

# SPORTSMAN'S WAREHOUSE

## Stronger balance sheet and renewed vendor support

### SUMMARY

From a single sporting goods store and wholesale company in Utah in 1996, Sportsman's Warehouse grew to 67 stores nationally with more than \$700 million in annual sales.

But by 2007, due to a faltering economy and tightening credit, Sportsman's Warehouse faced declining same-store sales and was becoming highly leveraged. Vendor confidence steadily eroded, which severely affected inventory levels.

Sportsman's Warehouse retained FTI Consulting to assist in managing liquidity, in negotiating with lenders prior to filing for bankruptcy on March 21, 2009, and in developing a restructuring strategy.

The result was a plan of reorganization so effective it was named by *Turnarounds & Workouts* as one of 2009's top 10 most successful restructurings.

### SITUATION

By 2005, Sportsman's Warehouse had become a flourishing, quickly expanding sporting goods retailer, specializing in hunting, fishing, camping, backpacking and shooting equipment. Based in Utah, the company had 67 stores and approximately 3,300 employees.

But in 2006, a new inventory replenishment system went overbudget by about \$40 million. And by 2007, the global economic slowdown and the company's liquidity crisis from declining sales pushed the company toward bankruptcy. Same-store sales continued to drop, and the company was highly leveraged.

Acquisition rumors and a failure to complete a publicly announced transaction damaged vendor confidence. Vendors then contracted terms, and banks reduced appraisal values, which further weakened the company.

Even though revenues had reached \$741 million by March 2009, the company had incurred losses of \$25 million. Sportsman's Warehouse filed for bankruptcy on March 21, 2009, listing assets of \$436.4 million and liabilities of \$452.1 million and expecting "to consummate either a sale or plan of reorganization centered on the ongoing operations of a smaller, viable chain of Sportsman's Warehouse stores."

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*"Thanks to its new business discipline, cash flow is better than anticipated, and as of January, an asset-based line of credit was stronger than it normally is at that time of year -- excellent news for a seasonal business where Q1 sales typically slow to a crawl."*

— American Express *Inside Edge*

## SOLUTION

FTI Consulting was retained by Sportsman's Warehouse to help the sporting goods retailer manage its liquidity, negotiate with its lenders and arrange for debtor-in-possession financing, including stapled exit financing.

The team at FTI Consulting also determined cost-reduction opportunities and identified a core store base to facilitate the closing of the first wave of stores prior to filing Chapter 11.

FTI Consulting assisted with the design and implementation of a plan of reorganization and was integrally involved in negotiating the investment of new capital in the company, as well as in building consensus among the constituents. And to help ensure future stability, FTI Consulting created a flexible financial model for developing short- and long-term business plans.

## RESULTS

Through counseling provided by FTI Consulting, Sportsman's Warehouse closed or sold 41 unprofitable and/or geographically non-strategic stores, reorganizing the chain around 26 stores in key geographic areas.

The company emerged from bankruptcy with a stronger balance sheet and renewed vendor support, resulting in dramatically increased same-store sales in its very first post-Chapter 11 year.

It was the first successful retail restructuring through a plan of reorganization in several years, prompting *Turnarounds & Workouts* to name it one of 2009's top 10 most successful restructurings.

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#### About FTI Consulting

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