

## Gander Mountain Third Quarter Earnings Call Transcript

December 8, 2008:

[Eric Jacobsen]

Welcome to the Gander Mountain third-quarter earnings call for fiscal year 2008. I'm Eric Jacobsen, General Counsel of Gander Mountain. The replay of this call and related materials about the quarter are available on the Gander Mountain website at [www.GanderMtn.com](http://www.GanderMtn.com).

We have changed the format for our call this quarter by offering a recorded message that can be called up from our website or downloaded to a player. A transcript of the call is also available online. The transcript of this call will be posted under Archives in the Investor Relations section of our website.

Please remember 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 statement. Additional information concerning important factors that could cause our actual results to differ materially from these forward-looking statements are described in the Risk Factors section of our annual report on Form 10-K, as filed with the Securities and Exchange Commission, as well as in our subsequent reports filed with the SEC.

These reports are available at the investor relations section of our website at [GanderMtn.com](http://GanderMtn.com) and at the SEC's website at [sec.gov](http://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, and we undertake no obligation to update them in light of new information or future events.

Let me now turn the call over to David Pratt. Mr. Pratt?

[David Pratt]

Good morning, everyone.

I'm David Pratt, Chairman and CEO of Gander Mountain. Thank you for taking the time to listen to our remarks around our most recent quarterly results and the actions we are taking to build on the strong base at Gander Mountain.

With me on the call today is Bob Vold, our CFO. Bob will review our financial results and then I will offer my perspective on Gander Mountain's current activities and outlook.

I am pleased with the progress we have made this quarter in both our operating segments.

First, I am particularly pleased with the performance of our retail segment, despite the unprecedented tough economic environment for retailers. On a sales decline of 1.6 percent, our stores delivered:

- Retail segment net income of \$3.7 million compared to a net loss of \$5.1 million for the comparable quarter of fiscal 2007, an improvement of \$8.8 million.
- A reduction in retail segment SG&A costs of \$7.9 million, or 272 basis points as a percentage of sales, in the third quarter of fiscal 2008. This improvement results from cost reductions in both store operating and general and administrative expenses.

Second, Gander Direct.

What we are calling our Gander Direct business is the result of our purchase of Overton's a year ago. [Gandermtn.com](http://Gandermtn.com) was launched successfully on August 3rd with a focused initial selection of over 11,000 SKU's and we distributed 2 million Gander Mountain catalogs in the third quarter. We are already seeing online traffic at

gandermountain.com at higher levels than Overton's peak traffic, and we are pleased with improvements in conversion rates as we build this business. So I am very encouraged by the potential here as we look forward to a considerably stronger approach in 2009.

Bob will give you more specifics on the numbers but, having been hands-on at Gander Mountain for three months, I want to underline that this company is implementing cultural and fiscal disciplines to improve financial performance and rationalize our cost structure. As evidence of this, we have reduced cash used in operations for the nine months by \$55 million.

I'll discuss the outlook further in a moment, but now, Bob, would you provide the financial review?

[Bob Vold]

Thanks, David.

For the quarter, Gander Mountain reported consolidated sales of \$269.9 million and revenue growth of 4% on a comparable store sales decline of 6.5%. Consolidated net income for the third quarter of fiscal 2008 was \$765,000, as compared to a net loss of \$5.1 million last year.

As David indicated, with the acquisition of Overton's, a direct marketing retailer, in December of last year, Gander Mountain began segment reporting along the retail and direct business lines. Our retail business reported \$255.5 million in revenue, compared with \$259.5 million in revenue for the third quarter of 2007, a decline of 1.6%. Retail segment net income was \$3.7 million compared to a net loss of \$5.1 million for the comparable quarter of fiscal 2007, an improvement of \$8.8 million.

Consolidated net income includes a net loss from the Direct segment of \$2.9 million on revenues of \$14.4 million. Results in the direct segment year to date reflect both the difficult economic environment and the investment necessary to launch the Gander Mountain catalog and website operations.

Consolidated initial margin declined 49 basis points and gross margin declined 116 basis points, reflecting the challenging retail environment and deleveraging in the retail segment due to store occupancy costs.

Turning to expenses— Recall that our SG&A includes store operating expenses of our retail segment, operating expenses of the direct segment and corporate general and administrative expenses.

In the quarter:

- Retail segment SG&A costs improved \$7.9 million, or 272 basis points as a percentage of sales, in the third quarter of fiscal 2008 due to cost reductions in both store operating and general and administrative expenses. However, included in consolidated SG&A expenses were \$8.0 million in expenses related to the direct segment, thus consolidated SG&A expenses were flat year over year.
- Gander Mountain opened no new stores during the quarter and had no preopening expense compared with \$3.0 million in preopening expenses in the comparable period a year ago.

As compared to the same quarter last year, results also reflect the reversal of certain liabilities related to previously-closed stores, and the absence of certain exit costs, impairment and other charges that were present last year.

Net interest expense was \$5.0 million for the quarter, down \$600,000 from last year.

As a result, we reported consolidated net income of \$765,000 versus a loss of \$5.1 million a year ago.

Earnings per share for the third quarter of fiscal 2008 were \$0.03 per share compared to a loss per share of \$0.25 in the comparable 2007 period.

Comparisons of earnings per diluted share year over year are affected by the company's issuance of equity capital in December 2007, which increased the number of weighted average shares outstanding year over year. The weighted average diluted shares for the quarter were 24.2 million shares compared with 20.4 million in the comparable period last year.

At the close of the third quarter, Gander Mountain operated 116 stores and approximately 6.5 million square feet of retail space. Total square footage year over year, increased 4.4%.

The average square footage per store increased approximately 4.9 percent to 56,400 square feet for the third quarter compared to the same quarter last year.

Our comp store base at the end of the quarter was 101 stores.

Consolidated inventory ended at \$442 million, versus \$475 million in the third quarter of last year. \$21.1 million of the current inventory is related to the direct business, resulting in a 11.4 percent decline in inventory in our retail segment. Our retail segment inventory per square foot, excluding preopening inventory, was \$64.54 versus \$76.06 a year ago, down 15.1 percent from the prior year. These results demonstrate our continued efforts to be more efficient and better optimize our inventory.

Our average retail ticket increased 3.3% to \$65.42 for the quarter.

We demonstrated significant improvement in Operating Cash Flow during the nine months year to date. For the year to date, we have improved our cash used in operations by \$55 million, from a use of \$105 million last year to use of \$50 million this year, primarily a result of lower retail segment inventory levels and reduced operating losses.

Cash capital expenditures were \$16.2 million for the nine month period versus \$40.5 million last year, primarily because we opened fewer new stores this year. As we indicated in earlier calls, total capital expenditures for the full year, including capital leases, will be less than \$25 million in 2008 compared to \$50 million in 2007.

Depreciation and amortization was \$23.4 million for the nine month period versus \$19.8 million a year ago.

We ended the quarter with borrowings under our revolving credit facility of \$306 million and shareholders' equity of \$167 million.

As of December 5, 2008, current availability under the company's senior credit facility was \$59 million, compared with \$54 million as of December 7, 2007.

As we enter the fourth quarter, our focus remains on improving profitability and continued cost controls. In all stores, we will continue to work towards improvement in business fundamentals: product gross margins, expense control, store profitability, and management of inventory as we continue to develop a stronger business structure.

Now let me turn it back to David.

[David Pratt]

Thank you, Bob.

We are building a NEW GANDER MOUNTAIN, which promises improved financial performance created by three initiatives:

1. A new focus on building customer traffic. We have ramped up our marketing in the third and fourth quarters and the results have been immediately apparent in our sales volumes. While the fourth quarter was planned at mid-single digit negative comp sales, through November we ran solidly ahead of expectations. These comps may not be sustainable through the remainder of the holidays but they bode well for our competitive stance in the coming year.
2. A new effort around every aspect of store operations. The sales per square foot productivity of our larger stores generally has not matched our smaller stores. Through more consistent execution and improved merchandising and planogramming, we will be making every effort to drive sales and profitability per square foot in 2009.
3. A renewed emphasis on fiscal discipline, cost cutting and building a truly efficient retailer. We have identified and acted on a number of opportunities, which are reflected in our third quarter results. Across our operations, we have additional initiatives underway which will benefit us in the coming year. In effect,

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we are rebuilding our cost structure to meet our expectation that Gander Mountain will be consistently profitable at current revenue levels.

Over the longer term, we expect to drive store productivity with a thorough remerchandising supported by targeted marketing and advertising. We do not expect growth over the next several years to come from new stores, but from increased sales per square foot in our existing stores and the integration and expansion of our Gander Direct business.

In closing, I want to thank our associates, vendors and shareholders for their support this year. Thanks for joining us today. We will speak with you again soon.