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Dick's Sporting Goods, Inc. (DKS)

Q2 2017 Earnings Call

CORPORATE PARTICIPANTS

Nathaniel A. Gilch
Director-Investor Relations, Dick's Sporting Goods, Inc.

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

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

OTHER PARTICIPANTS

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Kate McShane
Analyst, Citigroup Global Markets, Inc.

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

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Michael Louis Lasser
Analyst, UBS Securities LLC

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Sam Poser
Analyst, Susquehanna Financial Group LLLP

John Heinbockel
Analyst, Guggenheim Securities LLC

Michael Lehrhoff
Analyst, RBC Capital Markets LLC

Adrienne Yih
Analyst, Wolfe Research LLC

Christopher Horvers
Analyst, JPMorgan Securities LLC

Dan R. Wewer
Analyst, Raymond James & Associates, Inc.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Omar Saad
Analyst, Evercore ISI

Nicholas Todd Zangler
Analyst, Stephens, Inc.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Matthew McClintock
Analyst, Barclays Capital, Inc.

David G. Magee
Analyst, SunTrust Robinson Humphrey, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day 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 Nate Gilch, Director of Investor Relations. Sir, please go ahead.

Nathaniel A. Gilch

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

Thank you. Good morning and thank you for joining us to discuss our second quarter 2017 financial results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; and Lee Belitsky, our Chief Financial Officer.

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

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

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

I will now turn the call over to Ed Stack.

Edward W. Stack

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

Thank you, Nate. I'd like to thank all of you for joining us today. As we announced this morning, our second quarter non-GAAP earnings per diluted share were $0.96, below our guidance of $1.02 to $1.07. Our total sales increased 9.6% to approximately $2.2 billion. Within this, consolidated same-store sales increased 0.1%.

The retail market is currently in flux. The environment is highly competitive and dynamic. We continue to believe this disruption translates into opportunity for our business long term. We like the position we occupy in the sporting goods marketplace, and as this industry continues to consolidate, we believe we will become stronger. Although sales and earnings did not meet our original expectations, we still reported a significant increase in our bottom line from last year of approximately 17% increase over the same period last year.

I want to address our outlook for the remainder of this year. As I said, this is a very dynamic marketplace. Vendor distribution strategies have changed, and pricing in the marketplace has become unpredictable and at times, irrational. We will engage to protect and strengthen our leadership position. We are intentionally joining this battle, and we will aggressively be promoting our business to drive market share to our stores and online.

We are also targeting our marketing and pricing efforts in important regions of the country where the fight for market share is more fierce. We have conducted extensive consumer research, and the customers have told us they feel our prices are not competitive in today's environment. Consequently, we have become more promotional and competitive and have launched our Best Price Guarantee where we promise the customer if they find a lower price than ours, we'll match it.

Our outlook on sales includes reduced expectations for the hunt and athletic apparel business. We expect the hunting business to remain extremely tough through at least the balance of this year. With continued consolidation in this business taking place, we are going to surgically invest in this category to capture as much market share as possible that was left behind by Gander Mountain. This category is very difficult, and even with us capturing displaced market share, we expect the category to be negative.

The apparel business has seen meaningful increases in distribution and promotion. This category has been an important driver of sales and margin over the past few years. We will be aggressive marketing and promoting this category to protect our market share. We are also increasing our development and marketing efforts for our private brands. Although our consolidated same-store sales were flat in Q2, our private brands comped up nearly 7% in the quarter.

Taking all of this into consideration, we now expect our non-GAAP earnings per diluted share to be in the range of $2.80 to $3 a share. We are a leader in this industry, and we will use our financial strength to aggressively compete in this competitive and disruptive market.

We continue to build our business on an omni-channel basis. Our project to re-launch DICK'S.com on our proprietary web platform has been a great success. Our digital channel is now more profitable for us on our new web platform, but we need to provide our eCommerce customers with a better experience that is competitive in today's marketplace.

Looking ahead, we are planfully investing in the online experience through faster delivery, better pricing, more targeted marketing, and continued improvements in our digital channels. This is going to be a bit more expensive in the short term, but it is what we need to do for the long-term benefit of the company and our shareholders.

Our stores are the foundation of our omni-channel business. They provide the best physical experience of sporting goods by wide margin. Our stores are where our key partners invest to showcase their brands, and these investments work for both of us. Our stores provide us an opportunity to deeply engage in the communities we serve and build relationships with local teams, coaches, players, and parents. Furthermore, with our stores, we have over 700 distribution centers in the communities we serve.

I also note that our stores generate meaningful cash flow that allows us to continue to invest in these areas that will drive our business in the future without raising additional capital. We see our stores as having the ability to generate increased cash flow and profits as we renew and renegotiate many of our leases at reduced rents. We have approximately 25% of our DICK'S stores up for renewal over the next three years. We think this reduced rent trend will accelerate in all but the true A malls, where we actually think rents may increase.

Our private brand portfolio continues to be a strong opportunity. Top-Flite, Field & Stream, and Walter Hagen are all doing quite well and are developing a following. We are building a competitive advantage in the marketplace with these brands, and CALIA, a brand we've built in-house, is now our third largest athletic women's brand. We continue to expect our private brand business to reach approximately $1 billion in sales this year, representing double-digit growth. Over time, we believe this business can double as we explore opportunities to broaden our assortments and distribution channels.

We continue to make significant investments in our Team Sports HQ technology, which is a multiyear initiative. We expect this business to be a growth driver for in-store and digital sales. It also allows us to better connect with athletes of all ages, along with their parents.

As I said earlier, we love the position we occupy in the sporting goods marketplace. Sports are deeply ingrained in the culture of our country, and we lead the retail sports industry. Yes, the environment is highly dynamic and difficult at the present time, but we at DICK'S are excited about the opportunities that lay ahead of us. Our leadership position is the direct result of the talented and dedicated men and women who make up our company. I would like to thank all of them for their hard work and effort.

I'd now like to turn the call over to Lee to review our financial performance in greater detail.

Lee J. Belitsky

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

Thank you, Ed. Good morning, everyone. Beginning with our second quarter financial results, consolidated sales increased 9.6% to approximately $2.2 billion. Consolidated same-store sales, which includes all banners, both online and in-store, increased 0.1%. The comp increase was driven by a 2.1% increase in ticket and a 2% decrease in transactions. And our eCommerce business grew 19%.

In the second quarter, we continued to capture displaced market share from our competitive closures and delivered strong sales results in eCommerce as well as our golf and footwear businesses. Our eCommerce results demonstrate our ability to profitably scale our new platform. Our golf business was favorably affected by a strong new product cycle and retail consolidation. Footwear was driven by our premium full-service footwear departments and the improved allocations of key styles that resulted from the investment.

Four areas that were under sales pressure were hunting, licensed, athletic apparel and electronics.

First, the hunting business was very soft as comp sales declined double digits, much worse than our expectations, and gross margin rates also declined as promotions increased. Second, the licensed business declined significantly due to the anniversary of the Cleveland Cavaliers win of the NBA championship last year. This produced record NBA sales for us. While we had not counted on repeating this win in our guidance, it did negatively affect our comp sales for the quarter.

Third, the athletic apparel business was softer and more promotional than we'd expected. Increased distribution and increased promotions by the brands themselves as well as our traditional competitors negatively affected this business. And lastly, our electronics business, which is primarily fitness tracking, continues to be very soft, and comp sales were well into the negative double digits.

Gross profit for the second quarter was $637 million or 29.54% of sales and was down 82 basis points versus last year, driven by lower merchandise margins as the marketplace became more promotional than expected, as well as occupancy deleverage and higher shipping and fulfillment costs as a percentage of sales as our eCommerce business continued to grow.

Non-GAAP SG&A expenses were $463 million for the quarter or 21.47% of sales, leveraging 98 basis points from the same period last year. This leverage was primarily driven by our new eCommerce operating model and expense-reduction initiatives.

In total, we delivered non-GAAP earnings per diluted share of $0.96, which represented a 17% increase over the same period last year. On a GAAP basis, our earnings per diluted share were $1.03. For additional details, you can refer to the non-GAAP reconciliation in the tables of our press release issued this morning.

Now looking to our balance sheet, we ended the second quarter with approximately $132 million in cash and cash equivalents and $187 million in borrowings outstanding on our revolving credit facility.

Also, as disclosed this morning, we've amended and extended our revolving credit facility, thereby benefiting from the attractive interest rate environment. We've increased our limit by $250 million to $1.25 billion, and we've extended the maturity to August 2022 to support the continued growth of the business and provide additional financial flexibility.

Turning to our second quarter capital allocation, net capital expenditures were $83 million or $122 million on a gross basis. Additionally, during the quarter, we paid $18.2 million in dividends and repurchased approximately 3.4 million shares for $143 million at an average price of $41.56. We have approximately $875 million remaining in our authorization.

Now let me wrap up with our outlook for 2017. As Ed discussed, the retail marketplace is competitive and dynamic. And to protect and grow our market share, we will aggressively price offerings to improve our price perception with customers and drive traffic to our stores and online, and we have reduced our sales and gross margin expectations accordingly.

As a result, we are lowering our full-year guidance and now expect non-GAAP earnings per diluted share to be in the range of $2.80 to $3, which includes approximately $0.05 coming from the 53rd week. This compares to our previous guidance range of $3.65 to $3.75. We now expect consolidated same-store sales to be flat to low single-digit negative for the year compared to our previous guidance of positive 1% to 3%.

All of this considered, we now expect operating margins to decline year-over-year, driven by an anticipated decline in gross margin rate and increased marketing expense, partially offset by other SG&A expense savings. As noted in our press release this morning, our full earnings guidance is not dependent upon share repurchases beyond the $166 million executed through the second quarter, although we will consider using our authorization to continue to opportunistically repurchase shares.

For the third quarter, based on the low single-digit negative consolidated comp store sales, we anticipate earnings per diluted share of between $0.22 and $0.30. Operating margin is expected to decline year-over-year, driven by an anticipated decline in gross margin, partially offset by SG&A expense leverage.

In the balance of the year, we will continue to make previously planned investments in our eCommerce, Team Sports Headquarters, and private brand businesses to build on our strength in these important transformational areas.

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

QUESTION AND ANSWER SECTION

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

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Oh. Good morning, guys. Thanks for taking my question. I actually had just a couple of questions. The first, Ed, on the footwear strength in the quarter, can you maybe talk about the outlook for footwear in allocations? The things that supported that strength in the second quarter, do you see that continuing in the back half in this tougher environment? That's my first question.

And then maybe connected to that, you mentioned irrational and unpredictable promos, like is that just in apparel or is that a hunt, fish, camp thing maybe or some of that actually going on in footwear? Maybe tie together for us so we have a better understanding of what we should be looking for in the back half.

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

A

Sure. Well, we hope that footwear continues to be a strength. I think there is some great footwear product out there, and we hope that, that is going to continue going forward. As opposed to what's going on from a pricing standpoint, it has gotten really competitive. It's gotten irrational. We've not only seen that in a number of categories on the athletic apparel side but also on the hunt, fish side.

There's a lot of people right now, I think, in retail and in this industry in panic mode. It's been a difficult environment. I'm not going to speculate what they're thinking, but they seem to be in panic mode with how they're pricing product, and we think it's going to continue to be promotional and at times, irrational going forward. And I think that's going to be across a number of different sectors. I don't think it's going to be particularly prevalent in the footwear business, but I do see it in the athletic apparel business. I see it in the hunt, fish, camp business, and the electronics business is going to continue to be promotional, too.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

And just in terms of timing, Ed, was it as you entered back-to-school period you saw more of this or was this sort of playing out a month or two ago?

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

A

I would say it probably started in around Father's Day. We started to see this happening a little bit before Father's Day, and it continued to be very promotional, not only from retailers but also from some of the brands on a direct-to-consumer basis.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Got it. Thanks very much. I'll yield for other people.

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

A

Thanks, Robby.

Operator: Our next question comes from Kate McShane with Citi Research. Please go ahead.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Good morning. I have a few questions with regards to pricing and the discounting. I wondered if you could talk through how much of the price match impact to margin could be offset by the vendor changes you announced a couple of quarters ago. And when you do talk about promotions and discount, does that include your exclusive product from the promotions as well?

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

A

No. I mean, the products that are exclusive to us can't be price matched in the marketplace. Some of those may get caught up in just promotional opportunities around the entire category of brands, but most of our exclusive and our own private brands, we don't see that price pressure on.

And as it relates to the vendors, we see that our vendor strategy is working really quite well. The strategic vendors have been very helpful and supportive of the business. We have eliminated a number of vendors going forward. What's going on in the marketplace right now is that it's just very promotional, almost panicked in some cases. I think especially in the hunt, fish categories, there's a lot of inventory in the pipeline, and people need to move it out. And it's going to continue to be – it's going to be promotional until this inventory gets moved out of the pipeline.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you. And on the same note with regards to pricing, you had mentioned, Ed, during your prepared comments that you had taken consumer surveys that there was a perception that your prices were too high. Were these surveys taken once the tide kind of turned with regards to the discounting or was this just an in general perception? And then just further to that, do you think that you were too high or is it more of a function of you being a premium sporting goods retailer?

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

A

I think that's a good question. I think there is some aspects of this perception that is really perceived versus reality, and part of it was reality. We tried to not be promotional. We didn't want to be the price leaders in the industry. And as things got competitive and somewhat unpredictable, the consumer told us that they felt that we weren't priced competitively in the marketplace. Part of it has come from the fact that if we have an expensive athletic shoe or a high-priced jacket, we weren't high priced on that jacket or on that shoe, but it was a high-priced shoe or a high-priced jacket.

And we think with the right price guarantee, they'll feel comfortable that we are at the right price and that we are competitively priced. But as we go forward with this, we need to make sure that we convince the customer that they should be comfortable shopping with us. And that's the whole idea around the right price promise. And it's gotten some traction. We've gotten very positive response from it.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

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

Q

Thanks for taking the question. The industry is obviously weaker this quarter. I'm trying to understand if DICK'S comps were weaker because you're taking less share than prior quarters or if the base business just got a lot weaker. So, do you feel like you're capturing similar market share to prior quarters? Did something change?

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

A

I think we're actually picking up market share. If you take a look at what else is going on in the marketplace, a competitor in the outdoor category announced comps negative 9.7. Take a retailer in the Southeast comped negative 10%. You take a look that we comped positively 0.1%, I think we're actually taking share in the marketplace. We've got visibility to some other companies that we think have had negative comps. So, we think the sector is gotten weaker as you said, but if you take a look at our sales versus what else is in the marketplace, we think we've actually picked up market share.

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

Q

But do you think you're gaining less share than maybe prior year quarters where you've seen all the disruption, all the benefits from competitors closing, just as you think about the magnitude of the market share benefit?

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

A

I don't. If you take a look, as I said, the outdoor competitor that comps were down negative 9.7% and the other retailer that we compete with in the Southeast had negative 10%, there's never been that kind of a difference between our comps and the competitors' comps before. Our comps have usually been in the sporting goods industry, the same or higher than our competitors and never been a 10% difference. And with that 10% difference, we clearly believe that we're picking up market share and probably at a greater rate than we had in the past.

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

Q

Okay. And then as you think about the investments that you're making in aggregate, it seems like step-up from what we've seen at least in the last couple of quarters. And you discussed price, eCommerce, Team Sports, these don't really seem like short-term investments. So, as we think about next year, would you expect margins to remain under pressure?

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

A

I'm not sure they would become under increasing pressure. But they may depending on what's going on in the marketplace, but I think at least for the next some period of time, this is the new normal from a margin rate standpoint.

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

Q

Okay. Thank you.

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

A

Sure.

Operator: Our next question comes from Stephen Tanal with Goldman Sachs. Please go ahead.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, guys. Thanks for taking the question. I guess, if I could just follow up a little bit on sort of sales, I'm trying to understand, clearly, you guys are doing quite well relative to some of your competitors, but in absolute, things have slowed, and some of that's the market. But if you could sort of parse out, I mean, what do you think is the bigger driver here of the step change? Is it the incremental capacity that's come online, whether it's Kohl's and Under Armour or others or is it the Gander liquidations in the quarter or the vendors selling direct? Do you have a good sense of how you could sort of parse through those and think about what may be the biggest issue or what's changed the most anyway?

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

A

I think it's a combination of all of those. Certainly, the distribution changes in the marketplace, the broadened distribution primarily around the athletic area is parsing out market share. And Kohl's indicated that they've had great success, and I suspect when you come from zero on something to rolling it out that you're going to have – determined to have success.

And so, I think the increased distribution in this category has impacted the business. We're going to go and aggressively fight to move that market share back to us. That's a high-margin area also. So, as we reduce margin in that area, it gets hit a bit from a sales standpoint. That has an impact. And the vendor direct piece is certainly a concern, especially when the vendors start to become promotional on their own sites.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. That's helpful. I appreciate that. Now, just thinking through the guidance, it looks, to us anyway, as though the back half EBIT margin is implied down about 120 bps or 180 bps, and you just levered SG&A close to 100. I guess, part of the question is does the SG&A leverage continue at a similar pace such that gross margins are actually implied down, call it [ph] 220 or 280 (25:34), something in the neighborhood, or is there reason to believe that SG&A gets [ph] less good (25:39) – or yeah, you said yeah.

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

A

About the same. You've got to peg in the difference is going to be in the margin rates and from a sales and promotional standpoint.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. And then just lastly from me then on the SG&A side, could you give us a little help maybe, Lee, on sort of the different drivers in the quarter as we try to model it forward here, the trend rate?

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

A

Well, we continue to benefit from our new eCommerce platform and the leverage that's giving us on the eCommerce, which is helpful. And as we get into the back half of the year and that becomes a bigger part of the business, we expect that to continue. We also had our reduction in Force that we had here at the corporate office back in May, and we picked up a pretty good chunk of that in the second quarter, but those will continue in the third and fourth quarter as well. And those are the main drivers, and we'll be pursuing some additional expense opportunities and really sharpen our pencil on our expenses for the back half of the year, beyond that.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. Thank you, guys.

Operator: Our next question comes from Michael Lasser with UBS. Please go ahead.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question.

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

A

Sure.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

So, Ed, you've been talking about irrational and unpredictable pricing. So, what's the endgame? What do you see as the catalyst to make pricing become more predictable and more rational?

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

A

That's a really good question. I don't really know. I think that this whole mindset and what's going on with the business, everybody resetting their business can get more rational. I think there's going to be continued consolidation in this industry. And as we know, when consolidation starts to happen, price is the first line of defense, if you will, or the last line of defense. So, I think it's going to continue on. As I said, I think that this pricing, how the market is being priced right now and the promotional opportunity, I think is going to be, at least for the foreseeable future, is going to be the new normal until the industry consolidates further.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

And is your strategy from here to meet the market or do you intend to try and accelerate some of the consolidation and some of the damage that might be experienced for the long run by being more aggressive to the market, so beating to your competitors' pricing?

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

A

There are going to be some areas that we're going to be aggressive and we will be beating their prices. We're not going to sit back and just watch this happen. We've got the financial strength and muscle to withstand this storm, and we're going to be very aggressive and continue to take that leadership position in the marketplace. We took it in the past. That's how we led the business from a premium standpoint, how we led it from a merchandise presentation standpoint. We're not going to change that. But if we're going to get into a price war, we're going to get into a price war, and that's what's happening, and that's why we've taken the guidance down. We're not going to sit back and just wait for things to transpire in front of us. We're going to completely engage and we're going to be very aggressive to protect our position.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

And then just to frame all this, margins for DICK'S have peaked out around 9% in the past. We shouldn't think about that as a realistic margin expectation anytime soon.

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

A

Not in the foreseeable future right now with the marketplace the way that it is today.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Thank you very much.

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

A

Sure.

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

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning. Just to follow up on margin to a couple of questions that were asked. So, back-half margins are forecast to be down pretty significantly. If we think about an investment period that's beginning the next couple of quarters or now, that should linger at least for the next couple of quarters into 2018, is that fair? And I know you're saying it's hard to know if it's stabilizes but do you have a sense if these investments linger basically until we lap them in the middle of next year?

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

A

I would probably look at this – this is going to continue on into 2018. I'm not going to predict when it's going to lapse, but you should look at this, as I said, this is the new normal for a while.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. I guess, a couple of parts on the price matching. So, you intimated that you've seen a little bit of, I don't know, rebound or response and engagement or maybe even business on the back of price matching, and I'm less concerned about the top line trend. It's more about is it starting to change behavior, is that the case? And then as a component of that, are there any categories where the perception on price was more prevalent than others? And then I have one more follow-up on the price match.

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

A

So, on the [indiscernible] (30:58) what I said was that we've gotten a positive response from our consumers, and it's too early to say it's really having an impact on our business, but we've gotten positive response from the consumer on this. And I'm sorry, the second part of your question?

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Are there any categories that stand out that are more prevalent as a perception as far as price driving – or price perception driving?

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

A

Yeah. The hunt business, the gun and ammunition business, as difficult as that is right now, that's continuing to be promotional. And I think it's going to become more promotional as we get into the meat of the season which is toward the end of the third quarter and into the beginning of the fourth quarter.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And, I guess, then my last piece is then does it make sense to think about EDLP in some categories? And I don't know, dare to say, are competitors selling below what should be an EDLP currently vis-à-vis promotions?

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

A

Yeah. The pricing in the outdoor category, especially the hunt category, has become what I would characterize as almost irrational. And part of that is because there's a big – and you know this from looking at some others. Through the entire supply chain, there is a significant amount of inventory that needs to be cleaned out.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. Thanks.

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

A

Not dissimilar to the golf business probably four or five years ago. And now the golf business has rebounded and the golf business is terrific. We would expect this is going to – it will happen in the hunt category, but as with the golf business, there's going to be some pain that's going to be experienced for the foreseeable future.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks.

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

A

Sure.

Operator: And our next question comes from Sam Poser with Susquehanna. Please go ahead.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good morning. Thanks for taking my questions. First of all, I guess, can you talk about the makeup – you might have said this, but can you give us more details on the makeup of the excess inventory? So, where are you clean, where you don't expect it to be as promotional? You've already talked about your hunting inventory. But could you give us some more details on that? And then I have a couple more.

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

A

Our inventory is really in pretty good shape. The supply chain is backed up, but our inventory is in pretty good shape. We have an open-to-buy on products across the board. So, if we have an opportunity to buy product at what we perceive to be the right price, we'll do that. So, we're not backed up in inventory. We're in a very good position.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you. And then, I mean, you're starting the price matching strategy as well as you mentioned how promotional you anticipate it is for the foreseeable – for the balance of the year. Does this make you nervous that to drive the traffic, you're needing to be promotional, hence, your consumer may continue to think it's promotional as you're going to become a more promotional retailer going forward? Or is this an opportunity maybe to really think about your messaging for the DICK'S brand to help drive more traffic to the stores vis-à-vis in-store events, so on and so forth?

And then lastly, what kind of variance, let's say, in those A malls versus C malls and B malls or locations are you seeing on the brick-and-mortar from a comp basis?

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

A

Well, I'll answer the last question first. We're not going to get to that level of granularity to kind of lay out what our comps are by category A mall, B mall, C mall. But your first part of your question, Sam, we really think there is so much price transparency in the market today that those who sit back and hope that it goes away or that it's going to change, I think are going to have a problem. You've got to find a way to compete and not only survive but thrive in this industry in the way that the price transparency is today. We think that we're doing that. And we think eventually, we'll continue to make up more market share. We think there'll be more consolidation in this industry, and we like where we are long term. We don't like where the whole industry is today, but it won't stay here forever, and we like the position we're in going forward. But price transparency is here to stay, and margins, I think, are going to be under pressure from what they were a few years ago for a very long time, possibly in perpetuity. And if anybody tells you anything different, I don't think they're understanding the new reality.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you and good luck.

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

A

Thanks.

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

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Heinbockel for Steve. Two questions. When you think about the stepped-up promotional activity, is that likely to be more brick-and-mortar direct than eCommerce? And how do you get your arms around an ROIC calculation in an environment where pricing is irrational or you really can't that that sort of has to go out the window until rationality returns?

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

A

Yeah. The pricing is transparent and is going to be the same in stores and online. You're going to have that promotional activity along both of them. You see people at the grocery stores today walking up and down the aisles with their phone, shooting barcodes and getting prices. So, the price transparency is here to stay. And ROIC calculation, we take a look at that. We've got to do a better job of looking at the components of that. We've got to do a better job of turning our inventory. We've got to do a better job of how we can manage margins. We think it can be helpful. What we're doing with our private label, as I said, that was up mid to high single digits in comps in the second quarter, and these are all at margin rates that are higher than the company average.

We've got to continue to build those brands. The CALIA brand has been a huge success for us, and we think that, that gives us the opportunity to move into other areas and other categories, and this is a longer-term play, but we like where we're at long term.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

As a follow-up somebody in another industry had said to me once that if you go out and kind of smack people around price-wise, it can take that rationality out of the market, but it sounds like this is different because it's an inventory overhang more than anything else.

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

A

Well, I think that the inventory overhang is in the hunt category.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Yeah.

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

A

But the promotional aspect are across a number of categories, so the hunt category, the athletic apparel category, and with the increased distribution in the athletic apparel category, it's become more promotional. We didn't start the promotion. But we can't sit around and pretend it doesn't happen. We need to engage in that. And our customers have told us, you need to engage. In today's marketplace, you're higher priced than – and I can find the products someplace else. And I'm a firm believer that the definition of loyalty in the retail business for the consumer is the absence of a better alternative. And we need to make sure that we provide the consumer the best alternative, and that's what we're going to do. It's going to be a little expensive, and it's going to be a little painful for a short period of time, but it's what we need to do long term.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

And then lastly, given your underpenetration in footwear, right, and the success of the decks, is there a good likelihood that the pace of installation accelerates and 2018 – it's probably too late for this year and 2018 steps up?

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

A

Yeah, the vast majority of the new stores that we opened will have the new footwear deck. Any of the stores that we [ph] remodel (39:16) will have the new footwear deck. And we're taking a look at what stores we would want to put that new footwear deck into next year.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Okay. Thank you.

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

A

Sure.

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

Michael Lehrhoff
Analyst, RBC Capital Markets LLC

Q

Hi. This is Mike Lehrhoff on for Scott. I was wondering if you could help kind of quantify the impact of the price matching program versus overall kind of just lowering prices towards the market and then also if you could remind us what the penetration of the hunt category is on overall sales.

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

A

Okay. Well, we've never disclosed what the hunt category penetration is, and for competitive reasons, we're not going to get that granular. As far as the price match guarantee, we've just started that. But if you want to take a look at a kind of level of impact, the price match guarantee is going to have a much lower impact on the margin rates than being competitive out there in the marketplace. As we're competitive in the marketplace, we're not going to have to match many prices. But the primary driver of the reduced margin rates going forward is the marketplace today and how we need to be competitive for our consumers.

Michael Lehrhoff
Analyst, RBC Capital Markets LLC

Q

Thanks. And just a follow-up, I was wondering if you could kind of talk about the juxtaposition of your ongoing vendor negotiations with strategic partners and some of the broader distribution, how maybe that's impacted some of those discussions, and how it might impact them going forward.

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

A

Our strategic vendors, we've got a very good relationship with. We understand why the broadened distribution has happened and what's going on. We understand that. We don't really like it, but we understand that. And that's the way of the world, and we need to compete in the real world and not sit around wishing that things were different. So, we have these conversations, and they've been very helpful in trying to find ways to differentiate us in the marketplace. And we expect that will continue.

We try to find ways to move market share, overtly move market share to those strategic vendors, and we've continued to have a great relationship with the vendors even though they're making some decisions that we don't like. We understand the world we operate in and they're going to do that. And if they don't do that, you guys are going to bust them for not doing it. So, it's kind of a Catch-22.

Michael Lehrhoff
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

A

Sure.

Operator: Our next question comes from Adrienne Yih with Wolfe Research. Please go ahead.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Good morning. I have two quick questions. The first is on eComm. What's the penetration this quarter? How much did it grow? And if you can give us some color on kind of the digital initiatives and when those start to impact digital and personalization. And then secondly, what do you perceive the impact of sort of Nike partnering, testing on Amazon and how can you ensure that your positioning is still differentiated from that of the Amazon offering? Thank you very much.

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

A

The eComm penetration was 9.2% for the quarter, and it grew 19% year-over-year.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Right.

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

A

So, from an Amazon standpoint and Nike, this is a test. We'll see how this goes. They've been transparent talking to us about this test, and I suspect it will probably go well, and then Nike will decide what they want to do about it and how they want to handle the balance of the market. Our relationship with Nike has always been very good. It continues to be very good. We continue to work with them on shops, on our footwear decks, and exclusive products. They're a strategic vendor of ours, and we've got a great relationship. And what they're going to test and what they'll do ultimately, we'll deal with that when it happens.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Okay. Great. Thanks a lot. Best of luck.

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

A

Thank you.

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

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning. You mentioned that the inventory overhang is not in the athletic apparel category. So, that's typically a MAP pricing structure in that category as far as I understand it. So, are brands basically looking or not disciplining on MAP and looking past it? And would it not be an inventory overhang? What's the issue? And what brings that MAP enforcement back in the line? Do you think they just need to get that and the growth rate in the market isn't what it was? And once they get that, they'll start being more disciplined? How do you think about that?

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

A

Well, some brands have actually modified their MAP program, number one. Number two, I don't think there is discipline at enforcing it. And number two, MAP is only for advertised price, has nothing to do with what product is sold in the store at. MAP is an interesting and a nice idea that's not as effective as some people think that it might be.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

And when you say that some brands have modified MAP, is that basically loosening the structure?

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

A

Yeah, loosening the structure or having more MAP weeks where everybody promotes it as a MAP week or taking in some categories or some products, taking off MAP. I think MAP right now is an interesting concept that's not terribly effective. And as I said, MAP is only a minimum advertised price, has nothing to do with what the price of the product is sold in the store.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

And then do you think that if you look at some of your big vendors over the past five years, they have expanded sequentially into more and more department store, brands, and now you have sort of Nike with the – being test on Amazon, and, obviously, from their perspective, they like to grow doors and they like to grow – they've expanded the distribution points chasing growth. Is there any hints that they will become more disciplined on channel management given the fact that pricing sounds like just fallen apart in the market?

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

A

Well, I don't think it's fallen apart. It's just gotten more promotional. And you'll have to talk to them. I'm not going to comment on what I think some other brands are thinking about doing with their brands and how they come to market.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Understood. Thanks very much, Ed.

Operator: Our next question comes from Dan Wewer with Raymond James. Please go ahead.

Dan R. Wewer
Analyst, Raymond James & Associates, Inc.

Q

Thanks. During your prepared comments, you did open up the possibility of additional share buybacks. But during the Q&A session, Ed, you talked about the company would be willing to enter, I think your words were a price war to protect market share. Do you really think this is a good time to be buying back shares if the industry is going into a prolonged price war? Do you see a scenario where maybe it makes sense to improve liquidity instead of buying shares?

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

A

Dan, we didn't say we're going to. We said we're going to leave open the opportunity.

Dan R. Wewer
Analyst, Raymond James & Associates, Inc.

Q

Okay. Just as a follow-up question then, last year, we were expecting 2017 to become a year that you began to achieve a payback on the eCommerce investments. I believe we're looking at savings of 25 basis points. Did I understand your comments correctly that you're seeing a need for increased investment in your eCommerce shopping site and...

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

A

We feel that – so...

Dan R. Wewer
Analyst, Raymond James & Associates, Inc.

Q

Go ahead.

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

A

Oh. Go ahead. Finish your question. I thought you were done.

Dan R. Wewer
Analyst, Raymond James & Associates, Inc.

Q

Well, I was going to say that that original forecast of 25 basis points in savings kicking off this year no longer looks achievable. Is that the takeaway?

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

A

Well, actually, we did that. So, we got the increased profitability that we had talked about in a normal world. And what's happened now from a pricing standpoint, it's gotten more promotional. So, the issues that we have or what we're looking at is investments we need to make, our pricing online also. So, the increased profitability we had of between 25 and 30 basis points as we moved into our own eCommerce business, we actually achieved. We did exactly what we said we were going to do, but no one predicted what was going to happen in the marketplace from a pricing standpoint.

Dan R. Wewer
Analyst, Raymond James & Associates, Inc.

Q

And just one real quick question, if I could, Ed, talking about the golf category. I was talking with the other leading off-course specialty retailer and if they could see a scenario where 2018 could be lower than 2017 with the thought that you will have reached the anniversary of the Golfsmith liquidation. Perhaps Callaway doesn't have another product as successful as Epic. And they talked about it's something that they're kicking around inside their corporate office. But no one ever likes to plan the business down, but that could happen next year in the golf category. Do you see that as a possibility?

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

You know what? We have never commented nor am I going to comment about a year out. We're having a very good year from a golf standpoint right now. Our hope is that the brands continue to bring out great product. We're in a great product cycle right now, and I'm not going to comment or speculate on what the golf business might be next year.

Dan R. Wewer
Analyst, Raymond James & Associates, Inc.
Q

Okay. Thank you.

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

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Hi. Good morning.

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

Hey, Brian.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Sorry to be repetitive or beat a dead horse here but…

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

That's okay.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

So, I guess, Ed, you talk a lot about price promotions, but I guess my big question is, are the promotions coming primarily from retailers struggling with excessive inventories in categories like hunting or are you seeing new, likely online-only type companies push into this space with lower prices as a means – or as an effort to disrupt the margin structure? So, is it one of those two buckets, and is one significantly more than the other?

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

So, new retailers online with lower prices, not a big deal. We don't see that as a big – new online retailers. Existing online retailers and what happens with Nike and Amazon, we'll have to wait and see. But inventory is backed up in the hunt channel. I don't think it's backed up that much in the athletic channel. Maybe a little bit, but nothing – I don't think it's – in a short time that can be done. I think the pricing is from additional significantly increased distribution and everybody fighting for their share of what now is the same size market but with more competitors in there. And we're going to be very aggressive trying to retain that market share. And so, I think that's the pricing on the athletic side.

On the hunting side, it is very slow growth. There is no concern about any gun reform right now based on the political situation that is in Washington today, and the inventory is backed up. People need to get rid of the inventory, and then some people are panicked as to what's going to happen with their business from a growth standpoint.

So, I think it's just the perfect storm right now in retail, and I think sporting goods is in the center of it right now. There'll be further consolidation. We're seeing Gander Mountain closing right now. We'll see what happens with some other retailers. But it's a perfect storm right now. We're not particularly happy that we're in it, but we think we are one of the few that are very well positioned to come out the other side very strong and continue to be the leaders in this industry. We think it will be great on the back side, but it's going to be painful for a while, and we're fortunate that we've got the financial strength and the balance sheet to get through it all without having to raise additional capital.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it. So, then the next question I have – and maybe this is early, but I mean, clearly, you're talking on this call and in your release today about adjusting your pricing for this environment. But should we start to think about changes in your stores too? I mean, as you think about how the environment's – or how the sector is transitioning and what's likely to come out the other end, are there changes you can make in your stores, either to the format or the layout in the stores? And you mentioned before golf as an example. But through that period of upheaval you did reformat that area of your stores. So is that something we also we could see happening there?

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

A

Yeah. So, we're taking a look at that. We're enthusiastic about what we've done from a footwear standpoint. You'll also start to see that we've – starting to reformat the center of the store. You'll find CALIA on the front of the power aisle going forward – in a lot of stores now and then going forward. In some stores, we've tested having CALIA have a much bigger footprint and having both sides of what we characterize as the [ph] pads (53:44) on the power aisle, both the front and the back of that.

So, yeah, and we will probably move different brands into those areas, moving some brands in and out. And we've also talked about what we're going to do with the store. We've got some thoughts about some meaningful changes that we're going to make in the store that we're not ready to talk about yet.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it. And then just one more, you mentioned CALIA. So, with this whole discussion of pricing and more aggressive pricing in the category, where does CALIA fit into that?

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

A

There will be maybe some promotion with CALIA but very little. This is a brand that's pretty hot right now. Our design team has done a great job from a pattern standpoint, performance standpoint, fabrication standpoint. And this is a brand that's pretty hot in the marketplace for us right now, and we do not see a need to promote that brand aggressively.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it. Good. Thanks.

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

A

Sure.

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

Omar Saad
Analyst, Evercore ISI

Q

Hey. Good morning. Thanks for taking my question.

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

A

Sure.

Omar Saad
Analyst, Evercore ISI

Q

You guys talked last quarter about slowing the store growth down, taking advantage of what you expect to be lower rental rates. With the changes accelerating in the industry and the pricing pressure, which you've obviously talked a lot about today, are you rethinking kind of the long-term goal and the footprint of the DICK'S franchise as a result and what seems to be now a prescient decision to slow down the store growth?

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

A

Yeah. Remember, we've talked about slowing down our store growth not because we were not happy with our new store performance. Our new store performance has been very good. We slowed the store growth down because we think real estate prices a couple years from now are going to be less expensive than they are today. We're seeing that as we renegotiate leases or relocate stores. The rents are coming down in all but the true A malls. So, if you take a look at the true A malls, we actually think rents in those malls might actually go up. We're not in a ton of those. And we've got long-term options, so it won't affect us. But we actually think those rents may go up because they're going to be in such high demand. But some of the secondary locations and we're a destination shop so we can take that kind of a B mall location, and the rents have continued to come down in those. And we think they're going to continue to come down.

We've got 25% of our stores over the next three years that are up for renewal, and the renewals are our option. We have an option to extend for another five years, and another five years after that, and probably another five years after that so we control these buildings for a long time. And if there is another alternative, we have an opportunity to go to a different alternative. The rents have come down pretty significantly, and we expect that to continue.

Omar Saad
Analyst, Evercore ISI

Q

Got you. Got you. But you're sticking with the kind of longer-term 1,100 store target.

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

A

No. I mean, we still think that we're kind of in that zone, yes. But it's just going to be a longer ramp to get there. And we've also taken a look at what we're going to do with the Field & Stream stores and the combo stores and the triple plays. When we've lined up the three banners all together, the Field & Stream, DICK'S, and Golf Galaxy all lined up together, it's a powerful shopping experience, and we're very happy with that. So, when you take a look at that, is that one store, is that three stores, so overall boxes we think that 1,100 is probably pretty close.

Omar Saad
Analyst, Evercore ISI

Q

Got you. And then one quick follow-up on the pricing. When you look at the illogical, irrational behavior you alluded to, would you lay the blame more at the retailers' feet or the brand's feet or are both sides kind of guilty of going down that path?

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

A

I'm not going to leave it at anybody's feet. I think you'd add someone else there too in the – I'm not going to lay that in anybody's feet. That's just the way the marketplace is. And that's the environment we have to operate in, and that's how we're going to operate. We're going to engage in this and protect our market share.

Omar Saad
Analyst, Evercore ISI

Q

Thanks for the color, Ed.

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

A

Sure.

Operator: Our next question comes from Rick Nelson with Stephens. Please go ahead.

Nicholas Todd Zangler
Analyst, Stephens, Inc.

Q

Hey, guys. Nick Zangler on for Rick here. Thanks for squeezing me in. The eCommerce performance improved in the quarter, up 19% versus 10% last quarter. I'm assuming associated marketing was stepped up in the quarter and drove some traffic. But can you just detail the drivers of the sequential improvement? And then should we continue to expect 20% growth on the eCommerce side like we've seen historically even despite some of this broader vendor distribution?

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

A

We're not going to comment on what we think that the eCommerce business is going to be going forward and guide to that. But the sequential improvement was due to marketing. If you remember, we said that as we got the site up and running, we had kind of scaled back some of the marketing not to stress the site to make sure that everything was fine. As we felt that the site was up and running and stable, we increased the marketing, which drove those sales numbers. And also the pricing, I mean, we were very competitive from a pricing standpoint and promotion standpoint on the online.

Nicholas Todd Zangler
Analyst, Stephens, Inc.

Q

Was there normalized, I guess, normalized marketing throughout the entirety of this quarter or did that take some time to adjust?

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

A

Oh. It's pretty much normalized for the quarter.

Nicholas Todd Zangler
Analyst, Stephens, Inc.

Q

Right. Thank you, guys.

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

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Hi. Good morning. Thanks for all the candor this morning. Most of my questions have been asked, but I did want to get your thoughts on whether – what the feedback has been with respect to going out to TSA clients via the intellectual property that you secured from the TSA bankruptcy. Has that been successful? Have you been able to track that consumers' migration to DICK'S and to what extent are you seeing the new sort of changes in their shopping behavior relative to your core consumer?

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

A

No, we don't see them shopping much differently than our core consumer, but yeah, we've been aggressive in targeting that, and we continue to pick up market share where those TSA stores have closed. And I think our marketing team, the operations team has done a really good job with that.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. And then just in trying to attack a question that's been asked many times on the call from a slightly different perspective on the brand impact on the promotional environment on the apparel front. What do you think from their perspective is the leading cause for being incredibly promotional in today's market? What do you think is driving their decision to carry that level of promotion in their own products?

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

A

You're talking about the brands?

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Yes.

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

A

So, the category slowed down a little bit. And not every brand is doing this, but I just think there's the thirst for growth or the requirement for growth, and that has broadened distribution channels. And as you broaden distribution channels, you've got relatively the same pie and more people going after it. The marketplace is going to be disrupted, and people are going to be more promotional, trying to drive consumers to their store and their shop, and that's what we're seeing. The market was disruptive from a distribution standpoint, and then everybody in the market is going to try to grab their share of the market and usually do that with either – if it's not truly differentiated content, it's going to be service and price. And all of our research – service is important. Price trumps service.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Do you think it's a lull of innovation on the product front or a satiation on the consumers' behalf in terms of how much athletic apparel they have in their closet?

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

A

I think it's a combination of the two, and I think most of it is just broadened distribution.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. Thanks very much. Good luck.

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

A

Thanks.

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

Matthew McClintock
Analyst, Barclays Capital, Inc.

Q

Hi. Yes. Good morning and thanks for taking my question. Ed, I'd like to take a different angle at this and maybe start with an area of somewhat strength, which was premium footwear for the quarter. Can you talk what specifically is different about the premium footwear business relative to the rest of your business and maybe why it's outperforming other categories right now? Thank you.

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

A

Well, the footwear business has been good. We hope that it's going to continue, and there's been really differentiated product out there and product that has been hot. The consumer really wants to buy. We've worked with the brands. We have that product in our store. Our teams have done a great job merchandising it. The stores have done a great job servicing it. And content is king, and in footwear, the content is more exciting right now than the athletic apparel business, and it's more exciting than other areas of this business that we occupy in the outdoor category, in the hunt category. Footwear is still pretty exciting out there. And the brands are doing a very good job of bringing out innovative and new product that is resonating with the consumer.

Matthew McClintock
Analyst, Barclays Capital, Inc.

Q

Thank you for that color.

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

A

Sure.

Operator: Our last question for today comes from David Magee with SunTrust. Please go ahead.

David G. Magee
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yes. Hey. Good morning. Just a quick one on the loyalty program and I'm just thinking about ways you could differentiate yourself in this environment. Is that shopper proven to be more sticky at this point in time or is there more you can do in that area to stand out?

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

A

It's interesting you bring that up. So, yes, that customer is pretty good with us. But we have talked about it. We're looking at ways that we can make that more exciting and get a bigger share of that customer's wallet. So, what we're doing right now is relatively basic in our loyalty program, and we're looking at ways that we can ramp that up to give the consumer a better reason to shop in our store than other stores. So, we don't have any color on that yet. We're working through that. But we do expect to come out with something that will enhance our loyalty program pretty significantly.

David G. Magee
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thanks. Good luck.

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

A

Sure. Thank you.

Operator: And this concludes our question-and-answer session for today. I'd like to turn the conference back over to 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 the call and we look forward to talking to everyone on our third quarter results. Thank you.

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