S&P Global
Market Intelligence

Vista Outdoor Inc. NYSE:VSTO

Earnings Call

Thursday, February 1, 2024 2:00 PM GMT

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 11

Call Participants

EXECUTIVES

Andrew Keegan
Chief Financial Officer

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

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

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

ANALYSTS

Anna Glaessgen
B. Riley Securities, Inc., Research Division

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

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

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Rommel Tolentino Dionisio
Aegis Capital Corporation, Research Division

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Hello, and welcome to the Third Quarter Fiscal Year 2024 Vista Outdoor Earnings Conference Call. My name is Alex, and I'll be coordinating the call today. [Operator Instructions] I'll now hand it 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 third quarter fiscal year 2024 Earnings Call. With me this morning is Jason Vanderbrink, Co-CEO, Vista Outdoor and CEO of the Kinetic Group; Eric Nyman, Co-CEO of Vista Outdoor and CEO Revelyst; and Andy Keegan, Chief Financial Officer, Vista Outdoor.

Before we begin, I'd like to remind everybody 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. 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 risks 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.

Andy, I'll turn it over to you.

Andrew Keegan
Chief Financial Officer

Good morning, and thank you all for joining us today as we discuss our fiscal year 2024 third quarter results. Before Jason and Eric provide you with an update on the Kinetic Group and Revelyst, I want to take a few minutes to provide an update on the status of the previously announced agreement to sell the Kinetic Group to Czechoslovak Group or CSG. I am pleased to report that the transaction process is progressing well and is on track.

We have recently made large strides on the regulatory approval front, including the following: one, HSR Act, or anti-trust notification was filed on November 9, 2023. On December 11, 2023, the waiting period under the HSR Act expired. Two, the United Kingdom National Security and Investment Act of 2021, notification was filed by CSG on November 10, 2023.

On November 20, 2023, the notification was accepted and on January 5, 2024, the transaction was approved. And three, CSG and Vista Outdoor filed a joint notice with the Committee on Foreign Investment in the United States, or CFIUS, with respect to the transaction, which was accepted on December 28, 2023. The transaction is currently being reviewed by CFIUS, and our team is working with CFIUS to obtain its clearance.

As a reminder, under the merger agreement, CSG has 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 a failure to obtain the required regulatory approvals. In addition to the regulatory approvals I've noted, the transaction is subject to the approval of our stockholders and other customary closing conditions.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

With our S-4 proxy filed on January 16, 2024, we expect to hold our stockholder vote in the second quarter of calendar year 2024. If the regulatory approvals are complete by the time of the stockholder vote, which cannot be assured, we expect the transaction to close shortly thereafter. We reaffirm our confident belief that the transaction will deliver meaningful value for our stockholders and is the best strategic alternative for maximizing value because, among other reasons, the expected payment of approximately $750 million of cash consideration or $12.90 per share locks in certainty of value for our stockholders in the near term.

Please reference the presentation materials for additional details regarding the tax treatment of Vista Outdoor shares at closing. Long term, we expect the separation to jump-start our compelling vision for Revelyst by capitalizing its balance sheet with cash to accelerate its capital allocation strategy. We believe Revelyst will be well positioned to hit the ground running as a successful independent company.

Now I'll turn it over to Eric to provide an update on Revelyst for the quarter. Eric?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Thanks, Andy, and good morning, everyone. As we gather today for this earnings call, I feel encouraged to speak about the tremendous potential and opportunities that lie ahead for Revelyst. Over the past few months, as I visited employees across our company locations, I continue to be impressed by their dedication to our transformation, and I've gained insight into their enthusiasm for the future.

The conversations, I've had, have left me energized, deeply inspired and optimistic about what is to come. The commitment and talent that our employees bring to the table, harnessed within this revamped structure that we are building, make me confident that we will achieve both our short-term and long-term goals.

I am honored to steer the course with our exceptional team as we begin to unlock the potential of the Revelyst business. Revelyst sales for the quarter were $317 million, which is slightly lower than expected due to the phasing of shipments with a small number of dollars shifting into the Q4 period. Adjusted EBITDA was $15 million, with adjusted EBITDA margins of approximately 5%, which met our performance expectations due to higher promotions to move higher-price inventory.

The Revelyst culture of innovation drove many exciting new product innovations and content collaborations over the last few months and also secured incremental revenue opportunities. Our team delivered new and innovative products, collaborations and contract wins that will allow us to exceed the requirements of our ambitious consumers.

I would like to quickly highlight a few of these exciting products, collaborations and contract wins our team delivered in the quarter. In our Adventure Sports platform, Fox Racing expanded its helmet line with the introduction of the Crossframe Pro. Fox will be celebrating its 50th anniversary in 2024 and to commemorate and celebrate its storied history, passion and future yet to be written, will be releasing the 50th anniversary limited edition collection of its most iconic and category defining gear.

In our Precision Sports Technology platform, Foresight Sports is coming off its best quarter in company history with its strongest ever period of new product launches. Foresight recently launched the Falcon and QuadMAX to consumer delight.

The Falcon is a direct response to meet the evolving demands of the ever-growing simulation technologies and simulation golf market, that topped 6 million participants in 2023, which represents growth of over 70% since 2019.

The Falcon is the next evolution of the simulation focused GCHawk and it includes a full complement of cutting edge simulation capabilities in a more powerful form factor that is roughly half the size of its predecessor.

In addition, Foresight launched the QuadMAX the newest and by far, most powerful iteration of its award-winning launch monitor technology. Built with the most advanced 4-camera photometric data capture system, the QuadMAX packs our most features ever presented for the golfer, including a touchscreen

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

display with the ability to customize on screen data and new performance data tracking parameters into its compact ruggedized form factor.

Foresight also demonstrated its mass appeal, delighting crowds by exhibiting and launching a new product at the Consumer Electronics Show in Las Vegas earlier in the month. The Fore Caddy powered by AI is a pushcart that holds your clubs while seamlessly following you around on the golf course without any human power. It's an innovation packed product with leading battery life, wireless remote and a magnetic strip for your Bushnell Golf laser rangefinder.

In our Outdoor Performance platform, Blackhawk a leader in law enforcement and military equipment, announced a 4-year contract from the federal police in Belgium to deliver new duty holsters from the brand's T-Series holster line. We believe serving military, law enforcement and first responders around the world is incredibly important to our business as well as to the safety and service of our citizens.

Congratulations and thank you to the teams across our organization for their hard work, not only on these exciting products and opportunities, but also all the important work we are doing to equip and inspire our diverse range of consumers around the globe.

As we look ahead to Revelyst being a stand-alone company post separation, our brand-led consumer obsessed and maker-fueled culture is coming into shape. We are positioned well with winning brands, an efficient structure, a clean balance sheet post separation, and the right people to drive shareholder value.

Revelyst business fundamentals are improving and our balance sheet is healthy due to actions taken in the quarter. We were successful in moving through higher-priced inventory by using discounted products and promotions to drive sales, as we discussed in our earnings call last quarter. These efforts produced solid results as we saw Revelyst inventory decrease approximately 25% year-over-year and just under 10% sequentially.

As mentioned earlier, we maintained adjusted EBITDA margins of 5% during these actions, which was consistent with our guidance and is a testament to our team's focus on cost containment measures and profitability. We have observed marketplace, retail and wholesale channels getting healthier in recent months.

Channel inventory weeks on hand has come down year-over-year, and our brands are seeing signs of optimism in the channels compared to more cautious behavior that we experienced in calendar year 2023. We expect this dynamic to translate into future results now that channel inventory is in a healthier position.

Our direct-to-consumer sales channel is building momentum and saw a marked year-over-year improvement in both the quarter and during the holiday season. Our DTC sales for the quarter increased 15% year-over-year, led by our Adventure Sports platform’s over 40% year-over-year increase. During the holiday season, measured from mid-November through the end of December, DTC sales were up 9% year- over-year. Our Precision Sports Technology and Adventure Sports platforms performed strongly as both increased thier holiday sales by nearly 20% compared to the same period last year.

Our teams also were boosted by the Revelyst Lyst, a first-of-its-kind social campaign bringing Revelyst products directly to consumers at the enterprise level. This growth continues to prove out that in a channel that is not impacted by destocking and other noise, our brands have a strong positive connection with our base of passionate consumers who are able to access our full portfolio of products wherever and whenever they want to shop.

We will continue to focus our D2C strategy on our power brands and challenger brands through centralized resources and a consolidated ecosystem to accelerate higher-margin revenue and share growth.

Our GEAR Up transformation program, which we introduced during our last earnings call, is well underway, and we continue to make progress on implementing our vision and the cost savings initiatives announced last quarter.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

As a reminder, the GEAR Up transformation program is expected to drive $100 million of run rate cost savings by fiscal year 2027, by focusing on 3 areas. First, we're simplifying the business model to accelerate our vision of becoming an integrated house of high-performing platforms and iconic outdoor brands working together as one cohesive globally branded company.

Secondly, we're delivering increased efficiency and streamlined operations to drive profitability from that simplified structure. And lastly, we're reinvesting in our highest potential brands to accelerate their growth and innovation pipelines and transforming them for the future. Since last quarter's earnings call, we have continued to work diligently on our transformation and are confident in our ability to realize our cost savings goals.

Additionally, we have started to take actions that we believe will position us to capture $25 million to $30 million of run rate cost savings in fiscal year 2025 as previously communicated on our last quarterly earnings call. These actions include the consolidation of offices within our new platforms, our back-office technology stack, supply chain and organizational structure. We believe these initiatives will maximize the efficiency and profitability of Revelyst. We will provide further details on the GEAR Up program at our Investor Day in the spring of 2024.

Additionally, we are performing a strategic review of our brands and portfolio composition to assess core assets and focus on streamlining our brand portfolio into our power brand and challenger brand framework.

Through this review, we have identified certain noncore assets as candidates for divestiture and have begun holding preliminary transaction discussions with various parties. These assets have garnered strong interest and the conversations have been progressing well. We expect to have further communications and announcements in the coming months.

We are optimistic that potential future divestitures alongside the $250 million in cash, that we expect to capitalize the Revelyst balance sheet with at the time of separation, will allow us to accelerate our momentum through a capital allocation strategy that we expect will include investment in core organic growth opportunities, opportunistic share repurchases when we believe valuation is highly attractive and selective tuck-in acquisitions with clear integration use cases.

Our focus will be to drive tech enablement and unlock performance in our existing brands with an initial focus on Precision Sports Technology, our highest growth potential and highest margin business.

Through the strength of our balance sheet and decisive actions under GEAR Up, we expect our operating model and platforms will be able to drive value and synergies through M&A compared to previous acquisitions that were completed under a holding company philosophy.

Moving forward, we believe the business is transforming for the better, both operationally and financially as a result of all these factors. We are reaffirming the Revelyst guidance for fiscal year 2024 and expect to see top and bottom line improvements in the business with a return to growth at Revelyst in the fourth quarter.

We will continue to build on this momentum and action further GEAR Up initiatives to head into the separation on solid footing with the expectation that we will still be in a position to double Revelyst's EBITDA on a stand-alone basis in our fiscal year 2025.

In closing, we are positioned well with winning brands, the right structure and a clean balance sheet post separation. We have a clear line of sight to a solid foundation through the GEAR Up transformation program, built upon an improved and more closely integrated platform structure. Our culture is permeating across the business with our teams unified behind the brand-led, consumer obsessed and maker-fueled mentality. I have seen the passion that our team has for our products and customers and believe this will fuel our success as we embark towards the next phase of our company.

I am proud and excited by the work that we are doing to transform the company, execute our strategic vision and deliver value to our stakeholders. Thank you for your continued dedication and support of Revelyst.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

I'll now hand it over to Jason to provide an update on The Kinetic Group for the quarter. Jason, over to you.

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

Thanks, Eric. We are 3 quarters through our fiscal year and on track to meet our prior guidance. Sales in the third quarter were $365 million with an adjusted EBITDA margin above expectations at 28%, driven by our team's focus on operational efficiency and profitability. I want to reiterate that The Kinetic Group ownership by CSG will allow us to grow the reach of our iconic American brands and expand into new markets where our legacy of superior U.S. manufacturing will shine with our new consumers.

The transaction will allow us to further expand our U.S. manufacturing footprint while providing new opportunities for our brands and our team members. CSG is a private, family-based company and has a rich history of excellence in manufacturing and experience in the American ammunition market. They are a strategic long-term buyer, fully committed to continuing the legacy of our brands, support for the military and law enforcement customers and investments in conservation and our hunting and shooting heritage.

Further, we expect the separation to jump start our compelling vision for Revelyst by infusing its balance sheet with cash to accelerate its capital allocation strategy and will put Eric and his team in a position to hit the ground running as a successful independent company.

For the 53rd straight month, NICS data surpassed more than 1 million firearms checks. The month of December was up nearly 2% in 2023 versus 2022 and 14% higher than December of 2019 demonstrating that although moderating from pandemic levels, the industry has sustained its elevated base of users.

Additionally, the National Shooting Sports Foundation recently released a report on firearm production in the United States that included information from the Bureau of Alcohol, Tobacco, Firearms and Explosives.

The report estimates that there were more than 473 million firearms in civilian possession through 2021. From 2020 to 2021, the ATF reports a nearly 30% increase in domestic firearm production and an interim 2022 estimate shows an additional 11 million domestically made firearms were added to the United States from 2021 to 2022.

Of those firearms, 7 million were pistols or revolvers, a market segment where recent industry surveys say Federal, CCI, Speer and Remington brands and products are leaders in consumer preference. Besides being preferred by the consumer, Federal and Speer are the duty and training ammunition choice for many U.S. law enforcement agencies.

Finally, the ATF report’s analysis reminds us that firearms and ammunition manufacturing accounted for more than 12,400 jobs in the United States and produced more than $5.6 billion in goods shipped in 2021. Several of our new products recently received very prestigious awards that recognize product performance and innovation.

Field & Stream recognized Remington's Premier Long Range as the best centerfire ammunition. CCI's Clean-22 Hyper Velocity as the best rimfire ammunition. And to make it a clean sweep in the ammunition category, Field & Stream awarded HEVI-Shot’s HEVI XII in 28 gauge as its best shotgun ammunition.

NRA publications announced its prestigious Golden Bullseye Awards and among the winners are Remington's 360 Buckhammer for American Hunter's Ammunition of the year; Federal's Force X2 Shorty as American Rifleman Ammunition Product of the Year and Shooting Illustrated designated Speer's Gold Dot for Pistol Caliber Carbines, its ammunition product of the year.

Federal and CCI also won Reader’s Choice Awards from Predator Xtreme Magazine with gold honors for Federal in the shot shell category and CCI in the rimfire category. Our government contract team continues to secure wins that amplify our strength as a proud supplier of the U.S. military.

Recently, the United States Navy awarded Federal and Remington with contracts to supply rifle and shotgun ammunition to the maritime branch of the military. The Naval Surface Warfare Center-Crane Division, awarded Federal Ammunition a 2-year contract to produce its MK316.308 rifle ammunition.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The 175-grain match ammunition built at our Anoka, Minnesota facility meets the outlined specs for extreme accuracy and tolerance. Remington was awarded a 5-year contract to build the AO23 12 gauge 2 3/4 inch 1-ounce rifled slug for duty use by the United States Navy. This is the first military contract awarded to Remington since its acquisition by us, and the product will be built in our Lonoke, Arkansas facility.

As we look towards the closing of the sale of The Kinetic Group to CSG, we remain acutely focused on building the best ammunition in America and delivering on our goals. With a diverse customer base and multi-brand strategy, we are positioned to grow while steadily expanding our presence into new markets. As we enter another election cycle in the United States, our teams are well prepared for whatever the market holds in the future. I have full confidence that with the best team in the ammunition business, we will continue to perform at the highest level. Our future is filled with great opportunity, and we look forward to closing the sale of The Kinetic Group to CSG.

I will hand it back to Andy to provide an update on the financial results for the quarter. Andy?

Andrew Keegan
Chief Financial Officer

Thanks, Jason. 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 to 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 4 of the slide presentation.

I will start by noting during the quarter, we had a triggering event as our enterprise value decreased due to the decline in our stock price and the previously communicated decrease in our guidance, which resulted in recording an impairment of goodwill and intangible assets of $219 million.

Now moving into the results for the quarter. Turning to Slide 21. For the third quarter, total sales decreased 9.6% to $682 million, in line with our expectations. The sales decrease was a result of declines in both segments. Gross profit was $203 million, and gross margin decreased 257 basis points to 29.7%. The decline was caused by decreases across both segments.

EBITDA in the quarter decreased 30.2% to $94 million, and EBITDA margin was 13.7% down 405 basis points. The decline was driven by lower gross profit in both segments, partially offset by decreased selling costs at The Kinetic Group. Third quarter EPS decreased 37% to $0.80.

Turning to Slide 23. Our balance sheet health improved. We made significant progress in improving our inventory position decreasing total Vista inventory more than 15% year-over-year and 5% sequentially. As Eric mentioned, Revelyst in particular, had success moving through high-priced inventory decreasing by approximately 25% year-over-year and just under 10% sequentially. Year-to-date free cash flow was $270 million. Net debt decreased $127 million sequentially to $778 million, and our net debt leverage ratio is now at 1.7x.

Turning to our Q3 segment results on Slide 24. Within Revelyst, sales decreased 10.2% to $317 million, driven primarily by increased discounting, lower volume and unfavorable mix as consumers continue to face pressures from high interest rates and other short-term factors affecting their purchasing of consumer durable goods. Gross profit decreased 17.2% to $85 million due to increased discounting, lower volume and unfavorable mix, partially offset by favorable foreign exchange rates.

Gross margin decreased 228 basis points to 26.7%. EBITDA was $15 million, down 52.6% with an EBITDA margin of 4.6% down 416 basis points. The decline in the quarter was primarily driven by decreased gross profit.

For The Kinetic Group, sales decreased 9.1% to $365 million driven by lower shipments across nearly all categories as channel inventory has normalized and lower pricing. These decreases were partially offset by increased shipments of rifle and primer categories.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Gross profit decreased 16.5% to $118 million, driven by decreased volume, increased input costs due to inflation and lower pricing. Gross margin decreased 287 basis points to 32.4%. EBITDA was $102 million, down 17.9%, primarily due to lower gross profit partially offset by decreased selling costs. EBITDA margin was 27.9%, a decrease of 301 basis points.

We are reaffirming the full year 2024 guidance discussed on our previous earnings call. For the full fiscal year 2024, we expect sales of $2.725 billion to $2.825 billion. The Kinetic Group sales of $1.45 billion to $1.5 billion and Revelyst sales of $1.275 billion to $1.325 billion.

Adjusted EBITDA margin between 15.5% and 16.25%, The Kinetic Group EBITDA margin range of 26.5% to 27.5% and Revelyst EBITDA margin range of 7.75% to 8.25%. Adjusted EPS in the range of $3.65 to $4.05 and an adjusted effective tax rate of approximately 19.5%, interest expense in the range of $55 million to $65 million and adjusted free cash flow between $265 million and $315 million.

At Revelyst, we expect to return to low single-digit growth in the fourth quarter driven by strength in Golf as a result of the exciting new product launches, including the Falcon, the Fore Caddy and the QuadMAX. We also expect growth in Action Sports due to improving POS and stronger order books as compared to the prior year period.

Additionally, we successfully moved through much of our higher-priced inventory during the quarter and have observed marketplace retail and wholesale inventory becoming healthier in recent months. We are seeing more optimistic purchasing patterns and are starting to see convergence of POS and selling within certain categories.

As we look at Revelyst's margins, we expect high single-digit adjusted EBITDA margin in the quarter due to lower product discounting compared to the third quarter. We also see inventory costs improving as freight costs return to more normal levels and expect adjusted EBITDA margins towards the low end of the guidance range for the full fiscal year.

At The Kinetic Group, we expect sales to be down by low double digits in the quarter and closer to the low end of our guidance range for the full fiscal year 2024 as channel inventory has normalized in many categories. We expect adjusted EBITDA margins towards the high end of our guidance range for the full fiscal year of 2024.

As we look at profitability on a total company basis for the full year, we expect adjusted EBITDA margins to be within our guided range for the fiscal 2024 guidance. And we expect an interest expense towards the high end of the range for the full fiscal year. Looking forward, we remain enthusiastic about the progress we saw in the quarter related to our GEAR Up transformation program.

We expect GEAR Up to contribute limited cost savings in Q4 of fiscal 2024 and approximately $25 million to $30 million in realized cost savings during our fiscal 2025. Additionally, we expect to unlock an estimated $100 million in realized annual cost savings in the fiscal year 2027 as a result of this program.

In fiscal year 2025, we see a clear path to doubling stand-alone adjusted EBITDA at Revelyst primarily driven by the following: one, $25 million to $30 million of cost savings related to our GEAR Up program; two, contributions from our previously announced April 2023 cost restructuring program, of which $25 million is related to Revelyst. We expect these savings to fully run rate later in our fiscal year 2024.

Three, improvements in supply chain and freight as our inventory with higher priced freight will have turned through our inventory balance. And four, lower expected promotions as we compare to our fiscal year 2024 Q3 period in which we had higher-than-usual promotional level to drive inventory levels down. With these variables, our standalone Revelyst business, including estimated stand-alone costs would be high single-digit EBITDA margins.

This would be an approximately 400 basis point improvement from fiscal year 2024. Long term, we believe that Revelyst's adjusted EBITDA margins will be in the mid-teens, including estimated standalone costs, which is an estimated 1,000 basis point improvement over standalone fiscal year 2024, primarily driven by GEAR Up savings.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Post transaction closing, we expect Revelyst will have a well-capitalized balance sheet with no debt and $250 million in cash. We expect the $250 million in cash will be utilized to fund the remaining GEAR Up restructuring activities as well as meaningfully accelerate return in shareholder value through organic growth initiatives, opportunistic share repurchases and select tuck-in acquisitions.
Thank you. Operator, please open the line for questions.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] Our first question for this day comes from Matt Koranda of ROTH Capital Partners.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Maybe just drilling down on Revelyst first. Eric, I think you mentioned phasing of shipments causing a little bit of weakness in the quarter, and maybe some of that was pushed into the fourth quarter. Any way to size up sort of the impact there and any particular products that shifted over into the fourth quarter?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Sure. Matt. Nice to hear from you. Yes, it was a marginal amount, Matt, just a couple of million shipments that moved from one quarter to the other.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. I'll take the rest offline on that one. And then just in terms of channel inventory, it sounds like you guys are signaling, there's a little bit more optimism in the channel with Revelyst products, and we're expecting a return to growth in the fourth quarter. Could you maybe just unpack a few more of the drivers? I know you mentioned Action Sports might be a driver of growth. Could you talk about the visibility there within Action Sports?

And then Golf as well, it sounded like more new product impacted in terms of the growth expectation, but just wondered if you could give a little more color on sort of what we're expecting from the golf side of things as well in terms of the organic outlook for the fourth quarter?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Sure. Well, I'll start with golf, Matt. We're just off the heels of several new product introductions that we launched at both CES and the PGA Show last week. The teams at Foresight Sports and Bushnell Golf are really hitting on all cylinders. We have the new Falcon, which is really one of the best new innovations in simulated projection technology that's ever been created.

We've also launched our new QuadMax, which is a terrific new launch monitor platform for both Pro and casual golfers alike. And we're seeing incredible new interest in that platform. So we do expect with those new product innovations and a very strong innovation pipeline to come that will have not only a strong Q4, but have good momentum going into the prime golf selling season in our fiscal Q1 and Q2 this year.

With regards to Adventure Sports, it's a little bit of a mixed bag, but we are seeing more optimism. We talked about our D2C strength in our remarks, and I'm very proud of the teams across on the Adventure Sports network for the strong growth in D2C in an uncluttered stock -- no stock backup environment.

We're seeing also some really good cleanup in [mass math]. So we're optimistic that going forward, that kind of destocking challenge in the mass market is really receding at a good pace. We still have some things to clean up. We don't want to minimize that. In specialty, there's still a few headwinds. But by and large, we're certainly more optimistic today than we were at the end of last quarter.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. That's helpful, Eric. And then maybe for Andy. It sounds like we're going to be run rating basically all of the $50 million in action savings at Revelyst that have been implemented as part of GEAR Up and then also as part of the prior restructuring program. Just curious, how does that only translate to high

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

single-digit EBITDA margins in the fourth quarter? I'm just like -- it seems like it should be dropping a bit more into the fourth quarter in terms of margin. And so I'm wondering if there are any headwinds that we should be factoring in, in terms of additional discounting or promotions?

Andrew Keegan
Chief Financial Officer

Matt, I guess what I'd first start with is the $50 million from the April 2023, those have been coming in throughout the year. So those have been over this entire year that have been coming in. So the amount that actually is just coming in, in the fourth quarter is a little bit less. It's going to be then translating next year from the Q2, Q3 and Q4 savings that were implemented into the full run rate that's going to be affecting it.

So -- but -- we are -- I guess, I first start with -- we're doubling EBITDA from Q3 to Q4. I mean we're going from the 4.6% to high single digits, it's going to be close to doubling your EBITDA from that perspective. So there's going to be a number of things that are coming in, along with the reduction in promotions that we took as we reduced the inventory in a significant way in our third quarter. And as we start to see some of the inventory that did move now is going to result in some freight improvement. So we are seeing some, I'd say, pretty meaningful improvement in our EBITDA as we head into Q4 and then into next year.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. All right. Fair enough. And then I'll do a couple more on Kinetic and then turn it over. But curious, Jason, if you could maybe speak to channel inventory health after the surge in demand that we saw in October and November kind of followed through but waned a little bit in December per our checks. But I guess, how far are you from sort of September levels in terms of channel inventory? Maybe just speak to sort of some of the dynamics that you're seeing after the surge in demand.

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

Yes. Matt, great to talk to you. Channel inventory is pretty clean. It's -- there's still pockets of bare shelves, which is what we're working on in the next coming quarters. But the surge, as you referenced in October, November cleared out a lot of categories that were at the point, probably more weeks of supply than customers would have liked. So coming out of the Shotshell last week, customers were pretty bullish on the year and not too concerned on the inventory. So what inventories out in the channel is pretty healthy inventory. So that will bode well for us in the fourth quarter and as we head into the fiscal year '25.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. And then one more there. Just could you speak to pricing actions may be taken last year at the end of last year? And then just in terms of supply chain, obviously, I think Powder has been a topic that folks have been concerned about lately, maybe just speak to the availability there and how we think about sort of supply chain and component through this coming year?

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

Sure. We announced a price increase effective January 1 to the trade. We did it to help offset the propellent price increases that you referenced and the price has been accepted to the market, which was good. We will say that we do expect propellent challenges to last. I mean it's not only a calendar year 2024 thing. I think it's going to go on a little longer than that. Having said that, I think the procurement team for the Kinetic Group has done a wonderful job to secure propellent for us. So while I don't see any big hiccups of us getting supply, I do think there's going to be some supply constraints in the world on propellent.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Operator

Our next question comes from Anna Glaessgen from B. Riley.

Anna Glaessgen
B. Riley Securities, Inc., Research Division

First, I'd like to touch on some commentary from a private outdoor retailer recently. They spoke to fairly challenging conditions in the broader market, projecting declines in 2024. As we think about this calendar year, to what extent are you baking in a little bit of recovery in these categories? Or maybe you have a different view than this retailer on what the setup is?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

It's Eric. I would say we are -- we pay extremely close attention to our retailers. And we've had many conversations, particularly -- and I think what you're referring to is probably the outdoor specialty retail space. There certainly is continued headwinds in that sector of our channel strategy, whereas our inventory with a lot of those retailers is in pretty good shape.

And our inventory on our own side has also made significant improvement year-over-year. We are certainly understanding of some of the challenges of the specialty retail marketplace is facing at this point in time. That -- knowing that, we've certainly spent a lot of our time, effort and energy on our direct-to-consumer business. You saw the excellent momentum that we have there and that we talked about in our remarks earlier today with the team, in a really positive way. And we've also seen a nice recovery in our mass business. And those are 2 areas that we'll continue to seek to stimulate as we go forward into calendar 2024.

Anna Glaessgen
B. Riley Securities, Inc., Research Division

Great. And touching on that mass commentary up on there. Over the kind of COVID boom period, you saw really difficulty in getting inventory among the retailers, and so they were a little bit less discerning on brands. And previously, there's been a thought that there would be a shift back to quality. So the big brands would recapture some of that shelf space. Have you seen that as we kind of come into the next phase of the COVID recovery?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Well, I'll note -- I really can't speak to all the different dynamics of mass retail, but I can that the teams are doing a terrific job partnering with our mass retail partners across many different facets, sporting goods and you'd probably call it more mass overall. And they are certainly finding a lot of value in the brands at Revelyst. We continue to see good momentum in the mass market for a lot of our products.

Anna Glaessgen
B. Riley Securities, Inc., Research Division

Got it. And one more for me. There's been -- [least] amount of coverage of the relatively light snow at this point through the winter. To what extent do you see risk of snow-related products having to see some heavier discounting and to what extent that could impair the guidance for the fourth quarter in terms of high single-digit EBITDA?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

It's definitely something that we're monitoring, Anna. Snow got off to a very slow start this year. I think probably across all of specialty retail. It was just -- I hate to blame anything on weather, but there certainly was not a lot of snow in the early start of the year across the United States, in particular, and

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

that led to slower POS than expected. So it's something that we're looking at very closely. It has picked up in recent weeks, but that is something that we're going to continue to monitor for the rest of the quarter.

Andrew Keegan
Chief Financial Officer

And just to add to that, just from a composition of our business, snow is a relatively small portion of the overall Revelyst business, and Q4 in particular, is not the heaviest sell-in. You're doing replenishments as we go through the Q4, the actual winter season, most of your sell-in, which is -- the bulk of it is the large portion of your sales is happening in Q3 -- our fiscal Q2 and Q3, so the calendar Q3 and Q4 and then you're in replenishment mode.

A lot of that went through. So we already saw some of those shipments come through. And then Q4, so this quarter has really more replenishment. So I wouldn't expect it to have a significant impact on our Q4. We'll be looking at that as we head into next order season.

Operator

Our next question comes from Mark Smith of Lake Street Capital Markets.

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

First off, just wanted to look at the kind of guidance of doubling EBITDA within Revelyst. Just want to confirm that that's kind of fully burdened by corporate overhead as you look at that number?

Andrew Keegan
Chief Financial Officer

That's correct. When we're talking about doubling EBITDA, it would be view as a standalone. So pro forma '24 compared to a '25 if we were to standing alone.

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

Perfect. And then we saw that kind of corporate overhead number come up a little bit here during the December quarter. Is there any change in kind of the weighting of that for how much of that maybe falls on Revelyst is still a roughly 70% number, maybe the best way to look at that?

Andrew Keegan
Chief Financial Officer

You're still looking at about 70% to speak to the increase itself. I mean there's a few things that are in those numbers. One, we are starting to see some of the dis-synergies that we expect to have as we start to more align on the separation of the business. We're starting to implement some of those activities. So you're starting to see that come through.

We also had some comp that had a timing adjustment due to the transaction. There is a little bit of cost that shifted between Q3 and Q4. So you'll see core costs actually come down some in the Q4 time period as well as what we mentioned last quarter, which was some changes in how we have some non-GAAP adjustments that were shifted between non-GAAP to GAAP and see how that come up a little bit. But the actual percentage that we're looking at is probably still roughly in line with what we discussed previously.

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

Okay. And then just looking at segment guidance here, the guidance seems to imply Kinetic EBITDA margin coming down here in the fourth quarter to kind of stay within that guidance range. Yes, we've seen recent price increases come in at the beginning of the quarter. Were those price increases not enough to cover some of the increased pressure maybe from propellant or anything else or -- anything -- guidance you can give us on as we look at Q4, primarily EBITDA margins within Kinetic Group?

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

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

Yes, Mark, this is Jason. It's -- as we guided, we said we'd be at the high end of the EBITDA for the quarter, but it would be less than the third quarter. Obviously, the price increases that we are taking to keep the factories going were not offset by the price increases that we put to the market.

And secondly, we may be a little less efficient in the quarter as we make more SKUs, you obviously lose a little bit of efficiency on that. Now our hope on that is our gross margin on the products we make help offset the efficiency loss, but it's mainly driven due to the price increases, input costs that we have to take.

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

Okay. And last one for me. Just Eric, any additional insight into kind of your comfort level with Revelyst current inventory. Is there still some work that needs to be done on clean this stuff up here as we look at Q4? Do you feel pretty confident with where you're at today?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Sure. Well, I'm very proud of the teams, Mark, with regards to the progress that we've made on inventory, we're down both year-over-year and sequentially. There's always work to do. I think there's still some pockets that we want to improve upon. But I'd say overall, we feel much more comfortable with where we are in inventory today than where we were coming out of the second quarter.

Operator

Our next question comes from Jim Chartier of Monness, Crespi, Hardt.

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

First, can you talk about POS trends in the quarter for both brands, how that compared to last quarter? And then what's kind of the visibility into the timing of when we get to flat POS for both businesses?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Sure. I guess when you say both, I'm guessing you want both Revelyst and Kinetic, is that correct?

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

Yes.

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Okay. So I'll start, Jim, and then I'll turn it over to Jason, if that works for you. With regards to our segments, and that's probably the easiest way to talk at a higher level. On the precision Sports side, we talked about golf already, but we saw that business from a POS standpoint being fairly flat, really good momentum on the direct-to-consumer side, offset a little bit by some specialty.

With regards to Adventure Sport, I'd say the same headlines would be there as well, pretty flat for the quarter. We saw some good momentum again on the D2C side and at mass offset by some small headwinds at specialty. And we already talked there about a small pocket of that being snow, really being the most challenged on that side of the business.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

With regards to outdoor performance -- excuse me, our outdoor performance, our last business, that was flat to slightly down for the quarter. Most of those brands are in what used to be called the Hunt, Shoot portfolio, and we're continuing to work through that.

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

Jim, on the kinetic side, we referenced -- we had about a 6-week surge in the third quarter, October, November, and that really helped the channel partners out to clear out some inventory. And since then, POS has been flattish. I mean there's some weeks that it's up single digits or some weeks that it's down single digits.

But I think it's -- the market is showing normalization right now. And as we head into calendar year 2024, we fully expect the big American Made brands to take market share from the smaller vendors. And I think that will help our POS out in particular.

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

Great. And then I believe you said Kinetic EBITDA margin toward the low end of the range for this year. What's driving that?

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

We expect the EBITDA at the high end of the range was in our...

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

Sorry, sorry, for Revelyst EBITDA at the low end, I'm sorry about that.

Andrew Keegan
Chief Financial Officer

Yes. So the Revelyst EBITDA margins going to the low end of the range. So we have a few items as we look at the return that we're expecting in Q4. We're still going up to high single digits on EBITDA level. It just -- it isn't going to quite get to -- it would have to be into the double digits. And we're -- based on what we're seeing for the promotion retraction, based on what we're seeing with the inventory levels at retailers what we're seeing to move through, it isn't going to quite get to the higher end of the range at this point in time, but we are expecting to see significant improvement over what we saw in Q3.

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

Okay. And then in terms of your sales growth for Revelyst in fourth quarter, do you expect POS is positive in fourth quarter?

Andrew Keegan
Chief Financial Officer

So I think in different categories, it's going to be different. So as we talked about with golf, new products will drive favorable POS as these products are new innovations. We expect those to sell-through in a good way for those businesses as we look at some of the other businesses that -- for our Action Sports business, this is going to be more kind of the flat POS.

What we're seeing is the -- as the inventories are getting healthier, our retailers are starting to put in more purchases. We're seeing preorders in that category at rates that weren't there last year. So we have better preorders. So we are seeing the signs that they're going to purchase. And then that will just be a little bit more in line with the POS that we're expecting. So not a significant bump in the POS.

Operator

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Our next question comes from Rommel Dionisio of Aegis Capital.

Rommel Tolentino Dionisio
Aegis Capital Corporation, Research Division

You guys had referenced unfavorable mix on the Revelyst side for -- was impacting Q3 gross margins. I wonder if you could just provide a little more granularity on that. Was that more the shift away from Action Sports? Or is it just across the board -- across categories, consumers in a difficult economy kind of shift into lower price point, lower gross margin items?

Eric C. Nyman
CEO of Outdoor Products Segment, Co-CEO & Director

Yes. So it's actually a mix of both those items. So we did see both -- some of what was returning from a sales perspective in the quarter. It was a little bit more of our more mass type channels and the products that sell in our mass channels. Those are historically a little bit lower margin.

Our specialty channels are higher-priced helmets and snow helmets and those items are a little bit higher margin, typically. So those did see a transition away as we saw fewer of those selling than what we had previously seen. So we did see that mix shifting a little bit in the channel and within the product categories that drove that.

Operator
At this time, we currently have no further questions. So that concludes today's conference call. Thank you all for joining. You may now disconnect your lines.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2024 S&P Global Market Intelligence.