

MOODY'S

RATINGS

Rating Action: Moody's Ratings changes Academy's outlook to stable from positive; affirms Ba2 CFR

12 Aug 2025

New York, August 12, 2025 -- Moody's Ratings (Moody's) today changed Academy, Ltd.'s ("Academy") outlook to stable from positive. At the same time, we affirmed Academy's corporate family rating ("CFR") at Ba2, probability of default rating ("PDR") at Ba2-PD and the Ba2 ratings on the senior secured first lien term loan and senior secured notes. The speculative grade liquidity rating ("SGL") remains unchanged at SGL-1.

The change in outlook to stable from positive reflects our belief that Academy's credit metrics will take longer than originally anticipated to reach levels in line with a higher rating. This delay reflects a challenging consumer environment as shoppers reduce spending on discretionary merchandise in the sporting goods category due to ongoing uncertainty from tariffs, persistently high cost essentials and high interest rates.

RATINGS RATIONALE

Academy's Ba2 CFR reflects the company's scale and solid market position in the regions within which it operates. It also reflects Academy's actions to preserve profitability despite experiencing declining comparable store sales since 2022 as it focused on productivity improvements, inventory management and cost controls.

Further, continued operational improvements in merchandising and omnichannel investment will improve operating performance over time. Additional earnings growth will also come from the company's store expansion program which was initiated in 2022 and will add 160-180 stores through 2029. The new store openings will be financed through free cash flow.

Nonetheless, we now expect Academy's credit metrics to remain outside its upgrade thresholds for longer than previously anticipated. Specifically, we expect leverage to remain above its 1.5x upgrade threshold rising to about 2.2x over the next 12 months, up from 1.6x in 2024. Concurrently, we estimate that EBIT to interest will remain below the 6.0x interest coverage threshold, declining to 4.0x from 5.3x for the same period. Academy continues to face a difficult consumer spending environment as consumers continue to face high inflation in key categories such as food, housing and insurance. We also recognize the competitive nature of sporting goods retail including the increased focus of major apparel and footwear brands on direct-to-consumer distribution and the consumer shift to online shopping. Sporting goods demand can also fluctuate, in part because of demand cycles in the firearms and ammunition category, which we estimate represents roughly 10% of Academy's sales.

Academy's SGL-1 reflects its very good liquidity over the next 12 months. The company has a largely available \$1.0 billion asset based revolving credit facility expiring in March 2029. In addition, we estimate that the company will generate roughly \$150-\$200 million of free cash flow over the next 12 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings could be upgraded if the company generates consistently positive same store sales, revenue and operating income growth while improving geographic diversification, maintaining very good liquidity and balanced financial policies. Quantitatively, the ratings could be upgraded with expectations for Moody's adjusted debt/EBITDA to be maintained below 1.5x and EBIT/interest expense sustained above 6.0x throughout economic cycles.

The ratings could be downgraded if earnings or liquidity significantly deteriorate or the company experiences material execution missteps. Aggressive financial strategy actions could also result in a downgrade. Quantitatively, the ratings could be downgraded if Moody's-adjusted debt/EBITDA is maintained above 2.75x or EBIT/interest expense declines below 3.5x.

Headquartered in Katy, Texas, Academy, Ltd. is a US sports, outdoor and lifestyle retailer with a broad assortment of hunting, fishing and camping equipment, along with footwear, apparel, and sports and leisure products. The company operates 303 stores under the Academy Sports + Outdoors banner, which are primarily located in Texas and the southeastern United States, and its website. It is a subsidiary of traded Academy Sports and Outdoors, Inc. (NASDAQ traded ASO). Academy generates approximately \$5.9 billion in revenue.

The principal methodology used in these ratings was Retail and Apparel published in November 2023 and available at <https://ratings.moodys.com/rmc-documents/411013>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

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