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MANAGEMENT DISCUSSION SECTION

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

All right, guys. Good morning and thanks for joining us here. I'm Steve Tanal, the grocery, convenience and hardlines retail analyst for Goldman. And this morning, it's my distinct pleasure to have us DICK'S Sporting Goods for a fireside chat.

Joining us from the company is Ed Stack, CEO, and Lee Belitsky to his left, the CFO of the company. Ed's been with DICK'S for over 30 years and – well, actually, he's been CEO for over 30 years and he's been with the company for 40. He essentially built DICK'S Sporting Goods. And Lee joined DICK'S 20 years ago and he's held a number of roles across strategy, store ops, supply chain, finance and more. He was appointed as CFO last year.

In terms of format, I'm going to let Ed open it up with some introductory remarks. And then we'll jump into some of my questions and hopefully leave some time as well for Q&A toward the end here. And there should be roving mics. If you wouldn't mind just waiting for one of those to pose your question when asking, that would be great. With that, Ed, please.

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

Thanks, Steve, and thanks for everyone coming to take an interest in DICK'S Sporting Goods today. I want to make a couple of quick brief remarks and then we'll open it up for questions.

Before we get started, I just want to note the Safe Harbor statements on the slide behind me and also on the webcast. So a quick review of Q2 in the environment that we're in today in this industry.

In Q2, our total sales increased 9.6% to approximately $2.2 billion. Consolidated same-store sales were positive, although very slightly, at 0.1%. Our eCommerce business grew 19% and our non-GAAP earnings per diluted share were $0.96, which represented a 17% increase over the same period last year.

In Q2, we delivered relatively strong results despite the challenging environment. And the 2Q results compared to the industry demonstrates that we're a leader in the industry and we are clearly picking up market share although in a difficult environment.

We'll continue to make the investments necessary for the long-term benefit of the company and for our shareholders. These investments will include our digital business and the consumer experience, our private brands, which provide differentiation in the marketplace, which is very much needed today, our Team Sports HQ initiative and leveraging our stores to provide the consumers the best experience in the industry.

We're clearly taking share in this environment and will continue to be aggressive in both our pricing and marketing in this environment. I'd like to also indicate we feel we've got the financial strength to lead and thrive in this difficult environment while we continue to make the investments in the long-term initiatives that we believe will ensure our future success.

So after those quick remarks, we'll open it up to any questions you might have. Thank you.

QUESTION AND ANSWER SECTION

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC
Q

All right. Thank you, Ed. So you started talking about kind of the recent results a little bit. So why don't we sort of jump in right there. And I guess the first question I'd ask – it feels to us as though you've made a very conscious decision to turn up the heat on the competitive environment in the back half. Playing offense really is how I interpret what you guys are saying. Now, is that a fair way to frame it? And if it is, why are you doing it?

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

Well, I'd like to think that we are always playing offense. And with what's going on in the environment today, we felt that we needed to do this. There is a lot of promotion out in the marketplace not only from our direct competitors but also from the brands out there. Price transparency is here to stay. And we felt that we really need to be competitively priced in the marketplace. We think that there is going to be continued consolidation in this industry. And we feel that we really want to make sure that we maintain our market share. And with the financial strength that we have with our balance sheet and earnings, we felt that it was really the right thing to do long-term for the business.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC
Q

Got it. And are there regional differences in the competitive intensity that are worth noting?

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

Yeah. Kind of in the southern part of the country, it's a bit more competitive with a direct competitor. They've been very competitive from a pricing standpoint. We've been very competitive from a pricing standpoint. And I don't see that ending anytime soon.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC
Q

Got it, perfect. Now I guess if we think about the guidance and how you guys framed the numbers, it seems as though you're not really saying margins will necessarily recover. Is that accurate? Is that the view? And is there an element of the merchandise margin cuts in the back half that you'd expect to get back once you start to lap this?

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

A

Yeah, I think that – so when I said that this is the new normal for a while, I think that – and I don't know how long this promotional environment is going to last. There's inventory in the marketplace that needs to be cleaned up. That's going to come through promotion and broader distribution. There's a bit of a lack of innovation in the marketplace today. And I think this is going to last for a while. I do think it will recover at some point. But when that is, I don't have direct visibility to that.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Understood. Now, how are the vendors reacting to the current state of affairs in retail? Do you expect any help? If so, in what form should you get it?

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

A

Well, we have a great relationship with our vendors and we do expect some help. The vendors continue to invest in our business not only from a physical standpoint but from a marketing standpoint. We're talking about how we can do a better job with exclusive products and marketing those exclusive products and really differentiating in the marketplace and doing a better job segmenting different products. So we do expect to partner with the brands, we always have. They look at us as one of the retailers that they see – one of the partners that they see really driving their business into the future. And they continue to invest in us and we in them.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. It's great. Now you made a comment on the last call about MAP pricing. And I always kind of knew it wasn't that effective. But I didn't quite realize how ineffective it really was. Now how would you like to see MAP pricing improve? Do you have any hope that it actually becomes more meaningful?

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

A

That's a loaded question. I think MAP pricing is an interesting idea. I don't think it's really effective. But how the industry should be priced and how brands should go about that, this is probably not an appropriate forum to get too deep into that.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Fair enough, okay. So why don't we pull it back up high level and sort of talk strategy for a minute. Now how would you describe the strategy you guys are executing against today and why do you think it's the right one?

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

A

Our strategy is to continue to lead the industry both from a – in an omni-channel world. So we think that our stores are an important part of our omni-channel strategy. We think we're making the right investments from an online standpoint. And blending those two are really important. And I think we're doing a really pretty good job in a very difficult environment. As we go forward, we want to continue to lead this industry. We think that we're going to work with the brands to try to elevate product and bring some pricing stability and predictability back into the market that just isn't there today. But as we get through the lumps of inventory in the system, I think it will change. It's not a lot different than a few years ago in the golf business.

So I'm going to say it was probably three years ago, maybe four years ago at a conference very similar to this, there was a lot of conversations around the golf business, what's going to happen in the golf business. The golf business is very difficult. There's margin compression in the golf business. There is price deflation in the golf business. There was just a lot of inventory in the pipeline. That inventory has been cleaned out of the pipeline. There has been consolidation in the industry. And the golf business right now is really very good. There is pricing stability in the golf business. The margins are up. And I suspect the athletic and footwear aspect of our business, which is our biggest part of our business, the same thing will happen. But it's going to take a little while to get through the pipeline the same way as it did with the golf area.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Understood. Now thinking about the store and what's happening within it, are there brands or categories that you would say are underpenetrated at DICK'S relative to the market broadly that maybe offer opportunity here? How do you think about that?

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

A

Well, I think that there's a couple of them. And one of the places that we're really continuing to invest very heavily is our own product development and our brands. We've got a number of brands that have been doing very well. Although our second quarter comps were relatively flat, our private brand comps were up mid single digits. Our margin rates have expanded with those. CALIA, which is a women's athletic brand that we've had for now three – developed and have had in the store for three years, is now the third largest women's athletic brand in the company. We've just launched Second Skin. We've had great luck in golf with the golf ball assortment that we have with Top-Flite, MAXFLI and Slazenger that we own. So we really think that our private brand is really underpenetrated and can help bring back some of that – recapture some of the margin pressure that we're feeling from the industry.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

It's great. And thinking through private label, you guys have obviously done a number of successful things there and rolling out more now. What makes a category good for private label? How are you spotting opportunities?

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

A

We're taking a look at opportunities where there is either some holes. We're also taking a look at – if you remember, we segmented our brands into three different categories. A strategic vendor which we'd have one or two per category. Transactional vendors that we're going to do some business with them. They're going to do business, but we're not going to really invest in their brand. They probably won't invest in our brand. And the third segment was we eliminated them. So we talked about eliminating 20% of our vendor base. We're well on the way to do that. That creates some opportunity for us to add our private brands there. And also, with some of the transactional brands that we've had, we've narrowed the scope of products that we carry for them where we think that there is not a real following for those brands and we can put in our private brands at a higher margin rate.

We also think that there are some areas where there is an opportunity to go and make a significant play for market share. The women's CALIA business was great. Women were looking for something different out there in the marketplace. We partnered with Carrie Underwood who has done a great job, has been a great ambassador and a great partner with us. And that business is now our third largest branded women's athletic footwear. Our golf ball business. We're one of the two largest golf ball manufacturers. We're doing it ourselves. So there is a lot of opportunity for private brand that we're just starting to scratch the surface.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Interesting. When you say scratch the surface, I think you're on track to pass $1 billion this year. Pretty big business now. I guess from our perspective, there's only so many ways to track things. But how big do you envision that figure getting over time or maybe as a percent of the business?

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

A

We think that over the next number of years, say, over the next five years or so, we think that that business could close to double.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Awesome, okay. And of course, the logical question after that and maybe this is a bit bigger picture, obviously, a lot more involved. But how do you think about operating margins for the business long term? And clearly, that's going to be a pretty powerful driver. Any color you can give on kind of the level, the direction would be helpful.

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

A

I think that this is going to continue to be under pressure based on what's going on in the environment today. From a pricing standpoint, the consumer experience today, the price transparency that's out there today; that's going to continue to be difficult. We think over the next couple of years, we think we'll recapture some of that between what we can do from a private brands standpoint, what we can do with exclusives and segmented product with the brands. But we think it's going to continue to be somewhat difficult in this environment today.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And clearly online is becoming a much bigger piece of the pie for you guys. It's been a great story. I'd be curious to know where our operating margin today, how does that compare to the stores? Are you yet at parity? I know you were thinking about getting there pretty soon once you in-source the business. And if you're not or if you are, what are you doing to really bridge the gap at this point?

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

A

Well, we're not there yet. We think that we can be there in a short period of time. But we're much closer than we were. The benefits that we anticipated that we would get from in-sourcing this and not having the relationship we had with Radial and doing this all ourselves, we've realized that. But it's still not quite at parity yet. We didn't expect it to be at parity yet. We think that it will be in the next couple of years.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Next couple of years. And what will it take, right? Because you've in-sourced eCommerce. But what's like the next increment? How should we think about that moving in the right direction?

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

A

So scale. So one of the things with the previous deal that we had with Radial, who were great partners and really helped us get to where we are from – helped our online business significantly. But we were on a cost standpoint where we couldn't scale anything. Everything was a percent of sales. It was a deal that was done a long time ago. And now, as we develop our own business, we can scale and leverage those expenses, which we weren't able to do in the previous deal.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Understood. And so one of the themes about retailing online seems to be customer acquisition costs rising. Are you guys seeing that? Is that part of the equation as you think about it?

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

A

Well, we continue to add customers. What's important is we've got to continue to keep those customers. And it's a difficult environment out there. And our main competitor online, Amazon, provides a great consumer experience. And we provide a pretty good one. We need to do a better job in providing a better consumer experience than today based on what's going on out there in the marketplace. And to do that, there is going to be an impact which you're seeing from an earnings standpoint. But we think these are the investments to make long term even if they have short-term ramifications.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And clearly, you have some big vendors in your mix. How restrictive have they been in allowing you to sell certain products online? Does that differ by category? Do you expect it to change?

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

A

It does differ by category. It's becoming less and less. And we don't have a significant issue with what products we can sell online or what we can't.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Understood. Got it, okay. Now, just to round this out. So you've had a number of specialty concept stores that have cropped up over the last few years. And I think at this point, you recently closed one. And I guess the question is, is DICK'S strictly committed to the three main banners at this point or could we see more concepts to come?

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

A

No, we're committed to the three banners we have today, DICK'S, Field & Stream and Golf Galaxy. The specialty banners that you refer to, we had talked – when we originally did those, we talked about – that these were merely labs. We did a couple of True Runner stores. We did a couple of Chelsea Collective stores. And these were merely labs to understand the specialty aspect of that business. We learned what we needed to learn from those. Our running business from what we learned from the True Runner standpoint helped significantly not only from the assortment of shoes but also the accessories which are high-margin products that we carry. We learned an awful lot about the women's business from the Chelsea Collective, which was really helpful and a genesis of what we were confident that we could do from a CALIA standpoint. So these were merely labs. Now, if we had kind of struck gold and it was great and we rolled them out, that might have been terrific. But the idea was never to roll these out. These were strictly labs that we would do for a couple of years. The Chelsea Collective leases that we signed were only two-year leases. So this was always the plan of how we were going to do this.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And is there still potential for more of those kinds of tests there?

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

A

As of right now, I don't think so. I think we know what we need to know. And in this environment, we're really focused on only four things. We're focused on DICK'S. We're focused on Field & Stream, Golf Galaxy and developing that whole omni-channel experience to be the best in our industry.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay, that's helpful. Now, obviously, vendors selling direct has been one of the issues facing the industry. Now, how do you think about the ability of DICK'S to compete with those websites over time? What are the key attributes that differentiate dicks.com?

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

A

Well, one of the things that we – so the vendors going direct, we're – quite frankly, as you would expect, we're not terribly happy with that. But they're not happy with what we're doing from a private brands standpoint either. So there is a bit of a quid pro quo there. But as we take a look at how we compete with brands and try to partner with the brands from an online standpoint, one of the biggest differentiators that we have is we have the ability for someone to shop all brands on one site, which – if you go to one brand, you can only buy that brand or another brand, you can only buy that specific brand.

And right now, today, the consumer buys cross-functionally across brands. So someone may have a particular pair of running shoes that they wear. But they would like a different pair of shorts or shirt or leggings or a particular baseball cleat. But then they also need a baseball glove and a bat from different vendors. So they shop across the vendors today. And we have the ability to consolidate and be the one-stop shop online for all of these brands. And the consumer can easily go back and forth between brands on our site and shop. And we've seen that to be pretty successful.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Got it, okay. Now, as you talk about some of the near-term pressures and the issues facing the industry, I think the way out in theory is consolidation. And we just had a bit of that. And I guess as you think about it, what do you expect to see play out from a consolidation perspective in the industry and over what period of time?

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

A

So what period of time, I don't know. But I think there will continue to be consolidation in the industry. The consolidation in the industry will come from a couple of different ways. Consolidation will come not only from companies going out of business, which we've already started to see between Gander Mountain, Sports Authority, Sport Chalet, City Sports. Consolidation will also come from a reduction of store footprint, people closing stores. And we've already heard of a number of retailers that are closing stores. That's all part of the consolidation process. And consolidation will also come from a different angle where people are not going to be opening up stores. So the competitive pressure on us going forward with competitors intruding into the markets that we have is going to become significantly less as we go forward. So this is a very difficult environment we're in. But we really like the position we're in in this industry. It's painful. It's difficult. It's not comfortable. But as we take a look at the position that we're in in this industry and where we are going forward, we love the position we're in in this industry as we look out over the next couple of years.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

That's great. And so as you think about that position, is M&A going to be at all relevant going forward as things are consolidating or do you expect your growth to come organically in the middle of this?

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

A

From time to time, we'll look at different opportunities out there in the marketplace. But for right now, based on the environment that we see out there today, we'll be an organic grower.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Okay, awesome. And so, obviously, this year with Sports Authority gone, it seemed like it would have been a solid year for you guys. And I guess, clearly, things were a little different with the department stores sort of pushing in. Now, why is next time different or do you expect it not to be different? Is there anything that you think different players had maybe learned or like how will that play out?

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

A

When you say next time, what do you mean?

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Well, as the industry continues to consolidate, right, or maybe other categories of retail potentially moved online faster, need to go into a healthier category. Athletic is still, on a relative basis, one of the stronger ones. Do you see that equation being different going forward given what we've just been through or what we're seeing now?

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

A

I think as I said, I like the position we're in in this industry. And I think it's going to consolidate in this whole term athleisure. I think it's going to be different. I think the growth on athleisure is going to be less or maybe even consolidate a bit going forward. But in the long term, I actually think that that's good for us because some of the people that have gone into this business are going to scale it back going forward. And that market share will be with us and continue to be with us at different margin rates than we have today. So I think that we like the position we're in. We're not looking to modify significantly the products that we carry. We'll always look for new brands to carry. We'll certainly be very aggressive on what we're doing from our own private brands standpoint. But we like the position we're in and we're confident of the success going forward.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Okay, all right. Now, I guess one of the topics that we're talking about a little more is sort of the future of the store or what the store looks like. Can you give us a flavor for any changes that you see coming for how the stores look and feel?

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

A

We're taking a look at, in our stores, what we can do better to showcase our private brands. There are some other brands that are very hot right now. We're looking at ways that we're going to be showcasing those brands in a more pronounced light than we have in the past. And they deserve it based on what they're doing in the marketplace. We're looking to take ways that we can be a bit more flexible in our store and move products around seasonally or categorically depending on what's going on in the marketplace. So we're taking a look inside our store to say, okay, what are some of the things that have worked in the past that may not be working as well right now. And we're not married to any particular idea out there in the stores. We've got a blank sheet of paper and are looking at some things that we can do that will enhance the consumer experience.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Got it. More to come, okay. Now, the vendor initiatives is a big program that you guys were discussing this year. And I wonder if you couldn't touch on maybe the benefits of that. Clearly, there is probably some flowing through the merch line or maybe still to come, probably also on the expense side as you streamline some of the operations around that. Any color you can share on those two drivers? Which one's bigger? Has this really started to flow through the P&L? Any update in general?

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

A

So it's starting to now. We've seen some real benefits of this. When we looked to consolidate our vendor base and segment the vendors into these three buckets, two of which we would continue to do business with; it's been very successful. We've been able to really partner with our strategic partners to bring clearer differentiation in the marketplace. A perfect example is how brands wanted to partner with us. Perfect example is Callaway, a business that's really hot right now. The golf business is really very good. Callaway is a very hot brand right now. And they partnered with us to develop their Truvis golf ball, their Chrome Soft golf ball. Truvis ball, if you've seen it, is the soccer ball out there, which has gotten really very popular. They wanted to come and partner with us on our Sports Matter foundation which is extremely important to us to try to help kids – fund teams that kids would not be able to play sports because of funding issues. And we've saved right now, probably over the last [ph] 18 months (24:51), 2,500 probably moving into 3,000 teams that are still playing sports through our foundation that they may not have been able to do.

Callaway came to us and said we'd like to make a Truvis golf ball with you guys that's green and white and the DICK'S brand under the Sports Matter foundation. And for every dozen that gets sold, $2 will be donated to the foundation. And right now, it's our best-selling Callaway golf ball and they're premium golf balls. So brands are really trying to get behind us to help us not only from a sales standpoint, help with the foundation and what's important to us and help from a margin rate standpoint. So we're starting to see the benefits of this. I think we're going to see a lot more of that going forward. But the brands that we picked or we partnered with as our strategic partner truly are that. They are strategic partners that we're investing in and they're investing in us.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Okay, it's helpful. Any questions out in the audience? We've got one in the back over there. Get them the mic.

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

A

We have a question?

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. He's getting the mic over there. Right over there.

Q

Thank you. Ed, as a 20-year student of the retail industry and formerly a top 10 shareholder of your stock and a top 10 shareholder of Best Buy, I see an interesting parallel with the recovery in Best Buy to your current situation right now and your industry's state. What have you learned from studying the recovery in Best Buy and to these strategies and tactics to bring his stock from $15 to $55?

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

A

Yeah. Well, first of all, I'd like to say we hope you'll be a top 10 shareholder again soon. Second of all, we really think that there's a lot of similarities between us and Best Buy. So if you look at Best Buy – I don't know, time goes by quickly – five years ago; Best Buy was left for dead. They didn't think Best Buy was – Best Buy wasn't going to survive. But I was watching CNBC the other day and the question was who do you think has best Amazon-proofed their business. And the answer from the panel was Best Buy.

As we've taken a look at what Best Buy did, they really became very maniacally focused on the consumer experience, provided the consumer a great experience, provided them the confidence that they're buying a product from Best Buy at the right price in the marketplace. They became very transparent from a price standpoint. And they made sure that they were maniacally focused on that consumer experience. We're doing something very similar. And the whole idea of being more promotional is to make sure that the consumer knows that they're buying at the right price. A number of years ago, seven, eight, nine years ago, nobody had a smartphone in their hand. And now that that's there, everybody knows that price transparency is so easy to find.

So I think Best Buy did all of the right things. We're looking at what they've done and we think we're on a very similar path to what Best Buy did. And they did a great job.

Q

Sure. Congratulations on all four key cornerstones of your business and your great success. Going forward, do you see an opportunity to increase sales and market share even more than you already have given that the MVRs or the mass merchants like Target intermurally and extramurally have impaired their hardlines and softlines business that overlaps with you by outsourcing externally and cutting resources internally. And then as you see moderate and mid-tier department stores contracting and largely collapsing and they overlap in certain hardlines and softlines categories with you. As that [indiscernible] (29:00) comes to a head in 2018 and 2019, do you see an opportunity to expand and extend your position both on land and omni-channel as well?

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

A

Yeah, we do. That's one of the lines of sight that we have that what's going to continue to consolidate in the marketplace, we think that some of the people who've been in this business are going to exit or scale it back. We're already starting to see that. And we've taken a look with our vendors. And our vendors really want to continue to invest with us. And if you read some of their reports, they talk about the fact that they feel that their wholesale business is going to increase. We're one of the few retailers that they're really investing in. And as we continue to look at different ways to segment and to market the business and clearly differentiate in the marketplace between the products that they sell to us and the products that they sell through the mass guys or the discount department stores, I think it bodes really well for us. So yeah, we do see a bright future ahead. But it is going to be turbulent for the next – some period of time.

Q

As you think about the configuration of your store and the ability to drive traffic, as it relates to the power aisle in the center of the store; does it make sense to rethink the brands that you have there in order to differentiate yourself from some of the competitors?

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

A

That's a very good point and we're already doing that. So you will see in a number of stores some tests and some things that we're doing different in the power aisle. We already did that this year. You'll see in a number of stores, we put CALIA in the power aisle, which hadn't been there in the past. And the success was terrific to the point where we're actually going to – we're going to increase the space for CALIA by roughly 50% going forward. But there'll be some other brands that you'll see in the power aisle, an expanded presence and a new presence that we haven't had in the past. Any other questions?

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Okay. So we've got a few questions that we're asking of all companies today as well. First one general, sort of. What are your expectations of the environment in the back half of the year relative to your second quarter, better, same or worse?

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

We think it's going to continue to be – it's going to be difficult. Now, there is going to be price pressure, a number of these retailers that are having a difficult time. We've seen this play out before in this industry or other industries. Price gets to be the last line of defense. And there is going to continue to be some price pressure in the back half of the year. I suspect, as I said earlier, it'll go into next year. But I think it's going to – it's not going to be better.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC
Q

Understood. All else equal, as your eCommerce sales mix increases; is that margin accretive, margin dilutive or margin neutral? I know you addressed that a little bit earlier. So how do you see that changing maybe or how would you approach that question?

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

Well, it's dilutive today. We think it will be the same or accretive going forward. But it's going to take a little bit of time. But we're happy with what's going on with our eCommerce business. It's profitable for us right now. It's dilutive today, but it'll be on par or accretive going forward.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC
Q

Understood. And the last one of these. Which is growing faster today, buy online pick up in store or home delivery? And which do you expect will be a bigger part of the online business long term?

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

Well, on a percentage basis, what's growing faster is buy online pick up in store. But it's off a relatively small base. And I think both of them are going to be really important. It's going to depend on what the consumer wants. We all know the consumer wants what the consumer wants when the consumer wants it at the price the consumer wants it at. So there is going to be some people that are going to want to buy online pick up in store, others that are going to want it delivered to their home, others that are going to continue to shop in the store that particular day. It's all going to depend on what that particular consumer wants and what that particular consumer wants on that particular day. So if somebody is going to a soccer game and the young man or young woman needs a new pair of shin guards, they may just buy online, pick it up in the store so it's ready and get out of there to make it in time for the game. All of them are going to be extremely important to the consumer experience going forward.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC
Q

Got it. And we've probably got time for at least one more question. I'll open that one to the audience. And we've got one in the front here.

Q

Quick question. Store growth wise, in the past years, you all have talked about a rapid store expansion. Can you speak a little bit on how that might have changed and where you see it going?

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

A

Sure. Yeah, so we talked about the fact that we're going to slow our store growth down but not really for the reason that the Street thinks that we should. We're going to slow that down because there is going to be a significant amount of space that's going to come on to the marketplace. We're already starting to see that. So we all know that there is a number of retailers that are going to close stores. Some other retailers are going out of business altogether. And there is going to be a significant amount of real estate on the marketplace. And we're already starting to see that come down in price.

What I think the Street doesn't understand about us is how much flexibility we have in our real estate program. We've got 25% of our store base that's going to come up for renewal in the next three years. In that renewal, we have the option to renew that at a predetermined price. And many times, that price is actually going down. If we've got another alternative across the street, there gets to be a bidding war for who is going to get our deal. So we've got 25% of our store base up for renewal in the next three years. 50% of our store base is up for renewal in the next five years. And all of the options are with us. We can either renew, not renew, renegotiate. So I think the Street doesn't understand how flexible our real estate business is. We're not like some other retailers who have 20-year leases and operating covenants. We have virtually no operating covenants. And in five years, we could change out or modify 50% of our store base. It's a pretty good position to be in.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Q

Absolutely. Any other questions?

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

Okay, all right. Yeah, we've got 20 seconds. We might as well just wrap it up here. Thank you very much, guys. Appreciate it.

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

Great. Thank you for coming. Appreciate it.

Stephen Tanal
Analyst, Goldman Sachs & Co. LLC

We've got a 15-minute break. Then next up in this room is Dollar General.