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Dick's Sporting Goods, Inc. (DKS)

Goldman Sachs Global Retailing Conference

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Stephen Tanal
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MANAGEMENT DISCUSSION SECTION

Stephen Tanal
Analyst, Goldman Sachs & Co.

All right. Good morning, everyone. I'm Steve Tanal, the supermarket, dollar store, and hardlines analyst at Goldman Sachs. And it's my pleasure this morning to host Dick's Sporting Goods for a fireside chat.

To my left is Ed Stack, CEO of the company. He's basically built the company from two stores to what it is today. So, his reputation precedes him. Andrè Hawaux, as well has joined us, to the second from left, COO of Dick's Sporting goods, CFO as well at the moment; and Joe Oliver, who oversees accounting at Dick's, as well as all the way to my far left.

And for those of you who don't know, I doubt the company needs much of an introduction. But Dick's operates 740 sporting goods stores and a rapidly growing eCommerce business. There's a lot of change going on in the backdrop, making this a pretty exciting moment for the company, and particularly for Dick's.

So, I'll turn it over to Ed for some brief introductory remarks. And then, we'll jump into sort of a fireside chat, and leave sometime as well for questions from the audience. Ed?

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

Great. Thanks, Steve. Thanks for everybody for coming this morning. It – our second quarter was really very good. The liquidations at Sports Authority ended quicker and were less impactful than we had thought. So, we were very pleased with what happened in the second quarter.

We continue – as we go into this third quarter and fourth quarter, we're going to continue to aggressively go after the displaced market share that was left by Sports Authority, and also by Sport Chalet, primarily in California. We acquired – as many of you know, we acquired 31 of The Sports Authority leases. We acquired their IP, customer

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transaction list, and we're going through that – all of that IP customer transactions to – and we'll be marketing to those customers and learn an awful lot about The Sports Authority customers and the stores that we – the leases that we bought, which will be very helpful to getting those off to the right start.

We also got a couple of other things going on in our business that we're really very excited about, which is the relaunch of our eCommerce site that will then control everything from an eCommerce standpoint away from GSI that had been helping us with that. We're very confident of this launch. We've got two other platforms – banners on this platform today, Golf Galaxy and Field & Stream. So, we're really excited about that when we do this. It will increase our profitability – operating profit by about 25 basis points as we make this transition. So, we're pretty excited about that. It's on time and on budget right now.

We continue to work on the profitability of our stores and the productivity of our stores. And we've elevated and made a significant investment in our footwear department. We'll have 180 stores – 150 of them renovated and roughly 30 new stores with the new footwear platform in there, premium full-service footwear, which provides a much greater level of service to that footwear customer. It's provided us with a much broader selection of products from Nike, adidas, and others that we didn't have before. We just finished up the back-to-school – finishing up the back-to-school season. And we'll give you some more information on that in our third quarter call.

We continue and invest very heavily from a private brand standpoint, with brands like CALIA with Carrie Underwood, that have been terrific for us. In the second quarter, the CALIA brand became the third largest women's athletic apparel brand in our store after two years. Our team's done a great job collaborating with Carrie, marketing that, the content of the product, where we've merchandized it in the stores. And we think that continues to be a big growth opportunity for us, as does other private brands that we have. And we expect that in the next couple of years, our private brand sales will exceed $1 billion. So we continue to be very excited about that.

We continue with our strong vendor relationships, which I think needs to be talked about. We continue to have these strong relationships with vendors. I think so many people think about the vendors going direct to the consumer, and they are. And that's a way the world. And it's not going to change. The quid pro quo of that is what we're going to be doing and have done with the private brands, whether it be CALIA, Field & Stream, some of the other brands that we've had that we'll control the total distribution on that.

But the brands, if you look at their calls and their releases, they've talked about that their wholesale business they expect to continue to grow. And as their wholesale business continues to grow, that's basically us. It's us and a couple of other retailers who help grow that business. So, we really think we're in a terrific position as the industry consolidates. We think we're in a great position with our brands. Nike has invested significantly in helping us with the footwear decks. And at Dick's Sporting Goods, we're pretty excited about the future.

So, with that, I'd be happy to open it up to questions. And any of the three of us will answer your questions.

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QUESTION AND ANSWER SECTION

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

All right. I'll kick it off with some of my own. Lots of exciting stuff to dig into, I guess just for starters, there've been a lot of discussion over the years about balancing store growth versus eCommerce growth. How are you thinking about that lately, your latest thoughts there? And maybe within that, you could touch on your sort of near and longer-term store growth and targets, and also eCommerce penetration and expectations long-term.

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

A

We're not going to put a number out there for what the eCommerce penetration's going to be, but we think it will be significantly higher than it is today. We continue to invest very heavily from an eCommerce standpoint and how we look at this from an omni-channel standpoint. We continue to invest in the ship-from-store function, the buy online, pick up in store, what we're going to be doing from a marketing standpoint. We think that that is just a big growth opportunity. You can see that we've grown our business pretty significantly.

This year, if you take a look at the growth trajectory that we have, our eCommerce business will be just under $1 billion this year. So, it's pretty significant. From a store growth standpoint, there's still a number of places where we don't have a store. We had very few stores in the Bay Area. We had two stores in San Francisco Bay Area. We had no stores in Houston. We're opening stores in Houston. We're opening stores in the Bay Area.

Of The Sports Authority stores we bought, we bought 31 leases. We have designation rights for those, so if we can't make the deal that we want with the landlord or get comfortable with all the aspects of the leases, we can reject those leases and kick those back and have no further obligation. So, there'll be a couple of those will kickback. But the fact that we bought 31 stores, 18 of those 31 stores were in Florida and California, where we're very underpenetrated.

So, we've got a very disciplined real estate process. We're going to go about our real estate process in places where we primarily have white space, where we're very underpenetrated. And we have a very disciplined process by which we have to hit a specific return. And if we don't feel that we'll hit that return, we don't do the site.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Understood. Now, probably a year ago at this conference, actually, we talked a little bit about the store being space-constrained. Do you still view that to be the case for the core Dick's box? And how big are the recent openings? And is the trend towards smaller or bigger stores, in general, for you guys?

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

A

The trend of our stores is going to be primarily driven by the 50,000 square foot store. That's not going to change meaningfully. We're trying to find ways to invest or reallocate space to the areas that are growing. So, we've continued to try to reallocate space to the athletic apparel area. What we did with the footwear area, we gave that a little bit more space, made that into a different shopping experience than we have in the past. But you would expect our stores to remain pretty constant. And the 50,000 square-foot store is going to be the primary driver.

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Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Okay. Now, in-sourcing of eCommerce, you have some very specific targets that are out there. If it exceeds your expectations, where do you think the upside would come from? And if you were to fall short, what do you think would be the cause of that?

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

A

Well, those are hypotheticals and I hate to deal in hypotheticals because then, somehow they get lost in translations, and it – as Ed said that this is the upside or this is the downside. But I think the upside will come from – TSA had a few hundred million dollar business. They're gone. So, that consolidation we think we can pick up some market share there.

And on the downside, we don't think this is going to happen is just if you flip the switch and something happens. We don't think it's going to happen because we've tested this. We've put the Golf Galaxy banner on this platform and we have our Field & Stream banner on this platform. So, we're really quite confident that when we flip that switch at the beginning of our next fiscal year, it will be fine. But if there's something that you worry about is that you flip the switch and the lights don't come on. I don't think that's going to happen. But that's what we lose a little sleep about.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Sure. Understandably. And I guess just high level, does you experience with Golf Galaxy earlier this year make you more or less confident for the rollout at this point?

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

A

More confident.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Great. Okay. Thinking through the margin rates of online versus in-store, obviously a different cost structure there. How would you say the margin should compare one year out, two years out, then maybe five years out?

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

A

Well, I think that we're going to get to the point where – so, we're ambivalent today, whether someone buys online or in the store because we just want to have that customer, have that transaction, have them deal with us. It is more profitable to have someone buy from us in the store today. But as we make this move from GSI to or our own site, reduction of fees, the fact that we can leverage those costs going forward that we can't today because it's a percent of sales model as opposed to a pick-and-pack model by type of product, we think that in a relatively short period of time, we'll get the online business to be the same profitability as the stores. And it's not terribly far off now.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

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Great. It's helpful. Now, is there anything you can do to make shipping more efficient going forward? That's been a drag on gross margin that we've been watching a little bit. Is there anything you're thinking about there?

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

A

Well, we're trying to find a way to optimize that and make it more efficient. But the shipping – as we do more business from an online standpoint, shipping is going to be a bigger percent of our cost just because it's going to flow with the fact that our online business is getting bigger. But we are looking at ways to try to make that more efficient and reduce that. But it's going to be – it's just math. It's going to have to – it's going to continue to go up.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Of course. Okay. Shifting gears a little bit, I wanted to touch on sort of the conversations with vendors and how that's evolved over the last five years, both as they've gone direct and as you've pushed into private label and now really building a brand with CALIA, which I think you've done a great job of. And then, of course, now that TSA has gone away, could you shed a little bit of light on how those conversations are going and where – how you see this playing out?

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

A

The relationship with the brands have continued to be very good. And you can see that if you've been to see the store with the premium full-service footwear deck, you see what – the investment Nike made in our stores, they continue to make investments in the apparel side. We're opening in Houston, where we have no stores. We're opening six Dick's stores, two Field & Stream stores, and two Golf Galaxy stores in Houston in October. And there will be a – an entirely new Nike apparel investment and presentation in these stores that we're really very excited about. So, the brands continue to invest. We continue to invest with them. And the relationship with the brands have actually – have continued to strengthen, not weaken.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

That's good to hear. Now, I did want to spend a bit of time talking about The Sports Authority. It's obviously sort of top of mind for probably everyone in the room. Now, how is traction with those former TSA customers compared with your early expectations?

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

A

Well, it's hard to identify the customers yet, because we just got that customer data. But if you looked at our second quarter earnings from a sales standpoint, the liquidation ended earlier. It was less impactful. We've taken a look at areas of the business that Sports Authority was strong. We're having very good results there. So, right now, we're very pleased with the traction we have, grabbing that market share that's been displaced by Sports Authority.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

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Great. And maybe early to have a strong answer on this, but I'd love to ask you what you think were the key reasons people are shopping there in the first place when you had a Dick's nearby. Are you doing anything differently today to address any of those potential drivers?

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

A

Well, from the transaction side, we'll start to see and we're starting to get some information of where they did very well. So, they were better tennis store than we were. They were – they might have been more invested from a fitness standpoint than we were. We're seeing some great increases there. But the main reason – so, when I go out to shop stores and walk our stores, competitor stores, if I was in a Sports Authority store and there were customers there, I walk up to them and introduce myself and say, hi, my name is Ed Stack, I work at Dick's Sporting Goods. And they're usually little surprised at first.

But – and I'll say, we've got a store a mile down the road – or we have a store two miles down the road, and if I can ask, why are you shopping here as opposed to Dick's? And the number one answer was this is more convenient. It's closer to my house. It's closer to where I work. I drive by this store on my way home from work. and that was the primary reason. And very rarely that – sometimes we get the answer that I went to the Dick's store, didn't have my size, something like that. But the primary reason was – that it was a more convenient store for them to shop at than our store.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

It's very insightful. Great. Now you did talk to some categories that you felt they did well. You just mentioned two of them, fitness, tennis. I think footwear, apparel, and certain team sports, certain outdoor sports are maybe mentioned as well on the last call. Do you have any specific initiatives that you would say are in place really to drive share there – in those specific categories?

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

A

Yeah. From a marketing standpoint, we're marketing those very heavily. Our planning allocation and replenishment group is keeping a very close eye on those categories, trying to drive inventory back into those stores, that those categories are running faster than the balance of chain. And the group did a great job anticipating what those categories were going to be and got out ahead of this. So, there's not just only the marketing piece of this, but also anticipating what we think is going to happen.

And I would say, we didn't make every decision right, but we made the vast majority of those decisions right and got out ahead of this. And the team has put inventory into those stores that we thought would be most impacted by The Sports Authority closings. Remember, we had 200 – there were 200 Sports Authority stores within 5 miles of a Dick's store. So, there is a – that's a lot of market share that we've got the ability to come directly to us.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Awesome. Now, thinking about the 31 leases that you acquired or the options on those leases, anyway, do you have any initial thoughts on sort of the capital required to convert one of those stores to a Dick's store and how that might compare to a new opening?

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Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yeah. It's going to be a somewhat similar. It will depend on if we put premium full-service footwear in those doors. But our work right now that we're doing is doing a lot of the work with the landlords to make sure that we get tenant allowance for those build-out. So, the model is still going to be very similar to what we're trying to do with Dick's, where we actually get landlord tenant allowance to actually do the build-out as well for us, Steve.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Okay. And so, this one's more conceptual I guess, as I don't think that you would share specific numbers. If you care to, that'd be great. But how do you think about what portion of sales do you want to capture or you should capture in a given market? And again, if you don't want to share the numbers, how would you go about thinking about it? Would you say, well, our national market share in the sporting goods channel is X and our market share within that market is Y, or tell us how you think about what you think you should get in any given TSA market.

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

A

Well, you're right about one thing. We're not going to give you the exact number.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Sure.

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

A

Okay? But we've taken a look at this and it will depend on who else is in the market, so how competitive the market is. It will also depend on how far away The Sports Authority store is from our store. So, we have a number of market share that we expect to get. And I will tell you we are right about on that plan. So, the team's done a really good job anticipating that, going after that, and we're pretty close to right on plan for what we thought we would get.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Okay. That's helpful. Now going back to sort of the in-store initiatives and really the core of the story, what triggered your decision to focus more on footwear recently?

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

A

So, the big issue there from a footwear standpoint was we didn't have access to some of the shoes that we wanted to have access to. We felt we really needed to make a different presentation, in cooperation with the brands, drive a higher level of service in cooperation with the brands to have access to those shoes. And that was primarily it. We thought that there was a lot of business out there that we were missing based on what's going on in the consumer's mind and what the consumer is selling, taking a look at the NPD data of what are the best selling shoes, and what access we have to those, and how many stores.

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And we felt we were missing something. We went back to some vendors and we built a couple of these full-service footwear decks, put some technology in there to provide the customer with a greater level of service than we had been able to do in the past, and then worked with Nike and a couple of other brands. And we're very pleased with the product and the results.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Awesome. And is there one category where potentially those comments are more pointed at, maybe basketball or Retro Lifestyle from Jordan's or is it lifestyle or...

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

A

It's across the board. So, there were lifestyle shoes. There were signature basketball shoes. There were other sportswear style shoes, if you will. So, it was really across the board. And we took a good hard look at this and had some heart-to-heart conversations with our partners and decided this was the right course of action. And if we had to use a golf metaphor, if we had a mulligan, we'd do it all over again.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Fantastic. Now, what's the capital required for one of these full-service decks, Andrè? And what does the return profile look like?

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

I don't think we've actually discussed that level of specificity, Steve.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Got it. Now, so sort of higher level then, the decks themselves, do they have the ability to impact the comp for the overall store?

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Well, absolutely, they do. I mean, footwear is a big piece of our business. To Ed's earlier point, the research that we've done, many of the young athletes start with footwear as their first selection and they build from there. So, very much so, they have the ability to impact both our brick-and-mortar comps and certainly will impact our eCommerce comps as well.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Okay. It's good to hear. Now, I guess I'll stop here for a moment and see if there's any questions in the audience. And then...

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

A

Anybody have a question out there?

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Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Doesn't look like you got it out of them. So, I guess I'll use this moment, actually, to take these four questions that we're asking of all retailers kind of out of the way here. So, high level, what are your expectations for the environment, in the back half of the year relative to your second quarter results, and what's sort of changing in the backdrop that informs that view, same, better, or worse?

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

A

Well, we've provided our guidance. So, we're not going to get outside that guidance range. We're very comfortable with what our third quarter guidance was and our implied fourth quarter guidance. So, we're – as I said, we're pretty optimistic about where we stand and where our business stands in this industry. With the consolidation and how aggressive we are going after this market share, we're – we think we're in a pretty good place.

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

And if you could all do a cold weather dance for this fourth quarter, we'd certainly appreciate that as well, given what happened last winter.

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

A

Yeah.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Of course. The second question, I think we sort of answered this one already, your omni-channel margins versus your store margins are lower today, and the reason why would be primarily shipping is that how you would sum it up?

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

A

Not just shipping, but also the fees associated with GSI.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Of course.

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

A

So, right now, we're on a – if we sell a pair of $75 shoes, we pay a percent of that $75 in fees. If we sell a $150 shoe, we pay a – the same percent for that $150 shoe. It costs no more to pick pack and ship that $150 shoe than it does the $75 shoe. We pay the same percentage. And when we move off of GSI, then we'll have the ability to leverage those expenses, those pick-and-pack expenses, and it reduces the cost. And like we said, it will increase

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the operating profit about 25 basis points. Was there a question out? Did I see somebody go get the microphone? Is there a question out there?

Q

Yeah. I just had a quick question. As you sort of look out five years or so, and you think about your store network and the growth of your eCommerce, have you considered how you might have to restructure your leases or your square footage? Should digital continue to outgrow the physical?

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

A

Yeah. So, did everybody hear the question? So, in five to seven years from now, how do we look at the – do we have to restructure our leases based on what's happening from a digital standpoint? Well, first of all, the stores that we're opening are primarily in markets where we are significantly underpenetrated or have no stores. So, as I said, we're opening up in Houston. We don't have a Dick's Sporting Goods store in Houston, which is the fourth largest city in the country. So, we've got some growth there. That's where – we'll be opening stores. We have very few stores in the Bay Area and in Pacific Northwest or in South Florida.

So, those are the areas we're concentrated on in opening stores. But with that being said, we have tremendous flexibility with our leases. We've got – roughly 25% of our leases are coming up in the next three years. So, we have the option to either leave that store, close that store, relocate that store or extend our option for another five years. So, we've got – basically right now, we've got -every three years or every five years, we'll have a big percent of our store base coming up.

So, over a period of five, seven, eight years, we could significantly restructure what our brick-and-mortar presence is if we need to do that. And I think that's one of the things that the Street really doesn't understand about our business is how much flexibility we have in our brick-and-mortar business. And if we decide not to extend an option and walk away from a store, we have no further obligation whatsoever. We can just walk away from the store and be done with it. So, we've got tremendous flexibility. And I think that's one of the things we have to try to do a better job of making the Street understand.

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

The other piece to that is when we do open up a new store in a new market, we do see our eCommerce business really light up. So, the businesses are somewhat more symbiotic than – I think you all know that. But they do work hand-in-glove. So, when we do have a physical presence, we do bring a lot more people to our site. And you're seeing that across the landscape. You're seeing traditional eCommerce players now looking to get into some brick-and-mortar because of that interplay between the two channels.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

To follow up there, actually, on the lease expirations, I think you did share some figures recently about the percentage of them that are coming due within – I think this over 60% over some number of years. I may be misquoting that. But if you could remind us of the figures and give us a little flavor for sort of what's changing as they come due? Or are you finding better rent terms given what's going on broader – in broader retail?

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

A

It depends on the location. So, there's some locations that we're able to significantly reduce our rent. There's some locations that we'll – we can keep the rent relatively the same and the landlord will provide us tenant improvement dollars that we can go in and put money and renovate the store. There are some locations that based on what's happening and boxes being vacated by some other retailers, they were able to go into another box and get a brand new store at less rent.

So, it's really across the board. And we look at every one of them individually. But, we're – from a real estate standpoint, we're in a really good place right now. And with a number of retailers closing stores down and the leases that we have coming up in mall-based retailers and some other shopping center retailers needing somebody to fill a significant amount of space, we're a great call for them to make. And we're in a great seat to negotiate these leases.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Sure.

Joseph R. Oliver
Chief Accounting Officer & SVP, Dick's Sporting Goods, Inc.

A

Steve, I think that the higher percent that you were thinking of was Golf Galaxy. Golf Galaxy, roughly 50% of our Golf Galaxy leases expire in the next three years. And I said it's at about 25% of our Dick's leases.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

25%? Got it.

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

A

They have a question down there.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Yeah.

Q

Sure. I have two questions. You're saying there's a reallocation of space to whether it's footwear or more apparel. What categories are losing space? And then, the second question is, as it relates to eCommerce, how do you compete with Amazon versus your pricing and your product offering?

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

A

So, if footwear is gaining space, what's losing space? We've taken some space out of the golf area, which is an area that has continued to be – the drain isn't as much, but we don't think golf is a big growth area for us. And you

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can see that with what's going on. Nike has exited the golf equipment business. TaylorMade's for sale. So, we've taken some space out of the golf area. We've taken some space – with what we've done with Field & Stream, we've been able to take a little space out of that hunt category. And part of the investment we're also making in footwear is the increase we're making from a marketing standpoint of how we go about footwear.

As far as how we compete with Amazon, Amazon is obviously someone that everybody is concerned about. We compete very effectively with Amazon. You can see what our sales growth has been, what our online growth has been. And there's a number of brands that don't sell Amazon on a direct basis. And we don't think that's going to change anytime soon. So, there'll be a differentiation between what we sell and what's sold on Amazon on a direct basis. You can go on to Amazon Marketplace and you can get a lot of the products. But there's not a significant difference in price.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Any others from the audience?

Q

Do you have a view on – or a strategy on retailing closer to the urban core, for instance, New York City, maybe a smaller format store, possibly thinking about some of the traffic left behind by Sports Authority being closer to the consumer?

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

A

Yeah. So, we continue to look at an urban format. We've got two stores in – inside – in Chicago. We look at what we can do in Manhattan. We need to do a smaller store. So, we're looking at that. And right now, to be totally honest, the rents in New York City kind of make us a little uncomfortable. And we're about trying to make sure that we hit a return. As I've said, our real estate strategy and discipline is that if the store projections don't hit a particular return, we don't do the site. And right now, it's tough to get something to model that we're comfortable with in a lot of New York, where we're kind of hitting some of the outside boroughs, but Manhattan is pretty difficult.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Is that a comment geared at the lease that you got up here specifically or...

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

A

Pardon me?

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

The TSA lease that you guys picked up on Third Avenue, are you working through that one as well...

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

A

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We're working through that one.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Yeah. All right. Any other questions out there? I think we've got one over there.

Q

Is this mic on?

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Yeah.

Q

Ed, you didn't mention ski and outdoor as a category TSA played heavily in. And you've resisted the category historically. But without TSA in that business, does that provide an opportunity or geographically you're just still positioned from a demand perspective to build a big ski business?

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

A

So, at the beginning of the what business?

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Ski business.

Q

Ski and outdoor.

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

A

Ski. Yeah, I'm sorry, ski, yeah. No, I don't see us making – so, TSA is leaving behind some market share in the ski business. I don't see us getting into the ski business. It's so weather dependent and we think that we have enough weather dependency in the fourth quarter right now without adding to it. It's a highly technical, highly service-oriented business. And I don't see us making any big movement to the ski business.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Can I just squeeze out the last...

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

A

Yeah. I'm sorry, I'm assuming you were speaking about the ski hardline side?

Q

Yes, I was.

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

A

Yeah. Okay. Yeah, we'll continue on the softline side. But the ski hardline side of the business, we're not going to be entering.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

All right. Yeah. I'll just crank out these last two of the template questions. So, wage inflation, we're thinking about from two ways, as an expense pressure, but also as potentially a little more cash in the consumer's pocket. Do you see it being a net positive or a net negative for your business? And do you think it will be a bigger consideration in 2017 versus 2016?

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yeah. So, there's going to be wage inflation. So, we don't love that. I mean, we're going to have to figure our way out of it. I do believe that for us, we'll see more of it in 2017, as some of these municipalities raise their minimum wages, and also the various FLSA requirements that are going to be in place effective December 1. But Ed and I and the team are working through how we're going to manage that through productivity and other things, where we don't believe it will impact our algorithm in the long-term. So, we're continuing to work through those issues.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Great. And then, the last one of these is do you expect inventory to rise, fall, or stay constant relative to sales growth over the next year?

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

A

We think it will either stay constant or decrease slightly.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Great.

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

A

Which is what you saw in the second quarter.

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Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Great. Any other questions?

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President, Interim Chief Financial Officer, Dick's Sporting Goods, Inc.

A

There's one back there.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

There is one back there. Yeah?

Q

[ph] Dick (32:27), I wondered if you could briefly comment on why sporting goods is different than consumer electronics, office, super stores, and sort of the transitions that those, especially retailers, had to go through, and perhaps why that's not going to happen to Dick's?

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

A

Well, I think that that's a question that gets asked a lot. And I think if people take a look at from a consumer electronics standpoint, that the products that the electronics stores sold really changed. So, you're not buying a CD any longer. You're not buying a DVD. You want to have – you want music, you download it on your phone. You want to watch a movie, you download it on your phone or a streaming service that you have in your family room. So, the technology changed what the product looked like that they sold. That hasn't done that to us,

I mean, a baseball glove is still a baseball glove. A pair of running shoes is a running shoe. And the form of which that product is used isn't going to change, which is what happened in the electronics business. We think that there is a meaningful amount of our business that's going to go online. And we are very aggressive with how that market share is going to come to us, how we market it, the products that we put out there, how we deliver the product.

And we're very comfortable in the digital age. And I think if you take a look at what we've been doing, what our sales have been doing, how it's impacting our profitability, the way we're looking at it, and we've guided to this in the future, we are fully committed to and embrace this whole idea of what's going on with the consumer, as opposed to trying to wish that it didn't happen.

It's happening. We're excited about it. We think it creates a great opportunity for us. And if you take a look at some of the people that didn't make it in this industry, whether it be Sport Chalet and Sports Authority, we did an analysis of what was the issue. So, we – when this industry started to consolidate, we were enthusiastic of our prospects for about 15 seconds. And then, we said, you know what? We should sit down and take a look at what the reason why these guys failed.

And is there a common denominator? And what are we doing that they didn't do vice versa to make sure we're not just looking at our own future and what we need to do to fix that? We went through this. We looked at how

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much debt they had, a number of other things that – and how they invested in their stores, their vendor relationships. But one of the things that they didn't do is they didn't invest from an eCommerce standpoint.

None of these companies had a significant eCommerce business. They didn't embrace the digital age that's upon us. We have. We will continue to do that. Sports Authority had – Sports Authority was doing from what we understand about $200 million in sales. We're going to do this year just shy of $1 billion. So, we're very comfortable in this space. We've continued to grow this space. We continued to make this space more profitable. And it's an important part of our strategy and our tactics going forward.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Great answer. Any others from the audience? I guess one that I would ask you, just taking a step back, obviously, TSA is doing some good things for the business. But what do you – how do you feel about the macro in general? You guys are obviously in a pretty discretionary category. What are you seeing in the broader environment? How would you describe the state of the consumer?

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

A

I think the consumer is in not bad shape. I think the consumer for a while was spending on things that had been pent-up demand, if you will, whether it be autos, whether it had been in their home, buying a new home, making renovations to their home. I think the consumer's in pretty good shape. And I'm enthusiastic about where we sit in our business and in – and how – we're in a terrific industry because sports is such a significant part of our American psyche.

Whether it's watching an NFL game on Sunday, watching Major League Baseball or driving by the Municipal fields and watching 16 bazillion five-year-olds playing magnet ball, which is my cute name for soccer, because when your five years old, no five-year-old understands the position on the soccer field they're supposed to be, that ball is like a magnet, takes all the kids to it, we've – sports are in the psyche of this nation, and I don't think that, that's going to change anytime soon.

So, when these kids go for five years old to seven years old, to nine years old, to eleven years old, or whatever it is, their feet grow, they need a different pair of cleats. And I've often said, you don't tell your seven year old daughter, honey, I know you wore size four last year and you need a size six-and-a-half this year. I'm sorry, just curl up your toes, put on your spikes and go out and play soccer. You go buy a new pair of soccer cleats.

The same if they're playing baseball and they needed a 27-inch bat last year, and they've grown, they've got bigger, stronger they need a 29-inch bat, they're going to buy a new bat. And so, I won't say we're impervious to this, and we certainly have our ups and downs at times. But we're going to travel in a narrower band than most of the rest of the – than a lot of the economy. And we're clearly the winners in this space. We have to continue to do what we're doing.

And my friend, Kevin Plank, has got a great, great saying, stay humble and stay hungry. And even though we may be viewed as the winners in this industry, we're still pretty hungry about how much better we can do and how much more business we can do and how much that market share we can get. So, we kind of like where we're at right now.

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Stephen Tanal

Analyst, Goldman Sachs & Co.

That's great. All right. I think we're about out of time. So, we've got a short break coming up. Then up next in this room will be Nordstrom [ph] and Aramark, down in the Centennial foyer (38:12) starting at 10:35.

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