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DICK'S Sporting Goods, Inc. NYSE:DKS

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Presentation

Operator

Good day, and welcome to the DICK'S Sporting Goods First Quarter 2020 Earnings Conference Call and Webcast. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Nate Gilch, Senior Director of Investor Relations. Please go ahead, sir.

Nathaniel A. Gilch
Senior Director of Investor Relations

Good morning, everyone. Thank you for joining us to discuss our first quarter 2020 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 playback of today's call will be archived in our Investor Relations website located at investors.dicks.com for approximately 12 months.

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 the 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 Relations website to find a reconciliation of any non-GAAP financial measures referenced in today's call.

And finally, a couple of admin items: First, a note on our same-store sales reporting practices. Recall last quarter, we announced our intent to move away from providing eCommerce sales growth and eCommerce penetration metrics beginning in Q1. Given the circumstances surrounding our temporary store closures, we are continuing to provide these metrics this quarter, and will revisit this decision for Q2. And second, for your future scheduling purposes, we are tentatively planning to publish our second quarter 2020 earnings release before the market opens on August 26, 2020, with our subsequent earnings call at 10 a.m. Eastern Time.

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

Edward W. Stack
Chairman & CEO

Thanks, Nate. Good morning, everyone. Let me start by saying, on behalf of all of us here at DICK'S Sporting Goods, we hope each of you and your families are safe and healthy. We would all agree that this has been a difficult year so far for our country. Our hearts go out to all those impacted by COVID-19 and the civil unrest going on across America. These events have shined a spotlight on the deep-rooted and long-standing issues around racial injustice and inequality in the country.

All of this is happening while our world is still grappling with the dramatic and continuous change as a result of the coronavirus pandemic. Virtually every business segment, including the retail industry and DICK'S Sporting Goods, has been affected. Organized sports at all levels have come to a standstill. Gyms and fitness centers were closed across the country, forcing everyone to build new fitness habits and routines. Throughout this evolving landscape, we anchor to our corporate values on the premise that doing the right thing is the ultimate path to success.

Our company has a long tradition of promoting the safety and welfare of our teammates, athletes and communities, and our response to the current health crisis was no exception. This is why on March 18, we supported the nationwide efforts to minimize the spread of the virus and temporarily closed our stores to the public. To take care of our teammates, we invested $34 million in the first quarter across a number of compensation and safety measures. Beginning in mid-March, through the balance of the first quarter, from a business standpoint, we've focused nearly exclusively on managing for liquidity to ensure we came through this crisis in a strong financial position. We acted quickly and decisively to reduce, defer and eliminate cash outflows, and we maximized cash inflows through our eCommerce business.

To fortify our balance sheet and provide maximum financial flexibility, we exercised the accordion feature on our revolving credit facility to increase our borrowing capacity to $1.855 billion, and we issued convertible senior notes that added over $500 million of net proceeds to our cash position. As a result of these actions, I'm pleased to report at the end of the first quarter with cash and cash equivalents of approximately $1.5 billion, and we feel very good about our liquidity.

Throughout the store closures, we continued to serve our athletes online and through our mobile apps. Our eCommerce sales were tremendous, increasing more than 200% since we closed our stores through the end of the first quarter and notably contributing to our strong liquidity position. Importantly, these strong online results have continued into the second quarter, even in those markets where our stores have reopened. A key part of this success online is our new Curbside Pickup service. Under Lauren's leadership, our stores, eCommerce and technology teams came together and launched this new initiative across most of the country within a matter of days. Lauren will cover this in greater detail during her remarks.

As for our stores, beginning in mid-April, we started to reopen where permitted in accordance with federal, state and local guidelines. As the end of May -- as at the end of May, approximately 80% of our stores have reopened to the public, and we've been pleased with the early results. Although the business environment of 2020 remains uncertain, DICK'S Sporting Goods is in a position of strength. We believe coming out of this crisis, health and fitness will become even more important to the customer. As the leader in sporting goods retail sector, our relationships with our key brands have never been stronger, and we are in a great place to support this demand.

Our experienced management team has a history of successfully navigating difficult market cycles and remains fully committed to managing our business with a long-term view. Perhaps most importantly, our balance sheet is strong, and due to the actions we've taken when the pandemic first hit, we have enhanced liquidity to emerge from this crisis in an even stronger competitive position. Now with the confidence in our liquidity and our stores reopening, we can turn our attention to gaining market share for the remainder of 2020 and positioning our business for profitable growth in 2021.

Finally, I would like to thank our teammates. Through these difficult times, I'm especially proud of how they came through and came together to support one another and the company as a whole. I would now like to turn the call over to Lauren.

Lauren R. Hobart
President & Director

Thank you, Ed, and good morning, everyone. I want to start by also thanking our teammates for their hard work and dedication over the past several months. We've been incredibly impressed with how you've committed to serve our athletes and continued to serve communities. You've done a tremendous job responding to the constantly changing landscape.

Through March 10, our consolidated same-store sales increased 7.9%, which was a clear indication that our strategies were working. Shortly thereafter, our strong sales trends abruptly changed as the spread of the virus accelerated, and on March 18, we closed our stores to the public.

For the quarter, our online sales increased 110%, including Curbside Contactless Pickup. This strength in eCommerce increased significantly after we closed our stores as online sales grew 210% since then through the end of the quarter. We continued to leverage our store network for ship-from-store and Curbside Pickup, while also fulfilling orders via our eCommerce fulfillment centers and distribution centers as well as directly from our vendors. Importantly, our vast fulfillment network seamlessly supported the significant increase in eCommerce volume, and our ability to leverage these many fulfillment methods helped us to continue to reduce shipping times to our athletes.

We executed our new Curbside initiative within days as our stores, eCommerce and technology teams quickly helped us pivot our business and ensure that we were able to provide our athletes with a safe and convenient way to pick up their orders while reducing shipping and packaging expenses. This is a great reflection of our culture and our nimble operating model and a huge credit goes out to those teams. The athlete response has been overwhelmingly positive. Curbside sales were up 1,000% since its launch through the end of the quarter when you compare it to BOPIS sales in the prior year, and Curbside accounted for over 40% of our total eCommerce sales during this time period. We believe this experience will continue to be a big opportunity for us as we move forward.

Now let me turn to the stores. By the end of the first quarter, we had reopened approximately 20% of our stores. And as of the end of May, approximately 80% of our stores have reopened. We expect to continue opening our remaining stores throughout the rest of Q2 and into Q3. As we reopen, the health and safety of our teammates and athletes is our highest priority, and we're following the guidelines from the Centers for Disease Control and Prevention as well as federal, state and local authorities. As part of these efforts, we've enhanced our sanitizing protocols and are requiring face covering to be worn by all teammates. We're also requiring our teammates sanitize their hands regularly or wear gloves. Next, we're communicating, supporting and enabling social distancing. This includes using floor details throughout the store and plexiglass screens at checkout as well as limiting the number of people in the store where applicable by local ordinance. And lastly, we're taking steps to minimize contact, including continuing to offer Curbside Pickup. These actions are being supported by teammate and athlete communication tools aimed at reinforcing healthy habits in addition to wellness protocols to ensure teammates are working only when healthy.

As Ed mentioned, to date, we've been very pleased with the early results in our stores that have reopened, where we've seen a progressive recovery in sales and traffic. In fact, since reopening, many stores have comped positive on a brick-and-mortar basis. Furthermore, our online sales, including Curbside Pickup, have remained very strong, even in those markets where we've reopened our stores. We're regaining momentum and through the first 4 weeks of Q2, with 44% of our stores remaining closed on average, our consolidated same-store sales have decreased only 4%. As part of this, eCommerce sales have increased momentum and are over 250%.

In closing, we believe our teammates and athletes will have new expectations related to their working and shopping experiences, and we're certain that the actions we're taking to build trust and to create confidence in these new experiences will pay off for the long term. Along with Ed, I remain very enthusiastic about the future of DICK'S Sporting Goods.

I will now turn the call over to Lee to review our financial results in more detail.

Lee J. Belitsky
Executive VP & CFO

Thank you, Lauren, and good morning, everyone. Let's begin with a brief review of our first quarter results. Consolidated sales decreased 30.6% to approximately $1.33 billion. Consolidated same-store sales decreased 29.5%, driven by a 38.7% decrease in transactions and was partially offset by a 9.2% increase in average ticket. We saw declines in each of our 3 primary categories: hardlines, apparel and footwear.

As Lauren mentioned, prior to the impact of COVID-19, we were very pleased with our comp sales performance. And through March 10, our consolidated same-store sales increased 7.9%, a continuation of the strong comp trends we delivered in the second half of 2019. Shortly thereafter, we saw a significant reduction in customer traffic and demand due to the continued spread of the virus, and we closed all of our stores.

We were able to partially offset the negative sales impact from our store closures through a significant acceleration in our eCommerce business, including Curbside Contactless Pickup. For the quarter, our eCommerce sales grew 110% and as a percent of total net sales, our online business increased to 39% compared to 13% last year.

Gross profit in the first quarter was $219.3 million or 16.45% of net sales, a 1,290 basis point decline compared to the same period last year. Within gross profit, we saw a deleverage on fixed occupancy costs of 526 basis points due to the sales decline. It's important to note that while we have successfully negotiated payment term deferrals and rent abatements, this didn't materially affect the P&L in Q1 as deferrals don't change the total cash payments, and abatements are spread over the remaining life of the lease. We also saw lower merchandise margins, which decreased by 475 basis points and were primarily driven by sales mix; higher promotions, particularly early in the quarter; and a $28 million write-down of inventory resulting from our temporary store closures.

Finally, we saw higher shipping expenses and eCommerce fulfillment costs as a result of our meaningfully higher eCommerce sales growth as well as the fixed costs associated with our 2 new dedicated eCommerce fulfillment centers that opened in the third quarter last year.

SG&A expenses were $403.2 million or 30.24% of net sales, up 494 basis points from last year's non-GAAP results. Again, that was due to the sales decline. However, SG&A dollars decreased $83 million compared to last year. This includes approximately $90 million reduction in expenses following our temporary store closures and was partially offset by $31 million of incremental teammate compensation and safety costs. Within the $90 million reduction in expenses, included $21 million of income associated with changes in the company's deferred comp plan for investment values for which the corresponding investment loss was recognized in other expense.

In total, we recorded a loss per diluted share of $1.71 compared to a non-GAAP earnings per diluted share of $0.62 last year.

Since the rapid rise of COVID-19 cases in mid-March, we acted quickly and decisively to preserve cash and fortify our balance sheet. Collectively, these actions have bolstered our cash and cash equivalents to approximately $1.5 billion at the end of the first quarter, and we had $214 million of additional borrowing capacity on our line of credit.

Let's walk through the details. First, we meaningfully reduced cash expenses across the business, including marketing, travel, contractors and within payroll through salary reductions and furloughs of a significant number of our teammates across our stores, distribution centers and customer support center. Concurrent with the reopening of the majority of our stores, last week, we restored previously reduced salaries for our teammates, except for certain executives, and have started bringing teammates back from furlough. We have also had very productive discussions with our vendors to reduce inventory receipts and extend payment terms. Likewise, we've had similarly productive discussions with our landlords about deferring and abating rent payments.

Additionally, we completed the issuance of $575 million of 3.25% convertible senior notes due in 2025, which includes a full exercise of the $75 million overallotment option. These notes provide for an initial conversion option once our stock price reaches $35.38 per share, and thus dilution would typically occur when our stock price exceeds this threshold. However, in conjunction with the notes issuance, we entered into stock hedge transactions to reduce the dilution from shares issuable upon conversion of the notes. The hedge transactions will provide economic dilution protection upon maturity of the notes if our stock is trading at or between $35.38 and $52.42, the aggregate net proceeds from the issuance and the sale of notes were approximately $558 million or approximately $502 million net of the note hedge.

Due to current accounting rules, we have discounted the value of the notes on the balance sheet to $398 million as of the end of the first quarter. This discount will be amortized as noncash interest expense resulting in a total annualized interest rate of 11.6% on the discounted value of the notes. We also exercised the accordion feature on our revolving credit facility to increase our borrowing capacity from $1.6 billion to $1.855 billion and ended the first quarter with approximately $1.4 billion outstanding.

Finally, we made meaningful modifications to our 2020 capital allocation plan. This includes significant reductions to our planned capital expenditures. We also temporarily suspended our quarterly dividend as well as our share repurchase program. As our business continues to stabilize, we may resume opportunistic share repurchases under our current authorizations.

For the first quarter, net capital expenditures were $51 million, and we paid $28 million in quarterly dividends, which was declared prior to the suspension. We did not repurchase any shares. Our quarter end inventory levels decreased 2% compared to the end of the same period last year. And working alongside our brands, we acted decisively to reduce, defer and cancel planned receipts to align with our new sales forecast. For the rest of 2020, we are conservatively planning our inventory receipts. However, we have plenty of liquidity as well as strong relationships with our vendors if we need to opportunistically chase products.

With respect to our outlook, there's a high degree of uncertainty surrounding the scale and duration of several key external factors, including the COVID-19 pandemic, stay-at-home orders and economic stimulus, as well as employment and consumer confidence and their potential impact on our business. Given this uncertainty, we do not believe it is appropriate to provide a 2020 outlook for sales and earnings at this time. Notwithstanding this uncertainty, we move forward with confidence, we have ample liquidity and are pleased with our market position as well as our Q2 sales trends.

This concludes our prepared comments. Thank you for your interest in DICK'S Sporting Goods. And operator, you may now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Robby Ohmes with BofA Securities.

Robert Frederick Ohmes
BofA Merrill Lynch, Research Division

I think the question everybody wants to ask is if -- could we get a little more color on the first 4 weeks? It's great that you gave us the down 4% comps. But how should we think about getting there in terms of depending on -- sort of maybe some color on how the reopened stores, if you just isolate those, how are they performing? And also, how does eCommerce and Curbside Contactless Pickup change when you reopen stores? Any more color you can give on those 4 weeks would be great. And then I have a follow-up question.

Edward W. Stack
Chairman & CEO

So Robby, I think -- a couple things. The stores that have opened are doing very well. As Lauren said, many of them -- most of them are comping positively. So we're really pleased with that. And the Curbside Pickup, Lauren, you can talk about that, but that's still doing really well.

Lauren R. Hobart
President & Director

Yes. No, the penetration of Curbside Pickup continues on. And Robby, I think the way to think about it is, we were down 4%, we had 44% of our stores on average closed during that period. And so if you do the math, you can say that we're very pleased with how the stores are performing when they reopen.

Robert Frederick Ohmes
BofA Merrill Lynch, Research Division

Should we assume the closed stores are -- the stores that are still closed are comping kind of similar to what you put up for the first quarter? Or...

Lee J. Belitsky
Executive VP & CFO

Well, if they're closed, we're not recording any brick-and-mortar sales in it, but we are continuing to do Curbside Pickup. Curbside Pickup, we're including within our eCommerce sales.

Edward W. Stack
Chairman & CEO

The stores are doing very well, Robby, and they're comping positively, the majority of them that we've opened up. And then the eCommerce business is still doing very well. I wouldn't want to get ahead of yourself to think that with 40% of the stores closed we're comping positively from -- the stores that are open are making up for those stores that are closed, that's not the case. They're doing extremely well. We couldn't be more pleased with how they're comping, but the Curbside Pickup and the eCommerce business continues to be very strong even in the markets where we've reopened.

Robert Frederick Ohmes
BofA Merrill Lynch, Research Division

Got it. That's very helpful. And just a follow-up question. Just the -- how should we think about potential further write-downs going forward? And Ed, maybe how should we think about different seasons? We're moving into the second quarter here. How could that be different from the first quarter in terms of categories that may or may not pressure you, like team sports?

Edward W. Stack
Chairman & CEO

Yes. Team sports is the one that we're most concerned about from a go-forward sales standpoint. It depends on -- we don't know if the kids are going to play football this fall or if they're going to play soccer this fall. Some of the -- those are primarily school sports, especially on the football side. Baseball is starting to open up in some markets, which are more of municipal leagues and travel leagues. And where baseball has opened up, it's doing very well. But team sports is where we're most concerned and have kind of the least amount of visibility to what's going to happen going forward.

Robert Frederick Ohmes
BofA Merrill Lynch, Research Division

Congrats on getting that Curbside Pickup going. That's a really amazing execution.

Edward W. Stack
Chairman & CEO

Thanks, Robby.

Lee J. Belitsky
Executive VP & CFO

Thank you.

Operator

Our next question today comes from Kate McShane with Goldman Sachs.

Katharine Amanda McShane
Goldman Sachs Group Inc., Research Division

The first question I had was just in terms of the change in product demand, how that's changed over time. I assume there was a lot of fitness-type equipment being sold during the shelter-in-place. But in the last 4 weeks, just wondering if you're seeing any strength in other categories. You mentioned baseball. Wondered if there was any other trends that were emerging.

And then my second question is just about how you're thinking when it comes to the back half of the year? And what level of promotions you could possibly expect because of what we're entering into?

Edward W. Stack
Chairman & CEO

So Kate, the trends have changed a little. But you're right, the fitness business was really a very big part of the business when we -- when the stores closed and the pandemic first hit. And that's still pretty good. We're struggling to keep in stock in that product, although we've got some product down the road. We think we're going to be fine. The bike business was very good. But kind of the businesses that have started to pick up, the footwear business is very good. The apparel business is very good. The golf business has been very good since the golf courses got opened up. So all in all, it's been pretty good. The -- baseball, where they have started to play baseball, has been very good. They're still not playing baseball in a lot of different places. We're starting to see -- we've got a good look into the baseball business from our GameChanger app, and we're starting to see a lot more baseball games being played and scored on a weekly basis. That's growing at a pretty rapid rate. So we're pretty confident going forward. But there are still a lot of places where they're not playing baseball yet. But overall, the footwear business, apparel business, golf business and the outdoor business still continues to be very good.

Lauren R. Hobart
President & Director

And the second question about the level of promotions in the back half.

Edward W. Stack
Chairman & CEO

Oh, yes. I don't know yet. None of us do. We think it will probably be a tad more promotional because people have inventory to get rid of. But we're -- our inventory is in very good position. I mean, I think a lot of people were surprised to see our inventory actually down 2% in the -- at the end of the quarter. So we're in a pretty good position. I think it will be a little bit more promotional, but I don't think it's going to be too bad.

Operator

Our next question today comes from Michael Lasser with UBS.

Michael Lasser
UBS Investment Bank, Research Division

So Ed, has this situation permanently changed DICK'S Sporting Goods' margin structure? And as part of that, can you comment on what the puts and takes are going to be into the second half that we should factor as we're modeling the business?

Lee J. Belitsky
Executive VP & CFO

So Michael, it's Lee. I think with respect to the margin structure, and I gather you're talking about operating margins, if we continue these trends where we're getting the brick-and-mortar sales back up and running and they're getting back up and running well, the profitability of that channel is strong. And our eCommerce business has continued to grow. It hasn't been terribly promotional, frankly, on the eCommerce channel. And we've increased the Curbside Contactless Pickup, which eliminates the shipping and packaging expense. And if we're able to maintain a high penetration of that, the profitability of our eCommerce business should improve as well. So it all depends how it's going to mix out. I think in aggregate it's a good picture for profitability going forward, for total profits. What it does to the profit margin line, it's really going to depend on how it mixes out between eCom and brick-and-mortar stores. But if we can keep those brick-and-mortar stores rolling along at -- with respectable comps, our profit picture should be pretty solid going forward.

Edward W. Stack
Chairman & CEO

And the merchandising margin rates from an eCom standpoint are actually running ahead right now.

Michael Lasser
UBS Investment Bank, Research Division

So just to clarify few of those points. Are the merch margin rates running ahead in part because of this lack of promotions? And do you expect that promotions will resume at some point; this is a pretty unique period? Also, if you don't see -- if this resurgence in the brick-and-mortar business is more temporary, can you frame what the impact from the mix shift to eCommerce is going to be? It looks like there was about 300 basis points of drag from increased shipping costs in the quarter. How much of that would be just kind of temporary? And then also, as part of that, can you frame out how are you thinking about occupancy? You're going to be benefiting from a very radically different landscape from a real estate perspective. Shouldn't that help you be able to leverage occupancy costs at a much lower comp than you have seemed to leverage on in the past

Lee J. Belitsky
Executive VP & CFO

So with regard to eCommerce, so we do have some drag on the gross margin due to the additional shipping costs. But I don't expect the eCom penetration to remain at 39% of the business as it was in Q1. If we get our brick-and-mortar sales back and eCom stays at 39%, then we'll all be happy. But I don't expect that it's going to stay that high. And I think that even though we had significant savings from Curbside Pickup, it couldn't impact -- it couldn't offset the full impact of going to 39% penetration on -- from a gross margin perspective.

With regard to lease -- occupancy expense, I think there will be opportunities -- continue to be opportunities to drive down our occupancy expenses, to reduce our rent expense. We do have north of 100 leases coming up for renewal each year, and we're aggressively renegotiating those leases as we go forward. And we expect to continue to have opportunities there.

Lauren R. Hobart
President & Director

Michael, I would -- it's Lauren. I would just add that I think in this omnichannel world, which we clearly lived in for the last 10 weeks, where the only way a consumer could place an order was online and the stores became a huge part of the fulfillment, they always were, but even a bigger part of our fulfillment and our demand driving, we really need to rethink what a sale is and what the profitability and flow-through is all the way through the P&L because the stores are such an integral part of what the eCommerce delivered over the last 10 weeks. It's very, very merged at this point.

Lee J. Belitsky
Executive VP & CFO

Yes, without the stores, we don't have the Curbside Pickup. So that's becoming a growing consideration in how much real estate we need.

Operator

And our next question today comes from Chris Horvers with JPMorgan.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

So first a question, follow-up on the gross margin. You mentioned some, I think, promotions earlier in the quarter. I think that was when you had strong comps. So if you can just give a little color there of what drove that pressure? And then I have a follow-up.

Lee J. Belitsky
Executive VP & CFO

I think shortly after we closed the stores, we were in a scenario where nobody knew what was going to happen, how long the stores were going to be closed, if it was going to be weeks, months, nobody knew. So we were pretty aggressive with promotions online in those first couple of weeks after we closed. And we were also still clearing out a little bit of the winter merchandise early in the quarter because we didn't have much cold weather, so we were clearing through some of that remaining winter merchandise in stores even before we closed.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

Makes sense. So as you look forward on the SG&A line, can you just share some color in terms of how we think about the savings going forward, to what extent are you bringing -- are you -- as you open a store, do you bring back all the furloughed employees of those stores? Or are you sort of cascading them in as the business builds back up? How are you thinking about the marketing expense in the second and third quarter as well, and any other color would be appreciated?

Lee J. Belitsky
Executive VP & CFO

The sales have been strong in the stores as we've opened them. So we're bringing back the lion's share of the furloughed associates in the stores as they open. We are taking them on a store-by-store basis because they're not all performing equally. But we do have -- we had in Q1 and into Q2 some extra expenses in the store. We have continued with our Hero Pay program where we are increasing -- temporarily increasing the hourly pay in stores and distribution centers by 15%. That's going to continue for a little while. We haven't determined yet when we're going -- that's going to end. We are -- we do have extra payroll going into cleaning, sanitizing stores, wiping things down, wiping off the shopping carts and so on. So there's actually some extra payroll in the stores right now as we get through COVID. So I would expect that as the stores open, we would incur additional payroll expense for a while in the stores versus what we have in the past. And we experienced that at the end of Q1 as we started to open the stores, and we will experience that well into Q2.

With regard to admin expenses, we have open positions right now. We'll be cautious as to hiring back to those open positions until we really see what's happening with the business. And we noted that we've restored -- as of the fourth week of May, we restored the pay reductions to almost all the associates, except for a few of the senior executives in the company. As we got to the point where we had 70%, 80% of the stores opened, we restored their pay. So we still have some meaningful savings coming in travel and contractors and -- but we do have extra expenses we're incurring as well.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

And then just lastly, are you at this point planning marketing down in the second quarter? And then similarly, just from a promotional perspective, you exited clean. So are you just waiting to see what happens in the environment at this point given the strength in sales and the clean -- how clean the inventory is, so the promotional is probably a positive so far.

Lauren R. Hobart
President & Director

Yes. It's Lauren. Starting with the marketing, we definitely -- we were -- we cut back significantly when the COVID stores -- when the stores were closed, and we have re-upped it. And we're actually feeling very bullish on the back half of the year in terms of the spend and generating the consumer demand. So we are turning on the marketing, obviously, within reason and doing it in a phased approach. And then, Ed, you want to mention about the inventory?

Edward W. Stack
Chairman & CEO

Yes. We're -- we feel great about our inventory position. We're chasing inventory. We're actually buying some off-price inventory from some of the brands that for whatever reason they have available. So we're really happy with our inventory position. We're happy with kind of our margin rates going forward and what we have visibility to margin rates on a go-forward basis. We're cautiously optimistic.

Operator

Our next question comes from Adrienne Yih with Barclays.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Congrats on the performance. Ed, I guess one of my first question is, pre-COVID, DICK'S was one of the few retailers that were still sort of looking to open stores, albeit at a slower pace. I'm wondering how this current crisis sort of impacts that. And as a follow-on to that, you're very prescient with your kind of digital investments since 2017. What are the next evolutionary sort of IT investments, whether that's contactless checkout or things you're thinking about kind of the future store?

Edward W. Stack
Chairman & CEO

Sure. So new stores, we've slowed the growth down a little bit. We pushed some of the stores that we're going to open this year into next year. And we'll assess the marketplace, and we'll assess what's going on from a real estate standpoint on a go-forward basis.

As far as IT investments, we continue to invest in technology. We continue to invest in what we're going to do from a Curbside Pickup, footwear app that we're talking about. So we've got -- we continue to invest from a technology standpoint. And Lauren, you've got a couple of other things?

Lauren R. Hobart
President & Director

Yes. I think, Adrienne, you're absolutely right. The investments over the past few years, which really were meant to enable us to scale productively, all came to very positive fruition over the past several weeks. And the new consumer environment has definitely accelerated some of our pushes for innovation. We will be -- we're looking at the entire customer experience, the entire customer journey, how to provide more contactless experiences even in the store when people are shopping, whether that's our ShoeRunner app that we've tried right now where people can sort of self-help themselves, which is providing a ton of different opportunities there. Mobile will be a big piece for us going forward. So if anything, this has incredibly energized our innovation efforts and our technology teams behind the changing landscape.

Lee J. Belitsky
Executive VP & CFO

One thing is we also improved our delivery performance during the quarter versus last year. So notwithstanding the big increase in sales that we had, we took about half day off of our average delivery time from the same period last year. So we continue to make improvements there.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

And then, Lee, just a quick one for you. How should we think about, I know this is a big question, 2Q sales. And the reason I ask that is the sustainability of the May trend. People are talking about kind of summer vacations. They're more staycation, more outdoors. It feels like the things that are driving May performance, some of those drivers are unlike some of the investing or some of the onetime pent-up demand. It seems like they may -- could get stronger as we go into the summer. So just wondering how we should think about some of the drivers of early May.

Lee J. Belitsky
Executive VP & CFO

Yes. It's hard to say how it's going to play out. It could get stronger, but it could be some that was pulled forward as well because the kids are out of school and people are working from home. So they may have got into some of the summer purchases early. So it's a little hard to say on those summer trends how it's going to play out.

Operator

Our next question today comes from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman
Morgan Stanley, Research Division

My first question, I want to ask you, Ed. There was a comment about market share in the press release. And I think it was a couple years back, when Sports Authority were closing, you made a clear message about going after share. I guess, first, is it clear that you didn't gain in Q1? And then in the comment that you made in the release, are you approaching this next few quarters in a similar way you looked at 2016, 2017? And any read across to how the business should be managed from a financial perspective?

Edward W. Stack
Chairman & CEO

Well, we're going -- we think we've got great relationships with our vendors. We think our inventory is in terrific shape. The trajectory that we were on from basically Q2 of last year through even Q1 of this year before we closed the stores and the trend that we see that were picking up with the stores that are opening, we're pretty confident from the changes that we made from a merchandising standpoint, where our brand is in the eyes of the consumer, that we'll continue to pick up market share. And I believe that we're going to continue to pick up market share.

We put ourselves in a great financial position to be able to go out and aggressively buy product off-price right now. We've put ourselves in a position that we don't have to cut back on our marketing effort. We can go in from a marketing standpoint and drive consumers into our store, whether it's in the brick-and-mortar stores, whether it's from an online standpoint to Curbside Pickup or when it's a more traditional online business. So we've made some big changes to the merchandise that we carry. We've made some big changes to how we are approaching things in the store from a service standpoint. We've made some big changes into how we're marketing our business. And I think if you take a look at last year and what our comp sales were versus others, we picked up market share, and we feel that we are continuing that trend, especially as the stores start to reopen.

Lauren R. Hobart
President & Director

Yes. I just want to add on to that for a moment that comparing it to 2016, '17 and TSA feels a little different from how we're thinking about it now, which is, it's not about our brick-and-mortar competitors going under; it's about us gaining market share and gaining new customers and gathering customers to try our online business who had never tried it before. So it's just -- it's a different compare. I just wanted to point that out. It's not -- it's different, and it's actually very exciting.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. And then my follow-up. This relates to something that Lee and Lauren commented on, the merging of the 2 channels. And I know it's harder to look at profitability separately. My question is and was going to be, if you look at the business a year from now, are we closer to -- are we much closer to an equilibrium in profitability between the 2 channels? And again, I appreciate it's harder to look at them separate. But I think in getting to sustainable profitable growth, I don't know if that is a prerequisite or not?

Edward W. Stack
Chairman & CEO

I think it does get to be closer, especially as we're seeing the Curbside Pickup not slow down and our stores continue to comp positively. So as eCommerce picks up from a Curbside standpoint, as Lee and Lauren have both said, it gets to be more profitable because of the shipping and packaging changes.

Operator

And our next question comes from Sam Poser with Susquehanna.

Frederick William Gaertner
Susquehanna Financial Group, LLLP, Research Division

This is Will on for Sam. So my first question is on eCommerce. And I realize you guys are not guiding here. But I mean how big you think the eCommerce business could be this year? I mean do you think it could be a $2 billion-plus business this year?

Lee J. Belitsky
Executive VP & CFO

Well, Will, as you said, we're not guiding to that. But we're really pleased with the momentum we've got and hope we can keep it up.

Edward W. Stack
Chairman & CEO

And we suspect we can. But we're not going to go out on a limb and tell you what we think the numbers are right now. We'll let you know at the end of the fourth quarter, okay?

Frederick William Gaertner
Susquehanna Financial Group, LLLP, Research Division

Fair enough, fair enough. And how much do you think -- I know you said stores are comping positive that have opened. How much do you think that the eCommerce business is cannibalizing stores?

Edward W. Stack

Chairman & CEO

Right now, very little. A lot of the eCommerce pickup we've got are from new customers.

Frederick William Gaertner
Susquehanna Financial Group, LLLP, Research Division

And that's a good segue. I guess how many customers in 1Q do you think that you guys acquired and were put into the loyalty program?

Edward W. Stack
Chairman & CEO

Yes. We're not going to get to that level of granularity right now, but there's a meaningful amount of the customers that we serve from an eCom standpoint, whether it be pickup -- Curbside Pickup or a more traditional eCommerce customer, there was a meaningful number of new customers that we picked up.

Operator

Our next question comes from Seth Sigman with Crédit Suisse.

Seth Ian Sigman
Crédit Suisse AG, Research Division

I wanted to follow up on the quarter-to-date performance, the stores that have reopened, the positive results that you're seeing. Is it sort of like an initial surge and then the trend steps back down? Or have you seen some level of consistency or even an acceleration through this period in those stores that have reopened? And then sort of unrelated, but the point on team sports, that is obviously a risk ahead. There's some uncertainty. Any way for you guys to size up the exposure? And what could be the impact from some limitations in the back half of the year?

Edward W. Stack
Chairman & CEO

From a store standpoint, I'd say it's been consistent. And we think as we start to get in some additional products, some fitness products and bike products and boat products that's been really very good, it could accelerate. But it's been pretty consistent. And in the fourth quarter, back half of the year, we're not going to get into talking about that. We're not providing any guidance. We'll have to wait and see what happens. I mean is there a second wave? Is -- some of the issues facing the country today, do they continue? So it's really difficult to get out that far.

Seth Ian Sigman
Crédit Suisse AG, Research Division

Okay. Fair enough. Just a follow-up on the online business. Can you guys give us the percent of online sales that actually touch the store today, whether that's ship-from-store or pickup and how that compares to maybe a year ago? Clearly, the model is evolving here. And then just regarding pickup, any more color on the types of categories that are being picked up and if it's different than the typical mix?

Lee J. Belitsky
Executive VP & CFO

So again, a meaningful kind of majority of the sales are -- come out of our stores, whether it be Curbside or ship-from-store. Mix, fortunately, is a little bit more skewed towards some of the bigger, bulkier items that are more expensive to ship, and that's kind of favorable from an earnings perspective to do that from the stores.

Lauren R. Hobart
President & Director

It continues to increase. It's been more than half for some time that touch the stores in some way, our eCommerce business. And obviously with the surge in Curbside, that increased.

Operator

Our next question today comes from Mike Baker with Nomura.

Michael Allen Baker
Nomura Securities Co. Ltd., Research Division

Can you talk about, if you think the stimulus helped? And I guess part of that question would be, any more color on sort of the pace of business through April? We can sort of back into what the last 7.5 weeks comped out, but I'm sure they weren't consistent across that period. My guess is, like a lot of other retailers, you saw things progress through the end of March and into April, helped by the stimulus or weather or whatever the case may be. But if you could provide some color on that, that would be helpful.

Lee J. Belitsky
Executive VP & CFO

The eCommerce business has been building. And as we have opened stores, obviously, our store sales have been building. Some of that is timed in connection with when the stimulus checks arrived. But the stimulus checks arrived going out a month ago and the business continues to be good now. But stimulus checks probably helped. It's hard to measure it. But we're still encouraged with where the business is now.

Michael Allen Baker
Nomura Securities Co. Ltd., Research Division

Okay. That's helpful. A couple of other follow-ups. You said you're buying off-price right now. Is that product that you -- can you get that product in the stores this season? Or does some of that get packed away?

Edward W. Stack
Chairman & CEO

The majority of it will be in the stores this season. We may have some buys that we might pack away to use for next year, but the vast majority of it will be in stores this year.

Michael Allen Baker
Nomura Securities Co. Ltd., Research Division

Okay. Interesting. And then one more sort of follow-up as it relates to inventory. And I don't know if you're prepared to answer this, but as you're putting in inventory now, and as you said, there is still a lot of uncertainty out there. I mean how do you think about the risk of building inventory right now? And particularly as we get into back-to-school and some schools might not be going back in a normal fashion in September. And I could also ask about licensed apparel, is there risk there if we don't have college football or World Series or those types of things?

Edward W. Stack

Chairman & CEO

We're making the best decisions we can with the information that we've got. And we are being -- we're probably being more cautious than we are aggressive. There are certain categories that we think are going to be very good and we're aggressive on. So as an example, we continue to be very aggressive in the fitness category. We continue to be very aggressive in the bike category. We'll be very aggressive in the athletic footwear category, especially around running, as people coming out of this pandemic are really starting to realize that one of the great ways to be healthy is to be in shape and to be stronger. And we think we're in a great lane to help service that consumer who's looking to do that. So we're going to be very aggressive in some areas.

And from a license standpoint around college football and some of the pro sports, depending on how things play out, we're not nearly as aggressive. So we're trying to make the right decisions based on the information we have. And like I said, some places we're being aggressive and other places we're pulling back.

Operator

Our next question today comes from Scot Ciccarelli with RBC Capital Markets.

Scot Ciccarelli
RBC Capital Markets, Research Division

Another store footprint question. And I think we all understand, you can't have Curbside Pickup without your stores, but does the growth in eCom and Curbside potentially push you to reevaluate the specific role of each of your stores? In other words, do they all have to be the same size, same configuration, et cetera, that they are today?

Edward W. Stack
Chairman & CEO

We don't see any change in what we're looking at from a store standpoint. We talked most recently about how we are trying to reduce space allocation, how we're trying to continue to focus on the team sport athlete. And although that team sport athlete, that baseball player, football player, soccer player may be constrained right now, that's not going to be in perpetuity, that they'll be back. And if it's not this fall or next spring, they will be back. So we think that's an important part of our business. As we continue to make changes to our footwear department and broaden the products that we carry in footwear or what we're doing in athletic apparel or in our women's business, I mean, right now, our largest -- our second and third largest brands in women's athletic apparel are CALIA and the new DSG brand. So we don't think that there's a big change. And one of the things with Curbside, we need to have the product that make -- if people want Curbside, they want to pick it up that day. And in order to have the inventory available to them, we need to have these stores. So it may not be very popular with people that don't truly understand our business, but we're very comfortable with the -- with our store configuration right now.

Scot Ciccarelli
RBC Capital Markets, Research Division

Got it. And then just a follow-up, I just wanted to clarify something, I think, Lee said. Have sales actually continued to accelerate as we've moved further away from the distribution of the stimulus funds? Is that what the inference was like?

Lee J. Belitsky
Executive VP & CFO

Well the eCommerce, we talked about the eCommerce business in May being up north of 250%. It was 210% in the back half of Q1.

Operator

Our next question today comes from Peter Benedict with Baird.

Peter Sloan Benedict
Robert W. Baird & Co. Incorporated, Research Division

Two questions. First, just on the -- can you give us an update on the status of the hunt clearance and exit? Did that have any material impact on that product margin number in 1Q? And related to that, kind of that outdoor theme that's out there in the marketplace, just any other areas of the store where you're seeing that play out? That's my first question.

Edward W. Stack
Chairman & CEO

Yes. So on the space allocation, we slowed that down right now based on the capital. We cut back on our CapEx budget pretty significantly. So that's been slowed down a little bit. As far as the outdoor categories, those outdoor categories have continued to be pretty good. We continue to comp positively in those areas.

Peter Sloan Benedict
Robert W. Baird & Co. Incorporated, Research Division

Okay. And just pivoting over to SG&A, just to follow up on those. Two questions. One, I mean as we think about SG&A was down 17% in the first quarter year-over-year, sounds like you're adding back store employees, you're bringing back some marketing, how should we think about SG&A in the second quarter as you sit here today? Would you still expect it to be down year-over-year? And then that $34 million of COVID expense that kind of hit SG&A in the first quarter, call it, a $20 million to $23 million monthly run rate, does that just continue through 2Q and in the back half of the year or are there parts of that, that start to come off?

Lee J. Belitsky
Executive VP & CFO

I mean there are parts of that, that come off because we're not paying people that aren't working anymore. And we had 3 weeks of paying people that weren't working. So that piece comes off, at least in the stores, and we're returning people from furlough. But as I said earlier, we are going to have increased expenses associated with running the stores because we largely had to bring back pretty much most, if not all, of our store associates because the sales trends have been pretty solid there. And we have extra expenses for the hourly workers of 15% and extra hours we've got in the stores to do regular cleaning as well. So we will continue to have some savings from people that are -- folks that are still furloughed at this point. We'll have some savings from lower expenses in May. And we're not aggressively hiring back open positions right now. So we'll have some savings associated with that, but we're going to have some extra costs, too.

Operator

Our next question today comes from Tom Nikic of Wells Fargo.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

I wanted to ask, over the last couple years, you've made a lot of investments in the in-store experience, batting cages, the elevated in-store service levels. With new requirements around sort of safety, social distancing, et cetera, does that create any sort of impediments to some of those experiences that you've worked to add to the store?

Lauren R. Hobart
President & Director

Tom, yes. So when we first closed the stores and right prior to that, we pretty much shut down all of those experiential elements in the store, be it the batting cages or the golf simulators. But we have now been working very hard over the last several weeks to figure out ways to continue those experiences in a safe manner. We've turned back on golf fittings. We are able to do it in a way that we believe is very safe for both our teammates and our athletes. And same with the baseball simulator. So we actually have adapted fairly well, and there seems to be consumer demand to keep those experiences going.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

All right. Sounds good. And Lee, a question for you. Obviously, to shore up some of the liquidity, you did a convertible debt raise, and you also borrowed quite a bit on the revolver. Is there a way we should think about the pace of sort of maybe paying down that revolving debt? And I don't know if there's like a certain milestone you want to reach before you start paying down that debt or anything like that, but just from a balance sheet leverage perspective, any help would be appreciated.

Lee J. Belitsky
Executive VP & CFO

Yes. We're in the process of paying down that revolver debt as we go through. I think the worst of our concerns and many concerns around the liquidity crisis that could have possibly occurred from mid-March through mid-April seemed to be behind us. Our business is coming back. Our relationships with our banks are really good. So we're in the process of bringing that down.

Operator

Our next question today comes from Jim Duffy of Stifel.

James Vincent Duffy
Stifel, Nicolaus & Company, Incorporated, Research Division

On Curbside Pickup, what do trends show you with respect to consumers' patience for inventory to be delivered to the store? Is conversion much higher if the inventory is lit up as immediately available in store versus available in a few days or a week?

Lauren R. Hobart
President & Director

Yes. Right now, the availability that we're presenting is availability that is available in store.

Edward W. Stack
Chairman & CEO

Immediately.

Lauren R. Hobart
President & Director

I'm sorry, immediately. Yes, that is available to pick up immediately. So the patience has not been a factor. We actually think that's upside. We can actually have, what we would call, a delayed buy-online-pickup-in-store experience. But we are -- that is something we're working on right now. And just as the patience for the entire order or the process, the whole thing has been taking on average less than 30 minutes and usually closer to 15 minutes to fulfill. So patience is important, but I think we're overdelivering.

James Vincent Duffy
Stifel, Nicolaus & Company, Incorporated, Research Division

That's great. And then a question as it relates to the second half of the year. Lot of enthusiasm around reopening right now. Speaking with the vendors, most have been conservative with respect to planned inventory receipts for seasonal categories in the second half. We don't know what back-to-school is going to mean, but it will get cold and there will be a Christmas. Are you concerned that you may not have enough inventory for holidays? Is that part of the thought process at this juncture?

Edward W. Stack
Chairman & CEO

I think we're concerned if we'll have enough of the right inventory. We'll then have to kind of go to some second choices and move some market share. But right now we feel pretty confident, we're in pretty good shape. There are some categories and some vendors we'd like to have some additional inventory from that we're moving market share to and we'll see how that goes. But right now, we feel pretty good.

Operator

[Operator Instructions] And today's final question comes from Joe Feldman with Telsey Advisory Group.

Joseph Isaac Feldman
Telsey Advisory Group LLC

I wanted to ask a bit more about the consumer. I know it was asked before about the stimulus checks. But what are you seeing from the consumer? I mean, obviously, it seems like there's an appetite for certain parts of the sporting goods. But is it -- are you seeing any differences? Like is there a trade-down within categories? Are people shifting upwards? Or anything that would give you any insight into how the consumer is feeling? Is it just really that once we're past COVID-19, things will start to free up and get better?

Edward W. Stack
Chairman & CEO

I don't think we see anything meaningfully different from a trading up or trading down. Some of our -- some categories the average unit retail is actually going up, such as footwear, but that's really got a fair amount to do with the mix that we have. And there's mix differences. As we said, we think the fitness business, the boat business, the bike business, anything that has to do with the outdoors is really -- continues to do extremely well, and we think that will continue going forward.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Got it. And then actually, that was a good segue there, Ed. With regard to the footwear category itself, you've mentioned running a couple of times. Is that really what's driving it right now or how's -- versus basketball or versus style? I know you guys have made a little more investment on that front. Just any color on that would be helpful.

Edward W. Stack

Chairman & CEO

Yes. I mean the lifestyle business continues to do extremely well. And so we continue to be enthusiastic about that. But we continue to be really enthusiastic about the running category because as people -- as it started to open up and people are getting out and even a little bit before that, when people could get out in social distance, they were out running, they were out walking, they were out walking and running. And that silhouette, we think, is going to continue to be very good for people trying to get out and get out in the fresh air and get in a little bit better shape of either walking or running. And we don't think that that's going to change anytime soon. We're in a great position to take advantage of that.

Operator

And ladies and gentlemen, this concludes the question-and-answer session. I'd like to turn the conference back over to Ed Stack for any final remarks.

Edward W. Stack
Chairman & CEO

I'd like to thank everyone for their interest in DICK'S Sporting Goods, and we'll look forward to seeing everybody on our next conference call. Thank you. Be safe.

OperatorThank you, sir. Today's conference has now concluded. You may now disconnect your lines, and have a wonderful day.