

Boot Barn Holdings, Inc.
Form 10-K
June 03, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended March 26, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001 36711

BOOT BARN HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware 90 0776290
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

15345 Barranca Pkwy

Irvine, CA 92618

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (949) 453-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.0001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b 2 of the Exchange Act.

Large accelerated filer Accelerated filer Non accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of the end of its most recently completed second fiscal quarter was approximately \$234.4 million. Shares held by each officer, director and person owning more than 10% of the outstanding voting and non-voting stock have been excluded from this calculation because such persons may be deemed to be affiliates of the registrant. This determination of potential affiliate status is not necessarily a conclusive determination for other purposes. Shares held include shares of which certain of such persons disclaim beneficial ownership.

The number of outstanding shares of the registrant's common stock, \$.0001 par value, as of May 31, 2016 was 26,407,137.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2016 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A within 120 days after the end of the 2016 fiscal year, are incorporated by reference into Part III of this Form 10 K.

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Forward Looking Statements

This annual report contains forward looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this annual report are forward looking statements.

Forward looking statements refer to our current expectations and projections relating to, by way of example and without limitation, our financial condition, liquidity, profitability, results of operations, margins, plans, objectives, strategies, future performance, business and industry. You can identify forward looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate”, “estimate”, “expect”, “project”, “plan”, “intend”, “believe”, “may”, “might”, “will”, “could”, “should”, “can have”, “likely” and other words having similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events, but not all forward looking statements contain these identifying words. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward looking statements. We believe the risks attending any forward looking statements include, but are not limited to, those described under “Risk factors” and include, among other things:

- decreases in consumer spending due to declines in consumer confidence, local economic conditions or changes in consumer preferences;
- our ability to successfully open a significant number of new stores and adapt to the preferences of new geographic markets in which those stores open;
- our ability to maintain and enhance a strong brand image;
- our ability to realize the anticipated synergies of the Sheplers Acquisition (as defined below);
- our failure to adapt to challenges that arise when expanding into new geographic markets;
- our ability to compete effectively in an environment of intense competition;
- our ability to generate adequate cash from our existing stores to support our growth;
- our ability to effectively adapt to our rapid expansion in recent years and our planned future expansion;
- our ability to successfully integrate any changes to our distribution model into our operations;
- our dependence on third party suppliers to provide us with sufficient quantities of merchandise at acceptable prices;
- our ability to improve and expand our exclusive product offerings;
- our ability to balance our private brand merchandise with third party branded merchandise;
- price reductions or inventory shortages resulting from our failure to purchase the appropriate amount of inventory in advance of the season in which it will be sold;
- increases in the costs of fabrics, raw materials, labor or transportation;
- economic, political and other conditions in the foreign countries in which our products are manufactured, and other risks of international trade;
- failure of our suppliers and their manufacturing sources to use acceptable labor or other practices;

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- our inability to hire or retain key executive management and other talent required for our business;
- the concentration of our stores and operations in certain geographic locations subject to regional economic conditions and natural disasters;
- the effect on cash flows of making significant lease payments associated with our properties;
- our ability to maintain same store sales;
- the effect of our leverage on cash available to grow the business;
- our exposure to interest rate risk due to the variable rates on our borrowings;
- the restrictions in our debt agreements;
 - failure of our management information systems to support our current and growing business;
- our reliance upon third party transportation providers for our e-commerce merchandise shipments;
- risks relating to social media, such as negative commentary;
- risks relating to our e-commerce websites, such as diversion of traffic from our stores, liability for online content and government regulation of the Internet;
- risks relating to the seasonality of our business, including fluctuations of our sales based upon shopping seasons and the impact of seasonal weather patterns;
- risks relating to celebrity endorsements of our products;
 - risks relating to disruptions of our management information systems and databases;
- failure to protect our intellectual property rights or infringement by us or our suppliers of the intellectual property rights of others;
- litigation costs and the outcomes of litigation;
- risks relating to employee relations and compliance with labor and employment laws;
- our ability to manage strategic transactions that may impact our liquidity, increase our expenses and distract our management;
- risks relating to terrorism or civil unrest; and
- risks related to the impairment of our goodwill, intangible assets or long-lived assets.

We derive many of our forward looking statements from our current operating budgets and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. For these reasons, we caution readers not to place undue reliance on these forward looking statements.

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See “Risk Factors” for a more complete discussion of the risks and uncertainties mentioned above and for a discussion of other risks and uncertainties. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statements we may make. All forward looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this annual report and in our other Securities and Exchange Commission (“SEC”) filings and public communications. You should evaluate all forward looking statements made by us in the context of these risks and uncertainties.

We caution you that the risks and uncertainties identified by us may not be all of the factors that are important to you. Furthermore, the forward looking statements included in this annual report are made only as of the date hereof. Our forward looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we may make. We undertake no obligation to publicly update or revise any forward looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Fiscal Year

We operate on a fiscal calendar that results in a 52 or 53 week fiscal year ending on the last Saturday of March unless April 1st is a Saturday, in which case the fiscal year ends on April 1st. In a 52 week fiscal year, each quarter includes thirteen weeks of operations; in a 53 week fiscal year, the first, second and third quarters each include thirteen weeks of operations and the fourth quarter includes fourteen weeks of operations. The data presented contains references to fiscal 2016, fiscal 2015, and fiscal 2014, which represent our fiscal years ended March 26, 2016, March 28, 2015 and March 29, 2014, respectively. Fiscal 2016, 2015 and 2014 were each 52 week periods.

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PART I

Item 1. Business.

Our Company

We are the largest and fastest growing lifestyle retail chain devoted to western and work related footwear, apparel and accessories in the U.S. With 208 stores in 29 states as of March 26, 2016, we have over twice as many stores as our nearest direct competitor that sells primarily western and work wear, and believe we have the potential to grow our store base to at least 500 domestic locations. Our stores, which are typically freestanding or located in strip centers, average 11,488 square feet and feature a comprehensive assortment of brands and styles, coupled with attentive, knowledgeable store associates. We target a broad and growing demographic, ranging from passionate western and country enthusiasts to workers seeking dependable, high quality footwear and apparel. We strive to offer an authentic, one stop shopping experience that fulfills the everyday lifestyle needs of our customers and, as a result, many of our customers make purchases in both the western and work wear sections of our stores. Our store environment, product offering and marketing materials represent the aesthetics of the true American West, country music and rugged, outdoor work. These threads are woven together in our motto, “Be True”, which communicates the genuine and enduring spirit of the Boot Barn brand.

Our product offering is anchored by an extensive selection of western and work boots and is complemented by a wide assortment of coordinating apparel and accessories. Many of the items that we offer are basics or necessities for our customers’ daily lives and typically represent enduring styles that are not meaningfully impacted by changing fashion trends. Accordingly, approximately 70% of our store inventory is kept in stock through automated replenishment programs. The vast majority of our merchandise both in stores and on bootbarn.com is sold at full price and is not subject to typical inventory markdowns. Sheplers E-commerce, defined below, is more promotional and offers a greater assortment of products at discounted prices. Our boot selection, which comprises approximately one third of each store’s selling square footage space, is merchandised on self service fixtures with western boots arranged by size and work boots arranged by brand. This allows us to display the full breadth of our inventory and deliver a convenient shopping experience. We also carry market leading assortments of denim, western shirts, cowboy hats, belts and belt buckles, western style jewelry and accessories. Our western assortment includes many of the industry’s most sought after brands, such as Ariat, Dan Post, Justin, Levi Strauss, Lucchese, Miss Me, Montana Silversmiths, Resistol and Wrangler. Our work assortment includes rugged footwear, outerwear, overalls, denim and shirts for the most physically demanding jobs where durability, performance and protection matter, including safety toe boots and flame resistant and high visibility clothing. Among the top work brands sold in our stores are Carhartt, Georgia, Timberland Pro and Wolverine. Our merchandise is also available on our e commerce websites, www.bootbarn.com and www.sheplers.com.

Boot Barn was founded in 1978 and, over the past 38 years, has grown both organically and through successful strategic acquisitions of competing chains. We have rebranded and remerchandised the acquired chains under the Boot Barn banner, resulting in sales increases over their original concepts. We believe that our business model and scale provide us with competitive advantages that have contributed to our consistent and strong financial performance, generating sufficient cash flow to support national growth.

Recent Acquisitions and Corporate Transactions

Recapitalization

On December 12, 2011, we consummated a recapitalization with Freeman Spogli & Co., which we refer to as the Recapitalization, to provide liquidity for certain existing stockholders, to repay existing indebtedness and to help us

achieve our long term growth objectives by partnering with a private equity firm with expertise in assisting retail companies in executing their growth strategies. Funds affiliated with Freeman Spogli & Co. purchased shares of our common stock representing an indirect 90.4% equity interest in our then existing subsidiary, Boot Barn Holding Corporation. In connection with the Recapitalization, management and other investors purchased shares of our common stock and common stock of Boot Barn Holding Corporation, collectively representing an indirect 9.6% equity interest in Boot Barn Holding Corporation. The purchase price associated with the Recapitalization was allocated to assets acquired

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and liabilities assumed based on their fair values as of the date of the Recapitalization, which resulted in the recognition of goodwill.

RCC Acquisition

On August 31, 2012, we acquired RCC Western Stores, Inc., a western and work-related retail chain of 29 stores located in 12 states ("RCC"). We refer to the acquisition as the "RCC Acquisition". In connection with the RCC Acquisition, we amended our revolving credit facility and our then-existing term loan facility to increase the size of both facilities. We also raised an additional \$25.5 million by issuing new mezzanine notes and issued 296,725 shares of our common stock to one of our mezzanine lenders, which represented a 1.5% equity interest in Boot Barn Holding Corporation immediately following the RCC Acquisition. Upon the closing of the RCC Acquisition, we used borrowings under our revolving credit facility and our then-existing term loan facility, as well as the new mezzanine notes, to, among other things, pay the cash portion of the acquisition consideration, as well as related fees and expenses incurred in connection with the RCC Acquisition. Commencing on August 31, 2012, our consolidated financial statements include the financial position, results of operations and cash flows of RCC. The purchase price was allocated to assets acquired and liabilities assumed based on their fair values as of the closing date of the RCC Acquisition, which resulted in the recognition of goodwill.

Through the RCC Acquisition, we increased our store base by 33% and expanded our geographic footprint into the Midwest and Southeast. In addition, we achieved significant benefits from the RCC Acquisition as a result of improved purchasing efficiencies from suppliers and corporate support efficiencies. All of the RCC stores were rebranded under the Boot Barn banner.

Baskins Acquisition

On May 25, 2013, we acquired Baskins Acquisition Holdings, LLC, a western and work related retail chain of 30 stores located in Texas and Louisiana ("Baskins"). We refer to the acquisition as the "Baskins Acquisition". In connection with the Baskins Acquisition, we amended our revolving credit facility to increase the size of the facility to \$60.0 million and entered into a new term loan facility. Upon the closing of the Baskins Acquisition, we used borrowings under our revolving credit facility and our term loan facility, to, among other things, pay the cash portion of the acquisition consideration, repay our then existing term loan facility and mezzanine notes, including prepayment penalties, and pay fees and expenses incurred in connection with the Baskins Acquisition. Commencing on May 25, 2013, our consolidated financial statements include the financial position, results of operations and cash flows of Baskins. The purchase price was allocated to assets acquired and liabilities assumed based on their fair values as of the closing date of the Baskins Acquisition, which resulted in the recognition of goodwill.

Through the Baskins Acquisition, we entered the Texas market, which is the number one market for western boots, apparel and accessories. All of the Baskins stores were rebranded under the Boot Barn banner and merchandised to be consistent with our existing stores.

Reorganization

As of June 8, 2014, WW Top Investment Corporation held all of the outstanding shares of common stock of WW Holding Corporation, which held 95.0% of the outstanding shares of common stock of Boot Barn Holding Corporation. Boot Barn Holding Corporation held all of the outstanding shares of common stock of Boot Barn, Inc., which is our primary operating subsidiary. To simplify our organizational structure, we completed a reorganization on June 9, 2014, whereby WW Holding Corporation was merged with and into WW Top Investment Corporation and then Boot Barn Holding Corporation was merged with and into WW Top Investment Corporation (the "Reorganization"). As a result of this Reorganization, Boot Barn, Inc. became a direct wholly owned subsidiary of WW

Top Investment Corporation, and the minority stockholders that formerly held 5.0% of Boot Barn Holding Corporation became holders of 5.0% of WW Top Investment Corporation. The legal name of WW Top Investment Corporation was subsequently changed to Boot Barn Holdings, Inc.

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Amendment of Certificate of Incorporation

On October 19, 2014, our board of directors authorized the amendment of our certificate of incorporation to increase the number of shares that we are authorized to issue to 100,000,000 shares of common stock, par value \$0.0001 per share. In addition, the amendment of the certificate of incorporation authorized us to issue 10,000,000 shares of preferred stock, par value \$0.0001 per share, and effect a 25 for 1 stock split of our outstanding common stock. The amendment became effective on October 27, 2014. Accordingly, all common share and per share amounts were adjusted to reflect the increase in authorized shares and the 25 for 1 stock split as though it had occurred at the beginning of the initial period presented.

Initial Public Offering

On October 29, 2014, we completed our initial public offering of 5,000,000 shares of our common stock. In addition, on October 31, 2014, the underwriters of the initial public offering exercised their option to purchase an additional 750,000 shares of common stock from us. As a result, 5,750,000 shares of common stock were issued and sold by us at a price of \$16.00 per share.

Secondary Offering

On February 25, 2015, stockholders of the Company completed a secondary offering of 6,235,544 shares of common stock, including 813,332 shares of the Company's common stock sold as a result of the underwriters' exercise of their option to purchase additional shares at the public offering price of \$23.50 per share, less the underwriting discount. The Company did not issue any new shares of common stock nor did it receive any proceeds from the secondary offering.

Sheplers Acquisition

On June 29, 2015, we acquired Sheplers Inc. and Sheplers Holding Corporation (collectively with Sheplers, Inc. "Sheplers"), a western lifestyle company with 25 retail locations across the United States and an e-commerce business. We refer to the acquisition as the "Sheplers Acquisition". We financed the merger and refinanced approximately \$172 million of our and Sheplers' existing indebtedness in part with an initial borrowing of \$57 million under a new \$125 million syndicated senior secured asset-based revolving credit facility for which Wells Fargo Bank, National Association ("June 2015 Wells Fargo Revolver"), is agent, and a \$200 million syndicated senior secured term loan for which GCI Capital Markets LLC ("2015 Golub Term Loan") is agent. Borrowings under the credit agreements were initially used to pay costs and expenses related to the Sheplers Acquisition and the closing of such credit agreements, and may be used for working capital and other general corporate purposes. Commencing on June 29, 2015, our consolidated financial statements include the financial position, results of operations and cash flows of Sheplers. The purchase price has been allocated to assets acquired and liabilities assumed based on their fair values as of the closing date of the Sheplers Acquisition, which resulted in the recognition of goodwill.

Through the Sheplers Acquisition, we added eight new markets and expanded both our Texas (Dallas and San Antonio) and Denver markets. Further, we greatly increased our omni-channel capabilities as Sheplers had a leading e-commerce platform ("Sheplers E-commerce") representing approximately 42% of their total pre-acquisition sales for the trailing twelve months ended March 2015. We rebranded 19 of the 25 retail stores acquired through the Sheplers Acquisition, and closed six stores during fiscal 2016.

Our Competitive Strengths

We believe the following strengths differentiate us from our competitors and provide a solid foundation for future growth:

Powerful lifestyle brand. The Boot Barn brand is built on western lifestyle values that are core to American culture. Our deep understanding of this lifestyle enables us to create long lasting relationships with our customers who embody these ideals. Our brand is highly visible through our sponsorship of rodeos, stock shows, concerts and country

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music artists. We sponsor local community rodeos, national rodeos and other country and western events. We sell our products through pop up shops at several of the largest events that we sponsor. We believe these grassroots marketing efforts make our brand synonymous with the western lifestyle, validate our brand's authenticity and establish Boot Barn as the trusted specialty retailer for all of our customers' everyday needs.

Fast growing specialty retailer of western and work wear in the U.S. Our broad geographic footprint, which currently spans 29 states, provides us with significant economies of scale, enhanced supplier relationships, the ability to recruit and retain high quality store associates and the ability to reinvest in our business at levels that we believe exceed those of our competition.

Attractive, loyal customer base. Our customers come to us for many aspects of their everyday footwear and clothing needs because of the breadth and availability of our product offering. In fiscal 2011 we implemented our customer loyalty program, B Rewarded, to enhance our connection and relationship with our customers. Our loyalty program has grown rapidly since inception and includes approximately 3.6 million members who have purchased merchandise from us. A vast majority of our sales are made to these customers. We leverage this database, which provides useful information about our customers, to enhance our marketing activities across our channels, refine our merchandising and planning efforts and assist in our selection of sites for new stores.

Differentiated shopping experience. We deliver a one stop shopping experience that engages our customers and, we believe, fulfills their lifestyle needs. Our stores are designed to create an inviting and engaging experience and include prominent storefront signage, a simple and easy to shop layout and a large and conveniently arranged self service selection of boots. We offer significant inventory breadth and depth across a range of boots, apparel and accessories. We believe that our strong, long lasting supplier relationships enhance our ability to provide a compelling merchandise assortment with a strong in stock position both in store and online. Our knowledgeable store associates are passionate about our merchandise and deliver a high level of service to our customers. These elements help promote customer loyalty and drive repeat visits.

Compelling merchandise assortment and strategy. We believe we offer a diverse merchandise assortment that features the most sought after western and work wear brands, well regarded niche brands and exclusive private brands across a range of boots, apparel and accessories. We have a core assortment of styles that serves as a foundation for our merchandising strategy and we augment and tailor that assortment by region to cater to local preferences. In fiscal 2016, the vast majority of our merchandise sales both in stores and on bootbarn.com, were at full price, which we believe demonstrates the strength of our brand and the less discretionary nature of our product offering. Sheplers E-commerce is more promotional and offers a greater assortment of products at discounted prices.

Portfolio of exclusive private brands. We have leveraged our scale, merchandising experience and customer knowledge to launch a portfolio of private brands exclusive to us, including Shyanne, Cody James, Moonshine Spirit by Brad Paisley, American Worker, El Dorado and BB Ranch. Our private brands are available in stores and on bootbarn.com and offer high quality western and work boots as well as apparel and accessories for men, ladies and kids. Each of our private brands, which address product and price segments that we believe are underserved by third party brands, offers exclusive products to our customers and achieves better merchandise margins than the third-party brands that we carry. Customer receptivity and demand for our private brands has been strong, demonstrated by the private brands' increasing penetration and sales momentum across our store base and e-commerce channels.

Versatile store model with compelling unit economics. We have successfully opened and currently operate stores that generate strong cash flow, consistent store level financial results and an attractive return on investment across a variety of geographies, markets, store sizes and location types. We operate stores in markets characterized as agribusiness centers and ranch regions, and in other various geographies throughout the United States. Our stores are also

successful in small, rural towns and major metropolitan areas.

Our new store model requires an average net cash investment of approximately \$0.9 million and targets an average payback period of three years. Our lean operating structure, coupled with our strong supplier relationships, has allowed us to grow with minimal supply chain investments as most of our products ship directly from our suppliers to

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our stores. We believe that our proven retail model and attractive unit economics support our ability to grow our store footprint in both new and existing markets across the U.S.

Highly experienced management team and passionate organization. Our senior management team has extensive experience across all key retail disciplines. With an average of over 25 years of experience in their respective functional areas, our senior management team has been instrumental in developing a robust and scalable infrastructure to support our growth. In addition to playing an important role in developing our long term growth initiatives, our senior management team embraces the genuine and enduring qualities of the western lifestyle and has created a positive culture of enthusiasm and entrepreneurial spirit which is shared by team members throughout our entire organization. Our strong company culture is exemplified by the long tenure of our employees at all levels. For example, our district and regional managers have an average of eight years of service with us and our store managers have an average of five years of service with us, including the companies acquired by us.

Our Growth Strategies

We are pursuing several strategies to continue our profitable growth, including:

Expanding our store base. Driven by our compelling store economics, we believe that there is a significant opportunity to expand our store base in the U.S. During fiscal 2016, we opened or acquired 47 stores. Based on an extensive internal analysis, we believe that we have the potential to grow our domestic store base from 208 stores as of March 26, 2016 to at least 500 domestic locations. We currently plan to target store openings in new and existing markets and in adjacent and underserved markets that we believe will be receptive to our concept. Over the past several years, we have made significant investments in personnel, information technology, warehouse infrastructure and e-commerce platforms to support the expansion of our operations.

Driving same store sales growth. We believe that we can continue to grow our same store sales by increasing our brand awareness, driving additional traffic to our stores and increasing the amount of merchandise purchased by customers while visiting our stores. Our management team has launched several initiatives to accelerate growth, enhance our store associates' selling skills, drive store level productivity and increase customer engagement through our loyalty program.

Enhancing brand awareness. We intend to enhance our brand awareness and customer loyalty in a number of ways, such as continuing to grow our store base and our online and social media initiatives. We use broadcast media such as radio, television and outdoor advertisements to reach customers in new and existing markets. We also maintain our strong market position through our grassroots marketing efforts, including sponsorship of rodeos, stock shows and other western industry events, as well as our association with country music, including partnerships with Brad Paisley and up and coming country musicians. We have an effective social media strategy with high customer engagement, as evidenced by our growing fan base on Facebook, Instagram, Snapchat and Twitter.

Growing our omni-channel capability. Our growing national footprint, social media following and broader marketing efforts drive traffic to our e-commerce websites. We operate Sheplers E-commerce along with bootbarn.com as an alternative to shopping in the stores, which allows us to reach customers outside our geographic footprint. We continue to make investments in both online and in-store advertising, aimed at increasing traffic to our e-commerce websites, which reached over 20 million visits in total in fiscal 2016, and increasing the amount of merchandise purchased by customers who visit our websites, while improving the shopping experience for our customers. We have a bootbarn.com e-commerce portal at each of our store locations, offering our in-store customers an "endless aisle" with additional styles, colors and sizes not carried in stores or currently in stock. Sheplers E-commerce marketing is primarily done through online vehicles such as advertisements and pay-per-click. Our e-commerce sales as a portion of total consolidated net sales in fiscal 2016 increased from 4.2% in fiscal 2015 to 14.6% in fiscal 2016, primarily as a

result of the Sheplers Acquisition.

Leveraging our economies of scale. We believe that we have a variety of opportunities to increase the profitability of our business over time. Our ability to leverage our infrastructure and drive store level productivity due to economies of scale is expected to be a primary driver of our improvement in profitability. We intend to continually refine

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our merchandise mix and increase the penetration of our private brands to help differentiate us from our competitors and achieve higher merchandise margins. We also expect to capitalize on additional economies of scale in purchasing and sourcing as we grow our geographic footprint and online presence.

Our Market Opportunity

We participate in the large, growing and highly fragmented western and work wear markets of the broader apparel and footwear industry. We offer a variety of boots, apparel and accessories that are basics or necessities for our customers' daily lives. Many of our customers are employed in the agriculture, oil and gas, manufacturing and construction industries, and are often country and western enthusiasts. We believe that growth in the western wear market has been and will continue to be driven by the growth of western events, such as rodeos, the popularity of country music and the continued strength and endurance of the western lifestyle. We believe that growth in the work wear market has been and will continue to be driven by increasing activity in the construction sector and the return of domestic manufacturing. Additionally, government regulations for workplace safety have driven and, we believe, will continue to drive, sales in specific categories, such as safety toe boots and flame resistant and high visibility clothing for various industrial and outdoor occupations.

Our Sales Channels

During fiscal 2016, we greatly increased our omni-channel capabilities, primarily as a result of the significant e-commerce business we acquired as part of the Sheplers Acquisition. Our current omni-channel presence consists of both brick and mortar stores as well as an e-commerce platform, including both www.bootbarn.com and www.sheplers.com.

Our stores

As a lifestyle retail concept, our stores offer a broad array of merchandise to outfit an entire family, while working during the week, relaxing on the weekend, or dressing up for an evening out. Our stores are easy to navigate with clear sight lines to all major product categories. Our preferred store layout has ladies' and children's apparel on the right side of the store and men's western and men's work apparel on the left side. Our basic denim is usually merchandised on shelving placed on the exterior walls, while our premium priced, more stylized denim and clothing are prominently displayed on floor fixtures and mannequins. We utilize the space in the front of the store for accessories such as hats, belts, jewelry, handbags, home merchandise, gifts and various impulse purchase items.

Boots, our signature category, anchor the rear of the store with an expansive assortment displayed on fixtures up to six shelves in height. We offer virtually all of our boots in pairs out on the sales floor. To reflect the typical purchasing decision process of each of our customer segments, we arrange all western boots by size and all work boots by brand. While our knowledgeable and friendly store associates are readily available to assist our customers, the store design facilitates a self service shopping experience.

Our stores are generally located in or near power and large neighborhood shopping centers with trade areas of five or more miles, and we have also successfully opened stores in malls and outlet center locations. Our stores average 11,488 square feet and feature a comprehensive assortment of brands and styles, coupled with attentive, knowledgeable store associates. On average, each of our stores typically has 12 full and part time employees, with our larger stores having over 25 employees and smaller stores having as few as six employees. Our stores are designed and managed to drive profitability and, we believe, create a compelling customer shopping experience.

During fiscal 2016, we opened or acquired 47 stores. As of March 26, 2016, our retail footprint included 208 stores in the U.S. Two of our stores are operated under the "American Worker" name. Our American Worker stores primarily

feature work related footwear, apparel and accessories. We do not currently intend to open additional American Worker stores.

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The following table shows the number of stores in each of the 29 states in which we operated as of March 26, 2016:

State	Number of stores
Arizona	13
California	38
Colorado	13
Florida	7
Georgia	1
Idaho	3
Illinois	1
Indiana	1
Iowa	3
Kansas	3
Kentucky	3
Louisiana	6
Minnesota	2
Missouri	2
Montana	4
Nebraska	2
Nevada	10
New Mexico	7
North Carolina	4
North Dakota	6
Oklahoma	2
Oregon	3
South Carolina	3
South Dakota	3
Tennessee	7
Texas	47
Utah	2
Wisconsin	1
Wyoming	11
Total	208

E-commerce

Our e-commerce websites are a natural extension of our brand and in-store experience, allowing us to further build awareness in our current markets and reach customers not served by our current geographic footprint. Our e-commerce platforms are highly scalable and have exhibited substantial growth. During fiscal 2016, we had over 20 million visits to our websites and we sold merchandise to customers in all 50 states. Approximately 6.5% of our total e-commerce revenue for fiscal 2016 was generated from customers outside of the United States. Such foreign source revenue constituted approximately 1.1% of our overall net sales in fiscal 2016.

Our growing national footprint and broader marketing efforts drive traffic to our bootbarn.com website, which in turn also drives traffic to our stores. We believe that many customers, especially those shopping for boots, browse online at bootbarn.com and then visit our stores to make their purchases to ensure a proper fit. As a multi-channel retailer, we

are implementing technology initiatives that integrate in store and e commerce platforms into one seamless customer experience. As an example, last year we added a bootbarn.com e commerce portal to each of our store locations, offering our in store customers an “endless aisle” with additional styles, colors and sizes not carried in the store. In fiscal 2016, we continued to enhance customer service by improving real time inventory sharing among our stores and bootbarn.com.

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The bootbarn.com business is an every-day low price model, while Sheplers E-commerce is more promotional. For both of our e-commerce channels, we communicate information on current promotions and upcoming events on our e-commerce websites, which helps drive purchases online and traffic to our stores. We continue to improve follow up email communication related to order confirmations, as well as offer boot care and other accessories associated with boot purchases.

Store expansion opportunities and site selection

We have substantial experience in opening stores in new geographic markets and as of March 26, 2016 have successfully added, on a net basis, 91 new stores through a combination of organic growth and strategic acquisitions since March 31, 2013. We evaluate potential new locations in light of a variety of criteria, including local demographics and population, the area's industrial base, the existing competitive landscape, occupancy costs, store visibility, traffic, environmental considerations, co-tenancy and accessibility. We also consider a region's total store potential to help ensure efficiencies in store management and media spending. Most of our stores are in high-traffic and highly visible locations and many have freeway signage. Stores located in metropolitan areas are typically established in high-density neighborhoods, and stores located in rural areas are typically established near highways or major thoroughfares.

Based on an extensive internal analysis of our current customer base, store performance drivers and competitor penetration, we believe that the U.S. market can support at least 500 locations. We utilized multiple methods for measuring market size, including a review of demographic and psychographic factors on a state-by-state basis. We supplemented that data by analyzing our share of the geographic markets in which we currently operate and extrapolating that share to new geographic markets. Based on our market analysis, we have created a regional and state-by-state development plan to strategically extend our store portfolio. Careful consideration was given to operational constraints and merchandising differences in new and existing markets, while balancing the relevant risks associated with opening stores in those markets.

Over the past several years, we have invested in construction and real estate resources, information technology and warehouse infrastructure to support the expansion of our operations. In addition, we have developed a model for new stores that assumes a leased 8,000 to 12,000 square foot space, requires an average net cash investment of approximately \$0.9 million and targets an average payback period of three years. We believe that under this model we can grow our store base by at least 10% annually over the next several years without substantially modifying our current resources and infrastructure.

Store Management and Training

We have a strong culture focused on providing superior customer service. We believe that our store associates and managers form the foundation of the Boot Barn brand. We recruit people who are welcoming, friendly and service-oriented, and who often live the western lifestyle or have a genuine affinity for it. We have a positive culture of enthusiasm and entrepreneurial spirit throughout the Company, which is particularly strong in our stores. Given the lifestyle nature of the Boot Barn brand, we have developed a natural connection between our customers and our store associates.

Given the importance of both fit and function in selling much of our product, we utilize a well-developed sales, service and product training program. We provide over 20 hours of training for new store associates, as well as ongoing product, sales and leadership training. Additionally, we provide home office and supplier-led workshops on products, selling skills and leadership at our annual three-day store manager meeting. Our store management training programs emphasize building skills that lead to effective store management and overall leadership. Our store managers are responsible for hiring and staffing our stores and are empowered with the sales, customer service and operational tools

necessary to monitor employee and store performance. We believe that our continued investments in training our employees help drive loyalty from our store associates and, in turn, our customers. We are committed to providing the right merchandise solution for each of our customers based on the ultimate end use of our products. Our goal is to train each of our store associates to be able to guide a customer throughout a store and provide helpful knowledge on product fit, functions and features across our departments. Rather than rely heavily on sales commissions and supplier specific incentive programs, we utilize a system under which the vast majority of a store associate's compensation is based on an

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hourly wage. We believe that this produces a team oriented culture, creates a less pressured selling environment and helps ensure that our store associates are focused on the specific needs of our customers.

Merchandising

Strategy

We seek to establish our stores as a one stop destination for western and work related footwear, apparel and accessories. Our merchandising strategy is to offer a core assortment of products, brands and styles by store, department and price point. We augment and tailor this assortment by region to cater to local preferences such as toe profiles for western boots, styling for western apparel, and functions and features for work apparel and work boots depending on climate and the local industries served. In addition, we actively maintain a balance between third party brands and our own brands that, we believe, offers our customers a compelling mix between selection, product and value.

Our business is moderately seasonal and as a result our revenues fluctuate from quarter to quarter. The third quarter of our fiscal year, which includes the Christmas shopping season, has historically produced higher sales and disproportionately higher operating results than the other quarters of our fiscal year. Historically, neither the western nor the work component of our business has been meaningfully impacted by fashion trends or seasonality. We believe that many of our customers are driven primarily by utility and brand, and our best selling styles tend to be items that carry over from year to year with only minor updates. Over the last three fiscal years we have generated approximately 34% of our net sales during our third fiscal quarter, on average.

We have a minimal amount of seasonal merchandise that could necessitate significant markdowns. This allows us to implement automated replenishment systems for approximately 70% of our store merchandise, meaning that, as sales are captured in a store's point of sale system, recommended purchase orders are systematically generated for approval by our merchandising group, ensuring our strong in stock inventory position. As a result, demand and margins for the majority of our products are fairly predictable, which reduces our inventory risk.

Our products

During fiscal 2016, our products contributed to overall sales in the following manner:

- Gender: Men's merchandise accounted for approximately 60% of our sales with the balance being ladies, kids and unisex merchandise.
- Styling: Western styles comprised approximately 70% of our sales, with work related and other styles making up the balance.
- Product category: Boots accounted for just over half of our sales, with apparel comprising an additional 32% and the balance consisting of hats, gifts, accessories and home merchandise.

Throughout our long history we have maintained collaborative relationships with our key suppliers. These relationships, coupled with our scale, have allowed us to carry a wide selection of popular and niche brands, including Ariat, Carhartt Workwear, Cinch, Corral, Dan Post, Georgia Boot, Harley Davidson, Justin Boots, Levi Strauss & Co., Lucchese, Old Gringo, Rocky, Stetson, Timberland, Tony Lama, Wolverine and Wrangler. In many cases, we are one of the largest accounts of our suppliers and have become important as the largest specialty retailer of western and work wear in the U.S. As a result, we have several advantages relative to our competitors, including increased buying power and access to first to market or limited edition products. This provides us with competitive differentiation and greater merchandise margins.

Our scale has also allowed us to introduce our own proprietary western wear brands, Shyanne and Cody James, which offer high quality western boots, shirts, jackets and hats for women and men, respectively. We also have an exclusive license agreement with country music star Brad Paisley, who designs a collection of boots, apparel and accessories for us, Moonshine Spirit By Brad Paisley, that reflect his lifestyle and personality. We develop private brand

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merchandise for our work wear business under the name American Worker, and for our home and gift category under the name BB Ranch. We created these brands to address segments that we believe are underserved by third party brands. We have a dedicated product development team that designs and sources merchandise from suppliers around the world. These product assortments are exclusive to Boot Barn and are merchandised and marketed as if they were third party brands both in our stores and on bootbarn.com. In fiscal 2016, sales from our private brand products accounted for approximately 13% of our sales at the Boot Barn stores, excluding the rebranded Sheplers stores. These private brands differentiate us from our competitors and produce higher incremental merchandise margins than the third party brands that we carry.

Planning and allocation

We believe that we have assembled a talented and experienced team in both the buying and merchandise planning functions. The experience of our team is critical to understanding the technical requirements of our merchandise based on region and use, such as the appropriate safety toe regulations for work boots in a particular industry. The team is constantly managing our replenishment model to ensure a high in stock position by stock keeping unit, or SKU, on a store by store basis. Our merchandising team optimizes the product selection, mix and depth across our stores by analyzing demand on a market by market basis, continuously reviewing our sell through results, communicating with our suppliers about local market preferences and new products, shopping our competitors' stores, and immersing themselves in trade and western lifestyle events including rodeos, country music concerts and other industry specific activities. Our merchandising team also makes frequent visits to our stores and partners with our regional, district and store managers to refine the merchandise assortment by region. Our team has demonstrated the ability to effectively manage merchandising, pricing and promotional strategies across our store base.

To keep the product assortment fresh, we reposition a small portion of our merchandise on the sales floor every month. To drive traffic to our stores and create in store energy and excitement, we execute a promotional calendar that showcases select brands or merchandise categories throughout the year and rotates on a monthly cadence. Our promotional activity also enables us to consistently engage with our customers both online and in store, as well as through our various marketing media. Our ability to optimize the price for each merchandise category on a market by market basis, helps us to maximize profitability while remaining price competitive. While our promotional activity is important for customer engagement, the vast majority of our merchandise sales both in stores and on bootbarn.com are at full price. Sheplers E-commerce is more promotional and offers a greater assortment of products at discounted prices.

Marketing and Advertising

Our marketing strategy is designed to build brand awareness, acquire new customers, enhance customer loyalty and drive in store and online transactions. We customize our marketing mix for each of our markets and purposes. For example, during store grand openings we engage in additional local community outreach and advertise in local print media in select markets. We primarily use the following forms of media:

Radio and television—We purchase spots on regional radio stations, primarily country music channels, to draw customers to nearby locations. We also maintain relationships with several country music artists in order to capitalize on the popularity of country music, using our stores and marketing communications to promote their album sales or concerts. In return, these country music artists often make in store appearances or mention us on social media and occasionally give private performances. We have also started purchasing television spots to create awareness in new markets and occasionally help support grand openings of new stores.

Direct mail—We conduct several direct mail campaigns, and during fiscal 2016, we sent out approximately 9.1 million mailers, ranging in size from postcards to catalogs of nearly 80 pages.

E-mail—We e-mail our e-commerce customers and members of our B Rewarded loyalty program as part of our cross-channel effort to drive traffic to our stores and websites. We sent over 625 million e-mails in fiscal 2016.

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Social media—We also have a marketing strategy that has produced a fast growing social media presence, as evidenced by our growing fan base on Facebook, Instagram, Snapchat and Twitter. Our posts celebrate country and western life and humor, and routinely get thousands of likes, hundreds of shares and dozens of comments each.

Event sponsorship—We typically sponsor community based western events each year within the regional footprint of our store locations. Houston Livestock Show and Rodeo, a well known 20 day celebration of western heritage, is one of our most prominent sponsorships and attracts more than two million visitors to Houston, Texas, where we operate seventeen stores in the area. We also sponsored the Fort Worth Stock Show and Rodeo this year, a 23-day event with more than 1.25 million attendees. Other prominent sponsorships include Cheyenne Frontier Days, the largest outdoor rodeo in the U.S., the Professional Rodeo Cowboys Association and related National Finals Rodeo in Las Vegas, Nevada, Professional Bull Riders and the National High School Rodeo Association, which supports rodeos for competitors in high school and junior high school. At more prominent events, we often set up pop up shops as large as 9,000 square feet, which allows participants to purchase our merchandise.

Distribution

During fiscal 2016, our suppliers shipped approximately 83% of our in store merchandise units directly to our stores and approximately 26% of our e commerce merchandise units directly to our e commerce customers. The remaining units were either shipped from our distribution center that was located at our corporate headquarters (“Store Support Center”) in Irvine, California and relocated to Fontana, California, or from the distribution center in Wichita, Kansas, that we acquired as a result of the Sheplers Acquisition. Our distribution center in California is used to fulfill bootbarn.com orders and to distribute our private brand and bulk purchases to our stores. In addition, our California distribution center also helps to provide inventory for sponsored events and new store openings. Our Wichita, Kansas distribution center is used to fulfill Sheplers E-commerce orders. In accordance with our automated replenishment programs, third party suppliers typically deliver merchandise to our stores daily, ensuring in stock merchandise availability and a steady flow of new inventory for our customers.

Competition

The retail industry for western and work wear is highly fragmented and characterized by primarily regional competitors. We estimate that there are thousands of independent specialty stores scattered across the country. We believe that we compete primarily with smaller regional chains and independents on the basis of product quality, brand recognition, price, customer service and the ability to identify and satisfy consumer demand. In addition, as we expand our e-commerce sales channel, we are competing to an increasing degree with online retailers and the e-commerce offerings of traditional competitors. We also compete with farm supply stores and, to a lesser degree, mass merchants, some of which are significantly larger than us, but most of which realize only a small percentage of their total revenues from the sale of western and work wear. We have more than twice as many stores as our nearest direct competitor that sells primarily western and work wear and we believe that our nationally recognized lifestyle brand, economies of scale, breadth and depth of inventory across a variety of categories, strong in stock position, portfolio of authentic private brands, enhanced supplier partnerships, exclusive offerings and ability to recruit and retain high quality store associates favorably differentiates us from our competitors.

Information technology

We have made significant investments to create a scalable information technology platform to support growth in our retail and e commerce sales without further near term investments in our information technology infrastructure. In 2008, we installed a new Enterprise Resource Planning system, which we refer to as Epicor Retail. We use this system for integrated point of sale, merchandising, planning, sales audit, customer relationship management, inventory control, loss prevention, purchase order management and business intelligence. We operate Epicor Retail on a

software as a service platform. This approach allows us to regularly upgrade to the most recent software release with minimal operational disruption, nominal systems infrastructure investment and a relatively small in-house information technology department. Epicor Retail also interfaces with our accounting system, Microsoft Dynamics.

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Intellectual property

We regard our trademarks as having value and as being important to our marketing efforts. We have registered our trademarks in the U.S., including our brand name “Boot Barn” and our private label brands. We also have a registered trademark for the “Sheplers” brand name. We have sought foreign trademark protection by registering the Boot Barn trademark in Hong Kong, where we operate one of our subsidiaries, Boot Barn International (Hong Kong) Limited. We also own the domain name for our websites, www.bootbarn.com and www.sheplers.com. Our policy is to pursue registration of our trademarks and to rigorously defend their infringement by third parties.

Our employees

As of March 26, 2016, we employed approximately 1,200 full time and 1,700 part time employees, of which approximately 400 were employed at our Store Support Center and distribution center and approximately 2,500 were employed at our stores. The number of employees, especially part time employees, fluctuates depending upon our seasonal needs. None of our employees are represented by a labor union and we consider our relationship with our employees to be good. We have never experienced a strike or significant work stoppage.

Regulation and legislation

We are subject to labor and employment laws, laws governing truth in advertising, privacy laws, safety regulations and other laws at the federal, state and local level, including consumer protection regulations, such as the Consumer Product Safety Improvement Act of 2008, that regulate retailers and govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with all applicable laws.

We source many of our private brand products from outside the U.S. The U.S. Foreign Corrupt Practices Act and other similar anti bribery and anti kickback laws and regulations generally prohibit companies and their intermediaries from making improper payments to non U.S. officials for the purpose of obtaining or retaining business. Our policies and our supplier compliance agreements mandate compliance with applicable law, including these laws and regulations.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below, together with all of the other information in this annual report, including our consolidated financial statements, and related notes included elsewhere in this annual report. If any of the following risks are realized, our business, operating results and prospects could be materially and adversely affected. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related To Our Business

Our sales could be severely impacted by decreases in consumer spending due to declines in consumer confidence, local economic conditions in our markets or changes in consumer preferences.

We depend upon consumers feeling confident about spending discretionary income on our products to drive our sales. Consumer spending may be adversely impacted by economic conditions, such as consumer confidence in future economic conditions, interest and tax rates, employment levels, salary and wage levels, general business conditions, the availability of consumer credit and the level of housing, energy and food costs. These risks may be exacerbated for retailers like us who focus on specialty footwear, apparel and accessories. Our financial performance is particularly

susceptible to economic and other conditions in California and other western states where we have a significant number of stores. Many of our stores, including rebranded Sheplers stores, operate in geographic areas where the local economies depend to a significant degree on oil and other commodity extraction, and many of our customers are employed in these industries. Because of recent steep declines in prices of oil and other commodities, the economies in these areas have suffered, and this has had an adverse impact on our sales. Our financial performance may continue to be

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susceptible to economic and other conditions relating to output and employment in areas dependent upon the oil and other commodity extraction industries, as well as the construction sector, domestic manufacturing and the transportation and warehouse sectors, the growth of which we believe is an important driver of our work wear business. In addition, our financial performance may be negatively affected if the popularity of the western and country lifestyle subsides, or if there is a general trend in consumer preferences away from boots and other western or country products in favor of another general category of footwear or attire. If this were to occur or if periods of decreased consumer spending persist, our sales could decrease, which could have a material adverse e