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Dick's Sporting Goods, Inc. (DKS)

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MANAGEMENT DISCUSSION SECTION

Robert F. Ohmes
Bank of America Merrill Lynch

Very pleased to once again have DICK's Sporting Goods management here to present at our conference. We have Ed Stack, Chairman and CEO; Andrè Hawaux, CFO; and Joe Oliver, SVP and Chief Accounting Officer as well. We also have Anne-Marie Megela in the audience and Scott McKinney, both from IR.

And with that, I'm going to turn it over to Ed for presentation before Q&A.

Edward W. Stack
Chairman & Chief Executive Officer

Thanks, Robby. Hello and thank you, everyone, for coming here today. We'll give you some insights into our business and then we'll open it up for questions.

I'd first like to recap what we did in the fourth quarter and for those of you who might have missed our earnings call. We generated record earnings in Q4 with the EPS up 17% to $1.30 a share, which exceeded the high end of our guidance and our expectations.

We delivered strong Q4 comps, which really reflect most of our apparel, footwear and hardlines categories being up, little drag from the hunt business and the golf business still, but the key categories we're really focused on were up. We also grew our omni-channel platform and maintained a very strong balance sheet. Later in the presentation, Andrè will talk about our capital allocation, share repurchases. And we also – just to remind everybody, we increased our dividend by 10% a little while ago.

We are DICK's Sporting Goods, the largest U.S. based full-line sporting goods retailer with about $6.8 billion in sales. We've got approximately 10% market share. And we believe that the size is really a strategic asset that we try to bring to the – to our business, especially in a business that's as fragmented as we are.

As we go forward, we're going to continue to invest heavily in our – what we believe is the future of retailing which is our omni-channel platform, which we've had great results over the last several years from an e-comm standpoint and blending the stores and e-commerce together.

Today, I'd also like to walk through the opportunities we see and the strategies to drive and grow our DICK's store business and productivity in there. Andrè will give you a little more color on our omni-channel strategy and what we're doing with the Field & Stream and the financial outlook.

The first key in our strategy right now and focusing is driving our store productivity, making the stores more productive, driving store growth. And the stores are still an important part of our growth strategy. And at our Analyst Meeting, we're going to give some more color in that of how we're going to do that, why we're doing that and make sure everybody understands what we're doing from a growth standpoint. We feel that the omni-channel aspect of our business and e-commerce continues to be extremely important.

I know Forrester's indicated that we – a lot of us have read this that for every $1 online, there'll be $5 spent in a physical store. And we've done, I think, our team has done a really good job of meshing those two strategies together, making this truly a seamless omni-channel experience for our customers.

We'll continue to open stores in some multi-store markets where we don't have a presence today, and in some single-store markets where we don't have a presence, then we will fill in a few markets where we've got no presence in a particular trade area, but we're really focused on where we're going to put these stores, making sure that they're not cannibalizing other stores. Like I said, we'll have more color on this at our Analyst Meeting.

We'll talk a little bit at our Analyst Meeting a little more, but we'll give you a sense of it. Today, we have a pretty small store base compared to other national retailers. There's still a lot of places that we don't have stores. We have a meaningful opportunity in California. We've got only a few stores in San Francisco. We are not very penetrated in South Florida. We've got no stores in – there's parts of Texas where we don't have any stores today, and we've only got one store in the five boroughs, so there's still places where we can put stores that we have no stores today.

And whenever we do this and increase our – put in a store in a new trade area, our e-commerce business grows by roughly 50% and are validating that omni-channel component of our business, although off a small base in those markets where we don't have stores.

One of the things that we're very proud of and I think shows that we have a responsible storing strategy is that our new store productivity continues to be very good. This last quarter was just about the mid 90%, have kind of hovered in that area. And as we continue to have that new store productivity in that 90% range, we feel that that's a real indicator that validates where we're putting stores and how productive those stores are.

As we continue to talk about driving growth in our business, we've got several initiatives that we've put in place. So what we can do from a PD standpoint, we feel that we can grow that business. One of the – really, we think, is going to be very successful is from a merchandising standpoint, is the women's athletic apparel business and how good that has been and how we continue to invest in that area. And that's includes the upcoming launch of our new brand CALIA by Carrie Underwood, which launches this Thursday.

There was a little bit of confusion in yesterday's call on how some of the comments that we made were interpreted around this. So I'd like to read what the question was and how I answered it to clear up any confusion.

There was a question that said, regard to Carrie Underwood, what's taking place – what's it taking space from and what categories is it addressing? My response was we're doing with that space – what we're doing with that space is just configuring some space, and it would be coming out of primarily Adidas and Reebok.

Somehow it got interpreted that – and has gotten to be the media that we're kicking Adidas off the shelves. And we're not doing it. Nothing could be further from the truth, and that's not what it said. It said we're reconfiguring some space, and some of that space will come from Adidas and Reebok. Never did we say that we're kicking them out, never even implied that. We're taking and reconfiguring that space, will be in a slightly different space, and CALIA is taking over that space.

Kicking Adidas off the shelves, nothing could be further from the truth. Adidas is a very large and important partner of ours, and we want everybody to know that. They're a large and important partner of ours. Their business is continuing to grow, and we really believe that the Adidas business will continue to grow at a faster rate than it is right now over the next two to three years. So we wanted to make sure that we cleared any of that up. As for all of you – for all of the Adidas fans as you continue to come into the store, there'll be plenty of Adidas product for you to buy. The people from Adidas will be very happy to hear that too.

We'll continue to focus on our private brand merchandise. We'll continue to look at areas of the business and reconfigure space, moving categories down from a square footage that aren't performing as well and reinvesting in those spaces that are.

From a marketing standpoint, we continue to evolve our marketing mix. And in our new advertising campaign, which is around Who Will You Be? that will be launched on Champ Week on ESPN, we think this is going to really resonate the focus groups we've done. This really is going to resonate with these young men and women.

And we recently announced a partnership with the U.S. Olympic Committee as the official retailer of Team USA. This program, we think, is going to be great for DICK'S Sporting Goods and for the athletes as we're going to help sponsor and make sure that these struggling athletes, these Olympic hopefuls have the right equipment. And these are really a lot of unsponsored athletes, but they'll have the right equipment to train in. And we will provide them a job to be able to work in our store with flexible work schedules, so that they can have a job while they're training for the Olympics.

Finally, in our store operations, we've talked before about from a service standpoint, we've moved some payroll dollars back into the store and realigned that focus for a better customer engagement. We're refining inside the stores also our omni-channel process as a big part of our fulfillment channel for our online business is coming from our stores, which is very efficient for us to do, and we continue to pilot and grow our Buy Online, Pick Up in Store business.

So with that, I'm going to turn it over to Andrè, who can walk you through the financials and a few other aspects of the business, and then we'll open it up for questions. Thank you.

Andrè J. Hawaux

Executive VP, Chief Operating & Financial Officer

Thank you, Ed. As Ed mentioned, I'm going to cover some of our e-commerce milestones as well as Field & Stream and then take you through some financial information. So, as Ed talked about, our own data supported by external studies suggest that our multi-channel customers spends three times as much as a single channel customer, so that's why omni-channel is just so important to us.

And we get a lot of questions about how important opening new stores are. And in new markets, we see – in new stores, we put new stores in we see a 50% increase in online sales, with approximately 80% of those sales coming from the geography that's right near that store. And we know how important these customers are and how they interchange between both the digital world and the brick-and-mortar world.

Stores currently enhance our omni-channel capabilities, including ship-from-store, which has been available in all our stores since the beginning of 2013, as well as Buy Online and Pick Up in Store, which we rolled out last year and we have that today in all of our stores. It's a limited assortment. And as we continue to get more comfortable with the levels of inventory we have to support that business, it will continue to expand.

And our associates also have the ability to, if you come into our stores, and don't see what you want, they can actually order the product for you and have it delivered to your home as well. So that's also a very important component of that.

If you take a look at our online business and look at, first of all, the industry online, sporting goods e-commerce is roughly about a $7 billion business, and it grew at a compounded annual growth rate of about 21% from 2010 to 2013. We've significantly outpaced that growth, and we know we've picked up market share in the online space. We've moved up to number 72 on the 2013 Internet Retailer Top 500 list. And when the 2014 list comes out, I'd certainly hope we'll even grow faster. And while 2014 data is not yet available, we know that growing – we grew our e-commerce business 28% in 2014 to now a business that's slightly over $625 million in sales.

In 2014, we increased conversion as well from our mobile customers by better utilizing our e-mail marketing to drive revenue, grew our online customer reviews as well, and we've also reduced our per unit shipping cost from our ship-from-store fulfillment methodology.

We're excited about our track record and the future opportunities that we see online. Let me share a few examples of things that we've got baked into our 2015 operating plan.

First, we launched a new search, new platform for onsite search, and we'll continue to roll out its search enhancements for this year. Customers that engage in search on your particular site have a higher conversion rate, and that's really critical to an online business is that conversion rate.

Second, we have improved our capabilities in both regionalization and testing, allowing us to customize homepages to local markets. This allows us to test different pages to see which page delivers better results.

Third, we're optimizing our order routing from ship-from-store, again, as we continue to get our costs in a better shape there, which represents, by the way, the whole ship-from-store component, represents a significant portion of our online fulfillment. Fourth, we're expanding our assortment available for Buy Online and Pick Up in Store as I mentioned before.

And finally, we're improving the site's speed and enhancing site layouts for mobile and our tablet sites. We've seen a lot of our business move to that mobile platform and tablets away from desktop. Desktop is still by far the largest, and we're actually seeing movement to the other mobile devices.

And lastly, on e-commerce, I'd like to talk a little bit about the road map that we see ourselves taking both in 2015 and beyond. We're looking, as you know, to become e-commerce independent, and we are going to exit our relationship that we have with GSI by 2017. We believe there's significant margin benefits in doing so, and you're going to continue to see those margin benefits get better, really come to roost, if you will, in 2017 and 2018. We'll be making investments in 2015 and 2016, but we see clearly margin improvement in the back half of that.

There are also very much strategic benefits to actually controlling our e-commerce business, allowing us to test and respond at significantly faster pace. And today in the e-com world, if you're not fast and quick, you're really not relevant to consumers. As I mentioned, we're making the significant investments in both technology infrastructure and our supply chain to be able to bring that in-house. And again, the goal here is to have that in-house by 2017.

So now I'd like to turn our attention over to Field & Stream. Our Field & Stream concept is something that we're extremely excited about. It brings us back to our roots as a bait and tackle shop. With our Field & Stream concept, we're focusing on the attractive core outdoor equipment market, which excludes specialty equipments such as motorized vehicles. We're really not into boats or ATVs, if you will.

This category, though, is a $34 billion segment and it's growing at about 5% compounded annual growth rate. It's right now very, very fragmented, and that's why one of the other reasons we feel that we can certainly make a difference in this space. It represents a great opportunity for us. We believe we can capture market share potential by organically growing the Field & Stream concept in the store base, and we've talked a little bit about how many stores we're putting on. Next year, there'll be about nine new stores in addition to the 10 that we have today.

And so we believe in a similar fashion that what we've done with DICK's Sporting Goods, we will evaluate and constantly be testing, evaluate the performance of this business and continually fine-tuning it.

We think we can do with Field & Stream what we did with DICK's Sporting Goods years ago and make Field & Stream a dominant player in the outdoor category. We opened eight stores in 2014. We now have 10, as I mentioned, up and running. We'll have nine more as we scale the business in 2015. We're learning an awful lot and we're making assortment changes as we speak.

So one of the areas that Ed's talked a lot about is really that apparel section in terms of what works at DICK's doesn't really work at Field & Stream. So we've really made a lot of changes in the apparel assortment, and you'll see that as we roll into the new stores and also the existing stores as we've made those refinements. And we continue to refine the product assortment to drive both top-line sales but also, importantly, drive our margins as well.

Now, we have an organization that's got – and offers a complete assortment of national recognized brand as well as the Field & Stream brand. The breadth and depth of our assortment that we offer is something that customers tell us pretty frequently is one of the reasons they shop there.

But in addition to that, we offer pro shop level services which experts – with experts who can share their deep knowledge and enthusiasm. And that's probably the number one thing that customers tell us about when they come to Field & Stream is that associate, the enthusiasm and the expertise they have in their space which is really, really important to them and really what makes us stand out.

So to recap, as Ed talked about, we see significant opportunities with our DICK's stores that we took you through and the opportunities there. We also see a lot of opportunities, continuing to see growth in a significant way in e-commerce, and we're also excited about Field & Stream and the opportunity we see there. So those are the three sort of – three of the pillars for our strategy in 2015 and beyond.

Now let me take you through a few of the things we're talking about from a financial standpoint. Many of you hopefully listened to our call yesterday, so some of these may be a little bit repetitive. But for those of you who didn't, I'll share some of the highlights.

As a growth company, we believe that investing in our business through both investing in our business, share repurchase and dividends all remain key components of our capital allocation strategy. To drive the growth of our business, we'll make meaningful investments in our omni-channel growth going forward along with our three-year road map. It's important to note that we anticipate, too, all the capital deployment to be funded from our cash from operations. That's the way we planned our business.

In addition to our quarterly dividend, which we just recently increased it to up 10% as Ed noted, are up to $1 billion five-year share repurchase authorization, provides the capacity to not only offset dilution but also acquire shares opportunistically. As of the end of 2014, we've repurchased over $455 million in shares, demonstrating our commitment to returning capital for our shareholders. And we paid over $125 million in dividends during the same time period. We have nearly $545 million remaining under our current share repurchase authorization.

So if we look to 2015 guidance and the discussions we had yesterday, looking to fiscal 2015, we expect earnings per diluted share to be between $3.10 to $3.20, with comp growth between 1% and 3% as we continue to grow our omni-channel platform. We factored in all the items that we dealt with in 2014, such as the real strong World Cup performance in 2014. We also noted that the gradual – we see gradual improvement in our hunting categories, as well as continued but diminishing challenges in Golf also has been contemplated in our guidance.

Our EPS guidance includes the expectation of between $100 million to $200 million in share repurchases in 2015. The timing of that, of the repurchase during the year may vary, but we are committed to return of capital to shareholders through the share repurchases and also through dividends.

We continue to see significant growth opportunities for our business as we look beyond 2015, and we look forward to sharing more details with you at our Analyst Meeting that we're hosting here in New York on April 14. You can see our Investor Relations team, Anne-Marie and Scott, for more additional details for the event if you'd like.

So I want to thank you all for your interest in DICK's Sporting Goods. And with that, I'll turn podium over to Robby for questions.

QUESTION AND ANSWER SECTION

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Great. Thank you and I'll – and we'll kick it off. You've spoken a lot about – and, Ed, you've talked about the shift into women's and kids, you get this question a lot, sounds like it's working really well and should work well in 2015. How much further can it go? How much space do you have to move further into women's and kids apparel? And can you give us a sense on how you're thinking about that?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. We think it still got some legs to run on the women's side and definitely on the kids side. We've moved – given it a little bit more space and reallocated our apparel business a little bit to give women's and kids a little bit more space. But we're going to be investing with Nike in about 100 additional kids, young athlete shops will be going into the stores this year. So that will be accretive and helpful to the business.

We like this part of the business a lot. The margin rates are higher than the company average, the return is higher than the company average, and the sales per square foot is higher than the company average. So it's all heading in the right direction.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Can you talk about a little more on the improvement in basketball that I think you've seen, and what's changing in that category for you from a footwear standpoint?

Edward W. Stack
Chairman & Chief Executive Officer

A

The basketball category has continued to increase over the last couple of years, and it's one of the cyclical moves that the running silhouette is hot or the basketball silhouette is hot. And there's a kind of curve to that and we're certainly have moved into the basketball silhouette is the hot silhouette right now. And we expect that to continue, number of people bringing out some really good basketball product that looks great. So we think that that's going to continue for a while now.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Can you guys talk about the real estate market? I think some of the mall guys have seen – some of them have seen pressures on rents. And what's the real estate market look like for DICK's Sporting Goods?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, still for us, and I think it's because we're such a big square footage user that we haven't seen many – we haven't seen a big change in the rents. So we've got the ability to – we've done some real estate transactions that we've taken a couple of the floors of Sears buildings in different parts of the country. So, we've been able to do that.

And we're still a tenant of choice, an anchor tenant in a new shopping center or some of the mall – the better malls that we're going into. And we bring something to the center that, especially in a mall that they don't have, a different customer, something really differentiated from what the other mall shops are. So, our real estate cost has still been – we haven't seen much pressure on the real estate costs.

Q

Could you provide a little bit more color on the partnership with Nike? Specifically, I know that Nike is really focusing on growing its women's athletic apparel business. Are you working with them on that to enhance their points of distribution? And then also on the athletic footwear side, could you give any information on your ability to get better releases and more competitive releases of the more key products that they offer as well? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

So, on the apparel piece, first of all, yeah, we're working hand-in-hand with Nike and have been for the – in the Nike shops in our store. We have more shops than any other retailer in the world. We probably devote more square footage to Nike apparel than any other retailer in the world, and we've been great partners. They continue to invest with us in building out their shops, building out exclusive product, exclusive colorways, and I don't think that relationship could be any better.

As far as the marquee products, we continue to increase our – the allocation of that marquee product, added two additional stores, but that's a slow process. Nike keeps those collections pretty tight, and it's a relatively slow process. So we would expect to continue to see more movement in sales on the women's space than we would on that marquee product.

Q

[question Inaudible] (23:53)

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. So we've got some kids shops they – Nike – we are going to co-invest with Nike for an additional 100 youth shops, right? Yes.

Q

Hi. This might be a question more for Andrè. Can you sort of help us understand the e-commerce from an expense pressure and profitability standpoint? And sort of the timing of taking the business in-house from GSI, how far along that is, when is it totally done, and when can we think of e-commerce as more of a profit driver for DICK's Sporting Goods?

Andrè J. Hawaux
Executive VP, Chief Operating & Financial Officer

A

Sure. So that just to clarify, that's a profitable business today for us. And it's going to be more profitable as we move off the GSI platform because obviously the fee structure, us doing it in-house, we believe we can do it better.

So the road map is actually – on March 9, we're actually going to launch our Golf Galaxy site, but I think that's the first tenant that's going to go into this. Ed had a great analogy today at one of the side meetings. We're building a home with the site we're building but with the platform we're building right now that has – I'll use his terms – eight children. But right now we've got one child on the way, and that's going to be Golf Galaxy and that's going to be birth on March 9. We're going to be able to bring up more tenants on it. So Field & Stream will go in the back half of the year, and then we'll put Dicks.com will be on in 2017, so at the beginning of 2017.

So that's the plan. The investments we'll make, we'll be making some investments, we've called them out yesterday on our call, about $0.04 in terms of EPS for the investment in both technology work, people and pr ocesses in 2015. We'll make some further investments in 2016.

And we'll continue to have investments in that business as it goes long. It is a sizable scalable business today. But we feel most of the investments for the site and things will be out of the way by 2017.

Q

Can you just talk to us a little bit about the new women's apparel that Carrie Underwood has done? I'm just curious about the products assortment, the pricing, the positioning relative to a lot of people who are obviously working very hard in that space like Athleta and Lulu and also Nike and Under Armour.

Edward W. Stack
Chairman & Chief Executive Officer

A

So it's positioned kind of in that – from a price standpoint, below Lulu kind of in that price point that you'd find with Nike, Under Armour, those brands. It's really a – you'll see tights, you'll see accessory pieces, sweaters, tops. And this has been in the store for about five days or six days that we've set this. And the results in those five days or six days have been great. We'll launch it on – we'll launch it tomorrow, Thursday. And it's been really well-received. We think it's going to be a really important part of our assortment and a real differentiator in our business compared to other people in our space.

Q

Right. Is that product exclusive to DICK's?

Edward W. Stack
Chairman & Chief Executive Officer

A

Oh, yeah. We own this product from a design standpoint. We design and source it. It is only at DICK's Sporting Goods.

Q

And in terms of marketing support, I mean, will it be part of a piece within the total DICK's marketing or will you do something special for that?

Edward W. Stack
Chairman & Chief Executive Officer

A

It would be a combination. So it will be inside the DICK's marketing from when we put out our women's catalog, put out our women's advertising, it will be a significant player in those categories. And then we've got special marketing with that. Carrie was just great on the talk shows talking about it and talking about her involvement and how excited she is with it. So, we have PR that we're doing with this, we have marketing in the store, we have marketing inside the DICK's business and marketing that will be exclusive to CALIA.

Q

Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Right there.

Q

Hi. Good morning. Do you know what portion of the Field & Stream is ammo and guns at this point?

Edward W. Stack
Chairman & Chief Executive Officer

A

What portion the guns and ammo are of the total business?

Q

Right.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. I do know that. For competitive reasons, we're not going to lay out what that percentage is. But I'll tell you as of right now, it's too high a percentage, and we think that that will come down not because the gun and ammunition business will continue to be soft, it will right-size itself, but because we think we've got such a big opportunity from an apparel standpoint, footwear standpoint, other categories in the business, such as the camping business, the paddle business that we can do a lot more business in.

As we've looked at from an apparel standpoint that in the Field & Stream business, we feel that Carhartt is going to play almost as important a role in the Field & Stream business as Nike does in the athletic business, how important that is. So, we're building out some Carhartt shops in the first main right-hand portion of the store when you first walk in, where the kind of test of this has been very good.

We also think that we can continue to improve what we're doing from an Under Armour standpoint. Under Armour is our largest hunt/fish/camp vendor that we have today. We've got a big opportunity there to drive more of the Under Armour business that – at better margin rates. So we think that we're excited about this concept, but right now the gun and ammo business is a bigger percent than we would like it to be.

Q

Okay, thank you. Can I also ask you what your view currently is on small town markets and whether or not that's changed at all over time?

Edward W. Stack
Chairman & Chief Executive Officer

A

Hasn't changed, the small markets that we've gone to have performed very well. We're pleased with those, and it will be continue to be a part of our store development strategy.

Q

Thanks.

Q

Yeah, I have two questions: first, competitive environment and impact from some of the struggles of your peers; and second, box size, have you guys – any thoughts to bringing down the box size? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. So from a competitive environment, there's a lot of thoughts out there, about a couple of competitors and one in particular. I personally think that – I think they're doing better than people think that they're doing. I mean, there might be some struggles there, but I think that we haven't seen a big change in there. We haven't seen a big change in their stores, and we haven't seen a deterioration of their stores. So that's on the competitive side. We haven't seen anything meaningfully different.

And on the box size, the answer is we really don't see a need to take the box size down. We're actually a bit constrained for space for some of the categories that we would like to bring a bigger footprint to, such as the women's business, the youth business, the team sports business.

I was in our stores on Saturday walking through a number of stores, and we've got a seasonal area for whatever sport is the primary sport, and right now it's baseball. And we need – we're pretty tight from a baseball standpoint. We need some more space for baseball. So we're continuing to try to reconfigure space in order to get the areas that are growing at a different rate, give them more space, but we don't see us taking the box size down right now, no.

Got another question down in front here.

Q

So you've seen consolidation in retail and dollar stores and auto parts, office. Considering how fragmented sporting goods is, is there anything like that? Are there any opportunities on the M&A front to consolidate the industry as far as you...

Edward W. Stack
Chairman & Chief Executive Officer

A

Consider from a consolidation standpoint?

Q

Yeah, in terms of you consolidating.

Edward W. Stack
Chairman & Chief Executive Officer

A

No, I mean, we look from time to time at where some of those are. There's nothing on the horizon that we feel particularly compelled about. So right now, we don't see us participating in anything from, anything meaningful from a consolidation standpoint.

Q

I noted with interest that page one had a football player, page two had women's lacrosse, and you just mentioned needing more space for baseball. Are you seeing any participation trends that are occurring within football, baseball versus, say, lacrosse and hockey seem to be – participation seems to be growing in those areas? Is that affecting your business in any way, any of those trends?

Edward W. Stack
Chairman & Chief Executive Officer

A

So there are trends that are affecting our business, so we're moving inventory dollars, we're moving space to and from some of those spaces. One in particular is football. We're a bit concerned about what's going on from a football standpoint, and we see a drop in participation and a drop in the sales in football as you get younger, so not a significant difference in high school football right now to kids who've played.

But as you kind of take it down to the really younger kids, based on what's going on from a concussion standpoint and concerns about that, you've got some of those really younger kids that mom and dad are saying, you're not playing football.

They're not playing football, but they're playing sports. So, what we really saw this fall was – and part of it was driven by the World Cup. It was a great World Cup, a lot of ground swell for the World Cup. Some of those kids have gone to soccer. And then we also saw from a fallball, baseball standpoint, we saw a big increase in our baseball business in the fall, with all of these things made up kind of the change in football.

Lacrosse is another sport that's doing extremely well and continuing to grow. And one of the things we like about lacrosse that we've said is that that's for both boys and girls. And it's a big growth opportunity on both the male and the female side.

So, that's kind of what's happening. The biggest issue from a growth standpoint is that I think football is going to struggle for a little bit until they get people more comfortable with what happens to these kids with concussions.

Q

And I think that you mentioned in your presentation localization of assortments or it might have been in Andrè's portion. How localized are your assortments today and how much more localized do you see them getting?

Edward W. Stack

Chairman & Chief Executive Officer

A

Well, they're more localized today than they were a few years ago, and they'll be more localized a few years from now than they are today. Some of the places that we've done a very good job from a localization standpoint is the team license business. So, if you walk in, we've got a really good hometown presentation from that team standpoint.

So, if you walk into Pittsburgh and we've got very good Pirates, Steelers and Penguins shop. If you go to Philadelphia, we've got a – we're really invested in Eagles and 76ers and Phillies in that. So I think we've done a really – we've done a good job there. We can do a better job. So we're better in Pittsburgh than we are in some cities outside of Pittsburgh, but we think that there's a real opportunity there.

There's a real opportunity from a localization standpoint around the fishing business. There's a very different fishing business in Cincinnati, Ohio, than there would be in Wilmington, North Carolina, where you have a lot of coastal fishing and we do a pretty good job there. So it's gotten better, we can still get better with that, but we've made a lot of strides in the last couple of years.

Q

Can you just tell us what's your outlook for your guns and ammo business for 2015?

Edward W. Stack

Chairman & Chief Executive Officer

A

Well, the gun and ammo business for 2015, we think, is going to be – we think probably relatively flat combined with the two. In the fourth quarter, our ammo business was actually up. The gun business continued to be – was down a bit. But we think it will be relatively flat, could be up a couple of percent, could be down a couple of percent. But we're not seeing any real big growth coming back from that. It's taken a little bit longer to right-size than any one of us – any of us thought who are in our competitive set or on the wholesale side. But it's not going to have nearly the pressure that it did in 2014 for any of us.

Robert F. Ohmes

Bank of America Merrill Lynch

Q

Maybe a question for Andrè. Can you just – in the first quarter, you guys called out some headwinds, ports, and I think there's some excess clearance going on. Can you just sort of – just so we're all on the same page, how should we think about the headwinds for the first quarter?

Andrè J. Hawaux

Executive VP, Chief Operating & Financial Officer

A

Yeah. So I think you articulated them correctly. So, we talked a little bit about a couple of things. A slower start to the spring selling season based on what you see outside and what's coming this way, right, so there's a little bit of that and it's kind of in a lot of places and it's in a lot of our heartland markets. So, we've taken what was seen in February into our guidance going forward for the first quarter.

Ed also mentioned a few things related to the situation in the West Coast port strike. Now that the strike has been resolved, we still have to get shipped, the backlog has to get through. And we do have some things that are hung up there. We don't think for the – on a full year basis, it's going to affect our business, but in the first quarter it will. There are some things that we're waiting on. Not drastic but there are some things there.

And then you mentioned we see an opportunity, even though we ended the fourth quarter in great shape with respect to our clearance, we see even further opportunity to even reduce that even more, and we're going to go take that opportunity to do the things that Ed mentioned which is to be able to have open to buy dollars to go out and buy and go after key items that we know the consumers need. So, I think we feel very good about where our inventory is. We're going to take steps and make it even better in the first quarter, so all that was wrapped around in the guidance that we articulated.

Robert F. Ohmes Q
Bank of America Merrill Lynch

Any other questions from out there?

Q

In terms of the Obama with the AR-15 ammunition, I know you sell hunting rifles, but ammunition you might have broader availability. Does that impact you?

Edward W. Stack A
Chairman & Chief Executive Officer

Could you just – I didn't hear the first part of the question.

Q

Sure. Obama's trying to push through legislation on banning certain types of ammunition, and I think he's trying to do it through executive order without going to Congress?

Edward W. Stack A
Chairman & Chief Executive Officer

Yeah. We've heard that and we'll see where that goes. And will it affect our business? What will happen is there's talk of this that it will increase the sale with that ammunition. And then if it gets banned, it will decrease the sale of that ammunition. So, no, I don't think it will have a meaningful impact on our business one way or the other.

Did you have a question? Somebody else?

Robert F. Ohmes
Bank of America Merrill Lynch

All right terrific. I want to thank DICK's Sporting Goods for a terrific presentation.

Edward W. Stack
Chairman & Chief Executive Officer

Thank you very much.

Andrè J. Hawaux
Executive VP, Chief Operating & Financial Officer

Thank you.