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DICK'S Sporting Goods, Inc. NYSE:DKS

FQ1 2020 Earnings Call Transcripts

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Presentation

Operator

Good morning and welcome to the DICK'S Sporting Goods First Quarter Earnings Call and Webcast. [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 first 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'll be making forward-looking statements including our 2019 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.

Please refer to our Investor Relations website to find a reconciliation of our non-GAAP financial measures referenced in today's call.

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

Edward W. Stack
Chairman & CEO

Thanks, Nate. Good morning, everyone. This morning, we reported first quarter non-GAAP earnings per diluted share of $0.62 compared to earnings per diluted share of $0.59 last year. We're very enthusiastic about our business and are raising our full year earnings per diluted share guidance to a range of $3.20 to $3.40 from $3.15 to $3.35.

First quarter consolidated sales increased 0.6% to approximately $1.92 billion. Within this, our consolidated same-store sales were flat. This was near the high end of our expectations and represented another quarter of sequential improvement.

Our eCommerce business remained strong and increased 15% over last year. As a percent of the total net sales, our online business increased 13% compared to 11% in the same period last year. Same-store sales turned positive in March and remained positive in April as we've started to see the benefits of our key strategies and investments. By design, we made strategic inventory investments into key growth categories as prior year inventory levels were running too lean. This resulted in our inventory increasing 16% at the end of the first quarter compared to the end of the same period last year. Our inventory is clean and well positioned, and we're confident in our ability to continue this sales momentum and deliver positive same-store sales throughout the remainder of the year.

Additionally, our merchandise margin rate increased 20 basis points in the first quarter, reflecting a healthy business. As expected, our comp decline in hunt lessened after we anniversary-ed our announcement at the end of February. However, hunt comps were still meaningfully negative throughout the remainder of the quarter as the hunt industry faces continuing headwinds.

As previously announced, in light of these difficult industry trends, we are evaluating our strategy for this category across all banners. As an initial step in this review, late in the third quarter last year, we removed the hunt category from 10 DICK'S stores where it underperformed and replaced it with more a compelling localized assortment. Following strong fourth quarter results last year, I'm pleased to report we have continued to see strength in these stores. During the first quarter, they again generated positive comp sales, including positive transactions, and saw merchandise margin rate improvement.

We remain on track to reallocate floor space in approximately 125 additional DICK'S stores during the second quarter. Like the initial stores, hunt will be replaced with merchandise categories that can drive growth, each based on the needs of that particular market. Looking ahead, we will complete a holistic strategic review of our hunt business, including our Field & Stream stores.

During the first quarter, we expanded our bold merchandise presentations, which we call strike points, across the chain. Our athletes have responded positively, and we've been pleased with the results driving positive comps in key categories. We also expanded our HitTrax technology and batting cage experience to approximately 150 stores. We've been pleased with the early results and plan to add this fun, interactive experience in another 20 stores during the second quarter.

Our private brands are a source of strength, and this business continues to outpace our company average, delivering positive comps in the first quarter. We continue to focus on growing existing brands while also launching new brands as part of reaching our $2 billion sales goal in private brands over time.

During the quarter, we expanded CALIA's footprint across 80 stores, giving this important brand more premium floor space. Additionally, for back-to-school, we will round out our athletic assortment when we launch DSG, our new high-quality, value-oriented performance brand across men's, women's and kids' athletic apparel. DSG will only be available at DICK'S and will put us in a much stronger position to compete against other similar offerings in department stores and other sporting goods stores. We've been very pleased with the feedback we've received from initial focus groups and are excited for the upcoming launch.

In closing, I'm pleased with our first quarter results, and I'm very enthusiastic about our business in the future. I would also like to thank all of our teammates for their hard work and commitment to DICK'S Sporting Goods.

I'd now like to turn the call over to Lauren.

Lauren R. Hobart
President & Director

Thank you, Ed, and good morning, everyone. Before getting started, I want to take a moment to talk about a few important leadership changes that we announced earlier this month.

First, Ed Plummer was appointed our Chief Marketing Officer. As CMO, Ed will lead our overall marketing strategy and implementation, including brand building, traffic driving and continued digital transformation across all athlete touch points. Ed joined the company in 2010 as our Vice President of Customer Relationship Management and most recently served as our SVP of DICK'S Team Sports HQ.

In addition, we announced that Steve Miller joined DICK'S as our Senior Vice President of Strategy and Analytics. In this role, Steve will be responsible for driving strategic initiatives across the company and adopting a centralized test-and-learn approach across all channels. Steve joined us from Joann Stores, where he served as Senior Vice President of Marketing and eCommerce.

Both Ed and Steve will be tremendous assets to our leadership team and will help continue our strong track record of innovation and success.

Now turning to our business. I want to start by echoing Ed's enthusiasm. We remain focused on building the best omni-channel experience in sporting goods, and as Ed discussed, our strategies and investments are starting to pay dividends. This morning, I will review some of the great progress we've made due to key investments in our teammates and in eCommerce and also provide an update on our marketing efforts and our Sports Matter program.

First, our teammates are critical to bringing our improved store experience to life. Therefore, as I outlined during our last call, we are making important investments to dial up our training and education, particularly in our stores. As part of this, last month, we introduced our new service standards with an in-person simultaneous nationwide training event to over 35,000 store teammates at one time. Our new service standards will help ensure we create confidence and excitement for our athletes in a more consistent manner while empowering our teammates to personalize each experience. We're already seeing the positive impact of this initiative. Stories from across the country are pouring in, highlighting the ways in which our teammates have provided exceptional service. Our teammates are our greatest asset, and we believe our new service standards will help create lasting relationships with our athletes, increasing their loyalty to DICK'S.

Turning to eCommerce. During the first quarter, we were pleased to deliver 15% growth in the channel. As part of this success, we completely redesigned our baseball and softball landing pages. These redesigned pages reinforce our elevated in-store experience for those strategic categories.

Additionally, we continue to improve the functionality and performance of our website. During the first quarter, we launched a new search engine that has dramatically improved page load times for search results across both desktop and mobile. We also delivered significant growth in the number of orders our athletes purchase online and pick up in store. This growth was accomplished via improved site messaging, inventory availability and in-store execution.

BOPIS is a strategic priority to help enhance our eCommerce profitability, increase store traffic and very quickly get products into the hands of our athletes. In fact, today, nearly 90% of all BOPIS orders are filled and ready for athlete pickup within just 30 minutes. Lastly, we remain on track to open our 2 new dedicated eCommerce fulfillment centers in New York and California during the third quarter.

Next, in marketing during the first quarter, we launched our Better Starts Here campaign as a platform to communicate the exciting changes in our stores, including our new impactful strike point presentations and our elevated assortments. We've been pleased with how athletes have responded as we've invited them to check out the new DICK'S Sporting Goods.

Looking at the second quarter, our assortment will be even more compelling, and our marketing will amplify DICK'S as the go-to destination for Father's Day and back-to-school. We also continue to strengthen our alliances with partners like Google and Facebook to ramp up our digital marketing efforts and enable more meaningful and effective personalized communications.

Lastly, in partnership with the DICK'S Sporting Goods Foundation, we remain committed to our Sports Matter program, which raises awareness about the importance of youth sports and provides funding to youth sports teams in need. As part of this commitment, earlier this month, the DICK'S Sporting Goods Foundation announced a $1 million grant to the LeBron James Family Foundation. This grant will support the construction of a new gym to be named the I Promise School Sports Matter gymnasium on the grounds of the I Promise School in Akron, Ohio. This was a very powerful event with LeBron joining us for our announcement with the school district and the I Promise students. This new gym will provide students with a safe place where they can take part in physical education classes and other recreational activities, creating more opportunities for kids to play and to learn important skills they can carry with them throughout their lives.

In closing, as we continue to execute against our strategic priorities, we are enthusiastic about our business and remain optimistic that our investments will drive differentiation in the marketplace and strengthen our leadership position.

I will 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. Let's begin with a brief review of our first quarter results.

Consolidated sales increased 0.6% to approximately $1.92 billion. Consolidated same-store sales were flat as average ticket increased 1% while transactions decreased 1%. Our eCommerce business remains strong, increasing 15%.

During the quarter, we saw strong sequential comp sales improvement. Following a slow start in February, we drove positive comp sales in both March and April. We were particularly pleased with our athletic apparel business, which delivered a mid-single-digit comp increase. Our private brands also continued to comp positively with higher penetration.

As expected, we continue to see meaningful sales declines in hunt. For the quarter, hunt negatively impacted our comp sales by 1%, with the largest impact coming in February. We continue to expect this category to be negative throughout 2019 as the overall industry is in decline. However, we are actively taking steps to decrease our exposure. As Ed discussed, we are on track to remove hunt from approximately 125 additional DICK'S stores during the second quarter, replacing it with faster-growing merchandise categories.

Additionally, the anniversary of the Philadelphia Eagles Super Bowl win as well as last year's baseball bat regulation change were both headwinds to our comp sales during the quarter. However, neither of these headwinds will carry forward into the second quarter.

Gross profit in the first quarter was $563.8 million or 29.35% of net sales, which was approximately flat compared to the same period last year. Within this, we saw higher merchandise margins, which increased 20 basis points, as well as occupancy leverage. These benefits were largely offset by higher shipping and fulfillment costs as a result of our strong eCommerce growth as well as inflationary headwinds driving freight costs. Importantly, while gross margin rate of our eCommerce business is lower than our stores, we continue to be very pleased with the overall profitability of this channel.

Non-GAAP SG&A expenses were $485.9 million or 25.3% of net sales. This deleveraged 67 basis points from the same period last year. 40 of the 67 basis points are attributable to expense recognition associated with the change in value of our deferred compensation plans resulting from the significant increase in the overall equity markets during the first quarter. This expense is fully offset in other expense or income and has no impact to earnings.

Additionally, we made strategic growth investments in our business while also remaining on track to achieve our 2019 productivity objectives of eliminating approximately $30 million of expenses. These savings helped offset a portion of our investments.

In total, we delivered first quarter non-GAAP earnings per diluted share of $0.62 compared to earnings per diluted share of $0.59 last year. On a GAAP basis, our earnings per diluted share were $0.61. For additional details on this, you can refer to the non-GAAP reconciliation tables of our press release that we issued this morning.

Now looking to our balance sheet. We ended the first quarter with approximately $92 million of cash and cash equivalents and $369 million outstanding on our revolving credit facility. Our inventory levels increased by 16% in the quarter compared to the same period last year. And as Ed discussed, our prior year inventory levels were running too lean, and therefore, by design, we made strategic investments in support of key growth categories. Looking ahead, our inventory is clean and well positioned.

Additionally, I should mention at the beginning of fiscal 2019, we adopted the new lease accounting standards, which resulted in reporting net lease assets and liabilities of $2.5 billion and $3.1 billion, respectively, on our balance sheet. The new standard did not materially affect our P&L or statement of cash flow.

Turning to our first quarter capital allocation. Net capital expenditures were $30 million, and we paid approximately $27 million in quarterly dividends. During the quarter, we also repurchased 2.97 million shares of our stock for $107.3 million at an average price of $36.15. Taking into account $78.5 million of additional share purchases subsequent to quarter end through May 24, we had approximately $248 million remaining under our authorization.

Now turning to our fiscal 2019 outlook. As discussed, for the first quarter, we delivered flat consolidated same-store sales, which was near the high end of our expectations. Given this performance, we are raising the low end of our consolidated same-store sales guidance to a range of slightly positive to up 2% for the year from approximately flat to up 2% previously. Additionally, we are raising our full year earnings per diluted share outlook to a range of $3.20 to $3.40 from $3.15 to $3.35. Our updated earnings guidance is based on an estimated 91.5 million diluted shares outstanding from 95 million that was contemplated in our prior earnings guidance.

Before concluding, I would like to take just a moment to provide an update on tariffs. On September 2018, the U.S. imposed a 10% tariff on $200 billion of Chinese goods. For us, these tariffs were mostly concentrated in our hardlines categories and were factored into our original 2019 guidance. Effective May 10, this tariff was increased to 25%. We're still working through the impact of this increase with our manufacturing and brand partners and how this may influence our overall pricing strategy. As a result, we have not specifically contemplated this into today's guidance. Like others, we are closely monitoring the situation and are hopeful a trade agreement can be reached.
This concludes our prepared comments. Thank you for your interest in DICK'S Sporting Goods. And operator, you may now open the line for questions.

Question and Answer

Operator

[Operator Instructions] The first question is from Michael Lasser of UBS.

Michael Lasser
UBS Investment Bank, Research Division

Was the improvement that you saw over the course of the quarter really about lapping some of the easier comparisons in the hunt category and some of the challenges you saw with certain vendors last year? Or was it more about a significant improvement in the other parts of your business? Can you give a little more flavor on how the cadence of the quarter went?

Lee J. Belitsky
Executive VP & CFO

Michael, it's Lee. So February was a tough month both from a weather perspective and the hunt pressure was concentrated in February as well as the Philadelphia Eagles. So those were lapped, but we're also really encouraged by the pickup in some of our key businesses going through February and March, particularly in apparel and footwear, and Team Sports improved as well. So some of the areas where we're making our inventory investments, in apparel and Team Sports, really did well as we worked our way through the quarter. So it's a little of both, lessening headwinds and improved business in the core go-forward businesses for us as well.

Michael Lasser
UBS Investment Bank, Research Division

And as we look out over the next couple of quarters, your comparisons remain particularly easy. And so if we take the midpoint of your guidance, it assumes -- it implies that you'll do 1% to 1.5% comp over the next couple of quarters. The high end of the guidance is more in line with keeping the 2-year stack, 3-year stack relatively stable. Why shouldn't it be better than that with all the initiatives that you have going on? And along those lines, it looks like your updated guidance for the full year profitability is coming down a little bit. Can you address that?

Lee J. Belitsky
Executive VP & CFO

Yes. So I think that in light of a little bit of the uncertainty that we've got going forward, particularly on the tariff front and what impact that might have overall on the consumer, I think we are being a little bit cautious on the sales outlook for the back half of the year. We're still confident that it's going to be positive the rest of the year, and we feel good about that. But we are being a little bit cautious on the sales side and that flow-through to earnings.

With respect to the share buyback, just our math on it, and I'll do it for you here for everybody because everybody's going to have the question, but with reduced share count, kind of the gross impact on earnings per share would be about $0.13. We've got about $0.04 of extra interest expense related to the share buyback. So the impact on earnings per share from the share buybacks we've done so far, net, is about $0.09. We've taken up the guidance by $0.05, and I think that's just a little reflective of how the consumer may react as we get into the back half of the year really around the impacts of tariffs and so on. That's our thought process around it.

Operator

The next question is from Robby Ohmes of Bank of America Merrill Lynch.

Robert Frederick Ohmes
BofA Merrill Lynch, Research Division

Nice quarter in a world where there hasn't been a whole lot of nice quarters in retail. Just 2 quick questions, a follow-up. You called out apparel. I wanted to see if we could get more color on athletic footwear. I think Lee you may be mentioned it improved as you moved through the quarter. But did it -- was it significantly underperforming apparel? And just sort of what are you seeing on the athletic footwear side of your business? And then the other question, weather, also it sounds like it was the most challenging in February for you. I know you don't like to talk about weather, but was weather also not as good as you would have hoped in a lot of regions in -- sorry, in April, March and April as well? And was it working against you this quarter beyond just February?

Edward W. Stack
Chairman & CEO

Robby, I think we're very pleased with our athletic footwear business, and we've got -- we've made some real changes to our footwear presentation in the stores, the content. So we continue to be pleased with what's going on from an athletic footwear standpoint. And from a weather standpoint, February, the weather was a tough weather comparison. And a number of other retailers you saw do that -- did -- the weather impact us a bit in March and April, not significant, and we didn't really look at that as a weather issue. But February was off to a slow start, and we comped positively in March and April both, and we were very pleased about that.

Robert Frederick Ohmes
BofA Merrill Lynch, Research Division

And just one other follow-up, Ed. So you've probably seen some other players out there having some challenges this quarter relative to their expectations. As you look at their inventory positions, and a lot of them in some of the family channel areas do carry a lot of athletic footwear and some of them carry a lot of athletic apparel in the department store space, any thoughts on how you think the competitive environment may play out over the summer and into back-to-school?

Edward W. Stack
Chairman & CEO

Well, I think if you take a look at the family shoe channel, where we've made our investments are not in the same SKUs that they may be having. We've moved ours up. We've got more allocated product. We've gotten very aggressive in the running category. So I don't think there's as much overlap in where their inventory investment is versus our inventory investment and the same from an apparel standpoint.

Operator

The next question is from Simeon Gutman of Morgan Stanley.

Simeon Ari Gutman
Morgan Stanley, Research Division

My first question, I want to ask about the spending investments versus the savings. I think you reiterated the investments, I think, in the release this morning. Can you talk about are they going as planned? Are you spending where you expect to spend? And then I think the savings, and correct me if I'm wrong, those have already been taken or run rated, and this ties into my second question. So Lee, you mentioned the cushion that you've built in or the conservatism you've built in, that reflects uncertainty over flow-through. It sounds like around tariff, not reflecting -- we're not getting enough of the savings to offset some of the spending.

Lee J. Belitsky
Executive VP & CFO

Our investments are on target in eCommerce and fulfillment, and our savings are on target as well. So we're pleased with the direction there. I would be -- with respect to the tariffs, I would say we're a little bit more general on that as opposed to the flow-through on specific items for us because we're still working through negotiations with vendors and pricing strategies and so on with respect to some of our hardlines inventories. But I would say it's more a little bit of general concern around where the consumer will be through the back half of the year, particularly if the tariffs ramp up going forward.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. My second question is on sales. I'm not sure these were our words or yours at some point. But if we strip away hunt and electronic headwinds, I think the run rate of the business is somewhere in the -- already within your comp range, and the business has been inching towards that. And so if you -- I think that's a fair assessment, and you're about to turn into positive comps. And so maybe back to Michael's earlier question, why shouldn't comps -- or what are the chances that comps end up north of 2% at least in a given quarter here in the next couple of quarters? Is there a good likelihood that, that happens?

Edward W. Stack
Chairman & CEO

We're not going to guide to that or comment on that. We've kind of laid out our guidance, and we're comfortable with that. We're uncertain of what, as we said, what's going to happen with tariffs and what effect they're going to have on the consumer. Nobody knows, and as Lee said, we're trying to be a bit conservative here because we don't have enough information of what's going to happen.

Operator

The next question is from Christopher Horvers of JPMorgan.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

I'll stick to the top line questions for the first question. Can you talk about what the bat headwind was? Presumably, that was more of a March, April lap for you considering it was Little League and just the timing of opening day for Little League across the U.S. And then also related to a previous question, do you think weather was actually a net positive in March and April given how bad April was overall a year ago?

Edward W. Stack
Chairman & CEO

So we'll talk about the bat piece first. Now the bat piece was a challenge right from the beginning of the year. Actually, it was a bit of a challenge into holiday last year, and Little League starts at different times throughout the entire country. Down in Florida is very different than what it is in Upstate New York. So the bat challenge was difficult the entire quarter. As far as April weather goes, I think it was relatively the same. We don't think it was a positive or a negative. It was neutral.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

Any sort of comment on March, April sort of leads us down the path, so the obvious question is how are you feeling about the quarter-to-date in May here.

Edward W. Stack
Chairman & CEO

We don't comment on how a particular quarter is going. But we've indicated that we think our guidance, our sales guidance is flat to plus 2% for the year. So that's -- we're comfortable with that.

Christopher Michael Horvers
JP Morgan Chase & Co, Research Division

Understood. And then last question. So the merchandise margin being up on a tough compare with really lean inventory a year ago and a lot of investments this year, can you talk about what drove this? How much of this was mix-driven? I know you've been working on the mix side to help drive the merchandise margin. How much of this was lower promotional levels year-over-year? And any other big factors that you would call out?

Edward W. Stack
Chairman & CEO

Well, I think it's a combination of a couple things, lower promotional levels. As we've -- for the most part, we're still trying to determine what we're going to do in the fourth quarter. We've eliminated the Sunday circular, if you will. We ran no circulars in the papers. We still did some direct mail promotional pieces, but that was a bit less. But the main thing that drove it is really content and mix, which we think is sustainable going forward.

Operator

The next question is from Seth Sigman of Credit Suisse.

Seth Ian Sigman
Crédit Suisse AG, Research Division

A couple of follow-up questions on the hunt category. I think somebody said that the impact lessened, but was still meaningfully negative in the quarter. If I recall, there were periods last year where this was over a 100 basis point headwind to the comps. Just wondering if you could size up how impactful is it now. Obviously, the category is a lot smaller than it has been historically. So how meaningful is that to the overall comp? And then the second part of the question is you mentioned evaluating options for the category across all the channels. Could we actually see an exit from Field & Stream? And how are you thinking about that concept specifically?

Lee J. Belitsky
Executive VP & CFO

So with respect to the impact on comps, I did mention in the script that it did impact comps by 100 basis points. But the big -- I would say the largest piece of that was in February. The hunt business continues to comp negatively -- continued to comp negatively throughout the quarter, but the big headwind was in February, leading up to the anniversary of our announcement of the change in our policies last year.

With respect to our strategic review, we are looking at all of the hunt businesses both within the store and how to better use that -- utilize that space as well as determining what the future path will be for Field & Stream. So we're looking at that as well, and we're looking at both pieces.

Seth Ian Sigman
Crédit Suisse AG, Research Division

Okay. Have you said historically whether or not Field & Stream is profitable on its own?

Edward W. Stack
Chairman & CEO

We have. We said that it's relatively breakeven, and from a cash flow standpoint, it's cash flow positive. So it's not necessarily hurting the business, yes.

Seth Ian Sigman
Crédit Suisse AG, Research Division

Okay. And then my follow-up question is about the margin outlook for the rest of the year. I think the guidance implies that Q1 would have been the worst in terms of the EBIT margin decline this year. Could you just remind us how to think about gross margin, SG&A, the progression as we move through the year?

Lee J. Belitsky
Executive VP & CFO

So we're not giving kind of the quarterly guidance on the progression. We're sticking with our SG&A guidance that we had for the full year. It's still right in the range where we expect it. So no changes from the prior guidance with regard to SG&A.

Operator

The next question is from Scot Ciccarelli of RBC Markets (sic) [RBC Capital Markets].

Gustavo Arturo Gonzalez
RBC Capital Markets, LLC, Research Division

This is actually Gustavo Gonzalez on for Scot this morning. So as it relates to the 125 stores that you plan to fully remove the hunt category, how much of that is the progress year-to-date? And also, as you currently see it, is there sort of a potential for expanding the remodels beyond the initial 125 this year?

Edward W. Stack
Chairman & CEO

So to expand this year, very small. There might be some, but I wouldn't say that we're going to do a lot more. As far as where we're at right now, we're just clearing through that merchandise, but we haven't made any meaningful change yet. That'll be later in this quarter. It will be all set for back-to-school, though, in most of the stores.

Gustavo Arturo Gonzalez
RBC Capital Markets, LLC, Research Division

Got you. And then just a follow-up. So assuming things sort of do go according to plan, what is your sort of optimal percentage of total store base that you think you need to get to sort of get positive store-level comps?

Edward W. Stack
Chairman & CEO

Sorry. I'm not sure I understand the question. Can you repeat it?

Gustavo Arturo Gonzalez
RBC Capital Markets, LLC, Research Division

Sure. So what is your sort of optimal percentage of total store base that you're sort of aiming, I guess, in the long term in terms of the refreshes?

Edward W. Stack
Chairman & CEO

Do you mean to take hunt out, out of...

Gustavo Arturo Gonzalez
RBC Capital Markets, LLC, Research Division

Correct.

Edward W. Stack
Chairman & CEO

Yes. So we haven't guided anything more than the 125 right now. We do feel that our comp store sales for the year will be somewhere between 0% and 2% for the year.

Operator

The next question is from Peter Benedict of Baird.

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

A quick -- another one on hunt here. Just -- I mean if we exclude the Field & Stream stores, I mean there are a number of stores, I would imagine, that do, do a meaningful hunt business for you guys. Can you give us a sense under the core DICK'S banner? So just trying to understand maybe what that number might be or how you might size that as we think about potential outcomes here. Certainly, Field & Stream is one decision, and then hunt within the DICK'S banner is another. Could you maybe comment on maybe what percentage of your stores in DICK'S do what you would maybe consider a meaningful hunt business? That's my first question.

Edward W. Stack
Chairman & CEO

Sure. And I'm going to disappoint you because I'm not going to answer it. But right now, we're not ready to do that. As we said, we're doing a complete strategic review of the hunt business. And I would suspect in the near future, in the next call or 2, we'll give you a sense of exactly what that's going to be.

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

Okay. That's fair enough. Lee, maybe just a comment on maybe the cadence of the SG&A investments. You said you were on track. Can you give a sense for maybe how much landed in 1Q, whether it be the gross hit or even net, after some of the productivity savings?

Lee J. Belitsky
Executive VP & CFO

I think the SG&A investments are relatively ratable over the course of the year this year.

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

Okay. Perfect. And my last question, just you had mentioned, I think, in prior calls maybe efforts by Under Armour to better segment some of their product. I think 2Q was kind of a timing where you thought maybe that was going to come in. Can you maybe give us an update on what you're seeing with Under Armour and how you're kind of planning that over the balance of the year?

Edward W. Stack
Chairman & CEO

Well, I won't get specific to how we're planning it, but we're very pleased with the progress that Under Armour has made, especially in our men's businesses. It was really quite good. So all in all, we're very pleased with what's going on with Under Armour and the direction forward.

Operator

The next question is from Steve Forbes of Guggenheim Securities.

Steven Paul Forbes
Guggenheim Securities, LLC, Research Division

So I wanted to follow up on the planned removal, right, of hunt of the 125 stores. So I don't know if you can maybe provide some color for us on the reallocation of space. What categories are poised to get more space? And sort of how do you envision, right, productivity ramping or sort of a maturation of some sort of return profile tied behind this initiative?

Edward W. Stack
Chairman & CEO

Well, each of the stores could be different. As we said, it will be based on what's happening in that local market. So I can't give you a blanket peanut better spread what is going to take that space. As we go forward, how these mature, we would expect them to mature similar to what we did with those 10 stores.

And we indicated that those 10 stores, both in the fourth quarter and again in the first quarter, comped positively.

Steven Paul Forbes
Guggenheim Securities, LLC, Research Division

And maybe a follow-up on this topic as well. I believe all the stores were going to be reset ahead of Father's Day. Is that still the plan? And then is there -- you just mentioned sort of that there's a sort of a -- the run rate of the expense investments sort of baked into the P&L already. But just I wanted to confirm that, right, given this initiative is concentrated within the second quarter.

Edward W. Stack
Chairman & CEO

Well, Lee can kind of comment -- has already commented that we're on track and are comfortable with our -- the expenses and the investments that we're making. And I'm not sure where it might have been confused, but we never indicated that this would be done by Father's Day. We indicated it will be done in the second quarter. So look at this -- the vast majority of these would be done by back-to-school.

Operator

The next question is from Tom Nikic of Wells Fargo.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

Lee, just something from a modeling perspective. You mentioned the 40 basis point impact on the SG&A, and now some expenses shifted out of other expense into that line. Is that something that will happen throughout this year? Or was that like a onetime thing in Q1?

Lee J. Belitsky
Executive VP & CFO

We've got a lot of kind of retirement plan assets, deferred comp assets out there for our management team, and they have to get revalued every quarter based upon market movement there. So that number is going to move around. It could go up. It could go down on the SG&A side, and then they'll be an offset in other expense. So it has no impact on net earnings.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

Got it. Okay. That's helpful. And just a higher-level question about the -- some of the things you're doing to enhance the in-store experience, the batting cages and things like that. Is there any sort of color or quantification about the response that you've seen from customers in those stores or what that's done for traffic or attachment rates on visits to the batting cages or anything like that?

Lauren R. Hobart
President & Director

Yes. We've been very pleased with the reaction to the batting cages, and we've been very pleased with our baseball business as a result, as Ed mentioned earlier. So you'll see us, as we've already noted, that we're expanding that and looking for other areas where we can add experience to the store.

Operator

The next question is from Camilo Lyon of Canaccord Genuity.

Camilo R. Lyon
Canaccord Genuity Limited, Research Division

Ed, I was curious about your comments about the DSG apparel line. More specifically, I'm curious to know if you can provide some details around the specific type of customer that you're targeting with this value line. Is this a customer that you -- a new customer that you hope to attract? I think you mentioned that this was geared at more that department store customer. It seems like it is. Or is this a line that you hope will more directly compete with the branded options that you offer that would result in a stronger profit profile for you within that category, kind of similar to how CALIA has performed for you over the years?

Edward W. Stack
Chairman & CEO

Yes. We really look at this as white space and a new customer that we can attract into the store. This is not a brand that we expect to compete with Nike, adidas or those brands, of which we are -- we're very pleased with our Nike business. We're very pleased with our adidas business right now. And this is a line that we think that is white space for us. It's more value-oriented. We think it's very good quality. Our team has done a wonderful job with this. Our focus groups have indicated that it's -- they're very pleased with this, and I think this really creates a new -- a new reason to come and shop at DICK'S Sporting Goods for some people who have not shopped us traditionally in the past.

Camilo R. Lyon
Canaccord Genuity Limited, Research Division

And I'm assuming that there's going to be more targeted marketing efforts around this to attract that new customer into the store?

Edward W. Stack
Chairman & CEO

There are, yes.

Camilo R. Lyon
Canaccord Genuity Limited, Research Division

Okay. And we should plan for those investments to materialize in that back half period around launch or a little bit before it?

Edward W. Stack
Chairman & CEO

The second quarter and into third quarter, but they're all baked into our guidance. There's nothing that's going to surprise you.

Lee J. Belitsky
Executive VP & CFO

The one thing I'd add to that, Camilo, is that it's a new apparel customer for us, but we already have a lot of these customers in our stores. There are families that are buying sports equipment in our stores. And they might be looking to save a little bit of money on their athletic apparel purchases, so they might have been going to some other players to buy athletic apparel. So we want to capitalize on those customers who are already in the stores and sell them some more apparel. It's in addition to attracting some new customers.

Camilo R. Lyon
Canaccord Genuity Limited, Research Division

Got it. And then I guess just on the CALIA piece. Was this a similar road map that you launched CALIA with way back a few years back and it just has evolved into a much stronger brand? Is this the same positioning that you're taking to it? Or is there distinct difference between the 2 in how you're -- from like the starting point that you are positioning the introduction?

Edward W. Stack
Chairman & CEO

Well, we're being more aggressive with this. We're starting off with a broader store count, a bigger investment. And this replaces and augments what we used to do with our Reebok licensing agreement. So we have a significant business in this category already that we think we can be much bigger than it is right now, but there's already a baseline where, when we launched the CALIA brand, there was no baseline. We started that from, really, from scratch without transitioning any other brand or category into CALIA. So we're going to be much more aggressive out of the box with this than we were with CALIA.

Camilo R. Lyon
Canaccord Genuity Limited, Research Division

Got it. Great. And then just on the CALIA piece, I think you said you are looking to expand that offering. Could you elaborate on that expansion?

Edward W. Stack
Chairman & CEO

Yes. We're continuing to expand what we're doing with CALIA, broadening the price points. We'll be taking price points up to better-quality product in this category. We'll be doing some things around travel apparel. And we're taking CALIA and making sure that not only from a travel standpoint but also getting it back to the gym and really focusing on what's going on the gym, to and from the gym. And we've -- we're starting to expand some price points. We've seen some good response there, so we think we've got some AUR opportunities with CALIA with better product and higher price.

Operator

The next question is from Brian Nagel of Oppenheimer.

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

So the first topic I wanted to just address a bit more is just inventories. And Ed, I know you talked about this in your prepared comments, but maybe some more color on, really, the makeup of the inventories you've been building now for -- in this quarter, and we saw elevated growth in Q4. So a bit of makeup there. But also, how should we think about inventory growth as we progress further into 2019? Are you at a position now -- are you happy with your position now? Or will there still be -- or should we expect continued outsize earnings growth in Q2, Q3? Then I have a follow-up.

Edward W. Stack
Chairman & CEO

I think it would take -- look at this as kind of -- this is kind of a baseline -- might be a little bit higher depending -- but nothing significant, not meaningfully higher. These are some key categories which we really think is what's bent the curve in our comp store sales, where we were -- we had inventory a bit too low. Now what we've done with Nike with a double table of the Nike Legend tee or the Hyper Dry tee, which is exclusive to us, has done extremely well. We've taken some big bets on some basic key merchandise. We've done this around baseball gloves. So it's around inventory that, for the most part, isn't going to be toxic. An A2000 baseball glove has been an A2000 baseball glove for the last couple of years. It'll be the same as next year. Some of the basic Nike apparel, key item Nike apparel, key item adidas apparel is going to be very similar, some color changes, but it's pretty similar on a go-forward basis. So we haven't gone out and really invested in inventory that could become easily toxic. So it's really basic product that we want to make sure we stay in stock in, and it's starting to pay dividends. We're really quite pleased with it.

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

Got it. And then the follow-up I had was with regard to tariffs. And understanding that the dynamic remains quite fluid, but to date -- so the tariffs that have impacted DICK'S, I guess help us understand the size of that so far. And what's basically been the course of action? I mean has it been a function of lifting prices in your stores, pushing back or working with suppliers or some combination of the 2?

Lee J. Belitsky
Executive VP & CFO

Yes. Really, thus far, it hasn't had a major impact on us. There are a few categories of hardlines. Some are within the hunt space, which we've been reducing already. We've got a little bit in Team Sports, a little bit in the furniture category, like folding chairs and things like that, and the tariffs are increasing on those. It's not across a broad swath of our stores at this point, a broad swath of the assortment in our stores at this point. We've handled it through a combination of negotiating better deals. A lot of this is concentrated in our private brands, in those categories like in furniture and hunt equipment and so on. So we've been able to negotiate some better deals with vendors, and so far, we've only been dealing with 10% increases, so it hasn't had a significant impact. But we'll continue to work through this with our suppliers, whether they be our private brand suppliers or our national brand, and get some sharing of the costs there. And selectively, we'll have to address price. But at this point, based upon the items that the tariffs are on, it's not having a major impact on the company.

Operator

That next question is from Sam Poser of Susquehanna.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

I just wanted to follow up on the tariffs and the impact. You're saying that you -- just to clarify, the guidance -- you're not flowing through all of the beat and part of that is because you're concerned about the consumer reaction if the prices go up. Is that, in effect, correct?

Lee J. Belitsky
Executive VP & CFO

Correct.

Edward W. Stack
Chairman & CEO

Correct.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

And then what percentage of your current mix is sourced in China?

Lee J. Belitsky
Executive VP & CFO

Yes. It's a little hard to get at that because we've got over 1,000 vendors right now that we're buying from, and I would say our China sourcing is more concentrated in our hardlines than our softlines. But it's difficult to go through with all 1,000 of the vendors and get back to where they bring the product in. On our private brand side, very small amount of apparel for us and a pretty good amount of our hardlines on the private brand.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

And then if -- I mean so -- I mean with the existing product that's going from 10% to 25%, I mean that's still -- that's exactly the same because the apparel and other things haven't been hit yet. So it's your hardlines that have -- and so when you think about that from a mix perspective, I mean if it -- if like this past quarter, it had gone to 25% on those goods, what would that have done to your earnings?

Lee J. Belitsky
Executive VP & CFO

We haven't -- it's...

Edward W. Stack
Chairman & CEO

It depends on what the vendors are going to do and how you're going to negotiate with the vendors and how much they would try to get us to eat, how much they would take. So Sam, it's going to be a negotiation, and nobody really knows what's going to happen with these tariffs right now. So as Lee said early on, very upfront and transparent, we're trying to be conservative here because not only do we not know what's going to happen, nobody knows what's going to happen.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

So okay. I mean this -- your guidance, in a sense, is discretion is the better part of valor, for lack of a better term. Is that a fair assessment?

Edward W. Stack
Chairman & CEO

It is, and we're trying to be very transparent to say that we think this is conservative and it depends on what's going to happen from a tariff standpoint which would be, what are our cost of goods, how much of this might we have to eat? We're going to try not to have to take much of that. Can we pass some on from a price standpoint? And what's going to happen to the consumer? Is the consumer going to go into sticker shock on some of this stuff and just kind of take a pause for a minute. So we don't know. We wish we did. If you know, we'd be happy to talk to you about it.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

Well, I appreciate that. I mean let me just ask you this conceptually. Conceptually, if the tariffs happen, that it goes to 25%, I mean do you try to maintain gross margin dollars? Or do you try to maintain your gross margin at that point?

Edward W. Stack
Chairman & CEO

Well, we'll have to take a look at that. It depends on where it goes, and it depends on what our conversations are with each of our vendors. So you can -- I understand what you're trying to get at, and you can ask the question a number of different ways, but it's still going to be the same answer. We really don't know what's going to happen, and we've tried to take a more conservative approach to our guidance going forward because we don't know what the cost will be. We don't know what the price sensitivity will be, and we don't how the consumer will act.

Operator

The next question is from John Kernan of Cowen.

Krista Kerr Zuber
Cowen and Company, LLC, Research Division

This is Krista Zuber on for John. Could you just give us an update on how -- I believe you said the ticket was up 1% in Q1. Could you just give us a little sense of how AURs are trending? And is this still sort of supportive of your prior guidance for AURs to be higher for fiscal '19? And I have one follow-up.

Lee J. Belitsky
Executive VP & CFO

Yes. AURs are running up fairly well, and that's really what's supporting the higher ticket.

Krista Kerr Zuber
Cowen and Company, LLC, Research Division

Is there a possibility, do you think, with all the initiatives that you've been doing on store experience and investing behind some of these key strategic growth areas, that there's potential for traffic to turn positive potentially as early as the second half?

Edward W. Stack
Chairman & CEO

I think we don't want to get in the habit of providing guidance from a traffic standpoint. We think between traffic and ticket, between now and the balance of the year, our comps will be somewhere between flat and plus 2%.

Krista Kerr Zuber
Cowen and Company, LLC, Research Division

Okay. Great. And if I could just slip in one more. Just on the eCommerce fulfillment start-up costs, I believe that sort of the prior guidance is that, that was largely going to be sort of be embedded in Q4. Is that pretty much the same thinking? Are we thinking about that correctly?

Lee J. Belitsky
Executive VP & CFO

That's really a Q3 into Q4 event because we'll be opening in Q3. So yes, it's primarily Q3.

Operator

The next question is from Chris Svezia of Wedbush.

Christopher Svezia
Wedbush Securities Inc., Research Division

I guess, Lee, just to go to you for one moment. Just on the guidance real quick, I think in the prior call, you mentioned SG&A will be a little more elevated in Q2 as you kind of roll out the 125-or-so store remodels. Is that still the case? And then secondarily -- I'm sorry, come again?

Lee J. Belitsky
Executive VP & CFO

That is still the case. It will be slightly elevated in Q2.

Christopher Svezia
Wedbush Securities Inc., Research Division

Okay. And then similar just on gross margin. I think it was guided for a kind of flat to down slightly for the year, with second half having some negative impact as you roll out the new fulfillment center. Is that still the case as well?

Lee J. Belitsky
Executive VP & CFO

Still the case.

Christopher Svezia
Wedbush Securities Inc., Research Division

Okay. Easy, no change. And then just on the tariff situation, not to beat this to death, but I guess how do you guys think about the ability, because your inventory levels are where they are, to bring in product? Or have you brought in product early enough so that that the tariff impact is somewhat mitigated? So some of that -- most of that product is already onshore. And how do you think about as you kind of plan forward to reduce your exposure in China with regard to private label and the hardline product as you think about 2020 purchases?

Lee J. Belitsky

Executive VP & CFO

Well, certainly, having the elevated inventory levels that we have right now provides a little bit of cushion against the tariffs for this year because we have more inventory on hand that hasn't incurred the significant tariffs. As we look forward to next year, it's just going to be matter of what the final tariff deal is. It's a long time between now and next year in terms of trade negotiations and what will happen -- ultimately happen with tariffs. So it's hard to look forward to next year.

Christopher Svezia
Wedbush Securities Inc., Research Division

Okay. And then just final question real quick. Just on the -- once you get the fulfillment centers up and running as we go particularly into that fourth quarter, how sort of agnostic will you be from a consumer purchase perspective, whether they buy in-store or buy online? In other words, will online purchase fulfilled from a new facility be at or above, from an EBIT margin perspective, what you're getting from a direct purchase in store? Or we need to wait till 2020?

Edward W. Stack
Chairman & CEO

The store will still be more profitable, but we are agnostic as to where that athlete buys from us. We just want to make sure we have the market share. We want to service them the best we can however they want to shop with us, whether it be online, whether it be in the store, whether it be online, pick it up in the store. So we are truly agnostic. We want to have a great consumer experience, and we'll work through the profitability as we continue to move what we do with our online business. But we are truly agnostic.

Lee J. Belitsky
Executive VP & CFO

Yes. Just adding to that, we're really pleased with the profitability of our eCommerce business. It's a profitable channel for us, and we make money on all of our eCommerce sales. But as Ed said, an incremental sale in our stores is more -- is still more profitable than an incremental sale in our eCommerce business. So we'll take the business however we can get it and as additive to earnings for the company, and it's a really good business for us.

Operator

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

Edward W. Stack
Chairman & CEO

I'd like to thank everyone for joining us on our quarterly call, and we'll look forward to talking to you all in the next couple of months. Thank you.

Operator

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