Vista Outdoor Inc. NYSE:VSTO

FQ2 2024 Earnings Call Transcripts

Thursday, November 02, 2023 1:00 PM GMT

Forward Looking Statements

Some of the statements made and information contained in these materials, excluding historical information, are “forward-looking statements”, including those that discuss, among other things: Vista Outdoor’s plans, objectives, expectations, intentions, strategies, goals, outlook or other non-historical matters; projections with respect to future revenues, income, earnings per share or other financial measures for Vista Outdoor; and the assumptions that underlie these matters. The words “believe,” “expect,” “anticipate,” “intend,” “aim,” “should” and similar expressions are intended to identify such forward-looking statements. To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995. Numerous risks, uncertainties and other factors could cause Vista Outdoor’s actual results to differ materially from the expectations described in such forward-looking statements, including the following: risks related to the Transaction, including (i) the failure to receive, on a timely basis or otherwise, the required approval of the Transaction by Vista Outdoor’s stockholders, (ii) the possibility that any or all of the various conditions to the consummation of the Transaction may not be satisfied or waived, including the failure to receive any required regulatory approvals from any applicable governmental entities (or any conditions, limitations or restrictions placed on such approvals), (iii) the possibility that competing offers or acquisition proposals may be made, (iv) the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement relating to the Transaction, including in circumstances which would require Vista Outdoor to pay a termination fee, (v) the effect of the announcement or pendency of the Transaction on Vista Outdoor’s ability to attract, motivate or retain key executives and employees, its ability to maintain relationships with its customers, vendors, service providers and others with whom it does business, or its operating results and business generally, (vi) risks related to the Transaction diverting management’s attention from Vista Outdoor’s ongoing business operations and (vii) that the Transaction may not achieve some or all of any anticipated benefits with respect to either business segment and that the Transaction may not be completed in accordance with our expected plans or anticipated timelines, or at all; impacts from the COVID-19 pandemic on Vista Outdoor’s operations, the operations of our customers and suppliers and general economic conditions; supplier capacity constraints, production or shipping disruptions or quality or price issues affecting Vista Outdoor’s operating costs; the supply, availability and costs of raw materials and components; increases in commodity, energy, and production costs; seasonality and weather conditions; Vista Outdoor’s ability to complete acquisitions, realize expected benefits from acquisitions and integrate acquired businesses; reductions in or unexpected changes in or Vista Outdoor’s inability to accurately forecast demand for ammunition, accessories, or other outdoor sports and recreation products; disruption in the service or significant increase in the cost of Vista Outdoor’s primary delivery and shipping services for Vista Outdoor’s products and components or a significant disruption at shipping ports; risks associated with diversification into new international and commercial markets, including regulatory compliance; Vista Outdoor’s ability to take advantage of growth opportunities in international and commercial markets; Vista Outdoor’s ability to obtain and maintain licenses to third-party technology; Vista Outdoor’s ability to attract and retain key personnel; disruptions caused by catastrophic events; risks associated with Vista Outdoor’s sales to significant retail customers, including unexpected cancellations, delays, and other changes to purchase orders; Vista Outdoor’s competitive environment; Vista Outdoor’s ability to adapt its products to changes in technology, the marketplace and customer preferences, including our ability to respond to shifting preferences of the end consumer from brick and mortar retail to online retail; Vista Outdoor’s ability to maintain and enhance brand recognition and reputation; others’ use of social media to disseminate negative commentary about us, our products, and boycotts; the outcome of contingencies, including with respect to litigation and other proceedings relating to intellectual property, product liability, warranty liability, personal injury, and environmental remediation; Vista Outdoor’s ability to comply with extensive federal, state and international laws, rules and regulations; changes in laws, rules and regulations relating to our business, such as federal and state ammunition regulations; risks associated with cybersecurity and other industrial and physical security threats; interest rate risk; changes in the current tariff structures; changes in tax rules or pronouncements; capital market volatility and the availability of financing; foreign currency exchange rates and fluctuations in those rates; general economic and business

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conditions in the United States and our markets outside the United States, including as a result of the war in Ukraine and the imposition of sanctions on Russia, the COVID-19 pandemic, conditions affecting employment levels, consumer confidence and spending, conditions in the retail environment, and other economic conditions affecting demand for our products and the financial health of our customers. You are cautioned not to place undue reliance on any forward-looking statements we make. A more detailed description of risk factors that may affect our operating results can be found in Part 1, Item 1A, Risk Factors, of our Annual Report on Form 10-K for fiscal year 2023, in Part II, Item 1A, Risk Factors, of our Quarterly Report on Form 10-Q for the second quarter of fiscal year 2024, and in the filings we make with the SEC from time to time. We undertake no obligation to update any forward-looking statements, except as otherwise required by law.

No Offer or Solicitation

This communication is neither an offer to sell, nor a solicitation of an offer to buy any securities, the solicitation of any vote, consent or approval in any jurisdiction pursuant to or in connection with the proposed transaction or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law.

Additional Information and Where to Find It

These materials may be deemed to be solicitation material in respect of the transaction among Vista Outdoor Inc., Revelyst, Inc., CSG Elevate II Inc., CSG Elevate III Inc. and CZECHOSLOVAK GROUP a.s. (the “Transaction”). In connection with the Transaction, Revelyst, a subsidiary of Vista Outdoor, intends to file with the United States Securities and Exchange Commission (“SEC”) a registration statement on Form S-4 in connection with the proposed issuance of shares of common stock of Revelyst to Vista Outdoor stockholders pursuant to the Transaction, which Form S-4 will include a proxy statement of Vista Outdoor that also constitutes a prospectus of Revelyst (the “proxy statement/prospectus”). INVESTORS AND STOCKHOLDERS ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING VISTA OUTDOOR’S PROXY STATEMENT/PROSPECTUS (IF AND WHEN AVAILABLE), BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE TRANSACTION AND THE PARTIES TO THE TRANSACTION. Investors and stockholders will be able to obtain the proxy statement/prospectus and any other documents (once available) free of charge through the SEC’s website at www.sec.gov. Copies of the documents filed with the SEC by Vista Outdoor will be available free of charge on Vista Outdoor’s website at www.vistaoutdoor.com.

Participants in Solicitation

Vista Outdoor, Revelyst, CSG Elevate II Inc., CSG Elevate III Inc. and CZECHOSLOVAK GROUP a.s. and their respective directors, executive officers and certain other members of management and employees, under SEC rules, may be deemed to be “participants” in the solicitation of proxies from Vista Outdoor’s stockholders in respect of the Transaction. Information about Vista Outdoor’s directors and executive officers is set forth in Vista Outdoor’s proxy statement on Schedule 14A for its 2023 Annual Meeting of Stockholders, which was filed with the SEC on June 12, 2023 and subsequent statements of changes in beneficial ownership on file with the SEC. These documents are available free of charge through the SEC’s website at www.sec.gov. Additional information regarding the interests of potential participants in the solicitation of proxies in connection with the Transaction, which may, in some cases, be different than those of Vista Outdoor’s stockholders generally, will also be included in the proxy statement/prospectus relating to the Transaction, when it becomes available.

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Presentation

Operator

Thank you all for joining. I would like to welcome you all to the Second Quarter Fiscal Year 2024 Vista Outdoor Earnings Conference Call. My name is Brika, and I will be your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to your host, Tyler Lindwall, Vice President of Investor Relations. Please go ahead.

Tyler Lindwall
Vice President of Corporate Development, IR and FP&A

Thank you, operator, and good morning to everyone joining us for our second quarter fiscal year 2024 earnings call. With me this morning is Gary McArthur, Interim Chief Executive Officer; Jason Vanderbrink, CEO of Sporting Products; Eric Nyman, CEO of Outdoor 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 reflecting future events and their potential effect on our operating and financial performance, 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, and we are under no obligation to provide updates to these forward-looking statements. These forward-looking statements are subject to the risks and uncertainties that face Vista Outdoor and the industries in which we operate, and actual results may differ materially from these forward-looking statements. 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 reconciliations of non-GAAP financial measures.

Gary, I'll turn it over to you.

Gary L. McArthur
Interim CEO & Director

Thank you, Tyler, and good morning, everyone. I would like to thank all of you for joining us today as we discuss our second quarter fiscal year 2024 results.

For the next few minutes, I'm going to focus my comments on the sale of the sporting products segment and then turn the time over to Jason to provide an update on Sporting Products., then Eric to do the same for Outdoor Products, recently rebranded as Revelyst and to trade under the stock ticker GEAR, followed by Andy, who will provide our Q2 results and guidance.

We are currently at one of the most exciting junctures in our company's history. As recently announced, we have entered into a definitive agreement to sell our Sporting Products segment to Czechoslovak Group, or CSG, for $1.91 billion. We believe that this outcome provides great value, is the best strategic alternative for maximizing value to stockholders due to the payment of approximately $750 million of cash consideration and locking in certainty of value for

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stockholders in the near term.

Long term, this outcome jump starts our compelling vision for Revelyst by capitalizing its balance sheet with cash to accelerate its capital allocation strategy and puts us in a position to hit the ground running as a successful independent company.

The Sporting Products business will remain headquartered in Anoka, Minnesota, will be led by Jason Vanderbrink and his team, and the business will stay true to its long-standing heritage of manufacturing and selling our iconic American brands in America. Additionally, teaming with CSG, Sporting Products will increase its efforts to market and sell these iconic brands to civilian and government customers around the globe. For every 1 share of Vista Outdoor held at the time of closing, a stockholder will receive 1 share of Revelyst and cash consideration of $12.90 per share for a total cash consideration to stockholders of approximately $750 million. This cash consideration is not a dividend and instead part of the merger consideration. Upon closing, this transaction will be treated as a taxable sale of a stockholder's Vista Outdoor shares for the Revelyst shares and cash consideration they receive in the merger.

Vista Outdoor stockholders will generally recognize gain or loss in the transaction equal to the difference between their tax basis in the Vista Outdoor shares they exchange and the sum of the cash consideration and the fair market value of the Revelyst shares they receive determined as of the closing date. This allows stockholders to recover tax basis and recognize built-in gain and loss in their Vista Outdoor shares at the time of closing.

Looking forward, a stockholder's new tax basis in each share of Revelyst received will equal the fair market value of such share determined as of the closing date. Additionally, we expect that immediately after closing, any cash remaining after the payment of taxes, transaction costs and other customary closing-related payments, the paydown of all debt, the approximately $750 million payment to stockholders and the capitalization of Revelyst with cash up to $250 million will be returned to stockholders of Revelyst in the form of a share buyback or a onetime special dividend.

Please refer to Slide 9 in the slide deck provided. Prior to the stockholder vote, all free cash flow will be used to pay down debt as we are unable, under applicable securities laws, to repurchase shares while the stockholder vote for our Sporting Products sale is pending. After the stockholder vote is complete and before closing, we will have the option to evaluate whether a share repurchase program would be appropriate.

The transaction is subject to approval of our stockholders, receipt of necessary regulatory approvals and other customary closing conditions. We expect to hold our stockholder vote in the March-April time frame of calendar year 2024. If we have not received regulatory approvals prior to the stockholder vote, the timing of closing will depend primarily upon receipt of necessary regulatory approvals.

Under the merger agreement, CSG is committed to take all actions necessary or advisable to obtain the necessary regulatory approvals and to pay a termination fee equal to $114.6 million if the transaction does not close due to failure to obtain the required regulatory approvals. We are excited about the future opportunities for both the Sporting Products business under CSG ownership and Revelyst under Eric's leadership, as we embark on our new strategic journey, including a new transformation program that Eric and Andy will cover in more detail shortly.

I'd like to thank all of our employees for their hard work in shaping our company into what it has become today and for giving us confidence in the future success, both businesses will be able to achieve as separate companies.

Thank you, everyone. I will now hand the call over to Jason, who will discuss Sporting Products.

Jason R. Vanderbrink
President, CEO of Sporting Products Segment & Director

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Thank you, Gary, and good morning, everyone. We are at the midpoint of our fiscal year and are pleased with where we are currently standing, and we believe there are positive trends on the horizon.

Sales for the Sporting Products segment in the second quarter were $350 million, with segment adjusted EBITDA margins of 28%, which shows a strong product mix and is in line with our margin rate expectations. As Gary mentioned in his opening remarks, we believe the sale of Sporting Products to CSG is a great outcome for our stockholders, our business, our employees and our customers. A private, global strategic owner will allow us to grow the reach of our iconic American brands and expand our legacy of U.S. manufacturing support for the military and law enforcement customers and investments in conservation and our hunting and shooting heritage.

The leadership team is excited for our bright future, and I'm pleased to welcome Al Kerfeld as the Chief Financial Officer; Jeff Ehrich as our General Counsel and Corporate Secretary; and Mark Kowalski as Controller and Chief Accounting Officer. This team has 8 decades of combined experience and a great working knowledge of our business and the ammunition industry.

While market conditions were more challenging in the second quarter, we see a higher baseline and participation rates remain very strong. NICS data continues to signal sustained gun purchases with now 50 straight months of firearms checks over $1 million. In September, this was 13% higher than 2019 and continues to show the industry has grown its user base. We have seen a return to seasonal buying patterns driving the consumer purchase cycle and continued participation from the 19 million new gun owners.

There has also been a significant recent increase in demand across several categories due to global unrest that we are monitoring. We continue to monitor point-of-sale and customer level inventory in this dynamic market.

To highlight some recent wins, we secured the Department of Homeland Security contracts for 5 years to provide the highest quality duty ammunition for both the U.S. Customs and Border Patrol and Immigrations and Customs Enforcement agencies. The CBP contract is our second largest ever and both agencies chose Federal's Tactical Bonded ammunition for their duty rifles. This supports their mission to protect our borders and preserve national security and public safety.

Our law enforcement team also secured a contract win with the Miami-Dade Police Department, the eighth largest department in the United States. The 3,500 member police force will use Speer 9-millimeter Gold Dot for their duty pistol and Federal .223 Tactical Bonded ammunition for the department's duty rifle. We are proud to provide the highest quality duty ammunition to law enforcement and federal agencies in the United States and globally. Our employees produce excellent products that many law enforcement agencies in the United States trust to protect and serve our communities.

As we work toward the closing of the sale to CSG, the team will continue to focus on making the best ammunition in America and delivering on our goals. We believe our diverse customer base and multi-brand strategy will allow us to compete for additional market share, expand our presence into new markets, improve the financial performance of Remington and continue to deliver mid-20% segment adjusted EBITDA margins. I have full confidence that with the best team in the ammunition business, we will continue to perform at the highest level. We look forward to working towards closing the sale to CSG in the calendar year 2024.

Thank you. Eric?

Eric C. Nyman
CEO of the Outdoor Products Segment & Director

Thanks, Jason, and good morning, everyone. During my first 10 weeks, I have visited multiple Revelyst locations on a

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look, listen, learn tour. I had the chance to meet and hear from a large number of our employees who are eager to share their pride and excitement about the future of our company. I left feeling energized as I saw a tremendous amount of potential and a lot to be excited about at this company, which we have recently named Revelyst. At Revelyst, we are a collective of category-defining maker brands, transcending the boundaries of precision, performance and protection. We exist to inspire and equip the ambitious to achieve their greatest experiences in the places they love. We are excited for you all to join us in our pursuit to redefine what is humanly possible outdoors.

As I mentioned, I was thrilled to meet so many of the proud and talented employees we have to lead us into the future. As previously announced, Andy Keegan, currently Vice President and Interim CFO of Vista Outdoor plans to join Revelyst as CFO. Andy's work as interim CFO, has given me and the Board high confidence in his ability to serve in this position.

In addition, we announced the hiring of our General Counsel, Jung Choi. Jung has over 15 years of diverse legal experience and expertise, most recently serving as the General Counsel and Corporate Secretary for Boxed, a publicly traded e-commerce grocery platform. I am eager to partner with Andy, Jung and the rest of the leadership team in leading Revelyst during this transformational period in our company's history and support the work that we are doing to advance our mission of creating the best and largest house of outdoor brands.

As I was able to reflect on what I saw and learned from my tour, a few things became very clear to me. First, we have one of the most passionate workforces in the industry. Second, a big part of the reason for their passion is that our company is comprised of a collection of many of the world's most iconic outdoor brands. Third, what I observed and heard in several ways from our team, was that these powerful brands and assets have not yet been harnessed and elevated to achieve their true potential.

While our fully formed strategy for Revelyst will evolve and expand over the coming months, a few key pillars of that game plan are already clear, and we will act on them with urgency. As such, we are kicking off a new program today called GEAR Up, inspired by our future stock ticker GEAR, this transformation program will focus on 3 elements. Those elements are simplifying the business model, delivering increased efficiency and profitability from that simplified structure, and reinvesting in our highest potential brands to accelerate their growth and transformation.

In the current structure, the business has become increasingly complex over time, with multiple acquisitions causing brands to become independent of one another and creating inefficiencies across the entire company. Through a simplified structure, Revelyst can become an integrated house of iconic high-performing outdoor brands that work together as one cohesive unit to form a globally branded company.

We will leverage shared learnings and centers of empowerment across the company to drive efficiency through strong execution, while embarking on a global omnichannel growth strategy that marries our imagination with innovation to create products that unlock wildly human experiences.

Our first action toward achieving our goal of simplification within the GEAR Up initiative is to reorganize the business to create 3 distinct platforms and drive success. The platforms will be: one, Precision Sports and Technology, which will consist of Foresight Sports and Bushnell Golf, our highest EBITDA margin and highest growth potential business, which will be led by Jon Watters and Scott Werbelow, Co-Presidents of Precision Sports and Technology; two, Adventure Sports, which will be comprised of Fox, Bell, Giro, CamelBak, QuietKat and more, our largest segment with the most well-renowned brands, which will be led by Jeff McGuane, President of Adventure Sports; and three, Outdoor Performance, which will include Bushnell, Primos, Simms, Camp Chef, Stone Glacier and more, a group with market leadership in hiking, camping, fishing and hunting.

In addition, with our Blackhawk brand, we also serve our military, first responders and law enforcement professionals around the world with pride. This group will be led by Jordan Judd, President of Outdoor Performance.

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This simplified structure will allow us to kick off a significant efficiency program within the GEAR Up framework that is being actioned immediately. We expect that this effort will streamline our operations and unlock profitability improvements and cost savings beginning in Q4 fiscal year 2024, with an estimated $100 million of realized annual cost savings by fiscal year 2027. These net savings are in addition to the $50 million cost restructuring program announced in April 2023, with about $25 million of those early savings specifically related to Revelyst, for a total of $125 million in cost improvements on a run rate basis.

Enabled by our simplified structure and powered by a recently signed deal with a leading consulting partner, this new initiative will maximize efficiency through consolidation of our current real estate footprint as well as within our back-office technology stack, supply chain and organizational structure. In the next several weeks and months, we will start our investor road shows, attend conferences and host an Investor Day in the spring of 2024 to provide more details on our strategic plan. We are taking decisive action at this time to position us well ahead of the separation and set us up for a strong start to fiscal year 2025.

As reflected in our guidance, we are working hard to clear high-priced inventory to ensure that our products are front and center with our channel partners during the holiday season. We intend to utilize strategic promotions to work through the high-priced inventory and continue driving market share gains across categories, regardless of external market factors. We are building momentum from the ground up and expect sequential margin improvements from Q3 to Q4, finishing the fiscal year strong.

Through our efforts in the back half of fiscal year 2024, our inventory will be rightsized, our restructuring program will begin taking hold and other strategic growth initiatives across the company will fuel organic top line growth, reversing the declines experienced over the past few quarters carrying us into fiscal year 2025 with momentum.

Lastly, in the near term, I am excited to announce the first ever Revelyst Lyst that showcases select great products that our teams have built in time for the holidays. These products range across our brands. From Foresight Sports, we have the all-new Foresight Falcon to shave strokes off your game with the best launch monitor and simulator technology on the market. Our Bushnell live camera with True Target and onX integration lets you see live video of the wildlife you manage, the spots you scout and the property you protect.

From our QuietKat electric bikes, we offer the all-new QuietKat Lynx to take you from the trails to around the town. From Simms Fishing Products, we have the all-new Challenger 7-inch deck boot, a purpose-built fishing footwear that's extremely versatile around and off the water. And from Giro, just in time for the skiing season, we offer the all-new Owen Spherical helmet, built for moments on the mountain with modern styling, premium innovations and all-day comfort.

This is just a short list highlighting the culture of innovation we have. You will be able to find the full Revelyst Lyst across all of our social channels and our website, revelyst.com, along with the unique stories behind each product.

In closing, our future at Revelyst is bright. While we have hard work to do, our future value creation will come from streamlining and efficiency savings, brand building, incredible consumer-focused innovation, an expanded international footprint, doubling down on our own D2C business and expanding our technology and gaming investments, particularly within the Precision Sports and Technology area. We look forward to sharing more of those plans in the months ahead as we work towards our Investor Day being rescheduled for spring 2024.

I'll now hand it over to Andy to provide a financial update for the quarter. Andy, over to you.

Andrew Keegan
VP & Interim CFO

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Thank you, Eric, and hello, everyone. My comments today will focus on adjusted results compared to the prior year period, unless otherwise noted, which are presented using non-GAAP financial measures. In the appendix of the slide presentation, we've included reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. For additional information regarding forward-looking statements and non-GAAP financial measures, please refer to Page 30 of the slide presentation.

Further, as a result of correspondence with SEC staff in connection with the separation of our Outdoor Products and Sporting Products businesses, adjusted results reflect a slightly different preparation than what was done previously and do not have an adjustment for certain retention payments.

Turning to Slide 22. For the second quarter, total sales decreased 13.4% to $677 million, in line with our recent earnings prerelease. Organic sales for the quarter were $646 million, down 17.4% driven by lower shipments across nearly all categories and Sporting Products and lower volume as channel partners continue to be cautious in purchasing due to inventory levels and short-term consumer pressures in the Outdoor Products businesses.

Gross profit was $209 million, and gross margin decreased 270 basis points to 30.9%. The decline was primarily due to lower volumes and price in our Sporting Products segment and decreased volumes in the organic Outdoor Products businesses, partially offset by acquisitions.

EBITDA in the quarter decreased 27.6% to $116 million and EBITDA margin was 17.2%, down 370 basis points. Organic EBITDA for the quarter was $114 million, a decrease of 29.2%. Organic EBITDA margin in Q2 was 17.6%, down 292 basis points. The decline was driven by lower gross profit in both segments, partially offset by decreased selling costs in Sporting Products and decreased selling, general and administrative expenses related to the organic businesses in Outdoor Products. Second quarter EPS decreased 42.5% to $0.96.

Turning to Slide 23, our balance sheet remains healthy. Year-to-date free cash flow was $116 million. Net debt decreased $27 million sequentially to $905 million and our net debt leverage ratio is now at 1.8x.

Turning to our segment results on Slide 24. Within Outdoor Products, sales decreased 6.3% in Q2 to $327 million. Organic sales were down 15.2% to $296 million in Q2, driven primarily by lower volumes as channel partners continue to be cautious with purchasing due to inventory levels and as consumers are pressured by higher interest rates and other short-term factors affecting their purchases of consumer durable goods.

Gross profit decreased 12% in Q2 to $94 million, due to lower volume from organic businesses, partially offset by acquisitions. Gross margin decreased 197 basis points to 28.6%. EBITDA in Q2 was $30 million, down 33% with an EBITDA margin of 9.3%, down 370 basis points. Organic EBITDA decreased 38.4% to $28 million, and organic EBITDA margin decreased to 9.4%, down 354 basis points. The decline in the quarter was primarily driven by decreased gross profit, partially offset by reduced selling, general and administrative costs related to organic business.

For Sporting Products, sales in Q2 decreased 19.2% to $350 million, driven by lower shipments across nearly all categories as channel inventory has normalized, lower pricing and the previously announced termination of the Lake City contract at the beginning of the third fiscal quarter in the prior year. Gross profit decreased 27.6% in Q2 to $115 million driven by decreased volume and price. Gross margin decreased 382 basis points to 33%. EBITDA was $99 million, down 29.4%, primarily due to decreased gross profit, partially offset by lower selling costs. EBITDA margin was 28.3%, a decrease of 409 basis points.

As Eric mentioned, our GEAR Up transformation program for Revelyst has been actioned immediately as we work to simplify and streamline our operations. We currently expect GEAR Up to start contributing limited cost savings in Q4 of fiscal 2024, contribute approximately $25 million to $30 million in realized cost savings in fiscal 2025, and we expect to

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unlock an estimated $100 million in realized annual cost savings in fiscal year 2027 as a result of this program. These savings are in addition to the $25 million related specifically to Revelyst as part of our $50 million cost restructuring program announced in April 2023, a total of an estimated $125 million of cost savings related to Revelyst on a run rate basis.

In fiscal year 2025, we anticipate that the $25 million to $30 million of cost savings related to our GEAR Up program, contributions from our previously announced April 2023 cost restructuring program, as well as our previously communicated improvements in supply chain, freight and lower expected promotions will help as we aim to bring our Outdoor Products segment EBITDA margins to low double-digit levels or said differently, our stand-alone Revelyst business, including estimated stand-alone costs to high single-digit adjusted EBITDA margin. This would be approximately a 400 basis point improvement from fiscal year 2024.

We expect that Revelyst adjusted EBITDA margin will be in the mid-teens, including estimated stand-alone costs by our fiscal year 2027, an estimated 1,000 basis point improvement over stand-alone fiscal 2024, with the $125 million of realized run rate cost savings being the primary driver of the increase from today's levels.

We are reaffirming the full year 2024 guidance discussed on our conference call a few weeks ago. For the full fiscal year 2024, we expect sales of $2.725 billion to $2.825 billion, Sporting Products sales of $1.45 billion to $1.5 billion and Outdoor Product sales of $1.275 billion to $1.325 billion. Adjusted EBITDA margins between 15.5% and 16.25%, Sporting Products EBITDA margin range of 26.5% to 27.5% and Outdoor Products EBITDA margin range of 7.75% to 8.25%. Adjusted EPS in the range of $3.65 to $4.05 and effective tax rate of approximately 19.5%, and interest expense in the range of $55 million to $65 million and adjusted free cash flow between $265 million and $315 million.

Diving deeper, although we do not provide quarterly guidance, we thought it would be prudent to give more color on our expectations for the remainder of the year. In the Sporting Products segment, Q2 sales were pressured by the market softening across categories. We believe that the current increased global unrest, along with the strong hunting season in Q3 and the start of an election season in Q4 will result in more favorable performance than in Q2. We see segment adjusted EBITDA margins in the mid-20% range for the rest of our fiscal year.

In Outdoor Products, as previously mentioned, high interest rates and other short-term factors have impacted consumer demand. We expect consumer demand to be slower for the rest of the calendar year 2023, resulting in channel partners remaining cautious and not increasing their purchasing behavior until calendar year 2024. This dynamic is causing slower-than-expected inventory sell-in, which coupled with promotional pressures as we work to sell through our high-priced inventory positions during the holiday season is driving down profitability in Q3. We expect sales to decline in the high single-digit range in Q3 versus the prior year period, returning to low single-digit growth in Q4 versus the prior year period.

The year-over-year growth in Q4 will be driven by exciting new product introductions in our golf business as well as more favorable purchasing patterns in our Action Sports businesses versus the prior year. Due to the increased promotional environment of the holiday season and moving through the higher priced inventory in Q3, we expect segment adjusted EBITDA margins to be in mid-single digits returning to high single digits in the fourth quarter as we reduce promotions and start to see the impact of our GEAR Up program readthrough.

With the expected improvement in Outdoor Products to end fiscal year 2024, which includes returning to organic growth and generating segment adjusted EBITDA margin in the high single digits in Q4 combined, with our GEAR Up profitability improvement program, we seek Revelyst adjusted EBITDA dollars on a stand-alone basis to double in fiscal year 2025. We are also still gaining market share in key categories, which positions us well for a strong start to fiscal year 2025 as we expect demand to return and channel partners to begin purchasing at normal rates again.
Thank you, everyone. Operator, please open up the line for questions.

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Question and Answer

Operator

[Operator Instructions] We now have Matt Koranda of ROTH MKM.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Just first on the high-level sales dynamics involved with the Ammo business. Any potential for another buyer to emerge now that, that transaction is public? And then just could you maybe help us understand the next steps of CFIUS approval as it pertains to the transaction?

Gary L. McArthur
Interim CEO & Director

Sure. Matt, this is Gary. As to speculating whether another buyer will come forward, that would be just speculation. It's always possible. We, as a Board and the company, are not allowed to go solicit buyers. But if a qualified bid comes forward, we do have the ability to evaluate such. With regards to CFIUS and other regulatory approvals, we expect to have all of those filed in the coming weeks. And from there, obviously, it will just proceed as they typically do through that process. We do have a shareholder vote that is required that we will anticipate in that March, April time frame, and that's kind of the process for the next steps.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. I appreciate that, Gary. And then maybe just for Jason, can you talk about the dynamic that's happening in the retail and distribution channels as it pertains to .223 and 5.56? I guess, we've been seeing some of that inventory clearing in recent weeks. What are you seeing in terms of inventory and pricing? And how does that feed into the commentary that you guys provided in terms of the more favorable performance for the next couple of quarters?

Jason R. Vanderbrink
President, CEO of Sporting Products Segment & Director

Yes. Good question, Matt. So on the .223/5.56 specifically, we don't do a whole lot of that commercially anymore. Most of ours is tied to law enforcement and government contracts. What we've seen recently, and we'll say, in the last 4 weeks, we've certainly seen POS upticks significantly across broader categories. And we watch that daily, literally daily with our customers and then our wholesale partners. We watch their inventory daily, but we certainly have seen an uptick in the last 4 weeks across pretty much all categories.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Got it. And then as it pertains to the near-term sort of guidance commentary that you provided, the more favorable performance, I guess, just help us unpack what that means. It sounds like higher revenue, and then you alluded to sort of mid-20% EBITDA margin in that segment, I guess that might be a little lower than where you were in the second quarter. So just help us kind of where are those?

Jason R. Vanderbrink

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President, CEO of Sporting Products Segment & Director

Yes. I think on the EBITDA front, we like what we see on the EBITDA front. We've always guided towards mid-20s in the back half of the year. There could be some favorability to that in the third and fourth quarter, if we see what market trends are. And if we can control mix a little bit and get more profitable items out there than we had assumed. So I think on the revenue side, we don't guide quarterly. I think it's going to look very similar to the first half. The second half will look very similar, and there is a chance that we don't see the degradation of the profitability that we had predicted in the first part of the year.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. Got it. That's clear. And then on Revelyst, for Eric, maybe, just curious, are we committing to mid-teens stand-alone EBITDA margins for Revelyst still? And then is the GEAR Up program enough to get you there? I guess I'm curious how much of the $100 million of incremental cost savings in that program are related to sort of segment cost improvements versus corporate costs? If you could maybe just help us understand and unpack that program in a bit more detail on how it pertains to the long-term targets, that would be great.

Eric C. Nyman
CEO of the Outdoor Products Segment & Director

Sure. Matt, it's Eric. I'll provide some color, and then I'll turn it over to Andy to give a little bit of additional detail. But first and foremost, to your first question, you asked about our long-term guidance. And we do feel like the mid-teens long-term guidance is something that we are still committing to. And we'll continue to provide more detail on that over the coming months.

With regards to the GEAR Up program, it's obviously something that we're very excited and committed to doing. It's a program that drives profitability improvements along with organic growth for Revelyst. And everything does ladder back to that $100 million in new cost savings and $25 million in cost savings from the March 2023 initiative. So we just want to make sure it's clear that, that's how we get to the $125 million in cost savings by fiscal year '27.We're on that with a great team and a world-class consulting organization.

And just to give you some color before I pass it over to Andy, there's a lot of significant detail there that I think will build confidence for all of our stakeholders. When we look at simplifying the business model, we do feel really good about the 3 platforms that we announced this morning, and we've been working on now for the past several weeks, really going to that precision sports technology platform, which will be driven by Foresight and Bushnell Golf, the Adventure Sport platform, which will be driven by Fox, Bell, Giro, QuietKat and CamelBak and our Outdoor Performance group, which will be driven by Simms and Camp Chef, Bushnell, BLACKHAWK, Primos and more. And there's a lot of excitement about being able to really focus on those brands to grow.

And then secondly, we feel really good about delivering increased efficiency and profitability. There's some color to that initiative called GEAR Up, which is really the entirety of the transformation. With supply chain today, we have 9 DCs and domestic warehouses, and we see significant consolidation opportunity in the future. Today, we have 8 USA manufacturing sites, and we see opportunity for consolidation in the future, which will lead to cost savings there.

On the real estate front, we have over 21 domestic locations today, and we expect some significant real estate consolidation. So that's just a little bit of color for how we're going to get there. But yes, we do feel good that those programs will lead to those improved margins over time.

Andy, do you want to add any more to that?

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Andrew Keegan
VP & Interim CFO

Yes. Matt, I think your point was a great one is that we want to be clear, the $100 million GEAR Up program is going to be fully related to Revelyst. So there isn't going to be only a part of that, that actually goes Revelyst. Unlike the previous program, which was split between the 2, this is going to be completely related to Revelyst. So that will get us a fairly significant way towards that mid-teens once fully implemented.

There will be a little bit more if we need to do, and I think some of that is going to be a lot of what Eric talked about is the growth in some of these very high-profit areas of golf and other areas with new products that are going to generate additional revenue will help close that gap as well. But this is going to be a significant component of us getting -- which is why we're confident in the mid-teens in the long run.

Operator

We now have Mark Smith of Lake Street Capital Markets.

Alex Sturnieks

It's Alex Sturnieks on the line for Mark Smith this morning. For my first question, for the Revelyst business, you guys mentioned simplifying the business model, reinvesting in high potential brands. Is there any consideration or discussion about the possibility of divesting certain brands within that Revelyst portfolio?

Eric C. Nyman
CEO of the Outdoor Products Segment & Director

Alex, it's Eric. And thanks for the question. The answer is yes. As we think about focus, we're going to continue to give more information about how we're looking at our brands over the months ahead. But at a high level, we look at our power brands being things like Foresight and Bushnell Golf, Fox, Bell, Giro, Simms and Bushnell. And we're going to really focus a lot of our efforts on those things.

And as we focus intensely on our power brands, that will also mean that we're taking a look at all of the brands in our portfolio. And I would say that we're evaluating all of our assets, and we're open to licensing or divesting from noncore assets and brands in the future. And as we make more progress on that, we'll certainly be updating all stakeholders in our community.

Alex Sturnieks

That's great. And then for my second question here, could you give your thoughts around the promotional environment. As we enter the holiday season, are you guys being a little more promotional than traditional levels? And then are you guys seeing retail partners getting overly promotional?

Andrew Keegan
VP & Interim CFO

Yes. So I mean as we mentioned, the promotional level is going to be, I would say, more than historical as we are moving through inventories and our retailers and moving through inventories in this time period. So the high-priced inventory that we have on our balance sheet. We have made progress. Our Outdoor Products business was down about $20 million, a little bit over that in inventory here in the quarter, but we need to move through more of that. So you're going to see promotional environment more than typical in the third quarter, which is why we are expecting EBITDA margins to be a little bit lower in Q3 for the Revelyst side.

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And then that will return because those promotions will not continue past the holiday season. So it will come back in Q4, which is a little bit of a dip and bring it up, but it will move through the inventories and the retailers will have moved through it because we're partnering with them as well. And that will be -- will not continue into next year as the expectation. It will return more to a historic normal levels.

Operator

We now have Jim Chartier of Monness, Crespi, Hardt.

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

Can you just tell us kind of what your expectation for stand-alone EBITDA for Revelyst is this year?

Andrew Keegan
VP & Interim CFO

Yes. Stand-alone EBITDA -- so based on an 8% kind of midpoint for what we're guiding for the segment with just over $50 million of expected stand-alone cost, it's going to be in that 4.5-ish percent range is what you would expect for FY '24.

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

Okay. And then you mentioned in a press release thought to maybe double that next year. What's kind of the confidence in your ability to do that? And then in addition to the cost savings plan outlined, what would be the drivers behind that significant growth?

Andrew Keegan
VP & Interim CFO

Yes. So there's a few things. I think we are -- I mean we said it, so we're certainly confident that we can accomplish this goal. I think you're right, the 25% to 30% is a big component of that or what we're doing with the project savings. Promotions that we just talked about as well, not having those repeated because we do expect promotions, but they're going to be at more historical normal levels and with inventory that is at the lower price than we expected. So those items between the promotions coming down to more normal and the supply that we already expected with freight reductions in those high-priced inventory items that we have moved through will give us the remaining amount of that difference from the $25 million to $30 million to the doubling that we're talking about.

James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

Okay. So you don't need any meaningful revenue growth next year to achieve that?

Andrew Keegan
VP & Interim CFO

Revenue growth would not be the necessary. This is going to be more on the cost to get to that level. We do it, we will we'll evaluate the revenue and where we expect to grow. But given the new innovations and whatnot that we're working through and the fact that Q4 is going to start the organic growth, that will be a systems on the top basically of that.

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James Andrew Chartier
Monness, Crespi, Hardt & Co., Inc., Research Division

Okay. And then any plans to reinvest any of the GEAR Up savings into parts of the business?

Andrew Keegan
VP & Interim CFO

The $100 million is the net that we would expect EBITDA to move by. We are fully expecting that we are going to be reinvesting. There will be portions of the savings that will be going into reinvestment, but that is the net number that we would expect our EBITDA, which is going to get us to that mid-teens long-term. But the reinvestment is a very important aspect for our business between marketing and the innovation of R&D to really grow this business and see that organic growth that we're fully expecting, that is going to be a key component of it. But we just want -- we're communicating the net to make it as easy as possible.

Operator

[Operator Instructions] We now have William Reuter of Bank of America.

William Michael Reuter
BofA Securities, Research Division

I just have 2. The first is, now that you've had a little more time since the announcement of the divestiture, has there been any change in the plans with regard to repaying the bonds? Do you still plan to repay them before closing? And do you know if this is planned to be a call or a defeasance if you give that any more thoughts?

Andrew Keegan
VP & Interim CFO

Thanks, Bill. That, so -- we have had a little time, as we said, the vote would be in the March -- kind of end of March, April time period. So it likely will be a redemption of the bonds, not a call on the make all premium. So that is still the expectation until then. We haven't had any other discussions on anything earlier than that being done at this point.

William Michael Reuter
BofA Securities, Research Division

Great. And then in terms of the commentary about what's going on with Revelyst and inventory levels in your different channels. Is it just elevated inventory and destocking that's going on with regard to the kind of soft environment? Or how is sell-through of those products?

Andrew Keegan
VP & Interim CFO

So no, POS is down a little, so it isn't just that inventory. POS is down. It's -- but the -- what we're seeing is beyond the POS being down the sell-in isn't even keeping up with the POS. So there is still a gap between those items. But POS is down, but it's slowing on how compared year-over-year that isn't as down as it previously was, but that's more that it started last year at this point in time. So we're just seeing that it's kind of stabilized at level. So it is continuing to be down on POS, which is why part of what promotional is going to be for Q3 to push through the inventory. We need to increase some of that POS, which is why the promotions are a little bit higher than they would be normally to drive that here in the holidays season.

William Michael Reuter

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BofA Securities, Research Division

I guess one follow-up on that. The POS being down, how much of that do you think is being driven just by constrained consumer budgets versus changes in behavior that may be causing people to participate less in some of these activities post COVID?

Andrew Keegan
VP & Interim CFO

I think it's a mix on -- it certainly is a mix that there are constrained budgets, but the consumer in these discretionary type of activities is a little bit lighter, but I think they're making some decisions to do other items. The participation in general in the Outdoors is still high. We're still seeing solid participation in elevated levels above the pandemic time or pre-pandemic period. So long term, we're still confident that this is going to return to growth from where they have been here over the last few months or even years. But it is right now constrained on that. And it's hard for us to point exactly what's driving what, but there certainly is a mix of that.

Operator[Operator Instructions] I confirm we have had no further questions. So I would like to conclude the call here. Please have a lovely rest of your day.

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