand.

Overall, we expect to see lower price point categories continue to be affected more by inflation as reduced stimulus and higher prices have led to lower spend in areas such as hunting and shooting accessories, bike helmets in the mass channel, and grills at opening price points. Across several of our brands, retail customers in our categories bought heavily last year in both Q1 and Q2, creating extremely tough comps, particularly in outdoor accessories. Similarly, certain large retailers have been reducing or halting new purchases across all categories, which is affecting our buyers open to buy, even in categories where sell-through of our products remain strong. I'll also note that last year in Q1, Amazon's Prime Day was in June, whereas this year it shifted to Q2 in July.

Our latest acquisitions, including Foresight, Stone Glacier, and QuietKat, are all performing very well, as planned, despite the economic headwinds. We believe this reflects two dynamics. First, they're selling to higher end, more affluent consumers less affected by inflation, and second, they're participating in higher growth categories, which is a key reason we acquired these businesses, as well as our planned acquisitions of Fox Racing and Simms Fishing. We expect these acquisitions to partially offset the slowing of legacy products from historic highs, demonstrating that having a diversified portfolio affords the flexibility to be strategic in the current operating environment.

Q1 was also a strong quarter on the bottom line. Adjusted EBITDA margin for the total company expanded 83 basis points to 25.2%, our second highest margin rate ever, and diluted EPS was the second best in company history at $2.31.

Moving to Slide 9, this quarter exemplified the value creation strategy we laid out at our Investor Day in May, as we delivered strong revenue growth, profitability expansion, traction from new product innovation, and capital allocation excellence, inclusive of M&A.

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Looking at market traction on Slide 10, our investments in new product innovations are driving growth. Examples this quarter include the CamelBak Drinkware, which was up more than 100% year on year. This quarter, CamelBak introduced the ChillBak cooler series, leading to strong media coverage and market uptake. With the ChillBak, we've entered the soft cooler space with best-in-class insulation and an integrated hydration reservoir only CamelBak can provide.

Additionally, we have launched our new Fusion reservoir line, with key features such as lightweight, easy to fill, easy to clean, as well as a universal fit. The Fusion reservoir continues to cement our leadership position in hydration reservoirs. For the sixth consecutive quarter CamelBak posted sales growth led by B2C, which increased strong double digits from the prior year.

Camp Chef Stoves were up 30% year over year. Lifestyle shifts are embracing camping. There were 93 million active camping households in 2021, with 9 million first-time camping households added during the year. Camp Chef launched the new Apex Grill in July, which exceeded expectations. The Apex Grill sold out during the first week. In fact, the Apex Grill was featured in a Fourth of July profile in *The Wall Street Journal* covering the best grills in the market. While the Apex changes the grilling game, there's yet another game-changing launch planned for October 1. Keep an eye on Camp Chef, as they're leading the pack on innovation.

Sales in Foresight, with a lineup of launch monitors, including the all-new GC3 personal launch monitor, surged in the quarter, driven by strong consumer demand and the ability to procure a larger chip supply. Callaway and Topgolf recently named Foresight as their exclusive launch monitor partner, because our technology delivered shot data with the highest level of quality, accuracy, and reliability.

Giro Snow was up more than 500% compared with the prior year, driven by strong consumer demand, new product innovation, and favorable supply chain factors. Bushnell's strong growth reflected in part with the continued success of our CelluCORE 20 trail cameras. Trail cameras drove more than a 100% growth year over year. In addition, we're excited to be launching two new line extensions, one with dual SIM capability, and the other with an adjustable, integrated solar panel.

Bell power sports are up double digits in a category where we are building on momentum with one of the most exciting brands in the space, Fox Racing. This success was driven by supply chain efficiencies that led to stronger order fulfillment and consumer demand driven by new products, such as the Bell Moto-10, and strong performances by sponsored athletes showcasing our gear in traditional and social media outlets.

Now moving to Slide 11. As lifestyles began to shift in early 2020, we committed to leverage our above-trend cash flow and invest in the future to drive organic growth, make strategic acquisitions, and repurchase shares, and to do so while maintaining a low leverage ratio. The innovations I've just described are the result of this commitment to excellence in capital allocation.

Now I'd like to turn your attention to the Value Creation Framework on Slide 12 that we first shared with you in Calendar 2021. We have several pillars to deploy, and in Q1 we leaned into Acquisitions as the right opportunities became apparent. With Fox Racing, this legendary brand will bring us into one of the most passionate sporting bases we address, with motocross and mountain biking. With Simms Fishing, we believe we can create a fishing platform that delivers long-term growth and value for all stakeholders. With each of these planned acquisitions, we're continuing the successful implementation of our strategy to use accretive acquisitions to expand leadership positions across categories, while enhancing our ability to capitalize on long-term growth opportunities in Outdoor Recreation.

While we reported a strong first quarter, we acknowledge that we're operating in a much more challenging environment with rising inflation and interest rates, as well as eroding consumer sentiment. We recognize

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these dynamics, and we're taking actions to mitigate risk. We're mindful of the potential impacts on our businesses and have incorporated expectations into our guidance with the visibility known to us at this time.

We have several levers we can pull, including managing inventory, controlling costs, and optimizing our product offerings, to name a few, as shown on Slide 13. Managing a diversified portfolio is a competitive advantage and allows us to absorb fluctuations and brand performance across our portfolio. We have the right teams in place with decades of experience in our industry to help us navigate the future, and we have built a nimble organization with a lean cost structure, enabling us the flexibility to pivot quickly.

To summarize the first quarter, the theme that's driven our performance for the past two years remains firmly in place. Our results continue to reflect the strength of our management team and our brands, our talented workforce, cash flow generation, innovative new products, strategic execution, and strong outdoor sports and recreation markets.

Moving on to the separation that we announced nearly 90 days ago. Today, we're just as confident about unlocking value, and our strategic rationale holds true despite the current environment. We remain on track to spin off the Outdoor Products segment in Calendar Year 2023. To do so, there are three gating (phon) items to complete the spin shown on Slide 14, including preparing the Form 10 registration statement for confidential filing with the SEC, obtaining regulatory approval of the Form 10 by the SEC, along with other regulatory approvals, and final approval by our Board of Directors.

Both companies will offer a differentiated and compelling investment opportunity based on each company's respective business models. Each will also have a tailored capital structure and capital allocation strategy to support their distinctive business models and long-term goals. With both companies nearing $2 billion in pro forma annual sales, each will be one of the largest businesses in their space. Outdoor Products also offers a well-diversified brand portfolio that is positioned to capture consumer demand across a variety of outdoor and lifestyle activities. As I previously mentioned, we expect the separation to further unlock shareholder value.

Before I hand it over to Jason Vanderbrink, who will discuss Sporting Products in more detail, I'd like to reiterate a few important thoughts. The start to Fiscal '23 was both successful and transformative with the separation announcement and planned acquisitions of Fox Racing and Simms Fishing. We stayed the course on execution and financial performance.

We understand the negative macroeconomic pressures are real. We're experiencing slowing demand and lower price points across our brands. We're seeing pressures at key customers, including Target and Walmart. We're seeing the secular downdraft in backyard grilling, and ammo demand appears to be normalizing. Despite macroeconomic headwinds that all companies are facing, our fundamentals and competitive advantages are stronger than ever. We continue to remain confident about our long-term opportunities to grow as ammo demand is normalizing at new highs.

Our new product innovation machine is replacing opening price points and driving affinity for our brands. Past acquisitions are growing the top and bottom line faster while enhancing our talent, diversifying our portfolio, and increasing our TAM, and we expect Fox Racing and Simms Fishing to do the same.

Our diversified portfolio of leading brands provides us with size and scale to thrive now and into the future, and our execution is driving industry-leading financial performance as supported by our healthy balance sheet, strong free cash flow generation, and ample liquidity.

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Today's environment is unprecedented, and the impacts of inflation, supply chain constraints, and a tight labor market are not unique to Vista Outdoor. We believe we can continue to weather these challenges, unlock value, and win versus the competition.

With that, I'll hand it over to Jason.

Jason.

Jason Vanderbrink

Thank you, Chris. Good morning, everyone.

As Chris mentioned, Sporting Products set a record in the fiscal first quarter, delivering $511 million in revenue, which is a 40% increase from the prior year. Our sales growth this quarter was driven by continued demand for our coveted brands. It has also reflected higher volume due to the timing of shipments to fill large commercial orders, along with improved pricing. Note that the higher-than-expected volume of shipments resulted in low finished goods inventory for the upcoming quarters. Labor shortages and higher turnover rates are also impacting the amount we're able to ship over the next few quarters. That said, we continue to see low channel inventory in the categories that we are the clear market leader in, and we still have a multibillion dollar backlog.

We've long been low-cost manufacturing leaders, and we've invested to improve the operations and drive efficiencies, as well as implement cost-savings projects across the business. These improvements translated to strong performance on the bottom line this quarter. We delivered EBITDA of $182 million, up 39% year over year, driven primarily by higher gross profit. EBITDA margin was 35.7% compared to 36% in the prior year.

In improving our operations, we've also aligned and optimized our production for changes in consumer demand. As a result, I feel confident that we have built a strong foundation for years to come. Although we don't anticipate the high levels of demand that we experienced over the last couple of years to persist, we have seen structural changes in the market that suggest the new post-peak demand levels will be higher than in prior cycles.

We're better positioned today than we ever have been, both internally and externally. From our low point in Fiscal Year 2020, we have transformed our ammunition business in significant ways, which we believe will result to deliver sustained profitability in line with the mid-20s EBITDA rate we presented at Investor Day. The key changes we have made include replacing over $185 million of ammunition sales from the Lake City Army Ammunition Plant that we had to sell at or below cost, with close to $400 million in revenue from our acquisitions of Remington and HEVI-Shot. The ammunition that these two brands produce are both higher in margin and in much more stable categories, which are much less price sensitive.

With Remington, we acquired the company who led the industry in irrational pricing behaviors. We have secured multiyear primary agreements with OEM customers at much more favorable profit margins. We're the clear leader in shotgun shell manufacturing, with a large installed base of youth (phon) shooting.

With HEVI-Shot, we acquired the leader in non-lead ammo for future expansion. We have modernized our largest factory in Anoka, Minnesota, to take cost out in every aspect of manufacturing. We have secured major law enforcement and government contracts at much more favorable pricing than in prior years, and we have not added any overhead in the past two and a half years.

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We aren't done improving our factory efficiencies. Our Remington facility in Lonoke, Arkansas, is running at roughly two-thirds the efficiency levels of our Federal and CCI plants. However, we see a clear path to matching those efficiency levels by reducing cost per round significantly.

Externally, the most important structural change is that our market has grown by 16 million new firearms owners over the past two-plus years, and they're a much more diverse and active group of users than before. Ammo stockpiling was much more prevalent three to five years ago. Today, it's all about consumption. The drivers of that consumption are changing as well. Politics have historically played a major role in purchasing behaviors. By contrast, recent data shows that the growing field-to-table (phon) movement, increases in home ownership, expanded interest in outdoor activities, and desires to increase personal safety are driving high participation rates well above historic levels.

With respect to innovation, our new products, which include Federal's High Over All Target Load, .30 Super Carry, and Remington's Core-Lokt Tipped, are driving consumer demand and external recognition. A recent study from South Lake Associates, one of the nation's most reputable outdoor market and consumer research firms, recognized Federal as the most purchased rifle and shotgun shell ammunition, along with CCI and its Blazer sub-brand for rimfire and handgun ammunition, respectively.

Before I close, I'd like to recognize the hard-working and talented teams across our organization. Their dedication to delivering high-quality products is why our platform is recognized as the ammunition industry leader in terms of performance, innovation, and operational excellence.

I'd also like to recognize our culture of conservation and community. We recently raised more than $300,000 for causes supporting humanitarian relief in Ukraine, the Anoka Minnesota Police Department, and food services for families in need, and we're actively working to oppose misguided attempts to eliminate the Pittman-Robertson Wildlife Trust Fund, our country's most significant and successful wildlife conservation program. I'm honored to lead this business and represent the great, hard-working people across each of our brands.

With that, I'll hand it over to Sudhanshu.

Sudhanshu Priyadarshi

Thank you, Jason, and good morning, everyone.

My comments today will focus on adjusted results compared to the prior-year period, unless noted otherwise. Both as-reported and adjusted results are included in our earnings release and web slides, and can be found on our website.

Turning to Slide 18, we posted our second best record quarter for sales, EBITDA, and EPS ever. Overall, we delivered more than 20% in sales and profit growth in the quarter and generated strong cash flow.

For the quarter, sales increased 21% to $803 million, the second quarter ever to exceed $800 million. Gross profit increased 21% to $293 million and gross margin expanded 9 basis points to 36.6%. Operating expense as a percentage of sales was 13.7%, down approximately 80 basis points due to prudent cost management.

EBITDA increased more than 25% to $203 million, driven by higher gross profit and operating leverage. Total Company EBITDA margin increased 83 basis points to 25.2%. Q1 EPS increased 33% to $2.31, driven by strong sales growth, profitability expansion, a slightly lower tax rate, and a roughly 2.5% decline in outstanding shares, which was minimally offset by higher interest expense.

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Turning to Slide 19, our balance sheet remains strong. Net debt increased year over year to $553 million, driven primarily by acquisitions. Our immediate liquidity increased to $336 million as of quarter end. Our net debt leverage ratio declined to 0.7 times below our target ratio. With the recently announced planned acquisitions of Fox Racing and Simms Fishing, post-closing we expect a leverage ratio of roughly 1.6 times, which is within our target ratio of one to two times.

Slide 20 highlights our capital allocation strategy. Over the past four quarters, strong free cash flow generation has enabled us to meet our capital allocation priorities. We're continuing to invest organically. These investments are driving profitable and sustainable growth, as Chris mentioned. Our new acquisitions are further diversifying our portfolio, generating strong returns, and broadening our total addressable market and end user base.

At the same time, we have repurchased approximately 5% of our stock while maintaining low leverage. We evaluate investment that we expect will drive the highest return for our shareholders over the long term. Our strong financial discipline over the past four years has resulted in a solid balance sheet and sustainable financial performance.

Turning to Slide 21, acquisitions are a key growth driver which has strengthened our portfolio in adjacent spaces, acquire strong brand, and complement our portfolio with businesses where we can add value to drive long-term growth and improve profitability.

Before we move on to the segments results, I will discuss how we're thinking about our capital allocation strategy before and after the anticipated separation. We do not expect to pursue any further material acquisitions prior to the separation, as we have created scale in Outdoor Products with approximately $1.7 billion in annualized sales. Our primary focus now will be on debt paydown and opportunistic share repurchases. We expect to further reduce our leverage ratio to the low end of our target range of one to two times prior to the spin.

Post spin, we expect the maximum leverage ratio for (inaudible), our sporting products business, to be between two to three times. Our plan is to use strong cash generation to reduce our leverage ratio to less than two times within 12 to 18 months while paying a dividend. We expect that our outdoor products business, our spinco (phon), will have a leverage ratio of one to two times post spin.

Now let's turn to our Q1 segment results on Slide 22. Within Outdoor Products, we have added five acquisitions since Fiscal Year '20 and announced definitive agreements to purchase two more power brands. Sales declined 2% year over year. In comparison, Outdoor Products first-quarter sales were up 35% compared to Q1 Fiscal '21 and up 32% compared to Q1 Fiscal '20. Outdoor recreation growth was driven by strength in Golf and CamelBak. Outdoor accessories benefited last year from stimulus checks, a low inflationary environment, and higher-than-average selling to replenish low channel inventory and meet heightened demand.

Gross profit remained flat, driven by lower sales in outdoor accessories and higher transportation and freight costs, offset by accretive acquisitions. EBITDA declined to $39 million, reflecting 13.5% margin, primarily driven by higher SG&A expense related to acquisitions, higher supply chain costs, and lower operating leverage in our legacy businesses due to lower sales.

Turning to Sporting Products, sales increased 40%, driven by higher volume and price. Gross profit increased 35%. Gross margin declined to 39.4% primarily due to sales mix and higher commodity and freight costs. EBITDA increased to $183 million. EBITDA margin contracted slightly to 35.7% from 36% a year ago.

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Let's turn to Slide 23 for our updated Fiscal Year 2023 outlook. For the full fiscal year, we expect sales to increase to $3.2 billion to $3.325 billion, up 7% year over year at the midpoint. Sporting Product sales in the range of $1.725 billion to $1.775 billion, and Outdoor Product sales in the range of $1.475 billion to $1.55 billion. Adjusted EBITDA margin between 21% to 21.5%. Adjusted EPS between $7.05 and $7.65, and free cash flow generation between $310 million to $360 million. We expect interest expense to increase to $50 million to $55 million upon closing Fox Racing and Simms Fishing.

Furthermore, as we look to the last three quarters in our fiscal year, our guidance includes the following assumptions. For Sporting Products, record sales in Q1 have reduced finished goods inventory to very low levels, as Jason mentioned. We're also working through higher employee turnover rates, labor shortages, and reduced efficiency at Remington. As a result, we expect sales in Q2 through Q4 to be more closely aligned with average quarterly sales in full Fiscal Year 2022.

For Outdoor Products, we continue to strength driven by our acquisitions, strong performance in CamelBak, and new product innovation. We're, however, being prudent with our expectations for the fiscal year given our reduced visibility into how long higher inflation will impact consumers at opening price points. We expect sales for Outdoor Products in Q2 to be in line with first-quarter sales decline, with growth weighted toward the second half of Fiscal Year '23, reflecting the inventory loading in which we benefited both Q1 and Q2 last year. This also reflects the expected closing of Fox Racing and Simms Fishing no later than by the end of Q2, as well as continued macroeconomic pressures. We expect Q3 and Q4 sales to be closely aligned.

In addition, it is important to note that Fox Racing and Simms Fishing tend to experience higher seasonality in what could be our Q1 fiscal quarter. Overall, we have maintained a lean cost structure over the past few years, and we will continue to evaluate opportunities to further optimize our costs. We're taking proactive measures on factors within our control to further reduce risk. We're confident about our future and the long-term value we're creating.

Thank you, everyone. Let's now open it up for questions.

Operator.

Operator

Thank you. Our first question comes from Eric Wold of B. Riley. Your line is now open. Please go ahead.

Eric Wold

Thank you. Appreciate it.

Sudhanshu, a couple of quick questions to follow up on your latest comments. Appreciating the contributions from the two acquisitions, in the guidance you made the comment that they're more Q1 seasonal, so my assumption there is, obviously, there's less contribution the back half of the year, unless someone just took a straight average of the sales. Is there any way you can give us a sense of some level of pro forma sales change between Fiscal '22 and Fiscal '23, assuming Foresight, Fox, Simms rolling both periods? Just trying to get a sense of the baseline business delta between the two.

Sudhanshu Priyadarshi

Good morning, Eric. This is a great question, and it has a lot of moving pieces.

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As you know, we haven't closed Fox and Simms. We expect to close some time by end of Q2, so we will have second-half benefit for Fox and Simms in our number, and that's why we're saying Outdoor Products will be higher in dollar term in Q3 and Q4. Foresight, we closed last year, and last year it was roughly $100 million business. We're growing. We're growing a lot in Q1. That's helping us offset the decline you're seeing in Outdoor Accessories business. You saw we only declined 2%, so it helped. It was helped by Foresight, but it's hard to do the pro forma math till we close the Fox and Simms for this year.

Eric Wold

Got it. Understood.

I'm not sure the question is for you or for Jason, but on the ammo side is the thought that sales will drop from the $500 million range to, if I do the math, something around the $400 million range for the remaining three quarters? Is that more your ability to supply demand? You talked about labor shortage and whatnot into the market, or are you see something on the demand side and POS sell-through that would give you some pause in terms of where consumption is landing?

Jason Vanderbrink

Eric, good morning. This is Jason. Great question.

When we delivered $510 million, as we had pointed to in the script, our finished goods inventory is very low right now. When we look at the rest of the year, I think we should look at what we did on an average for Fiscal Year '22 being the run rate going forward due to labor shortages and, frankly, just our finished goods inventory being relatively low right now from where we'd want to see them.

Chris Metz

Eric, this is Chris. I would add to Jason's comment, too.

We had a healthy inventory position, so we were able to fill a bit more of the backlog, if you will, in Q1. That's why you saw elevated numbers for the Sporting Products business.

Jason Vanderbrink

Also to add onto that, Eric, as far as what we're seeing. Unlike what we've seen for the last two quarters, really, the 556 small rifle market is full, and that's why we're much, much less reliant on that category. The growth going forward is the growth in where we are the clear number one leader going forward in the categories where the most demand remains.

Eric Wold

Guys, just to confirm, so is it demand driven in any way, or really just supply driven in your part in terms of whether sales will shake out?

Jason Vanderbrink

In our categories where we're the clear number one leader, it's certainly supply.

Eric Wold

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Got it. Thank you, guys, very much. Appreciate it.

Operator

Thank you. Our next question comes from the line of Scott Stember of MKM Partners. Your line is now open. Please go ahead.

Scott Stember

Good morning, everyone. Thanks for taking my questions.

Chris Metz

Morning, Scott.

Scott Stember

First question, Jason, just talking about ammo. Obviously, things are normalizing. Things can't keep going through the roof forever, but it sounds like we're on a much higher plane. Could you talk about how you expect the pricing environment to be over the course of the next year, even if you take out the midterm elections?

Jason Vanderbrink

Yes. Good morning, Scott.

As far as the pricing, we're seeing some pressures on the 556, the small rifle arena, but we're a relatively small player in that market. Again, on the categories where we're seeing the most demand with our biggest market share advantages, we haven't seen any price degradation in the market.

Scott Stember

Okay, got it.

The comments of some of the bigger mass merchandisers that have cut their overall order intake because of some over ordering, could you talk about if that's leveling out? Obviously, you hit this quarter, and you're probably going to hit the second quarter, but could you talk about the time line of when you would expect that process to run its course?

Chris Metz

Yes, Scott, as we alluded to in the prepared remarks that it's a bit a tale of two cities, right? You've got the lower price point SKUs that are selling through the mass merchants. That consumer demographic is more affected by inflation, and so that affects our helmets in our Action Sports business. It affected our Outdoor Accessories to a great deal, and it affects our low to mid-price point grilling platform in Camp Chef.

But on the flip side, we've got the higher-end demographic where we sell a lot of our products and, frankly, where all of our acquisitions have been that are much more inflation and recession resistant, given the inflation hasn't affected the consumer demographic as much. But in terms of the timing of the math, so to your point, some of our customers have just stopped ordering overall. You saw Walmart report down earnings, and they're more promotional to get rid of a heavy inventory position, so they pretty

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much stopped across the board in a lot of categories that affect us, even though our demand was still pretty solid.

We've seen this before, and it typically takes a couple of quarters to work its way out. The way we've guided for the rest of the year is you should expect Q2 to look pretty similar to Q1, and then we start to pick back up in the second half in some of these categories where we've been suffering.

Scott Stember

All right. The last question just on the guidance.

I appreciate the last two deals have not closed yet. but could you just give us a little bit of a framework of how much that's contributing to your updated guidance, so we could just better measure the pre-acquisition of core businesses?

Sudhanshu Priyadarshi

Yes. This is Sudhanshu.

If you assume that it closes by end of Q2, it will be roughly in $200 million-plus range depending on when we close, so that's the math you should do. For our Outdoor Products business, we guided $1.475 billion to $1.550 billion. If you take roughly $200 million out from these M&As, you will see our base business is growing slightly or flat, and that reflects all the macro challenges we're seeing. That reflects what we've seen in Q1 and Q2, but all of this growth is much better when you compare from Fiscal '20 and 2021.

Scott Stember

Okay, got it. That's all I have. Thank you.

Chris Metz

Thank you.

Operator

Thank you. Our next question comes from the line of Matt Koranda of ROTH Capital. Your line is now open. Please go ahead.

Matt Koranda

Hi, guys. Good morning.

Just curious if you could maybe do the same thing with the EBITDA outlook as well, Sudhanshu. It'd be helpful just to reconcile the 693 at the midpoint versus your prior EBITDA guide and what Fox and Simms are expected to contribute.

Sudhanshu Priyadarshi

It's similar math. As you see, our base business, you will see some traction in gross margin from Q1 onwards, mainly in ammunition business, efficiency, higher labor costs.

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Then Outdoor Products business, the continued higher supply chain cost, product cost, and also reduced operating leverage because sales is not growing as much as we expected (phon).

Fox and Simms EBITDA, we haven't guided it. You can do the math, because it's not that meaningful for first six months—for last six months of our year and first six months on their watch. It's there, but it's not that meaningful, but you can do the math from Fox and Simms depending on when we close.

Matt Koranda

Okay, got it.

Then on the Sporting Products segment, wondering maybe, Jason, if you could put a finer point on—it sounds like maybe there are some supply constraints. You guys did allude to maybe some inefficiencies at Remington. But how much of the constraints on your supply side is Remington versus the core brands within Vista, like Federal?

Jason Vanderbrink

Good morning, Matt.

We're not going to break it out by factory, but it's safe to say in the categories where the most demand is, none of our factories (audio interference) that demand. It's not so much on the efficiency side. It's just on a throughput side on the categories where we are number one clear leader.

Matt Koranda

Got it. Then maybe last one for Chris.

You mentioned potential for pickup in demand, especially loading within the Outdoor Products segment in the back half of the fiscal year. Just curious what visibility you have there in terms of open-to-buy indications from some of your retail customers. What gives you the confidence to say that we see a pickup in the back half of the fiscal year?

Chris Metz

Yes. Matt, there's a number of factors. First is quarter one, quarter two are really difficult comps for our Outdoor Products business, particularly in Outdoor Accessories, where we loaded in a bit more than, I think, our customers and us thought last year in quarters one and quarter two. That's going to—it's already working its way through the system. Secondly, early indications on some of the fall activity, particularly in hunting, is highly encouraging. Then, three, you just got general seasonality as we move into some of our seasonal periods. Then, lastly, you've got the contribution of some of the new products coming in, particularly in Golf and Snow.

Matt Koranda

Okay, I'll leave it there, guys. Thank you.

Operator

Thank you. Our next question comes from the line of Ryan Sundby of William Blair. Your line is now open. Please go ahead.

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Ryan Sundby

Yes, hi. Good morning. Thanks for the question here.

Chris, I was wondering if you could maybe compare and contrast some of the growth opportunities and maybe risks for an acquisition like Fox that's seemingly close fit with some of your other brands in Bikes and Accessories versus something like Simms that's more of a first entry and a new category here into fishing. Just any color there on how you think about the approach to that (inaudible) great.

Chris Metz

Sure. Ryan, both of them have a lot of similarities and, to your point, have some differences as well, so let me first talk about the similarities. When we look at acquisitions, and there's a consistent theme across the other acquisitions we've made to date, they're all number one brands in their space. They're iconic and have cult-like followings. They participate in large TAMs, and then increasingly faster growing markets, if you will. They all bring a world-class management team, and the great cultural fits. Right? They're complementary and they're synergistic and allow us to leverage the centers of excellence that we've developed.

Now, the differences between a Fox and a Simms is Fox is highly synergistic. It's probably the most synergistic acquisition we've made since Remington. When you think about the opportunities within Actions (phon), we really can't control our own destiny there. It's a business that we believe will continue to grow. The trends are great. Our pre-order book looking into fall is terrific, so there's no reason to believe that we shouldn't continue to grow this business. But we're able to control our destiny on the logistic cost side as well, so we'll be exploring that. That's not a quick one, but we'll be integrating it carefully as we look forward over the next couple of years.

Simms, we couldn't be more excited about the opportunity for Simms. What K.C. Walsh has done with his team is he's built a terrific team, and it is easily the most iconic brand in the fishing space. As I commented previously on prepared remarks and in opening comments, we've really been targeting the fishing space over the last couple of years, studying it, understanding it better. Really, really digging into it, but we wanted to get into it with more of a platform play if we could, and so Simms just provided that perfect opportunity. They love us as a landing spot for them, because they know that we'll continue to grow them and use our strengths to leverage them in places where they just couldn't leverage as much as they hoped they could.

Both of them are just terrific acquisitions that we think will add a lot of value to Vista Outdoor.

Ryan Sundby

Right. Great color.

Just quickly, on Outdoor Products, it sounded like part of the decline there was due to the stimulus checks from a year—two years ago. Is that isolated just to this quarter? Is there a way to help maybe quantify how big of an impact that had versus maybe some of the broader softening demand for certain products and price points you talked about earlier?

Chris Metz

Yes. Ryan, I would view the stimulus checks as affecting that more price-sensitive category of consumers. What's really interesting, and I think this baffles a lot of people in our country, is unemployment is very low. People have jobs. They're earning good wages; but at the lower

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sociodemographic end of the market, inflation has affected them more so. And so, without stimulus checks or what have you, we see it affecting us and affecting some of those categories, as I mentioned before, that are more price sensitive.

Ryan Sundby

Got it. Thanks, Chris.

Chris Metz

Yes. Thanks, Ryan.

Operator

Thank you. Our next question comes from the line of Mark Smith from Lake Street Capital Markets. Your line is now open. Please go ahead.

Mark Smith

Hi, guys.

First, just wanted to dig in on the ammo business just a little bit. Jason, it sounds like you've confirmed backlogs still at multibillions. Just trying to reconcile, with that strong of a backlog, why we would look at volume production down, and if pricing will be flat, why production would be down maybe so much over the next three quarters versus Q1 level.

Jason Vanderbrink

Yes, Mark, good morning.

As we have mentioned, our finished goods inventory is much lower than we had expected. Our efficiencies at the factory and output that we had expected didn't quite get where we want to get, so (inaudible) a throughput versus finished goods inventory equation. Nothing on the demand side where we see healthy demand, as you mentioned.

Chris Metz

Hi, Mark. This is Chris. Let me add a bit to it.

If you guys start to dig into some more of the detail, you're going to see the inventory position in our Sporting Products business is relatively healthy. But if you really dig into finished goods versus raw materials and WIP and what have you, as Jason said, we drained the pond a little bit in Q1, just because we had the ability and the routes open up to be able to do that. Jason's mantra has been, "Hey, listen. If we're able to ship a backlog, we're going to do that," so we did that well in the first quarter.

Now, what Jason is talking about with inefficiencies is really a tight, tight labor market. Right? When you've got a tight labor market, particularly in some of these geographies where we're manufacturing, you're bringing in new labor. You got some labor that's turning over, and so they're not as efficient as they (audio interference) other couple of quarters.

We planned Remington, in particular, to be higher output. They're doing a great, great job versus our original expectations, but it's going to take them a little bit longer to get to the efficiency that we see in our

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other two plants. That's simply the reason for the lower quarters, if you will, is rebuilding some of that finished goods inventory to supply the demand.

Mark Smith

Okay. As we look at demand trends, but also look at retail shelves and retail inventory that's out there, are there some inefficiencies that come in changeover, perhaps from .9 millimeter to more centerfire rifle or shotgun? Are there any inefficiencies that come with changeover in the plant?

Jason Vanderbrink

Yes, Mark, there are certainly some. During the last five years, we have worked to minimize what changeovers are, whether it be SKU rationalization, what products we make on what lines. On a go-forward basis, we're much, much better off than we were five years ago, just on changeovers, getting OEE up, getting throughput out and getting efficiencies up. We have certainly kept a steady eye on that during these past two and a half years.

Mark Smith

Okay. And then big picture as you think about consumer trends. You guys have talked about the entry price points being weaker than the higher-end price points. Would Bell versus Giro be perhaps an example of that within? If so, can you talk about trends that you saw in demand for Bell during the quarter maybe versus Giro?

Chris Metz

Yes. Mark, what's interesting about the Bell brand is, the Bell brand, a lot of us think of it as selling mass helmets through mass channels of distribution, which is a big part of their business. Also, one of the leaders in the Motocross and Mountain Biking category, which are a higher demographic, so Bell in itself really needs to be taken down another level or two. We've got pockets of Bell that are really, really growing nicely, and then, of course, we've got our mass channel that's a bit upside down right now. All this stuff is built into our guidance. Now, Giro, Giro sells predominantly to a higher sociodemographic, so that has fared well.

The one thing I do want to say, though, because you talked about consumer trends, is we talked a lot about the slowing in the opening price points, but the participation rates are still very high. We're highly encouraged by people that we see that are continuing to grill, be it backyard or back country, and that's why we said our sales were up 30% for Camp Chef. We continue to see people visiting parks and camping, participating with road biking, so we don't think that this is going to be a long-term issue with the opening price point categories continuing to be soft. Some of it is, as our retailers start to replenish in some of those key categories, we'll fix it, but we think that it will start to level as we go forward.

Mark Smith

Perfect. The last one for me, just can you guys talk about direct-to-consumer or e-com trends during the quarter?

Chris Metz

Yes. Direct-to-consumer business continues to be strong in total. Obviously, some of the categories that are affected in brick-and-mortar also get affected the same way in direct-to-consumer. Our camp

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business where we've sold a lot of opening and mid-price-point grilling platforms in the past is a little bit slower, but made up by some of the other categories that continue to grow in strength in D2C.

Mark Smith

Perfect. Thank you.

Operator

Thank you. Our final question comes from the line of Jim Chartier of Monness, Crespi, Hardt. Your line is now open. Please go ahead.

Jim Chartier

Good morning.

I was wondering if you could talk a little bit more about the Foresight partnership with Topgolf? What does that mean for the business? What does that do in terms of getting you towards, I think, the $500 million goal for the platform over time?

Chris Metz

Yes. Jim, this is Chris, and good question.

We don't typically size up partnerships like that, but the way I would characterize it is it's not as much of a big dollar increase. It will be nice, right? We'll get our platform in the Topgolfs. We'll get it into some of the other locations. We'll get it into their fitting locations, but what's really exciting is the halo effect this gives the Foresight brand when you get a top brand like Callaway that says, "Okay, you guys have the best technology."

It wasn't just Callaway, right? We've been working with TaylorMade for a long time now. We've been increasingly working with the Acushnet Titleist group as well, so Calloway is the third big one to come on board to say, "Guys, credit to you. You've got terrific technology. We want to use the best, and so we're going to bring you guys on." That's why the partnership announcement was really exciting, and so we're going to continue to build a relationship with them and support them in every way we can.

Jim Chartier

Great. On Simms, I think you said the deal won't be accretive until FY '24 and you're forecasting a mid-teens EBITDA margin post-integration, so what do you need to do to bring those margins up to the mid-teens? You mentioned building a fishing platform. What's the plan, acquisitions versus organic, to do that? Thanks.

Sudhanshu Priyadarshi

This is Sudhanshu.

There are two things. As you know, with the center of excellence we had the e-commerce and supply chain, that's where we will add a lot more value, a lot more synergy to Simms. It's a new platform, so they will get most of the benefit. We call it our center of excellence. Plus, our relationship with retailers, being part of a bigger $3 billion-plus companies, so those are the things to help us get to that mid-teen EBITDA

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margin. They made large investments for last couple of years to get to this level, so we will see more leverage in the business as we continue to grow at this level.

Chris Metz

Jim, just to add on to Sudhanshu's comments, you had a question, too, about the fishing platform, and so that's really a nod to the future, that it opens up a very large total addressable market for us. But as we have stated, our capital allocation strategy at this point is to pay down debt. Even though we've got a low leverage, we'd like to continue to take that leverage down in a prudent manner. Secondly, look at share repurchases where we think we can opportunistically go in and purchase. Not that we're ignoring M&A activities, but we don't have anything in our funnel right now that's imminent, and we're just going to continue down the path of building that Simms business out and looking to the future.

Jim Chartier

Great. Thank you.

Operator

Ladies and gentlemen, as there are no additional questions right at this time, I would like to thank you for joining us on today's Vista Outdoor conference call. Have a great day ahead.

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