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Dick's Sporting Goods, Inc. (DKS)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

At this time, I'd like to turn the conference call over to Mr. Steve West, Vice President of Investor Relations. Sir, please go ahead.

Steve West

Vice President-Investor Relations, Dick's Sporting Goods, Inc.

Good morning, everyone, and thank you for joining us to discuss our first quarter 2018 results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; Lauren Hobart, our President; and Lee Belitsky, our Chief Financial Officer.

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.

As a reminder, we will be making forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC, including our last annual report on Form 10-K and cautionary statements made during this call. We assume no obligation to update any of these forward-looking statements or information.

Please refer to our Investor website at dicks.com to find the reconciliation of non-GAAP financial measures referenced in today's call.

Now for a couple of admin items, please note we revised our earnings release schedule to more closely align with our SEC reporting calendar. Also, for the second and third quarters, the timing of our quarterly dividend announcement will be consistent with that new calendar and we will announce any dividend in conjunction with our quarterly earnings release.

And finally, for your future scheduling purposes, we are tentatively planning to publish our second quarter 2018 earnings release before the market opens on August 29, 2018, with our subsequent earnings call at 10:00 AM Eastern Standard Time.

With that, I will now turn the call over to Ed.

Edward W. Stack

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

Thank you, Steve, and good morning, everyone. Before moving to the business review, I'd like to first formally introduce Steve West as our new Head of Investor Relations. Additionally, I'd like to thank Nate Gilch for his outstanding work in IR over the past years. Nate's moving into a new leadership role within our finance organization, supporting field operations.

This morning we're pleased to report earnings per diluted share of $0.59 and are raising our full year earnings per diluted share guidance to a range of $2.92 to $3.12 from $2.80 to $3.00. First quarter revenue grew 4.6% to approximately $1.9 billion. Adjusted for the calendar shift due to the 53rd week last year, our consolidated same store sales declined 2.5% and our eCommerce business increased 24%. As a percent of total net sales, our online business increased to approximately 11% compared to approximately 9% in the same period last year.

Merchandise margin rate increased across the majority of our business categories. This margin rate expansion is due to stronger innovation and newness from several of our key partners as well as a higher penetration of our private brands. Our refined assortment led to a healthier business with fewer promotions.

During the quarter, we started to see the benefits of many of our strategies and investments. First, our private brand business is a source of strength that continues to accelerate. This business continues to outpace our company average, delivering double-digit growth again this quarter. Driving differentiation and exclusivity within our assortment is a top priority. We've expanded our CALIA collection to new categories and given it premium space in our stores. In the three short years since its launch, CALIA has grown to be our number three private brand in our portfolio and the number two brand in women's athletic apparel behind only Nike.

This quarter, we also launched Tommy Armour golf clubs. These clubs were designed in partnership with the BMW Designworks and have received national recognition. We have significant momentum in our private brand business and believe it can reach $2 billion over a relatively short period of time.

Second, we are seeing the positive impacts of our merchandising strategy we launched last year. Over the course of last year, we enhanced relationships with strategic partners, eliminated nonessential vendors and removed complexity from our assortment and supply chain. As a result of these efforts, we have a more refined assortment, cleaner inventory, better in-stock positions and fewer promotions compared to the last few quarters.

Importantly, during this first quarter, our inventory levels declined 3.8% year-over-year compared to a 4.6% increase in sales. This reflects better execution and translates to better merchandising margin rates. We continue to work on optimizing our assortments and our vendor base.

Our technology investments are continuing to show positive results. We are now more than a year past the launch of our proprietary eCommerce platform, and our online customer experiences continue to improve. As we anniversaried the launch of the website last year, we're very pleased with our 24% eComm growth in this past quarter.

I'm extremely optimistic about the future of DICK'S Sporting Goods. While we're pleased with the progress made during the quarter, we remain focused on our goal to build the best omni-channel experience for all athletes. Lauren will outline in more detail our strategy against this goal, but before I turn the call over to her, I'd like to thank our associates for their hard work and commitment to this company over the past year. We're driven by the shared belief that sports make people better and have the power to unify us.

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

Lauren R. Hobart

President & Director, Dick's Sporting Goods, Inc.

Thanks, Ed, and good morning, everyone. Like Ed, I am very excited about the opportunities that we have in front of us to drive a competitive advantage and win with our customers, whom we call athletes.

As we strive to build the best omni-channel experience for all athletes, we've built a strategic framework for achieving this goal. The first pillar of our strategy is the relentless improvement of our core execution to make our shopping experience the best in retail. We're working to make it frictionless for athletes to engage with us across all touchpoints of their journey, regardless of when, where or how they want to visit with us.

There are two areas within the shopping path that are key priorities. First, we are making it easier for athletes to find the best products to meet their needs by increasing our in-stock positions and our depth, presenting our products in powerful and impactful ways, and continuing to offer our best price guarantee.

Second, we are making it more convenient for athletes to complete transactions. This includes focusing on speed of checkout both in stores and online. Our efforts to improve core functionality on our new web platform combined with overall better execution resulted in improvements in margin rates, conversion and average order value in eCommerce during the quarter, contributing to the 24% online growth.

As part of improving the athlete's overall experience, we continue to invest in our supply chain to improve the speed and reliability of our online delivery. We are also continuously testing ways to improve the online pick-up experience. This includes the recent pilot of lockers near the entrance of select DICK'S Sporting Goods stores which conveniently allow people to place an order online and pick it up at a store within one hour without waiting for assistance. This is just one example of a new agile approach we are taking to innovation through which we are rapidly experimenting to optimize our omni-channel experience, learning quickly and moving to solutions.

This improved shopping experience will also become a core part of our marketing efforts going forward. In fact, today we launched a new TV campaign which emphasizes the benefits that we provide as an omni-channel retailer and highlights the many ways that athletes can shop with us. Marketing will continue to be major priority as we raise awareness of our powerful omni-channel platform and deepen the emotional connection to our brand.

The second pillar of our strategy is to leverage the power of our expertise in sporting goods to guide and inform athletes. In addition to providing the most compelling assortment of brands and categories in the industry, the expertise that we share with our athletes differentiates us as the premier omni-channel sporting goods retailer.

One example of this is through our Pro Tips digital segments which provide athletes with our advice on products and training as well as how-to guides. Another great example of this is our recent partnership with Nike to launch the new Epic React running shoe. Our significant access and depth in the product, our in-store and online presentation, and our strong joint marketing efforts with Nike helped to make us a leader in this launch which proved to be extremely successful.

We are also differentiating ourselves via our ScoreCard loyalty program which is a tremendous asset. We have over 20 million active users in the program, accounting for more than 70% of our sales. So the program is incredibly robust.

This data from the program is the engine of our digital and direct marketing efforts, enabling us to engage in more meaningful and effective one-to-one personalized communications. We also continue to test new ways to better reward our most loyal ScoreCard members including an expanded test of our ScoreCard Gold Program.

Our third strategic pillar is improving productivity in our business. We are highly disciplined in how we invest our time, resources and capital to ensure we focus only on work that contributes to the strategic and financial objectives of the company. We are focused on driving efficiencies in processes, and identifying savings from non-value-added activities allowing us to reinvest in growing areas of our business.

This is a very exciting time for our company as we focus on driving excellence in our core business, creating differentiation in the marketplace and delivering continuous productivity improvements.

I will now turn the call over to Lee to speak more specifically about our financial results and outlook.

Lee J. Belitsky

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

Thank you, Lauren. Good morning, everyone. Let's begin with a brief review of our first quarter results. Consolidated sales increased 4.6% to approximately $1.91 billion. This included a benefit from the calendar shift of approximately $32 million or $0.10 per diluted share. Adjusted for the calendar shift due to the 53rd week last year, consolidated same store sales declined 2.5%.

Transactions declined by 3.7%, which we believe was impacted by colder spring weather this year versus last, and average ticket increased by 1.2%. We continue to believe reporting the comp to reflect the calendar shift is the most meaningful indicator of our performance. However, given the confusion we've seen with some other retailers who have reported recently, we felt it was important to be as transparent as possible and report the comp both ways. Based on an unshifted calendar, consolidated same store sales declined 0.9% for the quarter.

Looking at our best performing categories in the quarter, and these were all on a shifted basis, we saw strength in our fitness business, fitness equipment and Team Sports businesses. Licensed sales also comped positively benefiting from the Eagles' Super Bowl win. Additionally, we continued to drive double-digit comp sales growth in our private brands, which significantly outpaced the company average driven by strong sales growth from CALIA, Field & Stream and Adidas Team Sports, as well as our new brands.

Finally, our cold weather businesses, such as outdoor apparel and boots, increased sharply. These areas of strength, however, were offset by declines in our hunt and electronic businesses. As expected, our firearms policy changes impacted our hunt business which saw an accelerated decline in an already challenged category. Our electronics business, which is primarily fitness tracking, was down in the high double digits as we are essentially exiting that business.

As we said on the fourth quarter call, we expect these businesses to remain under significant pressure throughout the remainder of the year and the headwinds are incorporated in our full year outlook. However, we are benefiting from a margin rate perspective as these categories tend to be lower margin businesses.

Moving on to margin, gross profit for the quarter was $560.4 million or 29.3% of sales, a 35 basis point decline versus last year. Within gross margin, our merchandise margins rate increased 18 basis points, driven by lower promotions and a favorable merchandise mix. This increase, however, was more than offset by higher shipping and fulfillment costs associated with the growth in our eCommerce business as well as occupancy expense deleverage.

SG&A expenses were $470.3 million for the quarter, or 24.6% of net sales, deleveraging 56 basis points from the same period last year. This deleverage was primarily driven by higher brand building marketing expenses related to the Olympics, higher incentive compensation accruals, and investment in our growth initiatives to support our long-term strategy.

The effective tax rate was approximately 28%, which was favorable to our guidance of a 30% tax rate in the first quarter due to a one-time state tax settlement. This contributed approximately $0.01 to our first quarter earnings.

In total, we delivered first quarter earnings per diluted share of $0.59, and there were no non-GAAP items during the quarter.

Now looking to our balance sheet, we ended the first quarter with approximately $105 million of cash and cash equivalents and $280 million on our revolving credit facility.

Turning to our first quarter capital allocation, net capital expenditures were $44 million. We also repurchased approximately 3.3 million shares for $107.9 million at an average price of $32.33. Additionally, during the quarter we paid approximately $24 million in quarterly dividends.

Moving to our fiscal 2018 outlook, we are maintaining our same store sales guidance at flat to down low single digits. Additionally, as Ed mentioned, we are raising our full year earnings per diluted share outlook to a range of $2.92 to $3.12, from $2.80 to $3, primarily due to lower share count, as well as higher margins and lower tax rate in the first quarter.

Before we take your questions, as we said on the fourth quarter call, due to the calendar shift following the 53-week year last year, we expect our sales and earnings to be positively impacted in quarters 1 and 2 and negatively impacted in quarters 3 and 4, for a net neutral impact on the year. We expect the impact on second quarter sales and earnings to be similar to what we saw in the first quarter. For the third and fourth quarter, we expect the subsequent negative impacts to offset the gains in the first two quarters.

This concludes our prepared remarks. Thank you for your interest in DICK'S Sporting Goods.

Operator, you may now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: And, ladies and gentlemen, at this time we will begin the question-and-answer session. [Operator Instructions] Our first question today comes from Michael Lasser from UBS. Please go ahead with your question.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. Has the margin performance, the merchandise margin performance, in the first quarter made you rethink at all about the flow and shape of the margin over the coming quarters, particularly in the back half of the year, when you're going to anniversary significant margin decline? So should we expect that this type of performance and the trajectory now is sustainable?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

So, Michael, hi. It's Lee. We're very pleased with the merchandise margins we were able to deliver in the first quarter, and we believe that we can sustain improved merchandise margins throughout the year.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Sustain improved – so you expect your merchandise margins to be up year-over-year, and maybe even grow more substantially, given that the comparisons will get easier from here. Is that fair?

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

A

Well, so we do expect it to be up over last year. The comparisons – in the fourth quarter, we are so dependent, as most of you know who have followed us, we're so dependent on the weather. So it depends on what happened in the cold weather categories and if we need to promote that because the winter's too warm, then it might be relatively even. If it's a normal winter, similar to what we had last year, we would expect the margin rates to be up. But it is weather dependent.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

And speaking of the weather, my follow-up question, how much do you think the weather impacted your same store sales in the first quarter and how much of that do you think you'll get back in the second quarter, such that we should factor it into our comp expectation in the second quarter?

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

A

I think it impacted us a bit. We don't really know how much, but I wouldn't factor in a whole lot of a change that we're going to recoup an awful lot in the second quarter.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Okay. Thank you so much.

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

A

Sure.

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

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Thanks for taking my question, and congrats on a great quarter. Actually, a couple of quick questions, Ed. The first, I think you guys didn't call out branded athletic footwear and apparel as one of the key drivers for the quarter. Just curious how that did?

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

A

We were pleased with our footwear business and our apparel business.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Anything that stood out within that category?

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

A

Nothing really in particular that surprised us. Our private brands did very well. The Adidas brand continues to do very well. I think we'll see some acceleration in Nike going forward. And we had a meeting with Under Armour yesterday. We're really pleased with the content and the direction we're going to be going with them going forward. So all in all, we're pretty pleased with what's going on there.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Thanks. And just one quick follow-up. When we think about your comps going forward on a shifted basis or apples-to-apples, where are we in the hunting and electronics being a pressure? Does that start to roll off? And could – with the other things going on, should we see you get back to positive comps maybe sooner rather than later?

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

A

Robby, right now, we've maintained the guidance of low single digits to flat. The electronics business really will continue to be difficult through most of the fourth quarter. And the hunt business we expect, based on our firearm policy, it's going to continue to be challenged through the balance of the year. So we don't see a big change. We do see this change in margin rates, and we're really pleased. And that's why we – that's one of the reasons why we raised our guidance for the year going forward.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

That's great. Thanks, Ed. Congrats again.

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

A

Thanks, Robby.

Operator: Our next question comes from Simeon Gutman from Morgan Stanley. Please go ahead with your question.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning. And nice improvement. My question is the prior guidance had EBIT dollars down, I think 20% for the year. First quarter looks like it was down 6% on a decently tough compare. And if we have the guidance right for the full year, the new guidance, it looks like it's around mid-teens. That's down mid-teens. And so I want to just clarify on the earlier question about the trajectory. Does that mean, I guess, every quarter should be worse than the first quarter from here, even though the compares get a little bit easier?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Well, I think the guidance you're referring to was back in November when we said that earnings could be down as much as 20% for the year. And I think then we kind of modified that a little bit in our year-end earnings call. We're pleased with the results coming out of the first quarter. There's a long year ahead of us still, so we are – we baked in some improvement from the first quarter. But we're largely sticking with the back part of the year, the guidance that we issued for the full year back in March. At this point we haven't – we're not baking in additional improvements in the business running out through the rest of the year.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then my follow-up, Ed mentioned that it sounds like the electronics and firearms, they probably don't dissipate as a headwind until next year on the comp line. But can you tell us how much benefit you're getting on the margin line? And just related to the response, Lee, just as far as the big investments and that 20% probably referred to – there was some contingency as well as real investments that you're making, does that biggest part of your investment curve is abating?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

No, we're continuing to invest. We've got some significant – we've got important margin pick-up in the first quarter. Our expenses were very well-controlled in the first quarter as well. That helped the earnings as well. And we expect to continue to invest in the business in a meaningful way throughout the year, both from a capital perspective, which should accelerate as we get later in the year, and from an expense perspective.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

And then just the margin lift that you're getting from those categories being a little bit less weight on the sales line?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

We haven't broken that out separately, but it is helping. It is certainly helping our merchandise margin rates.

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

A

And we think that's something that will continue throughout the balance of the year.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yes.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. Thanks, Ed. Thanks, Lee.

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

A

Thanks.

Operator: Our next question comes from Christopher Horvers from JPMorgan. Please go ahead with your question. Mr. Horvers, your line is open. Is it possible your phone is on mute?

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

A

Well, let's move on to the next question. If Chris shows up, we'll get him back in the queue.

Operator: Our next question comes from Brian Nagel from Oppenheimer. Please go ahead with your question.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning. Thanks for taking my question. Nice quarter. So a couple questions. First off, with regard to the gross margins, and maybe a follow-up to a couple of the prior questions, but I think, Ed, you mentioned less promotional activity. So the question I have there is, was that more specific to DICK'S? Or are we seeing now less promotional activity within the sector? And then along those lines, any comments on just what had been described before as kind of a glut of inventory within the channel?

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

A

Well, Brian, a couple things. I think the majority of the inventory has been cleaned up which we talked a little bit about on the last call. So that's been cleaned up. I think there's been less promotional activity out in the marketplace from some of our competitors as they've gotten their inventory more in line. Also, less from the brands on a direct basis with they've gotten their inventories in line. And it's been less promotional from us as we've – our team's done a really very good job of controlling the inventory. As you could see, our inventory was down and our sales were up. And when we've done that, it's helped drive the margins positive and we expect that to continue through the balance of the year.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it. Then my follow-up question, different topic, online, so online continues to grow nicely for you, climbing to a higher percent of your sales. As the business is getting bigger, how should we think about the underlying profitability of that sales channel now versus the legacy business?

Lauren R. Hobart
President & Director, Dick's Sporting Goods, Inc.

A

It's Lauren here. The profitability of the eCommerce channel has improved significantly since we've taken it in-house and will continue to improve even further as we are able to leverage fixed expenses with growth. So we're very pleased with the profitability of the channel and expect to grow it significantly.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you.

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

A

Thanks, Brian.

Operator: Our next question comes from Seth Sigman from Credit Suisse. Please go ahead with your question.

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

Q

Great. Thanks for taking the question. My first question is on gross margin. Obviously, the performance was better than expected. You talked about mix and you talked about less promotions. I'm trying to understand some of the other factors that may have contributed. So thinking about the accounting change around gift card breakage and then also was there any benefit from the week shift on gross margin as in theory it gives you an opportunity to leverage some of the costs in there?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

There was a small benefit from the week shift on gross margin as well. The first week of February is generally a pretty heavy clearance period for us, which we lost from this quarter and then we picked up a quarter the beginning of May, which is a pretty good margin quarter. It's a little bit of a benefit. And with respect to the change in revenue recognition, it really didn't impact the gross margin.

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

Q

Got it. And then to clarify on the guidance, as we think about the outlook, I think you previously talked about gross margin down slightly for the year. Are you basically now saying slightly positive?

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

A

We think it will be – for the year, on the merchandise margin, we think it will be slightly positive.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yeah, we still think the gross margin overall including rent expense and shipping and fulfillment costs will be down somewhat for the year.

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

Q

Okay. And then my follow-up question is around the apparel business. Can you just speak about comp performance in that business through the quarter? And specifically, if you look at the private brand growth, I think you talked about up doubled digits. Obviously, nice to see that progress. And we're just trying to figure out how incremental is this growth versus what's coming from share of shelf gains. Thank you.

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

A

For competitive reasons, we won't kind of talk specifically what's going on from an apparel standpoint but we're pleased with the trajectory of the majority of the brands that we're doing business with. We think that that's going to continue to get better and our private brand, as we said, comped double digits and we expect it will continue to outpace the company.

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

Thank you.

Operator: Our next question comes from Steve Forbes from Guggenheim Securities. Please go ahead with your question.

Steven Forbes
Analyst, Guggenheim Securities LLC
Q

Good morning. Maybe a follow-up on that, the last one regarding private brands. How does the continued strength in the private brands themselves impact how you think about future space allocation decisions across the product categories? Are you making significant changes today? I think you mentioned in the prepared remarks that CALIA's getting more premium space. So can you just provide some color and expand on that?

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

Well, CALIA did get some additional premium space. As we continue to drive these private brands, they will continue to get additional space as they outperform some of the other vendors that haven't performed nearly as well. We'll see that in our golf apparel business. The Walter Hagen brand and the Slazenger brand has continued to get additional space. CALIA's continued to get additional space. And so we will continue to allocate space as needed as these brands continue to grow.

Steven Forbes
Analyst, Guggenheim Securities LLC
Q

And is there a rollout plan in place, or is it kind of evolving here given the strength and to be determined on how fast you can roll it out over time here?

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

Well, there's a rollout plan which we've basically executed for this year, and as we get further into the year, we'll make plans of what we will want to do next year as we're continuing to drive this business. But the space allocation is pretty much set for this year.

Steven Forbes
Analyst, Guggenheim Securities LLC
Q

And then just a follow-up regarding the premium footwear decks, I think we're now in year 2 of the initial rollout, so can you just touch on how those initial stores, right, looking back 24 months here are maturing relative to expectations, how are they comping in footwear, right, versus the chain average, and just really just how they're performing in general?

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

Well, we're not going to get that specific, but we're very pleased with the premium footwear decks as can be evidenced by we continue to build them in the majority of the new stores.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you.

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

A

Sure.

Operator: Our next question comes from Chris Horvers from JPMorgan. Please go ahead with your question.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks. Some technical difficulties there. I'll try and go at the weather question a different way. You did have some other headwinds and tailwinds in the quarter in terms of the Eagles and the Little League bat rule. Would it be fair to say that those tailwinds offset the headwind from the late spring on the outdoor businesses?

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

A

Yeah, pretty much. I would say that's fair.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Okay. And then, can you comment on the overall levels of inventory in the athletic marketplace? I mean, clearly, seasonal inventory should be pretty clean, at least exiting winter. Has the market fully cleaned? And related to that, you mentioned an encouraging conversation with UA about the content pipeline. What's your current expectation on when you might see differentiated product in DICK'S stores? Do you think it could be in time for the holiday, or do you still think that's next year?

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

A

Well, I think it depends on who we're talking about. We're not going to get that granular with brands, but there will be some differentiated key product that we'll have going into the back-to-school season and holiday, and some of it is not differentiated from the entire marketplace but differentiated into the majority of the marketplace or kind of differentiated for us and a few other retailers that will have the product. And then some other brands will be a bit more into next year.

Our private brands, we continue to drive. We've got an outdoor brand that we'll be launching this year from a private brand standpoint. CALIA continues to grow. We continue to feel good about the Field & Stream product that we're putting out from an apparel standpoint. So all in all, we're feeling pretty good about our business.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

And then last, just some quick numerical questions. Any sense on what the occupancy deleverage was and what the incentive compensation headwinds were for the quarter?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

We haven't disclosed those specific percentages at this point.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Understood. Thanks very much.

Operator: Our next question comes from Matt McClintock from Barclays. Please go ahead with your question.

Matthew McClintock
Analyst, Barclays Capital, Inc.

Q

Hi. Yes. Good morning, everyone. Ed, I was wondering if we could talk private label, just following up on Steve's question. Thinking about what you're doing in the physical store to drive growth of the private label business like giving CALIA more premium space, and then trying to think about the penetration of private label in your store versus online, what I'm trying to figure out is, it seems like you have a better ability to drive the private label business in the physical store by doing things like giving premium space. But what are you doing online to drive that business, and are the penetration rates similar? Thanks.

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

A

So the penetration rates are a bit lower online than they are in the store right now, and we're looking at ways that we can help grow that from a marketing standpoint of what we're doing online. And we do think that as we continue to grow this in-store, it will help the online business.

Lauren R. Hobart
President & Director, Dick's Sporting Goods, Inc.

A

Yeah, I would just add that some of our private brands actually have strong penetration online; those that have big social followings. CALIA is one of them but it's a mixed bag, but they do penetrate well there as well.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Generally, more of the opening price point programs have lower penetration online and the areas where we're building brands have higher penetration online.

Matthew McClintock
Analyst, Barclays Capital, Inc.

Q

Perfect. Thank you so much for that color.

Operator: Our next question comes from Mike Baker from Deutsche Bank. Please go ahead with your question.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Your guidance implies that the first quarter will be about 19% to 20% of your full-year earnings, yet it's really never been higher than like 18.5%, I think, is the highest, and it averages about 17%, including 1Q 2013 when you had the same calendar shift, it was like less than 18%. Any reason why it should be a bigger percent of the year versus what it's been historically? Again, last time there was a calendar shift, it wasn't quite this high either.

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

To be honest with you, we didn't look at it that way. We've just taken a look at our quarterly results and what we feel it's going to be for the balance of the year and we don't look at it that way. I couldn't even begin to answer it.

Michael Baker
Analyst, Deutsche Bank Securities, Inc. Q

All right. Well, all right. Let me ask it this way, if I could. I guess I'm trying to understand. It seems like you did bump up your guidance by – I guess I'll ask it. Did you bump it up just by the beat in the first quarter or are you also flowing through some expectation perhaps from better merchandise margins?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc. A

We have largely unchanged our internal expectations other than share count going forward.

Michael Baker
Analyst, Deutsche Bank Securities, Inc. Q

Ok. Understood. Thank you. That's helpful. Couple more follow-ups. The $0.10 benefit from the extra week, again going back to last time you had this calendar shift, it seems largely similar to the impact in 1Q 2013 when you adjusted the tax rate, et cetera. So I guess the question is, is that $0.10 about in line with your plan from the extra week?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc. A

Yes.

Michael Baker
Analyst, Deutsche Bank Securities, Inc. Q

Okay. Thank you. One more clarification and maybe you're not willing to answer this. But in the press release, you did specifically call out a delayed start to the outdoor sports because of the weather. Yet earlier in the Q&A session here you seemed to downplay that and say you're not really expecting much of a pick-up. I'm just trying to reconcile those two ideas if you did, in fact, see a delay as written in the press release. Why wouldn't we expect a recouping of those sales?

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

We don't know – so there was. Team Sports was late getting started. Some of the water sports, paddle sports were. We don't know the timing of that – if they're going to come back to buy that or they're just going to use, since it's kind of getting more toward the end of the season, they're not going to upgrade that equipment or make a change. We're not sure about that.

Michael Baker
Analyst, Deutsche Bank Securities, Inc. Q

So you haven't put any of that in the guidance, obviously, because your guidance was unchanged. Okay. Understood. Thank you.

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

A

Correct. Sure

Operator: Our next question comes from Sam Poser from Susquehanna. Please go ahead with your question.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you for taking my questions. I've got a couple things. Number one, I mean, your eCommerce, I guess how much of your overall business is being touched by digital right now, sort of what you regard as omni-channel versus the pure eCommerce business that you're reporting in your numbers?

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

A

I'm not sure I understand the question.

Lauren R. Hobart
President & Director, Dick's Sporting Goods, Inc.

A

Do you mean are people researching and using the website for beyond just purchasing? Is that the question?

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

I mean, how – are you able to see like with the mobile app, they're coming into the store, they're looking on the mobile app and then they're – how much interaction are your consumers having with the digital part of the omni-channel experience?

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

A

We're not going to talk about specifically what that is, but it's very significant. Most people's purchase decisions start online, and the app is very well-used. Coming to our site, a very significant part of our business is done because of the app or our site.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Two other things. Are you adding – are you going to be adding any kind of geotracking that you can then talk to your loyalty customers specifically when they're in the store, near a store, saying you might like this while they're in the neighborhood kind of thing? Are you working on anything?

Lauren R. Hobart
President & Director, Dick's Sporting Goods, Inc.

A

Yes, we do have some capabilities. We think that's an untapped opportunity that we can dive into more significantly as we develop the app further.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you. And lastly, Lee, just clarifying, the week-to-week comp compare was based on the same weeks this year versus the same weeks last year was down 0.9%. Is that correct?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

No.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Or was it down [indiscernible] (38:58)

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

No, it was down 2.5%.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

The week ending, the 13 weeks ending, whatever, the – ending the last day of fiscal Q1 this year was down 2.8%.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

2.5%.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

2.5%, excuse me.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yes. Shifted calendar, comparable weeks was down 2.5%; unshifted was down 0.9%.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Well, thank you very much, and continued success.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Okay. Thank you.

Operator: Our next question comes from Peter Benedict from Baird. Please go ahead with your question.

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

Q

Yeah, hey, guys. Thanks for taking the question. Could you maybe elaborate a little bit more on what you're doing in the area of supply chain to enhance speed and efficiency? Just curious, a little more detail on what's going on there.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Sure. Right now, we are building out our eCommerce facility in the Northeast, our eCommerce fulfillments facility in upstate New York. That will be operational next year. That will get us closer to the customer from a centralized fulfillment perspective. Currently, we are fulfilling everything out of Louisville, Kentucky, all of our centralized fulfillment is out of Louisville, in addition to our store fulfillment. We believe we can hit all of the Northeast within a day from our New York facility. And we believe that we've got better execution really from our centralized fulfillment center than we do from the stores, so that should improve that.

We're also beginning work to look at a West Coast fulfillment center, a centralized fulfillment center that we'll be working on for next year as well. Plus again, those customers are serviced on the central perspective out of Louisville, Kentucky as well. So we're looking at both of those facilities for launch next year.

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

Q

That's helpful. The West Coast would launch as well next year?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yes.

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

Q

Okay. And Lee, when you launch those types of things, do you get kind of some initial margin headwind just because of capacity and start-up expenses, things like that, and then they start to leverage maybe a year out? Is that how the cadence works?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

We haven't modeled it out, but that's typically what we see when we build regional fulfillment centers. So it's probably a reasonable expectation for next year, but we haven't worked through all the math on those yet.

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

Q

Right. No, understood. Thank you. The BOPIS locker test, just curious how broad that is and when we could see an expansion of that. Is that something we could see more broadly across your store base in time for the holiday?

Lauren R. Hobart
President & Director, Dick's Sporting Goods, Inc.

A

So, it's a very small test right now, just a few stores. And it's more of an operational test than anything else to make sure that we could do it. Our next part of this innovation cycle will be to actually see how important the locker is versus getting the inventory into the front of the store so that we make a positive economic decision in terms of this investment. So I do not think you'll see a full rollout by holiday, but we will continue to make improvements to the BOPIS experience, and we are doing that in many stores.

Peter S. Benedict

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you. And then just last question, a numbers one. On the other income expense line, that tended to show income, but I guess this quarter it was an expense. So just curious if there's anything changing there and how we should think about that going forward. Thank you.

Lee J. Belitsky

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

A

That primarily has to do with valuation of long-term compensation investments. And if the stock market goes down, that value will go down. It has to flow through other income. And if the stock market goes up, that number will be a positive number, so.

Peter S. Benedict

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thanks so much, guys.

Operator: Our next question comes from Omar Saad from Evercore ISI. Please go ahead with your question.

Omar Saad

Analyst, Evercore ISI

Q

Thank you for taking my question. Good morning. Was hoping you guys could maybe give us an update on the price matching policy, what you're seeing. Are a lot of customers taking advantage of that, or has it been a bit more of a nonevent as you've incorporated that in your customer experience and value proposition?

Lauren R. Hobart

President & Director, Dick's Sporting Goods, Inc.

A

So the best price Guarantee has actually become a very big core part of our marketing communications. If you go into one of our stores now, you'll see it's all over the front doors. It's all over the store. And it provides people with a lot of assurance that they are getting the best price so that they don't have to leave the store to go find a better price. The fact of the matter is, it has been more of a marketing vehicle than anything that's been hurting our margin because we were doing a lot of price matching before without taking credit for it and without assuring the customer that that would be the case. So we were creating some stress at the transaction level. That has been eliminated. It's a very positive customer experience. It has not been very dilutive to margin.

Omar Saad

Analyst, Evercore ISI

Q

Thanks. Thanks. That's helpful. And then just one quick follow-up. Maybe you could just expand a little bit more on the effects of the gun policy change. I know it will be a little bit of headwind for those kind of passionate firearm consumers. But has there been any kind of positive effects of your decision to take that policy?

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

There has. There's been a number of people who have started shopping us or said they're going to shop us more because of the policy. So I guess overall I would say there's definitely been some benefit of people who have joined us, so to speak, because of the policy.

Omar Saad
Analyst, Evercore ISI
Q

Thanks, Ed. Good luck, guys.

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

Thank you.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.
A

Thank you.

Operator: Our next question comes from Camilo Lyon from Canaccord Genuity. Please go ahead with your question.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Thanks. Good morning. Ed, you're clearly doing very well with CALIA. Continue to expand square footage to that brand. Adidas seems to also be doing well. I was wondering if you could just give us an update on Second Skin. I think you said that you gave that brand some reformatting and redesign for this year.

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

Right.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

And was also wondering if you feel that you need to associate that brand with either an athlete or a social influencer like you did with CALIA to drive greater awareness.

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

Well, we're looking at all of those. Do we want to have an influencer? Who would that be? How would we go about doing that? But the Second Skin line is being reconceptualized and will be launched probably sometime toward the end of 2019, beginning of 2020, is where we stand on that. We made some mistakes on that, that we've talked about and we don't want to make those mistakes again. So we're going to take our time and make sure we do it right, the same way as we did with CALIA.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got it. And then I think you addressed this but just wanted to confirm. Your views on allocating square footage to the brands that are performing, typically how frequently does that change? So I think you said your floor sets for CALIA and some of the other private label brands are increasing and those are set for this year. Does that come up for discussion again as to how you plan those planograms next year? And at what point do you start to feel like you have a better sense for increased or decreased space allocation to your private label brands?

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

A

Well, we've done – we've got CALIA where we want CALIA for this year. We can make these changes at any time that we see that there's an issue. You'll see some changes in the front end of our store in a number of stores as we try to be more seasonally relevant, if you will. We did a test last year of putting outerwear in the front, bringing it to the front of the store in the front couple of pads, which worked out very well. We're going to test that in a few more stores this year. So you will see some changes, but you won't see anything – we don't have anything significantly planned other than what we've done so far this year and what we've got planned in the front of the store.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. Great And then just lastly, you did mention that, you said this before too that you have a private label brand coming in the outerwear space, presumably for this fall, winter of 2018 season.

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

A

Correct.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

From a merchandising perspective, are you thinking about having good, better, best solution and this private label being your good option? And if so, does that impact – how should we think about the impact to the existing brands that have been in that category? So you'll exit some brands or pulling back on the allocation of that square footage to some of your mainstay brands that have occupied that good level of category pricing?

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

A

Well, I think for how we look at this, some brands will be in the good and better level. Some will be in the better and best level. I would put CALIA in the better and best level. This outdoor brand we're talking about is really going to be in the good level, kind of more the opening price point product, and really isn't going to impact any major vendor. We think it's white space that we hadn't covered in the past that we plan to cover with this brand.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Great. Good luck. Thanks for the commentary.

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

Thank you. Thanks.

Operator: Our next question comes from Scot Ciccarelli from RBC. Please go ahead with your question.

Beth Reed
Analyst, RBC Capital Markets LLC
Q

Hey. Good morning. It's Beth Reed on for Scot. Just wondering if you can comment on the pace of the business throughout the quarter. I presume April was most challenged from a weather perspective. But just wondering how it compared to earlier in the quarter, February and March.

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

Yeah, we don't talk about kind of how it happened through the quarter. We've laid out what our comps were for the quarter on both a shifted and unshifted basis and what our earnings were. But we won't get any more granular on a quarter-by-quarter basis.

Beth Reed
Analyst, RBC Capital Markets LLC
Q

Okay. And then just one more. It seems like your store comps are still tracking in the negative low to mid single-digit range. In your guidance have you baked in any improvement from here?

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

We've laid the guidance out exactly what we had done for the year.

Beth Reed
Analyst, RBC Capital Markets LLC
Q

Thank you.

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

Thanks.

Operator: Our next question comes from Jim Duffy from Stifel. Please go ahead with your question.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thanks. Good morning. So as I isolate some of the variables, you guys did see positive trends in ticket, inventories are clean, which I presume should help ticket going forward. Transaction was really the headwind in the quarter. As you look out, any visibility to stabilization or positive inflection in traffic or transactions?

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

Well, we've kind of laid it out kind of the way that it is right now. We've got some headwinds in the firearms business and in the electronics business. And as we said, we don't think that those are going to mitigate through the balance of this year. They're going to be with us for the balance of this year. So we hope for some improvement but we haven't baked anything in.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. And then, I had a question for you on the licensed sports business. Any thoughts you have to share on the impact of the larger role of Fanatics in some of the bigger leagues?

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

It will be interesting to see how this plays out. Our licensed businesses continue to be pretty good. We've been pleased with it and we'll see how this whole thing plays out as we work through this through the balance of the year and into next year.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

And then last one, Lee, quickly, just shift impact on the eCommerce growth rate?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.
A

No meaningful impact. It was about the same, shifted and unshifted.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Very good. Thank you, guys.

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

Thanks.

Operator: Our next question comes from John Kernan from Cowen. Please go ahead with your question.

John Kernan
Analyst, Cowen & Co. LLC
Q

Good morning. Thanks for taking my question. Congrats on the progress.

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

Thank you.

John Kernan
Analyst, Cowen & Co. LLC

Q

Just wanted to go to the SG&A line. I think SG&A dollars were up 7% in the first quarter. Just wondering how that should trend as the year goes on. And then my follow-up is just could you talk to the categories that drove the improvement in the eCommerce business? I think it was the best year-over-year growth you've reported in that business since 2016. So just expand a little bit on the big change in trend there from the fourth quarter. Thank you.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Well, with respect to SG&A, again, we're not changing how we look at the rest of the year. So we're effectively maintaining our guidance for the balance of the year around sales, margin and turn, sales margin and SG&A expense as well. So whatever you guys had baked into your models, you can retain that. With respect to the eCommerce business, Lauren, you want to take it?

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

A

The eCommerce business for the most part, you would say within a tolerance range kind of mirrors what's happened in the stores. And so what you kind of see happening in the stores is what's happening from an online standpoint.

Lauren R. Hobart
President & Director, Dick's Sporting Goods, Inc.

A

We've had very strong success with athletic footwear and apparel in the online business all year and that was true in the quarter.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

I think we've obviously got better business online than we do in the stores at this point. I think it's really driven by better execution that we had this year versus last year across a number of metrics that we track, so we're really excited about that.

John Kernan
Analyst, Cowen & Co. LLC

Q

Great. Thank you.

Operator: Our next question comes from Tom Nikic from Wells Fargo. Please go ahead with your question.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning, everyone. Thanks for taking my question. Just a couple of quick balance sheet items. I think you had more borrowed on the revolver than you sort of have at any time I can see at the end of Q1. I was just wondering what drove that. And then just secondly, I think you said earlier that inventories were down, sales were up and you kind of expect that to continue going forward. Is that basically – are you sort of explicitly saying you expect inventory levels to be down year over year the remainder of the year? Thanks.

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

A

We didn't specifically say that. We said the sales, we kind of guided from a sales standpoint. We think we can continue to keep inventory down, but we haven't said that. And then the cash piece is really a big – is part of the buyback. We bought back a bunch of stock.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

And we've been buying back shares and I think there's a couple of timing issues around the calendar shift and when we pay the rent. The rent got paid before the end of the quarter this year, the monthly rent. Last year, it hadn't got paid, so there are just some timing things associated with the calendar shift.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

All right. Thanks for the clarification. Best of luck the rest of the year.

Operator: And ladies and gentlemen, our last question today comes from Patrick McKeever from MKM Partners. Please go ahead with your question.

Patrick G. McKeever
Analyst, MKM Partners LLC

Q

Thank you. Good morning, everyone. I know you didn't quantify the negative impact on firearm sales from the changes in selling – in your sales policy that you made earlier this year and some of the changes in the assortment, but I guess since that announcement, you've also had Mossberg discontinue its relationship with you, and then there was the NSSF thing as well. So my question is, I mean, are those incrementally negative to what you were originally thinking about with firearms for the year? And then have you had any additional fallout from any of your other – the manufacturers that you do business with in that area and how are your relationships with some of the other firearms manufacturers?

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

A

Well, we don't have the best relationship with the firearms manufacturers right now. And Mossberg did indicate that they weren't going to sell us on a direct basis. If we want, we can still buy that product from a distributor to have that in the assortment, if products that they sell fit into our assortment. We're not sure we're going to do that, but we have the ability to do that. As far as the National Shooting Sports Federation expelling us, we didn't have a whole lot to do with them. They primarily run the SHOT Show. We would go to the SHOT Show, so we don't go to the SHOT Show now. It's really not that big of a deal.

Patrick G. McKeever
Analyst, MKM Partners LLC

Q

Right. Okay. And then just looking at your hunting business, excluding firearms and also perhaps adjusting for some of the impact from weather, how is that trending? How would you expect that to look through the balance of the year?

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

A

Well, the hunt business is going to continue – it's been a challenging business for the last several years. As you know, based on what some of the manufacturers have reported, they've had a very difficult time over the last couple of years. Our hunt business is going to continue to be challenged because that same consumer who is buying firearms is buying hunting boots and hunting apparel. All of that is baked into our guidance and we think that the whole category is going to continue to be challenged through the balance of the year, and like I said, it's all baked into the guidance.

Patrick G. McKeever
Analyst, MKM Partners LLC

Q

And then just within the DICK'S stores, how committed are you to firearms and hunt longer term?

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

A

Well, that depends on a lot of things that have to be determined yet and that is how the business plays out, how the manufacturers decide that they want to do business together. There's a number of things that are yet to be determined. The one thing that we do know is that it's going to continue to be challenged, but as we reallocate some marketing dollars, as we reallocate expenses to some other categories, we think it will continue to be margin accretive to us.

Patrick G. McKeever
Analyst, MKM Partners LLC

Q

Okay. Thanks, Ed.

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

A

Sure. Thanks.

Operator: Ladies and gentlemen, at this time, we'll conclude today's question-and-answer session. I'd like to turn the conference call back over to Mr. Ed Stack 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 earnings call, and we'll look forward to talking to everyone with our second quarter results. Thank you.

Operator: Ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for attending today's presentation. You may now disconnect your lines.