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# Dick's Sporting Goods, Inc. (DKS)

Q1 2017 Earnings Call

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**Edward W. Stack**

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

**Lee J. Belitsky**

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the DICK'S Sporting Goods First Quarter Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note today's event is being recorded.

At this time, I would like to turn the conference over to Nate Gilch, Director of Investor Relations. Please go ahead, sir.

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### Nathaniel A. Gilch

*Director-Investor Relations, Dick's Sporting Goods, Inc.*

Thank you. Good morning and thank you for joining us to discuss our first quarter 2017 financial results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; and Lee Belitsky, our Chief Financial Officer. André Hawaux, our Chief Operating Officer will join us for Q&A.

Please note that a rebroadcast of today's call will be archived on the Investor Relations portion of our website located at dicks.com for approximately 30 days. In addition, as outlined in our press release, the dial-in replay will also be available for approximately 30 days.

During this call, we'll be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release and the comments made during this conference call and in our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

We've also included some non-GAAP financial measures in our discussion today. Our presentation of the most directly comparable financial measures calculated in accordance with generally accepted accounting principles and related reconciliations can be found on the Investor Relations portion of our website at dicks.com.

I will now turn the call over to Ed Stack.

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### Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Thank you, Nate. I'd like to thank all for joining us today. Before we get started, I want to take a moment to talk about a few important leadership changes we announced last week. André Hawaux will be retiring from his position as Executive Vice President and Chief Operating Officer in the third quarter.

Since joining the company as Chief Financial Officer in 2013, he's been a valuable partner on the executive leadership team. He's played a key role in executing our strategic plan. I'd like to thank André for his significant contributions and for his continued partnership to facilitate a smooth transition.

We also announced a number of leadership changes designed to position us for the future with increased focus on our omni-channel customer experience, digital transformation, product development and merchandising. To that end, I'm pleased to announce that Lauren Hobart has been appointed President of DICK'S Sporting Goods

effective immediately. Lauren will continue to lead the company's customer and digital efforts, overseeing marketing, eCommerce and DICK'S Team Sports HQ and will also be responsible for our store organization.

Since joining the company as Chief Marketing Officer in 2011, Lauren has proven to be an invaluable and inspirational leader. In her six years with the company, she's elevated the DICK'S brand, led the development of DICK'S Team Sports HQ, built the CALIA by Carrie Underwood brand, and was instrumental in creating the DICK'S Sporting Goods Foundation. I'm confident that Lauren's vision and extensive leadership experience will help drive the continued growth and success of the company and I'd like to congratulate her on her appointment.

In addition, we announced that Keri Jones will be joining the company later this month as Executive Vice President and Chief Merchant. Keri will be responsible for the strategy and execution of our merchandising, product development and merchandise planning, also allocation and the replenishment organization. She comes to DICK'S with 30 years of retail experience, most recently served as Target's Executive Vice President of Global Supply Chain.

We also announced Don Germano will rejoin the company later this month as Senior Vice President of Operations. Don led our store organization from 2010 through 2013 and most recently served as President of Follett Higher Education Group. His background also includes a number of leadership positions at Sears Holdings, Kmart and Nabisco and he served as an officer in the United States Marine Corps.

I'm excited about this leadership team and have a lot of confidence it will be able to accomplish the future strategies of DICK'S Sporting Goods.

Now turning to our results. We announced this morning our first quarter non-GAAP earnings per diluted share of \$0.54, near the high end of our guidance between \$0.50 and \$0.55. Total sales for the quarter increased 9.9% to approximately \$1.8 billion. Within this, consolidated same-store sales increased 2.4%. Importantly, our sales trended higher in the quarter as April comp store sales increased approximately 5%.

As we guided through the past year, we successfully relaunched DICK'S.com on our proprietary web platform on January 29, replacing the original Radial technology we had been using.

We are pleased to report that our eComm sales increased 11% and grew to 9.3% of net sales compared to 9.2% in the same quarter last year. Our eCommerce sales trended higher throughout the quarter, and April sales increased approximately 20%. Over the next few quarters, we will continue to make our planned enhancements to the system and expect sales to continue to improve.

Despite a challenging retail environment, we saw across each of our three primary categories, growth: hardlines, apparel and footwear. We also saw increases in both ticket and transactions. Our golf and footwear business remained strong while the outdoor and electronics business comped negatively.

Our private brand portfolio continued to gain traction. Our CALIA brand, which is focused on the highly competitive women's athletic apparel segment, continues to grow at double digits. CALIA, combined with the Reebok product we design and source independently through our licensing agreement with adidas, now contribute over 20% of our total women's athletic apparel business. While this results in our private brands ranking number three from a sales perspective, they represent the second highest gross margin dollar component of our women's athletic apparel business.

Next year, we plan to broaden CALIA again through an expanded assortment and increased square footage in our stores. We have seen ongoing growth in our other brands as well and continue to expect our private brand portfolio to contribute approximately \$1 billion in revenue this year.

We continue to see market share gains in those markets that TSA and Golfsmith have exited. Additionally, it's been reported that Gander Mountain will be liquidating all of its 160 stores by the end of August. We understand that as many as half these stores could reopen under new ownership of Camping World. However, we believe the reduction in Gander Mountain stores provides an opportunity to gain market share once the liquidation is complete.

That being said, we expect their going-out-of-business sale could have a negative impact on our sales through the third quarter as customers stock up on discounted firearms, ammunition and other hunting and fishing product.

We are continuing to invest across our digital channels to deliver the best possible customer experience and expect to drive these sales and increase profitability through this channel. As part of this, we're making significant investments in our Team Sports HQ business, a data-driven customer engagement platform, which we see as a multiyear initiative and a meaningful growth driver.

Similar to how we grew our eCommerce business to nearly \$1 billion, we believe there is a tremendous opportunity with the DICK'S Team Sports HQ platform. With nearly 30 million participants in Team Sports at the high school level or below, we expect these investments to drive both digital and store sales, resulting in profitable growth over time.

Turning to our store development program. Based on what's happening out there in the real estate arena, we plan to significantly reduce our store growth. In 2017, we expect to open approximately 43 DICK'S stores, of which 19 are former TSA stores. In 2018, we expect to open between 15 and 20 stores. Most of these leases are already signed. And in 2019, it could be as few as 5 to 10.

An important note here is our new stores continue to perform very well, with new store productivity in excess of 90%. We are slowing our growth as we see more and more real estate coming onto the market with other retailers closing stores. We're starting to see prices come down, and we believe this trend will only accelerate in all but the true A malls.

We also have tremendous amount of flexibility within our existing real estate portfolio. Approximately 25% of our DICK'S stores will be up for lease renewal at our option in the next three years. We are well-positioned with significant flexibility related to our future real estate opportunities over the near term and intermediate term.

Last quarter, we announced our new merchandising strategy to narrow our vendor base and overtly move market share toward true strategic partners and our own private brands. We are encouraged by the progress we're making and the positive response we've received from our go-forward vendors. We remain on track to eliminate up to 20% of our vendors this year, removing cost and complexity from our business.

As we continue to evaluate and adjust our business model, such as slowing our store development program, consolidating our vendor base, and reducing our dependency on traditional marketing vehicles, we have identified significant costs that need to be eliminated and reinvested in digital, eCommerce and marketing, Team Sports HQ, and increased development of our private brands.

Consequently, we have eliminated approximately 160 positions, primarily from our Store Support Center. This will result in a charge of approximately \$7 million in the second quarter related to severance and other employee-related costs. These actions were incredibly difficult, but necessary to provide us the headroom to fund and develop our longer-term strategic initiatives. The past couple of days have been difficult for all of us at DICK'S Sporting Goods. On behalf of our board and management team, we appreciate the efforts of our associates as we move the company into the future.

In closing, we want everyone to know we remain extremely confident in our strategies and are excited about this future growth of our business. I'd now like to turn the call over to Lee for our financial performance.

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## Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

Thank you, Ed. Good morning, everyone. Beginning with our first quarter financial results, consolidated sales increased 9.9% to approximately \$1.8 billion. Consolidated same-store sales, which includes all banners both online and in-store, increased 2.4%. The comp increase was driven by a 1.6% increase in ticket and a 0.8% increase in transactions. Our eCommerce business increased 11%.

Gross profit for the first quarter was \$542 million, or 29.69% of sales, down 17 basis points versus last year. Within this, merchandise margins expanded 13 basis points. However, this improvement was more than offset by higher shipping and fulfillment costs as a percentage of sales.

SG&A expenses were \$439 million for the quarter, or 24.07% of sales, deleveraging 6 basis points from the same period last year. This slight deleverage was primarily driven by higher store payroll expenses associated with our premium full-service footwear deck.

Non-GAAP pre-opening expenses increased from last year and deleveraged approximately 10 basis points due to a greater number of store openings during the period. Our tax rate of 36.6% on non-GAAP earnings benefited by nearly 100 basis points from newly adopted accounting rules related to the tax treatment of equity compensation.

In total, we delivered non-GAAP earnings per diluted share of \$0.54, near the high end of our guidance range. This excludes approximately \$3.5 million of pre-tax TSA conversion costs. For additional details, you can refer to the non-GAAP reconciliation in the tables of our press release issued this morning. Please note that due to the immateriality of these costs going forward, we'll no longer separately report these to you. That's with respect to the TSA costs.

Now looking to our balance sheet, we ended the first quarter with approximately \$108 million of cash and cash equivalents and \$92 million in borrowings outstanding on our \$1 billion revolving credit facility.

Turning to our first quarter capital allocation, net capital expenditures were \$89 million or \$114 million on a gross basis. Additionally, during the quarter, we paid \$19.3 million in dividends and repurchased approximately 500,000 shares for \$23.2 million at an average price of \$47.92. We have approximately \$1 billion remaining in our share buyback authorization.

Now let me wrap up with our outlook for 2017. For the year, we continue to expect non-GAAP earnings per diluted share in the range of \$3.65 to \$3.75, which includes approximately \$0.05 coming from the 53rd week.

Due to our slower sales in the first quarter as well as the potential for short-term headwinds from Gander Mountain's liquidation sales and broadened distribution of product from a key vendor partner, we now expect

consolidated same-store sales to increase between 1% and 3% for the year. This compares to our previous guidance of 2% to 3%.

As Ed discussed, we have taken actions to remove costs from the business. A portion of these savings will flow to the bottom line and a meaningful amount will be used to maintain our planned investments in key growth areas, including digital, DICK'S Team Sports Headquarters and the continued development of our private brands. Both the savings and these investments have been contemplated within our guidance. All this considered, we continue to expect operating margin to increase year-over-year driven by SG&A leverage and gross margin expansion.

For the year, we continue to expect net capital expenditures of approximately \$350 million or about \$465 million on a gross basis. Our earnings guidance assumes an effective income tax rate of approximately 37.5% for the balance of the year and is based on estimated 111 million to 112 million diluted shares outstanding. This includes the expectation of share repurchases to fully offset dilution in 2017.

For the second quarter, based on an increase in consolidated same-store sales between 2% and 3%, we anticipate non-GAAP earnings per diluted share of between \$1.02 and \$1.07. Operating margin is expected to expand driven by gross margin expansion and SG&A leverage.

Please note that our second quarter non-GAAP earnings per diluted share guidance does not include an expected \$7 million charge related to severance and other employee-related costs associated with the positions we have eliminated.

This will conclude our prepared comments. We appreciate your interest in DICK'S Sporting Goods. Operator, please open the line for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and answer-session. [Operator Instructions] And your first question will be from Robby Ohmes of Bank of America Merrill Lynch. Please go ahead.

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Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

Good morning guys.

Q

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Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

Good morning.

A

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Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Hey. Robby.

A

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Robert F. Ohmes

*Analyst, Bank of America Merrill Lynch*

Q

Two follow-up questions. The first, just maybe, Lee, on the guidance of 1% to 3%, can you help us think about how that plays out through the year, how you think about same-store sales in the back half? I know you have some tough comparisons in licensed apparel. Maybe some thoughts on what your comp guidance of 1% to 3% implies for the back half?

And then just the other question was you guys mentioned Gander Mountain, you also mentioned distribution of a vendor elsewhere. There's also other store closings slated to happen through the year from people like Macy's and JCPenney that also deal in parts with other vendors. I was just curious how you see that playing out. Is that similar to Gander Mountain? Is that a short-term pressure, but a long-term opportunity? Just thoughts on that would be great. Thanks.

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**Lee J. Belitsky**

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

So with respect to the guidance for the year, we produced 2.4% comp in Q1. We're guiding to 2% to 3% in Q2, and the guidance for the year is 1% to 3%. So we're expecting a small slowdown in Q3 and Q4 versus where we are in Q1 and Q2, where we're expecting to be between 2% and 3% kind of in the first half of the year.

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**Edward W. Stack**

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

And Robbie, on the other store closings, we're not sure exactly who's going to close what and what stores. That hasn't been fully defined yet. So I'm not sure what the competitive component of that's going to be. But Gander, the outdoor category's a big part of our business. We think it's really a long-term benefit to us, but there's going to be some short-term pain as they go through the liquidation here.

It wasn't as bad with Sports Authority as we thought because Sports Authority didn't really have a lot of the inventory that people were looking for going into the third quarter. But firearms, ammunition, hunting, accessories, I mean, they've got that product that's – there's no fashion component to that. So I think it's going to have a bit of an impact on our business in the second quarter and the third quarter.

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**Robert F. Ohmes**

*Analyst, Bank of America Merrill Lynch*

Q

And just quickly, what's the eCommerce expectation for the balance of the year? So it reaccelerated, I guess, through the quarter, but what are you guys thinking eCommerce will be for the year in terms of growth?

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**Edward W. Stack**

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, we haven't guided to that, nor have we. It got much better as we went through the quarter. And one of the reasons was when we turned the site on, when we launched the site, you're never really sure how everything's going to work, and we cut back on the marketing associated with our eCommerce site to make sure that we were able to handle the traffic, there was nothing broken. There were a couple bumps in the road to begin with that the team quickly fixed. And as we did that, we started to increase our marketing, and the conversion of the site got better. And in April, we were 20%. So we're pretty confident we'll be fine from an eCommerce standpoint.

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**Robert F. Ohmes**

*Analyst, Bank of America Merrill Lynch*

Q

Great. Thanks, Ed.



Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Thanks, Robby.

A

**Operator:** The next question will come from Kate McShane of Citi. Please go ahead.

Kate McShane

*Analyst, Citigroup Global Markets, Inc.*

Good morning. Thanks for taking my question. The area that I noticed where it seems like you're having a lot more success and pushing private label in is in women's. Should we read anything into that push with regards to how you're thinking about some of the national brands? Will there be some kind of give and take in terms of private label versus national brands depending on the rollout of more women's products? And how should we think about some of the smaller vendors in the women's apparel business?

Q

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Well Kate, one of the things we talked about was that we would be eliminating up to 20% of our vendors. Some of those smaller vendors in the women's business are being eliminated, and part of that will be the benefit to our private brands. The CALIA brand, in particular, has been terrific. Carrie's been a great partner and we see that business continuing to accelerate, and we'll expect it to continue to do that.

A

Kate McShane

*Analyst, Citigroup Global Markets, Inc.*

Okay. Great. And if I could just follow up quickly, Ed, with the new hires that you made. I know that you were in charge of the merchandising decisions prior. Just what role do you expect to still play in those decisions going forward?

Q

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Well, I'll still be very involved. Keri will work directly with me. And the fact that I think she's come in with great experience, the two of us have walked stores in the past, I think we'll have a great relationship, and we'll work very, very closely together going forward.

A

Kate McShane

*Analyst, Citigroup Global Markets, Inc.*

Thank you.

Q

**Operator:** The next question will be from Seth Sigman of Credit Suisse. Please go ahead.

Seth I. Sigman

*Analyst, Credit Suisse Securities (USA) LLC*

Thanks. Good morning. My first question is around the change in the comps guidance. So the first quarter comps, they came in 60 basis points below guidance. The full year impact of that is just 10 basis points to total comps. So, you lowered the full-year comp guidance by 100 basis points at the low end and so I'm just wondering if the updated guidance for the year reflects lower comps than expected previously for the next couple of quarters.

Q

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, we saw things a little bit slower. The first quarter is not as big a percent of our business is going into the fourth quarter. We do have some of those tailwinds with The Sports Authority that we do expect will somewhat subside. And don't minimize the impact of Gander Mountain's liquidation. The third quarter, back half of the second quarter and the third quarter, is an important part of business for that outdoor category. And we've seen some broader distribution in the athletic apparel business that we hadn't anticipated when we first did our plan.

Seth I. Sigman

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. That's helpful. And then when you look at the guidance for the second quarter for EPS growth, it implies a pretty significant acceleration in growth, actually the highest of the year. The comps will be similar to Q1. So, I'm just wondering what drives that acceleration. And if you could give us a sense of sort of the gross margin and SG&A moving pieces there, that would be helpful.

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

So last year, second quarter was pretty heavily promotional, so it depressed our gross margin rates a bit. So we can get opportunity on the gross margin side, and we also have opportunity on the SG&A side as well, as we put through the expense reductions that we talked about. We're going to be a little smarter about our marketing spend in Q2 than last year, a little more targeted there.

And last year, there was a lot of payroll that was spent – that was involved with setting up all the premium full-service footwear decks that were under construction at that time. So, there's some meaningful investment that we did in the second quarter from an expense perspective. So we've got opportunity on both the gross margin and SG&A expense lines in Q2.

Seth I. Sigman

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And just to clarify on the cost restructuring that you're talking about, was that reflected in the original guidance?

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

The original guidance that was issued today or our guidance from March?

Seth I. Sigman

*Analyst, Credit Suisse Securities (USA) LLC*

Q

The guidance from March.

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

No, no, we just made those decisions over the last few weeks.

Seth I. Sigman

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay, great. Thanks very much.

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

Okay.

**Operator:** The next question will come from Stephen Tanal of Goldman Sachs. Please go ahead.

Stephen Tanal

*Analyst, Goldman Sachs & Co.*

Q

Good morning, guys. Thanks for taking the question. I guess, just to start, given that you did give some color on April, could you talk a little about February and the rest of the quarter to give us a flavor for what may have swung there, maybe tax refunds if you have any thoughts there on whether that impacted the quarter as well?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah, I know people have talked about tax refunds. I don't really – I'm not sure that tax refunds had much of an impact. We had some weather impact earlier in the...

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

March.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

...in March. Some baseball leagues started later. People couldn't get out on the golf course. Because of the snow and the cold weather, you didn't get out fishing. So there was some weather impact. February wasn't bad. March was not quite as good, and April came back really very nicely.

Stephen Tanal

*Analyst, Goldman Sachs & Co.*

Q

Got it, okay. And just a comment on the broader distribution or the key vendor partner, is there a particular partner that you're looking at there, or do you think that – maybe just a little more color on that essentially [indiscernible] (25:12)

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

I'm not going to get into that. You've seen some broader distribution in the marketplace, and that definitely will have – the market is just so big, and as the market gets diluted across retail, it's going to have an impact.

Stephen Tanal

*Analyst, Goldman Sachs & Co.*

Q

Fine, okay. And just lastly for me, just an understanding kind of the gross margin cadence here, down a bit in 1Q, but clearly up in 2Q in the guide. Can you talk about what may have been unusual in 1Q, or what you expect to get back as you guide that line?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah, we're still going through some clearance merchandise. We had taken a charge and cleared out some merchandise. There were some merchandise that we didn't think we had to write off that we could recover some dollars for, but not at our normal margin rate. So we tried to optimize that. So that drove the margin rate reduction.

Stephen Tanal

*Analyst, Goldman Sachs & Co.*

Q

Got it. Okay. So merchandise is what improves from here.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yes.

Stephen Tanal

*Analyst, Goldman Sachs & Co.*

Q

Thank you.

**Operator:** The next question will come from Camilo Lyon of Canaccord Genuity. Please go ahead.

Camilo Lyon

*Analyst, Canaccord Genuity, Inc.*

Q

Thanks. Good morning. Ed, you talked about continuing to see share gains, in your prepared remarks, so I'm hoping to get some color on that. Are you seeing an accelerating share gain profile or are these gains more consistent with what they have been, now that there's more time that's elapsed since the initial closures from TSA back in Q3?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

They've been kind of roughly in the same zone. April was really very good, but they've been kind of in the same zone going forward.

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

They certainly haven't abated at all. We're continuing to pick those up at relatively the same level.

Camilo Lyon

*Analyst, Canaccord Genuity, Inc.*

Q

And are you still able to mine the data from the IP that you collected and use that to your advantage, or is that still more in its infancy and presents a further opportunity going forward?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yes. We're able to do that, and also the same, not only with just Sports Authority, but also with Golfsmith.

**Camilo Lyon***Analyst, Canaccord Genuity, Inc.*

Q

Okay, great. And then on that topic, I guess, if you could just some provide some commentary on the golf business. I know you said it was a little bit weaker, but as we get into Q2, seasonally strong part of the year for the category, you're lapping – or you're benefiting from Golfsmith going away, how should we think about that business starting to contribute and maybe what did you see in April that should give you some more confidence on that contributing to the Q2 comp?

**Edward W. Stack***Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, we actually didn't say the golf business was tough, we said the golf business was strong. We said the categories that were difficult was the outdoor category and the electronics. So our golf business has remained really very strong, comping positively mid to high single-digits.

**Camilo Lyon***Analyst, Canaccord Genuity, Inc.*

Q

Okay, great. And the last one from me, the commentary that you made on square footage, reductions over the next few years. How should we think about the component around expenses in that context? And where do you have an opportunity to really cut back on your expense structure in light of fewer store openings that you're planning?

**Edward W. Stack***Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, we've done that with some of the 160 jobs that were, unfortunately, eliminated. Pre-opening costs will be reduced. Costs associated with hiring, pre-opening will be reduced.

We do think that, over time, the rent expense and our capital requirements will also come down. With what we see with so many stores that are closing or purported to close or you expect will close, there's going to be just a flood of real estate out in the market.

Our view is that we should not be opening a whole lot of stores right now because we're going to pay a higher rent today than we would two or three years from now. We're very patient about our business. We're very investment minded, and I know Wall Street doesn't necessarily like this, but we're really making investments and taking strategies – putting strategies in place that are for the long-term benefit of the company, not necessarily for the next quarter or two. And we just think what's going to happen with rent and the amount of real estate that's coming on the market that the prices are going to come down.

We also have the ability when that happens to be able to make deals at lower rents now because we can take relatively large pieces of real estate, whether it's in the DICK'S store or whether it's in the combo store with DICK'S Field & Stream and/or the DICK'S Field & Stream and Golf Galaxy. We give a great consumer experience that real estate developers we are seeing really want, and they understand the value we bring to this. So over the long term, I think we'll be paying lower rents.

**Camilo Lyon***Analyst, Canaccord Genuity, Inc.*

Q

Got it. Thanks so much. Good luck.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Sure.

**Operator:** The next question will come from Adrienne Yih of Wolfe Research. Please go ahead.

Adrienne Yih

*Analyst, Wolfe Research LLC*

Q

Yes, good morning. Along the lines of sort of long-term strategy, can you talk about the investments that you're making to drive eCommerce and to compete against, say, the likes of Amazon in this space, the IT that you're implementing, specifically the plans for personalization and using CRM? Thank you.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yes. So we continue to make investments in this area. You can see what's happened with our eCommerce business over the last several years. It's continued to grow at a very rapid rate. We're making those investments from a personalization standpoint, direct marketing standpoint.

One of the things we do have to solve is we have to solve for the increased shipping costs, so we do have some work to do around there. But our eCommerce business, you've seen us start to market from an eCommerce standpoint more aggressively than we have in the past, and we think we're doing all the right things and it proves out from a sales standpoint.

Adrienne Yih

*Analyst, Wolfe Research LLC*

Q

And then, Ed, just secondarily, can you talk about there seems to be a change of tone, sort of this quarter about how competitive the environment is and then kind of the impact on the next couple of years. What happened in the past, call it, three to six months that sort of has led you to slow down store growth? And then is there an update to the number of store closures? Those would be the net openings, right?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yes. So we're not planning to close many stores. I mean, we don't have stores that are a problem. We talked about that in our call last year, at the fourth quarter call. We don't have store closings on the horizon. Our fleet of stores is in great shape from a profitability standpoint.

We indicated that we are slowing down our store growth not because there's an issue. Our new stores are doing extremely well, new store productivity over 90%. We're very happy with the returns, cash-on-cash returns, the internal rate of return. We're slowing this down because we see out ahead over the next couple of years, we expect the price of real estate to come down significantly because of all the store closings, the stores that Macy's are closing; Penney's; hhgregg just liquidated, went out of business; Gander Mountain's liquidating 118 stores or so. Some of them are going to open back up as Camping World, but that's still probably half those stores are going to be vacant.

We all remember our college economics course, the law of supply and demand. The supply is coming up significantly, there's not a huge demand associated with this real estate right now, so the price you expect is going

to come down. And that's why we're kind of putting our hands in our pocket from a store development standpoint right now, focusing on our eCommerce business, focusing on the stores we have now because we don't want to get caught in paying rent higher today than we think we'll pay two years from now.

Adrienne Yih

*Analyst, Wolfe Research LLC*

Great. Thank you. Makes sense. Best of luck.

Q

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Sure. Thank you.

A

**Operator:** Thank you. The next question will be from Steve Forbes of Guggenheim Securities. Please go ahead.

Steven Forbes

*Analyst, Guggenheim Securities LLC*

Good morning.

Q

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Morning.

A

Steven Forbes

*Analyst, Guggenheim Securities LLC*

Ed, if you can, can you just revisit the primary benefits of the recent leadership changes? What do you think you get? What do you think the business gets at having a President and a Head Merchant as compared to the previous reporting structure? And then the second on that, how does the new work structure change impact how you plan on spending your time as you look out strategically here?

Q

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

Well, with the new structure – well, the business has gotten increasingly complicated over the last couple of years, and to have a President in place now with Lauren and her digital experience and marketing experience, I think, is going to be very beneficial to the business. Bringing Keri in from a Chief Merchant standpoint will really allow me to focus on some broader business. And as I said, it has become more complicated between the DICK'S business, Field & Stream. We made a great deal on the Golfsmith stores to become Golf Galaxy stores. That's a different business.

A

What we're doing with Team Sports HQ, the technology companies that we rolled up, it's a very exciting time here, and we're pretty excited about what's going on in the business and it'll give me the opportunity to take a broader view of the business as opposed to being just focused primarily from a merchandising standpoint as I've been in the past.

As far as the new management team going, Lauren, we think, will be terrific. Keri comes with great experience. Don Germano rejoins us. We were sorry to see Don leave when he left, and André retiring is – there are times that – there's been some things written about André's retirement. And I'd just like to let everybody know,

sometimes a retirement truly is actually a real retirement. Andr  has been at this a long time. He's done a great job. He's got a new grandchild. He wants to spend time with this family. And a retirement sometimes really is a retirement, and this is one of those times.

Steven Forbes

*Analyst, Guggenheim Securities LLC*

Q

Thanks. And then just a quick follow-up, obviously, noting the cost streamlining efforts at the corporate level, can you touch on what the breakeven comp is, or needs to be at the store level to maintain the four-wall margin structure?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Doesn't have to change a whole lot. I mean, our cost structure -- I don't really understand the question. There's nothing that's really changed inside the four walls other than what we've done with the investments we've made in the premium full-service footwear decks. But there's no real different change in the four-wall requirement to breakeven.

What we have made investments in -- we've continued to make investments from an eCommerce standpoint, and we're making significant investments, and we'll roll those out to you at the next call, but we're making significant investments in the technology companies that we bought, which is Affinity, Blue Sombrero and GameChanger and rolling these into the Team Sports HQ business. And this, again, our investments we're making for the future that may negatively impact the next several quarters, but we look at this as what's right for the business long term, and those are the way we're going to make -- we've made decisions in the past, and will continue to make those decisions going forward.

Steven Forbes

*Analyst, Guggenheim Securities LLC*

Q

Thank you.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Sure.

**Operator:** The next question will come from Christopher Horvers of JPMorgan. Please go ahead.

Christopher Horvers

*Analyst, JPMorgan Securities LLC*

Q

Thanks. Good morning. The eCommerce growth rate during the quarter, I believe you expected some slowdown due to the transition and pausing a bit on the marketing. So how did that contribute to the overall comp performance in the first quarter relative to plan? And you mentioned being more aggressive on marketing, on eCommerce now, is that year-over-year relative to what you did a year ago? And when did you start to do that?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, the eCommerce business didn't have a whole lot of impact on our comps. It was kind of in the zone of what we had anticipated. The comps fell short. A number of other retailers indicated they got off to a slower start at the



beginning of the quarter also. We had some weather concerns, as I said, some leagues started late, and that was really the issue. As we talk about increasing our marketing, it was increasing it over what we had done in the early parts of the quarter, getting it back to more normalized levels.

Christopher Horvers

*Analyst, JPMorgan Securities LLC*

Q

I got you. And so, I guess, is the right way to think about the trend rate in the business looking at March and April together, especially as you think about it seemed like spring shifted by a month year-over-year and then you had Easter also shift, which should have some impact to the business. So is that the right way to think about it? And can you share how those two months performed on a combined basis?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, on a combined basis, we're not going to get to that granular level of detail. But as I said, February was not too bad. March was not nearly as good, driven primarily because of some weather issues, primarily up in the Northeast, Midwest, which we have a big amount of our stores. And then when things turned, April, our business was very good as our eCommerce business got back to approximately 20%, and the comp business overall was about 5%.

Christopher Horvers

*Analyst, JPMorgan Securities LLC*

Q

Understood. And then my last question is, so is there a way to size how much market share – as you think about by the end of 2017 and looking back at the past couple of years, is there a way to size or could you size for us how much market share has come out of the sporting goods market broadly?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah. I don't know that specifically right now. We can take a look at that, but I couldn't give you that number off the top of my head, and we still have a ways to go.

Christopher Horvers

*Analyst, JPMorgan Securities LLC*

Q

Understood. Thanks very much.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Sure.

**Operator:** The next question will be from Scot Ciccarelli of RBC Capital Markets. Please go ahead.

Scot Ciccarelli

*Analyst, RBC Capital Markets LLC*

Q

Good morning, guys. First of all, what have your learnings been as you've gone through your vendor consolidation process? And related to that, are you getting the concessions you expected from your strategic partners? What's the reaction been from your planned – strategic partners, et cetera?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

We've gotten great reaction from the strategic partners. And if you remember, we said that we would only have one or two strategic partners in a particular category. And where we have moved to those strategic partners and have been able to make those investments in their brand and them in us, our brand, it's worked out extremely well. It's worked out very well in the golf business. It's worked out very well in the footwear business. We continue to see those – the reactions have been great.

And also in the transactional vendor, if you remember, we have three buckets. We have the strategic bucket, we have a transactional bucket, and we have an eliminated bucket. So we've eliminated a number of vendors, and the vendors that we do business with in the transactional component have really worked hard and provided us opportunities to increase their brand, increase margins, increase returns to clean up our inventory. It's been great. What we found is that especially in the strategic partners, we really do have true strategic partners. They've been great.

Scot Ciccarelli

*Analyst, RBC Capital Markets LLC*

Q

Okay. That's very helpful. And then can you also – Ed, you talked about the impact of the Gander Mountain liquidation. Can you guys help size that impact just so we can kind of understand the impact it'll have on the comps in the back half or expected impact?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

We don't really know yet. It depends on when the liquidation starts, when it ends, how aggressive they get, how quickly Camping World takes over whatever number of stores they're going to. So there's too many variables out there for us to give you a number yet.

Scot Ciccarelli

*Analyst, RBC Capital Markets LLC*

Q

But just to be clear, is that the primary change to the back half comp guidance, or is it you had lower 1Q trends, and you just think that, overall, it's a more competitive environment?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, I think there's a couple things. I think it's the liquidation of Gander Mountain, it's the broader distribution of the athletic product in the marketplace today, which was part of the cause of the reduction in Q1 that we think is going to continue. So I think the market's going to get to be a bit more competitive before everything shakes out.

Scot Ciccarelli

*Analyst, RBC Capital Markets LLC*

Q

Got it. All right. Thanks, guys.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Thanks.

**Operator:** The next question will be from Simeon Gutman of Morgan Stanley. Please go ahead.

Simeon Ari Gutman

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks. My first question, Ed, is on store growth. I think it was on TV last week, you did an interview and you said maybe in five years, I didn't know if you're referring to DICK'S or the segment or retail, you said we will probably have around the same stores as we do now. And just listening to comments on this call, I don't know if you meant that specifically for DICK'S because it sounds like you're still going to be opening stores with no expectations to close.

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

Yeah.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

So when I said that I don't think that we'll have significantly more, as we go forward, there's probably an opportunity for us to – and again, depends on what happens with the real estate – what happens from a real estate standpoint, but there may be an opportunity for us to consolidate some stores in certain markets. If a number of these malls close or some of these shopping centers close that have a number of these key tenants, and we're left there alone, we have the ability in the vast majority of our leases to go to a significantly reduced rent.

They have a cure period, after the cure period, if they were not able to cure a number of them, we have the opportunity to leave the center. So it really depends on what happens in the whole market. I think you're going to see an a lot more store closings, and I think we'll have the ability to consolidate some of our stores. Where we have three stores, we might be able to have two stores and service the market the same way. And that could be with either just a DICK'S store or a combo store of DICK'S and Field & Stream or all three banners together.

So we'll wait and see, but I don't think we'll have significantly more stores in five years from now than we do today. And as we said, we're probably moving to 5 or 10 stores in a couple of years. And when I said how we're going to look to do this, we have 25% of our – roughly 25% of our store base comes up for renewal in the next three years. We don't have to close stores because they're not performing well, but we may relocate stores, we may consolidate stores to where the retail intensity is better. And we've got tremendous amount of flexibility, and we can do this with 25% of our stores if we needed to with virtually no closing charges, because they're at the end of the lease.

We've got – what I don't think The Street understands about our real estate business is that we have the rights to these stores for approximately 20 years, our average lease time that we're committed to, because we'll sign a lease, it will be roughly a 10-year lease with usually four, sometimes three, usually four, five-year options after that.

So we control the buildings for a long period of time, but after that first 10-year period, which most of the stores have gone past that, we only are obligated for roughly a little more than five years on an average store going forward. So we've got great flexibility in our real estate, which I don't think people understand.

Simeon Ari Gutman

*Analyst, Morgan Stanley & Co. LLC*

Q

That's helpful. My follow-up maybe for Lee, Seth asked an earlier question about, I think, Q2 and some of the margin progress or trajectory as the year unfolds. My follow-up is, is there any more granularity that you can walk us through, maybe the key drivers in the areas of, I guess, margin? What specific drivers, either in margin or in dollars, change from first quarter to second quarter? I'm thinking there's some marketing spend, some Eagle investments or the Eagle profit improving. So can you just walk us maybe from Q1 to Q2 and maybe the rest of the year? Because there is a good jump in the EBIT dollar and margin progression, and I'm just trying to find some of the – pinpoint some of the drivers.

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

Well, I don't know if I can walk you from Q1 to Q2, but Q2 versus Q2 last year, we were pretty promotional last year, and we expect to be less – we had a lot more clearance inventory last year, we'll have less this year to work through. So we expect the margin rates to be higher – the merchandise margin rates to be higher.

And I don't want to get into specific dollars for each item that we're spending on, but last year, we were kind of at our peak footwear investment that we had as we were converting the footwear decks. We should get some of that back. We have some investment spend on the marketing side as well that we should get some savings on the marketing side. So we've got opportunities on both the expense side and the gross margin side in Q2, not so much a build, Q1 versus Q2, but as we look at it versus last year.

Simeon Ari Gutman

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Thank you.

**Operator:** The next question will be from Brian Nagel of Oppenheimer. Please go ahead.

Brian Nagel

*Analyst, Oppenheimer & Co., Inc.*

Q

Hi, good morning. So a couple questions here. First off, also on real estate. Ed, you mentioned in your comments about store growth just the mall versus non-mall dynamic. So question out there is, are you seeing a marked difference now in the performance – or any type of difference in performance between your more standalone stores versus those in the mall?

And then my follow-up just on eCommerce, so it's separate, but on eCommerce, and I know there have been a number of adjustments you've made to the business. I mean, how should we think about the profitability of eCommerce now and how that continues to evolve going forward? Thanks.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

So I'll answer the second one first. We expect our eCommerce business to continue to become more profitable as we go forward from whether that's how we fulfill our eCommerce business, the mix, our Vendor Direct program, we expect the eCommerce to become more profitable as we go forward, as it has over the last several years.

As it relates to the performance of our standalone stores, and we don't have many standalone stores, the vast majority of our stores are either in a strip center, a power strip or in a mall, and we're not seeing any difference between either one of those. And the main reason we believe that is we're really a destination. We're a destination shop for sporting goods, for footwear, for apparel, for those items those customers want. So we haven't seen a big difference.

We do think that based on the fact that we're a destination, we have an opportunity as long as we're in the right retail – where the retail density is, we feel that we've got the ability to be in a strip center or at a mall. And I think strip center – you're going to see increased vacancies in malls and also I think in some strip centers going forward. So again, we think the price of real estate's coming down, and we're going to be very patient as we take a look at what our development program is going forward.

Brian Nagel

*Analyst, Oppenheimer & Co., Inc.*

Q

Perfect. Maybe just as a follow-up on that on the eCommerce question I had. So the profitability for eCommerce continues to improve, how should we think about, right now, the difference of profitability between a sale online versus sale in your store?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, I would say that a sale in the store is more profitable – an incremental sale in the store is more profitable than it is in the online, which we've talked about in the past. And we're moving pretty quickly from how we handle our costs from a scale standpoint that we'll be able to make – we'll be able to be truly ambivalent on where that sale comes from.

As we moved to this new platform, our costs were significantly changed. In the past, when we were working with Radial, we paid a percentage fee based on the sales that we did. So if we sold \$100 pair of shoes or we sold an \$80 pair of shoes, we paid a percentage of that retail price. So you really couldn't leverage your costs.

As we go forward now, the fee is on a per-unit basis, and we're able to leverage those. So if we sold \$100 pair of shoes, it's more profitable for us than if we sell an \$80 pair of shoes. We weren't able to do that before. So as we move forward over the next couple of years, we truly believe that we will be ambivalent from a profitability standpoint.

Lee J. Belitsky

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

In addition to that, we now own our own platform, so it's largely a fixed cost. So we have our variable costs by the unit, but we have a bigger fixed cost component as well on eCommerce that we can leverage – the higher the sales go, the greater leverage we have on our fixed cost, whereas in the past, it was all a variable cost when we're using the Radial platform.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Right.

Brian Nagel

*Analyst, Oppenheimer & Co., Inc.*

Q

Thank you.

**Operator:** The next question will be from Omar Saad of Evercore ISI. Please go ahead.

**Omar Saad**

*Analyst, Evercore Group ISI*

Q

Morning. Thanks for taking my question. A couple of questions. Wanted to ask about the TSA and Golfsmith customer lists. I think you guys picked those up post those bankruptcies, what you're learning from those lists, if you're able to convert some of those customers, is there a lot of overlap, or is it a chance to introduce you to a lot of customers? And then I have a couple follow-ups.

**Edward W. Stack**

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

So the answer to that is there's some overlap and there are new customers. And depending on how far it was from a store that we operated, the closer the store, the more the overlap, the further away that the store was from a DICK'S store, the less the overlap. What we're able to find is now that we're opening – we're really hot and heavy into the opening of the former TSA stores, and we're able to use that data to really drive business, and we're really pleased with the way those stores have opened.

**Omar Saad**

*Analyst, Evercore Group ISI*

Q

Got it. And I wanted to ask – I think it was last quarter, you mentioned two new brands this spring that you're pretty excited about. I think one of them was the compression brand maybe, the private-label compression brand you're launching, A, is that right? And B, what's the other brand that's out there that's new to the assortment?

**Edward W. Stack**

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

The one brand is – the athletic brand is Second Skin. We're very excited about that athletic brand, and our hope is that we can move that to be as successful as the CALIA brand. The other brand is called ETHOS. It's an exercise brand – higher-end exercise brand of weights, kettle bells...

**Lee J. Belitsky**

*Executive Vice President, Chief Financial Officer, Dick's Sporting Goods, Inc.*

A

Accessories.

**Edward W. Stack**

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

...accessories, benches all of that. And early indications are – it's pretty early in that, but we're pretty excited about that.

**Omar Saad**

*Analyst, Evercore Group ISI*

Q

It seems like you guys are having some good success moving higher end, some of your customers clearly looking for a more premium offering. Should we think about that, generally speaking, across all the different categories moving forward, or do you feel like your price points are in the right place?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, we feel our price points are in the right place, but as we take a look at some other brands that we'll be introducing, we're going to be introducing a winter apparel brand called Alpine Design, that'll be in 2018. We're excited about that. It'll be a mid-price point product. So, yeah, we're trying to take these – the price points of our private brands a bit higher, but we're also going to be developing an opening price point athletic apparel brand also, probably sometime in 2018. So we're trying to cover the gamut.

Omar Saad

*Analyst, Evercore Group ISI*

Q

Got it, got it. One last question if it's okay, more of a product question, specifically with the sneaker business and maybe on the apparel side, too. As we think about this kind of broader shift in the marketplace more towards sport fashion, retro, kind of that sports streetwear, do you feel like your offering has the right mix of those products and brands that play in that area? Or is your customer base a little bit different and that's not quite the same kind of appeal as you might see maybe in more urban locations? Just thoughts around that kind of product shift that's going on in the marketplace.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah. I think that that product, definitely, where we have it in our stores, it sells very well. That kid who wants that product, he's coming in to buy his football cleats or her soccer cleats or baseball cleats, softball cleats, they want that product. And where we have that product in the stores, it's done very well, and we expect that to be – the product offering to be available in much broader range of stores over the next six to nine months.

Omar Saad

*Analyst, Evercore Group ISI*

Q

Got it. Thank you. Good luck.

**Operator:** The next question will come from Mitch Kummetz of B. Riley. Please go ahead.

Mitch Kummetz

*Analyst, B. Riley & Co. LLC*

Q

Yeah. Thanks for taking my questions. Ed, on the real estate side, I mean, you mentioned renewals a couple of times. I think you said 25% of your stores over the next three years. Can you talk a little bit about what you're seeing there as you go through that process and to what extent might that benefit you guys on the margin side?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah. So what we're seeing there is where we've got stores that the lease term is up and then we have an option to continue or an option to move or close a store, whatever we decide to do. When we've got an option to go somewhere else, we've got a lot more leverage, and we've been able to negotiate tenant allowance money to update our store. We have also been able to leverage real estate prices to come down or we've been able to relocate and get a brand new store in a center, might be half a mile away where the retail intensity has changed. So it gives us tremendous flexibility. Like I said, we've got – what we are committed to in any store kind of, on average, is a little more than five years. So we've got tremendous flexibility and we've been putting it to pretty good use.

Mitch Kummetz

*Analyst, B. Riley & Co. LLC*

Q

I guess, the decision you make there just depends on a per store basis. So it might not just be something that drives better margins, but it actually might drive greater productivity, if you go to a different center or something like that?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah. We primarily drive this based on driving the sales piece. If all else is equal, the rent is equal, or the rent might be a little more, a little less depending – we will take a look at this and see where we can drive the most amount of sales and which location will be the most profitable from a true sense of profitability as opposed to just the margin rate.

Mitch Kummetz

*Analyst, B. Riley & Co. LLC*

Q

Got it. And then, can you talk a little bit about your pricing strategy? To what extent does it or can it vary on a market-by-market basis or even maybe on a store-by-store basis? I would imagine you have some stores that there's now less competition based on the TSA bankruptcies, and maybe there's some opportunity to be able to be less aggressive on pricing there versus maybe other markets where you might see a vulnerable competitor that you want to get more aggressive with. To what extent are you doing that or can you do that?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah. We're not going to comment specifically on pricing strategy per area. We're really focused more on categories of business. If we think there's a category that we want to try to gain market share in, we may be a bit more aggressive. But our pricing strategy, for the most part, is consistent throughout the country.

Mitch Kummetz

*Analyst, B. Riley & Co. LLC*

Q

Okay. Thank you. Good luck.

**Operator:** The next question will come from Michael Lasser of UBS. Please go ahead.

Michael Louis Lasser

*Analyst, UBS Securities LLC*

Q

Good morning. Thanks a lot for taking my questions. Ed, you mentioned previously that you've been making investments with a really long-term lens, but I guess, you've been make investments for quite some time. And how are you measuring the return on those investments? Is a 2.5% comp the type of return that you would expect on those investments that you're making for the long run?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, no. I mean, we would like our comps to be higher than 2.5%, but we're making investments from an eCommerce standpoint, from a marketing standpoint, from an infrastructure standpoint, and I think it's just a difficult time in retail right now. But we're not going to take this difficult time in retail and be scared off from making



the investments that we should make that are for the long-term benefit of the company and where this industry is going. We think the investment that we made in eComm is starting to pay great dividends. We think that the investments we're going to make in Team Sports HQ is going to make for a great investment and great growth going forward.

If you take a look at what other retailer is doing out there, it's pretty difficult. Our business is really among – so our comps at 2.5% may not be what we originally guided to. We had some issues. We're not going to make excuses for those, but they're still pretty healthy compared to what else is going on in the marketplace. So we're going to continue to make these investments. We believe in what we're doing. We see where the future's going. We see where the puck is going, and we remain extremely excited about where this company's going to go and can go. And we won't back off from that.

Michael Louis Lasser

*Analyst, UBS Securities LLC*

Q

Okay. And my follow-up question is that every quarter, there's parts of the product portfolio, categories that work and categories that don't work. So based on that volatility, especially in light of all the share gains that you're seeing and where you are with the business right now, does that make you rethink the size of the store, or rethink any areas that you're leaning in investing to such as golf or outdoor?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Yeah. We take a look at some opportunities in our stores and move – categories expand and contract all the time. This is no different than when we've run the business for the last 50 years, that there's categories that expand and categories that contract. Categories that are contracting today may be expanding in several years. So we're constantly making those management decisions as where to invest, and this is nothing new, and we'll continue to do that.

Michael Louis Lasser

*Analyst, UBS Securities LLC*

Q

That begs the question, certainly there's been a long history and heritage to the business, but do you think that the lessons from long ago are still as relevant today when more of the business is going online? And is that how you think about categories or store size?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

We still feel from a store size standpoint, we're in the right size with what the customer is expecting from what they want from a footwear standpoint, the specialization they want from a golf standpoint, from a Team Sports standpoint, from an athletic apparel standpoint, we're very comfortable with our store size. And as we've indicated that our new store productivity at greater than 90%, the customer is still telling us, we've got the right size store.

**Operator:** And the final question today will be from Sam Poser of Susquehanna. Please go ahead.

Sam Poser

*Analyst, Susquehanna Financial Group LLLP*

Q

Thank you for taking my question. And I still have some after all of that. I guess, one, is the Gander promotional activity, couldn't that help your gross margins just because they're selling, arguably, one of your lowest margin

businesses? So from a mix perspective, that could help your margins during that time even though it might hurt comp?

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

A

Well, I mean, Sam, you could think that, and some of these categories we may be taking some ammunition prices down, some gun prices down to not lose that market share through this. So I don't think it's helpful to our gross margins right now.

**Operator:** And ladies and gentlemen, that will conclude our question-and-answer session. I would like to hand the conference back over to Ed Stack for his closing comments.

Edward W. Stack

*Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.*

I'd like to thank everyone for joining us on our first quarter conference call, and we look forward to talking to everybody in a couple months for the second quarter. Thank you.

**Operator:** Thank you. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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