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DICK'S Sporting Goods, Inc. NYSE:DKS

FQ4 2020 Earnings Call Transcripts

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Table of Contents

Call Participants

EXECUTIVES

Edward W. Stack
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Executive VP & CFO

Nathaniel A. Gilch
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Wedbush Securities Inc., Research Division

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

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Susquehanna Financial Group, LLLP, Research Division

Joseph Isaac Feldman
Telsey Advisory Group LLC

Katharine Amanda McShane
Goldman Sachs Group Inc., Research Division

Matthew J. McClintock
Raymond James & Associates, Inc., Research Division

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Presentation

Operator

Good morning, and welcome to the DICK's Sporting Goods Fourth Quarter Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

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

Nathaniel A. Gilch
Director of Investor Relations

Good morning, everyone, and thank you for joining us to discuss our fourth quarter 2019 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 on our Investor Relations website located at investors.dicks.com for approximately 12 months.

As a reminder, we will be making forward-looking statements, including our 2020 outlook for sales and earnings, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC, including our last annual report on Form 10-K and cautionary statements made during this call. We assume no obligation to update any of these forward-looking statements or information.

Today, we'll be discussing certain fourth quarter and full year 2019 financial measures on a non-GAAP basis. We will also be comparing these non-GAAP financial measures to the comparable GAAP financial measures from the prior period because there were no non-GAAP items excluded during the prior period. We believe this comparison is helpful to evaluate the company's fourth quarter and full year performance relative to last year. Please refer to our Investor Relations website to find the reconciliation of any non-GAAP financial measures referenced in today's call.

And finally, for your future scheduling purposes, we are tentatively planning to publish our first quarter 2020 earnings release before the market opens on May 27, 2020, with our subsequent earnings call at 10 a.m. Eastern Time.

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

Edward W. Stack
Chairman & CEO

Thanks, Nate. Good morning, everyone. As announced earlier this morning, we had a strong 2019, and we're very pleased to deliver full year non-GAAP earnings per diluted share of $3.69. This exceeded the high end of our guided range of $3.50 to $3.60 and represents a 14% increase over last year.

For the full year, our consolidated same-store sales increased 3.7%, which also exceeded the high end of our guided range of 2.5% to a 3% increase.

For the fourth quarter, we delivered a 5.3% increase in consolidated same-store sales. Our strong Q4 comps were supported by increases in both average ticket and transactions as well as growth across each of our 3 primary categories of hardlines, apparel and footwear. On a non-GAAP basis, our merchandise margin rate increased 14 basis points in the fourth quarter, reflecting a healthy business. In total, we delivered fourth quarter non-GAAP earnings per diluted share of $1.32, which represents a 23% increase over last year.

It's clear our strategies are working. Our vendor relationships have never been stronger, and we have tremendous momentum with a great foundation to build on for the future. During 2019, we made meaningful changes across our business, fueling improved comp store sales results. We elevated the athlete experience in our stores through more differentiated and premium product. We improved in-stock positions and delivered stronger merchandise presentations. We also made our stores more experiential and reallocated floor space to regionally relevant and growing categories.

As we enter 2020, we remain enthusiastic about our business and are pleased with the start to our year. We will continue to focus on enhanced 2019 strategies. This includes optimizing our inventory and floor space, delivering differentiated merchandising and driving athlete engagement across all channels. Our financial outlook balances this enthusiasm with a degree of caution over the coronavirus and how it may impact our business. Lee will address our outlook in greater detail within his remarks.

As I've discussed on previous calls, over the past year, we have been reallocating floor space to remove hunt and replace it with categories and products that can drive growth and better align with the needs of each market. To date, we have removed the hunt category from 135 DICK'S stores, and I'm pleased to announce these stores continued to generate positive comp sales in the fourth quarter, a noteworthy accomplishment during the peak hunting season. Building off this success, we'll remove the hunt department from approximately 440 additional DICK'S stores during the first half of 2020, leaving it in only 12% of our stores. As we do with all parts of our business, we will continue to monitor and evaluate all categories of business and make decisions that best serve our athletes.

Additionally, we plan to build on the strong results delivered through our effective merchandising presentations. This strategy has been instrumental in the success of our premium full-serve footwear decks, among other important categories, including apparel and baseball. In 2020, we plan to reconceptualize our soccer and golf businesses. We're going to follow the same playbook we used to attack the baseball category in 2019, which drove double-digit comp sales gains. We're optimistic that through more premium product, enhanced store experiences and exceptional service, we can better serve our soccer and golf athletes and drive stronger results in these categories.

Our largest and most exciting initiative this year will be focused on the female athlete, which Lauren will discuss in more detail.

In closing, 2020 is an important year in which we will build on the success to fuel long-term growth and further solidify our leadership position. I'd like to thank all of our teammates for their hard work and commitment this past year and for their upcoming events -- efforts in 2020.

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 acknowledging the dedication and efforts of our more than 40,000 talented teammates. We've made it a priority to create an environment where passionate and skilled teammates thrive and where we recognize them for the impact they have on our business. Our strong 2019 results are directly attributable to these talented men and women who are a key differentiator and a catalyst for growth.

As Ed discussed, for the fourth quarter, we delivered a 5.3% increase in consolidated same-store sales, which included positive brick-and-mortar store comps and strong online sales growth. This performance was driven by a 2.4% increase in average ticket and a 2.9% increase in transactions.

Beyond our merchandising initiatives and improved in-stock positions, our fourth quarter success is a direct reflection of our focus on improving service, experience and marketing across all channels. And in 2020, we will build on these efforts in these areas.

As you may remember, nearly 1 year ago, we assembled all of our store teammates across the country to roll out our new service standards. This was a landmark event for our company and a springboard from which we've developed strong momentum in our stores. This past year, our store teammates demonstrated that focusing on serving our athletes has a meaningful impact on sales. During 2020, we are excited to continue driving positive results through an improved service and selling culture as we still see many opportunities ahead to delight our athletes.

Our stores also contribute tremendously to our eCommerce growth through buy-online, pick-up in-store and ship from store, as the lines between in-store and online are becoming increasingly seamless.

During the fourth quarter, we continued to see strong BOPIS growth in our DICK'S stores.

We also expanded BOPIS to each of our Golf Galaxy stores, and we're pleased with the initial response from our athletes. And for this year, BOPIS grew more than twice the rate of the 16% sales growth we saw in our overall eCommerce business.

Additionally, we were pleased with the performance of our 2 new dedicated eCommerce fulfillment centers during the peak holiday period. These new fulfillment centers, along with our new strategic delivery partnership with FedEx, have continued to reduce delivery times to our athletes.

Looking ahead, we will continue to improve our omnichannel experience through faster and more reliable delivery as well as improved functionality and performance of our website. In 2020, this will include providing shorter and more accurate estimated delivery dates earlier in the athlete's shopping funnel, expanding BOPIS to more items and delivering more localized website experiences as well as a faster and more convenient checkout.

As part of our multi-faceted Women's Initiative, we will deliver an expanded assortment across several key sports, including basketball, dance, soccer and softball. In addition, our marketing in early 2020 will amplify DICK'S as the go-to destination for her. Last week, we launched our women's campaign featuring a TV spot that showcases the very surprising history of the sports bra and features Brandi Chastain.

Additionally, we are celebrating CALIA's 5-year anniversary, which has grown into our second-largest women's athletic apparel brand. This year, we're excited to elevate the CALIA brand and assortment through new categories, more premium product, a refreshed store experience and stronger marketing. CALIA is also integral to our broader private brand strategy. Collectively, our private brands represent our second-largest brand behind only Nike and drive differentiation and exclusivity within our assortment. In addition to CALIA, we remain very enthusiastic about DSG, which we launched last year and expect to surpass Field & Stream to become our largest private brand by the end of the year.

Finally, in support of our pledge to provide access to sports for 1 million additional young athletes, last year, the DICK'S Foundation made grants of approximately $7 million to youth sports programs across the country. Importantly, this funding helped nearly 200,000 underserved kids play sports. Building on this momentum and aligning with our Women's Initiative, in February, DICK'S and the DICK'S Foundation hosted a Here for Her Summit in New York City, a focused effort to champion women and girls in sports and fitness. As part of this, we announced our foundation's commitment to young female athletes with a 3-year $5 million grant to the U.S. Soccer Foundation's United for Girls initiative. This grant will be used to create safe places to play, fund coaching and training opportunities and support soccer programs in underserved communities across the country.

In closing, we remain very enthusiastic about our business and confident that the continued execution of our strategies will strengthen our leadership position in the marketplace.

I'll now turn the call over to Lee to review our financial results and outlook in more detail.

Lee J. Belitsky
Executive VP & CFO

Thank you, Lauren, and good morning, everyone. In 2019, we had a strong year from both a sales and earnings perspective. Consolidated same-store sales increased 3.7%, with momentum building throughout the year. Within this, we delivered a 16% increase in our eCommerce business and posted positive brick-and-mortar store comps.

On a non-GAAP basis, gross profit margin expanded 44 basis points. And as part of our focus on increasing productivity, we eliminated over $40 million of expenses across many areas of our business. We expanded non-GAAP EBT margin in the second half of the year and for the full year delivered non-GAAP earnings per diluted share of $3.69, a 14% increase over 2018.

Now turning to our fourth quarter results. Consolidated sales increased 4.7% to approximately $2.61 billion. Consolidated same-store sales increased 5.3% driven by growth across each of our 3 primary categories of hardlines, apparel and footwear. We saw continued strength in our stores, posting our third consecutive quarter of positive brick-and-mortar store comps. Our eCommerce sales increased 15%, and as a percent of total net sales, our online business increased to 25% compared to 23% last year. Notably, we delivered these strong sales results despite the compressed holiday selling season and challenging weather that negatively impacted sales in important cold weather categories.

Additionally, as Ed mentioned, we continue to be pleased with the results of our space optimization efforts. While removal of hunt from the 125 stores contributed to a meaningful sales decline in that category, these stores comped positively overall during the peak hunt selling season.

On a non-GAAP basis, gross profit in the fourth quarter was $746.2 million or 28.6% of net sales, a 73 basis point improvement compared to last year. This improvement was driven by leverage on occupancy costs of 62 basis points and merchandise margin rate expansion of 14 basis points. As expected, this was partially offset by costs associated with the opening of our 2 new dedicated eCommerce fulfillment centers.

Non-GAAP SG&A expenses were $598.1 million or 22.93% of net sales, up 77 basis points from the same period last year. 36 basis points are attributable to expense recognition associated with the change in value of our deferred comp plans resulting from the increase in overall equity markets during the fourth quarter. This expense is fully offset in other income and has no impact on earnings. The balance of the deleverage was primarily due to higher marketing expenses related to our successful multichannel holiday campaign as well as high incentive compensation expenses due to our strong fourth quarter results.

Driven by strong sales and gross profit margin, non-GAAP EBT was $148.6 million or 5.7% of net sales, up $12.3 million or 23 basis points from the same period last year. In total, we delivered fourth quarter non-GAAP earnings per diluted share of $1.32 compared to earnings per diluted share of $1.07 last year, which represents a 23% year-over-year increase.

On a GAAP basis, our earnings per diluted share were $0.81. This included pretax restructuring charges of $48.8 million related to our decision to remove hunt from over 400 stores in 2020. This includes a $35.7 million noncash impairment of trademarks and store assets as well as a $13.1 million write-down of hunt inventory in these stores. For additional details on this, you can refer to the non-GAAP reconciliation tables of our press release that we issued this morning.

Now moving to inventory. As we planned, our year-end inventory levels increased 21% compared to the end of 2018. Looking ahead, our inventory is well positioned as a result of our investments in this past year. And for 2020, we expect inventory to grow by a high single-digit rate at the end of the first quarter, with further moderation at the end of the second and third quarters. And by the end of 2020, we expect inventory levels to be approximately even with 2019.

Turning to our fourth quarter capital allocation. Net capital expenditures were $39 million. We paid approximately $24 million in quarterly dividends and today announced an increase in our quarterly dividend of 13.6% to $0.3125 per share or $1.25 on an annualized basis. During the quarter, we also repurchased 759,000 shares for $36.1 million at an average price of $47.53. During the trailing 4 quarters, we've returned over $500 million to shareholders through share repurchases and quarterly dividends. These activities were funded through cash from operations and borrowings under our revolving credit facility, and we have approximately $1 billion remaining under our share repurchase programs.

We ended the fourth quarter with approximately $69 million of cash and cash equivalents and $224 million outstanding on our $1.6 billion line of credit.

Now let me move to our fiscal 2020 outlook for sales and earnings. As Ed mentioned, our outlook balances the enthusiasm we have for our business with the rapidly evolving coronavirus event. As part of this, the low end of our outlook includes some conservatism around supply chain disruption potentially impacting our sales and earnings starting in Q2. At this time, our outlook does not include an impact from slowing consumer demand should the coronavirus spread considerably in the United States. Additionally, based on what we know today, we are not forecasting any significant impact to sales or earnings in Q1, and we have been pleased with our sales trends so far this year. That said, we are actively managing our supply chain and working closely with our vendor partners to ensure the best possible outcome for our business.

All this considered, for 2020, we anticipate earnings per diluted share to be in the range of $3.60 to $4 and consolidated same-store sales to be approximately flat to up 2%. EBT margin is expected to be down approximately 30 basis points at the low end of the range and up slightly at the high end when compared to non-GAAP EBT margin in 2019. Within this, gross margin rate is expected to be approximately flat at the high end, while SG&A expense is expected to leverage at both ends of the range. Our earnings guidance assumes an effective tax rate of 25.5% and is based on 85.5 million average diluted shares outstanding, which only includes the expectation of share repurchases to fully offset dilution from stock compensation plans.

Net capital expenditures are expected to be in the range of $235 million to $295 million. The high end of the range contemplates improvements in existing stores, including stronger merchandise presentations within footwear, soccer and CALIA as well as hunt space optimization in over 400 stores as well as technology and store design investments to enhance the fitting and lesson experience in our Golf Galaxy stores. This also includes ongoing investments in technology as well as 9 new DICK'S stores, 6 new Golf Galaxy stores and 17 relocations.

Before concluding, I'll take just a moment to highlight some upcoming changes to our same-store sales reporting practices. Beginning in Q1 2020, we will continue to provide consolidated same-store sales results while moving away from providing eCommerce sales growth and eCommerce sales penetration metrics. Our athletes are increasingly shopping across multiple channels and on the same transaction and to attribute the sale to one channel or the other can be quite arbitrary. We believe the single view of the consumer best represents our omnichannel approach, which centers around serving our athletes whenever, wherever and however they want to shop.
This concludes our prepared comments. Thank you for your interest in DICK'S Sporting Goods. Operator, you may now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question today will come from Robby Ohmes of Bank of America Merrill Lynch.

Alexander Thomas Perry
BofA Merrill Lynch, Research Division

This is Alex Perry on for Robby Congrats on a great quarter. Just first, can you give us some more color on your plans for the hunt business with your announcement to replace merchandise in 415 stores? I guess specifically, what categories of merchandise are you replacing there? And then what type of margin uplift are you seeing as you replace hunt with other categories? And then just last on that, can you give us an update on how those remerchandised stores are performing versus chain average?

Edward W. Stack
Chairman & CEO

Sure. So on the categories that we're going to replace the hunt area with depends on the store, depends on what store the market's in and the categories that are most important to those stores. But team sports, baseball, reengineering our soccer business are all parts of those categories. We expect to increase in stores our youth apparel and footwear business, along with the Women's Initiative that we've talked about. So depending on what the store is, what part of the country will depend on where we're -- what we're putting in there.

And we're not going to get to a -- give you such granular information of how they're performing to the rest of the chain. It was in the key hunt time, so it's difficult to compare those stores with the other stores that have already taken hunt out. But we're very pleased with the response we got. They comped positively. And as I said, we are very pleased or we would -- we might be rethinking this whole -- the whole idea here.

Alexander Thomas Perry
BofA Merrill Lynch, Research Division

Great. That's very helpful. And then just second, just when you say the coronavirus supply chain disruption impacting the business in the second quarter, is there a certain category that is more likely to be disrupted? And then I guess just off that, do you expect to have your sort of seasonal back-to-school or fall '20 product on hand? And then I think you alluded to this, but have you seen any impact to traffic trends in the U.S. yet since the outbreak?

Edward W. Stack
Chairman & CEO

We're very pleased with the start of our year, as we've indicated. Where some issues in the supply chain may come from, we haven't seen anything significant yet. But it's a pretty fluid situation, as you know. So we're trying to be conservative on what that supply chain -- those issues might be. But we haven't seen anything significant yet. But that doesn't mean that it can't happen because I think everybody's scrambling to see what shape their supply chain is in.

Operator

Our next question comes from Michael Lasser of UBS.

Michael Lasser
UBS Investment Bank, Research Division

Ed, when you mentioned you're pleased with the start to the year, have you seen any variability in your sales by market? So if you look at the Pacific Northwest where some of the concerns have grown a little bit more intense, has that impacted those locations there?

Edward W. Stack
Chairman & CEO

Surprisingly, no.

Michael Lasser
UBS Investment Bank, Research Division

And separately, when you think about your -- the shape of the year, and I think Lee mentioned that your gross margin at the high end is expected to be flat, it did appear that you had some extra seasonal clearance inventory to start the year. So how should we think about how the gross margins are going to flow over the course of the year? And from an upside/downside perspective, what are you factoring in at the low end in terms of the margin performance for each line?

Lee J. Belitsky
Executive VP & CFO

Just earlier in the year, we're working through some of the hunt clearance in the 400 stores. So that should have kind of a modest impact on -- unfavorable impact in the first half. And we also have to anniversary the 2 extra distribution centers in the first half of the year as well. So we'll anniversary that as we get into the third and fourth quarter. So the gross margin is going to be, I'd say, a little bit more pressured in the first half than in the second half.

Michael Lasser
UBS Investment Bank, Research Division

And the last question is, as you move away from the hunt category in these 440 stores, how are you going to ensure that the customer doesn't look at DICK'S Sporting Goods more like a department store in that you're going to skew much more heavily into the apparel and footwear categories and the differentiation may be a little bit less than it's been in the past?

Edward W. Stack
Chairman & CEO

Michael, I don't think there's any concern about that whatsoever. We've taken it out of 140-some stores. It's out -- there are some stores that we opened up, didn't put it in. So there's a couple of hundred stores that we don't have hunt in that we've tested this. And we're going to be focusing on the female athlete. As we said, the footwear business is very strong. But we've also been very clear on our target for the -- that high school athlete, our baseball business. We're going to restructure our golf business, restructuring our soccer business. So I don't think there will be any confusion that we are in the sports and fitness business as opposed to a department store.

Operator

Our next question comes from Kate McShane of Goldman Sachs.

Katharine Amanda McShane
Goldman Sachs Group Inc., Research Division

Is there a way to measure what fourth quarter would have been without some of the headwinds you experienced? And if you could quantify at all the share you were able to take.

Edward W. Stack
Chairman & CEO

I'm not sure what the share is we were able to take. You can take a look at other people's comps then take a look at our comps, which were among some of the best in retail. And what it would have been had we not had some of the headwinds, it's really difficult to put forth what theoretically that may have happened. So if the weather was colder, our outerwear business would have been better, but some other areas of the business might not have been as good.

So it's -- I think our team did a great job managing through the difficult weather pattern for our business. They did a great job from an inventory standpoint, did a great job from a sales. The marketing that we've put out in the fourth quarter was extremely well received and differentiated and really had us stand out in the marketplace. And I think all of those things contributed to the terrific results that we had in the fourth quarter.

Lee J. Belitsky
Executive VP & CFO

And Kate, in addition to that, we made a conscious effort this year to stay in stock in some of the warmer-weather products throughout the chain, so our baseball business, our apparel business. We stayed in better stock in footwear position. So our inventory levels were up, but that improved inventory position allowed us to capitalize on the more favorable warm weather trends, which helped us offset some of the lost cold-weather business. And it's also positioned us well going into Q1 from an inventory perspective.

Katharine Amanda McShane
Goldman Sachs Group Inc., Research Division

Okay. And then my follow-up question is just about SG&A leverage in 2020. Can you talk a little bit about where that's coming from? And I think in 2019, you did find some areas for cost savings. Are there any opportunities for cost savings in 2020? Or is that included in the guidance?

Lee J. Belitsky
Executive VP & CFO

Yes. There are a few big chunks in SG&A. One is we paid very -- we were planning to pay very significant incentive compensation in 2019. And for 2020, our plan is for a more normalized incentive compensation. So we've got a pickup there. We also have the kind of the valuation of deferred comp plans, that there's a significant run-up in the stock market this year that we had to revalue our deferred comp plans. That gets offset in other expenses, no impact on earnings, but we'll pick up leverage on the SG&A line there. I would say those are the 2 biggest pieces. We're also planning to continue with more meaningful expense savings in 2020 as well.

So we've got a lot of levers to pull. We've got structural advantages, I would say, on the incentive comp side as well.

Operator

Our next question comes from Simeon Gutman of Morgan Stanley.

Simeon Ari Gutman
Morgan Stanley, Research Division

My first question is on the top line guide, 0% to 2%, which seems prudent. And to clarify, it sounds like that's ex corona.

In other words, there's no demand impact into the 0% to 2%. And so my question is, in which -- in what scenario would you end up doing closer to the low end of that range given all the good things that are happening in the business today?

Lee J. Belitsky
Executive VP & CFO

So Simeon, we did bake in some demand reduction related to coronavirus, but it's really related to the supply chain that potentially we may not get some of the products that we have expected to get or we may not get them in a timely basis. So we did pull down the low end of our sales related to supply chain disruption. But we haven't pulled it down assuming that there'd be a widespread kind of demand disruption due to quarantines or isolation or whatever it may be in the U.S.

Simeon Ari Gutman
Morgan Stanley, Research Division

Got it. That's helpful. Have you quantified or can you quantify what you -- is it 50 bps of an impact? Is it 1 point?

Lee J. Belitsky
Executive VP & CFO

We haven't quantified it.

Simeon Ari Gutman
Morgan Stanley, Research Division

No worries, okay. My follow-up is, these investments that you're making to the stores and assortment, you're adding premium product, and I think the mix of private label is picking up slowly. So 2 questions to that. Is there a naturally higher rate -- run rate of gross margin? And is there some way to dimensionalize that? And then moving a little bit more to premium, you're seeing a good response. How do you feel about the balance of value and differentiation in the store?

Edward W. Stack
Chairman & CEO

We feel that we've got the right balance of between value and differentiated and premium product, which is the DSG brand that we introduced last year is that more intro opening price point product at a great value, great style, which, as Lauren indicated in her comments, has done great, will be our largest private brand after 1 year this year. And then with what we've got in the premium product, whether it's the premium baseball bats, premium baseball gloves, what we're doing from a soccer boot category, we think we've got the ability to service the beginner, intermediate and the enthusiast in these -- the sports that we're focused on.

Operator

Our next question comes from Adrienne Yih of Barclays.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

My first question is, at the beginning of the quarter, there was this notion that it would be a highly promotional quarter. I think the kind of midpoint of the guidance was on sort of a flat promotional environment to the prior year. So I guess I'm curious, outside of hunt, how did you manage your cold weather categories with the controlled promotional activity?

And then my second question is, on the supply chain, how much is direct sourced of your private label and then as an estimate, sort of on the brand side, sort of indirectly sourced from China?

Edward W. Stack
Chairman & CEO

I think one of the ways we're able to manage the promotional environment out there is that we really had differentiated product from many others in the marketplace between not only our private brands but whether that be some special makeups we got from the brands and how we assorted our business. We managed our inventory quite well there. We've been able to clear some of that merchandise out. We've also taken some go-forward product that we will have next year, some basic product, and we've packed that away so that we didn't go and promote that. We'll buy -- we're in the process of buying around that next year. So that helped the margin rates.

And as far as where our brands -- what the total amount of business that's sourced from the brands overseas, I don't really know. They're changing factories all the time and where they want their supply chain to come from. So I can't answer that question.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Okay. And then just a last follow-up. You talked about quarter-to-date trends or year-to-date trends, being pleased with those. Does that imply similar to the fourth quarter or higher than the current Q1 comp guidance? Any color there would be very helpful.

Lee J. Belitsky
Executive VP & CFO

I'd just like to stick with we're pleased with the results that we've got so far this quarter. And we're not seeing an impact really from the coronavirus.

Operator

Our next question comes from Chris Horvers of JPMorgan.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

So I wanted to follow up on the gross margin. If we assume hunt is 10% of sales, you're exiting that in half the stores, and then you had called out a 1,700 basis point gap versus the company average from a merch margin perspective. The quick math is just about a 70 basis point annualized benefit to merch margin for this change. Is this in the zip code? Or are there any assumptions that we're using here that are off base?

Lee J. Belitsky
Executive VP & CFO

So I think you could be heavy on the penetration on the hunt side there. That business has come down quite a bit over the last few years.

Edward W. Stack
Chairman & CEO

Right.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

Got it, okay. So I guess that understood, given that your private label continues to grow, the occupancy dollar savings have been really substantial, and you still have a lot of renewals coming up, and you have the DC, which should be relatively small to the annual picture, and then you do have the mix shift from hunt. How could gross margin be flat at the high end? What are you assuming are the offsets that would flatten this out for the year?

Lee J. Belitsky
Executive VP & CFO

So again, we've got to work through some of this hunt inventory that we've got in the 400 stores in the spring season. So we've got that in our -- we have that in our plans. We did take a charge for it, but the way that works, you only take a charge for the stuff that you sell below cost. But selling at depressed margin rates to move through it above cost, you can't take the charge for. So that's going to hit the P&L over the course of the first 6 months of the year. So that's a piece. And we -- and having these extra 2 facilities for the first 6 months of the year is a drag on us, will be a drag as well. And those are the 2 main pieces.

As we get through last fall, seasonally last fall, it wasn't particularly promotional for us. We even said Q3 was very lightly promotional, yes. And so we're not up. We're up against a relatively light promotional period in the back half of the year. And similarly, the last part is we've got a fair amount of CapEx coming. Most of that CapEx is attributable to stores. We're coming up in depreciation expense associated with that CapEx, whether it be around the golf business, the hunt business, CALIA and so on. Most of that depreciation expense falls into the gross margin line, and that'll hit more heavily in the back half of the year as well.

Operator

Our next question comes from Joe Feldman of Telsey Advisory Group.

Joseph Isaac Feldman
Telsey Advisory Group LLC

First, I wanted to ask, I think, Lauren, you talked about doing some work with the selling culture for 2020. And could you maybe talk a little bit more about that and what you're thinking to help improve the selling culture?

Lauren R. Hobart
President & Director

Yes. It's an effort that we did start about a year ago when we rolled out new service standards that really focused on engaging athletes and giving confidence for their purchases. And we also rolled out last year a recognition program that really focused on rewarding people for when they are delivering great service. And this year, we intend -- this is obviously a multiyear journey. We have a lot of opportunity still. So we intend to really redefine several aspects of our service model, specifically women's will be redefined. Golf will be redefined. We're elevating footwear. And we are working on training and hiring and coaching so that we just keep improving the momentum that we've seen in the stores.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Got it. And then just a follow-up. With such a strong fourth quarter and it seems like maybe with the warmer weather, you must get a jump on some of the spring sales. Is there a pull forward historically when you have this type of scenario? Or does the demand kind of sustain itself through the spring as kids are out playing baseball and softball and such?

Edward W. Stack
Chairman & CEO

It's hard to tell. We actually -- we're very pleased with the start of our year, as we indicated. We think some of that could be a pull forward. But that's kind of all baked into our guidance going forward. So we're pleased right now. We don't know what's going to happen with the coronavirus. But as of right now, we're pleased.

Operator

Our next question comes from Steve Forbes of Guggenheim Securities.

Steven Paul Forbes
Guggenheim Securities, LLC, Research Division

Maybe just continuing on the hunt-related, I guess, liquidation plan, right? Because it sounds like you plan on selling the inventory through the stores in the spring. So I don't know if you can either quantify or give us some color on the anticipated comp and gross margin impact in the first, second quarter and/or maybe if you just want to keep it high level, talk about the decision on why not use a third-party liquidator or accelerate the liquidation and move up the pace of the resets, right, as you sort of think about what you're seeing in the 135 stores that you've done so far.

Edward W. Stack
Chairman & CEO

This is a pretty quick move that we're doing this. You've got to sell the inventory down then you've got to reallocate the space. We think this is pretty quick. And to use a third party, I don't know why we'd use -- we've got some advice from a third party, but I don't know why we would use a third party when we can liquidate it at a higher price ourself. We're a pretty good retailer.

Steven Paul Forbes
Guggenheim Securities, LLC, Research Division

And then maybe just a follow-up on that, right? It's still early days maybe with us being able to fully appreciate, right, the return profile of this move, right, if you think about the space allocation changes. But any sort of comment on maybe the payback period of the space allocation changes and -- or the return profile associated with them?

Lee J. Belitsky
Executive VP & CFO

I think we're pleased with the results. We said we went through the peak hunt season in the fall with removing hunt from 125 stores. We comped positively in those stores. Margin rates were also better in those stores as well. And this is just a move that we're looking to make. I don't think it's 100% driven by the return on investment. From what we're putting in there, we want to go into categories that we're committed to that are growing. And the hunt business is a low-return business for us, and we're looking to move on from that.

Edward W. Stack
Chairman & CEO

The hunt business is the -- if you follow the story, the hunt business is the lowest -- probably the lowest-turning, lowest-margin category we have. As we started to go through this a couple of years ago and started to test this, we felt -- we knew that we could make a lot more money, turn the inventory faster at a higher margin than what we can do from a gun standpoint. I think we indicated that the hunt business was roughly 1,300 or 1,400 basis points below the company average, and it was 1,700 basis points below the company average. And we've indicated that the hunt business has been -- has declined significantly over the last couple of years. It declined significantly in the fourth quarter, and we still printed a 5.3% comp gain. So it's pretty clear that this is the right decision to make.

Operator

Our next question comes from Seth Sigman of Crédit Suisse.

Seth Ian Sigman
Crédit Suisse AG, Research Division

I want to first start with the supply chain risk that you highlighted potentially into the second quarter. I guess the low end of the comps range considers that. I realize you're not seeing it yet, but in that scenario, based on what you know about how the inventory flows and how the imports flow, would that impact be isolated to the second quarter? Or would you expect to see some lingering effect into the back half?

Lee J. Belitsky
Executive VP & CFO

So I mean we saw with our own private brands a slowdown in shipments in -- coming out of China in February. And we've seen that pick up pretty meaningfully here in early March. So we think that as we get to the latter part of April, some of the receipt levels will be down in our stores. We don't think it'll be significant, and that's in our private brands.

With regard to our national brands, we've heard from most of the major national brands that they don't see a significant impact, that there are some isolated impacts along the way, but they don't see significant impacts to their supply chains. So we think that there could be a little bit of an impact going into Q2 just because we have visibility to some slowdowns in shipments in February. But it seems that the -- our suppliers seem to be coming back online pretty quickly. And I would expect that with our brands, the suppliers are coming back online pretty quickly there as well. So I don't see a long-term impact in supply chain at this point.

So I think that's about all we can say. We're not hearing much from the brands that they -- we do not -- they're not indicating that there's a meaningful issue out there with their supply chains.

Seth Ian Sigman
Crédit Suisse AG, Research Division

Okay, okay. That's helpful. And then just back on the demand backdrop, obviously, you're pleased with what you're seeing so far in the year. You're not assuming there's going to be a demand issue. I guess the question is, if you look back to past case studies when there was some sort of level of uncertainty for the consumer like this, and maybe we've never really seen anything quite like this. But is there something that gives you confidence when you look back historically that, I guess, demand won't drop off at some point over the next couple of weeks or months just given the uncertainty that's out there?

Edward W. Stack
Chairman & CEO

We really have no -- like everyone else, we really have no idea. I don't think we've ever seen anything like this and -- in a very, very long time. So we're like everybody else, we're hoping for the best. But we know that it's very uncertain out there, and we can't predict what's going to happen.

Operator

Our next question comes from Warren Cheng of Evercore.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Your offerings at both the premium end and the value end of the spectrum have really gotten a lot better over the last couple of years. First, are these sales going to existing customers? Or are you seeing new customers come in as a result of the expanded offerings?

And then second, following up on Simeon's question, how much of a gross margin lift are you getting at the company level as you flip some of the prior Reebok apparel to DSG?

Lauren R. Hobart
President & Director

So on the first question regarding new or existing customers, a lot of our strategies actually are either bringing in new customers or adding an occasion to current customers. Both things are happening. In the case of some of the higher-end assortment, we think we're getting back customers that perhaps were going elsewhere. In the opening price point products, we did feel that there were gaps in our -- consumers were coming in and perhaps filling that need at other competitive channels. So it's really both, and it's been effective from both perspectives.

The second part of the question?

Lee J. Belitsky
Executive VP & CFO

Differentiation in margin rate between DSG and Reebok.

Edward W. Stack
Chairman & CEO

The DSG margin rate, we expect, will be a little bit better. We're putting a bit better quality in that product, but there's no royalty payment associated with it. So there's a bit of an offset there. And we've -- one of the reasons why we think this has done so well is we've built better product and taken some of that royalty payment and put it into the -- into a better product, into the marketing of it. So we couldn't be happier with how the team executed and brought to market the DSG brand.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

That's helpful. And my follow-up was just on -- a question on eCom. Can you talk about the trend you're seeing in basket online as you've improved your website and shipping speeds?

Lauren R. Hobart
President & Director

That is not a level of detail that we typically provide, but I can just tell you that the eCommerce channel is doing great across all metrics.

Operator

Our next question comes from Brian Nagel of Oppenheimer.

Brian William Nagel
Oppenheimer & Co. Inc., Research Division

So most of my questions have been asked but a couple, I guess, maybe just follow-ups. First, with regard to the weather in the fourth quarter, particularly the warmer temperatures, maybe on balance, was that -- do you think that was more of a positive or negative fourth quarter?

Edward W. Stack
Chairman & CEO

No.

Lauren R. Hobart
President & Director

No.

Edward W. Stack
Chairman & CEO

No, definitely not.

Brian William Nagel
Oppenheimer & Co. Inc., Research Division

It was not a positive. Okay, it was more of a negative.

Edward W. Stack
Chairman & CEO

Not a positive. It was more of a negative.

Brian William Nagel
Oppenheimer & Co. Inc., Research Division

No, it's good to hear that. And then the second question, and again, recognizing that the coronavirus crisis is extraordinarily fluid at this point, but there has been some talk about the crisis leading to the postponement or even -- I guess, postponement of the Olympics. To what extent -- and some of your vendor partners have talked about this as a potential disruption. To what extent, as you look through 2020, are the Olympics expected to be a driver of your business? Is there anything in your guidance? And how would you see any type of disruption in Olympics affecting your business?

Edward W. Stack
Chairman & CEO

There's nothing in our guidance about the Olympics. And the Olympics, surprisingly, it's not a big part of our business. There's some -- it's a little bit accretive. But if we have the Olympics or don't have the Olympics, you won't see it in our results. Actually, and I've talked about this before, the World Cup has more of an impact on our business than the Olympics does. If this was the World Cup year and we weren't having -- the World Cup was going to be canceled, that would be a bigger impact to our business than the Olympics.

Operator

Our next question comes from Scot Ciccarelli of RBC.

Scot Ciccarelli

RBC Capital Markets, Research Division

Scot Ciccarelli. So given the, let's call it, 22% increase in inventory kind of per square foot, how much do you feel you've benefited from -- on the top line from those higher inventory levels? And secondly or related to that, I guess, what categories is that extra inventory really concentrating at this point?

Edward W. Stack
Chairman & CEO

I think it had a significant impact on our sales. And it was focused in what we characterized as the attack categories going forward, which was athletic apparel, athletic footwear, baseball and golf.

Lee J. Belitsky
Executive VP & CFO

And due to the weather trends we had in Q4, those categories were favorably impacted, being in a better inventory position helped us in those.

Lauren R. Hobart
President & Director

Also helped us in the stock and just a better brand presentation in the stores.

Scot Ciccarelli
RBC Capital Markets, Research Division

Yes, that all makes sense. I guess what my question would be is, if you're expecting inventory levels to kind of moderate as we move through calendar 2020, what kind of negative impact could we potentially see? Because obviously, you had a big surge in inventory comp throughout the course of the year, and then as you guys just talked about, it obviously helps sales. But as that growth rate of the inventory starts to moderate, I guess I'm wondering, what kind of potential adverse impact could we see on sales as we move through 2020?

Edward W. Stack
Chairman & CEO

We don't see any real impact there. We think we got back to appropriate inventory levels. We were very clear last year and toward the end of the previous year that we let our inventories get too low. And we got ourselves back to the appropriate inventory levels where we could service the athlete, whether that was a baseball player, a softball player, golfer, runner. And we got back to appropriate levels to be able to service them.

So we don't see any meaningful difference in our -- from what we've done from a guidance standpoint based on moderating our inventory. We think it's appropriate to moderate our inventory from a cash position, inventory turnover, margin rates going forward. We're very pleased with what we did. We feel that we'll moderate these through the year, and it will have no impact on our sales.

Lee J. Belitsky
Executive VP & CFO

Right. We still see a lot of opportunities internally as we look at ways to make the inventory more productive. So even as the inventory levels off, we think we can continue to drive positive comps.

Operator

Our next question comes from Sam Poser of Susquehanna.

Frederick William Gaertner
Susquehanna Financial Group, LLLP, Research Division

This is Will on for Sam. Just a quick question on private brand, how much is that comp -- how much of that does it make up of your total revenue now, private brands business?

Lee J. Belitsky
Executive VP & CFO

Around 14%.

Frederick William Gaertner
Susquehanna Financial Group, LLLP, Research Division

And then switching topics, what does the tariff impact look like for FY '20 for you guys on gross margin?

Lee J. Belitsky
Executive VP & CFO

We've been able to kind of negotiate our way through a lot of these tariffs. And the overall tariff impact on us, on our cost has been pretty modest. And we don't see it having a meaningful impact on our gross margin rates for next year.

Frederick William Gaertner
Susquehanna Financial Group, LLLP, Research Division

Got you. And then last one. So how much -- I know you guys have talked a bunch about this. But how much of that inventory -- how much of your inventory now is comprised of hunt and cold weather?

Edward W. Stack
Chairman & CEO

Hunt and cold, I mean we've gotten to that granular disclosure. But I mean our hunt inventory has continued to come down every quarter for the last 8 quarters. Our hunt -- our outerwear, our cold-weather inventory is higher than it was last year because we decided to pack up a fair amount of the go-forward merchandise. So merchandise we're going to buy again, black gloves, black ski pants, certain jackets that are going to go forward that are not going to go out of style from a style standpoint or color standpoint, we pack those up, and we're buying around those next year. So some of our receipts will be down in those categories next year.

Operator

Our next question comes from Tom Nikic of Wells Fargo.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

So I wanted to ask, you're obviously pulling hunt out of the vast majority of your stores. And I think you said, by the time this is done, you'll only have hunt in about 12% of your stores. I'm just kind of curious, like what -- are those 12% of stores just places where hunt is so important like you have to keep it in there? Or why not just kind of exit the category completely?

Edward W. Stack
Chairman & CEO

Well, there are areas -- there are stores in more rural areas where hunting is an important part of people's lives to feed themselves, if you will. It's -- they hunt not just for sport, but they hunt to actually feed their families. And as we've taken a look at that and we think that that's important to continue to provide that, and it is going to be just primarily hunting product is all that we're going to be carrying there.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

Understood. And Lee, a quick question for you. The CapEx is moving up this year higher than what you've seen in the last couple of years. Is this kind of a sort of onetime investment year? Or would you say that this $330 million to $390 million on a gross basis is kind of the -- a normalized CapEx rate?

Lee J. Belitsky
Executive VP & CFO

We're -- we have an elevated level of investment in our stores this year. And in the stores, we're investing in our golf departments, our women's business, transitioning our hunt department. So I'd expect that this year's level of investment in stores is higher than what we'll have going forward. And we don't see at this point, looking out into the next couple of years, any significant needs for fulfillment operations in the next couple of years. So I would expect this year to be elevated somewhat over what we've got for the next year or 2 after that.

Operator

Our next question comes from Paul Lejuez of Citi Research.

Paul Lawrence Lejuez
Citigroup Inc, Research Division

Curious if you could share the percent of sales that hunt represents in the 440 additional stores where you'll be removing that category. And how does that compare to what hunt represented as a percent of sales in the original group of stores where the categories were already removed?

Edward W. Stack
Chairman & CEO

We're not going to get to that level of granularity, as we indicated earlier. But I can tell you that it is meaningfully less than it was a year ago, which was meaningfully less than it was the year before. So this is getting to be a much smaller part of our overall mix. And as we indicated in all the stores that we've taken out, they've continued to comp positively.

Paul Lawrence Lejuez
Citigroup Inc, Research Division

Got it. And then just given your confidence in your ability to replace those sales with new categories, do you actually view removing hunt as a headwind to comps? Is it neutral? Is it a tailwind? Any quantification you can provide there?

Lee J. Belitsky
Executive VP & CFO

Yes. I would say, for this year, it's a slight headwind to comps. However, from an earnings perspective, we think we can -- we believe that we can cover the majority of that or nearly all of it. The issue is timing in that we're going through the transition in spring when the hunt is -- hunt business is low, and then the transition will happen in the fall where hunt is high. So there's a little bit of an impact on earnings and sales for this year, which are both embedded within our guidance.

Edward W. Stack
Chairman & CEO

But if you take a full year when we're done with all of this, it would be accretive to earnings as we go forward.

Paul Lawrence Lejuez
Citigroup Inc, Research Division

So are you able to make up for the gross profit dollars completely, right? If it's a little bit of a headwind on comps and you're replacing with higher-margin categories or gross profit dollars, is it actually higher by the time you're through with this?

Lee J. Belitsky
Executive VP & CFO

Yes. Not for this year, but going forward, yes, we believe we can do that.

Edward W. Stack
Chairman & CEO

Because we have to clean up this inventory this year.

Operator

Our next question comes from Peter Benedict of Baird.

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

Just a couple. Firstly, just trying to understand kind of the outlook for D&A growth as you think about 2020. I think last year was probably up around 5% if you adjust for charges and whatnot. Just trying to see, with the stepped-up Capex, how fast do you think D&A is going to grow in 2020? And kind of similar question on the occupancy, which was down almost 2%, I guess, in the fourth quarter, is that a good run rate as we think about 2020? That's my first question.

Lee J. Belitsky
Executive VP & CFO

Yes. I'd say D&A, probably a slightly faster growth rate in D&A. And occupancy, I think you'll see similar trends to what you saw -- to what we've had this year.

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

Okay. Perfect. And then I think there was a comment that there were more items that were going to get added to the BOPIS assortment in 2020. Can you give us a sense for maybe orders of magnitude? How much will be available in BOPIS this time a year from now versus today? And then maybe what categories are getting added there?

Lauren R. Hobart

President & Director

We're not going to provide that level of detail, but we are focused on expanding our assortment for BOPIS. And some of these inventory investments will actually help with that as we have more confidence that the product is actually in the store and we can light these things up online for people to pick up that day. And we've expanded to Galaxy, and we just are putting a huge focus behind buy-online, pick-up in-store in general. But we're not going to share the category levels or the growth rates.

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

Okay. Fair enough. And then just last question. Just on the golf business, I know a few years ago, there was an investment that was kind of pulled out of the golf business. It sounds like there's a little bit more that's going to be put back in. So just maybe, Ed, talk to us about kind of your thoughts around golf and what you hope to capitalize on here over the next couple of years.

Edward W. Stack
Chairman & CEO

Well, as the golf category has consolidated over the last couple of years, we've seen the golf business accelerate. We're pleased with the golf business. We think there's an opportunity there. We think the smaller independent golf operators are going to continue to have a difficult time and struggle, so there's an opportunity for market share. We see that golf, we think, is in a really good place right now with the guys on tour. We think that the brands have brought terrific product cycles to the market right now. And with -- the majority of these investments that we're going to be making are going to be in our specialty channel of Golf Galaxy, which we're very pleased with the results we've been getting out of Golf Galaxy over the last 18 to 24 months as the golf category consolidated.

Operator

Our next question comes from Michael Baker of Nomura.

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

Two, please. Two questions. One, can you give us the relative size and opportunity of golf and soccer versus baseball? I know baseball is very high. I know from personal experience, it's very high ticket for those bats. I don't think there's anything quite like that in soccer, but perhaps golf, there is. So the relative opportunity to replicate what you did in baseball in those two categories. And then a quick one at the end, any impact from the Patriots not winning the Super Bowl, i.e., the Chiefs winning the Super Bowl?

Edward W. Stack
Chairman & CEO

No, I don't even know if I'm going to answer the second question. But from the -- soccer is not as big as baseball, although there are some big-ticket items in soccer that -- the boots can get very expensive. We've brought in some of the $250, $275 soccer boots that are doing very well. So soccer is not as big as baseball. Golf is bigger than baseball.

And if your question was serious about the Patriots and the Chiefs...

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

A little bit because I know there's some exposure...

Lee J. Belitsky
Executive VP & CFO

Okay, because we're New England fans, as you know.

Edward W. Stack
Chairman & CEO

Yes. We were very pleased to have a new winner of the Super Bowl and provide -- to provide Super Bowl merchandise to a market that hasn't had it in 50 years, and Kansas City supported it very well. They were really excited that they won, and we were pleased with the results.

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

And that would be a first quarter event, right, because those sales would come after the close of the fourth quarter?

Edward W. Stack
Chairman & CEO

Well, first -- but then leading up to it, it was part in the fourth quarter leading up to the Super Bowl, the presales before the game.

Lauren R. Hobart
President & Director

Yes. It wasn't meaningful to the entire quarter comp and won't be.

Operator

Our next question comes from Chris Svezia of Wedbush.

Christopher Svezia
Wedbush Securities Inc., Research Division

Congrats on the comp. I guess, first, just on comp guidance for a moment, flat to up 2%. Your comments about Q1, you're kind of pleased with how it's running. Would assume obviously reasonably positive. I guess what I'm curious about, if you point to the back half of the year, you do have some of your more difficult comps that we've seen in some time. So I guess what's your confidence level or how are you thinking about that comp trajectory as you go into the back half of the year? Are there enough sort of product drivers, initiatives to still drive positive comp in the back half? Or are you thinking, well, sort of flattish given some of the unknowns? Just curious how you're thinking about that.

Edward W. Stack
Chairman & CEO

We haven't -- we're not giving quarterly guidance. But I think at least where the first half is going to be -- we're not going to tell you anything you don't already know. The first half is going to be easier than the second half, but I -- so I'm not going to go out and say that we're going to have comps in every quarter, but we're very confident with our overall guidance.

Christopher Svezia

Wedbush Securities Inc., Research Division

Okay. I guess, follow-up on all this. Just on the SG&A side for a moment, I know that you mentioned that there is some material offset from incentive comp, et cetera. Where are you making investments still in the business, whether in store and labor? Or you've walked through eCommerce. You've made investments there. You've made investments in fulfillment. Just what are the investment areas on the SG&A side for this year? How should we think about that?

Lee J. Belitsky
Executive VP & CFO

Well, we're continuing to invest in store labor. We are maintaining hours notwithstanding the fact that there's some pretty meaningful wage rate inflation in the stores, which we expect to continue into this year. But we're really working hard to maintain that service experience that we have in the stores. Right now, we're continuing to invest in technology. As we've transformed to the agile development methodology that we've got, we've built up our product teams, and we're moving quickly to further develop our eCommerce business and our in-store experiences from a technology perspective. So there's significant investments coming on in those two areas.

But we do have the tailwind coming from incentive comp to offset it, from deferred comp plans offsetting that as well. So we still feel good about being able to leverage SG&A expense this year.

Christopher Svezia
Wedbush Securities Inc., Research Division

Okay. Final thing just for me. Just, Ed, just go back to my first question, I guess, let me ask it this way. What are you most encouraged, excited about, whether it's in footwear, apparel, hardlines, as you think about the balance of the year? I know you got private-label initiative. I know you have women's. Just where do you feel like there's the biggest opportunity to support comp growth as you move through the year in some of those major categories?

Edward W. Stack
Chairman & CEO

We think baseball can still comp. We're excited about continuing to grow our baseball business. We're very excited about what we're doing from a soccer standpoint. We're positive on the athletic apparel piece, athletic footwear. We're -- ex what's happening in the world today, we're pretty positive about our business across virtually all categories with the exception of the hunt business that we are exiting. But other than that, we're pretty positive across hardlines, apparel and footwear in our business right now.

Operator

Our next question comes from Carson Barnes of Consumer Edge.

Carson Barnes
Consumer Edge Research, LLC

I have two, both related to hunt. First, it sounds like the decision to remove hunt was largely margin-related. But can you give any more detail on other data that drove the decision in terms of customer preferences or opportunities in existing categories or new categories?

And then second, with the Field & Stream brand continuing to be a strong brand for you, is that largely a function of fishing and other categories outside of hunt? Or will you be continuing to carry some hunting clothing and footwear in the stores, just not firearms?

Edward W. Stack
Chairman & CEO

In the stores where we're exiting the hunt business, we'll be exiting the hunt apparel also. As far as category -- repeat the first question, please.

Carson Barnes
Consumer Edge Research, LLC

Sure. Just curious if there was any additional data other than kind of the margin-related data that gave you -- that drove the decision to exit hunt. Any new categories or -- that you'll be looking at?

Edward W. Stack
Chairman & CEO

It's just not margin category. The demand for other categories, as we looked through this, was very high. So the demand of what we could do in the baseball business, what we can do in the soccer business, we'll take a look next year at what the next sport is that we're going to take a look at, probably going to be lacrosse. That there's a big demand for product that we aren't able to service these athletes with the space allocated to the hunt area. And we just -- we took a look at this, there is a sales upside, we believe, and we think there's a margin rate upside to these other categories. And they're growing where the hunt business is not growing.

Operator

Our next question comes from Matt McClintock of Raymond James.

Matthew J. McClintock
Raymond James & Associates, Inc., Research Division

Just one clarification question, Ed. I think you said rightfully so that you can't keep track of where your manufacturers or your vendors are manufacturing the product. But for DSG, did you actually talk about where DSG is being manufactured?

Edward W. Stack
Chairman & CEO

We've got different places that DSG is being manufactured, different places that other private brands are being manufactured. We're more tied to China on the hardlines than we are on the softlines. But as Lee said, seeing some factories that were running behind, they're getting up to capacity right now. This is a fluid situation. We look at it virtually every single day. But we're -- from a supply chain standpoint, we're confident in the guidance that we provided.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ed Stack for any closing remarks.

Edward W. Stack
Chairman & CEO

I'd like to thank everyone for joining us on our fourth quarter call, and we look forward to talking to you again in May when we announce our first quarter results. Thank you.

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