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New Rec: Cabela's (CAB: $71.40) March 23, 2014

Position: Sell **Target: $52.00**

$MM	1Q14e	2Q14e	3Q14e	4Q14e	F2014e	F2015e
Revs	729.4	777.7	944.3	1,294	3,745	4,255
EPS $	0.30	0.55	0.75	1.32	2.92	3.52
Y/Y Gr	-58%	-11%	8%	0%	-12%	20%
PE	na	na	na	na	24.5	20.3
Cnsns Rev	747.4	812.7	998.5	1,395	3,949	4,558
Cnsns EPS	0.38	0.61	0.89	1.72	3.60	4.28

Shares Out: 71.7MM **Market Cap: $5.1B** **FYE: December**

Concept:

1. "Street" expectations are too high. While the "street" acknowledges that the impact of slowing gun and ammo sales will be significant, particularly in Q114, it is seen as only temporary, as the company is expected to offset the impact of lower gun/ammo with other non-hunting lines of

business, such as fishing, camping and apparel. This seems highly unlikely, as these lines are mature and already well supplied by others, and it would take significant promotional activity to gain share. Efforts to sell very high ticket items, such as tractors, also seem headed for failure.
2. Slowing demand for guns/ammo resulting in lower prices, lower in-store traffic and reduced sales of hunting apparel, safes, optics and related hunting and personal protection equipment.
3. CAB's smaller outpost stores benefitted disproportionately from the gun/ammo binge and should experience a larger than expected decline in sales per square foot.
4. CAB has overestimated consumer demand for tractors and related land management equipment. Inventory costs are likely to be significant.
5. Increasing competition from on-line gun/ammo retail sites and new brick and mortar retailers such as Field & Stream are likely to continue to hinder CAB's direct sales channel.
6. Sales and profitability at CAB's financial services division benefitted from a reduction in the allowance for loan loss reserves at CAB's credit card business. With net charge offs now trending higher, the adequacy of the allowance may be suspect and is likely to result in higher provisions, lower sales growth and lower profitability than expected.

Summary: Cabela's (CAB), based in Sidney, Nebraska, is a leading specialty retailer of hunting, fishing, camping, and related outdoor equipment and merchandise. CAB employs a multi-channel retailing strategy that includes its direct business (catalogs and e-commerce), retail stores, and financial services segment (Cabela's CLUB Visa credit card). CAB operates 50 stores across the U.S. and Canada and plans to open an additional 14 stores in 2014. The company estimates it has 3.6% market share of the $50B U.S. sporting goods market.

In 2013, CAB's direct business represented 27% of total sales, CAB's retail division contributed 62% of total sales, and financial services accounted for 10% of total sales. Other revenue including hunting and fishing outfitter services, land sales and travel agency fees contributed almost 1% of total sales.

The sales bubble that occurred from a surge in gun and ammunition buying in 2013 is well understood by the "street." However, the "street" and the company promote the idea that, despite near term disappointing results due to tough compares against high gun and ammo sales, and related items, the company will manage to resume 15% sales growth and 20% EPS growth in 2015 and beyond. Indeed, while a sales decline of 7% and an EPS decline of 40% Y/Y is forecast for 1Q14, sales are projected to rise 7% in 2Q14, and by 17% in 3Q14 and in 4Q14, with EPS rising by 26% in 3Q14 and 56% in 4Q14, before resuming regular 20% EPS growth. This is expected to be accomplished by a significant mix shift away from guns and ammo, and to high margin apparel, footwear, camping gear, etc. However, these are mature categories, in general, and it will be difficult for CAB to take market share without significant promotional activity that will hurt margins. Another way to offset the gun/ammo decline is thought to be sales of very high priced items, such as private label tractors and related wildlife land management equipment, an unproven category for CAB, and one in which we think there are already signs that this effort will be a significant disappointment.

After reporting disappointing results for 4Q13 and revising sales and EPS estimates sharply lower for 1H2014, bulls hope the worst is behind CAB. According to bullish analysts, once firearm and ammunition compares normalize in 2H14, CAB will be appreciated for its compelling unit growth, margin expansion capacity and earnings growth potential. CAB began promoting the idea that the company can maintain customer "wallet share" (customer spend) even as demand for guns and ammo subsides. Accordingly, bulls expect sales of higher margin non-hunting related products including clothing, footwear, fishing and camping products to re-accelerate in 2014, offsetting the decline in lower margin gun and ammo sales.

While sales of clothing and footwear did increase in 4Q13, same store sales excluding guns and ammo declined 3.5% Y/Y, suggesting the "knock-on" effect from slowing gun/ammo demand may be a more significant threat to CAB's overall merchandise sales and margins than "street" bulls think. In fact, our research indicates that the "knock-on" effect from reduced gun/ammo related in-store traffic is resulting in sharp reductions in demand for high margin products such as safes, optics, and related hunting gear, with negative implications for non-gun/ammo sales and merchandise margins.

With gun and ammo related traffic slowing, CAB is attempting to drive traffic with increased promotional activity and clearance sales. Our store visits indicate gun, ammo and related hunting gear prices are falling rapidly, pressuring merchandise margins. To maintain wallet share as bulls expect, we think CAB will have to sell more everyday apparel, where competition is fierce, requiring heavy promotional activity to drive sales.

In response to slowing in-store traffic, CAB appears to have reduced its retail staff in mid February, just after its 4Q13 conference call. CAB did not mention any layoffs on the quarterly call with investors. Nevertheless, it appears that layoffs were widespread, were not seasonal in nature, and did not target the gun/ammo departments specifically. Such layoffs may signal that sales and in-store traffic weakness are worse than expected and may last a while.

In addition to "knock-on" effects from lower in-store traffic and reduced gun/ammo demand, recently reported productivity metrics at CAB's new stores may have been temporarily inflated as a result of the surge in gun and ammo demand in 2013. According to management, CAB's new store performance remains healthy with average sales per square foot near $500 compared to $360 at the company's larger, legacy stores. Despite recent sales and traffic weakness related to slowing gun/ammo demand, bulls expect new store sales productivity levels to remain steady in 2014 and 2015 near $500 per square foot. We doubt that such high store productivity levels can be maintained in the face of slowing gun/ammo demand and rapid gun/ammo price markdowns.

In August 2013 CAB launched a new line of wildlife and land management tractors and related equipment. According to management, the company made a "heavy" investment in the program and would know by 2Q14 or 3Q14 if the program was a success. CAB may have badly misjudged consumer demand for tractors and related land management equipment. It appears that the tractors are significantly overpriced relative to comparables and are not selling. As a result, CAB's inventory of tractors, tillers, spreaders, loaders and related equipment is building rapidly. In response, CAB is now offering significant promotions in an attempt to move bloated inventory. With cheaper alternatives available, even more aggressive promotions may be necessary as the spring selling season arrives. We think near term inventory costs are likely to be significant and aggressive promotional activity could pressure merchandise margins.

Expectations for 2%-3% Y/Y growth in CAB's direct sales in 2H14 and 2015 may be too optimistic. While CAB has made efforts to stabilize this business through investments in mobile technology and store-to-door delivery capability, we note that direct sales declined each year from 2008 to 2012. Even with massive tailwinds from ammo sales in 2013, direct sales increased just 4.6% Y/Y compared to 2012.

Despite the uptick in direct sales in 2013, we think CAB's direct sales business may remain under pressure. As gun and ammo demand normalizes in 2014, CAB's direct business should be negatively impacted. Furthermore, management acknowledges that new store growth cannibalizes CAB's direct sales by $2M-$3M per new store, resulting in a sales growth headwind for CAB's direct business and overall margin pressure from a mix shift toward retail.

In addition to cannibalization from its own stores, increasing competition from new brick and mortar retailers such as Field & Stream are likely to hinder growth in CAB's retail and direct sales channels. As new and existing outdoor retailers ramp up growth, the distance between stores is rapidly declining, which is likely to pressure in-store traffic at CAB's retail stores and put additional strain on CAB's direct sales growth.

Furthermore, as a result of recent inventory shortages of guns and ammo at retail outlets, consumers have embraced online purchasing of firearms consumables, particularly ammunition. During the gun/ammo binge in 2013, on-line aggregators such as Gunbot.com gained a considerable consumer following by allowing customers to search across thousands of retailers and auction sites for cheap, in-stock ammunition. Gunbot.com will even send consumers an alert when their specific ammunition is in stock at a price they deem acceptable, eliminating the need for time-consuming store visits. We expect the loss of customers to new on-line channels such as Gunbot.com to pressure in-store traffic levels at CAB's retail stores and sales at CAB's catalog and e-commerce business.

Finally, we think CAB's credit card business may have been overstating profits by reducing the allowance for loan losses in recent years. If this trend reverses in 2014, lower than expected revenues and profits at CAB's financial services segment will result.

We expect revenue and EPS results at CAB to fall short of the "street's" expectations as a result of lower in-store traffic levels, "knock-on" effects from reduced sales of guns and ammo, weak tractor demand, the cannibalization of direct sales by new stores and increased on-line competition, and higher provisions at CAB's credit card business. We expect revenue of $3,745M in FY2014 and 4,255M in FY2015, compared to "street" expectations of $3,949M and $4,558M. We expect EPS of $2.92 in FY2014 and $3.52 in FY2015 versus the "street's" forecast of $3.60 and $4.28. Our price target of $52 is approximately 15x our FY2015 EPS estimate, a slight premium to CAB's 3 and 5 year average next year P/E of 14.3x.

Borrow information: CAB

Supply Quantity	Quantity On Loan	Available to Borrow	Date
13.3mm	6.2mm	7.9mm	3.21.2014

Source: Markit/Data Explorers

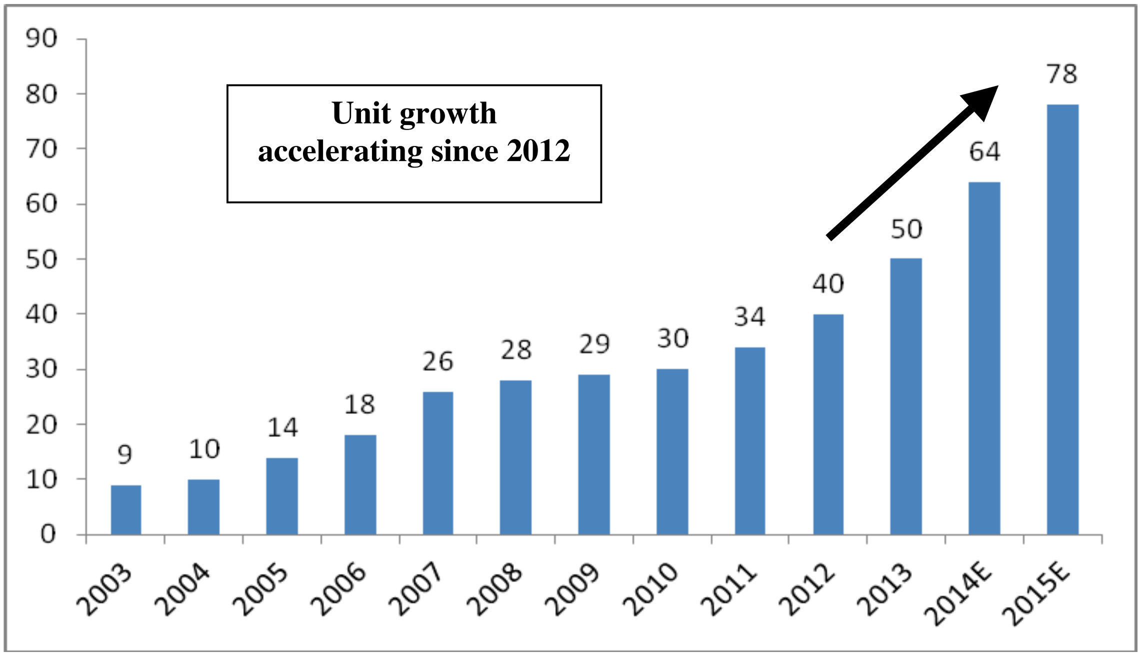
Background:

Cabela's (CAB), founded in 1961 and headquartered in Sidney, Nebraska, is a leading specialty retailer of hunting, fishing, camping and related outdoor merchandise. According to the company, CAB is the 3rd largest retailer of hunting, fishing and outdoor merchandise in the U.S., based on sales. CAB estimates that it has 3.6% market share of the U.S. hunting, fishing and outdoor merchandise market, behind Wal-Mart (15.0%) and Bass Pro (3.8%). Other major outdoor merchandise retailers include Gander Mountain (1.9%), Sportsman's Warehouse (1.4%) and full-line sporting goods retailers (7.4%) such as Academy and Dicks Sporting Goods.

According to CAB, in 2013 U.S. consumers spent $50B on hunting, fishing, camping and related outdoor merchandise. With the top 3 retailers representing just 22% of the total market, "street" bulls believe CAB is well positioned to increase its share of the industry. CAB management believes the company has an opportunity to grow its store base in North America from 50 in 2013 to 225 over the next 15 years. Over the next 3 years, CAB plans to accelerate its retail store growth, with square footage expected to increase 14%-17% annually through the addition of 13-15 new stores per year.

Chart 1 shows CAB's historical and projected store count from 2008 through 2015.

Chart 1: CAB's Retail Store Count



Source: Company reports, OWS estimates

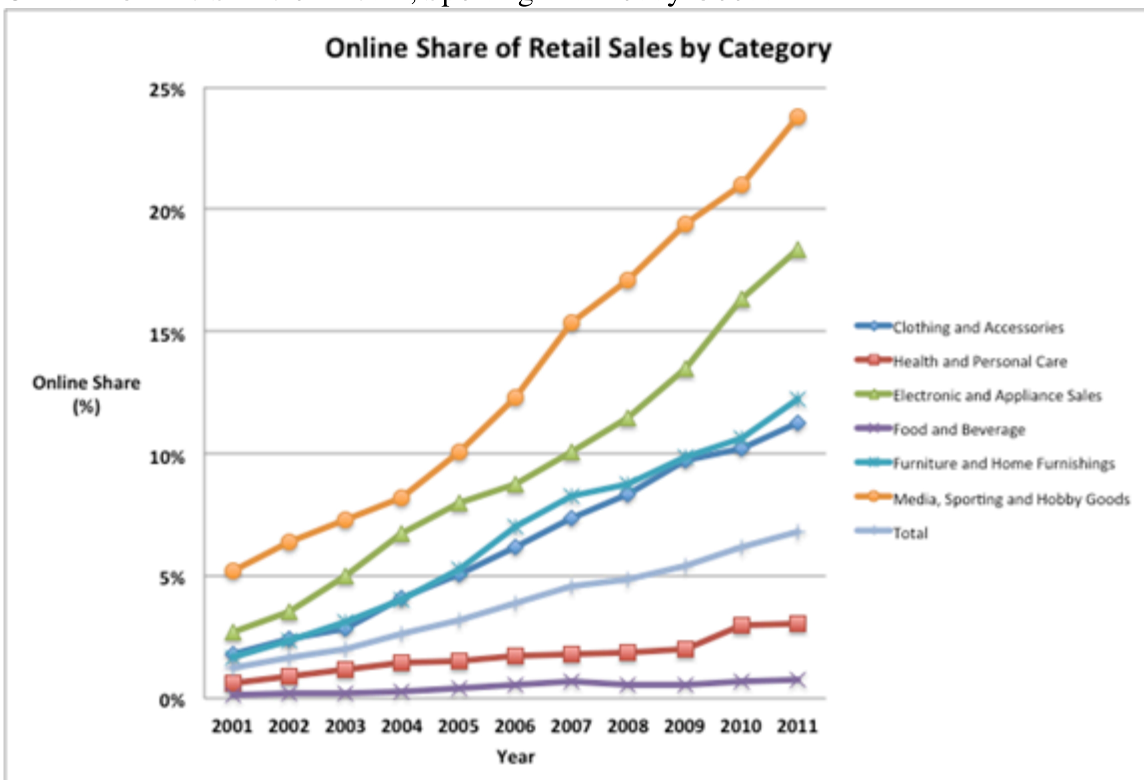
CAB management and bulls believe the opportunity for CAB to gain share of the hunting, fishing and outdoor merchandise industry is similar to the opportunity previously seen by Home Depot and Lowe's in the home improvement industry, AutoZone in the auto parts industry, or PetSmart in the pet industry.

We are not convinced that the home improvement, auto parts and pet businesses are predictive of the future of the outdoor merchandise industry. While some hard good merchandisers, such as home improvement centers and auto parts retailers, have products that are relatively immune to online incursion, most hard goods sectors, including hunting, fishing and outdoor sporting goods, are vulnerable to e-commerce penetration.

According to studies performed by Forrester Research, dollars spent online tend to be strongest in categories where consumers do not need to touch the products or have them immediately. We think the hard goods that comprise the majority of CAB's sales (camping, fishing and hunting equipment) are well suited to online purchase through Amazon.com and other on-line retailers, as they tend to be medium to large ticket items, are easy to research online, are easy to ship, and usually are not an immediate need (the recent gun/ammo binge not withstanding).

Chart 2 shows data published by the U.S. Census Bureau for online share of retail sales by product category. According to the data, e-commerce penetration has had the strongest impact on "Media, Sporting and Hobby Goods," the category in which CAB operates.

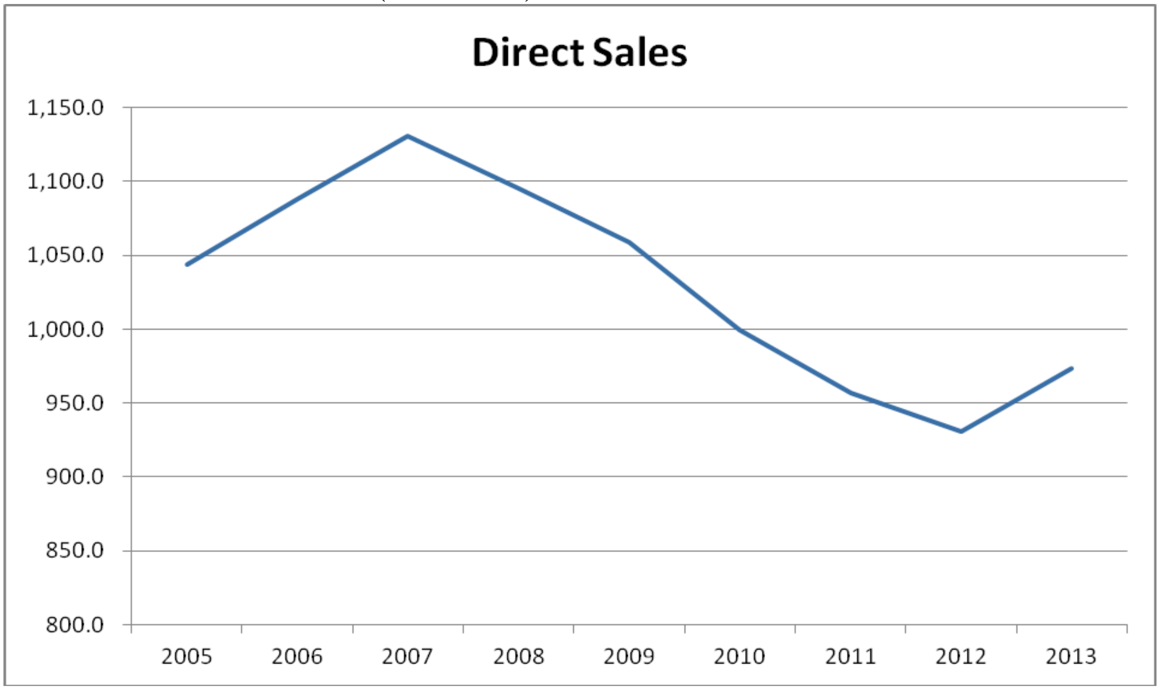
Chart 2: Online Share of Media, Sporting and Hobby Goods



Source: U.S. Census Bureau

While the data provided by the U.S. Census Bureau makes it clear that a growing share of the retail sales pie in CAB's retail category is being captured by e-commerce, CAB's own direct sales (e-commerce and catalog) are lagging the trend. Chart 3 shows CAB's direct sales results over the last 9 years from 2005 to 2013. During this 9 year period CAB's direct sales actually declined at a compound annual growth rate of -0.77%.

Chart 3: CAB's Direct Sales (2005-2013)



Source: Company reports

While CAB is not considered to be a low cost retailer, bullish analysts contend that CAB's core prices are only 2%-3% higher than Amazon's. In our view, 2%-3% lower pricing on branded products, combined with free shipping through Amazon Prime is likely more than enough incentive for consumers to shop elsewhere. Accordingly, we think CAB's direct business is probably losing share to Amazon and other low cost online retailers.

Since CAB's e-commerce business has declined, and recently has flattened out, even while brick and mortar retailers appear to be losing share of the total "Media, Sporting Goods and Hobby" category, it seems that portion of the sales pie left for CAB's retail business to gain share is actually shrinking.

Table 1 shows revenue, reported operating income and margins, and adjusted operating income and margins (adjusted for intercompany credit card marketing and transfer fees) for CAB's segments for the last 5 years. Although bulls are primarily excited by the future prospect for CAB's retail business, note that the financial services segment has actually been the most consistent contributor to EBIT since 2009, after adjusting for intercompany marketing and credit card transfer fees.

Table 1: CAB Revenue, EBIT Margin & Adjusted EBIT Contribution by Segment

(Amounts in $MM)	2009	2010	2011	2012	2013
Net Sales					
Direct	1,059	1,000	957	931	974
Retail	1,389	1,413	1,550	1,850	2,233
Financial Services	171	228	292	332	375
Other	13	23	12	13	16
Total	2,632	2,663	2,811	3,125	3,598
Reported EBIT					
Direct	161	156	172	155	157
Retail	163	206	263	345	428
Financial Services	50	52	59	87	104
Corporate / Other	(214)	(222)	(250)	(279)	(329)
Total	159	192	244	309	361
Operating Margin					
Direct	15.2%	15.6%	18.0%	16.7%	16.1%
Retail	11.7%	14.6%	17.0%	18.7%	19.2%
Financial Services	28.9%	23.0%	20.2%	26.3%	27.9%
Corporate / Other	-7.6%	-7.5%	-8.5%	-8.5%	-8.7%
Total	6.1%	7.2%	8.7%	9.9%	10.0%
Adjusted EBIT					
Direct	142	120	114	99	102
Retail	139	161	185	251	316
Financial Services	93	133	195	237	272
Corporate / Other	(214)	(222)	(250)	(279)	(329)
Total	159	192	244	309	361
Adjusted Direct Margin	13.4%	12.0%	11.9%	10.6%	10.5%
Adjusted Retail Margin	10.0%	11.4%	12.0%	13.6%	14.1%
Adj. Fin Serv. Margin	54.1%	58.6%	66.9%	71.5%	72.7%

Source: Company reports, OWS estimates

Excluding intercompany marketing and credit card transfer fees, EBIT contribution from retail is not nearly as impressive as the reported figures suggest. In fact, we think bulls may be surprised to learn that in the 4 years since 2009, the financial service segment is the leading contributor to CAB's overall EBIT growth. We estimate financial services contributed approximately 89% or $179M of CAB's total EBIT growth of $202M. By comparison, retail contributed 88% ($177M) while CAB's direct business subtracted nearly 20% ($40M) from total EBIT growth.

Since sum of the parts valuation techniques typically assign CAB's financial services division a lower multiple compared to retail, we think the importance of financial services to CAB's profit growth is a critical factor that may have escaped the attention of some bulls. Furthermore, now that CAB is accelerating its retail store growth, the impact of intercompany credit card transfer fees will be diluted by a higher mix of relatively low retail margins, potentially resulting in less robust margin improvement than bullish analysts expect.

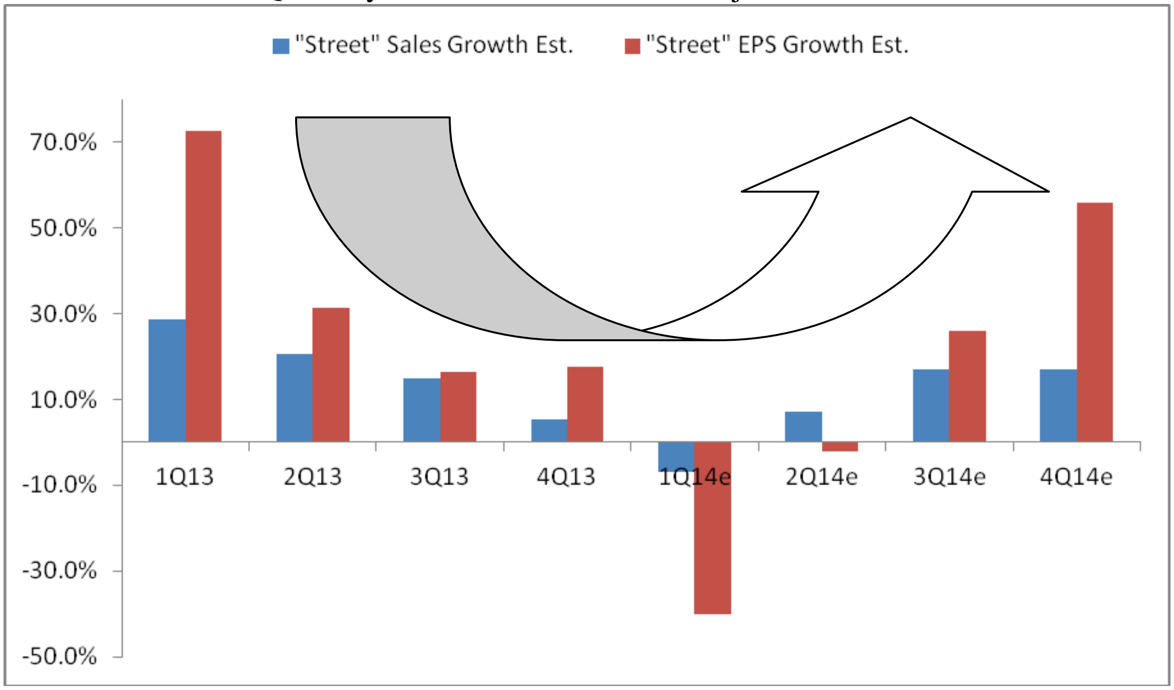
Discussion:

1. “Street” expectations are too high. While the “street” acknowledges that the impact of slowing gun and ammo sales will be significant, particularly in Q114, it is seen as only temporary, as the company is able to mitigate the impact of lower gun/ammo with other non-hunting lines of business, such as fishing, camping and apparel. This seems highly unlikely, as these lines are mature and already well supplied by others, and it would take significant promotional activity to gain share. Efforts to sell very high ticket items, such as tractors, also seem headed for failure.

The sales bubble that occurred from a surge in gun and ammunition buying in 2013 is well understood by the “street.” Accordingly, despite reporting disappointing results for 4Q13 and revising sales and EPS estimates sharply lower for early 2014, bulls have remained optimistic, thinking the worst is behind CAB. Both the “street” and the company promote the idea that, despite near term disappointing results due to tough compares against high gun and ammo sales, and related items, the company will manage to resume 15% sales growth and 20% EPS growth in 2015 and beyond.

Chart 4 shows CAB’s actual quarterly Y/Y sales and EPS growth rates in 2013 compared to current consensus sales and EPS growth rate projections for 2014. As the chart shows, bulls remain convinced that the hangover from the recent gun/ammo binge will be short-lived, and will have no lasting consequences on CAB’s overall growth and profitability profile.

Chart 4: Consensus Quarterly Sales and EPS Growth Projections for 2014



Source: Company reports, Bloomberg consensus estimates

One reason underlying the enthusiasm is that management at CAB is promoting the idea that the company can maintain customer "wallet share" (customer spend) even as demand for guns and ammo subsides. Accordingly, bulls expect sales of higher margin non-hunting related products including clothing, footwear, fishing and camping products to re-accelerate in 2014, offsetting the decline in lower margin gun and ammo sales.

While sales of clothing and footwear did experience an uptick in 4Q13 (up 13% Y/Y), our research suggests this product category benefitted from abnormally cold weather conditions that generated increased demand for apparel (jackets, winter hunting gear, etc) and footwear (winter boots, etc) in late 3Q13 and 4Q13. In fact, on the 4Q13 conference call with investors, CAB management acknowledged that, "cold weather helped us sell nice garments that we make healthy margins on." We do not expect weather to be a significant driver of sales in the quarters ahead.

According to management, sales of guns/ammo are flat on a two year basis. In 2012, we estimate gun and ammo sales at CAB accounted for 10% and 8%, respectively of total merchandise sales, or approximately $473M. In 2013 we estimate CAB generated $738M in sales of guns and ammo (13%/10% of total merchandise sales). Assuming the current trend does not deteriorate further, we estimate gun and ammo SSS at CAB will be down about 36% Y/Y in 2014, or approximately $265M.

Since clothing and footwear sales accounted for about $734M in sales in 2013, we estimate CAB would need to grow SSS in this category by about 36% Y/Y in 2014 to replace lost sales associated with guns/ammo, and maintain "wallet share," as bulls expect. Since CAB managed to grow total clothing and footwear sales (including new store sales) only 21% over the 3 year period from 2009 to 2013 (a 3-year CAGR of 6.5%), we are skeptical that clothing and footwear can fill the void left by lost gun/ammo sales.

In our view, clothing & footwear, fishing and camping are mature categories. While CAB no longer breaks out camping as a specific product category, we note that from 2006 to 2011, sales of camping equipment at CAB declined 8% from $260M in 2006 to $237M in 2011, a 5-year CAGR of -1.8%. Furthermore, we think it will be difficult for CAB to take market share in these categories without significant promotional activity that will hurt margins.

Also, bullish analysts believe CAB will offset the gun/ammo decline by selling more high priced items, such as private label tractors and related wildlife land management equipment, an unproven category for CAB, and one in which we think there are already signs that this effort will be a significant disappointment, as we discuss below.

2. Slowing demand for guns/ammo resulting in lower prices, lower in-store traffic and reduced sales of guns/ammo, hunting apparel, safes, optics and related hunting and personal protection equipment.

Despite the increase in clothing and footwear product sales in 4Q13, same store sales excluding guns and ammo declined 3.5% Y/Y, suggesting the "knock-on" effect from slowing gun/ammo demand may be a more significant threat to CAB's overall merchandise sales and margins than "street" bulls think. Our research indicates that reduced gun/ammo related in-store traffic is also resulting in sharp reductions in demand for high margin products such as safes, cases, optics, slings and related hunting gear, with negative implications for non-gun/ammo sales and merchandise margins.

One product category that has experienced a significant decline in demand in recent months is home protection. For example, we estimate that sales of safes for firearms are down 50% Y/Y in 2014. Moreover, after surveying the offerings, we estimate that about 50% of all safes purchased in 2013 cost $1,000 or more, and the average sale price of a safe was probably about $600. Importantly, while gross margins on guns and ammo are lower than CAB's average merchandise margin (25% vs. 36%), our research indicates that CAB's gross margin on safes is near 50%, suggesting lower safe sales will have a significantly negative impact on CAB's overall merchandise gross margins in 2014.

According to CAB, gun sales represented approximately 13% or $417M of total merchandise sales in 2013, up from 10% or $251M in 2012. Industry observers think that, on average, each gun buyer at a retailer like Cabela purchased approximately 3 guns at an average cost per gun of $600 in 2013, and they think that approximately one third of all gun buyers in 2013 were first time gun buyers. These industry observers think that nearly all first time gun buyers at CAB were also likely to purchase a safe in 2013.

Table 2 summarizes the data points outlined above that we obtained from industry observers and store visits. Based on our research, we estimate CAB generated approximately $46M in revenue and $23M in gross margin profit dollars from the sale of safes in 2013. If safe sales decline 50% Y/Y in 2014, we estimate that CAB faces a $23M revenue headwind (about 1% of retail sales) from reduced consumer demand for safes. More importantly, based on our research, we estimate that a 50% reduction in safe sales in 2014 translates to an $11.5M or 1% reduction in CAB's overall merchandise gross profit dollars. Given the meaningful negative impact on CAB's sales and margins from reduced safe sales alone, we think "street" bulls underestimate the impact that reduced demand for guns/ammo will have on CAB's overall financial performance in 2014.

Table 2: OWS Estimate of CAB's Gun and Safe Sales (2013-2014)

	2013	2014E
Guns		
Net Sales of Guns	$417,000,000	
Avg. Purchase Price	$600	
Total Guns Sold	695,000	
Avg. # of Guns Purchased per Gun Buyer	3	
Total # of Gun Buyers	231,667	
% of New Gun Buyers	33.0%	
Total # of New Gun Buyers	76,450	
Safes		Down 50% Y/Y
Total # of Safe Buyers	76,450	
Avg. Purchase Price	$600	
Total Safe Sales	$45,870,000	$22,935,000
Gross Margin	50.0%	50.0%
Gross Profit	$22,935,000	$11,467,500

Source: CAB quarterly conference calls, OWS estimates

We think hunting gear, including cammo apparel, boots and camping related equipment may also be vulnerable to the spill-over effects from reduced gun/ammo demand. Industry participants estimate that approximately 10% of all firearms spend in 2013 was matched by purchases of other hunting, camping and related gear. Thus, given firearms sales of $417M in 2013, we estimate CAB would have sold approximately $41.7M of hunting and camping related gear in 2013. As appears to be the case with safes, we think that the hunting gear category is also likely to decline 50% Y/Y in 2014. Accordingly, we expect 2014 lost sales of from hunting and camping gear related to lower gun/ammo demand could be approximately $21M.

With gun and ammo production up sharply Y/Y, CAB and other firearms retailers are now fully stocked with modern sporting rifles (MSRs) and pistols. While certain calibers of ammo remain in short supply, the supply crisis is quickly diminishing as ammunition manufacturers catch up with demand. Accordingly, we think the urgency to buy and stockpile guns has ceased, and the supply/demand balance for ammo is rapidly moving toward over supply.

With gun/ammo demand off sharply, CAB is attempting to drive traffic with increased promotional activity and clearance sales. Our store visits indicate gun, ammo and related hunting gear prices are falling rapidly, pressuring merchandise margins. At the stores we visited recently clearance and promotional signage increased significantly relative to just a few months ago, a bad sign for merchandise margins.

While pistol prices are down about 10% from peak, MSR prices are off sharply compared to 2013. In 2013 we estimate MSR sales represented approximately 3% of total merchandise sales at CAB or more than 20% of total firearm sales. During the peak demand period in the spring of 2013, prices for MSRs escalated rapidly at CAB and other retailers, with the average price range increasing from $400-$650 to $1,200-$1,600. Our store surveys indicate that average MSR prices are now back to $400-$650 with some models such as Mossberg being offered through promotions as low as $199.

While still elevated relative to normal demand periods ($12-$18 per box), prices for generic 100 round target load ammo (22, 38, 9MM, etc) have fallen from $60 or more during the peak period in 2013 to $24-$36 per box today. In general, we think prices for guns, ammo and related equipment are falling more rapidly over a shorter period of time than they rose in 2012-2013. As a result, the margin impact on CAB from falling gun/ammo prices is likely to be magnified compared to the previous ramp up period, resulting in lower average ticket prices and lower margins. To offset rapidly declining ASPs in guns/ammo and to maintain wallet share as bulls expect, we think CAB will have to sell more everyday apparel, where competition is fierce, requiring heavy promotional activity to drive sales.

Finally, in response to slowing in-store traffic, it appears that CAB reduced its retail staff in mid February, just after its 4Q13 conference call. CAB did not forecast any layoffs on the quarterly call with investors. Nevertheless, it appears that layoffs may have been widespread, and did not affect just the gun/ammo departments. Layoffs appear to have affected both new employees and full time veteran sales people.

It appears that CAB management may be making an effort to reduce full time staff, and increase part time hours, which would also lower healthcare costs. However, if full time, veteran sales people lose their jobs, this might also negatively impact sales productivity in the quarters ahead. Layoffs could also signal that sales and in-store traffic are weaker than management had anticipated.

3. CAB's smaller outpost stores benefitted disproportionately from the gun/ammo binge and are likely to experience a larger than expected decline in sales per square foot in the year ahead.

Recently reported productivity metrics at CAB's new stores may have been temporarily inflated as a result of the surge in gun and ammo demand in 2013. According to management, CAB's new store performance remains healthy, with average sales per square foot near $500 compared to $360 at the company's larger, legacy stores.

CAB's outpost stores generate sales per square foot around $480. While CAB operates just 4 outpost stores, the outpost locations we visited recently had a higher mix of gun and hard good related equipment compared to CAB's larger format stores. Accordingly, we expect sales per square foot at outpost stores to fall with slowing gun/ammo demand.

CAB's next generation stores generate sales per square foot of approximately $500. On the most recent 4Q13 conference call with investors, however, CAB management acknowledged that the next generation stores may give back another 5% of sales as gun and ammo demand normalizes in the quarters ahead.

Despite recent sales and traffic weakness related to slowing gun/ammo demand, bulls expect average new store sales productivity levels to remain steady in 2014 and 2015 near $500 per square foot. We are skeptical that such high store productivity levels can be maintained in the face of slowing gun/ammo demand and rapid gun/ammo price markdowns. Furthermore, some new format stores are located within close proximity (for example, the stores in Allen TX and Fort Worth, TX are about 40 minutes apart) and we think sales cannibalization may increase as gun related traffic slows

Our model assumes sales per square foot at CAB's existing and new outpost stores decline 5% from $480 to $456. We assume CAB's next generation stores experience a similar 5% reduction in sales per square foot from $500 to $475. Our model assumes CAB's legacy stores maintain their sales per square foot at $360. In total, we expect sales per square foot at CAB's retail stores to decline 2% from $385 in 2013 to $378 in 2014. In 2015, we expect sales per square foot to increase 4.5% to $395, driven by a higher mix of smaller, new format stores.

4. CAB has misjudged consumer demand for tractors and related land management equipment. Inventory costs are likely to be significant.

We think CAB may have badly misjudged consumer demand for tractors and related land management equipment. It appears that the tractors are significantly overpriced relative to comparables and are not selling.

In August 2013 CAB launched a new line of wildlife and land management tractors made by Korean manufacturer TYM (Tong Yang Moolsan). Attachments by Woods Equipment are sold separately and include seeders, tillers, plows, front end loaders, sprayers, and other related equipment. According to press reports from the time of the launch in August 2013, the centerpiece of CAB's new Wildlife & Land Management program is a line of 3 compact tractors, ranging in price from $22,000 to $40,000 depending on the horse power (35 hp, 43 hp or 50 hp). There are eight categories of attachments, from stump grinders ($4,769), to three-seed box seeders (starting at $10,169) to backhoes (from $7,409). Stores that are selling the tractors are also offering service centers to make repairs. We note that CAB posted numerous job openings online to hire service technicians to work on tractors exclusively.

According to CAB, the tractor offering targets hunters who want to manage their acres for wildlife. In a recent interview, Cabela's communications specialist noted that the tractor line and related equipment offering was, "a large commitment by us and we wouldn't have gone into this product line and made this kind of commitment if we didn't believe there was demand." In our view, equipment for wildlife land management is a small, niche market. We are skeptical that consumer demand for CAB's tractors and related equipment will materialize, especially at current elevated prices.

CAB's tractors were first introduced in 7 test markets in August 2013, and have been rolled out to at least 16 stores that we are aware of. According to our research, tractor inventory per store ranges from 18 to 50, with an average of about 30 per store.

Early reviews of the tractors suggest the price tag was set too high initially. Below are quotes from consumer reviews we found on various hunting and outdoor web sites shortly after the tractors were launched in the fall 2013:

"$40,000 for a 50hp. You can buy an 80hp Mahindra for $6,000 less than that."

"43hp front end loader for $28,000. Same tractor, red in color with a brush hog and box blade from Big Reds in Granbury is $21,000. Green paint and decals are expensive!"

In addition to the high initial price tag, customers appear to be concerned about CAB's ability to service the tractors. One customer with whom we spoke told us that you have to trailer the tractor back to CAB for service as the company does not have service trucks available to service tractors on customer property. Other customers with whom we spoke expressed concern that if the tractors were serviced elsewhere, the warranty would be void.

Our discussions with local tractor dealers and distributors confirmed that there are numerous cheaper tractor alternatives readily available. For example, comparable 35hp Mahindra and New Holland tractors list at $13,800 and $15,800, respectively, or $6,200-$8,200 below CAB's initial $22,000 offering price. Furthermore, dealers with whom we spoke said their list prices were negotiable, suggesting actual competitor prices may be even lower.

In response to initial weak consumer demand for their tractors, CAB started offering more aggressive promotions in early 2014. In February, stores we visited offered a $4,900 rebate on a $23,000 tractor (net price of $18,100). Today, CAB is offering the same 35hp tractor with a free loader (list price $3,799) for $20,599 (net price $16,800). Adjusting for the $3,799k loader at retail, it appears CAB hopes to get the $1,000 - $3,000 difference from a customer that doesn't mind paying a premium to have the Cabela's name and green paint on their tractor. The current promo ends April 6th. With cheaper alternatives available, we think more aggressive promotions may be necessary as the spring selling season arrives.

According to CAB, the company made a "heavy" investment in the Wildlife & Land Management program and would know by 2Q14 or 3Q14 if the program was a success. Our research suggests sales of tractors and related equipment remain weak. CAB's inventory of tractors, tillers, spreaders, loaders and related equipment is building rapidly. We estimate that CAB may have $10M in inventory of tractors and related equipment. If tractor sales do not pick up soon, we think near term inventory costs are likely to be significant.

Based on our discussions with competitors and local dealers, we estimate CAB's cost per tractor at approximately $10,000 and CAB's cost per loader at

$2,300. Therefore, under the current promotion, we estimate CAB is making approximately $3,800 on a sale price of $20,599, a gross margin of approximately 18.5%. Since the tractors are not selling, we expect CAB to resort to more aggressive promotions that lower the net price to the consumer closer to competitor offerings that range from $13,800 - $15,800.

If CAB ramps up promotional activity to decrease bloated tractor inventory as we expect, we estimate CAB's gross margins on tractors could fall to 13.5% or lower, well below CAB's 2013 merchandise margin of 36.8%. In our view, CAB's tractor initiative appears likely to disappoint, and is likely to pressure margins more than bulls expect.

5. Increasing competition from on-line gun/ammo retail sites and new brick and mortar retailers such as Field & Stream are likely to continue to hinder CAB's direct sales channel.

"Street" expectations for 2%-3% Y/Y growth in CAB's direct sales in 2H14 and 2015 may be too optimistic. While CAB has made efforts to stabilize this business through investments in mobile technology and store-to-door delivery capability, we note that direct sales declined each year from 2008 to 2012. Even with massive tailwinds from ammo sales in 2013, direct sales increased just 4.6% Y/Y compared to 2012.

Table 3 shows the Y/Y % change in CAB's direct sales broken down by product category for the previous 3 years (2010-2012) and last 4 quarters of 2013. Looking at the individual product categories, it has been rare that CAB's direct business grew any category Y/Y unless it was driven by the recent ammo shortages and gun-related panic in late 2012 and 2013. We note that, excluding hunting equipment, the combined categories of general outdoors and clothing & footwear declined Y/Y in all 4 years from 2010-2013 and in every quarter in 2013.

Table 3: Y/Y Change in Dollar Sales for CAB's Direct Business Segment

(Amounts in $MM)	2010	2011	2012	1Q13	2Q13	3Q13	4Q13
Y/Y Chg in $ Sales - Direct							
Hunting Equipment	(13.2)	(8.6)	25.8	40.8	23.3	6.9	(15.3)
Clothing & Footwear	(12.1)	(14.8)	(36.7)	0.4	0.4	(1.7)	2.4
General Outdoors	(13.6)	(19.4)	(15.0)	(6.3)	(2.0)	(3.4)	(2.8)
Total	(38.9)	(42.8)	(25.9)	35.0	21.7	1.8	(15.7)
Gen Outdrs + Clothing & Ftwr	(25.7)	(34.2)	(51.7)	(5.9)	(1.6)	(5.2)	(0.4)

Source: Company reports

Despite the uptick in direct sales in 2013, we think CAB's direct sales business may remain under pressure in 2014 and 2015. According to CAB's management, new store growth cannibalizes direct revenue by $2M-$3M per store.

Since CAB plans to open 13-15 stores per year over the next several years, we think revenue headwinds at direct from new store cannibalization are likely to be significant in 2014 and 2015.

In addition to cannibalization from its own stores, increasing competition from new brick and mortar retailers such as Field & Stream are likely to hinder growth in CAB's retail and direct sales channels. While large outdoor retailers such as CAB, Bass-Pro, Gander Mountain and Sportsman's Warehouse continue to grow their store bases at double digit rates, outsized profits in the industry in recent years also attracted many new entrants.

For example, Field & Stream entered the market in 2013 opening 2 stores with plans to open 55 stores over the next 3 years. Smaller, specialized retailers are growing too. In a recent report, IBISWorld noted that over the five years to 2014, the number of specialized firearm and ammunition stores grew at an average annual rate of 7.0% to 9,464. According to records provided by the Bureau of Alcohol, Tobacco, Firearms and Explosives, the number of firearms dealers with Type 1 licenses (including specialized gun retailers, large retail vendors such as Wal-Mart or outdoor and recreation retailers such as CAB) increased 14.6% from 47,509 in 2009 to 54,450 at the start of 2014.

With more retailers entering the market, the industry may be setting the stage for overbuilding. As new and existing outdoor retailers ramp up growth, the distance between stores is rapidly declining, which is likely to pressure in-store traffic at CAB's retail stores and put additional strain on CAB's direct sales growth.

Furthermore, on the 4Q13 conference call CAB acknowledged that the company received preferred allocation of ammo in 2013 and likely gained market share as a result. Accordingly, we think the normalization of ammo inventory levels across the industry is likely to have a disproportionately negative impact on CAB's direct revenues. In 2014 we expect CAB's direct business to give back at least some of the market share gained in 2013.

Finally, we think new competition from online aggregators such as Gunbot.com is likely to drive additional traffic away from CAB's direct channel. As a result of recent inventory shortages of guns and ammo at retail outlets, consumers have embraced online purchasing of firearms consumables, particularly ammunition.

During the gun/ammo binge in 2013, on-line aggregators such as Gunbot.com gained a considerable consumer following by allowing customers to search across thousands of retailers and auction sites for cheap, in-stock ammunition. Gunbot.com will even send consumers an alert when their specific ammunition is in stock at a price they deem acceptable, eliminating the need for time-consuming store visits. We expect the loss of customers to new on-line channels such as Gunbot.com to pressure in-store traffic levels at CAB's retail stores and sales at CAB's catalog and e-commerce business.

Bullish analysts project CAB's direct revenue to decline approximately 4% in 2014. In the 2H14 and in 2015, bulls forecast direct revenue to increase 2%-3% Y/Y. Given our concerns outlined above, we are not as optimistic about CAB's direct revenue growth. We forecast CAB's direct revenue to decline 6.5% in 2014 to $911M and 1% in 2015 to $901M.

6. Sales and profitability at CAB's financial services division benefitted from a reduction in the allowance for loan loss reserves at CAB's credit card business. With net charge offs now trending higher, we think the adequacy of the allowance is suspect and is likely to result in higher provisions, lower sales growth and lower profitability than expected

We think CAB's credit card business may have been overstating profits by reducing the allowance for loan losses in recent years. If this trend reverses in 2014, lower than expected revenues and profits at CAB's financial services segment will result, disappointing bulls.

In 2009 FASB approved changes to securitization accounting, eliminating the qualifying special purpose entity (QSPE) concept and requiring CAB to consolidate its master credit card trusts and establish allowances for loan losses relating to such assets. With the adoption of ASC Topics 810 and 860 on January 3, 2010, CAB took a $100M after-tax charge to equity and increased its allowance for loan losses from $1.4M to $116M at the start of 1Q10.

While net charge offs (NCOs) were higher in 2010 ($105M or 4.06% of average managed loans), economic and credit conditions were turning more favorable, allowing CAB's increased allowance for loan losses to serve as a "cookie jar" of earnings reserves in the years that followed. As the economy and credit conditions improved from 2010 to present, NCOs as a percentage of managed loans fell from 4.06% in 4Q10 to 1.70% in 4Q13. During this same period, CAB's allowance for loan losses as a percentage of managed loans declined from 3.54% in 4Q10 to 1.43% in 4Q13. Similarly, CAB's loan loss provision as a percentage of managed loans fell from 2.60% in 4Q10 to 1.16% in 4Q13.

Table 4 shows the primary revenue drivers for CAB's financial services business over the last 8 quarters.

Table 4: Primary Revenue Drivers for CAB's Financial Services Business

(Amounts in $MM)	1Q 12	2Q 12	3Q 12	4Q 12	1Q 13	2Q 13	3Q 13	4Q 13
Financial Services Revenue Drivers								
Avg # of Active CC Accts	1,482	1,492	1,539	1,635	1,634	1,651	1,694	1,776
Y/Y % Chg	7.6%	7.9%	9.0%	9.4%	10.2%	10.7%	10.1%	8.6%
Avg Balance per Active CC Acct	$2,002	$2,011	$2,034	$2,007	$2,049	$2,052	$2,096	$2,090
Y/Y % Chg	4.8%	4.6%	3.6%	2.9%	2.3%	2.0%	3.0%	4.1%
Total Managed CC Loans	2,968	3,001	3,130	3,282	3,347	3,388	3,551	3,713
Q/Q% Chg	1.7%	1.1%	4.3%	4.9%	2.0%	1.2%	4.8%	4.5%
Y/Y % Chg	12.8%	12.9%	12.9%	12.5%	12.8%	12.9%	13.5%	13.1%
LTM Allowance for Loan Losses	67	67	66	66	65	63	57	53
Total All as a % of Mngd CC Loans	2.26%	2.23%	2.10%	2.00%	1.93%	1.84%	1.62%	1.43%
MRQ Provision for Loan Losses	7	12	10	14	13	12	8	10
Provision as a % of Mngd CC Loans	1.29%	1.39%	1.31%	1.30%	1.46%	1.43%	1.31%	1.16%
MRQ NCOs	15	14	13	16	16	16	15	16
LTM NCO as a % of Mngd CC Loans	2.07%	1.99%	1.84%	1.76%	1.75%	1.79%	1.76%	1.70%

Source: Company reports

We note that NCOs per quarter stabilized in recent quarters around $16M or approximately 1.75% of average managed credit card loans outstanding. According to management, CAB's NCOs averaged 2%-3% over the last 13 years, so current NCOs are well below the historical average. Importantly, in the last two quarters, CAB's NCOs per quarter exceeded both provisions and allowances, suggesting CAB's ability to cushion the financial segment's sales and margins by reducing allowances is near an end. Assuming economic and credit conditions remain stable, we expect NCOs to stabilize around 1.75% in 2014 and 2015.

While provisions for loan losses have been below NCOs for the last 8 quarters, we think this trend is unsustainable and expect the trend to begin to reverse in 2014. Specifically, we expect provisions as a percent of managed credit card loans to gradually increase from 1.16% in 4Q13 to 1.75% in 4Q15. We expect allowances to bleed down modestly over the next 2 quarters before stabilizing in 2H14 and 2015.

We note that the Y/Y growth rate for the average number of active credit card accounts decelerated in 4Q13 from over 10% during the previous 3 quarters to 8.6%. CAB attributed the deceleration in 4Q13 to lower in-store traffic levels. As detailed in our discussion points above, we expect in-store traffic levels at CAB's retail stores to remain under pressure. Accordingly, we expect the average number of active credit card accounts to increase 9% Y/Y in 2014 and 2015 to 1.9M and 2.1M, respectively, as lower in-store traffic levels partially offset increased new store growth. Bulls expect the average number of active credit card accounts to reaccelerate from 4Q13, increasing 10% Y/Y in 2014 and 2015.

Finally, we expect the average balance per active credit card account to be flat Y/Y in 2014 at $2,090 and decline 0.5% Y/Y to $2,080 in 2015 as new account growth drags down the average (newer accounts carry lower credit card balances). Bulls expect the average balance per active credit card account to increase 2.5% Y/Y in 2014 and 2015, apparently driven by more consumer spending and higher consumer credit card debt levels.

Based on our assumptions above, we forecast financial services revenue to increase 7% Y/Y in 2014 to $403M and 10% Y/Y in 2015 to $443M, driven by continued growth in active credit card accounts, modest declines in the average balance per credit card account and modest increases in provisions for loan losses.

While we think our estimates are appropriately conservative, we note that there are several scenarios in which CAB's credit card sales and profits could deteriorate more than we forecast. For example, on the 3Q13 conference call with investors CAB mentioned that the company intends to keep the allowance "fairly constant as a percentage of [credit card] receivables and actually [it] will have to increase in 2014 as the portfolio grows." We note that if the allowance stops declining, a provision needs to be in-line with NCOs and sales and profits at CAB's credit card segment could contract $15M-$20M more than we forecast.

If the economy weakens or consumer credit conditions deteriorate, NCOs could return to the historical average of 2%-3%. Under this scenario, we estimate the allowance would likely increase to 2% and provisions would need to exceed NCOs and sales and profit margins at CAB's credit card business could contract $25M more than our forecast.

7. Recent Results

CAB reported 4Q13 results on February 13, 2014. Firearms, ammunition and non gun/ammo-related SSS were all below consensus expectations. As a result, reported revenues of $1,189M fell short of bullish estimates of $1,206M.

Adjusted EPS of $1.32 in 4Q13 missed consensus of $1.41 by $0.09. According to CAB, persistent declines in firearms and ammunitions sales, along with the weak holiday season, were the primary reasons behind the miss.

Total merchandise revenue rose 3.1% Y/Y to $1,081M, while merchandise margins expanded 40 bps Y/Y to 36.6%. The improvement in merchandise margins was primarily driven by a favorable shift in product mix away from guns and ammo to more soft goods. SSS decreased 10.1% Y/Y. Excluding firearms and ammo, SSS declined 3.5% Y/Y. CAB's direct revenues declined 4.1% Y/Y to $370M driven by lower ammo demand and lower ASPs.

Financial service revenues rose 23% Y/Y to $103M in 4Q13. NCOs as a percentage of average credit card loans fell to 1.70% from 1.76%. Allowances as a percentage of average credit card loans fell to 1.43% from 2.00% and provisions declined to 1.16% from 1.30%.

Inventory increased 16.7% Y/Y to $645M from $553M at the end of 2012. Days of inventory were up sharply Y/Y to 85 days from 74 days at the end of 2012, primarily as a result of weaker sales during the key holiday season.

Excluding $94M in cash at financial services for liquidity requirements, CAB had net debt of $218M at the end of 2013.

On the 4Q13 conference call CAB provided guidance for 1Q14 and full year 2014. For 2014 CAB plans to open 14 new stores. Total Y/Y square footage growth is expected to be 17% in 2014 and 10-15% over the long term.

For 1Q14, SSS are expected to decline 20% Y/Y due to waning demand for firearms and ammo. CAB expects EPS to be in a range of $0.32-$0.42 while for the full year 2014 adjusted EPS are expected to grow at a high single digit to low double digit rate compared to $3.32 in 2013. For the full year the tax rate is expected to be in a band of 33% - 34%.

8. Financial Assumptions

a. Revenues

We model revenues by segment. In Table 5 we present CAB's 4 business segment revenue categories and the growth trends for these segments over the last 6 years.

Table 5: CAB's Annual Revenue by Segment

(Amounts in $MM)	2008	2009	2010	2011	2012	2013
Segment Revenue						
Retail	1,285	1,389	1,413	1,550	1,850	2,233
Direct	1,095	1,059	1,000	957	931	974
Financial Svcs	159	171	228	292	332	375
Other	13	13	23	12	13	17
Total Revenue	2,553	2,632	2,663	2,811	3,125	3,598
Y/Y % Chg						
Retail	23.2%	8.1%	1.7%	9.7%	19.3%	20.7%
Direct	-3.1%	-3.3%	-5.6%	-4.3%	-2.7%	4.6%
Financial Svcs	-0.2%	7.8%	32.8%	28.1%	13.8%	12.9%
Other	-19.7%	0.7%	75.0%	-47.4%	5.1%	29.6%
Total Revenue	8.6%	3.1%	1.2%	5.6%	11.2%	15.1%
% of Total Revenues						
Retail	50.4%	52.8%	53.0%	55.2%	59.2%	62.1%
Direct	42.9%	40.2%	37.5%	34.0%	29.8%	27.1%
Financial Svcs	6.2%	6.5%	8.5%	10.4%	10.6%	10.4%
Other	0.5%	0.5%	0.9%	0.4%	0.4%	0.5%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company reports

Note that in 5 out of the last 6 years direct revenues declined Y/Y from $1.1B in 2008 to $974M in 2013. In 2013 direct revenue increased 4.6% Y/Y aided by significant tailwinds from ammo sales.

As detailed in discussion point 5 above, new store growth cannibalizes direct revenue by $2M-$3M per store. Since CAB plans to open 13-15 stores per year over the next several years, we think revenue headwinds at direct from new store cannibalization are likely to be significant in 2014 and 2015. Furthermore, as inventory levels normalize across the channel, we expect CAB to give back at least some of the market share gained in 2013. Finally, we think new competition from online aggregators such as Gunbot.com, and new store growth at brick and mortar competitors is likely to drive additional traffic away from CAB's direct channel.

Bullish analysts project CAB's direct revenue to decline approximately 4% in 2014. Bulls forecast direct sales to decline 15% in 1Q14 and 10% in 2Q14. In 2H14 and in 2015, bulls forecast direct revenue to increase 2-3% Y/Y. Given our concerns outlined above, we are not as optimistic about CAB's direct revenue growth. We forecast CAB's direct revenue to decline 15% in 1Q14, 12% in 2Q14, 2% in 3Q14 and 1% in 4Q14. On an annual basis, we forecast direct sales to decline 6.5% in 2014 to $911M and 1% in 2015 to $901M.

For the retail segment, we expect sales per square foot at both the outpost stores and the next generation stores to decline 5% Y/Y in 2014 from $480/$500 to $456/$475, respectively. We think this assumption is consistent with our observation that gun/ammo mix is higher at CAB's outpost stores and with management's recent comments that the negative impact from the slowdown in gun/ammo would have another 5% drag on store productivity. The "street" forecasts average new store sales per square foot to remain near $500 per square foot.

We expect SSS to decline 13.5% in 2014, driven by sharp declines in gun/ammo sales, "knock-on" effects on non-hunting related products, lower in-store traffic and lower than expected demand for tractors and related wildlife management equipment. In 2015 we forecast SSS to increase 2% Y/Y, at the low end of management's long-term guidance for SSS of 2%-4%. Bulls expect SSS to decline 5% in 2014 and to increase 3% in 2015, apparently driven by a quick return to "normal" in-store traffic and sales levels.

Finally, we expect CAB to open 14 stores in 2014 and 13 in 2015, in line with management's guidance and consensus estimates. We expect retail square footage growth to increase 17% in 2014 before decelerating to 10% in 2015 as CAB opens a higher mix of small store formats. We forecast retail revenue to increase 8% Y/Y in 2014 to $2,416M and 19.8% Y/Y in 2015 to $2,896M. Bullish "street" analysts expect retail revenue to increase 17% in 2014 and 25% in 2015.

We forecast financial services revenue to increase 7% Y/Y in 2014 to $403M and 10% Y/Y in 2015 to $443M, driven by continued growth in active credit card accounts, modest declines in the average balance per credit card account and modest increases in provisions for loan losses (see discussion point 6). Bulls forecast CAB's financial service revenue to increase 12% Y/Y in both 2014 and 2015.

We forecast other revenue to decline $2M Y/Y to $16M, in line with consensus estimates and reflecting CAB's guidance regarding the company's exit from the real estate brokerage business.

b. Margins

We forecast operating margins of 8.8% in 2014 and 9.4% in 2015, versus 10.2% in 2013. After a period of deleveraging in 2014 associated with the decline in gun/ammo sales and lower in-store traffic, our model assumes CAB's operating margins return to 2012 levels by early 2015. The "street" projects operating margins of 10.2% in 2014 and 10% in 2015. The underlying drivers of our operating margin forecast are outlined below.

We project merchandise gross margins of 36.9% in 2014 and 37.0% in 2015, versus 36.8% in 2013. The "street" expects merchandise margins to increase 40 bps in 2014 and 2015, apparently driven by improved product mix and a return to normal in-store traffic levels and sales trends in 2H14.

We note that gun/ammo ASPs are declining rapidly and CAB is engaging in more promotional activity to drive in-store traffic, which we think will pressure merchandise margins, even as product mix improves. Furthermore, we expect CAB to mark down tractor prices more aggressively or increase promotional offers to unload current bloated inventory levels.

We expect SG&A as a percentage of sales to increase 180 bps Y/Y to 35.2% in 2014, driven by deleveraging associated with lower ammo/gun sales and lower in-store traffic. In 2015 we forecast SG&A to decrease 80 bps Y/Y to 34.4%, as cost reduction efforts are partially offset by a higher overall mix of labor intensive retail business. Bulls forecast SG&A as a percent of sales of 34.5% and 34.2%, respectively, for 2014 and 2015.

c. Other Items

We assume interest expense of $19M in 2014 and $25M in 2015, somewhat higher than "street" estimates of $17M and $21M, respectively. We note that CAB expects to take on additional debt as accelerated store growth will require additional financing. Our tax rate assumption of 33.5% in both 2014 and 2015 is consistent with management guidance and "street" assumptions. We assume a diluted weighted average share count of 72.0M in 2014 and 72.4M in 2015, in line with "street" estimates and management's net share repurchase guidance.

9. Valuation

CAB trades at 21.6x 2014 consensus EPS estimates and 16.5x 2015 consensus EPS estimates. Since we expect significantly lower EPS in both 2014 and 2015 than is hoped for by the "street," we apply a 15x multiple to our 2015 EPS estimate of $3.49 to obtain an initial price target of $52. We note that over the last 3 and 5 year period, CAB shares have traded as an average next year P/E of 14.3x.

10. Risks

The primary risks to our thesis are threefold. A reacceleration of gun/ammo demand would benefit in-store traffic levels and boost CAB's SSS and new store productivity levels.

The second risk to our thesis is a significant recovery in the North American economy. Faster economic growth might result in an increase in consumer spending and improved consumer credit conditions, resulting in higher SSS at CAB's retail stores and lower NCOs and provisions at CAB's financial services segment.

A third risk to our thesis is that CAB accelerates new store growth above current plans. While we think CAB would struggle to finance such growth internally, more store openings would result in faster sales growth and improved average sales per square foot.

11. Financial Projections

a. Quarterly Projections

Qtrly Inc Statement	1Q14e	2Q14e	3Q14e	4Q14e	1Q15e	2Q15e	3Q15e	4Q15e
Net Sales	729	778	944	1,294	856	930	1,072	1,397
COGS	405	419	523	751	480	505	596	809
Gross Profit	324	359	422	542	376	425	476	588
SG&A	290	296	337	395	327	338	379	422
Oper Inc	34	63	85	147	49	87	97	166
Net Int Exp	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Pretax Inc	32	60	81	143	45	83	93	162
Inc Taxes	11	20	27	48	15	28	31	54
Net Income	21	40	54	95	30	55	62	107
Diluted EPS	$0.30	$0.55	$0.75	$1.32	$0.41	$0.77	$0.85	$1.48
F.D. Shares	71.8	71.9	72.0	72.1	72.2	72.3	72.4	72.5

Y/Y % Change	1Q14e	2Q14e	3Q14e	4Q14e	1Q15e	2Q15e	3Q15e	4Q15e
Sales	-9%	3%	11%	8%	17%	20%	13%	8%
COGS	-12%	1%	11%	10%	19%	21%	14%	8%
Gross Profit	-6%	4%	11%	8%	16%	19%	13%	8%
SG&A	10%	7%	11%	11%	13%	14%	12%	7%
Oper Inc	-56%	-5%	11%	3%	42%	39%	14%	13%
Net Int Exp	-35%	7%	-11%	11%	60%	33%	14%	0%
Pretax Inc	-58%	-6%	12%	2%	41%	39%	14%	13%
Net Income	-57%	-11%	8%	0%	41%	39%	14%	13%
Diluted EPS	-58%	-11%	8%	0%	40%	38%	14%	12%
F.D. Shares	1%	0%	0%	1%	1%	1%	1%	1%

As a % of Sales	1Q14e	2Q14e	3Q14e	4Q14e	1Q15e	2Q15e	3Q15e	4Q15e
Sales	100%	100%	100%	100%	100%	100%	100%	100%
COGS	56%	54%	55%	58%	56%	54%	56%	58%
Gross Profit	44%	46%	45%	42%	44%	46%	44%	42%
SG&A	40%	38%	36%	31%	38%	36%	35%	30%
Oper Inc	5%	8%	9%	11%	6%	9%	9%	12%
Net Int Exp	0%	0%	0%	0%	0%	0%	0%	0%
PreTax Inc	4%	8%	9%	11%	5%	9%	9%	12%
Tax Rate	34%	34%	34%	34%	34%	34%	34%	34%
Net Inc	3%	5%	6%	7%	4%	6%	6%	8%

b. Annual Projections

Annual Inc Statement	2010	2011	2012	2013	2014e	2015e
Net Sales	2,663	2,811	3,113	3,600	3,745	4,255
COGS	1,575	1,613	1,770	2,031	2,098	2,391
Gross Profit	1,088	1,198	1,355	1,566	1,647	1,864
SG&A	887	954	1,047	1,201	1,318	1,465
Oper Inc	200	244	309	365	329	399
Net Int Exp	(20)	(17)	(14)	(14)	(13)	(16)
Pretax Inc	180	227	295	350	316	383
Inc Taxes	59	76	99	112	106	128
Net Income	121	151	195	238	210	255
Diluted EPS	$1.76	$2.11	$2.72	$3.32	$2.92	$3.52
F.D. Shares	69.1	71.3	71.7	71.8	72.0	72.4

Y/Y % Change	2010	2011	2012	2013	2014e	2015e
Sales	1%	6%	11%	16%	4%	14%
COGS	-2%	2%	10%	15%	3%	14%
Gross Profit	6%	10%	13%	16%	5%	13%
SG&A	2%	8%	10%	15%	10%	11%
Oper Inc	27%	22%	27%	18%	-10%	21%
Net Int Exp	-13%	-15%	-18%	1%	-8%	23%
Pretax Inc	27%	26%	30%	19%	-10%	21%
Net Income	31%	24%	30%	22%	-12%	21%
Diluted EPS	29%	20%	29%	22%	-12%	20%
F.D. Shares	2%	3%	1%	0%	0%	1%

As a % of Sales	2010	2011	2012	2013	2014e	2015e
Sales	100%	100%	100%	100%	100%	100%
COGS	59%	57%	57%	56%	56%	56%
Gross Profit	41%	43%	44%	44%	44%	44%
SG&A	33%	34%	34%	33%	35%	34%
Oper Inc	8%	9%	10%	10%	9%	9%
Net Int Exp	-1%	-1%	0%	0%	0%	0%
PreTax Inc	7%	8%	9%	10%	8%	9%
Tax Rate	33%	33%	34%	32%	34%	34%
Net Inc	5%	5%	6%	7%	6%	6%

c. Financial Metrics

Debt & Equivalents	770
Equity	1,606
Tangible book	$22.35
Market value	5,121
Cash	105
EV	5,786

	2013	2014e	2015e
EBITDA	458	446	542
Capex	333	403	357
Free cash flow	12	(85)	21
Dividends	0	0	0
CF After Divs	12	(85)	21
EV/EBITDA	12.6	13.0	10.7
EV/FCF	482.4	(68.2)	271.2
EV/Sales	1.6	1.5	1.4