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Dick's Sporting Goods, Inc. (DKS)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the DICK'S Sporting Goods Fourth Quarter Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [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-Investor Relations, Dick's Sporting Goods, Inc.

Thank you. Good morning, and thank you for joining us to discuss our fourth quarter 2017 financial 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. Please note that a rebroadcast of today's call will be archived on the Investor Relations portion of our website located at DICKS.com for approximately 30 days. In addition, as outlined in our press release, a dial-in replay will also be available for approximately 30 days.

During this call, we will be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release and the comments made during this conference call and in our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

We have also included some non-GAAP financial measures in our discussion today. Our presentation of the most directly comparable financial measures, calculated in accordance with generally accepted accounting principles and related reconciliations can be found on the Investor Relations portion of our website at DICKS.com.

I will now turn the call over to Ed.

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

Thanks, Nate. I'd like to thank all of you for joining us today. As we announced this morning, we're very pleased to deliver results within our guided range. We earned $1.22 per diluted share on a non-GAAP basis, and our total sales increased 7.3% to approximately $2.66 billion. Within this, consolidated same store sales decreased 2% on a 13 to 13-week basis. Our eCommerce business increased approximately 9% and, as a percent to total net sales, increased from 17.9% to 19%.

As previously guided, gross margins declined year-over-year, but less than we had anticipated on our November call. During the quarter, our Team Sports, Footwear and Outdoor Equipment business comped positively. We also drove strong comp growth in our private brands, which significantly outpaced the company average posting strong double-digit comp sales gains and improved margin rates.

As expected, these areas of strength were offset by the hunt and electronic categories, while our apparel business comped approximately flat. Within apparel, strong sales growth came from adidas, CALIA and

Patagonia, which is offset by significant weakness in the Under Armour brand, as expanded distribution and a highly promotional environment impacted its sales.

In 2018, we will continue to aggressively adapt our apparel business by allocating more premium space in our stores to our own brands, which, as I indicated, comped double digits in the quarter, as well as the brands that are performing well and have differentiated assortments. With a stronger innovation pipeline from Nike, adidas, Callaway and TaylorMade, and our own private brands, we now expect margin rates will be impacted less than previously anticipated. We have a strong position in the marketplace, and we're focused on leveraging our financial strength to make critical investments in our business in order to improve efficiency and earnings over the long term.

As we previously outlined, our goal is to build the best omni-channel experience in the sporting goods category, and we will continue to increase our investments in the consumer experience, supply chain, technology, private brands, DICK'S Team Sports HQ, and our associates. We will invest in our supply chain in an effort to increase our in-stock levels down to the size, color level, improve the speed of delivery to our customers. We expect these investments will improve customer satisfaction, inventory turnover and merchandise margin rates.

Next, investments in technology are critical, as we seek to improve the consumer experience online. We will also make investments in our fulfillment system and networks to shorten the delivery window for our online orders. Additionally, we remain focused on driving differentiation and exclusivity within our assortment, particularly in our private brands.

This year, our private brands significantly outpaced the company average, as we grew this business to more than $1 billion and expanded gross margins. We expect our own brand growth again to outpace the company average in 2018. During 2018, we will accelerate in our private brand area, investments in talent, as well as marketing, design, and technology capabilities to drive growth in our key brands, such as CALIA, Field & Stream, Top-Flite, Walter Hagen and Fitness Gear. We'll also launch a couple of new brands this year.

Looking ahead, we continue to believe our private brand business can reach $2 billion over a relatively short period of time. As the industry leader, we're making these investments from a position of strength, and continue to believe we will be the clear winner in our sector. We will achieve this by striving to flawlessly execute the basics while focusing on elevating the consumer experience.

I'd like to thank our associates across the company for the hard work and commitment they showed to deliver the fourth quarter results and for their upcoming efforts in 2018.

I'd now like to turn the call over to our President, Lauren Hobart.

Lauren R. Hobart

President, Dick's Sporting Goods, Inc.

Thank you, Ed, and good morning, everyone. During this past quarter, we made significant progress on our efforts to better serve our customers. We invested in payroll to ensure our stores were stocked to deliver improved customer service, particularly during peak holiday hours. We also made enhancements to our ScoreCard loyalty program to make it more rewarding for our customers. This included no longer expiring reward points at year end to ensure the customers have ample time to reap the benefits of shopping with us during the holiday season.

Additionally, we continue to test new ways to better reward our most loyal customers. In eCommerce, our teams did a great job, as we completed our first full year and our – first holiday season on our new web platform. We had a record-setting Cyber Monday, but also had some intermittent performance issues with our site during the quarter, resulting in a fourth quarter growth rate of 9%, which was below our expectations. We have mitigated many of these issues, and we've seen our eCommerce growth accelerate in the first quarter.

In 2018, we will elevate the online customer experience by improving the design and functionality of product pages, streamlining the checkout process and implementing more personalization. From a delivery perspective, we will focus on increasing our speed to customer, and we will explore new shipping and fulfillment methods.

In marketing, we are leveraging the strength of our brand to deepen the emotional connection that we have with our customers through our shared passion for sports. Last month in connection with the Winter Olympics, we launched our new Unity campaign, which is an expression of our company's belief in the power of sport and its ability to unite communities. The Unity campaign aims to remind people of the tremendous value of sport and, in the process, drive brand equity and increased sport participation.

We also remain focused on driving traffic to our brick-and-mortar stores and our online site. We are prioritizing personalization and leveraging our ScoreCard database, which is a tremendous asset to deliver more targeted marketing and offers to our customers. As media consumption continues to shift, we have moved significant marketing support to digital channels to engage more personally and directly with consumers.

In closing, we see tremendous opportunity as we continue to transform our business to meet our customers' ever-changing needs, both in-stores and online. Our focus for 2018 is on executional excellence and continued innovation to drive differentiated competitive advantage.

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

Lee J. Belitsky

Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

Thank you, Lauren, and good morning, everyone. Beginning with our fourth quarter financial results, which was a 14-week quarter, consolidated sales increased 7.3% to approximately $2.66 billion. On a 13 to 13-week comparative basis, consolidated same store sales, which includes all banners both online and in-store, decreased 2%. The comp decrease was driven by a 2% decline in ticket due to the promotional environment, transactions were flat which was an improvement compared to the prior quarter. eCommerce sales increased approximately 9%.

During the quarter, our private brand business remained strong, comping positive double digits with increasing margins from the same period last year. Footwear continued to comp positive low-single digits after fully anniversarying our premium full-service footwear department expansion. Excluding the impact from Under Armour's broadened distribution, we were pleased with our apparel business, which benefited from a strong merchandising strategy and favorable weather.

Team Sports and Outdoor Equipment also posted healthy comp sales gains. As expected, the hunting and electronics businesses remained under pressure during the quarter. Our hunting business comped negative high-single digits, indicative of a weak overall industry demand that has affected competitors and suppliers alike.

Gander Mountain filed for bankruptcy last year. Remington Outdoor Company announced plans to reorganize under bankruptcy protection and major gun manufacturers have posted steep sales and earnings declines. And while we saw comps sequentially improve from the third quarter, as we captured displaced market share from the Gander Mountain closings and anniversaried the 2016 presidential election, the improvement was not as much as we had expected. We expect the hunting headwind to continue throughout 2018, and it'll likely be more impactful as a result of our recently announced changes in our firearms policies.

Our electronics business, which is primarily Performance Tracking, continued to post significant double-digit negative comps, as the industry sector is in significant decline. This headwind is expected to continue into 2018, as we are meaningfully reducing our exposure to this business. Additionally, the anniversary of the Chicago Cubs 2016 World Series championship was a significant headwind to our comp sales during the quarter, particularly because the vast majority of Houston Astros' sales, who won this year, were not included in our comp base. However, the balance of our license business was quite strong.

On a non-GAAP basis, gross profit for the fourth quarter was $787.3 million or 29.55% of sales, which was down 130 basis points versus last year. This decline was driven by lower merchandise margins and a promotional marketplace. In addition, we saw higher shipping and fulfillment cost as a percentage of sales, as our eCommerce business grew.

Non-GAAP SG&A expenses were $590.3 million for the quarter, or 22.16% of sales, and deleveraged 69 basis points from the same period last year. This deleverage was primarily driven by higher store payroll expenses as we invested to deliver improved customer service during the peak holiday hours, as well as approximately $18 million of asset impairment charges. These were partially offset by our new eCommerce operating model and lower incentive compensation.

The effective tax rate for the quarter was approximately 36%, which reflects a one-month benefit from tax reform. In total, we delivered non-GAAP earnings per diluted share of $1.22, which includes $0.09 from the 14th week. During the quarter, we incurred transition cost of approximately $11.5 million or $0.07 per diluted share related to improvements to our ScoreCard program, as well as a $6.6 million charge or $0.04 per diluted share related to a litigation contingency.

We have excluded these two items from non-GAAP earnings to enhance comparability. For additional details, you can refer to the non-GAAP reconciliation in the tables of the press release issued this morning.

For the full year, we delivered non-GAAP earnings per share of $3.01, which included $0.09 from the 53rd week. This compares to $3.12 per diluted share in 2016. On a 52-week to 52-week comparative basis, consolidated same store sales decreased 0.3%. eCommerce sales increased approximately 13% to over $1 billion following the successful relaunch of DICKS.com last January.

Now, looking to our balance sheet, we ended the fourth quarter with approximately $101 million of cash and cash equivalents and no borrowings outstanding on our revolving credit facility. Turning to our fourth quarter capital allocation, net capital expenditures were $65 million or $88 million on a gross basis. We also repurchased approximately 1.3 million shares for $42.5 million at an average price of $31.70. In total, for 2017, we repurchased 8.1 million shares for $284.6 million, and have $757 million remaining in our authorization.

Additionally, during the quarter, we paid $17.7 million in dividends. And a few weeks ago, we announced an increase to our quarterly dividend of 32% to $0.225 per share.

Before moving to our guidance, I'd like to provide a few comments on tax reform. The passage of the Tax Cuts and Jobs Act in December will result in an improvement in cash flow from a lower tax rate. As the retail environment is very dynamic, this will provide the flexibility to enhance our investments in our business and our associates.

Among other things, these savings will fund important investments in our omni-channel strategy, including the addition of nearly 200 new positions, primarily within technology and eCommerce that support key growth areas for the company, as well as the expansion of our Conklin, New York distribution center to include eCommerce fulfillment capabilities.

The expansion will allow us to fulfill online orders more quickly and efficiently, including giving us the ability to offer cost effective, one-day delivery to customers in the Northeast and will create new jobs within the local community. We will also return capital to our shareholders starting with the recent increase in our quarterly dividend.

Now, turning to our outlook for 2018, as a reminder, to more closely align with industry practices, we will no longer provide quarterly comp sales and EPS guidance, but we'll continue to provide annual guidance, which we will update on a quarterly basis as appropriate.

Additionally, keep in mind that because 2017 includes 53 weeks, any comp sales comparison to the 2017 calendar will reflect a one-week shift. This shift will not have a material effect on comp sales for the year, but will impact quarterly results. As a result of the shifted calendar, we expect our sales and earnings to be positively impacted in quarters one and two, but this will be offset in quarters three and four.

As Ed discussed, within our guidance, we have contemplated significant investments that will have a near-term impact on our earnings. We are also reviewing our expenses to reduce costs and provide some offset to the cost of our investment. Taken together, we believe these actions will strengthen our business for the long term. All this considered, for 2018, we expect earnings per diluted share to be in the range of $2.80 to $3 and consolidated same store sales to be flat to a low-single digit decline. Our EPS and comp sales guidance includes the estimated impact of the changes to our firearms sales policies.

Operating margin is expected to decline year-over-year, driven by SG&A deleverage, as we make strategic investments in our business and restore incentive compensation plans to average historical levels. Gross margin is expected to decline slightly, as we see an improving product innovation cycle and better balance of inventory in the supply chain, reducing pressure on gross margins versus our viewpoint a few months ago.

Also, as outlined in our press release, due to the significant reduction in new store openings from 2017, we expect a meaningful reduction in pre-opening expenses. Our earnings guidance assumes an effective tax rate of 26%, although we expect the first quarter rate to be approximately 30% due to the accounting rules around tax treatment and equity compensation.

Our earnings guidance is based on an estimated 103 million diluted shares outstanding, which includes the expectation of share repurchases to fully offset dilution in 2018. However, we will consider using our cash flow to continue to opportunistically repurchase shares.

We will continue to make significant capital investments in the business, which will be more concentrated in technology and eCommerce fulfillment. In 2018, net capital expenditures are expected to be approximately $250 million or about $280 million on a gross basis. 2017 net capital expenditures were $373 million or $474 million on a gross basis, and included a significantly higher number of new store openings, as well as a new regional distribution center.

We are confident that the investments we are making will set a great foundation and will benefit DICK'S over the long term.

This will [ph] conclude (18:39) our prepared remarks. We appreciate your interest in DICK'S Sporting Goods. And, operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Kate McShane with Citi Research. Please go ahead.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. Thanks for taking my question. My question's centered around the eCommerce growth rate. I know you had mentioned in the prepared comments you had some operational issues in the fourth quarter. I wondered if you could highlight what that was and what the growth rate would have been ex that. And can you tell us how much you fulfilled from the store during the fourth quarter for your eCommerce sales?

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

Yes. We had several issues during Q4. We did have a number of wins during the quarter. And we had a very strong Cyber Monday, we had peak volumes that had never been reached before on our new platform, but we did have several glitches throughout the quarter where consumers had challenges either shopping or more commonly checking out of the site. And cumulatively that did impact us in the quarter. We are not prepared to share what the comp would have been had those issues not happened. But it was meaningful.

In terms of your next question about how much we're shipping from stores, we don't share exact numbers, but we are shipping the majority of our eCommerce volume from our stores.

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

A

Kate, this is Ed. What I think is really important to note is that some of these glitches we've had, the vast majority of them we have mitigated. And as Lauren said in her script that we've seen an acceleration of our eCommerce sales so far this quarter.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

Operator: Our next question comes from Simeon Gutman with Morgan Stanley. Please go ahead.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning. Ed, I wanted to ask you first regarding the businesses' investments and this transition that's happening, can you assess where you are with it? I know there's in-store technology, eCommerce investments, Team Sports, can you talk about where you are? And does – I guess – I heard it's the gross margin being a little better is sort of getting you off the invest – or it looks at least the margin degradation is going to be a little less than it was supposed to be. Is that fair? Or are there more investments that are on the way?

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

A

No, I think that – from an eCommerce standpoint, there's going to constantly be investments. That's never really going to end. Technology changes and upgraded, so that's going to continue. But as we take a look at where we're making some of these investments from a supply-chain standpoint, we think that we'll – we get this done this year. That will be a big piece of it.

Team Sports HQ, we're going to continue to make investments in. That's part of the technology group. So these investments will continue, but we believe that we'll start to leverage these investments and they will help us with the consumer experience, which you think will help sales and also these will help us from a gross-margin standpoint.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

And then Lee mentioned there's an additional – a continued focus on expenses. Can you give us a sense what the right level of expense dollar growth is granted you're not opening stores at the same rate? So preopening will come down, and there'll probably be other expenses. But the business, historically, has been in this mid-to-high single-digit range. Next year, it kind of looks a little bit reduced from that level, but where is the business – where should it go to over time?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Well, we haven't guided to that long term. The one item that's a little bit of an anomaly for this year, as we're into it, is kind of, as I mentioned, the restoration of kind of the incentive compensation, which – those payments are very minimal this year. So that is going to affect the growth rate for this coming year. But we expect once that normalizes that we'll have SG&A growth that's more in line with sales growth going forward.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks.

Operator: Our next question comes from Robert Ohmes with Bank of America Merrill Lynch. Please go ahead.

Alexander Perry
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning. This is Alex Perry on behalf of Robby. Thanks for taking our question. I just wanted to ask, how should we think about same store sales trends through the year. Would you expect a stronger second half versus first half due to the timing and flow of the new product that you mentioned?

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

A

We're not going to guide to give quarterly or kind of what the sliding scale is on a quarterly basis from a sales standpoint. We expect our sales to be flat to low-single digit comp for the year. But we're not going to comment on quarter-by-quarter or how they're going to go through the year.

Alexander Perry
Analyst, Bank of America Merrill Lynch

Q

Perfect. And then just a follow up, can you comment on your perception of industry-wide inventory levels, and how close we are to seeing that clean-up?

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

A

I think we're pretty close. I think it's pretty cleaned up. I would say the hunt category has probably got some inventory in the pipeline, but the balance of our business we feel that not only our inventory is in good shape, but we think the industry's inventory is in pretty good shape.

Alexander Perry
Analyst, Bank of America Merrill Lynch

Q

Thank you. Best of luck.

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

A

Thank you.

Operator: Our next question comes from Camilo Lyon with Canaccord Genuity. Please go ahead.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Thanks. Good morning. Ed, in your prepared remarks, you talked about the excitement around some of the new product innovation from the key brands, I think you mentioned Nike and adi. You talked about the weakness that you experience at Under Armour. You also talked about shifting more premium space to your private brands. Can you just help us understand – are you actually shifting more square footage to these brands that are coming to the market with greater innovation, so you're reducing those ones that are underperforming? And will the balance of that shift be made up with your private brands? And I think you launched last year Second Skin as your private apparel compression brand. So any sort of color you could provide on that would be helpful.

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

A

Well, our private brands will have more space this year than they did last year, primarily driven by – I think we said Field & Stream, CALIA. We have a licensing agreement with Reebok. Probably 90% of the apparel product you see on our floor is Reebok. The golf brands we have from an apparel standpoint, Walter Hagen, Slazenger have done extremely well combined. So you're going to see more space there and less space in some of the brands that are not performing as well. The innovation pipeline with – that Nike has, we're really very enthusiastic about that. We're enthusiastic about what's going on with adidas also.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got it. And then I guess you did mention that you're launching into new categories in the private brands. Would these brands mentioned in what you just said, or are they incremental to what you already have, what you called out?

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

A

There's two that are incremental and they'll be phased in, but – the Tommy Armour brand from a golf standpoint. From an equipment standpoint, we're launching in shortly and then later this fall, we'll be launching an outdoor brand that we'll talk about as we get ready to launch that.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Is that on apparel, outdoor apparel brand?

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

A

It's outdoor apparel, but it will have some hardlines components to it eventually.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got it. Okay. Thanks very much. Good luck.

Operator: Our next question comes from Bill Schultz with Goldman Sachs. Please go ahead.

Bill Schultz
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Thanks, guys. Ed, can you maybe just talk about how your comp metrics were impacted by the firearms announcement you made a few weeks ago? Have you seen any sort of drop-off in store traffic at all quarter-to-date, and can you just give us a little bit of a flavor around that? Thank you.

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

A

Well, we were actually surprised the outpouring of support that we received from this. It hasn't been long. It's only been two weeks and we've seen a bit of a difference in the hunt business, not an awful lot, but it's too early to tell how this is going to be impacted. But we've got – we've got what we think the impact will be baked into our guidance.

Bill Schultz
Analyst, Goldman Sachs & Co. LLC

Q

And then just one more follow-up, maybe this is a little short-term focused, but our checks from the Eagles Super Bowl win look pretty solid. You've got a pretty good concentration of stores in that market. Can you talk to how that win may have impacted your first quarter comps and margins?

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

A

Yeah. We're not going to get to that level of detail. But the Eagles were good for us. It was a good win. We're very happy with our licensed business and we'll see what happens in the playoffs going forward.

Bill Schultz
Analyst, Goldman Sachs & Co. LLC

Q

Understood. Thanks, Ed.

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

A

Sure.

Operator: Our next question comes from Michael Lasser with UBS. Please go ahead.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. Ed, can you unpack your comp guidance for this year? You are flat to down low-single digit. At the midpoint would be worse than what you did in 2017 suggesting you are expecting some degradation. Is that because you think the industry demand is going to degrade this year or your share won't be as good as it was last year?

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

A

Well, I think there's going to be still some – I think there's going to still be some pressure with Under Armour. And then the announcement we made two weeks ago regarding our firearms policy is not going to be positive from a traffic standpoint and a sales standpoint.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

With that being said, there are some other positives. You'll lap some of the degradation that the hunting category has had. Presumably, you won't have the intermittent issues with the website, you're launching some new private brand products, there's going to be more innovation. So is there a level of conservatism in your guidance that as you thought through how you're going to guide for this year that you baked in?

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

A

Well, I'm not going to say that it's conservative or aggressive. I'm going to say, we're very comfortable with that. We'll update it quarter by quarter. There are some areas of strength in the business. There are areas of strength in the business. The innovation pipeline, as I said, Nike, adidas, Callaway, TaylorMade, a few other brands. But we're also taking a look at the announcement that we made last week and trying to – and have that baked into our guidance. And like I say, after only two weeks, it's too early to tell. We can give you a little bit better – we'll give you a lot better picture of it at the end of our first quarter call.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

And my follow-up question is, Ed, from a longer run perspective, what do you expect the category – and collectively the categories that DICK'S participates in, to grow at? I think the market would be helped by having a better understanding of what the long run growth rate potentially is for the business.

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

A

Well, I'm not going to guide to what we think the long-term growth is, but we think there's a fair amount of growth that's available here, not only from the innovation pipeline that's coming out from some of our key vendors, but also what we're doing to differentiate our business from competition. And we think there will be some more consolidation of other retailers and market share that will be up for grabs. And we're in a very strong position to take that market share, and we'll aggressively go after it the same way as we did Sports Authority and what we did with Gander Mountain and Golfsmith.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Thank you so much, and best of luck.

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

A

Thank you.

Operator: Our next question comes from Chris Horvers with JPMorgan. Please go ahead.

Tori K. Bertschy
Analyst, JPMorgan Securities LLC

Q

Hi. This is Tori Bertschy on for Chris. Thank you for taking our question. Can you talk about the cadence of gross margin in 2018?

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

A

When you say the cadence, what do you mean?

Tori K. Bertschy
Analyst, JPMorgan Securities LLC

Q

Is it supposed to be somewhat similar to the past two quarters and then getting better in the second half? I think on 3Q, you said it was going to be less of a headwind in the second half.

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

A

Yeah, again, we've said that we're not going to provide quarterly guidance. So we've given our guidance as to what it will be for the year. We think that the gross margin impact is not going to be as great as we had anticipated because of the pipeline of product that we see coming out, some things that we've done with our private brands, and what we think we can do from a supply chain standpoint to mitigate some markdowns on the back end. But how that's going to play out through the year, we're not ready to comment on. But we will update you, obviously, at the end of each quarter where we're at.

Tori K. Bertschy
Analyst, JPMorgan Securities LLC

Q

And then as my follow-up, can you quantify how much the merchandise margin was down in 4Q?

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

A

We haven't commented on exactly what that is. But a big part of it was the merchandise margin rate because of the promotional environment and some of the issues with some of our brands and broadened distribution strategies.

Tori K. Bertschy
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Our next question comes from Seth Sigman with Credit Suisse. Please go ahead.

Seth I. Sigman
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Good morning. I wanted to follow up on the pricing strategy. So you made some more aggressive changes in 2017, including promoting that price match guarantee. You're guiding to gross margins down, I guess, just slightly in 2018. Do you see the price environment improving and less price investments from DICK'S or do you just have greater offsets on the other side of that?

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

A

Well, I think that the market is bringing some innovative product that won't be as widely distributed that you'll be able to make a full margin on. A case in point is, Callaway with their new Chrome Soft Golf Ball and all the Truvis colors. That went up from $40 to $45. And we think it's not going to discount it, it's going to help our margin rates. The new Nike React shoe that we launched with a couple of pretty narrow band of retailers has been very successful at $150. So we just think there's a better innovation pipeline coming out from our key vendors than there has been in the past.

Seth I. Sigman
Analyst, Credit Suisse Securities (USA) LLC

Q

So basically it's mix that should help offset whatever other headwinds you have in the business?

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

A

Yes.

Seth I. Sigman
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Okay. And then just following up on the comp guidance for the year, flat to down low-single digit. As of the third quarter, you had talked about roughly flat. And I'm just curious, are you seeing anything that would cause you to be a little bit more cautious now as you have better visibility on 2018? Because clearly you should see some benefits also from some of the strategic initiatives that you talked about earlier.

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

A

Well, we will, but there's a couple of things. The accessory business, which is really the Performance Tracking business, industry-wide, has been very difficult. That had been a relatively good business for us. It continues to decelerate, if you will, or comps are down pretty significantly over the last couple of years. And it's a business we are going to – I'm not saying we're getting out of it completely, but we are significantly reducing our presence in that business.

Margin rates are getting compressed. The sales are continuing to go down. We can find a better use for that square footage in our store, so we're significantly reducing our investment there. And also, since the call in November around our third quarter call, the change in our firearm policy is not insignificant.

Seth I. Sigman
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you.

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

A

Sure.

Operator: Our next question comes from Brian Nagel with Oppenheimer. Please go ahead.

David Bellinger
Analyst, Oppenheimer & Co., Inc.

Q

Hey, guys. Good morning. It's David Bellinger on. A couple of questions. So, first, can you give us a sense on what's happening in-stores in terms of traffic and conversion? And what is it you're doing to address any issues there? It seems as though in-store comps have been tracking down, say, low-to-mid-single digits of late. Is there any improvement baked into your guidance from here?

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

A

Well, we think that it will get a little bit better and will be driven by, as I said, the innovation that's coming out there in the marketplace with some – I think we've got the opportunity to be in a relatively good product cycle right now, which I think will help. I don't mean to be a broken record, but that will be offset by some of the accessory pieces, the Performance Tracking we talked about, and our firearm policy. Those are some of the pluses and...

David Bellinger
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Got you. And then just switching to online, just thinking about the current eCommerce infrastructure you've built out and the 850 or so stores you have, how should we think about the level of online sales the business can support today and where that number should go with the new digital investments you've got planned for 2018?

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

I believe in our prepared remarks we had said that we were about 19% in Q4 of an eCommerce mix. And we are planning for aggressive growth in that channel. So it will continue to balance in favor of eCommerce. But we have a very large store base, obviously that continues to be a profitable contributor for us as well. So it's a mix.

David Bellinger
Analyst, Oppenheimer & Co., Inc.

Q

Cool. Thank you very much.

Operator: Our next question comes from Mike Baker with Deutsche Bank. Please go ahead.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Couple of questions from me. One, you said the 9% growth in eCommerce was below your plan. Can you tell us what your plan would have been without the glitch that you guys talked about?

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

A

We're not going to get to that level of specifics. But we anticipated it to be double digits, kind of close to mid-double digits, and some of the issues that we had, we were disappointed about. Our technology group did a great job getting the site built from scratch over the last year, so we're really proud of all that they did. And they've done a great job mitigating these issues right now. And I can't stress enough how pleased we are with our eCommerce business so far this quarter.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.

Q

Understood.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Just on the mid-double digits, I think Ed's referring to mid-teens.

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

A

Yeah. Yeah. Not mid-double digits, like mid-50s.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

50s, yeah. 50.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.

Q

That would have been something.

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

Yeah.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Can you talk about – was this around the holidays, and I guess related to that, just the general pace of business throughout the quarter?

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.
A

Are you speaking specifically to the eCommerce business?

Michael Baker
Analyst, Deutsche Bank Securities, Inc.
Q

I mean, really both, just eCommerce and total comps.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.
A

Yeah. All right. I mean, generally speaking, we had a very strong – I'll speak from the eCommerce perspective, a very strong Cyber Monday, Cyber Week. We had tremendous demand in November. In December, the market was a little bit more promotional, and that affected the brick-and-mortar and the eCommerce business.

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

But it came late. I think most retailers would say that on the brick-and-mortar side, the sales came late.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Understood. If I could slide one more. When you had these calendar – or the extra week in the calendar shifts, the last time you had it, we rebased the comps – the comparables from a year ago. I'm just wondering how you're going to speak to it going forward. Should we think about a different comp base than what you guys actually reported?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.
A

I'm not sure how it works in your models, but we are shifting our calendar and we're going to report against the same weeks last year. So everything we report from a comp basis will be comparable to the same week last year.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.
A

Same calendar week.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.
A

Same calendar week and same....

Michael Baker
Analyst, Deutsche Bank Securities, Inc.

Q

So correct me if I'm wrong, that's different than how you did it last time you had an extra week, if you recall. And, Lee, maybe this was before your time, but I think you shifted it such that the comparable comp, when we do a two-year comparison, would have been different than what you guys had reported at the time.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Right. We're going to report it shifted. We're going to report shifted comps. I think we reported both last time, unshifted and shifted. This time, we're going to report the shifted comps, because it's a more meaningful indicator.

Michael Baker
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That might require some follow-up. But, okay, I appreciate the color. Thanks.

Operator: Our next question comes from Omar Saad with Evercore ISI. Please go ahead.

Omar Saad
Analyst, Evercore Group LLC

Q

Thanks for taking my question. I was hoping you could give an update on both the price matching that you announced early last year and how that worked over the holiday. And we thought we'd see a little bit more on the comp, but the gross margins I think might have been a little bit better than we expected. And then, also on real estate, an update on new store opportunities. I know you've kind of put the brakes on or slowing that down for a pause period. Where are you on that as well? Thanks.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

I'll take the first part of the question about the Best Price Guarantee. We have seen tremendous success with that in many different ways. It is giving our customers and our associates the confidence to make a purchase without worrying about the price. So it's actually taken price somewhat off of the table in these discussions and made for a much more hassle-free experience. That said, it has not been extremely dilutive to our margin rate. It is something we were just doing sporadically before without sort of making it a policy and taking credit for the position. So, Best Price Guarantee, I think, has been very successful.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

And we'll continue to roll forward with the Best Price Guarantee.

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

A

And on the real estate piece, what we've – we have slowed down our store growth, again, not because our new stores are not working, we're very pleased with the performance of our new stores, we think that the real estate prices are going to continue to fall. We've seen a pretty meaningful reduction, which I'm not going to comment on how much, but we've seen a pretty meaningful reduction in renewals for stores, or relocation – relocate a store from one location to another in the same trade area. We're getting a brand new store and many times less rent than what the renewal rent would have been. So we're going to make deals where we feel we get a great deal and we're going to wait and let see what happens with the real estate prices with additional store closings.

Omar Saad
Analyst, Evercore Group LLC

Q

Got you. That's helpful. And then if I could just sneak one follow-up on Under Armour, is the issue there you think the product pipeline or the broadened distribution, because some of the other brands that you've mentioned are doing well? You have a lot of the same kind of distribution channels that Under Armour has moved into. Thanks.

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

A

Yeah. I think Under Armour is going to come back. I think Under Armour's – I think Kevin and his team are really focused on fixing the business. And I think they'd probably talk to you about that they have to work on their segmentation policy, which I think they've talked about. The broadened distribution, I think, definitely had an impact. And I think it's going to continue to have an impact until the segmentation is done. But those are the things you should talk to Kevin and the Under Armour team about.

Omar Saad
Analyst, Evercore Group LLC

Q

Thanks, Ed. Thanks for the insight, guys.

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

A

Sure.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

Yeah.

Operator: Our next question comes from Peter Benedict with Baird. Please go ahead.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Hi, guys. Thanks for taking the question. Lee, just a clarification. You said 30% tax rate in the first quarter, 26% for the year. Do we read that as 25% for the remaining three quarters and that's the longer-term tax rate? That's my first question.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

So we will have a lower rate in the second, third and fourth quarter to balance it out to the 26%. The longer term, it depends on the equity – the extra taxes related to the stock compensation and that's going to vary from year to year. So it could reduce our tax rate. It could increase it. It just depends on how the stock prices move over time.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's helpful. Thank you. Turning to inventory and payables, how should we be thinking about that as we look at 2018? Do you think inventory kind of grows with sales? And I know you guys made a lot of progress on payables last year. Is there more room to push that? Should we expect the payables ratio to expand in 2018?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

So, I would say that inventory would increase by no more than the rate of sales, but we have internal targets to be better than that. And I would expect accounts payable to continue at roughly the same level of leverage where we are now.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thanks. And then my last question, more to Ed. The 2018 plan seems to envision an operating margin profile that's maybe mid to upper 4% range. How do you think about the risks and the opportunities in that metric longer term? Given what's going on in the sector and across retail more broadly, do you see more opportunity than risk longer term? Is it a balanced view? Just kind of curious how you're thinking about it right now.

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

A

I think long term – it's between a balanced view and kind of – it can get better longer term. We think there will be more consolidation. I think as we continue to refine our private brands and get better from an innovation standpoint in our private brands, that's going to help. We've got two brands in women's, CALIA kind of on the higher end and Reebok on slightly lower end. If you combine those two brands that we develop ourself, it's the number two brand in our women's Athletic Apparel business. Our golf apparel brands are number one or number two in what we're selling today. So we're starting to get some real traction in our private brands and as that continues, that's going to help the margin rates and should help the overall profitability of the company.

Peter S. Benedict
Analyst, Robert W. Baird & Co., Inc.

Q

Okay, great. That's really helpful. Thanks so much.

Operator: Our next question comes from Steve Forbes with Guggenheim Securities. Please go ahead.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Good morning. Just wanted a – a question on payroll, right? So, you mentioned higher payroll expenses during the fourth quarter. Can you touch on whether that's hours versus rate? And then maybe expand on how you're planning labor hours in particular for 2018, given the outlook for comps. Just trying to gauge if you view that there's an opportunity to drive conversion in the box and understand what you're hearing right from customers as it relates to your in-store services in general.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

Yeah. This is Lauren. Our payroll investments in Q4 were in additional hours more than anything. And as we go into this coming year, we're working on rate as well as productivity in terms of what the associates are spending their time doing. We think we have a lot of opportunities to be much more efficient in terms of the various jobs that we give the stores in addition to just taking care of the customer. And they will have everything that they need in order to service the customer, first and foremost, appropriately. So we're comfortable with the investments that we're making in the store.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And then just a quick follow-up here for Lee. I think it was a year ago, right, where D&A included the impairment charge from last year. So I don't know if you can help clarify what the year-over-year increase was in D&A this year on a core basis because I believe you mentioned $18 million asset impairment this year as well. Was that removed from the adjusted numbers? Or wasn't it? And maybe just touch on what D&A should be next year.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yeah, why don't we get back to you on that one to make sure that we have that all straightened up. I'm sure we've picked it up appropriately in supplemental information that's in the back of the earnings release.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Okay. Very good. I'll follow up. Thank you.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Okay. All right.

Operator: Our next question comes from Sam Poser with Susquehanna. Please go ahead.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thanks for taking my question. I have three. One, just a follow-up on the staffing levels. What is the appropriate sort of number of equivalent 40-hour people in a average store, and what was it and where is it going to, and then, of course, the expenses that go with that?

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

A

Yeah, Sam, that's really difficult to say because there's such a wide variety of store volumes. From a 30,000 square foot store that we have in some smaller markets all the way the up to an 80,000 to 100,000 two level store. But we're taking a look at the payroll number. We're taking a look at the services that the stores you need to perform and we've made some investments to increase the payroll in the stores. But to answer your question specifically, we're not going to be able to do that.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Secondly, regarding the change in your firearms rules and then the guidance for the year, doesn't the merchandise mix related to that does help your gross margin profile? And given that you want to expand a lot of your private label and some of these other brands in the soft goods, that also theoretically gives you the real estate in the stores to do such. Am I thinking about that properly?

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

A

Well, theoretically, yes. But our policy has – although the support has been overwhelmingly positive, there has been some negative push-back on this. And some of those customers that buy firearms buy other things also. And we've had some push-back and we knew that that was going to happen, and we try to have that in our guidance, that there's going to be people who just don't shop us anymore for anything.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Got you. But on a gross margin basis, from a mix perspective, it's additive even if – theoretically from a merch margin perspective, it's additive even if they don't buy anything.

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

A

Well, overall that area is less from a margin rate standpoint, but there's a lot of accessory items there, hunting apparel, hunting boots, the accessories that go along with firearms that the margin rates are pretty good at. So theoretically, yes, but I don't think it has as much as you might think it does.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you. And lastly, the shift up from Q2 to Q3 of that one week because of the 53rd week this past year, in other words, if you comped flat in Q2 and flat in Q3, Q2 would be up in revenue significantly and Q3 would be down because of the way the – can you give us what the – sort of those weeks are? So, the week that you lost in – the week you gained in the front half and the weeks you lost in the back half so we can then comp it, we can do the comp estimate properly, if that makes sense?

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

A

I know what you're trying to say, but we're not going to go...

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

I mean you pick up a really big week at the end of Q2 because that was a week one of Q3, which is back-to-school, and then you pick up and then – and you balance off a very small week at the beginning of November. So you could lever on a very low comp in Q2 and de-lever on a decent comp in Q3 because of the way the weeks compare.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yeah. We were saying that the first and second quarter will be favorably impacted by the shift in the calendar and that the sales will be somewhat more positive and the related EBT will be somewhat more positive in the first and second quarter, and the third and fourth quarter will be somewhat less. And it balances out over the course of the year. But one week is not...

Sam Poser Q
Analyst, Susquehanna Financial Group LLLP

Yeah, but one week – I mean, you're talking about a week that is one of the bigger weeks of the year because it's a big back-to-school week, shifting from Q1 into Q3 – Q3 into Q2. So it's meaningful in the way people get their numbers right. I'm not asking you to give guidance for the quarter. I'm just saying could you give us sort of the value of those four weeks or three weeks over the year so then we can adjust – everybody can adjust their numbers appropriately without giving us comp guidance because it really doesn't impact the comp. It just impacts the year-over-year – it impacts sort of the leverage of the comp.

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

Well, it also impacts the comp. Then you pick up a big week and give a small week, that impacts the comp also.

Sam Poser Q
Analyst, Susquehanna Financial Group LLLP

Well, yeah. But, I mean, your big week is over a big week, and your small week is over a small week in the comp, so it's really the value of the weeks that are down...

Lee J. Belitsky A
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

Yeah, Sam, I...

Sam Poser Q
Analyst, Susquehanna Financial Group LLLP

You know what I'm trying to get to, because it just makes it very difficult to be accurate, especially in the second quarter.

Lee J. Belitsky A
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

Right. Yeah. We're just not going to be getting into breaking down the sales by week. I think you're going to have to take your best shot at in the modeling what a week's impact could be.

Sam Poser Q
Analyst, Susquehanna Financial Group LLLP

All right. Thank you. Good luck.

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

Thanks, Sam.

Lauren R. Hobart A
President, Dick's Sporting Goods, Inc.

Thank you.

Operator: Our next question comes from Scot Ciccarelli with RBC Capital Markets. Please go ahead.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Hey, guys. Follow-up on gross margin. How much work still needs to be done on your pricing efforts? In other words, do you expect a lot more incremental pressure on merch margins going forward? Or do you expect steady merch margins as a run rate outside of mix changes?

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

A

Repeat the question, please? I'm not sure if I understood exactly what you're trying to get at.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Well, I guess, it relates to you guys had announced a couple of quarters back that you were trying to invest more in price. You're doing the Amazon price matching. There was a specific question on that earlier. And I guess, what I'm trying to figure out is as you guys have tried to become more competitive on the pricing front, where are you in that journey? Do you think you're fully price-competitive today? Do you think there's more work that needs be done, whether it's on a category basis, whether it's on some other adjustment that needs to be made to be more competitive in the marketplace?

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

A

No. I think we're where we need to be, where we want to be. Now, if something changes in the marketplace, it's a dynamic marketplace. So if something changes, we may have to re-evaluate. But, right now, we think we're really in very good shape. We think our margin rates are going to be a little better than we anticipated, because, as I said a couple of times on this call, the innovation pipeline of some of our key vendors, we're very pleased with that. And what our private brands are doing and the traction we have with our private brands, which are higher gross margin.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Got it.

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

A

But as far as getting deeper discounts or deeper into a price battle, we don't see that right now. But that's as of today, it can always change tomorrow.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Yep. Understood. And then, just looking for some clarification. I guess, this is probably for Lee. Is the extra week you picked up from the 53rd week extremely small? Looks like the adjustment you made for that 53rd week looks like it's about half the volume of a typical week in 4Q.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yeah. It's a small sales week as well, and I believe we've got that in the reconciliation in the back of the earnings release as well.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

All right. So there's no other adjustment that needs to be made. It's just an incredibly small week, but it still added about $0.09 to the bottom line, because presumably a lot of the costs are already covered for that quarter.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Correct.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Okay. Got it. Thank you.

Operator: Our next question comes from Joe Feldman with Telsey Advisory Group. Please go ahead.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Hi, guys. Good morning and thanks for taking the question. I wanted to get an update on how the reshaping of the brand portfolio has been going. I know you guys had talked about, if I recall correctly, reducing the bottom sort of 20%. Has that been completed at this point? And I understand, I just want to get a sense where we are in the journey of reshaping the brands.

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

A

We're basically – we're about done. Now, we're always looking at it year-over-year, sometimes quarter-over-quarter, because new brands come out in the market, other brands slow down. But we're right about where we thought we would be, and we've pretty much concluded that process.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Okay. Great. Thanks. And then, another question on eCommerce related to delivery. I know you guys talked about in the prepared remarks maybe wanting to do things to speed up delivery and facilitating getting the product to the customer faster. How far away are you from, say, two-day or even one-day, same-day delivery in many markets? And what do you need to do, I guess, to get to that level?

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

We are testing various things. We have a big supply chain initiative that should get all of our deliveries faster than they are today by getting the product just sent closer to the customer. And at the same time, we have a lot of experimentation going on with potential same-day delivery from our stores and using our stores as a distribution center. That is very in its infant phases, but we're trying to learn. We do think we have an asset with the 800 stores that we have in terms of getting faster to deliver.

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

Yeah. But, Joe, to do it on a more scalable basis and more economically, I think we do have to make some changes in our supply chain, and the first of which is expansion of our Conklin, New York facility, which will allow us to service all of the Northeast within a day pretty cost effectively. So that will come live in 2019. We've got a facility that can handle the Midwest, but we still have some holes in covering the West and the South and Texas and that area that we'll have to work on over time.

As a stop-gap measure, we can do that from the stores. We don't do it as efficiently from the stores as we can do it from centralized fulfillment, but we do have the ability to get the product to the customers quickly. It will just cost us a little bit more.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

That's great. Thanks, guys, for the update; and good luck with this quarter.

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

A

Thank you.

Operator: Our next question comes from Jim Duffy with Stifel. Please go ahead.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Good morning. Lauren or Ed, you guys touched on this with some previous questions, but I'm hoping you can elaborate on key learnings to highlight from consumer and competitor response to your more price-led marketing strategy. And then related to that, does that inform any changes to marketing strategy planned for 2018?

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

As I mentioned before, the Best Price Guarantee has helped with our value perception so that it's taken price largely off the table. When we look at how to drive traffic and marketing, we really have a two-pronged approach, and one is investing in our brand, which you've seen us do both at the Olympics and continue to do so throughout the year. And then, from a traffic standpoint, it is more about personalization and getting the right product into people's – into specific marketing for individual people.

And so we have a two-pronged approach. We're extensively leveraging digital channels at this point and our ScoreCard database to make us smarter with what we send out both in digital and direct mail.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Another quick one on the dividend. Payout ratio now in the low 30s, is there a place where you see a cap for that?

Lee J. Belitsky
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.

A

We're going to continue to assess the dividend as we go forward based upon how the business operations are. But we're pretty comfortable with where it is right – where the dividend rate is right now and the payout ratio, and we will continue to assess that going forward.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks, Lee. Thanks, everyone.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

Thank you.

Operator: Our final question comes from Chris Svezia with Wedbush. Please go ahead.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Good morning, everyone; and thanks for sticking me in here. I just want to touch on, I guess, two things. One, the ScoreCard and the changes that you've made to the ScoreCard policy just in terms of the rolling 12 months, I think there's also a new tier. Any thoughts about how you're thinking about that in terms of your comp outlook or any color you can add in terms of what you've seen in terms of customer response?

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

A

It's too soon to answer both of those questions, but we do expect to have positive ROIs from both of these initiatives. So the investment in extending rewards should drive traffic into the first quarter. We can't measure that just yet because it's ongoing. And then, different tiering of our ScoreCard customers on very initial results looks encouraging from an ROI standpoint. But it's too soon to communicate any impact to traffic.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Thank you. And then, just on Second Skin, I know that was a preliminary launch in 2017. We saw it in the marketplace and that got heavily promoted as we went through the fourth quarter, at least in some of the stores that we went to. You didn't call it out. I'm just curious where that stands right now in the marketplace and what your expectation is.

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

A

Well, we launched that. There were a few issues with that. We are coming back and re-evaluating and plan to launch that in the not-too-distant future. But we don't have any specific plans that we can call out with you right now. But we continue to be very excited about Second Skin, and you'll see that back in the marketplace in a pretty substantial way shortly.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Was it anything – just out of curiosity, was it anything on pricing, or what – any color you can add as to what maybe the issue was?

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

A couple things. Pricing might have been an issue, but I actually think that we looked at it in too narrow of a target customer as opposed to being broader-based, and in that one, we made a mistake. We've had some really great successes with our other private brands; CALIA, Field & Stream, things that we've talked about. And that one was – we didn't do a very good job on that one and we're re-evaluating, going to go back and relaunch it and I suspect we will do a much better job with it this next time.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. Sounds good. All the best to you guys. Thank you very much.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.
A

Thank you.

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

Thanks.

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

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

I'd like to thank everyone for joining us on our fourth quarter conference call, and we'll look forward to talking to you again in a couple months. All right. Thank you very much.

Lauren R. Hobart
President, Dick's Sporting Goods, Inc.

Bye-bye.

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