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Dick's Sporting Goods, Inc. (DKS)

Q2 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the DICK'S Sporting Goods' Second Quarter Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions]

After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

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

Anne-Marie Megela

Vice President-Treasury Services & Investor Relations, DICK's Sporting Goods, Inc.

Thank you. Good morning and thank you for joining us to discuss our second quarter 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 discussions include 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 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 the 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 business second quarter results and key business drivers. Joe Schmidt, our President and Chief Operating Officer, will then review our omni-channel development program, and specialty concepts. After Joe's comments, André Hawaux, our Chief Financial Officer, will provide greater detail regarding our financial results, capital allocation, and future expectations.

I will now turn the call over to Ed Stack.

Edward W. Stack

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

Thank you, Anne-Marie. This morning we announced our second quarter 2014 results, including consolidated non-GAAP earnings per diluted share of $0.67 at the high end of our guidance of between $0.62 and $0.67 for the quarter. Our consolidated same-store sales increased 3.2% compared with our guidance for the quarter of between 1% and 3% same-store sales.

Our results reflect strong performance across most areas of our business, partially offset by the performance of our golf and hunting businesses. In fact, excluding these two categories, our aggregate comp for the quarter increased by approximately 7.8%.

Areas where we've made investments and reallocated space, such as women's and youth athletic apparel, have been very positive. We shifted floor space away from golf and fitness and now have a broader, more compelling selection of women's apparel and youth apparel supported by an enhanced product presentation.

We also saw strong performance in team sports and licensed merchandise during the second quarter with a meaningful impact from the World Cup. Our aggressive merchandising strategies resulted in average store sales of World Cup merchandise that were more than double the sales on an average store basis of the World Cup held in 2010.

As anticipated, we continued to see headwinds in our hunting and golf businesses, both of which were impacted by the trends we discussed in detail last quarter. Specifically, the hunting business comped down high-single digits. We expect our hunting business to continue to trend down in the third quarter and then flatten out in the fourth quarter. Other segments of our outdoor business performed well, offsetting the declines in hunting.

This enabled our overall outdoor business, which includes hunting, fishing, camping, boats, and other outdoor categories to deliver flat comps.

Golf continues to be our most challenging business. Our significant promotional activity, particularly around Father's Day, led to better-than-expected sales, but negatively impacted margins. Golf Galaxy comps were down 9.3% and our DICK'S golf business was down somewhat less. In order to realign this business more closely with current and expected golf demand, we have taken steps to reduce our cost structure. As part of this, we have eliminated specific positions in our golf area within our DICK'S stores.

We have retained a strong team of associates, who have the training, experience and skills necessary to meet the demands of our golf customers. We will reinvest these savings by providing a higher level of service in the strategic growth businesses inside our stores.

We have also reduced the cost structure of our golf business by consolidating our golf-related corporate operations. This includes merging the buying and back office function of our DICK'S golf business and Golf Galaxy into a single cost-effective operation. We will be reinvesting these cost savings from the consolidation into the growth areas of our business. The growth drivers of our business include eCommerce, which delivered another strong quarter representing 6.3% of sales from 5.6% last year in the second quarter.

Other drivers include our women's and youth initiative, footwear, and Field & Stream. As we look at the second half of 2014, we're cautiously optimistic, although we do expect due to the cautious consumer and sluggish economy, promotional activity will increase, with margins and advertising expense continuing to be under pressure, impacting earnings per diluted share by approximately $0.04.

In summary, we were pleased to deliver results at the high end of our range from both sales and earnings perspective. Although we continue to face headwinds from golf, we are enthusiastic about the balance of our business.

This is demonstrated by the improving trends in the hunting and outdoor business, our women's and youth initiative, along with the balance of our business that delivered comps over 7%. We further demonstrated the confidence in our business long-term by repurchasing $100 million of stock during the quarter. We will continue to manage our business for the long term as we weather these shorter-term issues.

I would also like to thank our associates throughout our company for the hard work and determination they showed to deliver our Q2 results. I'd now like to turn the call over to Joe.

Joseph H. Schmidt

President & Chief Operating Officer, DICK's Sporting Goods, Inc.

Thanks, Ed. During the second quarter of 2014, we continued to expand our omni-channel platform, growing both our store base and eCommerce operations, while driving productivity in our stores. We opened eight new DICK'S stores and relocated three stores that were at the end of their leases. At the end of the second quarter, we had 574 DICK'S stores.

In the second quarter, we reallocated space within our existing DICK'S stores to increase our offering of women's and youth athletic apparel. As Ed discussed, our initiatives to rationalize our golf cost structure will allow us to reinvest payroll into other areas of the store, which we believe will also enhance the customer experience, and drive productivity.

Our new DICK'S stores continue to perform well, with new store productivity of 97.8%. And our store base also supports the growth of our eCommerce. As many of you know, all of our existing and new DICK'S stores feature ship-from-store capabilities, allowing us to connect online customers with in-store inventory. With each new store, we enhance our distribution network as new stores are able to fulfill eCommerce orders.

We continue to optimize our ship-from-store fulfillment to improve inventory utilization, reduce shipping costs, and speed the delivery of merchandise to our customers.

We recently introduced a completely redesigned mobile app, which features a new look and feel, as well as a better user experience. The new app will serve as a foundation to expand our mobile platform and further integrate the online and offline experiences. Our new app follows on the heels of a very successful new tablet optimized site we launched last year.

Turning now to our specialty concepts, in the second quarter, we opened our third Field & Stream store. We plan to open seven additional Field & Stream stores in the third quarter, bringing our store base to 10 stores. In the Field & Stream stores, we see strong productivity and we believe we have additional opportunities to drive both sales and margin.

Now I'll turn the call over to André to discuss our financial performance, capital allocation and outlook in more detail.

Andrè J. Hawaux

Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

Thank you, Joe, and good morning to everyone. Today I'll cover three topics with you. First, our second quarter results; second, our capital allocation strategy; and third, our outlook for the third quarter and full year. Beginning with our second quarter results, total sales increased 10.3% to nearly $1.7 billion. Consolidated same-store sales increased 3.2%, slightly above the high end of our guidance for 1% to 3% same-store sales growth, and compared to shifted comps of negative $0.4% in the second quarter of last year. DICK'S Sporting Goods' consolidated same-store sales increased 4.1%, while Golf Galaxy decreased 9.3% in the second quarter.

The 4.1% consolidated increase in the DICK'S business was driven by a 2.3% increase in traffic, and by a 1.8% increase in sales per transaction. eCommerce penetration was 6.3% of the total sales in the second quarter, compared to 5.6% in the second quarter last year.

Moving on to gross profit; second quarter non-GAAP gross profit was $505 million or 29.9% of sales, and was down 140 basis points for the second quarter of 2013. This was due primarily to lower merchandise margin and increased shipping expenses as our eCommerce penetration continued to grow, partially offset by occupancy leverage, our merchandise margin declined 112 basis points due to increased promotional activity.

Non-GAAP SG&A expenses in the second quarter were $365.1 million or 21.62% of sales, and de-leveraged 13 basis points from non-GAAP SG&A expenses in the second quarter of last year. This was due to increased advertising to support our promotional activity, increased store expenses, and partially offset by lower administrative expenses as a percentage of sales.

Pre-opening expenses were $7.9 million, a $2.7 million increase from the second quarter of 2013. The increase in our pre-opening expense reflects an increase in the number of stores opening this year relative to the prior year.

In the second quarter, we recorded a $20.4 million of pre-tax charges related to the restructuring of our golf business. The charges include a $14.3 million non-cash impairment of golf trademarks and store assets, severance charges of $3.7 million related to the elimination of specific golf position from our DICK'S stores and the combination of DICK'S golf and Golf Galaxy corporate and administrative functions, and a $2.4 million write-down of golf-related inventory.

We took these actions to align our cost structure with the current and expected trends in golf. As Ed mentioned earlier, our golf sales responded during the quarter when we promoted the business, but we gave up significant margins to generate the sales. The level of promotions necessary to drive the top line are not sustainable for the long term, and contributed toward our decision to better align our cost structure with the current realities of the golf business.

As we valued our inventory, store assets, trademarks and trade names at the end of the quarter, we believe we have given appropriate consideration to the trends in golf, which led to the adjustments in the current period. For the second quarter, we generated non-GAAP earnings of $0.67 per diluted share, compared to non-GAAP earnings of $0.71 per diluted share in the second quarter of last year.

Now turning to our balance sheet, we ended the second quarter of 2014 with $100 million of cash and cash equivalents and no outstanding borrowings under our revolving credit facility. Last year, we ended the second quarter with approximately $135 million in cash and cash equivalents, and no outstanding borrowings on our revolving credit facility. Over the past 12 months, we've invested in our omni-channel growth, including our Field & Stream stores, and we've returned over $360 million to shareholders through share repurchases and dividends.

Total inventory increased 11.2% at the end of this year's second quarter compared to the end of last year's second quarter. Approximately 2% of this increase reflects inventory to support the growth of our Field & Stream stores, including the seven new stores scheduled to open in the third quarter.

Net capital expenditures in the second quarter were approximately $66 million, or $86 million on a gross basis. This compares to net capital expenditures of $56 million, or $62 million on a gross basis in the second quarter of 2013.

Turning now to our capital allocation strategy; as Ed mentioned, we repurchased an additional $100 million of our stock in the second quarter of 2014, bringing our first half 2014 repurchases to $125 million. As we discussed in the past, we expect to repurchase shares to both offset dilution and opportunistically repurchase shares. Since we started our $1 billion authorization at the beginning of 2013, we have repurchased over $380 million of stock and have approximately $620 million remaining under the current authorization.

Now turning to our guidance; as we contemplated our guidance for the third quarter and full year, we took into consideration our golf-related actions and our share repurchases to-date. We expect to reinvest the ongoing cost savings from our golf restructuring into other aspects of our store operations and into the growth areas of our business. As we look to the second half of 2014, we expect the consumer to continue to be cautious. Our guidance incorporates these factors and promotional actions that will be required to drive sales in the second half.

For the third quarter, we anticipate consolidated earnings per diluted share of $0.38 to $0.42. Consolidated same-store sales are expected to increase approximately 1% to 3% compared to a 3.3% increase in our shifted comp in the third quarter of last year.

Gross profit margins are expected to decrease as a result of the planned promotional activities. SG&A expenses as a percentage of sales are expected to leverage slightly. We are anticipating pre-opening expenses to increase year-over-year in the third quarter, due primarily to the higher cost of the seven expected Field & Stream store openings, this is expected to have an approximate $0.02 impact on our third quarter EPS.

For the full year 2014, we expect consolidated non-GAAP earnings per share to be between $2.70 to $2.85. We expect same-store sales to increase 1% to 3%. Gross margin is expected to decline and SG&A is expected to leverage slightly. Pre-opening expenses are expected to be higher due to the increase in store openings compared to last year.

In summary, our second quarter results were at the high end of our guidance. Excluding the anticipated headwinds in golf and hunting, the rest of our business generated over 7% comps, with strength across most categories.

Looking to the second half of the year, we are cautiously optimistic about the opportunities we see. However, we expect the retail environment to remain challenged due to the cautious consumer and anticipated promotional activity. This concludes our prepared comments, and I'd like to thank you for your interest in DICK'S Sporting Goods.

Operator, you may now please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question and answer session. [Operator instructions]

First question comes from Seth Sigman of Credit Suisse. Please go ahead.

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

Q

Okay, thanks very much. I had a couple of questions about the outdoor business. Maybe just first the improvement in the hunting category, so down high-single digits this quarter versus down high teens last quarter. I think it seemed to improve from your commentary on the last call. Can you maybe just elaborate on what changed there, where you're seeing some improvements?

And then everything excluding hunting, it seems to continue to perform pretty well, just wondering what's going on there. Are you seeing some wallet share shifts away from hunting that may be helping? Are you getting better brands maybe as a result of the Field & Stream initiative? Any color there would be helpful.

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

A

The hunt business was down. We got a bit more promotional with the ammunition. We had a bit more ammunition in the store, which has been difficult to get. So that helped the hunt business.

I think we're also kind of – you've seen some other retailers, their second quarter was a little bit better than what their first quarter was also, just that comparing the first quarter from last year versus the year before, after some of the tragedy that happened is just a natural change in the business. So we were happy to see the business starting to come back.

The other areas of the business, the tackle business, the camping business has just been – especially the camping business has been really good for us. We did a good job from a merchandising standpoint, a good job from a marketing standpoint. The boat business has been very good. So there's been a variety of other areas in this category that have been good that helped us overall, our overall outdoor business was basically flat in the second quarter.

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

Q

Okay. And are you getting access to brands in the core DICK'S format that maybe in the past you would not have had access to?

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

A

No, there really hasn't been any meaningful change there.

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

Q

Okay. And then maybe just one question on pricing, a lot of talk about planned promotional activity. Obviously this quarter, merchandise margins were down. Just the 112 basis point decline in merchandise margins due to promotional activity, how much of that was actually golf versus other categories?

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

A

I mean, there was – the majority of that was golf. We got really aggressive in the golf category in the second quarter, especially around Father's Day, to try to drive some sales and clear out the inventory. We still have inventory, we still have a ways to go with that, and that's part of the issue with the margin pressure going forward.

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

Q

Okay, understood. Thanks and good luck.

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

A

Thank you.

Operator: The next question comes from Michael Lasser of UBS. Please go ahead.

Michael Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. So on the $0.04 that you're talking about from increased promotional activity and marketing is that all due to golf? And is that all going to be spread out in third and fourth quarters?

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

A

Well, it's going to be – the golf piece will be in the third and fourth quarters but it's not all that. We just kind of – and you've kind of heard some other retailers talk about it, there's just a concern that based on kind of the cautious consumer that there's going to be promotional pressure in the back half of the year and we're not going to be immune from that.

Michael Lasser
Analyst, UBS Securities LLC

Q

So are you expecting that in the non-golf categories, the promotional activity will be greater than what you saw in the second quarter?

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

A

I don't think it will necessarily be greater, but it will still – there will be promotional pressure in other areas of the business that will put some pressure on the margins.

Michael Lasser
Analyst, UBS Securities LLC

Q

Okay. And then my last question is on the second quarter comp, can you give us any more insight into how much of it was driven by the reallocation of space to women's and youth and the World Cup? You told us the World Cup sales doubled per store. We don't have a sense for what the sales were for the first time around – the last time around.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

So from a competitive standpoint, we're not going to give a granular answer to the question, but it was – the World Cup was pretty meaningful for us and the merchants and the team that was responsible for the World Cup did a great job. And the other areas of the business as we indicated where we increased space was extremely helpful, big – north of double-digit comp gains in the youth and women's area.

Michael Lasser
Analyst, UBS Securities LLC
Q

And that should – those portions of the business only increased in the third and fourth quarter because golf becomes a smaller portion of the total during that time?

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Golf becomes a smaller portion, but hunt becomes a bigger portion.

Michael Lasser
Analyst, UBS Securities LLC
Q

Okay.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

But we expect those areas of the business to continue, not World Cup, the World Cup is over.

Michael Lasser
Analyst, UBS Securities LLC
Q

Okay.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

And I know you know the World Cup games are over but the sales associated with some of the World Cup products doesn't continue past the game.

Michael Lasser
Analyst, UBS Securities LLC
Q

Understood. Thank you so much.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Sure.

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

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

Q

Hi, good morning. Thanks for taking my question.

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

A

Sure.

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

Q

First question and maybe a bigger picture question on the golf category; you discussed in your prepared comments adjusting the labor model within the golf sections of your DICK'S stores. Maybe elaborate a little bit further on the thinking behind that. I've followed DICK'S for a long time now and golf has always been a focus so to say and having the PGA professionals and such in your stores has been a differentiator for DICK'S. As you'll adjust this labor model now, I mean I guess it's an indication of what you see is kind of going forward in the golf business but there's also – could it potentially put you at a competitive disadvantage by taking labor out maybe at a time when we should be looking to try to drive better sales in that category?

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

A

Yeah, Brian, I don't think so. We didn't have those positions filled in all of the stores, and as we looked at the results that we were getting based on what's happening in golf today, there wasn't a meaningful difference between the stores that had that labor model and didn't have that labor model, and we just think that as much as we all love golf, the business reality of it is that golf from a retail standpoint is under pressure, and we had to change that labor model to meet the demands and the sales.

We're taking those dollars and reallocating those into other areas of our business that are doing extremely well, such as the women's area, youth area, the team sports area, and I think it will serve the company well.

We've got very good people who were there, they can still help people fit golf clubs, go through all the things that those other individuals were able to do. And we don't really think it's going to have a negative impact on the business.

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

Q

Got it. And then just as a follow-up to that, maybe some quantification, on the Q1 call we discussed golf a lot and it sounded like you really saw a significant issue there.

Golf problems persist. Is golf getting worse now? I mean particularly I guess what I'm asking is the weather got better so that should have been somewhat of a lift in the golf business I would assume. But even despite that, do you think golf is still getting worse than it was earlier this year?

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

A

Yeah, I think golf is in – golf, from a participation standpoint and how it translates to retail, is in a structural decline. And we don't see that changing. We're not sure exactly when that will flatten out, but we don't see that yet.

And so, we've made the moves that we felt were appropriate of where we're going to invest capital and where we're going to invest resources to drive specific businesses.

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

Q

Okay. Well, thank you.

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

A

Sure.

Operator: The next question comes from Paul Swinand of Morningstar Inc. Please go ahead.

Paul Swinand
Analyst, Morningstar Research

Q

Good morning, and again thank you for the patience with all the questions. Going to continue to beat at the golf horse here. I know last call we talked about the golf innovation cycle and you had mentioned that the consumers didn't really connect with some of the new technologies. And one of the other comments was that a lot of the comp decline was actually just average unit retail, and that the purchases I think were only down 2%.

What's the prospect for that turning around next year? You've probably seen some of the products, or getting some advanced views of what's going to happen for next year in the innovation cycle. And is there any more color you can give us on why the innovation cycle didn't work this time and might it work next time?

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

A

Well, I think the innovation cycle was so different and exactly the opposite of what golfers had always thought they were supposed to do, especially around the driver category to hit the ball further.

We are just starting to set up some meetings of what we're going to see next year, so I really can't comment yet on how we feel about the innovation cycle. But we think that golf is going to continue to be a smaller portion of our business, still going to be an important part of our business. We're still going to continue to be in the golf business and support the golf business the best we can based on the size of the market.

But golf was, a few years ago, was 20% of our business, including Golf Galaxy. It's kind of sitting down now around 15%, and we think over the next three to four years, it could move to 10%. Not from that big of a continued move down in golf, but just as other areas are continuing to grow, we expect that we'll continue to see golf as a smaller and smaller percent of our total business.

Paul Swinand
Analyst, Morningstar Research

Q

Got it. And then quickly on the inventory, I know your inventory's controlled compared to your growth rate, but with companies such as TaylorMade doing negative 34% in the first quarter and negative 17% second quarter, is a lot of the golf inventory buildup still just in the clubs? And then, are the other categories a little lighter? Or is it just because the less traffic through the store in golf has led to inventory in all different product types?

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

A

The inventory issue is more prevalent in some areas than others, but everything in golf has had its sales issues, and there's some buildup in inventory across most of the categories.

Paul Swinand
Analyst, Morningstar Research

Q

Okay, great. Thanks and best of luck.

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

A

Thank you.

Operator: The next question comes from Robby Ohmes of Bank of America Merrill Lynch. Please go ahead.

Robert F. Ohmes
Analyst, Bank of America

Q

Hey, good morning, Ed.

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

A

Hey, Robby.

Robert F. Ohmes
Analyst, Bank of America

Q

Hey, two questions. First, the traffic comp was – that you guys put up for the quarter was pretty impressive, I think relative to a lot of other retailers. Can you maybe talk about how – what maybe helped drive that? And also, Ed, I don't know if you can weave into it, or it's weave-able into that, but I think you relatively recently started working with Dunnhumby, and I was hoping you could maybe shed some light on how that could potentially be a benefit to your business over time.

And the second question, the press release and through this call, you guys have talked about how you're expecting the back half to be promotional, et cetera. A lot of your stores are solidly into back-to-school now, like in the peak of it. Have you seen that promotional issue playing out? Can you give us any color on what you've seen in your earlier back-to-school markets? Thanks.

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

A

Robby, I think to talk about the quarter; we don't talk about anything inside the quarter. Kind of what we've seen so far is baked into our guidance and we're obviously pretty comfortable with that.

On the traffic side, what has been really – in the second quarter helped that was the golf promotion; we got very promotional from a golf standpoint to drive traffic in. And we also put together a tent sale where we took some products and put them out in the tent and had a bit of a carnival, if you will, which certainly helped drive traffic into our store also. So we're pretty pleased with the traffic and kind of what we did in the second quarter.

Robert F. Ohmes
Analyst, Bank of America

Q

And then on Dunnhumby?

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

A

It's really too early, Robby. We're not going to talk a whole lot about that. From a competitive standpoint, we're just going to – we're not going to talk much about that right now.

Robert F. Ohmes
Analyst, Bank of America

Q

And then just one quick follow-up. I think the store growth is now plus 46 and I think you guys might have been looking at doing 50. Are you guys tweaking down your store growth rate for next year as well?

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

A

No, Robby, we're really not. Really, it's just construction slides sometimes in the back half of the year, and if we don't hit a particular – if the landlords don't turn store over to us on a particular date, we've got the ability to move that to the spring, and that's what we've done. And not because we didn't want to open it up. It's just past the timeframe by which we want to open up stores.

Robert F. Ohmes
Analyst, Bank of America

Q

Got it. Thanks a lot, Ed.

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

A

Okay, thanks, Robby. See you.

Operator: The next question comes from Christopher Horvers of JPMorgan. Please go ahead.

Mark A. Becks
Analyst, J.P. Morgan Securities LLC

Q

Hi, this is Mark Becks on for Chris. Thanks for taking my question. Just a follow-up on traffic and the golf comments earlier, any way to parse out what the lift to the comp was if you speak directly to the golf promotions in the quarter?

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

A

No, there's really no. No.

Mark A. Becks
Analyst, J.P. Morgan Securities LLC
Q

Okay. Maybe sort of triangulate in a different way. Thanks for the commentary on the comps ex golf and hunting. [ph] They (32:13) looked like there was a little acceleration this quarter. Can you maybe share what the compares look like in Q1 and Q2 last year, just given the amount of moving pieces with World Cup and golf promotions, et cetera? Just trying to get a better sense of the comp. Thanks.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Yeah, well, the comp, as we said, was north of 7% this year. We didn't call it out what it was last year versus going back to 2012. And we're not going to go back and do that, but we wanted people to understand that a big part of our business is doing reasonably well with comps north of 7% and just under 7% in the first quarter. And this is really an issue around golf, which we think is going to continue, which we've laid out and one of the reasons why we restructured the golf business. In the hunt business, which we think is just temporary, but we're pleased with what the rest of the businesses did.

Mark A. Becks
Analyst, J.P. Morgan Securities LLC
Q

And one final question. The Field & Stream concept is anniversarying its first store opened, maybe kind of share what you're seeing there and how you're feeling about that new concept.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Well, we continue to be enthusiastic about that new concept. The anniversary date is less than a week old, and so we're going up against grand opening numbers. So it's still pretty new, but we continue to be enthusiastic about that business, hence we're opening up seven more stores through the balance of the year. And we'll continue to open stores into next year, probably roughly 10 stores to 15 stores next year we'll open up, and we're pretty excited about this business.

Mark A. Becks
Analyst, J.P. Morgan Securities LLC
Q

Great. Thanks, Ed.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Sure.

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

Sean P. McGowan
Analyst, Needham & Co. LLC
Q

Thank you. One housekeeping question. Could you break out those charges that were taken related to the golf restructuring? Was anything other than that inventory charge in cost of sales? Or was that whole inventory charge in cost of sales and everything else would be below that line?

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

That's correct. The inventory was in cost of sales. The rest of the impairment and severance was in the SG&A space.

Sean P. McGowan
Analyst, Needham & Co. LLC

Q

Thanks, Andrè. And then, Ed, can you – at the risk again of beating the golf dead horse. What would you say would be the commentary now on what to do with the stores that you do have? Are you planning to scale them back? I mean, certainly not opening in the plans but are you planning to scale back the number of stores that you do have in Golf Galaxy?

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

A

We're not. We continue to look at what's going on from a golf standpoint. We have roughly 63% of the Golf Galaxy leases will be coming due in the next three years. So we have an opportunity to take a look at some of those stores that may not be performing very well and if we decide we may close a few of those, I don't expect a lot of them, but we may close some of those. Some other stores that are doing very well we may relocate, which we've done in the past also, but we're still being cautious about what's going on in golf, and as I said, with 63% of the Golf Galaxy leases coming due over the next three years, we've got a lot of flexibility as to what we want to do.

Sean P. McGowan
Analyst, Needham & Co. LLC

Q

Would any of those stores be appropriate for another category?

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

A

No, I don't think so. Nothing that we have on the shelf today, and those stores, they're at the end of the lease, there would be virtually no store closing charge associated with these, so we could just close a store at the end of its lease with virtually no charge at all.

Sean P. McGowan
Analyst, Needham & Co. LLC

Q

Okay. Thank you very much.

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

A

Sure.

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

Katharine McShane
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Hi. Thanks, good morning. Just a couple of questions back to the promotional environment. Just given the stronger macro backdrop and certainly the strength of the category, particularly in footwear, athletic apparel and team sports, do you have an idea of why it would need to be more promotional year-over-year?

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

A

I just think that the consumer's cautious; people are going to promote to try to drive sales. We still have some golf inventory that we need to get rid of. I think the hunting category is – because hunting has been a bit difficult, I think that the hunt category is going to get to be promotional in the third and fourth quarter also, so we're being cautious on what the environment is out there that we see.

You've kind of heard that from a number of other retailers, and a couple in this space that pre-announced, so we just think that that's the reality of what's going on out there right now.

Katharine McShane
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. And as we get into Q3 and Q4, with winter product and outerwear sales, can we expect to see any merchandising changes around your outerwear as vendors maybe get a little bit more savvy with how they're distributing their orders and their wear-now orders?

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

A

No, we don't see any real difference. We'll still be focused on the same brands in relatively the same percentage or market share that we bought them with as we did last year. So, no, we're not – you wouldn't see anything meaningfully different.

Katharine McShane
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. Thank you. And then my final question is on the women's and youth expansion that sounds like it's doing very well and it's been successful. As you continue to learn more about these categories, do you anticipate carrying new brands, or enhancing the spaces at all as we get into 2015?

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

A

Yeah, we do expect to see some new brands, I'm not going to go into those right now, but we do expect to see some additional brands that we'll put in the store. We've done most of the space reallocation. There will be some new fixtures, but nothing significant. But we are excited about some of the new brands that we've got coming into the store.

And one in particular that we already have that's done pretty well is Lucy, so we were surprised at that and it's resonated pretty well.

Katharine McShane
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Thank you.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Sure.

Operator: The next question comes from Matt Nemer of Wells Fargo Securities. Please go ahead.

Matt R. Nemer
Analyst, Wells Fargo Securities LLC
Q

Good morning. Thanks for taking my questions. On the golf business, I'm wondering if you could quantify the annual expense savings related to the restructuring that you're now able to reinvest in your other growth categories.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Yeah. From – we're not going to get that granular with it. We wanted you guys – to let you know that we've restructured that business and the savings are going to go back into areas of the business that we really feel have meaningful growth potential. So in fact, there's not really going to be a – we're going to reinvest those into these growth areas of the business.

Matt R. Nemer
Analyst, Wells Fargo Securities LLC
Q

Okay. And then secondly, is there any way to parse out the incremental profit dollars from the golf sale activity in Q2 in the second half, assuming that we don't want to repeat those dollars next year, or we'd want to take it out of our forecast, how much should we be thinking about in round numbers?

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

No, we're not going to parse those out for a lot of reasons, but no, we're not going to share that information.

Matt R. Nemer
Analyst, Wells Fargo Securities LLC
Q

Okay, and then just lastly on the hunting business, is it reasonable to assume that firearms could be flat or up in Q3 and that the decline in ammo is a big part of what takes the hunting category down? Or do you think that both of those subcategories are down in Q3?

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

I think both of those subcategories will continue to be down.

Matt R. Nemer
Analyst, Wells Fargo Securities LLC
Q

Okay, thanks so much.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Sure.

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

Ben Shamsian
Analyst, Sterne, Agee & Leach, Inc.
Q

Good morning. It's Ben Shamsian for Sam. Thanks for taking my question. My first question, you called out team sports is doing well. We are hearing competitors talk about lower participation rates across the country. Can you help us in this area? What are you seeing there? Is there share gains that you're having? Is your eCommerce business is helping you? If you could provide some color on the team sports category.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

I think we're probably gaining some share. Participation in some sports is down, and it's moved to other sports. So soccer participation has been doing very well. Basketball participation is doing pretty well. Baseball, we think we're gaining market share. Lacrosse continues to grow and I think one of the biggest issues that you hear about what's going on from participation standpoint is around football. And you know, we see that around football, but overall team sports, we continue to be pretty enthusiastic about.

Ben Shamsian
Analyst, Sterne, Agee & Leach, Inc.
Q

Great. And then now that you've realized some of the costs with golf, can you help us out, what kind of a consolidated same-store sales do you need to lever the SG&A now, going forward?

Joseph H. Schmidt
President & Chief Operating Officer, DICK's Sporting Goods, Inc.
A

I don't think we look at it that specifically, Ben, relative to just for golf. I think our SG&A trends, we feel very good about where they are, and as Ed mentioned, we're reinvesting a lot of the things that we did into other aspects of our business that are growing. So, the same holds true for the data that we shared in the past in terms of what we have to do to leverage those lines, so nothing as a result of golf sort of changes that.

Ben Shamsian
Analyst, Sterne, Agee & Leach, Inc.
Q

Okay, great. And last question just with regards to the repurchases, obviously a bigger quarter than you've had traditionally. Has the thought around repurchases changed? Are you being more aggressive? If you can help us out there as well.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

I think we've talked about this Ben, in terms of what our priorities are with respect to capital allocation. Number one is really investing in the growth areas of our business and you continue to see us demonstrate that we do that. The second piece would be returning cash to shareholders via that methodology of buying back shares to both deal with dilution, but also opportunistically go buy shares, and obviously our dividend. We believe that today our shares are undervalued and so in the second quarter we went out and bought some shares.

So we're going to continue to do that opportunistically when we feel the timing is right, and we'll continue to do that.

Ben Shamsian
Analyst, Sterne, Agee & Leach, Inc.

Q

Great. Thank you so much.

Operator: The next question comes from Matthew Fassler of Goldman Sachs. Please go ahead.

Matthew J. Fassler
Analyst, Goldman Sachs & Co.

Q

Thanks so much and good morning.

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

A

Good morning, Matt.

Matthew J. Fassler
Analyst, Goldman Sachs & Co.

Q

My first question relates to gross margin ex-golf. Can you talk about what you're seeing for merch margin, I guess ex-golf and hunting, outside those two businesses that are distressed and I guess golf in particular where you had to be more promotional?

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

So, Matt, I'll start with that. We're not going to get into any degree of specificity, but I believe as Ed said, we did a lot in Q2 relative to promotions to drive the golf business, especially around Father's Day, which is the real holiday for golf.

We saw those margins degrade significantly, and felt that over the long term, those aren't investments we want to continue to make and it took us a lot to move the business. We did also have a relatively large tent event where we brought consumers into our stores where we not only promoted golf, but we promoted other categories as well. So I'll leave it at that. I think what our investors can take a look at is, we are going to be promotional in the back half of the year, year-over-year, but I do not believe you're going to see the kind of margin degradation that you saw in Q2 in terms of the 111 basis points in the quarter.

Matthew J. Fassler
Analyst, Goldman Sachs & Co.

Q

Related to that, Andrè, is the $0.04 that you had in the press release associated with promotional activity part of the guidance cut that you had back in May? Or is that incremental to that?

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

That's as of now [indiscernible] (44:36) thinking about is, we're looking at the business in Q3 and Q4.

Matthew J. Fassler
Analyst, Goldman Sachs & Co.

Q

So digging a little bit deeper than you thought you might at that time as you think about second half promotional activity.

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

That's correct.

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

A

That's correct.

Matthew J. Fassler
Analyst, Goldman Sachs & Co.

Q

Got it. Okay. Second question. Just as relates to Field & Stream, and the economics of the box. Clearly, you feel good, and you're opening a lot more of these. The concept, I guess, was hatched last year. And we now know that last year was an extraordinary year for the hunting business in particular. So with that in mind, and the fact that you got sort of proof-of-concept, if you will, in an unusual year. Can you talk about what the economics of the box look like for Field & Stream versus the core DICK'S stores? And also, how perhaps you've tweaked that business to enhance the box-level returns?

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

A

So, Matt, I'd just like to kind of – I don't want to say take issue with, but we didn't really open these stores up in kind of the extraordinary time of the hunt business. The extraordinary time of the hunt business last year was really in Q1 and Q2, started to wane in Q3 and was basically over in Q4. So when we opened these stores up, it was kind of right at the tail end of when things were going really well in that category.

And we understand that proof-of-concept, we've got three stores open, so we're enthusiastic but we still have some work to do to really prove this concept. We continue to be enthusiastic. The stores do meaningfully more than an average DICK'S store does. The mix of product is a slightly lower margin – is a lower margin rate, and we think we've got some opportunities inside the box to increase the margin rate pretty significantly in what we're seeing today.

So we've still got work to do on this. We probably won't be able to give you guys what you're looking for from a model on this, until we've got a few stores opened up, at least 18 months to 24 months. And right now, we've only had one store who's been opened up for 53 weeks, and another store that's been opened up for 40 weeks, and another one that's been opened for 24 weeks. So we're still really early in this process

Matthew J. Fassler
Analyst, Goldman Sachs & Co.

Q

Point taken on timing and thanks for the clarity there.

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

A

Sure.

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

Scot Ciccarelli
Analyst, RBC Capital Markets LLC
Q

Hi, guys. Can you talk about your eCom business? Obviously, it's a growing portion of the overall business. You guys have given us some parameters in the past just regarding profitability, trends, et cetera. Can you give us an idea regarding what you're seeing today with average ticket, profitability, any kind of updates there, as well as how is the mix different in eCommerce relative to kind of what your general store mix is? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

From a profitability standpoint, we're not going to provide that level of granularity. But the mix is not significantly different than what we're seeing in the stores. Once you take out the gun and ammunition piece of the business, there're some of the tackle products that we don't sell online. It's not a whole lot different. The margin rates that we're having on the products that we sell online, not meaningfully different than what we're doing in the store and our team, our eCommerce team, has just done a great job of driving volume that increases the productivity and profitability. And really making some meaningful changes in the distribution model to the consumer with what we've done with ship-from-store, and what we're in the process of doing with Buy Online, Pick Up in Store.

So we're right on target for what we think we're going to be able to do from an eCommerce standpoint. We are almost to the same profitability of the four-wall cost, if you will, on eCommerce as we are in the stores. And by 2017, we will be completely ambivalent from a profitability standpoint and we think that there's the possibility that the eCommerce business will actually be more profitable.

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.
A

It also builds on what Ed said, this is Andrè, I think we're seeing faster growth in both mobile and tablet. And as Joe mentioned, we've been very aggressive in upgrading our capabilities, both with the tablet site a while back, and then as Joe articulated, a new mobile site that we're developing. That's been really helpful because we've seen consumers now shift from what desktop or laptop to buying, to moving a lot of their purchases to a mobile app, be it a tablet or be it an iPhone – or a phone, I'm sorry. So I think we're doing a lot of things on the infrastructure there to really help that business.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC
Q

Got you. And just to clarify, the profitability is ex-shipping?

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.
A

No, that's total.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC
Q

Even with shipping, you think it can reach the same profitability as the store?

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

We do.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Okay, thank you.

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

A

Sure.

Operator: The next question comes from Lee Giordano of CRT Capital. Please go ahead.

Lee John Giordano
Analyst, CRT Capital Group LLC

Q

Thanks. Good morning, everybody. You've talked in the past about the opportunity for smaller market stores. Can you talk about how some of those smaller market stores have been performing? And then, also update us on the long-term outlook for either number of stores or type of markets? Thanks.

Joseph H. Schmidt
President & Chief Operating Officer, DICK's Sporting Goods, Inc.

A

Yeah, the smaller market – this is Joe. The smaller market strategy is one that we continue to invest in; roughly 20% to 25% of the stores that we'll open in 2014 will be in that smaller market variety. Just to refresh, those stores are typically 35,000 square feet to 40,000 square feet, and we're really looking at general population and sports market opportunity as to whether or not we'll open a store in these markets.

These markets are performing every bit as well as some of the bigger stores are performing, so we're still very encouraged by the results, and we'll continue to look at smaller markets as we open stores in the future.

Lee John Giordano
Analyst, CRT Capital Group LLC

Q

Thanks. And then, secondly, have you seen any improvement or continuing improvement in the fitness category? Any update there would be helpful. Thank you.

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

A

We're seeing – let's put it this way, it's a stable business for us right now. And some months it can be up and some months it can be a little bit down, but overall, it's a relatively stable business right now.

Lee John Giordano
Analyst, CRT Capital Group LLC

Q

Thank you.

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

A

Sure.

Operator: The next question comes from Rick Nelson of Stephens. Please go ahead.

N. Richard Nelson
Analyst, Stephens, Inc.

Q

Thanks. Good morning. Ed, can you comment on the footwear category, particularly basketball, if that's going to become a bigger driver in that business?

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

A

Yes. I won't get too specific with it, but yeah, the footwear business has been good, and the basketball business has been very good. And we expect basketball business to continue to be good for at least the near to medium term.

N. Richard Nelson
Analyst, Stephens, Inc.

Q

Great. And capital allocation question follow-up. You're sitting on $100 million in cash, you have very little debt. If you hit your earnings estimates for the year, where do you see that cash position? And would the company contemplate debt financed buybacks if the opportunity were there?

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

A

Rick, I'm just going to sound like a broken record here, but I think our capital allocation strategy is exactly as I've articulated. Our first and foremost use of cash is to invest in our growth areas of our business. Second piece is to handle dilution, and the third piece is opportunistically to buy back shares. I don't think our cash position weighs on that. We have access to capital markets, if we need such, we have access within our revolver, so again, our philosophy is exactly as I've articulated it.

N. Richard Nelson
Analyst, Stephens, Inc.

Q

Got you. Thank you. Good luck.

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

A

Thanks.

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

Thanks.

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

Camilo R. Lyon
Analyst, Canaccord Genuity, Inc.

Q

Thanks. Good morning, everyone.

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

A

Good morning.

Camilo R. Lyon
Analyst, Canaccord Genuity, Inc.

Q

Ed, you've been on a shop-in-shop opening campaign for about the last three years or so, if memory serves. I'm curious to know, what's the performance of those shop-in-shops that were first opened today, relative to those stores that don't have the shop-in-shops in them? In other words, is that productivity still outpacing the store average?

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

A

So the answer to that is, yes, and a lot of those original ones we've gone back and we've updated, whether from a content standpoint or some fixturing. But the specific answer to your question is yes.

Camilo R. Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. Great. And then just going back to the square footage rationalization in the golf category. I think you mentioned last quarter that you took out about a 1,000 square feet from that space. Presumably that went to the women's and kids pads. Is there any thought to accelerate that square footage contraction in golf and reallocate it towards those categories that are significantly comping above, in that mid to high single-digit range?

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

A

We're continuing to look at that, and there is a possibility we may do a bit more. But it won't be near that 1,000 square feet, but we are looking at in some ways to take some of the golf apparel further inside the shop. But we haven't decided on anything. We're still kind of working through it on paper right now.

Camilo R. Lyon
Analyst, Canaccord Genuity, Inc.

Q

So the first major cut really has happened and that's pretty much going to be how it looks going forward with minor tweaks?

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

A

With minor tweaks.

Camilo R. Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. And then just finally on the women's studio square foot shop-in-shop concept where it's got the multiple brands, was that the driver of the women's business? Or was the pre-existing women's business by brand the bigger driver? Or was it really a function of both?

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

It was very broad based.

Camilo R. Lyon
Analyst, Canaccord Genuity, Inc.
Q

Got it. Thanks. Good luck for the back half.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Thank you.

Operator: The next question comes from Mike Baker of Deutsche Bank. Please go ahead.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Thanks. Hard to believe I still have some questions but I do, one or two. One on the golf and one not on golf. On golf, we know you had a lot of inventory to clear out. And I guess no one's really asked or maybe I missed it, but where are you relative to your expectations when you talked to us in the first quarter? Has the clearance gone better than expected, not quite as good as expected, somewhere in between? It seems to me as if maybe not quite as good and expected, and that's why you're taking out – talking about that $0.04 for the back half. But if you could help us there?

And then the second question, fourth quarter, what's your comp expectation there? We know your back half comp expectation, but very difficult comparison in the fourth quarter. How do you get over that hurdle? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

The golf clearance has gone about what we had anticipated. We still have some – obviously, some work to do on the back half of the year with this. But it's gone kind of within a small tolerance level close to what we had anticipated. And our fourth quarter comps would be – we kind of indicated it would be 1% to 3%. And we are anniversarying a really difficult comp at over 7%. But we think the plans that we have in place we can get to that 1% to 3% range.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc.
A

Sure.

Operator: The next question comes from Dan Read of Barclays. Please go ahead.

Dan Read
International Business Development Manager, Barclays International

Q

Thanks guys for taking my questions and congrats on the quarter. Quick question here, would you guys be able to parse out the relative strength this quarter in men's apparel versus women's apparel? I realize women's was very strong this quarter and that's obviously an emerging growth category for you guys still, but just kind of trying to get your sense as to sort of what the more mature men's category looked like relative to the women's.

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

A

We won't kind of give you the numbers of each, but based on the additional square footage that we've provided women's and some of the additional marketing that we've provided, women's, the women's performed better than the men's.

Dan Read
International Business Development Manager, Barclays International

Q

Got you. And then how would you parse out kind of just looking longer term at sort of the ultimate opportunity between women's versus men's, in terms of sizing and everything like that?

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

A

I think there's still more upside in women's than there is in men's.

Dan Read
International Business Development Manager, Barclays International

Q

Got you. And then I hate to squeeze a golf question in here, but just really quickly, at the beginning of last quarter when you guys reported results you said that golf was down kind of in that high teens, or not high teens but kind of low teens level. And then obviously your comps seemed to indicate things improved. Would you attribute all of that to the higher promotions during the quarter? Or would you say some of that was due to the fact that the business is getting less worse than it has been?

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

A

I would say it's the promotional activity.

Dan Read
International Business Development Manager, Barclays International

Q

Got you. All right, well, hey, thank you so much. Best of luck in the back half of the year.

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

A

Thank you.

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

David G. Magee
Analyst, SunTrust Robinson Humphrey Q

Yeah, hi, good morning.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc. A

Hi, David.

David G. Magee
Analyst, SunTrust Robinson Humphrey Q

Just a couple of quick questions. Good morning. Have you had [ph] the income on (58:36) the regional performance across the country, what regions are doing better than not?

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc. A

Yeah, we've never really called that out specifically, but there's not a meaningful difference between one area of the country and the other.

David G. Magee
Analyst, SunTrust Robinson Humphrey Q

And then secondly, any update in terms of how you see your competition with Academy in the South?

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc. A

Yeah, I think we've indicated even before we went into the Texas market that Academy would be the best competitor that we face. They really run a nice operation. They're a tough competitor, and we don't see anything really changing there.

David G. Magee
Analyst, SunTrust Robinson Humphrey Q

Okay, great. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer, DICK's Sporting Goods, Inc. A

Sure.

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

Patrick G. O'Brien
Analyst, Morgan Stanley & Co. LLC Q

Good morning. This is Patrick O'Brien on for Simeon. Thanks for taking the question. Can you talk a little bit about where you are relative to your goals with regard to your investment hiring, any other items pertaining to your omni-channel platform?

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

A

We're in good shape from a hiring standpoint. We continue to invest in this area, but we don't feel – we're not behind in any area that we felt that we needed to invest more heavily in. We feel that we're in pretty good shape.

With that being said, we will have – we will continue to invest in this area not only from a technology standpoint and a human resources standpoint, but also marketing. We think this is a very big opportunity, and hopefully you can see how enthusiastic we are about it, as the sales penetration continues to move up at a pretty rapid rate.

Patrick G. O'Brien
Analyst, Morgan Stanley & Co. LLC

Q

Very good. Thank you.

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

A

Sure.

Operator: The next question comes from Peter Benedict of Robert Baird. Please go ahead.

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

Q

Thanks, guys. Andrè, a quick one for you. What level of comp do you think you need to lever occupancy? We're just kind of thinking up in the gross margin area.

And then longer term, do you think occupancy leverage can help offset the gross margin pressure from eCommerce and shipping and those types of things? That's basically our question.

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

Yeah, I mean, I think the way you have to take a look at our occupancy cost, we've historically talked about everybody's kind of pigeonholed around a comp number. We believe it has to be – you have to look at it as sort of a total sales number. And I think for occupancy for us to leverage it, we've got to have – and we did actually leverage it this quarter just to remind our investors that we did in fact leverage it, we have to be in that 9% to 10% range. I think that works for us pretty well to leverage occupancy. And I apologize, Peter, what was the second part of your question?

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

Q

Just longer term, do you think occupancy leverage can offset the pressures that you'll probably see from eCommerce and shipping over time? Do you think those can kind of neutralize each other?

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

Yeah, I think they can, but I also think our team does a really good job leveraging the stores to help us reduce shipping expense and things like that. I mean, as Joe mentioned, whenever we turn on a store and open up a new store, it automatically goes into a ship-from-store mode right away. We're doing some work as we've talked to our investors in the past and we're piloting some areas around Buy Online, Pick Up in Store. That also allows us to leverage freight that we're already bringing to the store, so I think we're doing a lot of things, our team is doing a lot of things to go ahead and leverage there. Certainly occupancy will help but all the other ways we have to get products to the consumers will actually help us with that as well.

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

Q

Okay. And then one quick follow-up. When we think about the cash you carry on the balance sheet. Is there a level that we should think about that you don't want to go below over time as we think about kind of opportunistic buyback activity, that type of thing? Thank you.

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

As I said before, I don't think the cash we have on our balance sheet is indicative of whether we're going to buy shares or not buy shares. We have plenty – we have the ability to access capital markets if we need to. We have a revolver that helps us as a back-stop as well. Again, looking at cash balances for us I think is not relevant as we look at our share repurchase activity.

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

Q

Okay. Thanks very much.

Andrè J. Hawaux
Chief Financial Officer & EVP-Finance, Administration, Dick's Sporting Goods, Inc.

A

Thanks Peter.

Operator: The next question comes from Chris Svezia of Susquehanna Financial Group. Please go ahead.

Christopher Svezia
Analyst, Susquehanna Financial Group LLLP

Q

Good morning everyone and thanks for taking all the questions. Most of mine have been asked already but hopefully a quick and easy one here for you. Just I'm curious, the reinvestment of some of the payroll savings within the DICK'S Sporting Goods stores, where is that going exactly? I do recall I think third quarter last year you did reinvest in payroll hours within the stores; I do believe that helped you. I'm just curious where else do you see the reinvestment opportunity and payroll within the stores.

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

A

That – as we indicated it's going to go into those growth areas of the stores, which is going to be the women's initiative, the youth initiative, footwear, those are going to be the main drivers of where we're going to put those payroll dollars.

Christopher Svezia
Analyst, Susquehanna Financial Group LLLP

Q

Okay, all right. Thank you very much. All the best.

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

A

Sure. Thank you.

Operator: The next question comes from Joe Feldman of Telsey Advisory Group. Please go ahead.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Hi, guys and thanks for taking the questions and congratulations on the quarter. Question about sort of bigger picture, as you think about the consumer, I understand the consumer's cautious, but when you look at the guys that are coming in and shopping with you, are you seeing anything, a trend among them? Meaning, are you seeing a more affluent consumer come in and buying? Or is it still pretty broad-based amongst the consumer that is shopping? That's sort of the first question I had.

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

A

Yeah, we don't really see any meaningful difference in the consumer that we have shopping. It's been pretty consistent. We haven't seen any difference.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Got it. And then I guess sort of related to that, any updates on the loyalty card or things you're doing there that may be helping to drive incremental traffic in? I know I get those rewards and come into the store. I assume others do that.

I mean anything with personalization? And I know it's early on the Dunnhumby thing, but just related to the loyalty card that you've been doing differently or learning?

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

A

Well, we're learning a lot and it's nice to hear that they're working and I hope when you get the mailings you continue to come in. And bring a couple of friends.

But we continue to learn a lot from the loyalty program. There's a meaningful amount of our sales, which we're not going to get into what that is, but we've done – our group has really done a much better job of mining the data that we have in our scorecard and being able to personalize promotions and communications directly to you that meet your needs and what you like to do.

So we continue to make improvement there. I think we've done really well, but we all think that we've got some – we're kind of in the mid innings of how to execute that, so that's a part of our business we're pretty enthusiastic about.

We're using the same type of program with the Field & Stream concept, and that's gotten off to a really terrific start, also.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

That's great. Thank you for that. And I guess just one final one, and this is always the tricky one. But with that the strong – stronger than expected comp, even relative to your plan, it's always – were you too promotional during the quarter? Like, could you have pulled back on that a little bit to preserve some of that merchandise margin? I know a lot of it was golf, but were there some areas where that'll – I guess you'll see less of it going forward?

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

A

Yes, I mean, I think hindsight's always 20/20 but I can tell you from the conversations we've had post-Q2, we don't think that we – we don't think we overdid it. We think we did pretty close to what was right for the consumer and for the business, and to clear out inventory, and we think we did what was right and we'd do it all over again pretty close to the same.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Got it, helpful. Thanks very much, guys. Good luck with this quarter.

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

A

Thank you.

Operator: This concludes our question and answer session. I would like to turn the conference back over to Edward Stack, Chairman and Chief Executive Officer, for any closing remarks.

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

I'd like to thank everyone for joining us on our quarterly call and we'll look forward to talking to everybody in a couple more months. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.