

Vista Outdoor Inc. NYSE:VSTO

Earnings Call

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Call Participants

EXECUTIVES

Andrew Keegan
VP & Interim CFO

Gary L. McArthur
Independent Director

Jason R. Vanderbrink
President of Sporting Products

Tyler Lindwall
Vice President of Corporate Development & Treasury

ANALYSTS

Anna Glaessgen
Jefferies LLC, Research Division

Eric Christian Wold
B. Riley Securities, Inc., Research Division

Mark Eric Smith
Lake Street Capital Markets, LLC, Research Division

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Ryan Ingemar Sundby
William Blair & Company L.L.C., Research Division

Presentation

Operator

Hello, everyone, and welcome to the Q3 FY '23 Vista Outdoor Earnings Conference Call. My name is Nadia, and I'll be coordinating the call today. [Operator Instructions]

I will now hand over to your host, Tyler Lindwall, Vice President, Corporate Development and Treasury and Interim Vice President, Investor Relations to begin. Tyler, please go ahead.

Tyler Lindwall
Vice President of Corporate Development & Treasury

Thank you, operator, and good morning to everyone joining us for our third quarter fiscal year 2023 earnings call. With me this morning is Gary McArthur, Interim Chief Executive Officer; Jason Vanderbrink, President, Sporting Products; and Andy Keegan, Vice President and Interim 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 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 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 also 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.

Gary, I'll turn it over to you.

Gary L. McArthur
Independent Director

Thank you, Tyler. We appreciate all of you joining us this morning. Before we discuss our third quarter results, I would like to take a moment to address the CEO transition that we announced today. Chris Metz has agreed to resign as CEO and as a Director at the request of the Board, and I have been appointed to serve as interim CEO effective immediately.

Chris' resignation was based on the Board's loss of confidence in his leadership for reasons not involving financial reporting or internal controls. On behalf of the entire Board, I appreciate Chris's many contributions to Vista Outdoor and wish him well in his next endeavor. We've entered into an agreement with Chris to ensure access to his institutional knowledge, and I look forward to working with him to ensure a seamless transition.

By the way of a brief introduction, I have served as a member of Vista Outdoor's Board of Directors since 2015. Previously, I served as CFO of CH2M Hill from 2014 to 2017, and before that, spent more than 15 years at Harris Corporation, including serving as its CFO for 8 years. Together with my fellow directors, I have been deeply involved in the oversight and execution of Vista Outdoor strategy, including the planned separation of our Outdoor and Sporting Products segments. I look forward to serving as interim CEO at this pivotal time in Vista Outdoor's history.

We have a clear strategic path and remain on track to complete the separation in calendar year 2023, which I'll cover in more detail later in my remarks. I am confident that we will continue to capitalize on our strong momentum with Vista Outdoor's unmatched portfolio of iconic brands, resilient operating model and strong balance sheet. We are very well positioned to create compelling value for our shareholders.

With that, I will now turn to discussing our third quarter results. First and foremost, I would like to thank all Vista Outdoor employees for their hard work during the quarter. The period included two holidays,

Thanksgiving and Christmas, meaning that many of our employees spend time away from families to help support our teams and our customers. The entire leadership team can't thank you enough for all you did to help Vista Outdoor achieve solid results again this quarter.

I'd like for you to walk away from our call today with 4 key takeaways. We are operating from a position of strength, our separation is on track, and we are reaffirming expectations for the spin to be completed in calendar year 2023.

Our long-term outlook is encouraging, and we're growing our own share of wallet via operating discipline and brand strength, we maintain a strong and healthy balance sheet because of our robust free cash flow generation, prudent use of cash and disciplined inventory management practices.

Moving to the quarter. We again delivered solid results in a challenging environment. Total sales were $755 million, down $40 million from the prior year period and up 78% over the same period in fiscal year 2020, which was pre-pandemic.

Our Outdoor Products segment posted record sales of $353 million, up 5% over the prior year period and up 59% over the same period in fiscal year 2020. Sporting product sales were $402 million, down 13% over the prior year period and consistent with previous guidance. The quarter's performance was up 98% over the same period in fiscal year 2020.

Our adjusted EBITDA margins were 18.1%, which is approximately 1,000 basis points higher than the same period in fiscal year 2020, and roughly 300 basis points above our long-term target of 15%. We generated $109 million in free cash flow for the quarter, bringing our year-to-date total to a record $304 million, up 44% over the prior year period and 556% higher in the same period of fiscal year 2020.

Lastly, our adjusted earnings per share was $1.30, which is approximately 520% higher in the same period in fiscal year 2020. These results continue to prove that we are operating from a position of strength. Through our transformation and execution of our long-term strategy, we have built a diversified portfolio of 41 iconic brands, allowing us to leverage shared resources across our portfolio and achieve levels of excellence in financial performance that would be out of reach for any 1 brand on its own.

Leading brands are not created overnight. We now have a stable of 12 power brands that generate more than $100 million in annual revenue that we have grown either organically or purchased through acquisition. This is a testament to the strong operators and talented executives who are in place at each of our businesses.

To that end, I want to provide a brief update on the integration of Fox Racing and our Action Sports business unit. We have captured a number of quick synergies and have also identified additional synergies above our initial business case. We're also doing more to leverage the strength of our multi-brand cycling, snow and power sports positions. I am pleased to announce current Fox Racing President, Jeff McGuane, willbecome the new President of the combined platform and guide the 7 brands to new heights.

Jeff's role as President will be focused on building a shared scalable platform for operational strength, synergiesand margin expansion while enabling each branch to prioritize individuality, creativity and ingenuity.
Congratulations to Jeff on this exciting accomplishment. I would also like to thank Ric Kern, the former President of Bell/Giro. Ric led an incredible recovery over the last few years and leaves the business significantly stronger than when he took the reins.

We have instilled a founder's mentality across our corporate and brand cultures, expanded profitability initiatives and created shared resources to bolster supply chain distribution and digital commerce capabilities. We have closed and successfully integrated 8 acquisitions of leading brands that have increased our total addressable market, broadened and deepened our categories and further diversified our portfolio to serve outdoor consumers across a variety of activities. Taken together, we've added some of the most revered and well-known brands in the outdoor space, while also improving our growth and margin profile, a win-win against our strategy. This execution is a result of a dedicated and resilient team and demonstrates that we are well positionedfor the road ahead. Our strong position in the industry lays the foundation for our planned separation and is our second key takeaway.

We are reaffirming the expectation for our separation to be completed in calendar year 2023. The separation announced last May will create 2 independent publicly traded and soon-to-be named companies of nearly equal size by revenue.

Following the separation, our Outdoor Products segment will be an industry-leading portfolio of outdoor brands, including Bell, Bushnell, Bushnell Golf, CamelBak, Camp Chef, Foresight Sports, Fox Racing, Giro, QuietKat, Simms Fishing and Stone Glacier. Sporting products will continue to focus on ammunition categories through its renowned brands, including CCI, Federal, Hevi-Shot, Remington and Speer.

As independent companies, both Outdoor Products and Sporting Products will have enhanced strategic focus with supporting resources, tailored capital allocation priorities, a strength and ability to attract and retain top talent, compelling value for shareholders and expanded strategic opportunities.

As we stated last quarter, we filed the confidential Form 10 with the SEC and have been diligently working with them to address any questions they may have. We are confident in our ability to complete the spin in calendar year 2023. We also plan to share details about management teams, members of the Board and names for each company in the coming months. So stay tuned.

Our third key takeaway to leave you with is that we believe our long-term outlook is encouraging, and our brands are resilient and well positioned to drive shareholder returns.

Taking a step back to look at the broader market, we continue to see macroeconomic pressures impacting consumer purchasing behavior in response to high inflation and higher interest rates. We still see consumer purchasing patterns tightening in some categories and many are seeking to buy discounted or promotional items.

Overall, retailer inventory levels remain high. We are seeing positive signs emerging, and we expect retailers to return to more normalized purchasing in the coming quarters compared to the continuous restocking that we saw in the prior year period. In addition, some of our categories are empty on retailer shelves and retailers have been cautious to reorder and add additional inventory.

We are continuing to monitor the situation in China related to COVID-19 case counts and the changing guidance related to lockdown. We have a large team in China that has allowed us to react quickly to issues and adjust as necessary. Even with these headwinds, we are still seeing positive industry data and demand for our brands. Our Outdoor Products DTC sales are up, which is typically a good leading indicator that consumers are still demanding our products and are continuing to recreate in outdoors.

We believe that the pull-through of demand will start appearing as retailers work through their excessive inventory and resume their normal line purchasing patterns in the coming quarters. Given some of our success with targeted price reductions in certain categories, such as 9-millimeter, for example, we believe demand is normalizing at a higher level than pre-pandemic. According to the latest government data, the outdoor recreation economy generates $862 billion in economic output, 1.9% of national GDP and 4.5 million jobs.

In addition to these promising figures, we continue to see strong participation numbers across the outdoor industry, and more specifically in many of the categories that our brands serve. In the broader outdoor recreation industry, more than 20 million net new participants have entered over the past 5 years. And the data further suggests that participation is sticky once someone begins to participate in our outdoor activities. To demonstrate the resiliency of this industry, I want to share a few market highlights in certain categories that we compete, including golf, snow and e-bikes.

Now National Golf Foundation Research found that the combination of on and off-course golfers topped 40 million Americans in 2022, the highest number ever recorded. Based on this data, it comes as no surprise that our Golf business posted record year-to-date sales with much of the success attributed to the launch of new products combined with strong holiday performance as Bushnell Golf assortment of laser rangefinders, GPS trackers and speakers makes for excellent gifts during the season.

In the snow category, a recent report estimated visits for the 2021, 2022 season, were the highest reported in history at roughly 61 million. These trends are continuing this year. We have seen a direct benefit from this strong snow season, coupled with the launch of the new Tor and Tenaya helmets.

Giro snow sales were up more than 30% year-to-date versus the comparable prior year period. According to the latest research for people for bikes, e-bike sales were up 15% year-to-date through November. This growth is powered by stronger consumer adoption and also government and corporate incentives that are becoming more popular. For example, in Denver, an e-bike rebate program was so popular, the city plans to expand it, and QuietKat just secured a major agreement with a Fortune 100 company to provide QuietKat e-bikes as part of an employee engagement program.

In our Sporting Products business, we continue to see a growing diversity in hunting and shooting sports with females representing 27% of participants in the industry, up from 16% only a decade ago. Additionally, NICS checks, an indicator of health of the shooting sports industry, remained strong in 2022,growing 24% from pre-pandemic levels.

Jason will elaborate further on the Sporting Products business in a few moments. Although not exhaustive, these data points provide a snapshot on how our business is continuing to expand our reach and capture new participants while still serving the strong existing base of consumers who are recreating in record numbers.

Even in our more challenged categories, our brands still continue to deliver strong results through brand strength, new products and more. Camp Chef is a great example. The Outdoor Cooking market has been pressured by excess channel inventory and discounting. That said, Camp Chef's successful launch of the premium Woodwind Pro shows that demand exists for compelling products. The same is true for our channel partners, and we are excited to share that Camp Chef is earning entry into Lowe’s on the strength of innovation and its brand.

Stone Glacier also had an excellent third quarter. Revenue was up over the same period last year, with December accounting for triple-digit year-over-year growth. One unique attribute to Stone Glacier is the strength of the brand. Their third quarter performance and specifically Black Friday and Cyber Money -- Monday happened with zero of discounting or promotions even while competitors are discounting aggressively.

Additionally, Simms Fishing, our most recent acquisition delivered over 25% growth during the quarter compared to the prior year, driven by excellent DTC sales, which were up 65% in the quarter, and exhibits the power of Vista's investments in premium brands with strong digital customer acquisition capabilities.

Our last theme is the health of our balance sheet. Our balance sheet is a pillar of strength and continues to be a competitive advantage and provides us with flexibility to invest in long-term growth even in challenging times. Our free cash flow continues to remain robust. And in the first 9 months of our fiscal year 2023, we have generated a record $304 million, up 44% year-over-year. This is a testament to our inventory management practices, prudent use of cash and rigorous monitoring of our customer and vendor terms.

These actions have allowed us to continue debt paydown, maintain our net debt-to-EBITDA leverage ratio of 1.7x within our targeted range of 1 to 2x and significantly below the fiscal year 2020 year-end value of 4.3x. This stability supported investment in new product research and development, which is the lifeblood of our company.

This is seen by our year-to-date R&D spend increasing by 59% year-over-year. During the quarter, wealso paid down approximately $90 million in debt and we will continue to focus on debt paydown ahead of our plan of separation of our Outdoor Products and Sporting Products.

Before I hand it over to Jason, I want to reiterate that I am proud of this company, we are operating from a position of strength, the outdoor industry is robust, we're navigating challenging economic positions and maintaining our share of wallet. And our resilient operating model focused on strong brands and a clean balance sheet position this company favorably to thrive in all phases of the economic cycle. With that, let me turn it over to you, Jason.

Jason R. Vanderbrink
President of Sporting Products

Thank you, Gary, and good morning, everyone. Sporting Products is stronger today in terms of brands, operations and share of wallet than we've ever been. There are 6 key themes that demonstrate this strength. Number one, the industry is very healthy. During 2022, the NICS background check system processed more than 1 million checks every single month for a total yearly increase of 24% over 2019; number two, our operational footprint across 4 factories is driving cost downward while enabling a culture of ingenuity, collaboration and self-determination. We are doing this while also improving our mix to help offset higher input costs; number three, our dynamic and balanced portfolio.

The acquisition of Remington in 2020 brought 2 of the largest American ammunition brands under the same company, which has improved the market stability even during times of intense competition from imports; number four, our new product pipeline is robust with collaboration across brands that provides high-quality performance ammunition to our dedicated consumers, law enforcement and the military; number five, our customers are rationalizing vendors and selecting us to fulfill their needs, which provides us with more share of the shelf; number six, while the market continues to normalize in a few categories, we are delivering at near-record profit levels.

Moving to the quarter, we have not been immune from the macro pressures Gary outlined. For the quarter, sales for the segment were down 13%, driven by market normalization and 9-millimeter and our planned exit from the Lake City Army ammunition contract. In addition, rising costs, higher interest rates and declining macro consumer confidence have affected history sales. We also know the ammunition market is cyclical and that the elevated patterns seen during the pandemic would not last forever. Even with these pressures, we have demonstrated that our strategy, multi-brand offerings and business transformations made us much more resilient and adaptable in this dynamic environment.

I'd like to now highlight areas that continue to demonstrate our ability to deliver on earnings through a normalized ammo cycle and how we are positioned to build on our momentum. A key indicator insight into the health of the industry has adjusted NICS checks. 2022 ended with 16.4 million checks, placing a third historically behind the 2 pandemic years of '21 and '20. Another sign of a healthy consumer base is the volume of new users that have entered the shooting and hunting sports.

Estimates of new shooters gained since the pandemic began, show more than 16 million new consumers have entered the industry and one of the fastest-growing segments is youth shooting sports leagues in high schools across the country. Our Federal, CCI and Remington brands are deeply rooted in the shooting sports. For the hunting side, the field to table movement is spurring more days in the field. All of this signals a healthy baseline of consumers, a promise of the next generation of shooting sports enthusiasts and increased engagement.

Operational excellence. We have the world's best workforce within all of our factories, and we continue to gain efficiencies. We are maintaining a lean cost structure by not adding overhead and our teams have been more efficient in all areas of our operations to help protect margins. Containing costs will increase profitability with overhead structures that match demand while never sacrificing quality. We will be disciplined in the deployment of our capital and SG&A.

To that point, our initiatives will focus on the innovative products that drive higher margins and the research and development pipeline, a humongous competitive advantage we see as a sales driver. Since adding Hevi-Shot to the portfolio, the brand well-known for waterfowl, turkey and predator hunting, the positive impact to our overall business has exceeded expectations.

The brand brings strength to our portfolio and the alternative metal base of Hevi-Shot products solidifies our company's leadership position in the shotshell category, whether it be hunting, sports shooting or personal protection. We will continue to leverage the Hevi-Shot brand in the out years with plans for product extension.

Pricing. To offset increased cost of raw materials, labor and freight, we've taken recent price increases in select categories that have been widely accepted by the market, contributing to our profitability. Very

limited 9-millimeter pricing actions resulted in substantial pull-through at retail and distribution and signaled a healthy consumer buying pattern and preference of our brands. Other industry conditions favorable to ammunition are the promotional activities we are seeing to reduce channel inventory of firearms.

Lastly, we have a healthy backorder position, especially in our higher-margin premium centerfire rifle category, where we expect consumer demand to remain strong. Modernization and innovation. We've completed our pistol factory modernization in Anoka and increased our use of core technologies across each of our major plants to reduce cost and risk. This includes the implementation of copper plating for pistol bullets, nickel plating for premium handgun offerings and shared best-in-class resources and processes to lower costs and increase synergies. In addition, our dedicated centerfire rifle expansion is nearing completion. In quarter 4, we expect to ramp up the modernization of the Remington primer facility in Lonoke.

Across all facilities, we have installed Blitz teams, which are cross-location teams that deliver faster path to manufacturing solutions. At the recent SHOT Show, we introduced more than 30 new products and lineextensions that build on an already superior lineup of product offerings. One of the innovations that is capturing considerable attention is Remington's new 360 Buckhammer. This revolutionary new caliber is optimized for lever-action rifles and greatly improves the performance and accuracy of straight-wall cartridges.

Brand Power. When it comes to innovation and brand power, there is no peer in the ammunition market that matches Federal, Remington, Hevi-Shot, CCI, Speer and Estate and their long list of award-winning products. Out brands are sought after in the marketplace because of our innovation, reliability and performance. Guns & Ammo magazine awarded its prestigious designation of Ammo of the Year for Federal's new 30 Super Carry.

Other accolades for the 30 Super Carry include Ballistics best designation for best handgun ammo and Shooting Illustrated Golden Bullseye for ammunition product of the year. American Rifleman recognized Remington's new Core-Lokt Tipped as its choice for a Golden Bullseye for ammunition product of the year. These innovations are paying off. In a recent purchasing survey, Federal and CCI were the leading brands bought by consumers in every category of ammunition in the third quarter of 2022.

In closing, we are in the middle of our calendar year 2023 booking season and are beating all of our expectations across the portfolio. I want to emphasize that we are solidly positioned to continue to take market share in all product categories because our product portfolio is balanced, rational pricing hasbeen restored in the marketplace, and we maintain a very healthy backlog in profitable ammunition categories.

Our lean operations continue to drive efficiencies and synergies across our plants as we further integrate our 4 domestic manufacturing plants into a cohesive, nimble operating unit.

Before concluding my remarks, I want to thank each of our employees and the management team across the sporting products segment. I'm proud of the work our world-class dedicated team does every day, 365 days a year to build the best ammunition right here in America. Thank you. Andy?

Andrew Keegan
VP & Interim CFO

Thank you, Jason, and hello, everyone. My comments today will focus on adjusted results compared to the prior year period, unless otherwise noted. Both as reported and adjusted results are included in our earnings release and webslides and can be found on our website.

Turning to Slide 15, we posted another solid quarter of sales, including record Outdoor Product sales and Sporting Product sales that were consistent with our guidance of approximately $400 million per quarter. Q3 margins were impacted by lower volumes in the organic business, increased promotional activity, unfavorable mix and higher input costs, including freight and commodities.

Overall, as Gary said, we are operating from a position of strength. We are holding our share of wallet and seeing strong industry participation trends. Our balance sheet is healthy, and our quarterly results are in line with what we expected. For the third quarter, total sales were $755 million, down 5%, driven by a double-digit decline in organic sales across several categories, partially offset by our Golf business and recent acquisition.

Compared with Q3 FY '20, total sales are up 78%. Recall that our FY '20 represents the most recent pre-pandemic year at our fiscal year-end in March. Throughout the quarter, we've been methodical with our approach to promotional activity, having walked away from opportunities to sell discounted products to retailers. Some sales may have been left on the table, but the decision otherwise kept a healthier margin profile and protected our brand images without exacerbating the higher retail inventory levels.

Gross profit decreased 14%, $244 million and gross margin contracted 327 basis points to 32.3%, primarily due to increased promotional activity, mix shifts and higher input costs, including freight and commodities. EBITDA decreased 26% to approximately $137 million. EBITDA margin decreased 522 basis points to 18.1%, which remains very strong. Compared with Q3 FY '20 margin of 8.1%, this represents margin expansion of approximately 1,000 basis points.

Q3 EPS decreased 38% to $1.30, driven by lower gross profit as well as higher SG&A and interest expense. This was slightly offset by a lower tax rate and a 2.1% decline in outstanding shares. We generated robust free cash flow of $109 million in the quarter and year-to-date free cash flow climbed to $304 million, up 44% over the prior year period.

Our balance sheet positions us favorably given the current macroeconomic environment and demonstrates our financial discipline and effective operating model. We were able to generate these solid cash flows in the quarter despite the increase in our inventory sequentially. The increase was a result of our Sporting Products business securing raw materials at advantageous prices. Our Outdoor Products segment saw a decrease in inventory sequentially as we began to monetize our inventory position with shorter transit time and targeted promotions to move through areas of elevated inventory.

We are monitoring inventory levels and strategically leveraging promotions across all our channels to reduce inventory while also remaining competitive protecting our brands, our margins and our market share for the long term.

Turning to Slide 16. Our balance sheet remains strong. Net debt increased from fiscal year-end 2022 to $1.15 billion, largely driven by acquisitions. Within the quarter, we paid down approximately $90 million in debt and at 1.7x leverage, we are still within our target net leverage ratio of 1 to 2x.

Our immediate liquidity is $187 million as of quarter end. Looking forward, we are expecting to continue to generate robust free cash flow and deliver on our commitment to pay down debt. As we noted last quarter, our capital allocation strategy is focused on primarily on debt repayment and we are pausing our M&A until we spin, which we anticipate to occur in calendar year 2023. Our long-term capital allocation strategy is focused on investments that we expect will drive the highest return for our shareholders.

Our business model allows us to continually invest in our brands in any economic cycle given we play in a multitude of consumer demographics. Our strong financial discipline over the past 4 years has resulted in a strong balance sheet, record free cash flow and sustainable financial performance.

Now let's turn to our Q3 segment results on Slide 17. Within Outdoor Products, as mentioned, we posted a record sales of $353 million, an increase of 5%, driven by acquired businesses and golf, partially offset by declines in other organic businesses primarily due to reduced purchasing from international, big box and other wholesale channels. In comparison, Outdoor Product's third quarter sales were up 23% compared to Q3 '21, and up 59% compared to Q3 of '20. The decline in the organic sales was primarily drivenby outdoor accessories and the organic Action Sports business, due to POS exceeding sell-in, which we expect will carry into Q4.

Gross profit decreased 2% to $102 million, driven primarily by organic business volume declines, increased amortization cost from acquired businesses, unfavorable mix and higher promotional activity in

Outdoor Products associated with holiday season, partially offset by volumes from acquired businesses. Gross margin declined 225 basis points to 29%.

EBITDA was $32 million, down 41%. The EBITDA margin decreased 709 basis points to 9%, primarily driven by lower gross profit in the organic businesses as well as higher SG&A related to acquired business.

Turning to Sporting Products. Sales were $402 million, down 13%, in line with our guidance and driven primarily by lower shipments of pistol ammunition as channel inventories has normalized, the timing of shotshell shipments as well as the previously announced termination of the Lake City contract at the beginning of the quarter. Gross profit was $141 million, down 20.6% due mainly to lower volume, unfavorable mix and increased commodity and freight costs, partially offset by pricing.

EBITDA was $124 million. EBITDA margin decreased 302 basis points to 30.9%. Sporting Products' profitability remains much stronger than the pre-pandemic levels due to a more disciplined pricing environment and a broader and more profitable product mix as a result of the acquisition of Remington and the strategic decision to shift away from the less profitable and more volatile ammunition product categories purchased from the Lake City Army Ammunition Plant.

Let's turn to Slide 18 for our revised fiscal year 2023 outlook. Inflation and rising interest rates continue to influence consumer spending, while higher levels of retailer inventory contributed to additional promotional activity. Retailers have been cautious and slow to reorder for the sake of adding additional inventory. We are also experiencing pressures in the international markets due to the strength of the U.S. dollar. We aretaking several actions to mitigate risk by managing inventory and closely controlling costs. On a positive note, we expect retailer purchasing to normalize in the coming quarters as retailers sell through their inventory positions. And we continue to see strong demand for our brands and products as demonstrated in our strong DTC performance, which is a leading indicator for overall demand.

Moving to guidance. We have adjusted the low and high end of our guidance ranges. For the full fiscal year, we expect sales of $3.06 billion to $3.08 billion, down 1% year-over-year at the midpoint. Sporting Product sales in the range of $1.73 billion to $1.74 billion, and Outdoor Products in the range of $1.33 billion to $1.34 billion. The midpoint of adjusted EBITDA margins remains the same with the new estimate at 19.85% to 20.15%. Interest expense in the range of $56 million to $59 million, effective and adjusted tax rate of approximately 22%, Adjusted EPS between $6.05 to $6.30 and free cash flow between $320 million to $350 million.

As Gary stated, we are reaffirming that we will complete our planned separation in calendar year '23. Let me briefly touch on the debt we hold on both Sporting Products and Outdoor Product businesses relative to the separation. As part of the separation, we are currently in discussions with our banks to refinance our existing credit facility, which includes the asset-backed loan and the fixed asset term loans and established a new credit facility for the Outdoor Product SpinCo. These conversations have been well received thus far and we are continuing to actively meet with potential lenders.

We currently expect our $500 million of senior notes will stay with RemainCo, our Sporting Products business in their current state after we complete our planned separation. We currently expect our Sporting Products business will have approximately $1 billion to $1.1 billion in debt, including the senior notes, afterseparation and maintain a long-term leverage ratio of approximately 1 to 2x. We believe that the robust free cash flow generated by Sporting Products business will support this debt and its paydown while also providing a dividend payout ratio that investors will find attractive.

Our Outdoor Products business is expected to have minimal debt at the completion of our planned separation, at which time we will be able to pursue accretive acquisitions and maintain our reputation as theacquirer of choice in the industry. In closing, we continue to demonstrate our ability to drive solid financialresults and robust free cash flow.

Our balance sheet remains strong, and we maintain flexibility given our low leverage level. We have a resilient and operationally strong team with the expertise to execute our strategy wisely during these challenging macroeconomics and geopolitical times.

We are taking proactive measures on factors within our control to further mitigate this risk. We are confident in our future and through our transformation over the past 4 years, we have positioned the company well to drive long-term shareholder value. The purpose of today's call is to discuss the company's third quarter results. As we hope you can appreciate, we will not be discussing the leadership transition beyond what we have announced, and we kindly request that you focus your questions on our operational and financial results and outlook.
Operator, please open for questions.

Question and Answer

Operator

[Operator Instructions]

And our first question today go to Eric Wold of B. Riley Securities.

Eric Christian Wold
B. Riley Securities, Inc., Research Division

Two questions, 1 for each of the 2 segments. I guess, first off, you mentioned that you did increase prices on some of the ammo categories in response to some inflationary pressures. I guess, in general, can you talk about the current ammo pricing environment at retail and how sustainable you think those higher prices are kind of heading through '23 and '24, kind of what are the long-term gross margin expectations for the segment given those pricing expectations?

Jason R. Vanderbrink
President of Sporting Products

Eric, this is Jason. What we're seeing on retail pricing is we are -- it depends on the category. We mentioned 9-millimeter small rifle. You're obviously seeing the retail prices come down in the market. We took pricing action on some categories where we thought we could offset some margin pressures due to the commodities. Those pricing actions have stuck, and we expect those to stick all year long.

As far as the overall pricing category at retail, we're pretty confident with what we see as input costs continue to go up. I think what we see at the shelf today is going to hold for '23 given anything that we see right now tells us that we certainly don't expect it to go down any.

Eric Christian Wold
B. Riley Securities, Inc., Research Division

And the gross margin expectations kind of longer term?

Jason R. Vanderbrink
President of Sporting Products

As we laid out at our Investor Day, we're still bullish on mid-20 EBITDA margins. We think that's going to be the normalization of -- the market normalizing, it's still going to be in the mid-20 EBITDA for Sporting Products.

Eric Christian Wold
B. Riley Securities, Inc., Research Division

Got it. And then just a quick question on the Outdoor Product side. Can you talk about kind of what you're seeing with the point of sale -- the POS patterns at retail and then maybe within your own e-commerce platform that gives you some indication of kind of the health and consumer where the consumer is. Just trying to get a sense of if you are started -- as you do start shipping more product into retailers kind of towards a more normalized restocking? Just trying to get a sense of how do you think that inventory would sell through in this environment?

Andrew Keegan
VP & Interim CFO

Yes. I appreciate that, Eric. This is Andy. So what we're seeing in this is that the POS is down year-over-year at retailers right now. But the sell-in is down further than the POS. And we feel the demand is strong in our Outdoor Products. As we mentioned, our actual -- our site are actually up over that time period. And so we're -- we do see that demand is there. We're seeing stock out on shelves in our Outdoor Products.

So as retailers do start to normalize their purchasing, which we expect over the coming quarters that they are going to do that, that we'll see that POS start to increase as we are missing some of the stock-outs in our sell-in will certainly go up as well. So we're bullish on the -- what will happen once retailers are starting to repurchase.

Operator

And the next question goes to Mark Smith of Lake Street.

Mark Eric Smith
Lake Street Capital Markets, LLC, Research Division

First off, I just wanted to ask a question on the ammo side of the business. I don't know if you guys can quantify or talk about maybe the impact in the quarter from back and away from some of the Lake City Ammo.

Jason R. Vanderbrink
President of Sporting Products

Mark, this is Jason. We don't quantify Lake City. I think we've released publicly previous fiscal years, sales peaked at around $180 million a year, when we had that contract years ago. So as far as we're going to quantify Lake City.

Mark Eric Smith
Lake Street Capital Markets, LLC, Research Division

Okay. And then looking at the other side of the business, I'm just curious, any other insights you can give us on Action Sports business, and in particular, the Fox business, is that hitting internal expectations, some of the slowdown that we've seen in Action Sports, is that impacting Fox as well any additional insights there would be great.

Andrew Keegan
VP & Interim CFO

Yes, Mark, it's a great question. So we -- in the quarter, sales for Fox were $67 million. They are experiencing some of the pressures that the Action Sports business is. They do have a fairly large international presence, which is being affected as well from the U.S. currency adjustments that we're seeing. But that being said, I'd say we have optimism with the synergies that we're already experiencing between Fox and Bell, they're meeting our EBITDA expectations, and we see actually additional opportunities in those areas that we've identified.

So we are very pleased with the current results, given some of the macroeconomic pressures. The sales are little bit lower along with the similar Action Sports, but not to the same extent as their demographic and who they sell to is not that opening price point. So they're not nearly at the reduction that you're seeing given our mass business that we have in the Bell area.

Mark Eric Smith
Lake Street Capital Markets, LLC, Research Division

Perfect. And just confirming that was $67 million, Andy?

Andrew Keegan
VP & Interim CFO

Yes, $67 million.

Operator

And the next question goes to Anna Glaessgen of Jefferies.

Anna Glaessgen
Jefferies LLC, Research Division

On the Outdoor Products business, thanks for quantifying the Fox Racing, but could you quantify overall the impact from acquisitions on sales and EBITDA?

Andrew Keegan
VP & Interim CFO

I can't give you the exact amount. What I can say is that the -- the organic decline was in line with what we expected from last quarter, which was in that 20-ish percent range. So it was in line with what we had expected it to come in at overall.

Anna Glaessgen
Jefferies LLC, Research Division

Got it. And then I appreciate the need for some promotions as the channel is cleared, particularly in the Outdoor Products business. I guess when are you expecting to get to more of a normalized promotional environment in those end markets?

Gary L. McArthur
Independent Director

Anna, this is Gary. Let me speak to that. I mean, I think as most of the world, we're expecting a tougher first half of the year and with expectations that we'll see a better environment that retailers looking into the second half. Maybe Andy could add a little more to that.

Andrew Keegan
VP & Interim CFO

I think you're exactly right that we -- certainly, as we go through Q4, we do expect that the promotional environment is going to continue and you'll start to see it ease but still be elevated and start clearing into the Q1, and then we'll start to clear up. It aligns with that kind of clearing the retailer inventories through those at the same period. As we said in the coming quarters, we expect that to ease and that will help us facilitate less promotional activity.

Anna Glaessgen
Jefferies LLC, Research Division

Got it. And then one more. Any thoughts to when the Form 10 would be publicly available?

Gary L. McArthur
Independent Director

What I can say on that is that we are working with the SEC to clear our -- any questions and concerns that they have. At the end of the quarter, we will be providing the SEC 9-month performance that couldn't be provided until the quarter ended. We would then be working with them on any questions or comments related to that. But I just assure you we're working through this as quickly as we can. I can't give you a definite time, but it is top of mind for sure, and we're working through it.

Operator

And the next question go to Matt Koranda of ROTH MKM.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Just on the Sporting Products segment, any way to quantify or think about the volume price split and the 13% decline within the quarter? I would assume on a blended pricing basis, you were up. So does that imply volume down more than the 13%, then how does that feed into sort of the full year outlook that you provided, it looks like maybe a little bit more deterioration in top line in the fourth quarter, but how should we think about volume versus price there?

Gary L. McArthur
Independent Director

Well, let me have Jason start, and then maybe Andy will add a little bit to that.

Jason R. Vanderbrink
President of Sporting Products

Matt. As far as the question directly, it was mostly volume driven, due to what we had talked about in the opening remarks. And then as far as the guidance that we had given you last quarter, $400 million for the third quarter, $400 million for the fourth quarter, we're pretty comfortable with that guidance range.

Gary L. McArthur
Independent Director

Andy, anything you want to add?

Andrew Keegan
VP & Interim CFO

Well, I think net-net price was actually up for the -- there are certain categories that -- as we talked about, that pricing has been under pressure. But versus last year, net-net price was actually up. So the decline was volume offset by price going up. Now there's mix in there that drive some price some pressure on that. But overall, I would say price is up.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. Great. And then on the Outdoor Product side, can you just highlight more specifically where you've seen strength in the DTC performance? You guys have mentioned that a couple of times, both in the prepared remarks and the Q&A. And to clarify also, if you've seen some positive pockets as well, if you could call out any of those on a year-over-year basis.

Gary L. McArthur
Independent Director

Yes. I can touch on it, obviously, we've seen a lot of good DTC experience at Simms. We've had pockets of great performance in snow as well. Maybe, Andy, you can add some more details...

Andrew Keegan
VP & Interim CFO

Yes. In general, I would say, across the board, the majority of the sites did experience better results. There were ones that are under pressure, but they align somewhat with what we're seeing in the POS that you're talking to, the hunt/shoot category, which is down the most overall. That one did experience continued pressures. But what I think is a highlight is it's less than what we're seeing in our wholesale in the retail channels themselves.

So though it is down, it's down less, which for us gives us indications, as I said earlier, that the demand is there and that we'll see it come back as we continue to move through some of the pressures we're seeing in our wholesale channels.

Operator

And our final question today goes you to Ryan Sundby of William Blair.

Ryan Ingemar Sundby
William Blair & Company L.L.C., Research Division

Gary, Andy, I think you both mentioned retailer inventories, it's high in total, but then you've had some other categories that are showing stock-outs. Could you give us a rough breakdown of what percentage of the portfolio is over inventory versus correct versus under at retail? And then I think you mentioned resellers taking in the next couple of quarters to normalize their ordering patterns. Is that across the board? Or is that really just for a couple of specific categories?

Gary L. McArthur
Independent Director

Let me have Andy speak to that.

Andrew Keegan
VP & Interim CFO

Yes, Ryan. It's a great question. I'm glad we can help clarify here. So first thing I would say is, in general, we actually feel our inventories are actually in fairly good shape. There is pockets that are a little bit over inventoried, but not on the whole, it's actually fairly good shape. When we say retailer inventory, we're talking about their total inventory, not just our products, but all inventory they're carrying.

And what we see is, and it might be by category that if they're heavy in all in the category of a total, they may not be purchasing anything in that category. And so we're seeing that happening right now. And so we're trying to work through that with them. Just as we said, we had stock out in certain areas, and they're just saying, well, others aren't stocked out. So until we can clear through that, that is causing some pressure on us.

So our inventories -- where we are heavy is some of the areas that we've talked about. We look at outdoor cooking has a little bit heavier inventory right now. But on the total, it's actually in fairly good shape, and we just think that the retailers are going to move through these inventories and as they get through their fiscal year-end, we'll start seeing those -- them be able to move and reorder at a more consistent basis.

Ryan Ingemar Sundby
William Blair & Company L.L.C., Research Division

Got it. That's really helpful. And then just on the like we are seeking out either more discounts or promotions, can you talk a little more about how widespread you're seeing that? Again, is that across the portfolio? Is it in specific categories? And maybe how does that look for your premium items versus your opening price points?

Andrew Keegan
VP & Interim CFO

That -- so on the premium, I think it is split fairly well is that our premium items aren't seeing the same level discount. We talked about Stone Glacier not having through the holiday season. They didn't -- they weren't seeing any discounts. So some of our top end products aren't seeing the same levels of discounting. The heavy -- what we were talking about is during the holiday season, what we did note, and we noted this on our sites and in the channels is -- the -- without a discount on kind of the mid- to low-price point items, you weren't seeing the activity.

The buyers would look, but they wouldn't purchase. They -- as we go forward, that is something that we're monitoring. We do think that promotions will be necessary, especially in the retail channels to move through the inventories maybe less so on our DTC sites to try to move through that. But it is going to continue. We are -- but it is more so on the lower end price points versus the upper.

Operator

We have no further questions. I'll hand back to Gary for any closing remarks.

Gary L. McArthur
Independent Director

Okay. Let me make a few comments. As you're aware, this is a great company, and we're going to be laser focused on making it even better. We have great employees who work really hard. I am very fortunate to be surrounded by a deep, talented and experienced management team, several of which will be included in the search for the Vista Outdoor CEO position. We have 41 iconic brands that we are going to work hard to even better leverage. We had a solid quarter, but we're aware there's work to be done.

We are 100% committed to completing the spin in this calendar year, and we'll be working hard towards that. And I just want to leave with you that we are very optimistic about the future. It's bright. We're ensuring you that we'll be shareholder rewarding and look forward to talking to you further. Thanks for your time today on the call.

Operator
Thank you. This now concludes today's call. Thank you so much for joining. You may now disconnect your lines.

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