

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

American Outdoor Brands Inc. (NASDAQ:AOUT)



BRIAN D. MURPHY has served as the President and Chief Executive Officer and a member of the board of directors of American Outdoor Brands Inc. since its spinoff from its former parent company, Smith & Wesson Brands, Inc. Mr. Murphy served as Co-President and Co-Chief Executive Officer of Smith & Wesson Brands from January 2020 until the spinoff. He served as President of the Outdoor Products & Accessories Division of Smith & Wesson Brands from May 2017 to January 2020. From December 2016 until May 2017, he was President of the Outdoor Recreation Division of Smith & Wesson Brands, the activities of which were collapsed into Outdoor Product & Accessories. From February 2015 until December 2016, Mr. Murphy was Vice President, Corporate Development of Vista Outdoor Inc., a publicly held designer, manufacturer, and marketer of outdoor sports and recreation products. From April 2013 until February 2015, Mr. Murphy was Director of Mergers & Acquisitions and Director of

Financial Planning & Analysis for Alliant Techsystems, an aerospace, defense, and outdoor sporting goods company. Mr. Murphy held various management roles at McMaster-Carr Supply Company, a supplier of maintenance, repair, and operations materials to industrial and commercial facilities worldwide, from April 2011 until March 2013. From May 2006 until October 2010 he served as an investment banker with the publicly held firm Houlihan Lokey, where he advised companies in the areas of strategy, acquisitions, divestitures, recapitalizations, and restructuring.

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TWST: Let's start with a brief history of the company and how it has evolved over the years.

Mr. Murphy: Yes, so we spun out of our former parent company, Smith & Wesson, about four years ago. And prior to that, our business was put together through a series of acquisitions that Smith & Wesson executed. They were looking for a way to diversify their firearms revenue, so they went after companies and brands that were adjacent to some of the activities that they were in — things like hunting, fishing, camping, shooting sports, like target shooting. And since then, we've branched out.

Over time it became clear that that part of the business, which was a separate Accessories Division, really had different objectives. It was much more growth oriented, really needed to reinvest cash back into the business for organic growth, more acquisitive, things like that, whereas firearm companies traditionally are more cash generators, and the investors, frankly, expect a dividend.

And so, it became clear that there were really two different business models and it made sense to spin out our business, which is now American Outdoor Brands, from our former parent company about four years ago.

So, we spun out at the beginning stages of COVID, probably the best and worst time to become a new public company, especially in the outdoor space when people were in lockdowns, etc. So, we saw

tremendous growth initially to capture that demand. People were obviously doing more outdoor activities and not traveling as much. And so, we really were getting the footing underneath us as a new public company and shaping our identity.

Now we're four years past the spin. I would say that our industry, consumer products companies, and specifically those that target the outdoor consumer, have been under some pressure over the last few years. But we believe we've got a strategy that is going to be the most successful.

We've actually been growing the last few years and are expected to continue to grow because we're focused on innovation, and we think that is what the consumer wants and that's what brings them into stores.

TWST: Can you talk a little bit more about the pressures that Outdoor Brands have been under and why that is the case?

Mr. Murphy: Yes, that's a great question. So, from 2020 to 2022, it was sort of the perfect circumstance for outdoor companies to really perform well, as more people were trying a lot of outdoor activities for the first time, the barriers were pretty low, people had stimulus checks, and they weren't traveling. So that began this big boom of outdoor activities. And certainly, we and our peers benefited from that.

And if you recall, there were also some pretty significant supply chain challenges for most companies around that time. And so, supply was certainly limited, and demand was the highest it had ever been. And so, companies did very well for what they could get and could sell.

But then restrictions began to soften, loosen a little bit. People began traveling more, stimulus checks were no longer being given out, and it just became a different environment.

Then inflation began to take off. And so, all of a sudden, these retailers had too much inventory and consumers were feeling the pain of inflation. And so, demand began to soften, I think, for all consumer products, but also outdoor products.

So, retailers really began a process of what we call destocking, where they began to wind down their inventory position because the demand wasn't there relative to the amount of inventory that they had. And so, there was a period of time, really beginning in 2022, up until just recently, where retailers just weren't buying new product. And at the same time, the way that they were moving that product was by largely discounting it, offering sales.

And ultimately what our thesis was — because we're an innovation company and we don't have low priced brands — was that eventually consumers are going to want to go back into stores if they have a reason to do so, not just getting a discount, anybody can offer a discount, but they're going to want what's new, especially if they've become more serious with their outdoor passion, and that's what we saw to be true.

So, some of our competitors, many of them are still reeling from that, still trying to figure out, "How can we get the ball rolling again with some of these retailers and consumers?" The problem is that many of them took their foot off the accelerator when it comes to innovation during COVID because they were like, "Well, let's just get more of the stuff we were selling before because people want it."

"I've seen estimates that indicate upwards of 20 million people bought their first firearm in the last four years. And some of that was due to the civil unrest that we saw and people just wanting personal protection. So, people who never would have considered owning a firearm felt that they needed to do so to protect themselves and their family."

And instead, we said, "Hey, let's not stop the innovation train because this is going to slow down at some point and we need to be prepared to take advantage because retailers will be looking for a reason to bring consumers back through their doors." And that's what we do. About 20% to 25% of our net sales come from new products.

TWST: Can you talk a little bit more about the company's brands and how you keep up? How do you make sure you are being innovative and meeting consumers' needs — or maybe desires is a better word?

Mr. Murphy: So, we have about 20 brands and those brands are situated in one of two areas. One is brands that are related to shooting sports. Think target shooting, which, we've had a tremendous number of new firearm owners that have entered the market.

I've seen estimates that indicate upwards of 20 million people bought their first firearm in the last four years. And some of that was due to the civil unrest that we saw and people just wanting personal protection. So, people who never would have considered owning a firearm felt that they needed to do so to protect themselves and their family.

And so, one side of our business caters to that individual, gun cleaning, and things like that.

And then the other area consists of brands we call outdoor lifestyle. Our outdoor lifestyle brands are a little bit more than half of our revenue, and we do expect that they will become the biggest part of our portfolio in the future. Two thirds versus one third, something like that.

But the way that we look at our brands is to determine how we can develop different technologies within these brands, really to solve consumer problems. And it sounds really generic, but most companies, in my experience, are focused on product categories.

A lot of companies focus on a product category, and they say, how can we make it better — I'm trying to think what would be a good example. How can we create a better shovel, right? And they hire a bunch of people who are shovel experts. And you get what you expect, you get a better shovel.

We don't want to do that because that's not innovative for us. So, what we do is look at what the consumer is actually doing. So, when they're out hunting, when they're fishing, what are their biggest pain points? What annoys the heck out of them? And let's be totally agnostic to what the solution is to solve that problem and let's just try to solve it.

And what that leads to is some really out-of-the-box ideas for solving those consumer problems. As a result, we let the problem define where we go, instead of a product category.

And so, to answer your question about how we think about innovation and what makes us different — and I think we truly think about it differently than other companies — is the problem for us is the biggest opportunity. So, when we look at our brands, because we're looking at the consumer activity and what their problems are, our brands now become a means to an end — into the consumer.

They start to mean more and more to the consumers, and the consumers have more loyalty with those brands because those brands are delivering the medicine of solving their problems and really heightening the enjoyment of some of this stuff.

So that's how our brands stay relevant. That's how we continue to grow them over time. In fact, we would rather do fewer acquisitions than more. We think the greatest opportunity is the one that's in front of us. And we would have our existing brands go into new categories by addressing problems, rather than going out and buying additional brands.

TWST: I was wondering what brands are more important to the company's bottom line in terms of growth and development.

Mr. Murphy: So, I think we're also pretty unique in that our brands are very diverse. And we just looked at this the other day. They all contribute meaningfully to our business. We don't break them out publicly, but they all serve a purpose, and they are all meaningful to us. There aren't any that are dwarfs or orphans within our portfolio. They all contribute quite a bit.

If I'm a prospective investor and I'm thinking about, "OK, I get it, you're in the outdoor space. What brands should I just be aware of, and the activities, the problems that you're solving? What are going to be the needle movers for you?" We've got brands like Caldwell, which is on our shooting sports side. We are solving some very big problems on that side related to target shooting, especially for new target shooters.

Believe it or not, most of the people that go to the range now are the new firearm owners. It's not the people that own 20 firearms, which is sort of what the industry used to be. It's a person who bought a firearm to protect themselves, and they want to be able to use it safely. So, a brand like Caldwell is very meaningful to us. I consider it a solid franchise.

We've got a fishing brand called BUBBA. There are 54 million anglers in the United States — and our goal is to disrupt that space. We're doing so with some gamification, actually making fishing more interesting, more fun, bringing in more entrants and allowing people to have a really fun time.

And then we have a hunting brand called BOG, which is “engineered for the unknown.” So, for those that are looking to get into hunting or try it for the first time, we want to make it as accessible as possible and relieve some of those pain points, many of which are just the unknown, right? If you're trying hunting for the first time, you typically have to know somebody because it's a little daunting. And so, we make products that are going to help you perform at your best no matter where you are.

So those are a few of our brands that I think are — I'll call them our horses. Caldwell, BOG, BUBBA. We have some others, including Grilla, which is our outdoor cooking brand. And then we have a meat processing brand called MEAT! Your Maker, which we developed in house. And so really it runs the gamut.

TWST: And can you talk about how M&A has been a part of the company's growth and development? And are you still actively pursuing that?

Mr. Murphy: We are. Absolutely. So, we love acquisitions, but only when they make sense. There were a lot of companies as you probably know in consumer products and certainly in the outdoor space that when things were really hot a few years ago, people thought that trees grew to the sky. And they bought a lot of companies at record earnings, and they put a lot of debt on their businesses.

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We tend to be pretty conservative. And my background is M&A, so I was an investment banker. I'm a recovering investment banker. And so that's the space I'm very comfortable in. But I've also seen how quickly your strategy can pivot from its core — ours is innovation — to, now all of a sudden your competency needs to be integrating companies and harvesting savings.

That's not a super compelling story for growth, other than you're growing the top line and you're harvesting savings; anybody can do that. So, we tend to be very, very cautious when it comes to acquisitions. But I would say we do an acquisition once every year to two years, that's kind of our run rate right now, and we're in a great position to do so. We're flush with cash. We have no debt and an incredibly strong balance sheet.

So, depending on where asset values are, we're going to be opportunistic and look to find brands that augment what we have today and where we can add value by helping our brands bring innovation to market.

TWST: You touched on this earlier, but I wanted to circle back. Now that inflation appears to be easing and interest rates are being cut, how do you see that benefiting a company?

Mr. Murphy: Yes, and then you have the election [coming up] on top of that, too, which I think there's a little bit of uncertainty with consumers maybe delaying some bigger purchases. But I think that the days of just walking into a store and buying whatever catches my attention, or I might be going in for something but I buy impulse items, I think that's just happening less frequently now.

I think people are being more cautious. I think people also have a lot more stuff now than they had a couple years ago. I think we all got used to Amazon packages showing up at our door on a somewhat periodic basis.

So yes, I think the consumer continues to show resilience, like you're pointing to. It seems like our economy continues to be pretty stable. Unemployment is obviously still very low. And I think as long as those pieces stay in place, and depending on how the election goes, either way, just some stability where people and companies feel like they can get back to work.

I think that we're set up for a successful next couple of years. And I think people just want to continue to pursue the interests that they like. The outdoor space in particular has emerged as a fast-growing area as people have flexibility to work from home or some hybrid arrangement.

They get to participate more in the outdoors in their free time and pursue some of those passions. So, there's just much more flexibility and with a strong consumer, it bodes well for us.

TWST: Are there any new products or brands in the pipeline that you can talk about?

Mr. Murphy: We have a tremendous pipeline of new products. Our pipeline is unique, at least in my experience, in our space. We have a pipeline that goes out to five — some brands over five — years. A lot of companies are lucky to have a pipeline that goes out one to two years. We've got one that goes out over five and we're constantly editing that list to prune it and make sure that we're bringing products to market that are the most relevant and solving problems.

One that we're really excited about, and I alluded to it earlier, is on the fishing side of things. So, there are 54 million anglers in the United States, and believe it or not, 30 million of them target just one species of fish. Do you know which one that is? Bass. Yeah, I would not want to be a bass in the United States.

So, 30 million people, roughly 10% of the U.S. population, go fishing for bass. And it's a tremendous opportunity. It's mostly catch and release. So, people will just catch it for fun, and then they release it back. And it's become one of the fastest growing sports in high schools, in colleges.

And we've got a new product called the Smart Fish Scale, which doesn't sound very interesting except that when you catch a fish, how do I judge if I'm winning? You and I are competing, and I want to beat you. Well, I probably want to catch more fish, and I want them to be bigger. And so, a scale helps to determine that.

But our scale is really interesting because it gamifies fishing. So, you can go out on a lake, and let's say your family's on other parts of the lake, one's on shore, one's on a boat, you can actually hold a fishing tournament in real time. Or, if your buddy was out there last week, you can compete against him from last week where he fished on the lake.

And it also ultimately helps gather all of this information to help you become a better angler. So not only is it fun because you can compete, but it also helps you become even better. And so that's one product I think is totally revolutionary for that space.

And when I say that to investors, just how big that market is, they don't believe it. A lot of investors aren't anglers. To know that 30

million people are doing this on a regular basis for one species is eye opening, and it's a huge market. So, that's a really good example.

TWST: And at this point, where do you see your biggest opportunities for growth?

Mr. Murphy: The biggest opportunities for growth, the low hanging fruit answer, is just continued innovation. I think that retailers especially have pulled most of the levers when it comes to discounting. And so, it's becoming increasingly difficult for them to differentiate themselves against other retailers.

And so, the area that they're turning to now, and really have been doing so in the last 18 months, is "What's new? What's different? How am I going to entice the consumer to come back into our stores and how can I deepen my relationship with that consumer so that when they think about this activity and their passion, they think of Academy, Bass Pro, Walmart, whatever that might be?"

And so, the biggest opportunity is to really help our retailers create that experience for the consumers. And they're becoming much more interested in the story that's being told to these consumers and fostering that relationship. I think it's an exciting evolution in the retail space, whereas before, it felt like for a while they were sort of stepping away from the consumer and it was less about the relationship, more transactional.

Now I think they're much more interested in how they can differentiate themselves against others, actually have a relationship with the consumer and give them reasons to continue to come back in. And one of the best ways to do that is by showing them stuff that's new and relevant for them with something that they really enjoy.

TWST: And looking ahead to the next few years, what would you say is the company's biggest challenge — or some of the company's biggest challenges?

Mr. Murphy: I think the biggest challenge, if you would have asked me that a couple years ago, I would have had a long list for you. But I feel like we've done a pretty good job of navigating some choppy waters.

I think that the health of the consumer is vitally important. I think finding ways to encourage people to go outside, enjoy the outdoors, is also really important. Thankfully, people got a boost in the arm to go do that during COVID. Because I do think some of our biggest competitors, believe it or not, are companies like Netflix and video games. And I think that might surprise some people, but that's the truth.

You've got these sorts of leisure activities that we're competing against. And I think it remains to be seen where people's attention will drift to. So, I think just a strong consumer that continues to have interest in the outdoors and deepens their passion.

TWST: What keeps you up at night?

Mr. Murphy: My kids, for sure. Kids and dogs. I just got a new puppy — three dogs and three kids.

TWST: Oh, my gosh.

Mr. Murphy: Yeah. I mean, what keeps me up? I think about our employees a lot. I think about — do you remember the great resignation? People were leaving their jobs for the last few years, and I do think about that a lot. We're in Columbia, Missouri, the central part of Missouri, and since we're an innovation company, we better have the best engineering and design talent that we can possibly get.

And so, I do think about that a lot, because you've got a lot of really talented, great companies on the coast that are constantly attracting and looking for employees like ours.

I also think maintaining our culture, this entrepreneurial culture, is vitally important. I've seen companies slowly shift their focus over time, and if you lose that spirit and the willingness to fail, then you're playing defense all the time, and that's a losing proposition. So, I think it's probably those two things.

TWST: What would you say is the most important thing for a potential investor to know about the company?

Mr. Murphy: I could go a lot of different ways with that. I think the most important thing to know about us is predictability. I think that, in my opinion, trust is predictability. And having seen different management teams over the course of my career, whether it's in investment banking or looking to buy companies, I think a lot of it comes down to, is the management team focused, do they have a clear strategy, and are they executing on that strategy in a way that I can see evidence that it's working?

And I believe the answers to those three questions are yes. And then when you look at us relative to our peer set and other public companies in the outdoor space, we are cautious when it comes to things like acquisitions. And instead, we prefer to focus on organic growth, which over time has shown to be one of the biggest drivers of stock performance.

So, I think we're a gem in the consumer product space that's targeting the largest areas of outdoor recreation, and in some cases, even going beyond outdoor recreation, with permission to play.

That's happening for us at a very unique time, when the neighborhood of outdoor publicly traded consumer products companies is under some pressure. And if you look at a lot of other companies' investor decks, for example, they're usually fixing something. Something's broken, there's a new management team, acquisitions didn't pan out how they thought, there's some turnaround planned, etc.

That's not us. That's not who we are. And so, we've positioned ourselves to take advantage of the current environment instead of trying to fix something or overcome past decisions. So, I think hopefully that's a good summary, but I think we're a gem in a space that doesn't have many. Companies aren't showing a lot of upsides, and we are.

TWST: And before I let you go, is there anything that we haven't talked about that you wanted to share?

Mr. Murphy: Investments and infrastructure. I think we take it for granted sometimes that anytime you're buying a company, it's like buying a car. And it might be a great looking car, but the buyer should ask, "Does it need new tires? When was the last time it was serviced? It looks fast on paper, but is this thing going to perform and is it going to be predictable?"

And when I think about our company, we have checked all of those boxes. We have invested millions into this business. There's no lurking capex requirement that's going to take cash away from our other initiatives.

We have a new ERP system that's finished, complete. We have consolidated all of our acquisitions into Columbia. That is complete. We're harvesting the savings. We've got adequate room to grow in our current facility — and it's a new facility — so it's turnkey.

That's the best way to put it. It's a turnkey investment in an innovation-first company.

TWST: Thank you. (CJ)

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