Corrected Transcript

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Dick's Sporting Goods, Inc. (DKS)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the DICK'S Sporting Goods first quarter 2015 earnings conference call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Anne-Marie Megela, Vice President of Treasury Services and Investor Relations. Please go ahead.

Anne-Marie Megela

VP-Treasury Services & Investor Relations

Thank you. Good morning and thank you for joining us to discuss our first quarter 2015 financial results. 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.

In order for us to take advantage of the Safe Harbor rules, I would like to remind you that today's discussion includes some forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which include, but are not limited to, our views and expectations concerning our future results. Such statements relate to future events and expectations and involve known and unknown risk and uncertainties. Our actual results or actions may differ materially from those projected in the forward-looking statements.

For a summary of the risk factors that could cause results to differ materially from those expressed in the forward-looking statement, please refer to our periodic reports filed with the SEC, including the company's Annual Report on Form 10-K for the year ended January 31, 2015. We disclaim any obligation and do not intend to update these statements except as required by the securities laws.

We have 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.

Leading our call today will be Ed Stack, our Chairman and Chief Executive Officer. Ed will review our first quarter results, key business drivers, and outlook. After Ed's comments, Andrè Hawaux will provide greater detail regarding our results, capital allocation, and guidance for the second quarter and full year 2015. I will now turn the call over to Ed Stack.

Edward W. Stack

Chairman & Chief Executive Officer

Thank you, Anne-Marie, and thanks to all of you for joining us today.

As we announced this morning, we generated first quarter earnings per diluted share of $0.53, achieving the high end of guidance of $0.49 to $0.53. First quarter consolidated same-store sales of 1% was within our guided range of between flat to 2% and on top of a 1.5% comp in the first quarter of 2014. As expected, our first quarter results reflect a slower start to the spring selling season, as we highlighted in our year-end earnings call.

Since February, the sales trend has notably improved. DICK'S omni-channel comp sales increased 1.8% in the quarter, with growth across the hardlines, apparel, and footwear categories, and supported by an increase in both traffic and ticket. We're pleased with this performance and are encouraged by the improving trends at our golf business.

While Golf Galaxy comps were down 11% and in line with the DICK'S golf business, both showed significant sequential comp improvement during the quarter as the weather improved, especially in the Northeast. We're seeing the golf recovery continue into the second quarter and expect margin improvement year over year in the second quarter.

We're also pleased with our women's athletic apparel. A significant amount of research has gone into our women's strategy, which encompasses our product content, merchandise presentation, shopping experience, and marketing. During the quarter, we augmented our women's fitness apparel selection by launching CALIA by Carrie Underwood. This is a higher-margin, exclusive private brand offering that serves the athletic female. CALIA is off to a great start, and we believe it will become our number three women's athletic apparel brand by the end of 2016.

On the marketing front, we recently launched our first campaign targeted directly to women. It speaks to all the pressures women are under today, the sacrifices they make for their families and work, and how difficult it is to find those few precious moments for themselves.

And finally, in new stores that we'll be opening up this year, we're redeveloping the shopping environment for the athletic female, including updated dressing rooms and improved merchandising presentation, which effectively pulls the entire women's concept together.

Our focus on e-commerce continues to pay off, with e-commerce penetration growing to 8.5% of sales in the first quarter of this year compared to 7% in the first quarter of 2014. We have significantly outpaced the market and have picked up market share in the online space. We moved up to number 70 on the Internet Retailer Top 500 list in 2014, and we grew at nearly twice the pace of the industry.

Additionally, we continue to make progress toward our goal of moving our DICK'S Sporting Goods e-commerce site onto our own exclusive platform by January 2017. This quarter, we completed a key step by successfully relaunching GolfGalaxy.com, and later this year we plan to launch a Field & Stream transactional site. By having two sites on our own platform, we will be able to operate and learn from the multi-tenancy dynamics prior to relaunching DICKS.com on the same platform.

Finally, we're also excited about our first combo store that is set to open in July in Mobile, Alabama. This combined store will place a DICK'S and Field & Stream right next to each other, with the interior walls opened up in the middle of the store so customers can cross-shop between chains. As we move forward with this format, the Hunt, Fish, and Camp product will all be in Field & Stream, leaving more room in the DICK'S stores for higher margin, faster turning categories, such as our women's, youth, and team sports businesses. We believe this will be a very compelling shopping experience, and plan to have four of these combo stores in place by the end of 2015.

Our balance sheet remains strong, and both the level and quality of our inventory is well positioned. DICK'S sales growth outpaced inventory growth exiting the first quarter, with the incremental inventory on our balance sheet supporting the growth of our Field & Stream concept.

We also continue to return capital to shareholders through our quarterly dividends and share repurchases, completing $150 million in share repurchases in the first quarter. As a result of our performance in the first quarter and our expectations for the remainder of the year, we are raising the low end of our full-year guidance to $3.12 to $3.20 per diluted share and maintaining our 2015 guidance of full-year comp sales growth of 1% to 3%. This guidance contemplates $150 million of share repurchases executed in the first quarter.

Before concluding, I'd like to thank our associates for their many contributions to our progress, as they're the driving force behind our success. All of us are grateful to them for their exceptional loyalty and commitment.

I'd now like to turn the call over to André.

Andrè J. Hawaux

Chief Operating & Financial Officer, Executive VP

Thank you, Ed, and good morning, everyone. This morning, I will cover our first quarter results, our balance sheet and capital allocation, and our performance expectations for the remainder of 2015.

To begin with, our first quarter financial results, total sales increased 8.8% to approximately $1.6 billion. Consolidated omni-channel same store sales increased 1% compared to our guidance of flat to 2% same-store sales growth and compared to comps of 1.5% in the first quarter of last year.

DICK'S Sporting Goods omni-channel same store sales increased 1.8%, driven by a 1% increase in sales per transaction, and an increase in traffic of 0.8%. In the first quarter of 2015, we continued to grow our Omni-channel platform. We opened nine new DICK'S stores, one new Field & Stream store, and we generated 95.4% new store productivity, and as Ed mentioned, we grew our e-commerce business to 8.5% of sales, compared to 7% in the first quarter of 2014. This translates into approximately 32% growth for our e-comm business. We also relocated one DICK'S store and one Golf Galaxy store during the quarter.

Gross profit for the first quarter was $469 million, or 29.96% of sales, and was down 68 basis points from Q1 of 2014, driven by lower merchandise margin, occupancy deleverage, and an increase in shipping expenses as a percentage of total sales due to our continued growth in e-commerce. As you will recall from our last earnings call, we anticipated a lower merchandise margin in the first quarter, as a result of planned, promotional activity earlier in the season.

SG&A expenses in the first quarter were $361 million, or 23.05% of sales, and on a non-GAAP basis leveraged 38 basis points from the first quarter of last year. This was primarily due to lower administrative expenses as a percentage of sales.

Now, looking to our balance sheet, we ended the first quarter of 2015 with approximately $81 million of cash and cash equivalents, and approximately $51 million in borrowings outstanding on our $500 million revolving credit facility reflective of our share repurchase activity and capital expenditures during the quarter. First quarter – in 2015 net capital expenditures were $25 million or $66 million on a gross basis.

Total inventory increased 9.7% for the end of the first quarter of 2015 compared to the end of the first quarter of 2014. As Ed mentioned in the quarter, our inventory for the DICK'S business grew at a slower pace than sales and the balance of the inventory growth is to support our Field & Stream expansion.

Turning now to our capital allocation strategy. In the first quarter we paid $17.4 million in dividends, and completed share repurchases of $150 million. Since we started our $1 billion authorization at the beginning of 2013, we have repurchased over $605 million of common stock and have approximately $395 million remaining under the authorization. We believe that investing in our business; share repurchases and dividends all remain key elements of our capital allocation strategy.

Turning to our outlook for the remainder of fiscal 2015. We are raising the low end of our full year earnings guidance and now expect full year earnings per diluted share of $3.12 to $3.20. We expect same store sales to increase 1% to 3% consistent with our prior guidance.

Gross margin is expected to increase primarily driven by merchandise margin expansion. SG&A is expected to deleverage as we invest in building our brand coupled with the expenses related to bringing e-commerce on to our own platform. Year-over-year pre-opening expenses are expected to remain relatively flat as a percentage of sales. As a result of these dynamics, we expect operating margins to increase slightly year-over-year.

Net capital expenditures for the full year 2015 are expected to be approximately $245 million, or about $365 million on a gross basis.

In 2015 we expect to open approximately 45 new DICK'S stores, relocate seven DICK'S stores, and relocate one Golf Galaxy store.

We also remain focused on scaling our Field & Stream concept and expect to open nine new Field & Stream stores this year.

For the second quarter of 2015, we anticipate earnings per diluted share of $0.73 to $0.76. Consolidated omni-channel same store sales are expected to be approximately flat to up 2% compared to a 3.2% increase in our comps in the second quarter of 2014.

Non-GAAP operating margin is expected to remain relatively flat, due to an expansion in gross margin, offset by SG&A expense deleverage primarily due to our investments we are making in e-commerce.

Our guidance for the second quarter contemplates meaningful World Cup sales comparisons as well as higher levels of golf clearance in the same period last year. We also expect to open seven new DICK'S stores and one new Field & Stream store in the second quarter.

In summary, we continue to successfully grow our business, make the right investments, and deliver shareholder value. We are focused on driving store productivity, adding stores in new and underpenetrated markets, expanding and in-sourcing our e-commerce business and further developing our Field & Stream specialty concepts.

This will conclude our prepared remarks. Thank you for your interest in DICK'S Sporting Goods. Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Christopher Horvers of JPMorgan. Plead go ahead.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Thanks and good morning, everybody. So, I wanted to follow up on your comment, Ed. You said that DICK'S sales growth exceeded inventory growth at the end of the quarter. So, inventory growth was up 9.7%. So are you suggesting that you're comping 2% to 3% at this point in May? And then could you reflect that back against the guidance of 0% to 2%? Does that suggest that you're just – the compares get a lot tougher as the quarter progresses?

Edward W. Stack
Chairman & Chief Executive Officer

A

That was coming out of the – that was – the number we talked about, that the sales grew faster than the inventory, is at the end of the first quarter, and our inventory in the DICK'S store was lower than what the sales had gone up in a total basis, and that the differential was really to support the Field & Stream stores.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

I got you. So that was in the end of the quarter.

Edward W. Stack
Chairman & Chief Executive Officer

A

That was at the end – as we exited the quarter.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Okay, understood. And then can you talk about how you think about the golf business, the growth in the golf business longer term? How you're thinking about what's the sustainable growth rate is in the store? And how does that compare about how you think about what the sort of sustainable comp rate is in Golf Galaxy long-term?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think the golf business, as we said, it gets sequentially better in the quarter and we hesitate to talk about what's going on in a particular quarter. But based on the golf business, and the Golf Galaxy business is such a small part of our total business, I do think it gets kind of more air time than it needs. It's a little more than 3% of our total business on an annual basis, but as we take a look at our golf business in total, for this quarter, so I'm not saying that this is how it's going to play out because we got very promotional toward the middle of the quarter around Father's Day, but our golf business right now is significantly better, relatively – down a little bit, but close to being flat. Margin rates are up 100 basis points this quarter so far, and that's on a much lower cost structure on how we restructured the golf business last year.

So I think the golf business is going to continue to be difficult. I don't think there's a lot of growth in it, although there are some good things happening in the business today, and a lot of it's coming from the PGA tour, some of these young guys that are out there playing I think are going to be very helpful to the game. We'll have to wait and see longer term how it plays out, but some of the things happening out on tour are really very good for the game.

Christopher Michael Horvers
JPMorgan Securities LLC
Q

Understood. And then one last question for Andrè. Merchandise margins were down pretty significantly in the second quarter. I know you expect them to be up. Any sort of directional commentary of how much we can recapture from last year? Thanks very much.

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP
A

Yeah, certainly Chris. We're not going to get into that level of granularity for what our merchandise margins are going to increase in the second quarter, but we do have that baked into our guidance and they will expand in the second quarter of 2015 versus 2014. Largely driven by the comments that you made about being promotional last year.

Christopher Michael Horvers
JPMorgan Securities LLC
Q

Understood, thanks.

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

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)
Q

Thanks, good morning, guys. Two questions on the outdoor category. I guess first, are we deep enough now into the Field & Stream initiative to get a sense of how those stores are going to comp after that first year of opening? And then the second piece of that is just in general, just wondering how the hunting business has performed within the core business. Has it stabilized? Is it returning to growth? What's the outlook for that category?

Edward W. Stack
Chairman & Chief Executive Officer
A

I think it's still too early to talk about Field & Stream's comp. We've only got two stores that have been opened for a year. Those two stores we're trying to determine what the right penetration in the market is so they're significantly cannibalized. We've got the one store that we opened up in Pittsburgh, it got cannibalized by two other stores, one about 30 miles south of Pittsburgh and another one about 60 miles to the east, and these stores have a broad draw range, if you will. So it's still early to say.

We're really excited – continue to be excited about what we can do with Field & Stream, and in particular, we're excited about these combo stores that we're doing this year where we'll have a DICK'S and Field & Stream right next to each other and an entryway about halfway through the store punched in, a pretty big entry way, about 30 some feet, that customers will be able to cross-shop. We've got one store – we've got one of these concepts open today in Columbus, Ohio, where there's a DICK'S store right next to a Field & Stream store, there's also a Golf Galaxy store there. But right now today you can't shop between the two chains.

And if you take a look at the volume that we're getting out of that DICK'S and Field & Stream store and combine these, we think this is going to be a really pretty compelling shopping experience. We'll have four of these opened up by the end of this year, of which one includes, the one in eastern Ohio that we're going to punch a hole between the DICK'S store and the Field & Stream store to allow customers to shop between those two stores which they can't do today.

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. And the second piece of that was just how the hunting business is performing within the core DICK'S stores and whether it's stabilized. It's been a troubled category over the last year. Has it returned to growth, and what's your expectations?

Edward W. Stack
Chairman & Chief Executive Officer

A

It's gotten much better. It's not growing by leaps and bounds yet. I think there's still a bit of a hangover from all of the product that was bought when it ran up so significantly. But we're really – it's stabilized and we're very happy with that business right now. We think it will start to grow again, be relatively flat through the rest of this year, and probably start to grow next year.

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)

Q

Okay, thank you, and just one final one. When you think about the store, trends outside of golf and hunting, can you talk about maybe some of the performance apparel categories, footwear, categories that have outperformed over the last year or so? How are those performing today relative to the 1.8% comp reported for the DICK'S stores?

Edward W. Stack
Chairman & Chief Executive Officer

A

They're performing better than the 1.8%. If you take a look at the athletic apparel business, the footwear business, the team sport business, we're pretty pleased with what's going on in those other areas.

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)

Q

Okay, thank you.

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

Simeon A. Gutman
Morgan Stanley & Co. LLC

Q

Thanks, good morning. It's a follow-up to the prior two questions, Ed. There's a school of thought that if golf and outdoor collectively are less of a drag in the second quarter, if not a zero drag, and I think you implied that for golf and somewhat in outdoor, and that you have footwear and apparel that are still growing healthily, I don't want to put words in your mouth, but somewhere in the mid-single digits, we could have seen comps a little higher than what you're guiding to in the second quarter. And granted, you mentioned the World Cup compare. Maybe that was underappreciated. But can you comment if any part of that framework is off? The golf and outdoor you've suggested. So footwear and apparel, if they're growing in that range, does that mean the World Cup compare is a couple hundred basis points? Why couldn't we see growth better than that 0% to 2%?

Edward W. Stack
Chairman & Chief Executive Officer

A

So we're starting to see that stabilization in golf. As I said, I'm not sure that it's going to – we're not convinced yet it's going to continue, as we got very promotional in the golf business last year in and around Father's Day to try to drive that inventory out of the system, which was pretty successful. We got rid of a lot of inventory, so we're going to be under some pressure there. And I think the World Cup was probably underappreciated. It was a very meaningful part of our comp business, and the World Cup doesn't happen this year. So you're not far off from your thoughts on how that impacted our comps.

Simeon A. Gutman
Morgan Stanley & Co. LLC

Q

Okay, and then my second question related to I guess the profit dynamics between retail and e-commerce. So the e-commerce business was strong, as usual, and we've seen with a lot of other companies they tend to struggle to maintain their margins or even grow with that type of growth because it implies what they're doing in the store is not as great and the cost structure doesn't seem to flex as well. So I'm just curious. You have ship from store, and I think that's helping mitigate some of that. Your SG&A per foot has been managed well. Are there other things that you're proactively doing to ensure that margins continue to grow, even if the physical store comp is under pressure and as e-commerce continues to grow fast?

Edward W. Stack
Chairman & Chief Executive Officer

A

So on the e-commerce side, to be able to move to our own platform and not have the GSI platform and the fees associated with GSI will be a significant improvement to our e-commerce business. And that's part of the significant investments we're making from an e-commerce standpoint. Two years ago, last year, this year, and we will move this, the DICK'S Sporting Goods site to this new platform in 2017.

We were really enthusiastic that the relaunch of the Golf Galaxy site is up and successful, and we're pleased with how that's going. We'll have Field & Stream up later this year, and we'll run the bugs out of this system before we turn on the DICK'S site.

Simeon A. Gutman
Morgan Stanley & Co. LLC

Q

Okay, thanks.

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

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Thanks, good morning. Ed, you mentioned regarding the DICK'S inventory being below sales. Is that a function of being light in any particular category as a result of some of the inventory shipment delays from the West Coast ports, or was that just better inventory management that you saw there?

Edward W. Stack
Chairman & Chief Executive Officer

A

It was really a bit of both. So there were some shipments that were delayed. We got almost caught up at the end of the first quarter, but there were still some shipments that were delayed, so there's a bit of that. But the vast majority of that has come through much better inventory controls that we implemented this year versus last year.

Camilo R. Lyon
Canaccord Genuity, Inc.
Q

Would you be able to share what categories you felt you were underexposed?

Edward W. Stack
Chairman & Chief Executive Officer
A

When you say underexposed...

Camilo R. Lyon
Canaccord Genuity, Inc.
Q

Underrepresented from the shipment side.

Edward W. Stack
Chairman & Chief Executive Officer
A

There were shipments that got caught up from a team sports standpoint, baseball, some footwear, apparel. It was primarily in those categories.

Camilo R. Lyon
Canaccord Genuity, Inc.
Q

Okay. And then just on CALIA, I thought it was interesting that you mentioned that you thought that this would be the third biggest brand by the end of the year in women's. Can you just share a little bit as to why you believe that that will be the third brand? Is it because of the value proposition? Is it the number of SKUs that you have in the line? What's going to take a consumer to shop this brand versus some of the other brands that you have in the store?

Edward W. Stack
Chairman & Chief Executive Officer
A

We indicated that it would be number two by the end 2016. I mean number three by the end of 2016. And where that's going to come from is just the performance that we see today. So the team has done a wonderful job with this brand. Carrie Underwood has been a terrific partner in promoting this brand. And the sales trend that we see that we are on in this category, we're pretty confident it will be number three by the end of 2016.

Camilo R. Lyon
Canaccord Genuity, Inc.
Q

Is that coming at the expense of the lesser tier brands that you have in the store or some of the more premium brands?

Edward W. Stack
Chairman & Chief Executive Officer
A

It's coming across the board. This is a bit more of a premium brand product. It's different in the marketplace. Women are looking for something different, and we've provided that with CALIA by Carrie Underwood. And it's coming from a number of different places.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Okay. And just my last question, just to clarify on the golf comment, I think there was a nice overall expectation that profitability would be much better given that you've done a fair amount of work of managing the inventories last year. But it sounds like there was an acceleration in the business from a demand perspective. I just wanted to drill down into that a little bit more. Is that a function of interest in the category, would you say, or new products coming to market, or just easier comparisons?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think it's easier comparisons. I think there are some really good things going on in golf right now, like I said, with the Match Play was pretty exciting, as was the Players Championship that they had, Rory McIlroy winning this past weekend. I think there are some really good things happening in golf, driven by the tour right now. I think that there has been some pent-up demand, and it's way too early to tell. We normally don't give any look into a quarter, but we think that this idea of what's going on with golf seems to be so important to the shareholder base that we thought we'd give you a little peek into what's happening right now. I don't know that it's going to continue. It's still early on, but we've been pleased in the month of April and then into May so far.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Just following up on that, the last thing on the margin rate comment you made of golf margin rates being up 100 basis points thus far. I would assume that that margin rate would improve, would accelerate, given the incremental discounting that happened later in the quarter last year. Is that a fair assumption? So, 100 basis points will be something above that for the category, if it stays on this path?

Edward W. Stack
Chairman & Chief Executive Officer

A

We're not going to get to that level of granularity and guide to what our golf margins will be, but they're roughly 100 basis points right now, and we do think that they will be better than they were last year because of less promotional activity this year versus last year.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Got it. Thanks a lot and good luck for the rest of the quarter.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

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

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Hi. Good morning.

Edward W. Stack
Chairman & Chief Executive Officer

A

Good morning, Brian.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

I was hoping to dig maybe a little deeper into the weather impact. I mean, clearly you're not – by no means you're the only company talking about some of the weather disruptions here in the fiscal Q1. So, maybe a couple of questions here. Could we get some color around the performance of stores or regions that were and were not weather impacted? And/or maybe, is there a way to estimate what comps in the quarter would have been, had the weather been, I don't know if this is even the right word anymore, but normal for the period?

Edward W. Stack
Chairman & Chief Executive Officer

A

And nobody knows what normal is from that standpoint anymore. To kind of come out and say what they would have been if the weather had been normal, it's tough to describe normal, so I don't really know how we would do that.

But, with the stores – and we're very much – we still have a big concentration in the Northeast and the upper Midwest and that's where the weather was, as we all know, really the worst. So, it was difficult. Those were the areas that were impacted the most. And with that being said, we were still pretty happy that we were able to generate a 1.8% consolidated comp and come into the high end of our guidance at $0.53 under some pretty difficult conditions.

Now, that being said, we're – we've got to continue to go and try to make some of that up in the second quarter, but we're – we're trying to be – we're trying to give a realistic to conservative estimate of where we're going here.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

That's fair. So we have the comp – so I guess let me ask this then. Is the comp guidance you laid out for the fiscal second quarter indicative of where the business is trending right now?

Edward W. Stack
Chairman & Chief Executive Officer

A

We're not going to get to that – I thought we kind of got out of the box a little bit and gave you a little peek into golf for the second quarter. We're not going to get too granular into how we're going in the second quarter. But right now, we're very pleased with what's happening in the second quarter.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Okay, fair enough.

Edward W. Stack
Chairman & Chief Executive Officer

A

I know that doesn't answer your question, Brian.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

No, it doesn't, but I understand where you're coming from. But that's fine. And then shifting gears a bit, Andre, you talked about merchandise margins and the promotional cadence. And someone asked a question before about margins. But I guess the question I have is as we look at margins going through the balance of this year and recognizing there's maybe a bit of a choppy comparison to the second quarter, given the outsize promotions last year, but how should we think overall about your stance towards promotional cadence now as we think about the comp?

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

As we commented, both in our Q4 earnings release, Brian, and also in the first quarter here, we said we planned for our – we planned to be much more promotional in Q1. We saw some opportunities to move inventory, as Ed mentioned, and we did say that on a full year basis we'll see our margins expand and you can expect to see that happening in Q2, and our sense is that you'll see that happening in Q3 and Q4, as well. So, margin expansions in the balance of the year, on a full year basis, we will make up what we gave back in Q1. That's pretty much what we talked about when we laid out our guidance.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Got it. Okay, thank you.

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

Sure.

Operator: Our next question will come from Robby Ohmes from Bank of America Merrill Lynch.

Rafe Jason Jadrosich
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Hi, good morning. This is Rafe Jadrosich on for Robby. Thanks for taking our questions. Can you guys just remind us which categories there was promotional activity in 1Q? And then sort of what's the outlook for those categories for the rest of the year? And then – yeah, that's the first question.

Edward W. Stack
Chairman & Chief Executive Officer

A

The promotional categories are – in Q1, we wanted to clean up the balance of our winter merchandise, the cold weather merchandise. We wanted to continue to clean up some of the issues in golf, so kind of the areas that you had anticipated. And going forward, it will be in Q2, it will be primarily just natural, the natural promotion. We don't see anything – we're actually seeing Q2 being less promotional this year than we were last year.

Rafe Jason Jadrosich
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Can you give us some color around sort of trends in golf ASPs versus units? And then how you think about last, year very promotional in the second quarter, did you see a traffic lift from all of the promotions you had in golf? And then how you think about lapping that?

Edward W. Stack
Chairman & Chief Executive Officer

A

The AURs are up, as we indicated we thought they would be, based on the promotional environment last year, so AURs are up. And last year, we – the units this year versus last year, we're not going to guide to that level of granularity but we think the AURs will be up and the margin rates will be up.

Rafe Jason Jadrosich
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

And then last question, just within footwear can you talk about trends by category? And then are you seeing your allocations improve at all?

Edward W. Stack
Chairman & Chief Executive Officer

A

We never talk about trends by category specifically, but the – I mean from a – give you specific numbers, but the basketball business continues to be very good. We expect the cleat business to continue to be good and our allocations have improved, yes.

Rafe Jason Jadrosich
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

All right, great. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: Our next question will come from Paul Swinand of Morningstar. Please go ahead.

Paul Swinand
Morningstar Research

Q

Good morning and usually thank you for all the patience with the questions but I'm going to ask another golf one.

Edward W. Stack
Chairman & Chief Executive Officer

A

What a surprise?

Paul Swinand
Morningstar Research

Q

Everybody's trying to guess what the golf impact on the second quarter is but, I'm trying to – I get a lot of questions on the longer term and the question is really, is there any analysis you've done by customer segment or product category? I know you mentioned some of the new players. But what can we say or what analysis have you done on the longer term? Is there a reason to think that this will be a strong category for you? I know in your prepared remarks you said it's only 3% of the business but it's still a big traffic driver in DICK'S regular stores and e-comm as well, I think it's a big opportunity. Again comments on the longer term and how you think the golf business will develop and still be strong.

Edward W. Stack
Chairman & Chief Executive Officer

A

So I indicated that the Golf Galaxy business is a little more than 3% of the business on a total standpoint. We think that longer term, golf is going to be an okay business. We think that there's other areas that are going to grow at a faster rate than golf but we think golf's an important part of our business and we're going to stay in the golf business.

We see certain categories of golf accelerating. The golf apparel business is where I think a fair amount of growth will come from. I think the golf equipment business will be stabilized and it will kind of move up or down a little bit one year to the next, but we think that longer term, that will be a good, solid profitable business for us.

Paul Swinand
Morningstar Research

Q

Any comments by region or maybe by younger players?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, not really. I mean the areas of the country, once you can – once all the areas of the country are up and playing, there is not a huge difference.

Paul Swinand
Morningstar Research

Q

Got it. And then I wanted to ask a little bit of a similar question on soccer. I know usually in the past, you've said Olympics or some of these events are not really a big mover, and I remember last year, you did say the World Cup was bigger than you expected. Is soccer going to grow as a percentage of the business? And do you think that that's going to be a place where maybe customers shop at DICK'S and there aren't as many competitive alternatives, because you're such a big team sports player?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, we think soccer is going to continue to grow. We had indicated that the Olympics are usually not a big driver of sales. The World Cup always has been, and this past year, the team did a great job with the World Cup, and it exceeded our expectations.

We think soccer is going to continue to grow pretty significantly, and we think that we're positioned in a great place to take a big part of that growth in soccer that's coming.

Paul Swinand
Morningstar Research

Q

So just to be clear here, you think it's outpacing the rest of the team sports business?

Edward W. Stack
Chairman & Chief Executive Officer

A

In general, overall, probably on the long term. This year will be a little bit more difficult because of the World Cup, but if you take on balance throughout the next couple of years, yeah, I think it will outpace the majority of the team sports businesses.

Paul Swinand
Morningstar Research

Q

Interesting. Thanks a lot and best of luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure, thanks.

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

Stephen V. Tanal
Goldman Sachs & Co.

Q

Morning, guys. Thanks a lot for the question. I sort of have to do it but I'm really curious if weather affected the golf business specifically, or if you would say that was a factor in the results for Galaxy and for DICK'S core golf.

Edward W. Stack
Chairman & Chief Executive Officer

A

We try not to hide too much behind the weather, but as I said we're really – we're still a high concentration, an important concentration of our business, is in the northeast and the upper Midwest. There's a fair amount of Golf Galaxy stores up there and yeah with 7.5 feet of snow sitting up in New England it impacted the golf business. The courses were late opening up, and it had an impact. That might be one reason why some of the golf business is doing better than it is right now, than it had been, because of the pent up demand early on.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Sure. That seems to make sense. In terms of Field & Stream, you referenced cannibalization, and clearly some of the stores have opened near one another. I'm sort of curious if you could fill us in-in terms of how you're thinking about the regional growth strategy for that business, and how you're planning really where you're going to open the stores. What enters the thought process? And is there any focus regionally, if you will?

Edward W. Stack
Chairman & Chief Executive Officer

A

We take a look, as you would expect, we take a look at where the hunters are and where the fishermen are. We take a look at a number of the demographics: hunting licenses sold, hunting participation, same with fishing. We've got a lot of DICK'S stores. We know where the better hunt/fish categories are, so that's how we're taking a look at this. The majority of them will be in the eastern part of the United States to begin with, and then eastern and a bit more in the Carolinas and north.

And as I said, we're really excited about these combo stores, where we can put a DICK'S and a Field & Stream right next to each other and reformat the DICK'S store to have some of the higher margin, higher turning items expanded in there that we would like to be able to do, and have all the hunt, fish, camp product in Field & Stream, still allow people to cross-shop. We think it's going to be a pretty compelling experience. Some of the customers that we have talked with and the research that we've done on this, they love the idea, and we'll get a sense in the next few months on how this combo store does.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay, understood. And then lastly for Andrè, in terms of the gross margin drivers, are you able to quantify that for us in the quarter? Merch margin would be helpful specifically.

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

Yeah, merch in Q1 – I'll give you the merch margin piece and I won't go into elaborate details on all the other elements. I did mention that we deleveraged occupancy and also the increase in our e-commerce sales drove some of those fees there, shipping expense, but the merch margin was down 56 basis points.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay, all right. Thanks a lot, guys.

Operator: And our next question will come from Eric Tracy of Janney Capital Markets. Please go ahead.

Eric Brandt Tracy
Janney Montgomery Scott LLC

Q

Thanks, good morning. Actually, Andrè, real quick if I could follow up on that gross margin, specifically to the occupancy deleverage and the expenses going towards the e-comm in-housing, how should we just think about that order of magnitude going forward and the timing of when potentially could inflect on that, and what is the omni-channel comp needed to ultimately leverage that?

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

So let me take a step back. There were a couple elements in that question. One is if you take a look at when we think about what does the total sales need to be to leverage occupancy, we've talked to our investors about that number being approximately on a full-year basis right around that 10% range, so that's what we look for in terms of total sales to leverage occupancy.

In terms of the e-commerce discussion, we've really never had that specific discussion, other than to say that the goals we have and the profitability of that business get significantly better for us as we insource the business. So we talked about the investments we were making at our analyst meeting this year, which is about $8.5 million in that insourcing project, so those are the details that we've laid out to our investors.

Eric Brandt Tracy
Janney Montgomery Scott LLC

Q

Okay. And then, Ed, a little bit bigger picture strategically. Obviously, e-comm doing extremely well in terms of building out. Could you speak to how you feel like you're working with the brands to differentiate the products cross-channel? Are there some exclusives that you're getting? Ultimately, this question speaks to potential of cannibalization of the brick-and-mortar, and it certainly seems like you're very comfortable with continuing to grow the door base. But any comments on what the ultimate mix of e-comm should be relative to brick-and-mortar?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think everybody's still trying to figure out what that appropriate mix is. Our e-commerce business continues to grow at a pretty rapid rate. We've talked about that we're opening stores in markets where we have little penetration or no penetration. We've talked about before in San Francisco, we've got roughly two stores in the Bay Area. There are a lot of places in San Francisco, in Houston, and some other places that customers can't shop a DICK'S Sporting Goods store because we don't have one. So those are the places that we're going to open up DICK'S stores.

From an e-comm standpoint, we continue to work very closely with our vendors. They're trying to help us also drive our e-commerce business, whether that's from broadening the assortment online and shipping directly to the consumer on a direct-ship basis from the vendor, or working with us on some short-run opportunities, short-run closeouts, short-run promotions that there's not enough product to fill all of the DICK'S stores. But we can put it online and be out of it in three days, four days, a week or so.

So we continue to work with the brands. We continue to invest heavily from an e-commerce standpoint. And it continues to pay off, as you can see as sales went up to 8.5% in the first quarter and last year our e-commerce business grew at double the rate of the industry. And we've got a relatively – in our category, we've got a pretty robust e-commerce business.

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

And I just would add to what Ed mentioned is I think one of the metrics we've asked our investors to hold us to is we have very high standards for opening up new brick-and-mortar, and that 95.4% was pretty indicative of the fact that we are holding ourselves to a high standard when we open up new stores, new brick-and-mortar, because of the e-commerce items that we see in the marketplace.

Eric Brandt Tracy
Janney Montgomery Scott LLC

Q

Fair enough. And I wanted to switch gears. Lastly, back to the women's business, CALIA clearly believing that there's a lot of momentum behind that. Does that in any way also speak to – you've got the year-plus of building out the shop-in-shops, going after the women's category with some of the more premium brands. Is that in any way a statement on feeling like the product that these brands have in the marketplace maybe isn't resonating with women, or is there something else on the marketing side that needs to take place? Just a little bit more color as to what the learnings are on that front.

Edward W. Stack
Chairman & Chief Executive Officer

A

No, I wouldn't take that to think that with the brands. I think the brands have brought terrific product to the marketplace. The brands are doing extremely well. I think this is just additive that's something new in the marketplace, and this marketplace continues to grow. So I would not read anything into the brand's performance. Our performance with the brands has been terrific in this category, and we expect it to continue that way.

Eric Brandt Tracy
Janney Montgomery Scott LLC

Q

Great, thank you all.

Operator: Our next question will come from Sam Poser of Sterne Agee CRT. Please go ahead.

Sam Poser
Sterne Agee CRT
Q

Thank you for taking my question. Most of them have been answered. I guess just more of a general thought question here. When you're looking at the build-out of Field & Stream, the increase in the e-commerce business, is there a natural movement from hardlines to softline goods in the DICK'S Sporting Goods stores, and that's really going to be the longer-term story of the margins from a brick-and-mortar perspective there?

Edward W. Stack
Chairman & Chief Executive Officer
A

Sam, yes. So we talk about these combo stores, we're taking out the hunt-fish-camp out of the combo store side of DICK'S and having that exclusively in Field & Stream, making room for these higher-margin categories, higher turning categories such as women's, kids, and the team sports area. So, and we've always talked about that one of the components of our margin rate expansion would come from a change in mix, more to the soft-line side of the business.

Sam Poser
Sterne Agee CRT
Q

Ed, excluding the combo stores, where are we in that – in that evolution?

Edward W. Stack
Chairman & Chief Executive Officer
A

Well, we've, as we did last year, we took some space out of the fitness area and the golf area and devoted that to this – to these areas we've talked about, and had great results. So we still continue to do that. We're looking to where we can modify space, and move more of the higher-margin products in there. So we're still early on in this, and as Field & Stream develops, we will continue to kind of make this move and try to drive more of that Outdoor hunt-fish-camp business to Field & Stream and make some more space for these higher-margin, higher turning items in DICK'S.

Sam Poser
Sterne Agee CRT
Q

Thank you. One last thing. When, for instance if you're in a city where you don't have a joint store, but one nearby, would you consider pulling hunt-fish-camp out of DICK'S even though it's not an adjacent store.

Edward W. Stack
Chairman & Chief Executive Officer
A

That's a conversation we're having. We've come to no conclusion on that yet.

Sam Poser
Sterne Agee CRT
Q

I look forward to hearing about it. Thanks and good luck.

Edward W. Stack
Chairman & Chief Executive Officer
A

Thanks.

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

Thank you.

Operator: The next question will come from Sean McGowan of Needham & Company. Please go ahead.

Sean P. McGowan
Needham & Co. LLC

Q

Thanks, guys. A couple of questions about timing. Ed, can you give us some sense of whether or not you expect the timing of store openings in the second half of this year to be comparable to last year, with the vast majority being in the third quarter?

And Andrè, in terms of share repurchase, a lot more done in the first quarter this year than last year. Should we expect the full year total share repurchases to be comparable to last year, do you think?

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

So a couple things there. You can expect the store openings to be skewed towards that third quarter. So we're going to be about the same – roughly about the same in the second quarter in the bulk of our store openings on the DICK'S side. Those 45 DICK'S stores will be in the third quarter and that's pretty much the way we've traditionally done that. With respect to what we've told our investors today is, the guidance that we have right now contemplates the $150 million of share buyback that we've done. That's what is incorporated in our guidance, and we may do a little bit more this year. We may not. Right now, the guidance that we've provided you includes that $150 and no more.

Sean P. McGowan
Needham & Co. LLC

Q

Okay, thank you.

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

Scot Ciccarelli
RBC Capital Markets LLC

Q

Hey, guys. So the e-commerce business continues to grow pretty quickly. We've kind of established that. But, as it matures, can you update us today in terms of how the product mix is different in the e-commerce channel versus the mix at the store level? And specifically, how would the profitability trends look if you didn't have those extra expenses related to the GSI relationship?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, the mix is a little bit different online than it is in the stores because we don't sell firearms, we don't sell ammunition, we don't sell some of those categories online. And it would be – it would be – we're not going to give exactly what the difference would be, but it would be meaningfully more profitable without the GSI – without the

GSI fees, and that's why we're moving in 2017, to move everything onto our own platform. And the accretion is pretty meaningful going forward.

Scot Ciccarelli
RBC Capital Markets LLC

Q

I guess my question is: Even without the GSI relationship, I think, Ed, you mentioned before, you expect the e-commerce business or channel to be more profitable than the retail level. And just – can you just help us understand how that's going to be possible with the extra shipping costs that are involved there?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I didn't say that it would be more profitable even with GSI. I said we'd gotten to about the point where it was relatively the same. So, the profitability was the same. But, as we moved forward through the year, if we exceed our sales budget, the profitability flow-through from brick and mortar standpoint is better than the profitability flow-through from an e-commerce standpoint because the GSI fees are linear. They are as a percent of sales, so it's difficult to leverage those costs. Basically, we pay a fee, a percentage fee – on a $50 pair of shoes; we pay the same percent fee on a $100 pair of shoes, so you can't leverage those costs. But this is getting to be much more profitable.

We think, as we eliminate those fees from GSI, do more business, scale our – be able to leverage some of our fixed costs and turn some of our variable costs into fixed costs, which we then can leverage, we feel that it's going to continue to become, it will be more profitable than the stores a few years down the road.

Scot Ciccarelli
RBC Capital Markets LLC

Q

Okay. I'll follow up later. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

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

Michael Louis Lasser
UBS Securities LLC

Q

Good morning, and thanks a lot for taking my question. Ed, last quarter you were helpful in helping us understand what could go right in the first quarter and what could go wrong. I think it helped to frame the hole you're in, maybe, at the start of the quarter and how much things got better.

Can you help provide some more perspective for the second quarter, especially relative to the margin? So, I mean, the widespread expectation is that a lot of the 100 basis points plus margin degradation that you saw in the second quarter of last year would come back as the bulk of that was related to the clearance activities associated with golf.

Edward W. Stack
Chairman & Chief Executive Officer

A

So, we're not going to give you the guidance of exactly how many – what the margin rate is going to be, but we expect it to be meaningfully higher than it was last year because there will be a lot less promotional activity. One of the things, one of the headwinds from a margin rate standpoint that we have to anniversary is the World Cup. So the World Cup, as we said, was a meaningful part of our business, and the margin rates on the World Cup were well above the company average.

Michael Louis Lasser
UBS Securities LLC

Q

All that being said, that would suggest that the golf activity clearance was probably well in excess of 100 basis point drag. And so, is that kind of something that's going to be permanently in the business now?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, the drag from a golf standpoint, margin rate?

Michael Louis Lasser
UBS Securities LLC

Q

Yes.

Edward W. Stack
Chairman & Chief Executive Officer

A

No, the golf margin rates will be higher this year than they were last year.

Michael Louis Lasser
UBS Securities LLC

Q

Okay, and then, I guess, longer term on the margin, we've seen the gross margin, the overall gross margin, down for almost two years in a row now. Is this just kind of the cost of doing business as you shift more volume online and move some traffic out of your stores, and so occupancy is going to be this consistent drag? Or is there something aside from quarter to quarter volatility in the merch margin that can help stabilize that line item?

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

I do think that your point on occupancy de-leverage, I mean, that does in fact – we have to see our overall, as I mentioned, our overall sales increase reach up around that 10%. So, that's going to move around quarter to quarter. There have been some quarters over the last several years where we have actually positively leveraged occupancy. But, we haven't been consistent with that. And that's one of the things that we talked about at our Analyst Meeting is that we've got to get that brick and mortar comps a little bit more consistent as we move forward, to be able to leverage that.

But you are seeing some of the dynamics with our outsized growth in e-commerce, where some of those e-commerce costs right now are negatively – are not being leveraged as we continue to grow that business.

Edward W. Stack
Chairman & Chief Executive Officer

A

And, on the margin rates side, on the flipside of that, we feel that there's margin rate expansion, merch margin rate expansion due to the mix of products that we're selling and also better inventory controls. We had some inventory issues that we took some markdowns that we needed to do to get rid of inventory last year and we feel that the inventory is in much better shape this year than it was last year. Our clearance inventory is down at the end of the first quarter again versus the end of the first quarter last year. So the inventory is in really very good shape and part of the margin rate expansion will come from mitigating markdown pressure in the back end.

Michael Louis Lasser
UBS Securities LLC Q

Okay, and then one last one, kind of broadly speaking, last year, your comps were above 1% for each quarter throughout the year and I think it was widely viewed that last year was characterized as just a tough year for golf and hunting. And yet this year, the comp was below what you saw in any given quarter last year.

So, would you attribute that to just overall continued softness in golf? Was the environment – the consumer spending environment more difficult this year than it was at any given point last year? Maybe you could reflect on it from that perspective.

Edward W. Stack
Chairman & Chief Executive Officer A

Are you talking about the first quarter comp?

Michael Louis Lasser
UBS Securities LLC Q

The overall comp in the first quarter, compared to the overall comp over the last four quarters.

Edward W. Stack
Chairman & Chief Executive Officer A

Well, don't underestimate the effect that, as I said, seven feet of snow up in New England and New York, and the weather in the upper – in the upper Midwest had, especially in the month of February and into March. We had a lot of stores that were just closed for days during that timeframe and it got sequentially much better. And I – it's kind of hard to take one quarter and say that that's an issue. We thought 1.8% on a comp basis – consolidated comp basis on the DICK'S side was pretty good under the conditions that we operated in, in the first quarter.

Michael Louis Lasser
UBS Securities LLC Q

Okay. Thank you so much.

Edward W. Stack
Chairman & Chief Executive Officer A

Sure.

Operator: And our final question will come from Mike Baker of Deutsche Bank. Please go ahead.

Michael Baker
Deutsche Bank Securities, Inc. Q

Thanks. I slid in. So, a year ago on this call you told us that golf and the hunt business were 30% of sales. Can you tell us where you are now as you've downsized? And if you could break it down between golf and hunt that would be helpful. Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, we're not going to get to that level of granularity, but I will tell you that the golf and hunt business is less than 30% of the business today, just based on the trend that those categories have and the growth trends we've got in other areas of business. So, they are less meaningful this year than they were last year. But, to kind of combine those and lay those out, we're not going to do that.

Michael Baker
Deutsche Bank Securities, Inc.

Q

Okay, and also in the past you've told us what the drag is from golf and hunt or more I guess actually the growth in Apparel and Footwear. Are you going to give us those numbers going forward?

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

Yeah, Michael, let me give you that right now. If you take a look at our – so last year, we didn't want to but we got into this habit of telling you what the business was growing ex the hunt business and ex the golf business because of tremendous headwinds in those businesses so I'm going to use that same factor for this year. If you excluded those two businesses, both the golf business and the hunt business, our comps at 1.8% comp at DICK'S would have been a 3.8% comp at DICK'S.

Michael Baker
Deutsche Bank Securities, Inc.

Q

Okay, very helpful. Thank you. And then I'll squeeze in one more, just a clarification. Andrè, you said you expect second, third and fourth quarter gross you said margins, to be up to make up what you lost in the first quarter. I assume you mean gross margin, not operating margin is that right?

Andrè J. Hawaux
Chief Operating & Financial Officer, Executive VP

A

Yes, well, I meant merchandise margin. The question that was asked was around the comparison on the merch margin, yes.

Michael Baker
Deutsche Bank Securities, Inc.

Q

Okay, so that was specific to merchandise margin. Okay. Thank you. Those are my questions.

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

Edward W. Stack
Chairman & Chief Executive Officer

I'd like to thank everyone for joining us for our quarterly call, and we'll look forward to talking to everyone at the next call. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. We thank you for attending. You may now disconnect your lines.