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Dick's Sporting Goods, Inc. (DKS)

Q4 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the DICK'S Sporting Goods fourth quarter and full-year 2014 earnings results conference call. All participants will be in listen-only mode. [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, ma'am.

Anne-Marie Megela

Vice President – Treasury Services and Investor Relations

Thank you. Good morning and thank you for joining us to discuss our fourth quarter and full-year 2014 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 includes, 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 risks 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 statements, please refer to our periodic reports filed with the SEC, including the company's Annual Report on Form 10-K for the year ended February 1, 2014. We disclaim any obligation and do not intend to update these statements, except as required by the securities law. We have also included some non-GAAP financial measures in our discussion today. A 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 fourth quarter and full-year results, key business drivers and outlook. After Ed's comments, André Hawaux will provide greater details regarding our omni-channel growth, financial results, capital allocation and guidance for the first 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 record earnings in the fourth quarter of 2014, delivering 17% EPS growth over fourth quarter of last year and exceeding the high end of our guidance. We delivered a 10.9% increase in sales, improved operating margins year-over-year and recently announced the 10% increase in our dividend. Additionally, our balance sheet remains strong and our inventory is well positioned as we enter 2015.

Our consolidated omni-channel same-store sales increased 3.4% with increases in both ticket and traffic. This was above our guidance of 1% to 3% and on top of a 7.3% shifted comp gain in the fourth quarter of 2013. These results were driven by the continued growth of our omni-channel network, our powerful marketing and merchandising strategies, and the execution of these strategies by our store associates. Our efforts resulted in DICK's omni-channel comp sales increasing 3.8%, but across – led by most categories of apparel, footwear and hardlines. The trend in hunting improved significantly during 2014, and by the end of the fourth quarter, the pressures in this category were primarily limited to the guns and related accessory purchases.

The golf trends also showed a slight improvement from the spring of 2014, but were down versus last year. Comps at Golf Galaxy were down 7.1% with the DICK's golf business slightly better. The balance of our business, excluding hunt and golf, was up 6% for the quarter. The strong performance across the remaining categories validates our merchandising and space allocation strategies that we put in place during this past year. The fourth quarter was a more promotional environment, as expected. Our team was able to navigate this environment and strategically execute clearance promotions, while exceeding our top-line and bottom-line growth targets, and ending the year with our inventory in great shape. Our clearance inventory is at historical low levels across most categories and is down approximately 230 basis points across the company compared to last year.

As we head into the spring season, the inventory is well positioned to support our anticipated sales. Key spring businesses have been set ahead of last year, and we have open to buy dollars available to chase hot product. The start of the spring season, however, has been delayed across much of the country due to the extreme weather conditions. We also remain a bit concerned about the West Coast port situation, as some of our spring product is still sitting on the docks. As a result, we have taken a cautious view of the rest of the quarter, and our quarterly guidance contemplates the results through February with some expected recovery. We don't believe this delay will have an impact on our full-year results, but rather is a first quarter event. It is also important to note that in those handful of markets where athletes, families and outdoor enthusiasts are starting to participate in spring-related activities, we are seeing positive indicators that we have the right product for them giving us the confidence in our merchandising strategy and our pricing strategy.

In 2015, we will build our DICK's business with continued investments in e-commerce, as we further enhance our customers' omni-channel experiences and prepare to become e-commerce independent. We will also drive traffic and strengthen our brand equity through expanded marketing strategies, including our recently announced sponsorship of United States Olympic Committee and Team USA. We will also be continuing to scale our Field & Stream business.

In 2015, we are also excited about our merchandising strategies with renewed focus on key items across our business. We will be expanding our women's athletic apparel offering as we launch CALIA by Carrie Underwood, a private label fitness apparel line. CALIA emphasizes lifestyle and is geared toward the athletic female. It will be available only at DICK'S Sporting Goods and provides a point of differentiation in our merchandise selection. We're very pleased with the feedback we've received from the initial focus groups and are excited for its launch this Thursday.

As a result of these strategies, we expect to deliver 2015 full-year consolidated comp growth of 1% to 3%, with earnings increasing to $3.10 to $3.20 per diluted share. A gradual improvement in hunting as well as continued but diminishing challenges in golf have been contemplated in our guidance.

In 2015, we will also continue to return capital to our shareholders through both share repurchases and dividends.

All in all, we're quite pleased with our Q4 performance, which as stated earlier was a record Q4, with EPS growing 17% over last year. These results would not have been possible without our terrific team. I would like to thank our associates throughout our company for the hard work and commitment they showed to deliver these fourth quarter results and for their upcoming efforts during this new fiscal year.

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

Andrè J. Hawaux

Executive VP, Chief Operating & Financial Officer

Thank you, Ed, and good morning, everyone. This morning I will cover four topics: first, our omni-channel growth metrics; second, our fourth quarter financial results; third, our balance sheet and capital allocation strategy; and finally, details of our full-year and first quarter 2015 expectations.

In 2014, we profitably grew our omni-channel platform. We opened 45 net new DICK's stores and ended the year with 603 DICK's stores in 46 states. These new stores continue to perform well, with 94.7% new store productivity. Our stores also support the growth of our e-commerce business, which increased approximately 28% to over $625 million in sales in 2014. During the year, we launched a new mobile app and continue to iterate on our mobile, tablet, and desktop sites to increase conversion. We also made significant progress in building the infrastructure for our e-commerce business. In the first quarter of 2015, we plan to launch GolfGalaxy.com on our new platform as we prepare to bring the Dicks.com e-commerce site in-house in January of 2017.

Now looking closer at our Q4 financial results, total sales increased 10.9% to approximately $2.2 billion. Consolidated omni-channel same-store sales increased 3.4% compared to our guidance for 1% to 3% same-store sales growth and compared to shifted comps of 7.3% in the fourth quarter of last year. DICK'S Sporting Goods consolidated omni-channel same-store sales increased 3.8%, while Golf Galaxy decreased 7.1% in the fourth quarter. The 3.8% consolidated increase in the DICK'S business was driven by a 3% increase in traffic and by a 0.8% increase in sales per transaction. Our investment in e-commerce continues to pay off, as it increased to 14.4% of sales in the fourth quarter of 2014 compared to 12.2% of sales in the fourth quarter of 2013.

Gross profit for the quarter was $691.3 million or 32% of sales, and was down 25 basis points from Q4 of 2013. This was due primarily to a 64 basis point decrease in the merchandise margin. As Ed mentioned, there were elevated promotional levels within the quarter, particularly post-holiday, which resulted in more aggressive clearance activity.

Shipping expenses also increased as a percentage of sales due to the growth of our e-commerce business. These factors were partially offset by favorable occupancy leverage. SG&A expenses in the fourth quarter were $438.7 million or 20.31% of sales and leveraged 38 basis points from the fourth quarter of last year. This was primarily due to lower administrative and payroll expenses as a percentage of sales.

The net effect of the above is that we delivered $1.30 per diluted earnings per share, above the high end of our guidance.

Now looking to our balance sheet, we ended fiscal 2014 with approximately $222 million of cash and cash equivalents. We ended fiscal 2013 with approximately $182 million in cash and cash equivalents, with no borrowings outstanding on our $500 million revolving credit facility at the end of either fiscal year. In 2014 we invested in our business and we also returned over $260 million to shareholders through share repurchases and dividends.

Total inventory increased 12.9% at the end of fiscal 2014 compared to the end of fiscal 2013. As Ed discussed, we are very well positioned with both the level and the quality of our inventory.

Turning now to our capital allocation strategy; in fiscal 2014 we repurchased $200 million of shares. As we have demonstrated, we expect to use our share repurchase program to both offset dilution and opportunistically repurchase shares. Since we started our $1 billion authorization at the beginning of 2013, we have repurchased over $455 million of stock and have approximately $554 million (sic) [$545 million] (13:03) remaining under the authorization.

In addition to our repurchase program, we further demonstrated our commitment to returning capital to shareholders by recently increasing our dividend by 10% to an annualized rate of $0.55 per share. This marks the first increase since we initiated our quarterly dividend. We believe that investing in our business, share repurchases, and dividends all remain key elements of our capital allocation strategy.

Now let's turn to our 2015 outlook. We expect full-year earnings per diluted share of between $3.10 and $3.20, and same-store sales increase between 1% and 3%. Gross margin is expected to increase, primarily driven by merchandise margin expansion. SG&A is expected to deleverage slightly as we invest in building our brand coupled with the expenses related to becoming e-commerce independent in 2017.

Year-over-year pre-opening expenses are expected to remain relatively flat as a percentage of sales. 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. 2014 net capital expenditures were $247 million or $349 million on a gross basis.

As we noted in our press release this morning, our earnings guidance includes the expectation of approximately $100 million to $200 million of share repurchases in 2015. While the exact timing of the repurchases during the year may vary, we are committed to returning capital to shareholders through both share repurchases and dividends.

In 2015, we expect to open up approximately 45 new DICK's stores, relocate nine 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 first quarter, we anticipate earnings per diluted share of between $0.49 and $0.53. Consolidated omni-channel same-store sales are expected to be approximately flat to up 2%, compared to a 1.5% increase in our comp in the first quarter 2014. Gross profit margins are expected to decline slightly, due primarily to planned promotional events, as we continue to further reduce clearance levels and transition sales from slower moving areas to more robust categories, such as apparel and footwear. Importantly, we expect gross margins to expand in each of the three subsequent quarters and for the full year.

For the first quarter, SG&A expenses as a percentage of sales are expected to slightly leverage. Pre-opening expenses as a percentage of sales are expected to be relatively flat in the first quarter this year compared to the first quarter of 2014.

Our first quarter outlook reflects the slow start to the spring selling season, as Ed mentioned, but we do not expect the delay to have an impact on our full-year results. We continue to see significant growth opportunities for our business as we look beyond 2015. We look forward to sharing more details with you at our Analyst Meeting in New York on April 14, which we announced earlier today in the press release. Our investor relations team will be in touch with additional details of the event.

Before concluding, I'd like to thank our associates for their hard work during the past year. They genuinely live the DICK's brand and this dedication shows both in the shopping experience we deliver to customers and in the results we generate for shareholders. I'm grateful to each team member of our – members of our team for their loyalty, drive and continued commitment. This will conclude our prepared remarks and I'd like to thank you all for your interest in DICK'S Sporting Goods.

Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator instructions] And our first question will come from Seth Sigman of Credit Suisse. Please go ahead.

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

Q

Great, thanks and congrats, guys, on a great quarter.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

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

Q

I wanted to talk a little about the promotional activity theme that's come up for a few quarters now. Maybe focusing, first, on the fourth quarter, if you can just elaborate on some of the categories that were impacted. How much of the promotional activity was centered around some of the challenged categories that we've seen all year. And then, tie that in with the expectation that in the last three quarters of 2015 you expect that merch margins can be up. What kind of gives you that confidence at this point?

Edward W. Stack
Chairman & Chief Executive Officer

A

It was a lot of the challenged areas that there was some promotional activity in; so around the ammunition category, around the golf category. Then there was also some other promotional activity from an apparel standpoint, footwear standpoint, and we – so it was just a promotional quarter in the fourth quarter between couponing and all of that. So, but we expected that. We had indicated that.

In this quarter, we think that it's still going to continue to be a bit promotional. We're also going to be continuing – our clearance inventories are at historically low levels. We'd like to actually get those down even a little bit lower, and some of the non go-forward products that are still in the inventory that are going to be in categories that have been slower moving. We are going to be cleaning those out, making room for more apparel, footwear, the categories that are growing quite well.

So, there may be some – a little bit of margin rate erosion in this first quarter. But going forward, we don't think there's going to be that same issue. Our inventory's in better shape. We're really focused on these key items, and we expect to be able to mitigate this – the margin rate will come from mitigating markdowns through the balance of the year, and we're starting to see that in these categories that have performed better and that we've taken this key item approach.

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

Okay, understood. That's helpful. Just a follow-up question on the store growth and the store strategy and whether there's a little bit of an evolution here where it seems like the store count or the store growth expectation, 45 stores in 2015, is about in line with last year. Maybe a little bit lower than we had expected.

Do you still feel confident in that 800-store target? Is that still the thought process? And then related, I think you also talked about relocating nine stores. That seems to be an increase from prior years as well. So again, just trying to understand the evolution of the store strategy.

Edward W. Stack
Chairman & Chief Executive Officer
A

All right. So yes, we still feel comfortable with this storing strategy. As we said, we want to make sure that we go about this in an orderly fashion. So we still feel good about the number of 800 stores. The relocated stores, I wouldn't read anything into that other than over the next couple of years we will have – because of the growth ramp we had 10 years ago, there will be more and more stores that are – the leases are coming due and when we have an opportunity where appropriate to relocate the store into a shopping center or a retail node that might be a better node today than it was 10 years ago, we're going to do that. And that's all this is. I wouldn't read anything into it.

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

Okay and just a clarification. The relocated stores, are they performing pretty much similarly to how a new store would perform?

Edward W. Stack
Chairman & Chief Executive Officer
A

Yes. Sometime – most of the time even better because we're taking a store that – most of these relocated stores are actually performing quite well. They're just – we're able to make a better real estate deal or we're able to move to a better shopping center or a better retail node that's in the same trade area, and the performance has really been quite good when we've relocated these stores.

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

Sound goods. All right, thanks, guys.

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure.

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

Christopher Michael Horvers
JPMorgan Securities LLC
Q

Thanks and good morning. So I wanted to following up on the golf category. What are you seeing, any commentary of what you're seeing in the warm weather markets as it relates to golf so far?

Edward W. Stack
Chairman & Chief Executive Officer
A

No, golf is better in the warm weather markets than in the cold weather markets right now. That's for sure. But we're seeing it's getting better. It's improving, but it's still not back to last year's levels. And I think as the brands just start their marketing effort; TaylorMade just launched the new marketing effort around the R15 this past weekend with a different ad than they had originally put out there that they're hoping is a little bit better. We think that golf is going to be still a drag on the total sales, but not to the same degree that it was last year.

Christopher Michael Horvers
JPMorgan Securities LLC
Q

And then as you think about last year, I think – I forget, maybe it was second quarter, ASPs in golf hardware were down sort of high teens. How are you thinking about the promotional environment on golf in the spring? What's your view of the inventory levels, not only your stores but in the channel overall presumably as you lap that significant decline? Do you think there's an opportunity at least in that specific quarter to see a golf benefit?

Edward W. Stack
Chairman & Chief Executive Officer
A

We expect to see average prices move up because there's not the same clearance inventory out in the marketplace. Our golf inventory is very clean.

Our inventory is down versus last year. Our clearance inventory is down versus last year. Our golf inventory really could not be in much better shape, and I would say that the vast majority of the brands that their inventories are in great shape too. So the whole channel doesn't have the same inventory issues this year that we did last year. We expect to see some margin rate improvement and some average retail price improvement.

Christopher Michael Horvers
JPMorgan Securities LLC
Q

Perfect, thanks very much. Have a great spring.

Edward W. Stack
Chairman & Chief Executive Officer
A

Thank you.

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 everyone and let me add my congrats on a great fourth quarter. I was hoping, Ed, if you could maybe desegregate the commentary around the guidance for Q1, when you mentioned both weather and port delays, if you could just maybe quantify how you're thinking about both of those issues affecting how your outlook is on Q1 from a comp perspective and if you foresee any sort of delays from the ports spilling over into Q2.

Edward W. Stack
Chairman & Chief Executive Officer

A

So the one thing we know about the weather and the port delay, there's not an awful lot that we can do about either one of them, although we're trying to expedite products. We did – we obviously knew that the port delay was going to be an issue. We rerouted products to other ports as a number of other people did. We've flown in some product where necessary.

But there are some things that get caught up in the port, and we're late on some deliveries. So I don't know how much that's going to impact it, but it's all been impacted, put into our guidance on kind of the worst-case scenario. The weather, we hope it gets better up in the Northeast. I was up in Boston last week. There's a boatload of snow up there right now. So we've kind of laid all of this out into our guidance, and we don't think it will impact the full year, but it's right now having a bit of an impact on the first quarter. And if it gets better, then we've got some upside to our first quarter.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

And could you talk about maybe the categories that are being impacted by the delayed shipments and when you think that those backlogs of containers will start to release and you start to see improvements in your inventory flow?

Edward W. Stack
Chairman & Chief Executive Officer

A

Our inventory, when they're going to do that, I'm not sure. It will depend on how this stuff gets cleared on the docks and some of the stuff that's still out on boats on the docks. So, we're not sure. We feel okay about our business right now.

We would just like to have this other inventory in here. In the categories it's a little bit of everything. There's apparel categories coming in from Asia. There's footwear, there's golf product, there's a little bit of everything. That's a big port out there.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Definitely. And then just my final question. When you spoke about the promotional activity in the fourth quarter and the lingering effect into Q1, is it the usual suspects that are driving that promotional activity or are there new competitors coming into the market trying to win some share via promotions?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, it's just the same competitive set.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Okay. Thanks a lot and best of luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

Operator: The next question will come from Mark Miller of William Blair. Please go ahead.

Mark R. Miller
William Blair & Co. LLC

Q

Yeah, hi. Good morning. Is there a way to size the investment the company is making right now in e-commerce, so in 2014, and then does that investment, I guess, help us understand the progression out to 2017? Does that grow in your 2015 plans, and then if you were integrated in the business today, what kind of lift would that present to you? What do you see in 2017 from that transition?

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

A

So, Mark, I'm going to give you some points that we talked about for 2014 and talk a little bit about 2015. When we meet at our Analyst Meeting on the 14th, we'll give you greater visibility into how we see obviously 2016 and 2017 going. So, as you recall, last year we talked about our incremental investments in eComm to build our independence to be roughly about $0.03 and that was what was in our 2014 number. In 2015, we're looking at about $0.04 that is about incremental investment related to the project – the in-sourcing project that we have. So that's the visibility I'd give you today. As we talk with you all on the 14th, we'll give you more line-of-sight into what we think the investments are going to be. But as you can imagine the investments are substantive in the sense as we bring a very large site on to our – to becoming independent. We believe that it's the right thing to do. We have a growth business that's continuing to grow quarter-in, quarter-out. So we believe we're making the right investments and so far they're paying off pretty well.

Mark R. Miller
William Blair & Co. LLC

Q

And just to clarify that $0.04, is that incremental to the $0.03 or is that an incremental $0.01?

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

A

That's incremental to the $0.03.

Mark R. Miller
William Blair & Co. LLC

Q

Got it. Okay and then, can you provide further perspective on the U.S. Olympic deal? Obviously that ramps into 2016. But is that a material marketing spend the company is planning, and will there be a dedicated assortment? What else might that entail? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. It's not meaningful to the grand scheme of our marketing. But our marketing budget – it's all been part of the marketing budget, so you won't see a significant increase in our marketing budget this year over last year outside the launch of the CALIA brand that we're doing. There's not a line of products around it. It's really more around supporting these unfunded athletes that are working hard to try to make the Olympic team. They're not funded by any of the larger brands and giving them a place to work with flexible work hours, giving them the ability to have product that they need to train with. So it's around those types of things with this Olympic sponsorship and not about a line of product that we're going to bring out to sell.

Mark R. Miller
William Blair & Co. LLC

Q

Thanks, and maybe just a final one if I can. On Field & Stream, obviously, the firearms and ammo business has been tougher across the industry. But absent that, roughly where did you come in sales per square foot versus your plan? And maybe just if you can, give us a sense for where the private label business you think can go on that. Thanks a lot.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. So we're not going to talk specifically and we have indicated that we weren't really going to talk specifically about Field & Stream until we get this up and running. We only have two stores opened up for more than a year. One has been opened up for about 17 months, and the other one has been opened up for about 15 months. So this is really a new concept, and we're not going to get into any specifics. It's very de minimis in the grand scheme of things of today, although we think it's a great growth driver for us going forward.

From a private label standpoint, we think that the private label opportunity in Field & Stream is pretty significant. We also think it's important to continue to drive the brands that that customer is really looking for a brand penetration, and we would expect the private label over a period of time to be slightly higher than what it is in DICK'S, but not significantly more than what we do inside the DICK'S business today.

Mark R. Miller
William Blair & Co. LLC

Q

Great, thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

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

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

Thanks, good morning. I wondered if we could have any more detail around the comp of your extended women and youth categories versus the average comp, and also how footwear may be compared to the company average.

Edward W. Stack
Chairman & Chief Executive Officer

A

We're not going to talk about it in that granular detail, but the women's and youth comp certainly outperformed the comp of the company as a whole. And what was the question on footwear, Kate?

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

The same question in terms of related to the company average comp, how footwear performed.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, footwear was kind of in that zone of the company average.

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

Okay. My next question is new initiatives in spring. Aside from Carrie Underwood, will there be any other brand introductions or categories that are being introduced? And with regards to Carrie Underwood, what is it taking space from and what categories is it addressing?

Edward W. Stack
Chairman & Chief Executive Officer

A

So there are no real other big initiatives or other brands that we're launching outside of the CALIA brand under Carrie Underwood. What we're doing with that space is we're just reconfiguring some space, and it would be coming out of primarily Adidas and Reebok.

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

A

I'd also like to just add, Kate, to Ed's earlier point. The real focus for us in addition of the launch of CALIA will really be on this key item focus that we're bringing to the marketplace, which I would say we perhaps in the past lost our way a little bit, and we're really reemphasizing that, and we believe it's going to pay pretty significant dividends.

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

Okay. and if I can just finish up with one last question on traffic. You mentioned you saw 3% increase in traffic. Can you walk us through how that trended throughout the quarter and maybe what initiatives you had in place from a marketing perspective that could have driven that above what you did in Q4 the year prior?

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

A

I'm not going to get into the flow of that in the quarter, but we had very good marketing initiatives both from a brick-and-mortar standpoint with a lot of our marketing that we emphasized around the holiday around Black Friday, as well as specific traffic drivers to our e-comm site, Kate. So we felt pretty good about the marketing we put in place both across the omni-channel space to drive those traffic transactions.

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

Thank you.

Operator: And the next question will come from Peter Benedict of Robert Baird. Please go ahead.

Peter S. Benedict
Robert W. Baird & Co., Inc. (Broker)

Q

Yes, hi, guys, thanks for taking the question. You talked a lot about inventory being lean. Can you talk about the inventory levels in the firearms business if you start looking at the hunt category? How have those trended? How do you feel about those both at DICK'S and then what you see in the channel? And then I'm curious what you guys saw in terms of average selling prices within that category during the fourth quarter.

Edward W. Stack
Chairman & Chief Executive Officer

A

No, we won't get to average selling prices to that level of granularity, obviously. But our inventory in the gun piece is a little bit higher than we would like it to be right now. But this is not inventory that has a shelf life where it goes bad. So this is just product that we'll be able to sell through the year and into the next hunting season and into the fourth quarter. So we feel very good about the quality of the inventory we have in firearms, although we'd love to have a little bit less. But we're not concerned about the quality of the inventory. There's not significant markdowns that we have to take in order to clear this out.

Peter S. Benedict
Robert W. Baird & Co., Inc. (Broker)

Q

Okay, fair enough. Thank you. And then just on the footwear business, you mentioned a company average type comp during the fourth quarter. Any callouts there when you think about basketball versus running, or anything else we should be thinking about within footwear? Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Basketball, the only thing I'd say is basketball is trending better than running.

Peter S. Benedict
Robert W. Baird & Co., Inc. (Broker)

Q

Okay, great. Thanks very much.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thanks.

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

Paul Swinand
Morningstar Research

Q

Good morning, and as usual, thanks for patience with all the questions. I realize I'm beating the horse a little bit here, but running has had a strong stretch here. Is it that the product is not so new anymore? I know we had all the lightweight and Flyknit and all. Is it that the product is not inspiring, or is it just the tough comps after three or four years of being up?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think it's a couple things. I think it's the tough comps. But I think there has been some great innovation in basketball, driven by our friends out of Portland. So the basketball category is just – and these categories, if you take a look at them, they cycle. The running silhouette is the hot silhouette, and then it cools and basketball becomes the hot silhouette. And that will be here for a little bit and that will transition back into running. So I think it's just a cycle, and the running silhouette will be back.

The running business is still very good. The core people that are out there running. We service them. We've got the right product. That product is pretty good, but the kids have moved to more of a basketball silhouette than a running silhouette for right now.

Paul Swinand
Morningstar Research

Q

Okay, got it. Thanks. And I know we talked about the – you talked already about the gross margin for the year and the color there. I know you've got some natural uplift coming through 2017 with the take back of eComm and some other things. But can you give us just maybe a little more color and what you think the long-run potential is for gross margin improvement? Where it might come from?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think it will continue to come from the mix of product. So as we continue to expand the apparel business across men's, women's and kids, as we continue to increase our footwear business and other areas of our business that carry higher margins, there's going to be a mix that's going to increase that margin rate. I think we have some opportunity from an inventory standpoint to be better in stock on the better selling items so we can mitigate some markdown pressure on the back end. And we'll do a better job from a buying in terms and conditions of sale. So, it's really kind of back to basics. And as we've looked at this in our performance over the last couple of years, we think there's a real opportunity there.

Paul Swinand
Morningstar Research

Q

Okay, great. Thanks a lot. And best of luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

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

A

Thank you.

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

Sam Poser
Sterne, Agee & Leach, Inc.

Q

Good morning. Thank you for taking my questions. Just had a couple. There's been a lot of talk from other retailers regarding the impact of the minimum wage and how it may possibly have to raise wages. Are you seeing – what are you seeing there?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we continue to monitor the wage – what's going on from a wage standpoint. But the vast majority, we're paying above minimum wage today, so it's really not that big of an issue with us.

Sam Poser
Sterne, Agee & Leach, Inc.

Q

Thank you, and I've got a couple more. What made you decide to go – you're building out a nice branded apparel business with Under Armour and Nike and so on, especially developing the women's business. What made you move towards the Carrie Underwood collaboration there?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think it's just consistent with what we've talked about is trying to differentiate ourselves from what's going on in the marketplace. This is a category that's a terrific category right now. We felt that there was a void in the marketplace, and we put together a group of people a little more than a year ago to look at this and bring out this brand. And they've done a terrific job with it. It's out in the stores right now. It launches this Thursday and the early reaction has been quite good, but the primary reason is to continue to differentiate us in the marketplace from the competition.

Sam Poser
Sterne, Agee & Leach, Inc.

Q

And then can you tell us two other things? What is the terms of the Golf Galaxy leases right now? When are you going to start seeing the leases come up and possibly make – and possibly start closing more stores? And secondly, what is the golf inventory look like on a year-over-year basis right now?

Edward W. Stack
Chairman & Chief Executive Officer

A

We talked at the Golf Galaxy stores. We've got a number of them that come up each year. And we're only going to close the ones where we think that there is – that they're at bad location, they're not performing very well. A number of these stores we may and we have been doing this, relocating those to a different location and to the new format. And as I indicated earlier on the call, from another question, our golf inventory is in as good a shape as it's ever been, much better than last year. We're very pleased.

Our inventory level is down significantly; our clearance level is down significantly. And the overall clearance in the channel, in the pipeline with the brands is down significantly also. So we expect to see some AUR improvement in golf and also some margin rate improvement.

Sam Poser
Sterne, Agee & Leach, Inc.

Q

Thank you very much, good luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure, thanks.

Operator: The next question will come from Matt Nemer of Wells Fargo. Please go ahead.

Omair A. Asif
Wells Fargo Securities LLC
Q

Good morning. This is Omair on for Matt Nemer. E-commerce continued to be very strong despite what looks to be some tough compare from last year. Has there been any shift in strategy online maybe varying up the free shipping offers or anything like that, or perhaps an increase in online product SKUs?

Edward W. Stack
Chairman & Chief Executive Officer
A

I think there are a number of things. Our team has just done a great job as they've continued to be more experienced in this. We have changed up some shipping issues from time to time. And we've just done a really good job from an omni-channel standpoint of what's going on in the store, lining up our online presence with what we're trying to do in the store, lining up our online presence with what we're doing from a marketing standpoint. The collaboration between all of our groups here has just been terrific and has really led to this.

Our e-commerce team has done a great job. They're coming up with new ideas on how to drive the business through learning more about what it takes to convert customers. And we're just getting more experienced and doing a very good job there. We expect another good year this year.

Omair A. Asif
Wells Fargo Securities LLC
Q

And if I could follow up, as you open new stores, what sort of lift to the eComm business are you seeing in some of these new regions?

Edward W. Stack
Chairman & Chief Executive Officer
A

There's a big lift. We haven't said what it is specifically, but when we open up a store in a trade area or a market that we haven't been in before, there's a very meaningful increase in our e-commerce business. But understand, that's off a pretty small base, too.

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

The numbers we've talked about, this we have to share with you all publicly, it's about 50% increase, when we put a new store in a market, we see about a 50% growth rate from the zip codes in that area. But to Ed's point, that's typically off a very small base. But we do see that happening, and it continues to compound as those stores continue to penetrate the marketplace.

Omair A. Asif
Wells Fargo Securities LLC
Q

Got it. Thank you very much, guys.

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

Simeon Gutman
Morgan Stanley & Co. LLC
Q

Thanks, good morning. Andrè, a follow up to an earlier question on omni-channel, you mentioned some of the investment dollars. Can you please remind us just some of the capabilities that DICK'S has internalized versus what still needs to be built, whatever timeframe that may be?

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

A

Sure. I'll give it to you at a fairly high level. So when we launch our Golf Galaxy site in the first quarter, it will be on our new platform and we will have many of the components that we need. We will have all of the plumbing, if you will. We'll have to bring on in the new module some new ship-from-store capabilities, some other ordering capabilities that we're bringing on with the new site. But as we bring Golf Galaxy on, we will start to iterate very quickly to all the things that we'll need for the DICK'S site ultimately to be live in 2017. So, most of those capabilities, Simeon, are coming online with the GolfGalaxy.com site.

That said, it's going to be a much smaller site, right? So, we're going to want to make sure over the next couple of years that we're able to scale bringing on the Dicks.com site in 2017. But we'll have many of the capabilities right out of the chutes with more to come, obviously, as we continue to move towards 2017.

Simeon Gutman
Morgan Stanley & Co. LLC

Q

Okay, and then a follow-up to the online question. Ed, is there a strong overlap right now in the merchandise that's being purchased online versus the store? Or are you seeing a wider gap, meaning people are – they're purchasing the stuff that's online only?

Edward W. Stack
Chairman & Chief Executive Officer

A

What we're starting to see and as our online business gets larger, we're starting to see it act more and more like what's going on in the stores. So the key items in the stores are the key items online. Although, we do have that long tail of product online of some things that are not available in the store, but it's – there's more and more overlap of what's going on in the stores from an online standpoint.

Simeon Gutman
Morgan Stanley & Co. LLC

Q

Are you tweaking store mix as you see things happen online or are you roughly in – I guess that's always happening, but is there any changes that you're accelerating because you're seeing them online?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, there're certain things that we'll see online that we will then try to move into the store if needed, and vice versa. So, yeah, the groups are talking back and forth to each other exchanging information. And we move assortments back and forth all the time.

Simeon Gutman
Morgan Stanley & Co. LLC

Q

Okay, thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: The next question will come from Michael Baker of Deutsche Bank. Please go ahead.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Thanks. I wanted to focus a little bit on the hunting and golf business. First of all, in past quarters, you've given us the trends in hunting, I think down mid-single digits, for instance, last quarter. You said it's much better this quarter. Is it still down or is it positive yet?

Edward W. Stack
Chairman & Chief Executive Officer

A

It was down just a little bit, primarily because of the gun business.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Okay. And then can you tell us if you, either separately or together, how much hunt and golf is as a percent of total sales in 2014? What that was at a peak, what that is expected to be over time?

Edward W. Stack
Chairman & Chief Executive Officer

A

From a competitive standpoint, we're not going to get to that level of granularity. But we've indicated that the golf business will continue to be a less important part of our business, and not because of the reduction in golf sales, but as the reduction of golf sales as a percent to the total business. So, as we continue to ramp the Field & Stream business, golf gets to be less of the total percent.

We're growing other areas of the business at a pretty fast rate. As we've indicated, the women's business, the youth business, the footwear business. And as those things grow at a faster rate than golf, then golf becomes a smaller percent of the business. And that's not to be misinterpreted that we're not investing in golf. We still think golf is an important part of our business. It's going through a bit of more of a difficult cycle right now, but we think it will stabilize and we are going to be in the golf business and we're enthusiastic about the golf business.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Okay. So then, one follow-up to that perhaps is, I know you did a space reallocation initiative, took out about 1,000 square feet, as I recall, from golf. So that, I think, is behind you. But is there more now? Is there sort of a second step in that reallocating more space to apparel and footwear than you had previously planned?

Edward W. Stack
Chairman & Chief Executive Officer

A

No. Not coming out of golf, no.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Okay. One last one, I promise. We know the weather is terrible here in February in Boston. But Patriots Super Bowl sales didn't offset that? I certainly helped.

Edward W. Stack
Chairman & Chief Executive Officer

A

We appreciate that, but you didn't buy enough.

Mike Baker
Deutsche Bank Securities, Inc.

Q

I bought a lot, but okay.

Edward W. Stack
Chairman & Chief Executive Officer

A

Okay, thanks.

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

Sean P. McGowan
Needham & Co. LLC

Q

Thank you very much, a couple of that are kind of quick. Andrè, tax rate that we should be using for 2015?

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

A

Let me look for that. I don't have it right off – I think it's about 38.5%, roughly, is what I would use. It's going to move a little bit quarter-to-quarter based on things, but I think for what I would use for your modeling purposes is about 38%, roughly, 38.5%.

Sean P. McGowan
Needham & Co. LLC

Q

Okay. And then circling back on your commentary at the beginning of the call regarding the impact of the port delays. Ed, are you saying that it's not going to have an impact on the full year? You don't mean that you're actually going to make up for sales that are lost? You just mean it's not material for the whole year? Is that what you mean?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. I don't think it's not material for the whole year. And to be honest with you, there's some things we may be able to make up at the end of this quarter or into the next quarter. Because with what's happened from a weather standpoint, we don't feel we've lost any market share. I mean the kids – people aren't – kids aren't out playing lacrosse in some of these markets. They're not out playing baseball yet. There's going to be a bit of a delay of the season. So as we get caught up with inventory, I think that the demand is still there. So, there's still a lot of products that need to be bought that haven't been bought yet because of the weather.

Sean P. McGowan
Needham & Co. LLC
Q

Okay. And then would you say that on balance for the fourth quarter was weather a favorable impact to your sales, neutral or negative?

Edward W. Stack
Chairman & Chief Executive Officer
A

I would say it was probably neutral to negative because it was really warm through those key selling months of November and December. We didn't really get much snow. We would love to have had the weather we have right now in November and December. I would say the weather was neutral to negative.

Sean P. McGowan
Needham & Co. LLC
Q

Okay, and last question. On fitness devices, A, are you seeing good business in that, and B, perhaps more importantly, are you seeing any kind of to the extent that you can track what goes on with the consumers, are you seeing any rub-off where they buy the device, and as a result of being more interested in fitness, they're buying more clothing and shoes and other accessories?

Edward W. Stack
Chairman & Chief Executive Officer
A

We can't track the second part of your question yet, but just intellectually you would think that it's either neutral or positive to that. But that business has continued to be very good and we expect it to be very good for the reasonable future. So more and more people are being active and more and more people are trying to compete with each other for a number of steps or calories that they burn, et cetera. So I think all-in-all it's neutral to probably positive.

Sean P. McGowan
Needham & Co. LLC
Q

Thank you.

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure.

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

Michael Louis Lasser
UBS Securities LLC
Q

Good morning, thanks a lot for taking my question. It deals with the competitive landscape. So it was really promotional in the fourth quarter. Is this the new norm? I think last year there was partly an explanation where the year started off slow due to the weather, and others had to be aggressive to make up their plans. We're starting to see a similar story play out, so what's the chance that we're just in a new intensely promotional environment for sporting goods?

Edward W. Stack
Chairman & Chief Executive Officer

A

I don't think that's the case, I think as evidenced by the fact that we said we think it's going to continue to be a bit promotional in this quarter. Part of what we indicated that the margin rate is that we're going to be trying to clean out, clean some inventory down, some slower-moving categories to reinvest that in some faster-selling categories. And we indicated that our margin – we would expect margin rate expansion in the next three quarters. So no, I don't think it's a new normal.

Michael Louis Lasser
UBS Securities LLC

Q

And, Ed, there have been some documented struggles from one of your competitors. How does it play into both your M&A strategy and then your promotional strategy?

Edward W. Stack
Chairman & Chief Executive Officer

A

We never comment on our M&A strategy and our promotional strategy. We've known about what's going on with our competitors for a long time, and it's really not going to make any change in our promotional strategy.

Michael Louis Lasser
UBS Securities LLC

Q

Okay, and then one last quick one. You cited long-term gross margin drivers as being mostly focused on being sharp with inventory ordering and how you manage that. The company has done a good job of using technology to price optimize, size optimize. You also increased your private label penetration and, as a result of some of those factors, drove a significant amount of merchandise margin. Are those initiatives tapped out at this point?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, I don't think so. I think we've still got some opportunities and doing a better job with our inventory and our pricing strategies within that inventory. And we have an initiative that we started last year, which will be to start to grow our product development, our private label strategy again. I think you can see that with the launch of the CALIA brand, which everyone in the organization is very excited about.

Michael Louis Lasser
UBS Securities LLC

Q

Okay, thank you so much.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: Your next question will come from Sam Reid of Barclays. Please go ahead.

Sam Reid
Barclays Capital, Inc.

Q

Thank you so much for taking my question, a quick one here regarding square footage reallocation. Would you be able to give us a sense as to how much that helped during the quarter, specifically in some of those stronger categories that you guys have been highlighting over the past few quarters? Thank you so much.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure, it helped us significantly. As I said, the women's and kids business, the apparel business grew at a faster rate than the company as an average. Those categories have higher margin rates than the categories that they displaced, higher turnover rate. So it's been a very big benefit to us.

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

Stephen V. Tanal
Goldman Sachs & Co.

Q

Thanks a lot, guys, for taking my question. I'll try to keep it tight. The softer 1Q outlook in terms of its sales cadence, I just want to be clear. It sounds like you're saying that that's embedding an expectation that trends will slow because of the West Coast inventory issues. Is that correct? Is that the right way to think about?

Edward W. Stack
Chairman & Chief Executive Officer

A

We said there are two things that's impacting that. So the guidance in the first quarter is looking at how weather has impacted our business in the month of February, and we expect to have some improvement in that. And then there's also some portion of this that we're just slower getting some products into the stores because of what's going on the West Coast. If I had to rank them one/two, I'm not going to give you a percentage between one and two. But if I had to rank which is the more significant piece of this, it's the weather piece that shut down a lot of stores that is the biggest driver of that, more than the port strike.

Stephen V. Tanal
Goldman Sachs & Co.

Q

To be clear then, store closure days in February are worse than they were a year ago is what you're saying?

Edward W. Stack
Chairman & Chief Executive Officer

A

It's not any better. There are issues with store closing days. You've got to take a look at – we're not going to get into all the granular details here, but store closing days depend on what day of the week it is, what week that the store closures happen in because all weeks and all days are not created equally.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Of course. And then on the gross margin guide for 1Q, is any of that merch margin pressure at all related to the West Coast, or is that all promotional activity?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, that's promotional activity. Just cleaning out this inventory a bit more than we – like I said, we're at historical low levels from a clearance standpoint, but there are some things we just feel that we've got the opportunity to clean a little bit deeper. And then there's still some promotional activity out there as people are trying to clean up the fourth quarter, whether that's from an outerwear standpoint in certain parts of the country. If it's still the gun business, there's still some promotional activity out there. But we're seeing it moderate, and we think that there will be margin rate expansion in quarters two through four.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Understood. And then lastly, occupancy leverage looked really good. It sounds like at least 50 basis points or so or right around there based on the disclosures you have given. Can you remind us, these days at what point you start levering occupancy in terms of same-store sales growth?

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

A

Yes, we look at it – Stephen, this is Andrè. We look at it really on a total sales basis. It's a little deceptive to just look at comps for that, but we're looking at that 9% to 10% range as we typically would see occupancy leverage for us on a full-year basis. It's going to bump around quarter to quarter, but on a full-year basis those are the kind of numbers we're looking at.

Edward W. Stack
Chairman & Chief Executive Officer

A

And that's 9% to 10% total volume, total sales, not comp.

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

A

That's what I said.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Thanks, guys.

Operator: Our next question will come from Joe Feldman of Telsey Advisory Group. Please go ahead.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Q

Hey guys, thanks for taking my question. Most have been asked, but I wanted to follow up with something. Remember a couple of years ago there were a few like equipment changes or rule changes and was just wondering if there's anything like that on the horizon that might actually help spur sales or even hurt sales. I think there was like some kind of gun ban on a particular type of rifle ammunition that maybe I wonder if that's something that you guys had sold. So any kind of equipment changes that you could talk about?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, there are no equipment changes of any significance on the horizon. The biggest impact we had a couple of years ago was when the high school association changed the bat standards for using a baseball bat to the BBCOR bats, which would allow the ball to come off the bat slightly slower to help reduce injuries. And California was the first to adopt that, and then the next year the rest of the country did. So every young man or young girl who played high-school baseball had to buy a new bat. And that was a big – that was great for our business. But there's nothing on the horizon like that in the future, in the near future.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Q

Got it. And then the other question I wanted to ask was, given the improvement in trends that we've been all seeing in the economy, I was just wondering, are you seeing any difference in what people buy in terms of – like are people stepping up, maybe, from the good to the better or from the better to the best within categories? Are you noticing any changes or creep-up in ticket?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think where you see some things where technology has really made a difference. Such as baseball bats, some of the higher end baseball bats are perceived to be a real value. That's helped. Some of the apparel products where the apparel is much technologically has been better, they're buying that. But we don't see them stepping up just to step up. There has to be a perceived value in order to step up.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Q

Got it. Thanks and we look forward to seeing you in April.

Edward W. Stack
Chairman & Chief Executive Officer

A

Great. Look forward to it.

Operator: The next question will come from David Magee of SunTrust. Please go ahead.

David G. Magee
SunTrust Robinson Humphrey

Q

Yes, hi, everybody. Good quarter.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

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

A

Thank you.

David G. Magee
SunTrust Robinson Humphrey

Q

I guess I've another question on competition. If you just look at your stores that you're opening now with your core concept, is the overlap percentage with other chain competition, is that a number that's increasing over time or decreasing would you say?

Edward W. Stack
Chairman & Chief Executive Officer

A

I'd say it's probably pretty much the same. I think it hasn't changed a whole lot.

David G. Magee
SunTrust Robinson Humphrey

Q

You all haven't changed your strategy as far as how close you want to be to like competition, was that sort of unchanged over time?

Edward W. Stack
Chairman & Chief Executive Officer

A

We haven't changed that at all.

David G. Magee
SunTrust Robinson Humphrey

Q

Great. Thanks and good luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thanks.

Operator: Our next question will come from Chris Svezia of Susquehanna Financial Group. Please go ahead.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Good morning everyone, thanks for taking my questions. I guess, Ed, first for you, just on the outerwear business relative to your expectation in the fourth quarter, how did it perform relative to the average for DICK'S stores for you guys? That's Footwear and cold weather apparel.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, the – it was okay. It was combining our expectations, it came later than we would have liked it to be, which means that there was a little margin rate pressure there because it came later, but all-in-all we're pretty pleased with it.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Okay. The other question I have is just on – when you mentioned the ability to chase in inventory and inventory availability for opportunistic buys, just how do we think, is that more than what you've seen in the past? Is that a way for you guys maybe to drive traffic and comp and product margins in subsequent quarters? Just maybe talk about that if you could for just a sec.

Edward W. Stack
Chairman & Chief Executive Officer

A

We'll be trying to do that a bit more than we have in the past, and we'll buy that product and use it to generate traffic as a promotion at different times of the year. So we're getting out ahead of this and buying this product further in advance than we have in the past. So it's a much more important part of our program than it may have been over the last couple of years.

Christopher Svezia
Susquehanna Financial Group LLLP Q

And is it across – is it any category specific or is it just kind of across the board?

Edward W. Stack
Chairman & Chief Executive Officer A

It's across the board.

Christopher Svezia
Susquehanna Financial Group LLLP Q

Okay.

Edward W. Stack
Chairman & Chief Executive Officer A

We're taking a look at this, the ability to buy some short-run closeouts that we hadn't really done in the past that could be used in a grand opening campaign, or could be used in seasonally in a particular market. So we're looking at these closeouts a lot more aggressively than we have in the past.

Christopher Svezia
Susquehanna Financial Group LLLP Q

Okay. Fair enough. And two questions for you, Andrè, real quick. Just on the deferred construction allowances, which I think it doubled year-over-year. I'm just curious, the increase of that timing? And then the other question I have is just what, either from – it's a level of comp or it's a level of sales growth do you need to leverage SG&A with the additional investments in 2015?

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

Sure. So let's talk about the first piece. So the deferred construction allowances are going to be a couple of things. One is, there's a little bit of timing there. The other is the sort of the nature of some of the way we're building stores today. It's a little bit of a mix difference between built-to-suits and reverse built-to-suits. So that's going to affect a little bit about what the landlords typically give us in constructional allowances. So that's the movement that you've got there. And with respect to SG&A, I think we're in that, again, total sales, not comp, but total sales in that probably that 8% to 9% range is where we start to see the leverage in total.

Christopher Svezia
Susquehanna Financial Group LLLP Q

Okay. Even with the additional investments in 2015?

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

Yeah, we see that. And as we mentioned in my prepared remarks, we'll see a little bit of deleverage in SG&A in 2015 as a result of some of the additional investments we are making in e-commerce independence.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Okay, got it. Okay, thanks very much. See you guys in April. Thank you.

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

A

Okay. Thanks.

Operator: And ladies and gentlemen, that will conclude our question-and-answer session. I would like to turn the conference back to Edward Stack for his closing remarks.

Edward W. Stack
Chairman & Chief Executive Officer

I'd like to thank everyone for joining us today as we've reviewed our fourth quarter call and look forward to talking to everyone on our first quarter call. Thank you.

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