

FINAL TRANSCRIPT

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May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to Gander Mountain Company first-quarter earnings release conference call. This call is being recorded. At this time I would like to turn the call over to the Director Investor Relations, Ms. Shannon Burns. Please go ahead.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Shannon Burns - *Gander Mountain Company - IR*

Good morning. I'm Shannon Burns, Director of Investor Relations of Gander Mountain. Welcome to the Gander Mountain first-quarter conference call. Joining us on our call today are Mark Baker, President and CEO of Gander Mountain; Dennis Lindahl, Executive VP and CFO; and Al Dittrich, Executive VP of Merchandising. Mark will offer his comments to start the call. Al will discuss merchandise trends and Dennis will review our financial results. We will take your questions after that. We expect the call to last an hour.

As a reminder, the question-and-answer session is available to all interested parties although questions will be limited to investors and analysts. We also remind you that the media is attending the call in a listen-only mode. This conference call is being broadcast real-time on the Internet at www.gandermountain.com. We will also offer an Internet replay, which will be available shortly after the call is concluded and will remain on our website for approximately 90 days. The transcript of this call will be posted under archives in the Investor Relations section of our website.

Let me caution you that our discussion today may include forward-looking statements relating to our estimates and expectations that involve risks and uncertainties. Our actual results could differ materially from those projected in any forward-looking statements. Additional information concerning important factors that could cause our actual results to differ materially from these forward-looking statements are described in the risks and factors affecting current and future results section of the Annual Report on Form 10-K as filed with the Securities and Exchange Commission as well as in subsequent reports filed with the SEC.

These reports are available at the Investor Relations section of our website at www.gandermountain.com, and at the SEC's website at www.SEC.gov. We caution you that forward-looking statements reflect our current views with respect to future events and speak only as of the time they are made. Our actual results may differ materially from the present expectations or projections. Given these uncertainties, you should not place undue reliance on these forward-looking statements and we undertake no obligation to update them in light of new information or future events.

Before turning the call over to Mark, I would like to comment on a class-action lawsuit and shareholder derivative lawsuit that have been filed against us. We believe that these lawsuits are completely without merit and will defend ourselves vigorously against them. We do not comment and we will not take questions on pending legal matters.

And now I will turn the call over to Mark.

Mark Baker - *Gander Mountain Company - President and CEO*

Good morning. Welcome to Gander Mountain's first-quarter earnings call. I would like to welcome our shareholders, analysts, and all other participants to our first conference call from our new low-cost base camp here in St. Paul. As you know, Gander Mountain is the leader in outdoor lifestyle retailing with 89 stores today and is the fastest-growing retailer in this category. We are growing rapidly through store expansion, taking advantage of this fragmented market, the nature of this retail sector.

We are the largest retailer in the outdoor lifestyle segment with more stores than the next three competitors combined in the underserved outdoor lifestyle market.

We are pleased with the 37% growth in sales we have reported for the quarter, coupled with store sales decline less than 1% after a gain of 8.7 in the first quarter of last year. If you look at the two-year average, our comparable store sales increased over 3.9% and we saw comparable store sales gains in our hunting, our largest category, and marine accessories in April. While it was just the beginning of our spring season, we were encouraged by our customers' positive response to our expanded spring apparel selections.

First quarter accounts historically for only about 15% of our sales. While it is unlikely that the Company will generate enough sales volume in the foreseeable future to cover the corporate overhead and report a profit in the seasonally slow first quarter,

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

we are satisfied with our overall performance at store level. Dennis Lindahl, our CFO, will talk further about our financial results later in this call.

We continued to build our store base during the first quarter, adding six new stores including a very successful relocation of our Duluth, Minnesota store. Two of the new stores expanded our presence in Houston; one is in southern Indiana; the fifth is in Kingston, New York; and the last in the quarter, our second store in the Denver market. Since the end of a quarter, we have opened two additional stores including our fourth store in Texas, this one in Beaumont; and a new store in Dayton, Ohio. All of these stores have opened on time if not early.

We continue to refine our store opening process and are opening stores this year with lower preopening costs and reduced investment in capital expenditures; in addition, our merchant teams are refining the assortments and replenishment for each store, enabling us to open stores with a significantly lower investment in the inventory. These stores have opened to a great deal of excitement and enthusiasm on the part of our customers and associates.

Now Al Dittrich, our Vice President of Merchandise, will give an update on product trends. Al?

Al Dittrich - *Gander Mountain Company - EVP of Merchandising*

Thank you, Mark. Good morning, everyone. We have been pleased this quarter by the enthusiastic customer response to two of our growth initiatives, enhancing our assortment of marine accessories and expanding our sportswear selection. As we discussed in our year-end call, we have expanded our assortment of marine accessories such as marine electronics, towables, cleaning products, lines, anchors and oil. Our customers have told us they wanted the convenience of purchasing these items in our stores. While it is still early in the season, we are encouraged by the response and it reinforces our beliefs that we can gain share of our customers discretionary spending.

We have also seen some early success in our expanded sportswear assortment, particularly in our big box stores, where we have more space allocated to this category. Comparable store sales for apparel were soft in February because we had less clearance products than last year. However in late March and April, comparable store sales for the sportswear category showed strong growth. New styles and depth in our owned brand, Guide Series, contributed to the growth, while strong performances from our core brands and the addition of a number of new resources added strength to our nationally branded products.

Men's and women's apparel has been especially strong at the new stores opened this spring, where our grand opening events have been designed to appeal more to families.

As previously announced, we are partnering with Genmar and Yamaha, two of the world's premier manufacturers of fishing and recreational boats, to sell and rent boats. We are testing this opportunity in a limited number of stores, of which only two are in the comp base. While we are enthusiastic about this category, it is too early to comment on the results for our test programs as the assortment in the stores was not completed until recently.

While spring is not a big hunting season, our archery and firearms business, in which we are very dominant, continue to do well. Many of our customers continue to enjoy recreational shooting year round and this drives sales of firearms and related products. Firearms safes continue to be an important product for us as our customers seek to store their firearms more securely. Our associates have become more skilled in selling products at the higher end of this price range, which has helped drive strong comparable store sales growth in this category. We have found that interest in archery continues to grow. Indoor archery lanes continue to attract customers to the stores on evenings and weekends. Our customers are responding to the breadth of our archery assortment and the expertise of our associates.

Sales in the fishing category continue the trend we have seen over the past four years, where sales in this category have shifted to later in the season, with purchased activity occurring throughout the summer.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

With our increasing scale, we are significantly expanding our direct foreign sourcing for fall inventory. We believe this provides tremendous opportunity to improve our assortments and enhance our profitability.

And now I will turn the call over to Dennis Lindahl, our CFO, who'll go into more details on the financials.

Dennis Lindahl - Gander Mountain Company - EVP and CFO

Thanks, Al, and good morning everyone. I'm going to assume that you have seen our release and don't need me to read all the numbers so I can use this time to discuss some of the drivers behind the financials.

In the first quarter, revenue increased 37% as a result of new store growth. Comparable store sales declined 1% in the quarter after an increase of 8.7% in the first quarter of 2004. In the first quarter, one store that opened in November 2003 entered the comp store base, bringing the total number of stores in the comp store base to 62, including nine big box stores.

Several factors impacted comp store sales, including competition and cannibalization. In addition, because we were successful in getting through more of our clearance merchandise in January this year, comp store sales in February, particularly in the apparel category, were limited by lower levels of clearance merchandise. Our largest product category, hunting, had a positive comp for the quarter, as did marine accessories.

The pre-tax loss for the first quarter increased to \$17.6 million from \$13.8 million in the fourth quarter of 2004.

Turning to store productivity metrics, total store square footage at the end of the first quarter increased 52% from last year to 4.1 million square feet. Average daily square footage increased to 3.8 million for the quarter, a 47% increase over the first quarter of 2004. We opened six new stores in the first quarter of 2005 including one replacement store, compared to two stores opened in the first quarter of 2004. We have opened an additional two stores so far this month. The average square footage per store was 48,000 square feet at the end of the quarter, compared with 41,000 square feet last year. Our average store size will continue to increase as we expect most new stores to be in the 60 to 65,000 square foot range; however, we will continue to size our new stores appropriately for each market.

Customer transactions totaled 2.7 million for the quarter compared to 2.1 million last year. Transactions were down slightly in the comp stores. Our average customer ticket increased 6% from \$47 to \$50 for the quarter. The average ticket at our comp stores increased about 1% in the quarter. The average ticket at our larger stores is nearly \$10 higher than at our smaller stores, with our Powershop and ATVs accounting for about \$3 of that higher average ticket at the large stores.

Sales per square foot for the most recent trailing 12 months was \$197 versus 220 for the prior 12-month period as a result of the decline in comparable store sales over the prior 12 months and the impact of lower sales per square foot in our less mature new stores.

Gross margin declined 100 basis points in the first quarter. Major factors contributing to the decline were one, we had a 60-basis-point decline in margin resulting from the absence of the cobranded credit card program in the first quarter of this year compared to last year. We anticipate announcing a new cobranded credit card program soon, with that program in place for our busy hunting seasons. Our new program will focus on driving sales through deferred billing and rewards programs.

Our first-quarter gross margin percentage was also negatively impacted by 30 basis points by the liquidation of the inventory at the relocated store in Duluth, Minnesota.

We also experienced higher distribution costs related to three primary factors, higher freight costs partially attributable higher fuel costs. We're working to offset this cost inflation through more efficient shipping practices. Secondly we had the inefficiencies related to the re-layout of our distribution center, which by the way is nearly complete, on time and on budget. Thirdly, the

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

incremental costs associated with handling the product going to the six new stores opened in the quarter as well as the two stores opened early in May. This compared to three stores in early 2004.

Store occupancy costs increased as a percent of sales as a result of deleverage on lower comp store sales and lower sales per square foot in our newer, less mature stores. On the other hand, gross margin benefited from an increase in vendor support.

Turning to expenses, store operating expenses remained constant as a percent of sales for the quarter as the leverage we gained on marketing expense was offset by the costs associated with relocating the Duluth store. We will happily accept the onetime cost of about 40 basis points as our new store in Duluth is performing very well.

General and administrative expenses for the quarter were 4.3% of sales, compared to 6.6% last year. This improvement reflects a \$2.5 million payment received in connection with the termination of our cobranded credit card program. Excluding that payment, G&A expenses were 6.1% of sales in the recent quarter. This improvement comes despite onetime costs associated with the move to our new low-cost base camp, incremental costs of being a public company, and the replacement of the shared services formerly provided by Holiday Companies.

Preopening expenses for the quarter were \$2.8 million versus 1.4 million last year. We opened six stores in the recent quarter, up from two last year, but the preopening costs can be more accurately defined as covering eight stores in the recent quarter compared to three in the first quarter of 2004, as they include much of the costs of the stores opened in May. Preopening costs per store are at least 10% lower this year than last year, and we are opening stores with approximately a 5% reduction in capital expenditures and a 15 to 20% lower investment in initial inventory.

Net interest expense was \$1.7 million for the first quarter compared to \$1.5 million in that comparable quarter last year. No income tax benefits were recorded in either year, as the realization of the loss was uncertain for financial reporting purposes.

GAAP EPS was a loss of \$1.23 per share on the basic and fully diluted basis for the quarter against a loss of \$10.65 per share in the prior year. Pro forma EPS, which is more meaningful, was a loss of \$1.23 per share on a basic and fully diluted basis for the quarter, against a loss of \$0.90 per share in the prior year. Weighted average number of shares for the 2005 quarter on a basic and fully diluted basis was 14.2 million, both under a GAAP and on a pro forma basis.

On the balance sheet, inventory per square foot in open stores at the end of the quarter was \$72, down 10% from the prior year. This improvement reflects a lower inventory in recently opened stores and the success of our efforts to reduce inventory in all of our stores.

Capital expenditures were \$17.4 million in the 2005 quarter versus \$9.8 million last year. These expenditures include the new store openings as well as the costs associated with the relocation of our base camp and improvements to our distribution center.

Long-term liabilities consisting primarily of deferred rent liabilities increased from \$30.9 million to \$32.6 million, reflecting higher deferred rent related to new store openings.

In summary, our results in the first quarter were in line with our expectations and put us on track to achieve our guidance for 2005. For 2005 we anticipate that sales will increase to at least \$850 million driven by new stores and an increase in comparable store sales of at least 2%. We project that pretax income will be at least \$16 million.

We anticipate adding 18 to 20 new stores including three or four store relocations or consolidations. Most of the stores will be 60- to 65,000- square-foot-stores and we expect all will have outdoor selling areas. Most of the stores will continue penetration of our current markets, including markets the Company entered in 2004 such as Texas and Colorado. The others will be in new markets contiguous to our current markets. We expect that we will take advantage of the cost benefits of using recycled real estate for seven or eight of these locations.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

We are currently completing an upgrade to our distribution center that will enable the facility to meet our needs until late 2006 or 2007 at a cost of approximately \$2.5 million. Capital expenditures in total should be in the range of \$45 to \$55 million including new store openings, the upgrade of our distribution center and our base camp relocation, as well as normal and recurring store upgrades. This amount does not include any reimbursements from landlords or tenant improvements.

Given our success in lowering our investment per store in new stores and reducing inventories in our current stores, we now believe we can fund growth through the spring of 2006 with cash available under our credit facility and cash from operations.

Now we will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Robby Ohmes, Banc of America Securities.

Robby Ohmes - Banc of America Securities - Analyst

A couple of quick questions. First I was hoping you could tell us -- I thought you were only planning to open one or two stores in the first quarter and it looks like you pushed up -- you know you accelerated the openings. If you could just walk us through why that happened and how that plays out for store openings for the balance of the year?

And then my second question would be: can you talk a little bit more about same-store sales? It sounds like February was pretty tough, but March and April got better. Did the comps turn meaningfully positive in March and April and are you comping pretty positive now?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

This is Dennis. I'll answer the first one about the new stores and then turn it over to Mark for the other one. We had always planned on opening eight to ten stores in the spring and the remainder of the stores in the second half of the year. When we say that we opened the six stores in the quarter, all of them opened in April and in fact one of them opened in the last day of April. So they were in the quarter. Then two opened in May. We try to get the stores opened prior to the fishing season in the Upper Midwest and as early in the spring as we possibly can.

So I don't think that was inconsistent with our plans. The sales in the first quarter from the new stores were less than 2% of our total sales so were not overly significant as it related to the first quarter sales, but I think it was consistent and always has been consistent that we had talked about opening eight to ten of the stores in the spring and the rest in the fall. So I don't think that was any change.

Mark Baker - Gander Mountain Company - President and CEO

And I think Robby, all those sites have been posted up on the website for months in advance in terms of when they were going to be opening as well.

But as far as same-store sales, it's a good question. As we moved into February of this year, as Al pointed out and Dennis, we were able in January -- a lot of our clearance activity moved through products that we counted on to drive sales in the early part of February, primarily some of the soft goods, apparel, footwear businesses that were successful in clearing in January,

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

which is good news. Unfortunately we don't buy in much in February and we set ourselves up in the month of February and March for merchandising the stores for the spring activity wherever that might be in each geography. And we did see stronger sales as we moved later into the spring in the months of March and April.

Robby Ohmes - *Banc of America Securities - Analyst*

Are you comping positive now?

Mark Baker - *Gander Mountain Company - President and CEO*

You know I can't tell you that, Robby. But we are very comfortable with our guidance of the 2% comps over the year.

Robby Ohmes - *Banc of America Securities - Analyst*

Great, thanks a lot.

Operator

Bob Simonson, William Blair.

Bob Simonson - *William Blair & Co. - Analyst*

Could you give us -- not to Shannon's comment about the class-action suits, but the arbitration on getting back into the catalogue and Internet business? Is there any update there?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

Bob, that fits into not discussing legal matters. At this point in time we obviously are considering the different alternatives as it relates to direct marketing and we will continue to pursue that over time.

Bob Simonson - *William Blair & Co. - Analyst*

There is no hearing date set or anything like that on it?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

We're not going to make any more comments publicly than we have made in the past.

Bob Simonson - *William Blair & Co. - Analyst*

Okay, and Dennis, the \$2.5 million that reduced G&A, your guidance has been reaffirmed at a minimum of \$16 million pretax. Is that included in that and were you anticipating the \$2.5 million gain when you made the initial \$16 million estimate at the fourth quarter?

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Dennis Lindahl - Gander Mountain Company - EVP and CFO

Bob, obviously we considered all of the factors that we were aware of at the time that we made those estimates and we're standing by the estimates that our income will be greater than \$16 million.

Bob Simonson - William Blair & Co. - Analyst

But did it initially include -- did you know you were going to get this \$2.5 million?

Al Dittrich - Gander Mountain Company - EVP of Merchandising

I think, Bob, the way we look at that is that when we put the thing together, we had ongoing program benefits from MBNA and the credit card program. And this part of our new arrangement as we moved forward would have been part of our overall promotions and new credit card programs. So I don't want to break at how extraordinary the item is one way or the other but we are comfortable that this is part of our basis.

Bob Simonson - William Blair & Co. - Analyst

To put it differently, you don't need the 2.5 million to make the \$16 million estimate?

Al Dittrich - Gander Mountain Company - EVP of Merchandising

Bob, go on to your next question.

Bob Simonson - William Blair & Co. - Analyst

The next question is what were the factors that contributed to changing the credit card program -- your vendor?

Mark Baker - Gander Mountain Company - President and CEO

We have an agreement that we're going to really primarily talk about where we are going in the future and we needed a program that could work well with deferred billing programs, loyalty programs that are very, very important to us, and our new provider we believe is going to better perform under those scenarios.

Bob Simonson - William Blair & Co. - Analyst

Okay and the final question, you said -- proposed 18 to 20 new stores. Is that gross or net of closings?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

That is gross, before closings or consolidations of three or four stores.

Bob Simonson - William Blair & Co. - Analyst

So you would be down around net 15, 16 stores, something like that?

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Dennis Lindahl - Gander Mountain Company - EVP and CFO

That would be the math, yes.

Bob Simonson - William Blair & Co. - Analyst

Thank you very much.

Operator

Kevin Foll, Next Generation Equity.

Kevin Foll - Next Generation Equity - Analyst

Just back on the store timing question that was posed, I had in my notes that there were about eight stores in the first half of the year previously, so a couple stores pushed into the first half it seems like potentially. And I just wanted to check out my math but it seems like that would add, just by the pushing of those couple stores, it would add a couple million to pretax income. Does that math work out?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

I don't necessarily know that when that you would open store in May or June versus opening it in August, I don't believe that that would impact income by several millions of dollars by moving a store opening by two or three months.

Kevin Foll - Next Generation Equity - Analyst

Okay, thank you. And then any guidance on interest expense for the year that's implicit in your guidance?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

I don't think in the past we have ever given any expense. Obviously we would expect it to continue to increase from where it was the in first quarter as our inventories build and our capital expenditures take place, but we don't expect any significant changes other than the normal progression of increase each quarter.

Kevin Foll - Next Generation Equity - Analyst

Okay, and last question is did weather play a part in the quarter and how is weather playing out either favorably or unfavorably so far in the second quarter?

Mark Baker - Gander Mountain Company - President and CEO

The weather, in the first quarter again being roughly 15% of our sales, primarily setting ourselves up for entering this spring business, weather did not play a factor one way or the other in the first quarter. Obviously we looked to spring and summer to be a normalized for people who can get out and camp and hike and fish on the weekends, although we always enjoy a rainy Wednesday here in Minneapolis or St. Paul where some of the construction workers will be in the stores buying rain gear.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

So what we look forward to in the springtime is we just hope that will have a reasonable number of sunny, warm weekends where people can be out enjoying the outdoors. But we don't see weather as a very overall significant impact in the first half of our year.

Kevin Foll - Next Generation Equity - Analyst

Great, thanks.

Operator

Mitch Kaiser, Piper Jaffray.

Dave Hughes - Piper Jaffray - Analyst

This is actually Dave Hughes for Mitch Kaiser here. In regards to both, I know it's too early to tell in terms of these test markets but have you assessed the potential number of stores that boats could be cascaded down into and any other color you could provide on that market.

Mark Baker - Gander Mountain Company - President and CEO

Let me start out with that David, and I'll let Al finish up with the market part of it. Right now we are in the very small number of stores, less than ten that we actually sell boats in. We are trying to understand the formula that makes sense for our customer in the boat business. We are excited about it. We also anticipate that the rental, which we are kind of a pioneer if you will in the boat rental business. We've got a great deal of excitement as Al pointed out around these businesses.

We have got some marines to be down. We need to understand a financial formula that allows us to make money in this business going forward. I think is where we are at, Alan. I don't know how many stores we have identified that potentially fit in it. We have (inaudible).

Al Dittrich - Gander Mountain Company - EVP of Merchandising

We have initially started to identify more markets that we could be in but we are right now focused on, as Mark said, the formula that works best for us in the stores that we're in. And we will look at the different parts of that business -- rental -- sales, and make appropriate forecasts into what other stores -- each element of it could go into forward.

Dave Hughes - Piper Jaffray - Analyst

Okay, great. Thanks.

Operator

Reed Anderson, Friedman Billings Ramsey.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Reed Anderson - *Friedman Billings Ramsey - Analyst*

Good morning. I wonder if you could just expand on your comments about you're talking about making some progress in the activewear, that sort of thing? And really relative to what you're seeing in men's versus what you're seeing in women's? Are you seeing equal benefit in both areas or are you still trying to have some room for improvement in one versus the other?

Mark Baker - *Gander Mountain Company - President and CEO*

Reed, I will start again and then give that to AI, but we have attended all the grand openings for the most part we've had except for one here this spring. And it has been very exciting to see what our merchants have put on the floor and our customers response, whether it's in Terre Haute, Indiana, or Dayton, Ohio, or Texas or Colorado. We have had a great deal of excitement about the new assortments in men's, women's and kid's. Maybe AI you could explain some of the particular product categories.

AI Dittrich - *Gander Mountain Company - EVP of Merchandising*

I don't know that we will go in and identify the growth rates by gender, but as Mark said, across the board the sportswear part of our business we are very enthused about. We as I said earlier, our own brand, Guide Series, is performing well and our national brands have had good performing deliveries for this spring season. We're seeing the customer respond to that as lifestyle apparel that represents that they are an outdoors lifestyle customer. And we see it as another opportunity to serve and capture more of their discretionary income as they come to our store for equipment.

Reed Anderson - *Friedman Billings Ramsey - Analyst*

Is there a significant difference in the way that they are performing by gender or is it purely nominal at this point?

Mark Baker - *Gander Mountain Company - President and CEO*

We start with a pretty small base, as you might know, coming out of our smaller stores in the women's and children's side or kid's stuff.

AI Dittrich - *Gander Mountain Company - EVP of Merchandising*

The big box stores have allowed us more women's space than what we have traditionally had in the past. So due to the space allocation, there's more growth right now on the women's side of the business than the men's, but that's mostly space-related as we've gone into the big box stores and been able to dedicate more space to that.

Reed Anderson - *Friedman Billings Ramsey - Analyst*

Sure. Makes sense. Then also I think it was AI, you talked a little bit about continuing to explore direct sourcing opportunities, that kind of thing. Could you also expand on that comment a little bit? I'm wondering if that's stuff we'll see play out this year or is that just an ongoing thing that over time will continue to benefit both the sales and the cost side.

AI Dittrich - *Gander Mountain Company - EVP of Merchandising*

The answer is yes on both with what we will see this year and ongoing. We are working hard on both fronts to improve our foreign sourcing capabilities where we can get more direct foreign sourcing and we will experience some of that in the end of this year and we are really working simultaneously on how we can continue to expand that into '06 and beyond.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Reed Anderson - *Friedman Billings Ramsey - Analyst*

Is more soft lines or high lines? Can you give any granularity to that?

Al Dittrich - *Gander Mountain Company - EVP of Merchandising*

We are working -- probably the most improvement will come on the hard lines side. We have been doing it a fair amount in the soft lines side in the past years and a lot of the new efforts are on the hard lines side of the business.

Reed Anderson - *Friedman Billings Ramsey - Analyst*

Thanks very much.

Operator

Adrian Dawes, Hartwell.

Adrian Dawes - *Hartwell - Analyst*

I wonder if you could talk a little bit about vendor financing of inventories and the success you have had in renegotiating terms? Question one. Question two, can you talk a little bit about your expectations as we progress through the year for improvement in gross margin and what kind of an impact the own label products should make on that mix? Thank you.

Mark Baker - *Gander Mountain Company - President and CEO*

Thanks, Adrian. Al and Dennis can finish it out. The terms that we work with our suppliers again, we believe we are the best outlet for most of these domestic suppliers that we have today in terms of the growth that we provide. Again, the great people that we have in our stores and again the talent that we are able to sell their bandwidth of product. So we work hard with terms that make sense. Obviously with the number of new stores that are entering our portfolio and the extended terms that may make sense for some of them to provide on new stores can be a benefit.

On the other side of that of course is we have a higher level of direct sourcing which may not have some of the terms that we have had in the past. So I'm not sure what we're going to see in terms of overall days payable change in our business but it is something we work both sides of the fence on.

And as far as the growth margin expansion, Al and Dennis, I think we have a number of initiatives that could cause that.

Al Dittrich - *Gander Mountain Company - EVP of Merchandising*

On the margin side -- we've talked a lot about scale and what scale does for us and, with our current resources, whenever there is scale, there are efficiencies in that scale and we are working with our resource partners to make sure that that efficiency can be reaped by both on the profit side. So that provides some of the things that Mark was talking.

And as we reach scale, we are also then able to do more direct sourcing on products that we refer to as unbranded. Our strategy is still very strongly a national branded strategy, but we have a lot of products that aren't as brand sensitive, and that allows us to do direct sourcing on those, which will give us some margin improvement on that part.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Adrian Dawes - *Hartwell - Analyst*

One quick follow-up if I may. The Duluth store obviously had a one-off impact in this quarter. Are there any other anticipated closings of that magnitude as we work our way through the rest of this fiscal year?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

We probably would have one more that may be of that magnitude during the rest of this year.

Adrian Dawes - *Hartwell - Analyst*

But that, knowing that that will be closed and your plans are factored into your net income guidance?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

Yes.

Adrian Dawes - *Hartwell - Analyst*

Thanks very much.

Operator

John Pinto, Brightleaf Partners.

John Pinto - *Brightleaf Partners - Analyst*

I was hoping that you could just talk a little bit about the relevant metrics on the new stores, on the big box and just how those are performing over the last six months versus the rest of the base. And then maybe kind of the impact that that may have in terms of upside on the comps?

Mark Baker - *Gander Mountain Company - President and CEO*

Dennis, can you handle that question?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

Obviously, for the stores that we opened in 2004, we do not have a full of year of economics with them or -- with starting with sales. We were very satisfied with the sales that took place in the fourth quarter. In the first quarter it a little bit difficult because it's such as slow quarter to know exactly where some of those would be at this point in time. But we are very satisfied with the fourth quarter.

The stores that we opened in 2003 that were the larger box, those stores have been some of the ones that have been most impacted by some very large competitive openings in Pennsylvania and New York by some of our competitors. Other than those stores that are impacted, they have been performing -- those 2003 larger stores have been performing at a very acceptable level not dissimilar from the rest of our stores.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

John Pinto - *Brightleaf Partners - Analyst*

And those where there weren't competitive pressures you're saying those are in line with the other stores or are seeing the usual second-year pickup in a new market? Which one is it? Is it more in line with the rest of the stores?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

It would be -- if you look at all of our stores, where we haven't had significant competitive impacts or significant cannibalization, I believe that these stores would be in line with that group of stores but -- they have not significantly outperforming our other stores, if that's what you're really asking as far as comps.

John Pinto - *Brightleaf Partners - Analyst*

Yes, I was. Okay, great. In terms of some of the basic metrics on your expectations on the sales per square foot and profitability in the new stores, the ones that will be rolling into the comp base over the next six months, how are those versus your expectations?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

Those stores probably have the same issues in the fall of 2004 that our other stores did. So to the extent that if you were looking at them as they compared to our expectations, to the extent that our expectations in all of our stores were down five to seven or whatever percent you might expect in the fourth quarter, these stores were in line with being down that amount.

John Pinto - *Brightleaf Partners - Analyst*

Okay, and I guess competitively what is it that you are going forward in the new markets that you are entering into this year or the markets that you're filling in also, the newer markets? What does the competitor's picture look like now versus last year? Are people not moving as quickly in those markets or are they moving more quickly in anticipation of you coming in? What do you see out there?

Mark Baker - *Gander Mountain Company - President and CEO*

I think the overall competitive market has picked up a bit, but I always refer to the fact that the top three players in this business here have probably less than 10% of this fragmented business. So there's a bunch of new business to be picked up for everybody. We find ourselves as Gander Mountain able to compete with all comers in all the markets that we participate in. We understand where the entertainment stores do well and again we think that they drive a customer activity and an interest in our outdoor lifestyle, but from an execution point of view we are able to move into these markets with or without those types of competitors.

We can identify second- and third-tier cities it makes sense for us to be frankly in, and are the big box in those markets, and as well as our ability to compete in multiunit convenience that we provide in markets like Houston or Minneapolis or Pennsylvania -- Pittsburgh, rather -- that we can provide a convenience for the customer and also provide the best services and pricing in the markets. So we understand the competitive market has increased slightly. It is still a very fragmented business out there. We feel that our strengths in competing are clear.

John Pinto - *Brightleaf Partners - Analyst*

Perfect, thanks.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Operator

(OPERATOR INSTRUCTIONS) John Shanley, Susquehanna Financial Group.

John Shanley - *Susquehanna - Analyst*

You seem very enthusiastic about your sportswear product category. I wonder if you can give us an indication of how big that is in terms of your merchandise mix in the first quarter and how big you eventually see that product category evolving into?

Mark Baker - *Gander Mountain Company - President and CEO*

To start with, John, we don't break it out exactly like that. We talk about apparel and footwear being around 27, 28% of our business. We would like to see ourselves eventually growing into the very low 30% of our business in that apparel and footwear piece, which by the way includes all of the technical apparel and footwear that we sell, camouflage gear and hunting boots as well. But as part the overall strategy, getting that customer excited about us in the front half of the business and throughout our year, Al and his team have done a great job of delivering unique values, I guess is the best way to say it right now.

John Shanley - *Susquehanna - Analyst*

Are the product margin levels in the footwear and apparel categories for you substantially different than they for the hardgoods category?

Al Dittrich - *Gander Mountain Company - EVP of Merchandising*

The answer to that would be yes.

John Shanley - *Susquehanna - Analyst*

That's great. Also a question on the real estate related issues, of the 87 current stores that you operate, how many are in trading areas that currently have one of your big box competitors? And what is the case in terms of the 18 or 20 new stores that you are going to be opening? Will they have competitors in there as well?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

We have I believe as it relates to a Cabela's, about 20 of our stores are within reach of them. 23 or so might be within reach of a Bass Pro and 13 or 14 with Sportsman's Warehouse. Obviously we have significant overlap with Dick's. In 2005, we believe that where we are entering the markets and where our competitors are entering markets we will have less competitive conflict with our new stores in '05 than in '04 and in '03.

John Shanley - *Susquehanna - Analyst*

That's great. And then the last question I have is on the new boat segment of the business, does the company actually take ownership of those boats? And if so, what is the expected inventory turn on that product category?

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Company - President and CEO

The ownership piece is one that we work with our suppliers on extended plans or floor planning, if you will, or any other thing on that? We're really trying to understand what the turns could be.

John Shanley - Susquehanna - Analyst

Okay, but is it a deal where you don't pay for it until the product is sold?

Mark Baker - Gander Mountain Company - President and CEO

Substantially, and in this case obviously with this year being kind of a test program for us, we do not have a significant investment in inventory or a significant risk as it relates to that.

John Shanley - Susquehanna - Analyst

So in spite of the fact that these are probably big-ticket items, you're not going to see any move in terms of your inventory levels because of it?

Mark Baker - Gander Mountain Company - President and CEO

Not significantly, no.

John Shanley - Susquehanna - Analyst

Great, thanks.

Operator

Michael McTighe, Brean Murray Investments.

Michael McTighe - Brean Murray - Analyst

I think you said before that you would be able to fund your growth now through internal cash flow and existing facilities at least through the spring of 2006. Does that assume a rethinking in your outlook for shorter (ph) of next year?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

I don't think on an overall basis it would necessarily impact our overall store growth in 2006. I think for example if you looked at 2004, we opened five or six stores in the spring and 12 or 13 or 14 in the fall. This year we will open eight or ten in the spring here and eight or ten in the fall. I don't think it would materially impact the number of stores that we would open in the spring.

Michael McTighe - Brean Murray - Analyst

And have you said what you're looking for in terms of store growth in 2006?

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Company - President and CEO

No. We have never commented on that. What we have said in the past is that obviously we see we're trying to grow sales at that 30% range or whatever on an annualized basis for the near future and we would execute store growth to achieve that.

Michael McTighe - Brean Murray - Analyst

Okay, thanks.

Operator

Dan Hooper, Peninsula Capital.

Dan Hooper - Peninsula Capital - Analyst

I was just wondering -- have you given any projections on what you expect for operating cash flow for '05 and also '06?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

We really have not given any of more guidance than what we gave, which is basically our pretax income for 2005 of at least \$16 million.

Dan Hooper - Peninsula Capital - Analyst

Do you expect to be cash flow positive this year?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

We will not be cash flow positive to the extent that we continue to open 18 to 20 stores. We will not be cash flow positive for the foreseeable future.

Dan Hooper - Peninsula Capital - Analyst

So not in '06 either?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

Not in '06 either.

Dan Hooper - Peninsula Capital - Analyst

So is there a point where you would expect to start generating cash?

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Company - President and CEO

I think from a high-growth retailer perspective, you can look at the peer groups that we have seen in high-growth retailing, that isn't something that is a primary driver for the activity and a metric that we would manage toward. We are able to continue to find ways to invest and support growth at higher levels, that's what our primary expectation will be built around. But for the foreseeable future, as Dennis pointed out, we know we have opportunities in the U.S. for over 300 more stores. So we're going to continue to drive that as long as we can support it.

Dan Hooper - Peninsula Capital - Analyst

So as long as you can borrow money, you just keep opening stores and don't worry about generating any cash?

Mark Baker - Gander Mountain Company - President and CEO

I think that I've seen a lot of profiling retailers do pretty well by continuing to open as long as each one of those stores is profitable and four-wall contribution. As we have said the past, all but a couple of our stores are making four-wall contributions and we are comfortable that we can continue to execute. I think as our primary metric we'll use for managing the level of growth.

Dan Hooper - Peninsula Capital - Analyst

Okay, thanks.

Operator

Brett Hendrickson, Bonanza Capital.

Brett Hendrickson - Bonanza Capital - Analyst

This one is just a quick one and it is not that material now but I still want to know what works and that's the flooring expense or the flooring -- the flooring payable -- I don't know what the terminology is for the flooring business but on the boat, is that kind of a sub line that fits within your accounts payable line on the balance sheet?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

It would be in accounts payable, yes.

Brett Hendrickson - Bonanza Capital - Analyst

And I'm assuming it is not material now but if boats were in 30 stores a year from now instead of ten stores, it would be a little more material part of that AP number?

Dennis Lindahl - Gander Mountain Company - EVP and CFO

Yes.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Brett Hendrickson - *Bonanza Capital - Analyst*

Okay, that's all I had, thanks.

Operator

Bob Simonson, William Blair.

Bob Simonson - *William Blair & Co. - Analyst*

Two quick ones. Dennis, you said that you've gotten your preopening expenses down about 10% from I guess a year ago. Can you give us a dollar amount so when we try to model what your preopenings are and I know they don't all necessarily completely fall in the same quarter you open the store? Do you have a dollar amount?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

Per store?

Bob Simonson - *William Blair & Co. - Analyst*

Yes, assuming it's a 60, 65,000 square foot store.

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

It would be around \$350,000 per location.

Bob Simonson - *William Blair & Co. - Analyst*

And that is the down 10% from where it used to be?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

Yes.

Bob Simonson - *William Blair & Co. - Analyst*

And can you quantify a couple of questions you've gotten on private-label, what percent is it now and where do you think it can be?

Al Ditttrich - *Gander Mountain Company - EVP of Merchandising*

Well, we have said in the past that our goal is to get that into the middle teens as a percent. It is currently under 10 and those are the ranges that we've been public with.

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Bob Simonson - *William Blair & Co. - Analyst*

A lot under 10?

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

Not a lot.

Bob Simonson - *William Blair & Co. - Analyst*

Okay, thank you.

Operator

John Pinto, Brightleaf Partners.

John Pinto - *Brightleaf Partners - Analyst*

Just a quick follow-up. I am just looking forward at the gross margin and merchandise margin versus the occupancy expenses once they settle out. Where do you want to be three, four, five years from now on those numbers and where are you now?

Mark Baker - *Gander Mountain Company - President and CEO*

I think what we talk about is that we have an expectation that our operating margins, so it would be our income before interest expense we're driving that towards 5 to 6% into the foreseeable future, whether that is three, four, five years and I think that is as much as we're focusing on rather than on single lines in the income statement. Our goal is to get that within that timeframe you're talking about to get that line to 5 to 6% of sales.

John Pinto - *Brightleaf Partners - Analyst*

I understand that. I guess when I look at high-growth retailers, there is such an issue with building out scaling on the SG&A but I tried to kind of stay focused on what's the gross margin and is the box working at the gross margin level? So it would be very helpful if we could kind of focus on that one just a little bit. Is there anything that you can give me comfort on what the metrics are like at the gross margin level either in your final merchandise margin or in what kind of target occupancy expense you are looking and how far away you are from that? So kind of give me feel of what will push down to the SG&A level.

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

I think what we have talked about, as we look at our store models, that we have an expectation that at the store operating level, at the box level, we should be at 10% plus, and so again you would then take the combination of what you got as it related to gross profit obviously without the distribution costs in there. And then the store operating costs and we would be driving back to a 10% level in the not too distant future. That would be our objective.

John Pinto - *Brightleaf Partners - Analyst*

Okay, and any feel for is that on a blended basis with the big box doing 10 and the small ones doing 10 or do you have different expectations for one versus the other?

May. 18. 2005 / 9:00AM, GMTN - Q1 2005 GANDER MOUNTAIN CO Earnings Conference Call

Dennis Lindahl - *Gander Mountain Company - EVP and CFO*

We have a belief that we can get all size stores within that range.

John Pinto - *Brightleaf Partners - Analyst*

All rights, thanks.

Operator

Mr. Baker, with no further questions, I'd like to turn the call back over to you for any closing remarks.

Mark Baker - *Gander Mountain Company - President and CEO*

Thank you, Jamie. In closing, let me reiterate a few key points. First-quarter results were in line with our expectations. We are working to improve our business in the first half of the fiscal year by expanding and extending product services and offerings relevant to our customers, expanding to our store base to a broader geography.

We are a sales driven organization, intent on realizing the benefits of leveraging scale in a retail organization. As of today we have opened eight of the 18 to 20 stores planned for 2005. We actively refine, refresh our product services and offerings through innovations, line extensions and localization. We expect to see margin improvements as a result of these initiatives begun in 2004 in the areas of direct sourcing, operational efficiencies at store level and throughout the supply chain, leverage from our investment in upgrading the distribution center. Most importantly, our associates deliver unmatched customer service every day.

These same associates support our new store growth by working on store opening teams and by developing associates to manage and staff our new stores. They have demonstrated the ability to balance demands of new store growth, the critical responsibility of supporting our existing stores and our loyal customers.

Thank you for joining us today. We look forward to speaking with you again after our second quarter.

Operator

Ladies and gentlemen, this concludes today's teleconference. You may now disconnect and have a great day.

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