Academy Sports + Outdoors (ASO)
Still Mispriced; Potential to Double over Two Years

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Investment Deck Outline

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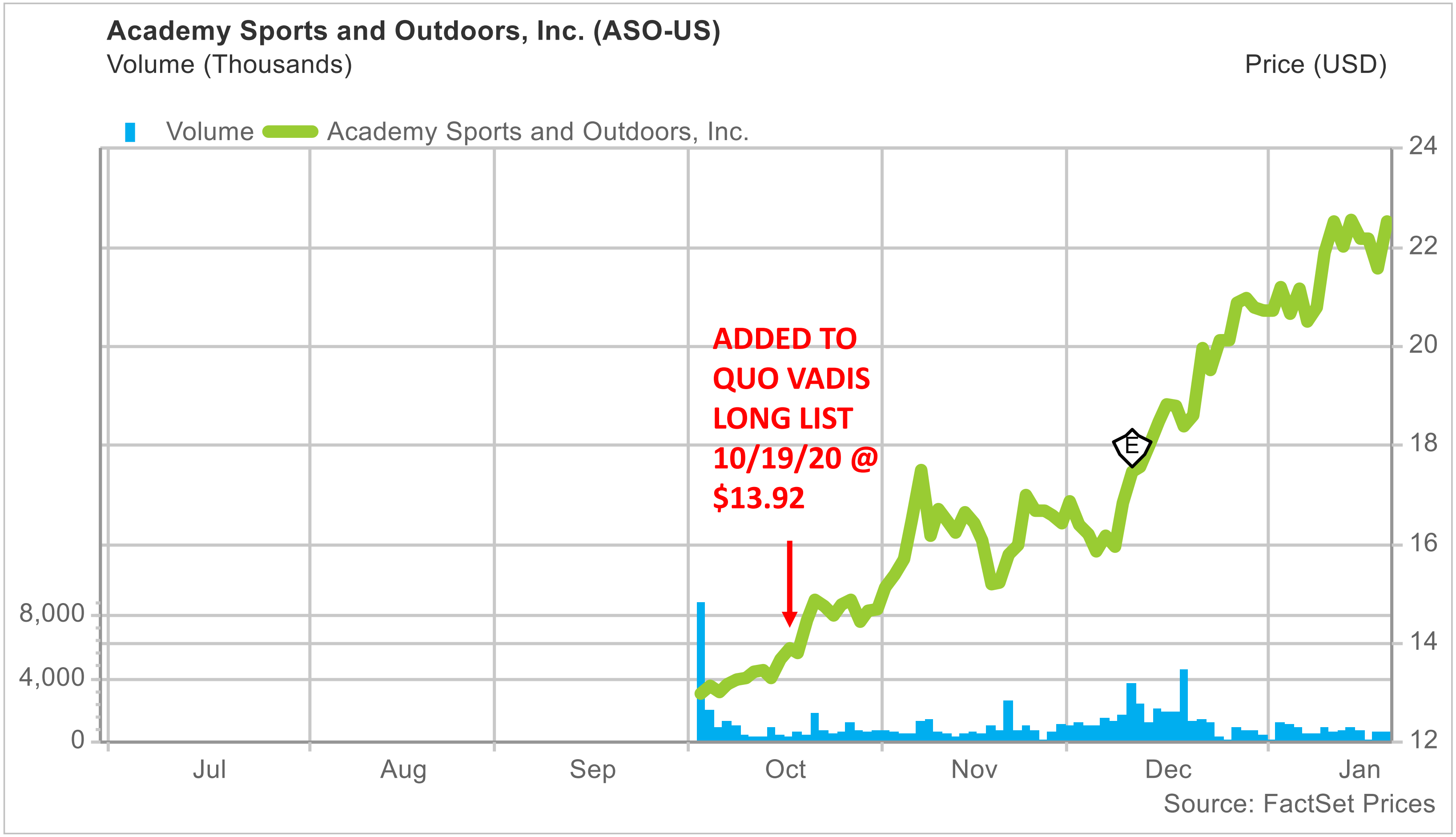
Six Month Chart: Mispriced at IPO and *STILL* Mispriced

Click here for our initial analysis published shortly after the IPO.



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Intro to Academy Sports + Outdoors (ASO)

Academy Sports is a regional big-box sporting goods retailer with 260 locations and pre-covid19 (FY19) annual sales of $4.8B.

- The company conducted an IPO in October 2020 selling 17.4M shares at $13. Last week selling stockholders sold 12.0M shares at $21.50.
- ASO has been owned since 2011 by KKR with the founding family retaining a minority stake. Following the IPO and last week's follow-on, KKR held a 55% stake.
- EBITDA margin: 6.1% FY19A, and 9.1% FY20E.
- FY20E Capex ~$47M (1% of sales). We estimate FY21 capex at $65M.
- Forecasted FY20 YE balance sheet: $188M cash, $800M LT debt aside from operating leases, representing 3.3x lease-adj. debt to EBITDAR, $1.2B Shareholders' equity
- FY19 Free cash flow was $200M
- No dividend
- Recent price $21.50 (as of Jan 29 2021), current market cap: $2.0B.

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ASO was materially undervalued in its IPO. Here's why ASO might *STILL* be mispriced:

- Recent IPO with limited exposure to investors
- Limited sell-side coverage (only banking-analysts)
- FactSet and other services currently list an incorrect share count (99M vs. 91M) which fails to adjust for a reorganization in connection with the IPO
- Most recent balance sheet data may not reflect refinancing of LT debt or incremental equity issuance (Screens are wrong)
- Distortions related to Covid19 including stimulus spending make sales and margin trend difficult to read
- Market has short term focus on Covid19 performance and lack of appreciation of long-term margin opportunities
- Stock is grouped with no-growth traditional retailers and fails to account for transition to more comprehensive omni-channel consumer offer

In summary we believe ASO shares are under-analyzed by market participants setting up an ongoing opportunity

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Investment Thesis : How We Get a Double in ASO

ASO is still in the early stages of a multi-year sales growth and EBITDA expansion opportunity that is not appreciated by the market

*Using a 10% EBITDA margin target for the business by FY23, **we estimate earnings and free cash flow of ~$4 per share.***

*Employing a still-modest P/E of 12x or an EV/ EBITDA multiple of 6x and our FY23 forecasts, **we generate a potential value for ASO shares between $41 and $48, representing 107% upside over two years at the mid-point.***

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But how realistic is a 10% EBITDA margin for ASO?

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Can ASO do 10% EBITDA? Where are Comparable Retailers?

- ASO produced a 6.1% EBITDA margin in FY19 and we currently estimate a 9.4% EBITDA margin for FY20 (Street is at 8.8%).
- A look at the most similar public companies (off-mall sporting good retailers) *suggests a **10% EBITDA margin is well within industry norms***

Academy Sports Peer Group FY20E EBITDA Margins

Big Five Sporting Goods Corp.	Dick's Sporting Goods, Inc.	Hibbett Sports Inc.	Sportsman's Warehouse Holdings, Inc.
BGFV	**DKS**	**HIBB**	**SPWH**
10%	**11%**	**7%**	**9%**

Source: FactSet and Quo Vadis Capital, Inc. estimates

Contact us for a deeper dive on structural differences between ASO and these and other comparable retailers

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Can ASO do 10% EBITDA? How does it get there?

➢ STEPS TO 10% EBITDA MARGIN BY FY23

1. Sales leverage: Our premise is that **ASO will be operating in a favorable demand environment** as consumers continue to focus on health and wellness and outdoor activities served by the stores' assortments. We believe this will be bigger and last longer than investors currently anticipate.

2. Gross margins: **ASO's 30% GMs appear low**. We see opportunity from better inventory management, optimization of promotional strategies, efficiencies in logistics, increased/ upgraded private label penetration, merchandise mix, and increased use of margin-accretive omni-channel capabilities such as BOPIS.

3. S,G&A: ASO will have to overcome public company costs and Covid19 related expenses. However, we see opportunities for increased efficiency in operations and store-level expenses.

Contact us for more detail and discussion

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How is the Street modeling ASO?

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Consensus Models Forecast EBITDA Margins in the 8.0%-8.5% Range Over FY21-FY23

- **Consequently, the Street also sees EPS in FY23 near FY20 levels**

Academy Sports and Outdoors, Inc.

Pro Forma Annual Earnings Model And Selected Financial Data - CONSENSUS IN YELLOW

($ in Millions, Except per Share Data)

Fiscal Year Ends January

	Fiscal 2018A	Fiscal 2019A	Fiscal 2020E	Fiscal 2021E	Fiscal 2022E	Fiscal 2023E
Total retail sales	$ 4,783.9	$ 4,829.9	$ 5,595.5	$ 5,434.4	$ 5,585.9	$ 5,766.0
% change	-1.1%	1.0%	15.9%	-2.9%	2.8%	3.2%
Gross profit	$ 1,368.0	$ 1,431.2	$ 1,641.7	$ 1,625.6	$ 1,678.2	$ 1,721.5
% change	-2.2%	4.6%	14.7%	-1.0%	3.2%	2.6%
Gross profit margin	28.6%	29.6%	29.3%	29.9%	30.0%	29.9%
EBITDA	$ 261.7	$ 296.7	$ 492.6	$ 448.5	$ 480.8	$ 492.0
EBTIDA margin	5.5%	6.1%	8.8%	8.3%	8.6%	8.5%
Diluted EPS	$0.24	$1.60	$2.79	$2.42	$2.75	$2.95
% change	-63.3%	555.9%	74.8%	-13.4%	13.7%	7.4%
Total stores	253	259	259	262	267	278
% Δ in same-store sales	-2.5%	-0.7%	14.0%	-2.2%	1.8%	1.8%
Free cash flow per share	$1.03	$2.67	$2.24	$2.58	$2.35	n/a

Source: Company data, FactSet, Quo Vadis Capital, Inc. ests [1] period contains extra week

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How is our Model Different?

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Our Outlook Assumes Better Near-term Profitability and Faster Sales Growth in FY22 & FY23

- **We estimate EPS and FCF/ share reaching $4 by FY23**

Academy Sports and Outdoors, Inc.

Pro Forma Annual Earnings Model And Selected Financial Data QUO VADIS ESTIMATES

($ in Millions, Except per Share Data)

Fiscal Year Ends January

	Fiscal 2018A	Fiscal 2019A	Fiscal 2020E	Fiscal 2021E	Fiscal 2022E	Fiscal 2023E
Total retail sales	***$ 4,783.9***	***$ 4,829.9***	***$ 5,739.3***	***$ 5,569.1***	***$ 5,822.8***	***$ 6,167.5***
% change	*-1.1%*	*1.0%*	*18.8%*	*-3.0%*	*4.6%*	*5.9%*
Gross profit	***$ 1,368.0***	***$ 1,431.2***	***$ 1,704.4***	***$ 1,678.0***	***$ 1,772.1***	***$ 1,895.5***
% change	*-2.2%*	*4.6%*	*19.1%*	*-1.6%*	*5.6%*	*7.0%*
Gross profit margin	*28.6%*	*29.6%*	*29.7%*	*30.1%*	*30.4%*	*30.7%*
EBITDA	**$ 261.7**	**$ 296.7**	**$ 540.1**	**$ 498.5**	**$ 545.7**	**$ 621.4**
EBTIDA margin	**5.5%**	**6.1%**	**9.4%**	**9.0%**	**9.4%**	**10.1%**
Diluted EPS	***$0.24***	***$1.60***	***$3.58***	***$2.78***	***$3.26***	***$3.98***
% change	*-63.3%*	*555.9%*	*124.3%*	*-22.3%*	*17.0%*	*22.1%*
Total stores	253	259	260	264	273	282
% Δ in same-store sales	**-2.5%**	**-0.7%**	**17.8%**	**-2.4%**	**3.1%**	**4.0%**
Free cash flow per share	**$1.03**	**$2.67**	**$9.09**	**$1.78**	**$3.90**	**$4.53**

Source: Company data, Quo Vadis Capital, Inc. ests [(1)] period contains extra week

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Valuation: ASO Shares are Cheap on Near-Term Street Forecasts and VERY Cheap vs. our FY23 Estimates

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ASO shares currently trade at <10x P/E on FY21 & <6x EV/ FY21 EBITDA on ests we believe are too low

Quo Vadis Capital Select Retailers

Relative Growth, Profitability, Balance Sheet & Valuation Metrics (Consensus Forecasts)

FOOTWEAR & SPORTING GOODS RETAILERS

1/31/2021	**AVG.**	**DBI**	**SCVL**	**BOOT**	**ASO**	**DKS**	**FL**	**HIBB**	**BGFV**	**GCO**	**CAL**
Recent Price		$ 12.25	$ 46.99	$ 57.24	$ 21.50	$ 67.01	$ 43.82	$ 56.45	$ 13.02	$ 38.81	$ 15.11
Mkt Cap ($B)		$0.9	$0.7	$1.7	$1.8	$5.9	$4.6	$1.0	$0.3	$0.6	$0.6
ENT VALUE ($B)*		$1.1	$0.6	$1.7	$2.4	$5.1	$3.3	$0.8	$0.2	$0.5	$1.2
Valuation Metrics*											
Vs. 2019A EPS (P/E)	17.2	8.0	16.1	34.9	15.8	18.2	8.9	24.2	30.3	8.5	7.2
Vs. 2020E EPS (P/E)	19.7	NM	51.4	35.6	7.7	11.4	17.3	9.7	5.1	NM	NM
Vs. 2021E EPS (P/E)	16.4	48.1	14.0	25.6	8.9	13.2	9.9	14.7	10.2	9.8	9.7
Vs. 2022E EPS (P/E)	11.3	11.3	12.2	21.6	7.8	12.2	9.0	NA	NA	8.3	8.3
EV / 2021 Sales	0.6	0.4	0.6	1.8	0.4	0.5	0.4	0.6	0.2	0.2	0.5
EV / 2019A EBITDA	7.2	4.7	8.8	18.2	8.1	7.1	3.7	9.4	2.3	3.2	6.4
EV / 2020E EBITDA	12.3	NM	16.8	17.2	4.9	4.9	5.7	5.0	2.4	15.2	38.8
EV / 2021E EBITDA	7.2	12.5	8.1	14.2	5.3	5.3	4.2	6.7	4.0	4.3	7.7
EV / 2022E EBITDA	6.1	5.5	6.8	12.3	5.0	5.2	4.0	NA	NA	3.5	6.5
Free Cash Flow Yield ('21)	8.2%	NA	5.8%	2.8%	8.3%	9.1%	8.6%	NA	NA	5.8%	16.8%
Dividend Yield	0.7%	0.0%	0.9%	0.0%	0.0%	2.5%	4.0%	0.0%	0.0%	0.0%	0.0%
EV/ NTM EBITDA 5-Year Valuation History*											
HIGH	10.5	NM	13.6	15.3	6.0	8.3	8.0	7.5	8.3	7.3	20.1
LOW	2.3	NM	2.1	3.6	4.4	2.3	1.4	1.0	1.8	0.7	3.1
AVERAGE	5.5	1.9	6.1	9.5	5.1	5.7	5.2	4.8	5.1	4.8	6.6
Current EV/ EBITDA on FY21 Compared to 5-Year Average*											
% Premium or Discount	**10%**	**NM**	**33%**	**50%**	**4%**	**-7%**	**-19%**	**40%**	**-23%**	**-10%**	**18%**

Note: BOOT uses March FY; * Our EV and other LT debt values ***exclude*** leases

Source: FACTSET, Company Reports, Quo Vadis Capital, Inc. estimates

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Using our FY23 Forecasts, ASO's P/E is <6x

1/31/2021	ASO
Recent Price	**$21.50**
Mkt Cap ($B)	**$2.0**
ENT VALUE ($B)*	**$2.6**
2020E EPS	$3.58
2021E EPS	$2.78
2022E EPS	$3.26
2023E EPS	$3.98
2020E EBITDA ($M)	$540
2021E EBITDA ($M)	$499
2022E EBITDA ($M)	$546
2023E EBITDA ($M)	$621
Vs. 2020E EPS (P/E)	6.0
Vs. 2021E EPS (P/E)	7.7
Vs. 2022E EPS (P/E)	6.6
Vs. 2023E EPS (P/E)	**5.4**
EV / 2023 Sales	0.5
EV / 2020E EBITDA	4.8
EV / 2021E EBITDA	5.2
EV / 2022E EBITDA	4.7
EV / 2023E EBITDA	**4.1**
Free Cash Flow Yield ('23)	**21.0%**
Dividend Yield	0.0%

Source: FACTSET, Company Reports, Quo Vadis Capital, Inc. estimates

- **In our bull case where ASO can achieve modest top-line growth and expand EBITDA margins to near 10%, EPS and FCF/ share should grow to ~ $4**
- **Based on these forecasts, shares are very cheap, trading at MSD P/Es**
- **Cumulative FCF over the next three years (FY21-FY23) is also estimated at near $935M or 36% of current enterprise value**

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Investment Recap LONG idea Academy Sports (ASO)

Academy Sports (ASO) is a mispriced equity with the potential to more than double over the next two years, in our opinion.

- The company is benefiting from a favorable tailwind of increased demand for its products that we believe is secular and long-lasting in nature.
- The business is under-followed by Wall Street and various technical issues mean that some data is wrong on key financial information platforms
- We believe that ASO has the potential to expand EBITDA margins to apx. 10% over the next three years due to leverage from top-line growth, strong execution, and operational improvements which should yield EPS and FCF/ shares of $4 or potentially higher.
- The Street is modeling the business more cautiously, **setting up upward revisions.**
- Shares are trading at P/Es of less than 10x on Street forecasts for FY21 and exceptionally cheap (<6x P/E) on our FY23 outlook
- Proven management team gives us confidence in opportunity

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Risks and Other Considerations

Academy Sports (ASO) is a regional operator of big box, category-specific merchandise produced mainly by others.

- **The company is exposed to competition from online-only players with different cost structures and objectives.**
- **Academy also faces competition from its vendors going direct to consumers (disintermediation)**
- **We could be misreading the longevity of increased demand for sporting goods and other merchandise sold by ASO which could render our outlook too optimistic**
- **ASO could face increased competition in its core markets or fail to expand successfully into new markets**
- **As a retailer of guns and ammunition ASO could face either legislative restrictions or negative publicity related to firearms**

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Disclosures

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Appendix: Quo Vadis Capital, Inc. : Our Process

- Our focus is on consumer sector, and we specialize in companies which can be analyzed by estimating and segmenting **unit economics**
- We solve for ROIC and **Return on Incremental Invested Capital (ROIIC)** at the unit and corporate level
- In LONGS we look for companies with upside to consensus estimates, a high ROIC and/or a rising trend in ROIC, rising margins, or accelerating growth and attractive valuations
- In SHORTS we look for companies with downside to consensus forecasts, weak ROIC or deteriorating trend in ROIC, margin contraction, decelerating growth and unattractive valuations
- OUR FAVORITE INVESTMENT THEME is finding a company **where the next dollar to be invested in the business has a significantly different return profile than the base business**. In other words, return on incremental investment is materially greater or lower than return on overall investment (ROIIC is > or < ROIC)