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Vista Outdoor

Second Quarter Fiscal Year 2023 Vista Outdoor Earnings Conference Call

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PRESENTATION

Operator

Hello, and welcome to today's Second Quarter Fiscal Year 2023 Vista Outdoor Earnings Conference Call. My name is Elliot, and I'll be coordinating your call today.

I would now like to hand over to our host, Shelly Hubbard, Vice President of Investor Relations. The floor is yours. Please go ahead.

Shelly Hubbard

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

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

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

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

Chris, I'll turn it over to you.

Chris Metz

Thank you, Shelly. Good morning, everyone, and welcome. We posted another solid quarter despite the external challenges we've been navigating over the last year. Quarter two sales increased to $782 million, with direct-to-consumer sales up approximately 65%. Adjusted EBITDA margins of 21% remains strong as we absorb higher input costs, including freight and labor from rising inflation.

Lastly, we recorded $1.71 in EPS, which was down 29%, driven by higher operating costs, largely due to inflation as well as higher interest expense. For additional context, our prior year period was a record second quarter in sales, EBITDA and EPS. We estimate that we have absorbed $90 million in higher supply chain, freight, tariff and other input costs in the first two quarters of FY2023 as compared to the same period last year.

However, we are not anticipating any benefits from lower supply chain costs this fiscal year. It will likely be a benefit next year in FY2024.

That said, we continue to execute our long-term strategy of investing for future growth and expanding profitability. We have now successfully closed eight acquisitions with leading brands that have increased our TAM, broadened and deepened our platforms and further diversified our leading brand portfolio to serve – to best serve outdoor consumers across a variety of activities. This strong execution is a result of a dedicated and resilient team with the expertise to navigate a challenging macroeconomic environment and the nimbleness to adjust quickly.

Before we move on, I want to take a moment to thank Sudhanshu, and wish him the best of luck in his next role. He has been a valuable part of our team. And during his tenure, we have significantly improved our financial foundation. In the last 2.5 years, Sudhanshu is instrumental in refinancing debt with better terms and rates as well as debt rating upgrades and completing our newest debt issuance. Thank you, Sudhanshu.

I'm also excited for Andy Keegan, who will be our Interim CFO, and is joining us on our call today. Andy has extensive finance, accounting and leadership experience from his time at Vista Outdoor, its predecessor and at Deloitte. This is a great opportunity for Andy, and I'm confident that he will do well in this interim role.

Sudhanshu and Andy have worked very closely together over the last two-plus years, and Andy has been a part of most of our investor meetings, conferences and earnings preparations. I know many of you have met him, and we look forward to your continued leadership, Andy.

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Now, let's turn to our key themes today. Following the call, I want you to walk away with three key themes that illustrate how Vista Outdoor's business is healthier and more profitable than ever, and why we believe that our performance is more sustainable than in pre-pandemic years.

Those key themes are: one, the strong underlying fundamentals of our two segments, Outdoor Products and Sporting Products; two, our solid balance sheet and robust free cash flow; and three, the actions we are taking to mitigate risks in this dynamic global macroeconomic and geopolitical environment. We have the right team to win and believe these actions will position us to thrive in the future.

First, let's discuss the strong underlying fundamentals, starting with Sporting Products. We acquired Remington in Q3 FY2020, the third largest U.S. ammunition manufacturer, driving sales from $15 million at its inception during the first quarter of ownership as we restarted the factory to approximately $350 million in annual sales today.

We also acquired the leading non-lead shotshell manufacturer HEVI-Shot in Q4 FY2020. In FY2021 and FY2022, we leverage these acquisitions to refocus our product mix on less volatile and more profitable products, such as hunting loads and shotshells.

Prior to these strategic acquisitions, our ammunition product mix was heavily weighted towards 5.56, 2.23 small rifle calibers that are primarily manufactured at the Lake City Army Ammunition Plant. Our previous supply agreements with Lake City required minimum unit orders regardless of market conditions, which often resulted in us being forced to sell that product at a loss. This supply agreement ended on October 1.

Today, whereas 5.56, 2.23 calibers are now experiencing slowing demand and accumulating channel inventory, we continue to see high demand and low channel inventory in hunting, shotshell and other categories where our ammunition business is now by far the leading player in the market.

With our sporting product business now focused on categories that are less politically driven and where demand is driven primarily by usage rather than stockpiling we expect that our business will be able to produce steadier, more profitable results in coming years than were possible before we made the strategic decisions to refocus our product mix.

Moreover, the Remington and HEVI-Shot acquisitions have given us two additional factories, allowing us to capture synergies through low-cost routing. We also expect to see meaningful profitability gains in the future as we bring the Remington facility up to the efficiency standards of our legacy facilities in Minnesota and Idaho. I'll let Jason dive deeper into this in a moment.

Turning to our strong underlying fundamentals in Outdoor Products. In FY2023, we expect our annual revenues to grow over 50% as compared to FY2020 or pre-pandemic driven by the expansion of our brand portfolio and by organic growth from new product innovation, market share gains and implementing D2C capabilities.

In addition to organic growth, we also invested in six acquisitions in the last two years that we expect will drive strong returns long-term. Importantly, each of these acquisitions expands our TAM and contributes higher-than-average margins. For comparison, our FY2020 Outdoor Products sales were approximately $880 million across 27 brands. In FY2023, we expect Outdoor Products sales to be approximately $1.35 billion across 34 brands.

Note that we have included the outdoor accessories business and our FY2020 results for a direct comparison over these periods. Our family of leading Outdoor Products brands now contains 10 power brands, each contributing more than $100 million in annual sales. This gives us the strongest and most stable family of brands, enabling us to better manage economic downturns.

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Adjusted EBITDA margins have also improved nearly 400 basis points year-to-date FY2023 as compared to the same period in FY2020 despite the significant cost headwinds over the last year. D2C sales have increased over 400% in Q2 FY2023 as compared to Q2 FY2020. Despite this growth, we continue to be under-indexed and have significant room to grow as we further improve our capabilities.

Recall that when I came to Vista five years ago, we didn't have enterprise-wide D2C capabilities at that time. Our supply chain center of excellence has also been a significant benefit to both our Sporting Products and Outdoor Products segments, by using our experienced team to leverage our scale to improve pricing and service levels.

This was clearly demonstrated in our ability to have minimal disruptions to supply over the last two years. For example, we were able to ramp up brass and other commodity inputs with rising demand by securing multiple supplier options. We have built a strong sourcing capability in Asia with a team of over 75 people. This was critical to our success during COVID by having local resources to manage new product introductions and quality, ensuring we could secure product and deliver it to our customers.

Additionally, our sourcing team is making good progress in our efforts to diversify our supply chain away from China for key CamelBak, Bushnell Golf, Bell and Giro products. We have also improved our U.S. distribution capabilities through a variety of actions, including consolidating distribution space across multiple brands, which will drive improved efficiency, productivity and fixed cost leverage. And we have improved our D2C footprint through this consolidation, which will further reduce costs in the future as we move closer to our consumers.

In September, Vista Outdoor was named one of the world's top 50 procurement organizations and were awarded the best-in-class gold medallion and leisure products by Beroe, a global SaaS-based procurement intelligence and analytics provider. Needless to say, we have implemented several strategic actions to not only grow but to generate growth with improving profitability long-term.

Our second key theme is our solid balance sheet and robust free cash flow. First, we have improved our financing through lower rates and better terms over the last three years. We have also received three debt rating upgrades over the past 18 months, with two from S&P and one from Moody's.

Second, we have improved our net debt-to-EBITDA leverage ratio from 4.3 times at year-end fiscal 2020 to 1.7 times at the end of our Q2 FY2023.

Lastly, in Q2 of this fiscal year, our debt-to-equity ratio improved to 1.5 times from over 2 times at our Fiscal 2020 year-end. Regarding free cash flow, in the first six months of FY2023, we have generated $195 million, up 84% year-over-year.

Our third key theme is actions we are taking to mitigate risk in the current environment, which will position us better in the future. As I noted last quarter, we are focused on controlling what we can by managing inventory, controlling and reducing costs and improving the productivity of our product mix through SKU reductions.

With regards to managing inventory, we've been slowing our buy orders for a couple of quarters to better align with current demand in Outdoor Products while continuing to monitor weeks of supply, POS activity and D2C trends. For example, our in-transit inventory at the end of Q2 declined $35 million as compared to a year ago. It has also declined over $11 million sequentially from Q1.

Additionally, our Q2 total inventory increased 15%, excluding acquisitions. Rising inflation has also increased the cost of our inventory. As we look at the retail channel, we are seeing pockets of higher

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inventory due to slowing demand for products at opening price points, which have now expanded into mid-tier price points, particularly in the mass channel for bikes, and in our outdoor accessory business.

However, we are leveraging promotions strategically and participating at the right level across all our channels, including D2C and in ways that retain competitiveness and protects our brands and share long-term.

Another element that we can control and are focused on is controlling and reducing costs. For example, we have and continue to evaluate all investments in sales and marketing to better align with current demand trends, while looking for opportunities to reallocate investments towards those that will drive a higher return. This includes sales and marketing spend across a variety of consumer touch points.

Lastly, our brands continue to evaluate product offerings with new product innovation to drive improved productivity across our SKUs. One example is outdoor accessories in which we have reduced the SKU count by nearly 50% over the last four years, driving higher productivity. Other brands have also focused on SKU productivity over the last four years and continue to prioritize today.

Before I hand it over to Jason for additional commentary on our Sporting Products segment performance, I wanted to provide a brief update on our upcoming spend. As previously mentioned, we believe this is an opportunity to further unlock shareholder value. The spin-off of our Outdoor Products segment will create two publicly traded companies of near equal size in revenue in two of the largest public outdoor companies, each with their own set of competitive advantages. This creates an opportunity to enhance the strategic focus of each company and allocate resources to support their specific operational needs and growth drivers.

Additional benefits include tailored capital allocation priorities, a strength and ability to attract and retain top talent and expand strategic growth opportunities. As we mentioned last quarter, we were expecting to file the Form 10 with the SEC confidentially this fall, and we did. This first milestone is complete, and we anticipate sharing the Form 10 publicly once we obtain the SEC's approval and we're made and committed to the value creation opportunity presented by the separation. We are on track to complete it in calendar year 2023.

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

Jason Vanderbrink

Thank you, Chris, and good morning, everyone. I'd like to echo Chris' sentiment that we are bullish on the outdoor industry despite near-term macroeconomic conditions that have eroded consumer confidence and pressured performance across the economy. We always understood that the elevated purchase patterns of the last 2.5 years would normalize.

I'm pleased to report we have seen a more gradual return to normalization and a sustained larger base of new and core users. Through our multi-brand strategy, more profitable product mix and disciplined approach, we are well-positioned to drive sustainable earnings throughout all phases of the ammo cycle. For the quarter, sales for the Sporting Products segment were down 4% due to shipment timing that we mentioned in quarter one, which resulted in low finished goods inventory heading into quarter two.

Our profitability was pressured by increases in freight and other commodity costs with some of those challenges offset by strong demand and pricing. However, we continue to perform at substantially higher sales and profitability than we did in the year prior to the pandemic.

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I'd like to highlight four areas that showcase our ability to drive sustainable earnings through a normalized ammo cycle and how we are positioned to thrive now and into the future.

Number one, M&A. Our M&A strategy has positioned us for long-term success. Our acquisitions of Remington and HEVI-Shot have allowed us to replace over $185 million of ammo sales from the Lake City Army Ammunition Plant that we had to sell at or below cost. Remington and HEVI-Shot now give us close to $350 million in revenue that is both higher margin and in more stable categories. These two brands are leaders in rifle and shock an shell hunting loads, which have proven to be much less price sensitive overall. In the current market, inventory levels are not as high as the 5.56 small rifle or less profitable calibers. We see a long runway with these two brands for continued profitability and market share gains.

HEVI-Shot's leadership in lead-free ammo manufacturing is also providing invaluable advantages across each of our ammo brands and surge capacity in a shotshell market with strong demand. Alternative metal options are likely to be a bigger part of the global ammo landscape in the future, and HEVI-Shot is the clear leader in non-lead innovation and production. In future years, we envision growth at our Sweet Home facility to expand beyond shotshell, where Hevi-shot is a category leader today.

Number two, rational market pricing. Our current ability to maintain favorable pricing in a slowing market is a testament to how far we have come as compared to the previous cycle bottom in Fiscal Year 2020. Following industry consolidation and the recent surge in demand from approximately 16 million new firearm owners since 2019, the leading U.S. ammunition manufacturers are significantly healthier financially and much less likely to chase volume through unprofitable discounting as demand normalizes.

As the world's leading U.S. ammunition manufacturer, sporting products has secured multiyear supply agreements with our OEM customers and law enforcement government customers to ensure capacity utilization and healthy profitability levels.

Number three, operational excellence. We've maintained a lean cost structure by not adding any overhead during the surge, and our teams have been more efficient in all areas of our operation to help protect margins in a down cycle. We are nearing the completion of our pistol factory modernization in Anoka, and also increased the use of our core technologies across each of our major plants to reduce costs and risks.

This includes the implementation of copper plating for pistol bullets and shared best-in-class resources and processes to lower costs and increase synergies. We are on a multiyear journey to ensure our Remington plant in Lonoke, Arkansas reaches the profit levels of our legacy factories. We have made great progress at Remington and have a clear path to reach higher efficiency levels and improve margins in the out years.

Number four, brand power. We have the most iconic collection of ammunition brands in the industry. Our brands are sought after in the marketplace due to innovation, reliability and performance. Our team was recently selected by Shields as the top vendor partner best in the USA. We have also gained new placement at Farm & Ranch stores, which are a key distribution point in rural communities that bring our ammunition to more people across the country.

Federal was recently awarded the prestigious FBI 5.56 NATO service and training frangible ammunition contract. Our Made in the USA mentality is winning with consumers, especially as imports from adversarial countries are banned outright and imports overall are retreating. There are 16 million new shooters in our sport and they have increased their frequency of ammunition use, which bodes well for our business over the long-term.

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There is also less wording compared to previous searches. Politics has historically played a major role in purchase behaviors, but recent data shows that new drivers such as youth sporting leagues, play target shooting and field to table hunting are getting people out in the field more often regardless of the current political landscape.

There have also been increases in homeownership, expanded interest in outdoor activities and desires to increase personal safety that are driving higher participation and consumption rates relative to historic levels. Our leading brands are positioned well to continue to be the choice for new and experienced hunters and shooters.

In closing, while we see some categories such as 5.56 and 9-millimeter normalizing, it is very important to reiterate that we are stronger than ever and better positioned to continue to take market share in profitable categories than we were during the last downturn. Our product mix is balanced and rational pricing has been restored to the marketplace a factor that was not present during previous normalization.

Our lean operations continue to drive efficiencies and synergies across our plants as we further integrate our four domestic manufacturing factories into a cohesive nimble operating unit. I'd also like to thank each of our employees and management team across the sporting products segment. We still maintain a healthy order backlog, which requires our employees to work around the clock. I am grateful for their time, talents and commitment to building the best ammunition right here in America.

Thank you. Sudhanshu?

Sudhanshu Priyadarshi

Thank you, Jason, and hello, everyone. Before I begin, I want to take a moment to say thank you to Chris and the team. My time here has been a great experience. I am proud of what we have accomplished with a strong leadership team and I look forward to seeing what you will do next. There is no doubt that Vista Outdoor is set up for long-term success.

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

Turning to Slide 14. We posted another strong quarter of sales while margins were impacted by higher input costs as well as higher freight and labor costs. For the quarter, sales were $782 million, up 0.4%, driven by acquisitions, which more than offset a low double-digit organic sales decline.

As compared to Q2 Fiscal Year 2020 sales increased 76%. Recall that our Fiscal Year 2020 represents the most recent pre-pandemic year as our fiscal year ends in March. Gross profit decreased 11% to $266 million, and gross margin contracted 438 basis points to 34% driven by higher commodity freight and other input costs, which were partially offset by price increases.

EBITDA decreased 22% to approximately $164 million. EBITDA margin decreased 611 basis points to 21%, which remains very strong. Also recall that in Q2 Fiscal Year 2022, we reported record EBITDA margin, driven in part by favorable hedges, lowered input and freight costs and higher sell-in due to low channel inventory.

As compared to quarter two fiscal year 2020, our EBITDA margin of 21% last quarter or Q2 reflects margin expansion of approximately 1,500 basis points. Q2 EPS decreased 29% to $1.71 driven by lower gross profit as well as higher SG&A and interest expense. This was slightly offset by a lower tax rate and a 2.4% decline in outstanding shares.

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As Chris mentioned, our prior year quarter was a record second quarter for sales, EBITDA and EPS. We also generated $87 million in free cash flow, up nearly $17 million year-over-year. Year-to-date, free cash flow was $195 million, up 84%, driven by a strong execution and financial discipline.

Turning to Slide 15. Our balance sheet remained strong. Net debt increased year-over-year to $1.25 billion, driven by acquisitions. Our immediate liquidity is $121 million as of quarter end. Our net debt leverage ratio is 1.7x within our targeted range of 1 times to 2 times. Our two most recent acquisitions, Fox Racing and Simms Fishing closed in quarter two, which further diversifies our portfolio with two strong brands and expand our total addressable market and end user base. Fox Racing is number one in Moto sports protection and Simms Fishing is number one in fly-fishing gear and apparel.

As we noted last quarter, our capital allocation strategy is focused primarily on debt repayment and we are pausing our M&A until the spin in calendar 2023. Our long-term capital allocation strategy focuses on investments that we expect will drive the highest return for our shareholders. Our strong financial discipline over the past four years has resulted in a solid balance sheet and sustainable financial performance.

Now let's turn to our quarter two segment results on Slide 16. Within Outdoor Products, sales increased 6% year-over-year to $349 million, driven by acquisitions of Foresight Sports, Fiber Energy, Stone Glacier, Fox Racing and Simms Fishing. In comparison, outdoor Products second quarter sales were up 15% compared to quarter two Fiscal Year 2021 and up 49% compared to quarter two Fiscal Year 2020.

The decline in organic sales was primarily driven by outdoor accessories. Recall our comment last quarter that in the first half of last year, we had higher sell-in due to lower channel inventory and continued elevated demand. Thus, we expected continued pressure in quarter two as consumers are experiencing higher inflation and the lack of stimulus checks.

Gross profit increased 11% to $107 million, driven by accretive acquisitions, which were partially offset by higher input and freight costs, gross margin expanded 123 basis points to 30.6%. EBITDA was $46 million, down 11%. EBITDA margin was 13.2%, primarily driven by higher SG&A expenses related to acquisitions. For comparison, EBITDA margin in quarter two Fiscal Year 2020 were approximately 11%.

Turning to sporting products. Sales were $432 million, down 4%, in line with our previous guidance and driven primarily by low finished goods inventory exiting quarter one. As compared to quarter two Fiscal Year 2020, sales were up over 100%. Gross profit was $159 million, down 21% due primarily to slightly lower sales and higher commodity and freight costs. Gross margin was 36.8%. The prior year period also benefited from favorable hedges.

EBITDA was $140 million, EBITDA margin was 32.4% versus 40.4% a year ago. As compared to quarter two Fiscal Year 2020 EBITDA margins expanded approximately 2,500 basis points, a testament to the improvement Jason discussed and the strong underlying fundamentals.

Let's turn to Slide 17 for our revised Fiscal Year 2023 outlook. Inflation and rising interest rates have impacted consumer spending at a faster rate than we expected last quarter. Retailers are also working through higher inventory while promotional activity rises.

Given the uncertainty of a possible recession or how long it could last and how long it will take retailers to improve inventory levels, we believe it is prudent to reflect these uncertainties in our revised guidance for Fiscal Year 2023. We do not take these decisions lightly. We are taking several actions to mitigate risk by managing inventory, controlling costs and improving SKU productivity.

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As Chris mentioned, we have a team with expertise to execute our strategy wisely during these challenging macroeconomic and geopolitical times. And through our transformation over the last five years, we have positioned the company well to drive long-term shareholder value. That said, for the full fiscal year, we expect sales of $3.05 billion to $3.15 billion, up 2% year-over-year at the midpoint.

Sporting product sales in the range of $1.725 billion to $1.775 billion and out of product sales in the range of $1.325 billion to $1.375 billion. Adjusted EBITDA margin between 19.75% to 20.25%, interest expense in the range of $55 million to $60 million, adjusted EPS between $6 to $6.50 and free cash flow between $310 million to $360 million.

Looking to the second half of this year, we expect sporting products sales to be around $400 million each quarter and Auto products sales to be slightly better than quarter two. We continue to expect higher commodity freight and other input costs driven by inflation to persist for the remainder of the year.

We also expect to lose some operational fixed cost leverage due to lower sporting product volumes. As a result, we expect EBITDA margins to be similar in quarter three and quarter four with an increase in interest expense due to an increase in long-term debt and rising rates. We expect EPS to be slightly lower in quarter three versus quarter four as we focus on paying down debt this next quarter.

As I close my last earnings conference call with Vista Outdoor, I want to reiterate how much better the company is positioned to navigate the challenging global macroeconomic landscape. We have a strong balance sheet, strong free cash flow and solid underlying fundamentals. In Fiscal Year 2020, we were $1.7 billion in sales with EBITDA of approximately $112 million and a net debt leverage ratio of 4.3x.

For our Fiscal Year 2023 guidance, we expect sales of $3.1 billion and EBITDA of $620 million at the midpoint, and our net debt leverage ratio at the end of quarter two was 1.7x.

I will turn it over to Chris for closing comments. Chris?

Chris Metz

Thank you, Sudhanshu. Before we open it up to questions, I wanted to reiterate our key themes that you've heard from myself, Jason and Sudhanshu today. Through our strategic transformation over the last five years, we have built a resilient company that can thrive in all economic cycles. We have strong underlying fundamentals, a solid balance sheet and robust free cash flow and we are taking appropriate actions to mitigate risks in this challenging environment.

To do so, we are managing inventory, controlling and reducing costs and reallocating resources for future growth as well as optimizing our product offerings to drive higher productivity. We are building a company and innovating new products for the next generation to enable them to continue to enjoy the mental and physical and health and wellness that the Outdoor is provides.

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

Operator

Thank you. Our first question comes from Scott Stember from MKM Partners. Your line is open.

Scott Stember

Good morning, and thanks for taking my questions.

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Chris Metz

Good morning, Scott.

Scott Stember

Can we maybe flesh out the Outdoor Products side. It sounds like, Chris, you mentioned that some of the mid-tier pricing items are starting to show some weakness. Can you maybe just give a little bit more detail and maybe by sub-segment?

Chris Metz

Sure. Scott, maybe it's best to frame it up as what's the same versus what has changed when we talked last 90 days ago. What's the same as Outdoor Accessories continues to be challenged. We talked about particularly the Bushnell brand of family of products being challenged with the lower price point categories because of the inflationary effects. Same with outdoor opening price point mass elements, particularly Bell Helmets at mass retail.

Outdoor cooking, as you've seen from some of the competitors like Traeger and Weber, our Camp Chef business continues to be challenged with a glut of inventory in the marketplace. Overall, there just continues to be an overhang of inventory that our retailers are working through. That is largely the same as the last quarter and hasn't changed much.

What has changed though is international has softened a bit, right? With the U.S. dollar strengthening, we've seen it tougher on the international front. With the Russian-Ukraine war still raging, Europe is virtually at its knees, and it's a tougher environment. We expected a little bit more sell-through and vibrancy with the fall and early holiday promotions, and that hasn't come through quite as we expected.

Scott Stember

Got it. Then maybe talk about the $90 million of headwinds that you talked about for the first half of the year. How much was it in this quarter? Maybe talk about your ability to put through price to mitigate that or cut cost to mitigate that?

Chris Metz

Yes. Scott, what we said was the $90 million is a year-to-date number, and we expect that to continue in the back half. You're looking at about $180 million of headwind. Much of that is freight increases and much of that is just inflationary input material costs that have had a rise. Now what we have seen to mitigate this is freight rates are coming down. We're negotiating vigorously with our suppliers and have gotten price reductions and some allowances, if you will. But all of these benefits roll through our balance sheet.

We won't see this until our next fiscal year. It should provide a bit of a tailwind for us next year. We continue to take price where we're able to, particularly in some of our higher price point products. We just announced this week another price increase in our sporting products business.

Scott Stember

Got it. Just last question on long-term debt or just debt in general. Obviously, you have a lot more exposure to variable rates now. Can you talk about your thoughts about your debt structure closing out the year? It sounds like debt repayment is a priority right now.

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Chris Metz

Yes. Sudhanshu, do you want to take that?

Sudhanshu Priyadarshi

Yes, Scott. Our debt is roughly $1.25 billion by end of this quarter and it's 1.7x levered. We're generating a lot of cash. We generated more than close to $200 million cash in the first half. Based on our guidance, we will generate a lot more cash in second half too. Because of the spin, we said we don't want to do more M&A and just pay down debt.

By year-end, we should be roughly $1.1 billion in debt, if you just look at our EBITDA and free cash flow $500 million of that is unsecured notes. Rest is variable. You're seeing that impact on our EPS by higher interest costs in second half. That's the plan. We will continue to generate more cash, and our goal is to pay down debt, but we are very happy with where we are in terms of leverage is 1.7 times is well within our range of 1x to 2x.

Scott Stember

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

Chris Metz

Yes. Thanks, Scott.

Operator

We now turn to Eric Wold from B. Riley Securities. Your line is open.

Eric Wold

Thank you. Good morning. Jason, a couple of questions on your side. Given that with the guidance change, you guys did not reduce guidance—revenue guidance from the Sporting Products segment so (inaudible) there a bit. You know that ammo demand is starting to normalize in some calibers. Just maybe help us understand what you mean by normalized. Is that it's flattening at L&A levels, it's declining back to pre-pandemic levels or something else? Just trying to get a better sense of demand from your standpoint as inventory levels improve?

Then secondly, I know it's been difficult staffing out or ramping up production and staffing at some of the facilities given maybe the undesirable overnight weekend shifts the new hires we're facing. If you're starting to see trends normalize, are you still looking to ramp production, ramp hiring in those facilities?

Jason Vanderbrink

Good morning, Eric. Thanks for the question. As far as guidance in the second half, we guided to about $400 million a quarter. That's due to what we continue to see as normalization in 9-millimeter. Also, as we said, we're out of the Lake City contract as well. We are very bullish on replacing that business with Remington and Hevi-Shot. I think where we have the longest runway is where our back orders are the longest, which is certainly shot and shell, rimfire and big game hunting rifle. We love the backorder position with the mix that we see.

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As far as the labor markets, we're pleased to announce that the labor market has eased a little bit. Our attrition is lower than it was in the first half. That will help in the out quarters and into Fiscal Year 2024, get the production up in the markets that not only are the healthiest, but also the better margins for us. We like the trajectory of labor, what we see in Arkansas and Idaho.

Chris Metz

Hey, Eric. I'd add to that, too, that when you look at our backlog, it's still really, really healthy. It's 5 times more than what a historical backlog level would be. The question about are we looking at opportunities to potentially expand capacity, we continue to do that. What Jason and his team have done has really driven efficiencies and although Remington has been a spectacular acquisition for us, there's still a lot of room to improve the efficiencies to the level of our other facilities. That in itself will help us continue to reduce the backlog and maybe exceed sales targets.

Eric Wold

Perfect. Then just last follow-up question, not sure if you want to take it, Chris or Sudhanshu. On the 150 basis points at the midpoint reduction in Adjusted EBITDA margins for the full year, can you guys break down the major pieces of that fixed cost leverage, additional inflation or input cost versus what you previously thought? Maybe the biggest pieces of that 150 bps.

Chris Metz

Yes, go ahead, Sudhanshu. You can answer that.

Sudhanshu Priyadarshi

Eric, there are two things. We talked about the operating leverage in ammunition business, our sporting (phon) product business is down. We still have a great margin there, but we were expecting lot more from Remington. You're losing a little bit there. Outdoor product organic growth, you can see it's—we are not growing as much. We have been declining right now based on our numbers. We are losing some operating leverage there. As Chris mentioned, we are seeing the benefits in freight cost and all, but we will see those benefiting us in next year, not the second half.

Chris Metz

Yes. I would add to that. It largely is, Eric, the $90 million that will continue into the second half. It's the input cost, and it's the freight rates, which we are working hard to offset. Outside of our ammunition business, much of our costs are variable other than obviously our G&A. We don't have the same absorption issues, if you will, that we might have the ammunition business.

Eric Wold

Got it. Thank you, both.

Operator

We now turn to Anna Glaessgen from Jefferies. Your line is open.

Anna Glaessgen

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Hi, good morning. Thanks for taking my questions. First, I'd like to unpack the implied back half guidance a little bit. What is this assuming in terms of Outdoor Products organic growth versus the contribution from M&A?

Chris Metz

Yes. Anna, what we are guiding to is a slightly better back half than the second quarter for Outdoor Products in total, which would imply, with the contributions of Fox and Simms, our organic business is going to continue to be down in that low 20s like it was in the second quarter.

Anna Glaessgen

Got it. Thanks. Go ahead.

Chris Metz

No, go ahead, Anna, Go ahead.

Anna Glaessgen

Okay. Thanks. Then on the Adjusted EBITDA margin change, is that mostly reflective of the top line change to Outdoor Products? Or is that assuming a change in sporting products as well?

Sudhanshu Priyadarshi

Anna, this is Sudhanshu. It's both. As you can see, the ammo business is also slightly down, but we predicted last time for the quarter. We did better in Q2 and obviously, Outdoor Product, we're also losing operating leverage. It's, I would say, 50-50.

Anna Glaessgen

Got it. Thanks. Then you noted retailers are grappling with some excess inventory in certain categories. How are they adjusting to this? Are they increasing promotionality? Or is it concentrated to certain categories? Where do you see us, what inning are we in, in terms of rightsizing field inventories?

Chris Metz

It's a really good question, Anna. It's something that we wrestle with every day. You look at some of our bigger retailers and back in the COVID days, they are coming out with mantras of we're not going backwards, we're giving no ground. They overbought to make sure that they could manage the demand that they were seeing. We're living with that today. We see a more promotional environment.

Now we do see positive POS pockets and trends with some of the retailers that are winning out there. It's hard to say what inning we're in. We believe that it will continue to persist, obviously, through our back half here. But we're of the belief that it's more of an inflationary environment than it is a recessionary environment.

We believe that the consumer is still relatively healthy. Obviously, with the inflation, they're foregoing purchases of some of our discretionary products to withstand the increases in fuel, the increases in rent or homeownership and food and what have you. We also see a shift to more service-based goods like travel and entertainment as COVID has opened up. We see the POS trends likely to improve as we move

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forward, although we're being pretty pessimistic in our guidance for the full year, as you've seen, but we still are very optimistic about the underlying trends.

Anna Glaessgen

Great. Thanks.

Operator

Our next question comes from Matt Koranda from ROTH Capital. Your line is open.

Matt Koranda

Hey guys, good morning. Just maybe following up on that one, whoever can take this one, but in terms of POS trends in your Outdoor Products businesses, could you just highlight for us which of your products businesses are you still seeing strength in at POS versus those where you're seeing relative weakness? We can surmise that the other accessories business is seeing pretty strong headwinds in terms of POS, but where are the other elements of weakness versus strength within OP?

Chris Metz

Yes, it's a good question, Matt. Where we're seeing strength is in our higher-end brands. If you look at Zero Bike and particularly Snow, we're having an absolute banner year. You think of our golf platforms, Bushnell Golf, Foresight Sports having a good year. Stone Glacier, although it's small, is on pace to continue to double its business as is our QuietKat business.

You look at our Sporting Products brands, obviously, Federal, Remington, HEVI-Shot are doing well. Then the new acquisitions that we've just closed on the last 90 days with Simms Fishing and Fox Racing, both iconic brands that we expect to do well. There are some brands in some categories that you'd expect in a diversified portfolio like ours that are doing very, very well.

But as we've noted in our outdoor accessories being down 36% in the second quarter, that's tough to overcome. The mass helmets, interestingly, we continue to take share. In fact, we just want a line review at our biggest customer in mass helmets, won't affect us this year, but we fully expect it to contribute to next year. Not all is doom and gloom. I mean we're excited about a lot of our categories and products as we look forward.

Matt Koranda

Okay. Thanks for that, Chris. Then just on Sporting Products, Jason, with normalized demand, what is wholesale pricing like in your key calibers? If you could just clarify for us how that's trending year-to-date or year-over-year, however you want to characterize it. Then you mentioned you're back to the better level of staffing at the production facilities. What does that mean for the cadence of revenue for the rest of this year? Then maybe if you could comment into even the next several quarters, that would be very helpful for modeling.

Jason Vanderbrink

Yes. On the wholesale pricing, it's been pretty stable for the most part. We are taking price. We are putting a price increase out to the market again in some categories today, categories where we continue to see inflationary pressures such as shotshell. As far as wholesale pricing, it's been stable for the last several quarters. We like what we see as far as the pricing at the wholesale level.

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As far as in the out quarters, we remain really, really bullish. We know that the labor market is easing, which will allow us to get some backorders cleared in the very profitable categories such as big game rifle at Remington and HEVI-Shot. Our labor market has really held us back to getting to that $400 million that we want at Remington.

For the next couple of quarters, our labor market is—we're allowed to focus more on the categories that we've been wanting to focus on so we can get more demand in the categories to help offset maybe some normalization in 9-millimeter. If 9-millimeter normalizes in price in our back pocket as we have more profitable categories and the labor market will allow us to capture that.

Matt Koranda

Okay. I appreciate that. Best of luck to Sudhanshu as well. Thanks, guys.

Chris Metz

Thanks, Matt.

Sudhanshu Priyadarshi

Thank you.

Operator

We now turn to Mark Smith from Lake Street Capital Markets. Your line is open.

Mark Smith

Hi guys, I wanted to dig in just a little bit more in the outdoor accessories space. As we think about that, is there any trends to call out maybe in hunting versus shooting in one category that's maybe stronger or weaker than the other?

Chris Metz

Mark, it's unfortunately weak across the board. Everything from optics to laser sighting equipment to trigger sticks. I'm just thinking across trail cams, across our entire portfolio, we're coming off of just two incredible years where people got out to recreate. They really embraced hunting and shooting. We've entered in millions and millions of new consumers and into the hunting and shooting space, and they bought a lot. They're still recreating.

They're changing their purchase habits to stuff that you'd expect them to change to, right, with fuel increases and food increases and just general inflation. We see our retailers, I think, largely are dealing well with it. We're adjusting as well as we look at our promotional calendar, as we look at our new product introductions focused on areas where we think there's going to be pockets of growth.

Mark Smith

Okay. Then maybe for Jason, as we think about Sporting Products, the ammunition business, is any commodities or other pressures that we're seeing in ammo?

Jason Vanderbrink

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We still face some pressures, Mark, in a few categories. Brass is came down. But I mean by no means do we think copper at $3.40 as a deal. It's still historically high. Our biggest one that we watch very closely as we mentioned last quarter is freight. Freight is still a significant contributor to the gross margin degradation that you saw in the quarter. While it's leveled out, if you will, there are some variable pockets that remain historically high.

Mark Smith

Okay. Then similarly, as we look at across retail, still seeing more empty spots within shotshell. What's your outlook for that business and then your ability to get the components to build out that shotgun shell business more?

Jason Vanderbrink

Yes. The shotshell market is still extremely backordered with the labor market that we're seeing at Remington will help fill some of that void where we haven't been able to fill that void in the last 24 months. Component availability, we're fine on that category. I expect us to have a very, very long runway in shotgun shells for the next year or so. We won't be able to fill that demand.

Mark Smith

Okay. Perfect. Thank you.

Jason Vanderbrink

Thanks, Mark.

Operator

Our next question comes from Jim Chartier from Monness Crespi Hardt. Your line is open.

Jim Chartier

Good morning. Thanks for taking my questions. You talked a little bit about POS strikes, but could you give us a sense of what the overall POS for Outdoor Products organically look like in second quarter and what the delta was versus the sell-in?

Chris Metz

Jim, we don't take all the broad categories that we're in and aggregate them into a single POS number.

Jim Chartier

Okay. What are you assuming in terms of sell-in versus sellout then in the back half of the year? When do you think inventory levels at retail will be at an appropriate level?

Chris Metz

Well, Jim, our guidance, as I've said, is we expect our organic growth to be down low negative 20s and POS certainly isn't down that much. We're going to be continuing to help our retailers bleed their

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inventory down. We expect over the next 180 days, we're going to take a big chunk of inventory out of our retail locations.

Jim Chartier

Great. Then for Jason, you mentioned the labor market holding you back from that $400 million run rate for Remington. Can you give a sense of how far off that run rate are you today?

Jason Vanderbrink

Jim, we don't want to break that out. When we acquired the company, the historical sales were around $400 million, we certainly will get to that $400 million, depends on attrition rates and market demand. But we are very, very happy with what we're seeing out of Lonoke. We just know that we can still grab pretty significant revenue and EBIT out of that facility.

Jim Chartier

Okay. Then what is the current delta between Remington and legacy ammo margins look like today? Then how long will it take you to close that gap? What are the biggest initiatives to get there?

Jason Vanderbrink

We're not going to break that out by legacy versus Remington. It's safe to say that it's a fairly good delta where Remington is at today. Once our employees get trained better, our efficiencies will come up to where we are in the legacy facilities and trust me, that's a lot of dollars that we're going to get to the bottom line when we get a slower attrition rate, better trained staff.

Every day is getting better. As we said in our opening remarks, we have a multi-year journey to get Lonoke to be efficient like our other two facilities, and we are putting the capital in that facility to grab cost out of that facility. We love the trajectory of profitability at Remington. It can only go up from here.

Jim Chartier

Great. That's all I had. Thanks. Best of luck.

Operator

This concludes our Q&A.

Chris Metz

I think that's—yes, that finishes out the Q&A. I just wanted to make a—yes, I just want to make a closing remark for our investors and analysts that are on the call. We remain very optimistic on the future of our business. We certainly recognize, and it's in our guidance that we're in a challenging economy that will persist at least through the next couple of quarters.

However, as I mentioned before, we view this as largely inflationary and less recessionary as our consumers are still relatively healthy and well employed.

Now in our guidance, we're reflecting $180 million of inflationary cost headwind and further retail corrections. We've assumed that we're going to be down in that 20% in organic outdoor products with

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POS at our retailers being much better than that to help reduce the inventory levels, which we think is the prudent thing to do.

Now despite all this, we're guiding at the mid-point of $3.1 million in sales. You think back to 30 months ago, to put this in perspective, we closed Fiscal 2020 at $1.7 billion, almost double this year. That fiscal year, 30 months ago, we finished $112 million of EBITDA. We're going to finish at our mid-point, we're guiding to 6 times that at $620 million of EBITDA. We were 4.5 times leveraged then. We're 1.5 times leveraged today. We're a completely different company where we've got a big—much bigger TAMs that we're participating in.

We've got stronger brands. We've got a very experienced team, and we're a more stable company. I know the doomers and gloomers out there may find this hard to believe, but with the addition of Fox Racing and Simms Fishing, I believe we're an even stronger company than we were 90 days ago. A lot to look forward to, and we appreciate everybody's continued support.

Operator

Today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.

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