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Dick's Sporting Goods, Inc. (DKS)

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MANAGEMENT DISCUSSION SECTION

Stephen V. Tanal
Goldman Sachs & Co.

Good morning. I'm Steve Tanal, the Retail Sporting Goods Analyst for Goldman Sachs. And it's my distinct pleasure this morning to introduce the senior management team of DICK'S Sporting Goods. All the way on the left we've got Joe Oliver, the Senior Vice President and Chief Accounting Officer of the firm; Teri List-Stoll, EVP and CFO, who joined DICK'S in August from Kraft, where she was a CFO; and to her right, we have Ed Stack, Chairman and CEO, who served in that capacity for 31 years now. Congratulations.

I think DICK'S needs a little introduction. It's, without a doubt, the leading sporting goods retailer in the United States. They've made tremendous inroads in omni-channel retailing and are leading up here to the full in-sourcing of its eCommerce capabilities by 2017; very exciting development, I'm sure we'll touch on today.

I think DICK'S has shown to be adept and decisive in positioning for the ups and downs in various categories in the sporting goods market. No shortage of those in the last few years; been very interesting to watch how the company's adapted to those trends.

Ed and Teri have some prepared remarks this morning. After which, we'll engage in a fireside chat with the company and open it up for your own questions as well. And we'll have a breakout session immediately following the presentation in the Rendezvous Suite to keep the conversation going.

So, with that, I'm going to turn the floor over to Ed.

Edward W. Stack
Chairman & Chief Executive Officer

Thanks, Steve. I'd like to thank everyone for joining us today. As we look at the sporting goods industry, we are the largest full-line sporting goods retailer with sales of $6.8 billion in 2014. We have approximately 10% share of the market. Although the environment's been a little bit challenging recently, we've generated eight consecutive quarters of positive consolidated same-store sales, delivered 90%-plus new store productivity for the new stores that we've opened, and we've driven strong double-digit growth across our eCommerce business over the last several years.

We're firmly positioned to continue to grow our business profitably. We plan to increase our market share by about 200 basis points over the next several years to 12% and by 2017 expect to have sales of between $8.7 billion and $9 billion. Our overall size and balance sheet has been a strength, and are important assets to support our strategic growth pillars.

We're fully committed to continuing to generate value for our shareholders. Over the past five years, we've delivered EPS CAGR of approximately 15% and sales growth of roughly 9%; and our total shareholder return has outperformed the S&P 500.

Looking forward, we'll continue to be focused on capturing market share, leveraging our costs and improving margin rates. In addition to driving profitable growth, we're committed to generating incremental shareholder value through our continued share repurchase program and dividends.

Today, I'll be covering the strategies and drivers behind our plan to grow DICK'S profitably, to grow our omni-channel platform, driving store productivity, growing our store presence and strengthening our leadership in the eCommerce area. I'll also take the opportunity to discuss Field & Stream for a little bit, and then I'll turn the presentation over to Teri and we'll end with some questions.

Starting with our omni-channel platform, we're committed to delivering to our customers a convenient, seamless shopping experience to every customer at the point of contact whether in the store or online. Our growing range of capabilities such as Ship From Store; Buy Online, Pick Up In Store integrate our eCommerce site to our nationwide network of stores.

Stores play a critical role in our omni-channel strategy. Stores offer a strategic advantage as they build brand equity, showcase our vendor partnerships, enable us to offer value-added services to our customers, augment our online capabilities, and help drive our eCommerce sales. There's more flexibility in our brick-and-mortar platform than, I think, people understand. With approximately 20% of our DICK'S stores coming up for renewal from a lease standpoint over the next three years, it provides us a great opportunity to re-evaluate, remodel, relocate stores and to ensure that our store base remains relevant. We also have significant white space ahead of us to capitalize profitably on new store growth.

Our customers are telling us that both stores and eCommerce are required to best serve their needs in today's retail environment, and we'll continue to take a disciplined approach to opening DICK'S stores and gaining momentum online. Ultimately, our stores, with approximately 50% cash-on-cash return in year three and a 90%-plus new store productivity in their first full-year, are very profitable and very productive growth engines for us.

Within our stores, we're driving productivity to expand sales on several fronts. First, from a merchandising standpoint, we're focused on key items that drive our business, improve our inventory productivity. We also provide our customers differentiated product offerings across a diversified portfolio of categories, including apparel, team sports, fitness, the outdoor category, golf and footwear. This also includes a stable of private brands, including Field & Stream, CALIA By Carrie Underwood that we launched this year, Top Flite, Umbro and Reebok, which all of these are growing at a faster rate than the company as a whole at margin rates 600 basis points to 800 basis points higher than what the brands provide.

We continue to leverage our strong vendor relationships to showcase key brands more effectively than any other retailer does. We offer a compelling loyalty program through our ScoreCard, which is a great value to our customers and provides meaningful benefits to our company. The customer data is incredibly valuable. As our analytics become more robust, it will enable us to provide better regional assortments, more tailored and effective digital marketing and improved consumer insights.

We leverage a wide range of marketing media to speak to our customers directly. We're focused on giving them what they want when they want it. We employ a 360-degree strategy, which includes TV, radio, newspaper, direct mail, social and digital, and our scale provides advantages in these categories. Each vehicle has a specific strategy to motivate and connect with our customers.

We continue to be focused on driving stronger ROIs in our marketing area where traditional marketing vehicles such as newspaper continue to be reduced as a percent of our spend as we increase TV along with direct-to-consumer, social and digital vehicles. Obviously, these mediums are only part of the question. Content really matters. We're building our brand through strong equity and impactful marketing campaigns.

A few years ago, we launched our Untouchable campaign in 2012, which really resonated with these core athletes. We're beginning to see the impact of this as DICK'S is cited as the favorite sporting goods retailer for teens in certain brand surveys. And research has shown that DICK'S is a brand that these athletes view as understands them and is characterized as a brand I love.

This year, we evolved this campaign to ask a simple question of these athletes, "who will you be?" We're showcasing athletes from many sports in a most authentic way that has really resonated with these athletes. And right now, we're going to take a second and show you a quick spot.

[Video Presentation] (07:58-08:58)

That spot's gotten great reviews by the high school athletes and younger athletes and parents kind of talking about who will you be. There's been a lot a lot of Tweets, and kids are actually talking in that vernacular, and it's been a great campaign for us.

Relevant sponsorships and strategic partnerships are also a key component to our marketing strategy. Our two biggest marketing partners are ESPN and the U.S. Olympic Committee. With ESPN, we have meaningful partnership and sponsorships, including Championship Week to kick off the NCAA Tournament, the NCAA College Kickoff Week and the High School National Tournament.

We're also ESPN's partner for the ESPN Fan Shop Online. This relationship with ESPN also provides us unique opportunities to reach athletes through airing of original content that we've produced, such as our Hell Week documentaries and the movie We Could Be King, which brought out the issues with these sports funding programs in the inner city schools and told the story of Germantown High School and Martin Luther King High School that were merged in the inner city, they were two rivals, and how important these programs are to these kids. And if you get a chance to watch it, it's on Netflix. It's really a terrific program.

We went in and filmed these kids in the classroom. We filmed them at practice, in games, on the street. It's really a terrific story. And it highlights in one board of education meeting, where one of the athletes was talking about how important these sports programs are to these kids. And the young woman said, we go to school to play sports. If we didn't play sports, a lot of these kids wouldn't even come to school and it highlights how important this is. So if you get a chance to watch it, it's really a – it's a terrific movie. And we're pretty excited. It actually won a Sports Emmy. So we're pretty enthusiastic about that.

The Team USA sponsorship is the official sporting good sponsor of Team USA. We're providing new equipment for these Olympic hopefuls, who are not currently sponsored by some of the large brands. We're offering them a job that they can work, flexible work hours while they continue to work out and try to achieve their goal of Olympic Gold. And we're really excited about this program with The Olympic Committee.

As we take a look at the DICK'S stores in the business, as a whole, we'll take a look at the opportunities ahead of us for store development. We have a very sophisticated sales forecasting model to determine the appropriate size and number of stores within each market. We look at population size, demographics, competitive landscape for all key considerations. Based on these factors, we think there's still significant growth in the U.S. as we've got many – less stores than many other national retailers.

Particularly in California, Texas, Florida and New York, these are four states that represent roughly 40% of our new store development. Houston, which is, I think, the fourth largest city in the United States, we have no stores. In the five boroughs of New York, we've got one store. So there's still some white space where we don't have stores that we need to penetrate.

Today, our overall market share is roughly 10%. Our actual market share in markets where we have stores is in the mid-teens. And each share growth point and market share is worth roughly $1 billion in sales.

Today, we have, as I said, significantly fewer stores than other national high-quality retailers that gives us meaningful white space to grow our business without cannibalizing our current stores to any extent. And as we go through this growth, we will remain disciplined, maintaining our focus on capital efficiency and new store productivity.

Our new DICK'S stores continue to perform extremely well with new store productivity at 96.5% in the latest quarter. Our new store productivity has consistently ranged in the mid to high-90%s, which we believe is best-in-class. And essentially, this demonstrates the penetration opportunity we have and further supports our growth strategy.

As I previously mentioned, our in-store sales are also – help our online sales. We're seeing more stand-alone eCommerce retailers acknowledge the need for brick-and-mortar and we have a significant advantage here with 619 distribution centers across the U.S.

We know that a multi-channel customer spends three times as much as a single-channel customer. And eCommerce sales in new markets typically double when we open a DICK'S store in the area. With approximately 80% of our orders that are shipped to customers within a trade area of a DICK'S store, many of these customers are shopping us both online and in-stores. Stores enhance our omni-channel capabilities, including Ship From Store, as well as Buy Online, Pick Up In Store. As a method for customer satisfaction and inventory efficiency, our associates also have the ability to order merchandise for a customer while the customer is in the store and have it shipped directly to their home.

Looking at the online industry, sporting goods eCommerce is estimated at $8.6 billion and grew at a compounded annual rate of 20% from 2010 to 2014.

We have significantly outpaced the market and have definitely picked up market share in the online space. From 2010 to 2014, our eCommerce business grew at a compounded annual rate of 45% and has increased to $628 million in sales in 2014. We have moved up to number 70 in 2015 on the Internet Retailer Top 500 list. And we will continue to grow and win on our online, targeting sales of $1 billion to $1.2 billion in 2017.

In addition to continuing to leverage our stores, we'll give you a few examples of what we're doing in our eCommerce business. First, we've improved our capability from a regionalization standpoint. It allows us to customize home pages to local markets. This allows us to test different pages and different products and see which deliver the best results. We're expanding our assortment available for Buy Online, Pick Up In Store. We've launched a new platform for onsite search. We continue to roll out search enhancements. Customers who engage in search on our site convert at a much higher rate and we believe these enhancements will continue to help drive conversion.

And, lastly, we're on track to launch our new eCommerce site in January of 2017 and transition ourselves away from GSI. We've done this in a phased approach. Earlier this year, we launched our GolfGalaxy.com site on the same platform that we will roll out to DICK'S in 2017. And later this year, we'll roll out a transactional site for Field & Stream. And so we'll have two businesses up on the site before we launch the DICK'S site.

As we transition, we'll see significant improvement in profitability with annualized savings on a go-forward basis of $25 million to $30 million as we get into 2017. We'll have levers that we control to more effectively differentiate our online experiences from what GSI does today. We will have easier access to our data and be able to use this to build more engaging cross-channel customer experience and marketing than we're able today with GSI. We'll have control over development cycles, which will allow us for faster testing and implementation. And, finally, we'd be able to quickly stand up new sites and capitalize on market opportunities.

I'd now like to talk a little bit about Field & Stream. Our Field & Stream concept is something we're very excited about and it brings us back to our roots as a bait-and-tackle shop that was started by my dad 60-some years ago. Additionally, we believe Field & Stream offers tremendous value across our entire company, including the DICK'S outdoor business. With Field & Stream, we're focusing on growth opportunities that exist in the attractive core outdoor market. The broader outdoor equipment market is fragmented with the top five companies accounting for about a third of the business. This represents a great opportunity for market share.

To capture the market share potential, we will leverage our decades of experience in the space and anticipate organically growing the Field & Stream store base. In a similar fashion to what we've done through DICK'S in the years, we'll evaluate performance, make adjustments where needed, incorporate learnings along the way.

Today, we have 14 Field & Stream stores and another five planned to open this year, and we remain extremely excited about this. And as I said, we'll launch a Field & Stream website at the back half of this year.

Field & Stream stores offer a complete assortment of compelling brands that appeal to the outdoor enthusiasts. The breadth and depth of the brands is remarkable and requires scale to deliver this effectively. Importantly, these brands complement our private brand Field & Stream assortment.

And as a reminder, these private brands deliver much higher margin rates than the brands that we buy from the national brands. In these stores, we also offer pro-shop like service with experts who can share their deep knowledge and enthusiasm, and I think our service in Field & Stream is second to none out there.

We also have a very exciting concept, which is our combo store, where we put a DICK'S store and a Field & Stream store right next to each other. We believe this format will generate higher sales and productivity compared to the traditional stand-alone stores. We'll be moving the hunt, fish and camp product out of the DICK'S stores into the Field & Stream store, which will give us the space that we need for some of the higher GMROI categories that we want to drive in the DICK'S store including footwear, team sports, and the apparel business.

During the second quarter, we opened our first combo store in Mobile, Alabama. We're really excited about the early results and we'll be opening two more stores in Columbus, Ohio next week. We'll have four of these combo stores in place by the end of 2015, and we'll have a few more of those opened in 2016. Early indications are, as I said, we're really excited about this and we'll be able to give you some more information about at the end of this year.

And with that, now, I'll turn it over to Teri to review our financial results. Thank you.

Teri L. List-Stoll

Chief Financial Officer & Executive Vice President

Thanks, Ed and happy to be here as part of the DICK'S team. What I'm going to do is walk you through some of the second quarter highlights, our 2015 outlook, and then our three-year targets, touch a little bit on capital allocation strategies and then, as Ed said, we'll turn it over for Q&A.

So, starting first with the second quarter results. We generated strong earnings in Q2. Our non-GAAP EPS grew 15% to $0.77 per diluted share. We delivered consolidated Q2 comps of 1.2% and that was against a pretty strong base that included the World Cup. We also expanded our merchandise margin. Additionally, our golf business began to show some encouraging trends. Our margin improved significantly over last year and the apparel side of our golf business comped positively throughout the second quarter.

Additionally, looking back at our golf business from the beginning of the year, we experienced sequential improvement in our comp sales during that period. And finally, we continue to grow our omni-channel platform while maintaining a very strong balance sheet.

Looking at our guidance for the year for fiscal 2015, we expect to deliver earnings per diluted share of $3.13 to $3.21 with comp growth of 1% to 3% as we continue to grow our omni-channel platform.

And now, turning to our three-year targets. As we shared with you in April, we expect to increase our total net sales from approximately $6.8 billion in fiscal 2014 to between $8.7 billion and $9 billion in fiscal 2017. This sales growth will be driven by two factors: new store growth, which Ed talked about; and consolidated same-store sales growth of between 2% and 3% per year, including eCommerce growing to between $1 billion to $1.2 billion in fiscal 2017.

Operating margins are expected to increase by approximately 80 to 130 basis points, to 9% to 9.5%, in fiscal 2017 as we leverage our scale and continue to drive productivity. Diluted EPS is expected to grow double-digits with a compounded annual growth rate of 12% to 16%.

In terms of net CapEx, our targets include between $250 million to $300 million per year, resulting in approximately $850 million in total through 2017.

On capital allocation, since the beginning of 2013, we've repurchased over $605 million in shares, and paid over $155 million in dividends, demonstrating our commitment to returning capital to our shareholders.

So in summary, we're committed to generating top-tier total shareholder return. We see significant opportunity to continue strengthening our position as the market leader in the U.S. sporting goods industry. We'll do this through profitably growing market share of our DICK'S Sporting Goods omni-channel platform, by driving store productivity, growing our store presence in new and underpenetrated markets, and growing and controlling our eCommerce business.

We remain excited about the Field & Stream concept and the opportunity we see to scale it further. And we're fully committed to returning cash to our shareholders through dividends and share repurchases.

Thanks for your time and your interest in DICK'S Sporting Goods. And now, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. Thank you, Ed and Teri, for those remarks. I guess I'll kick it off here. So, one of the first areas I wanted to spend some time today was on merchandising and assortments. I think that's one area where you guys have shown to be quite strong in terms of execution there. And the first question I'd have, casual and athleisure, we've been hearing a lot about the strength there. It seems like maybe even stronger than performance. Post the tweaks that you've made recently in your stores, do you feel that you're optimized for what you're seeing, or is there more to do in that regard?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think we're optimized from a structure standpoint inside the store from the space that we've provided it. We continue to optimize the assortment, bring in products more often from a keep-the-product fresh standpoint and we feel that there's still growth opportunities there and we've continued to experience those growth opportunities.

Stephen V. Tanal
Goldman Sachs & Co.

Q

And so, just fleshing that out a little bit, in terms of the recent assortment tweaks, there's obviously some new brand stores that are being tested later this year. I think the Jordan Sneakers is one of them, the Polo Sport launch is another. Can you talk about what product may be being displaced as you move a little bit more in that direction and test some of those types of styles in the stores?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, there're some other tertiary brands that have been replaced or downsized. We think that the Jordan is a complete Jordan shop as opposed to just the shoes, and we just put the first one in our Roosevelt Field store not too far from here. And we're really excited about the way it looks. The early indications over the weekend were pretty positive.

We're excited about what we're doing from a Polo standpoint. We've got 75 of these stores that will be launched this year, and it is a test and we'll see how that goes. But we continue to remain excited about being able to grow this whole apparel business which is a higher GMROI than most other categories in the store.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Sure. And it's sort of an extension of the merchandising strategy. Private brand is a story that I think has been off to a very good start, potentially much more to go. Sort of wondering where private brand penetration is today as a percent of sales and where you think it can go over time?

Edward W. Stack
Chairman & Chief Executive Officer

A

Oh, it's low double-digits right now. We feel that we've got a big opportunity here and we've really re-committed to the private brand business. As you can see with that we've done with CALIA By Carrie Underwood, which in 2016, we think, will be the third largest women's athletic brand that we have in the company.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Yeah. That in particular is rather impressive. I'm wondering, what would it take to get to number three? I mean where would that put it versus number one and two as you think about the progression for that brand?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, one and two is still going to be pretty big, between Nike and Under Armour.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Sure.

Edward W. Stack
Chairman & Chief Executive Officer

A

But we think that there's a big growth opportunity here with CALIA By Carrie Underwood, other product extensions that we've gotten into, some bags. And we're talking about whether we want to do something in some other categories, outerwear and street wear from an outerwear standpoint. So we think there's a big opportunity here with Carrie Underwood.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Sure. And by extension, it's really an increased focus on women is, I think, part of the theme here that we're seeing. And you recently announced a new format, Chelsea Collective. Wondering what the ultimate goal is for that format. How you're thinking about it? Still very early, obviously, but any thoughts you might have there would be great.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, the Chelsea Collective, the two stores that we opened up earlier this year, a couple of months ago. And these are really just simply labs. We wanted to open these stores and see what we could learn that we might be able to bring back into the DICK'S Sporting Goods stores. If these really do extremely well, we may roll these out. We may have some more of them. But right now, we're only looking at these as a lab. Our leases are – and both of these are roughly two to two-and-a-half years in duration with an option to extend after that, but if we want after two years, we've got no exposure to this at all. But we think it's a great lab that we'll learn a lot, that we'll be able to take into the other 600 stores. And if it does extremely well, and we're pretty pleased right now, we may roll more of these out.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. Can't sort of talk about assortments, merchandisings and category trends without touching on golf? We had some signs of stabilization in the second quarter. I think that was all around a pretty good update that we had. I know you mentioned that you were seeing some new product from key vendors for next year. How are you feeling about what you saw and the outlook there?

Edward W. Stack
Chairman & Chief Executive Officer

A

I'm feeling relatively optimistic about the products that we've seen. Callaway just launched the Great Big Bertha which we're very pleased with the results there. We're excited about what's going on in the game today with these young guns, Rory McIlroy, Jason Day, Jordan Spieth, and seeing Rickie win again on Sunday is all great for the game.

The PGA of America has done a great job with the Junior Golf League, the Junior Golf Program where you've got these kids playing in a two-man scramble format, coming to the golf course in jerseys and it's almost like little league for golf. And that's really gotten some traction. It's bringing the parents out to the golf course also with the kids. So, we're cautiously optimistic. And as Teri indicated, our golf apparel business actually comped positively in the second quarter. So we think that's a good sign.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. And lastly on merchandising. You didn't announce a new Head Merchant to replace John Duken. I'm sort of wondering plans for the management team there. How you're thinking about it?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we've got two people who are in that merchandising role right now that are doing a very good job. And we're still trying to decide do we need this new Chief Merchant or dividing this up between softlines and hardlines. It's very difficult to find a merchant who can have expertise and do well in both the hardline side of the business and in the softline side of the business. So, for right now, we're going to leave this as two people.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. And you touched on the lease expirations. There's obviously a lot coming up. Can you sort of help us frame the opportunity for relocs and remodels for DICK'S? Do you think there's a lot that you may do in the coming years?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes. So as I said, roughly 20% of the stores in the next three years come up for the end of the initial term of the lease. And we have full control over those buildings. So we can either relocate with no additional responsibility, or we can exercise our option which we usually have three or four or five year option periods and control that building. We'll take a look at the real estate and what's available around those stores and we'll either remodel those stores. We may relocate those stores. It'll depend on what's going on in the marketplace and the performance of those stores.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. See if there's any questions from the audience. We've got one there in the center.

Q

Ed, 20 years ago or maybe a little more, we wouldn't have imagined the amount of female participation in sports. And post Title IX, that was a big driver of the industry. If you go back five, 10 years, you wouldn't have imagined that lacrosse would be plucking some of these participants in high school to the extent it has. At this point, what do you feel – we also wouldn't have imagined we'll be paying $350 for baseball bats and lacrosse sticks probably $5...

Edward W. Stack
Chairman & Chief Executive Officer

A

But we like it.

Q

And so, at this point, what do you think is underappreciated that might manifest over the next three years in the business?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think that the specialization of these young athletes in a particular sport, as you take a look at participation rates, if you cume those, there may be less participating in particular sports, but they're participating for a longer period of time in the sport that they're specializing in.

20 years ago a lot of people played three sports. And today, really does anybody play three sports, some of them may play two, a lot of them play one sport. So I think what's underappreciated is the intensity that people are putting in a single sport which is why they're spending more on that particular sport, why we're selling $350, $400 and $500 baseball bats. And to continue on the baseball side, the pro glove business, the high end, the Gold Gloves, the A2000s, the Nokona gloves are all continuing to do extremely well, just this whole specialization.

I do think that the women's aspect of this, from a wellness standpoint, is not going to slow down anytime soon. People are waiting for this to slow down and I don't think it's going to slow down anytime soon. It's become a part of their lifestyle from a workout standpoint. And we've divided the women's business into two components. One is the female athlete, which is that young girl who's 12 to 22, she's playing soccer and lacrosse and basketball in junior high school, high school and college. And then there's the athletic female who's the woman who's out there from a wellness standpoint. She's out doing the boot camps with her friends at 5 o'clock in the morning or she's walking and she's running, she's doing Pilates or whatever else it is. And I think all of that is going to be around for a much longer period of time than people think.

Q

Thank you for that. And just out of curiosity, have you seen any survey work or studies indicating – that detail hours of participation versus people participating in sports?

Edward W. Stack
Chairman & Chief Executive Officer

A

Did you say...

Q

You mentioned people playing more within a certain sport. Is there any indication from SGMA or anybody else out there that indicates the total hours of participation in sports is up?

Edward W. Stack
Chairman & Chief Executive Officer

A

Not that I've seen from an hours standpoint. There might be, I haven't seen it. But the kids – you talk to these kids from high school, you talk to coaches, talk to these leagues, they are definitely specializing in one sport. And they may play a second sport but they're primarily specializing in one.

Q

A question on your eCom business. I think you take that in-house either next year or the year after. What changes are you assuming in growth rates when you take that business in-house or what changes to that business do you see as you take it in-house?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we expect to see costs be reduced because of the fees that we pay GSI today. So there'll be a reduction in cost. We'll be able to react much quicker internally ourself than having to go through GSI. And I think they've tried to do a really good job, but they just don't have the flexibility to move as fast as we can to focus on different trends or what's going on in the marketplace.

Championship merchandise, they can't move as quickly as we think that we can move. We'll just be able to move much quicker. Have we baked in a sales number that we're going to articulate out right now, no. But as we go on 2017 and 2018, we expect to be able to continue to grow our business at a pretty rapid rate.

Stephen V. Tanal
Goldman Sachs & Co.

Q

We've got a question. A question out there. I guess, while we get the mic over there, we have four questions that we're asking of all companies. The first one is what are your expectations for the environment in the back half of this year relative to the first half, better, same or worse? And what's sort of changing in the backdrop?

Edward W. Stack
Chairman & Chief Executive Officer

A

I'm going to go one at a time of the four.

Stephen V. Tanal
Goldman Sachs & Co.

Q

That was all one.

Edward W. Stack
Chairman & Chief Executive Officer

A

We don't see any meaningful changes in the back half of the year. We don't think that it's going to be any more promotional, less promotional. We don't think the economy is going to change a whole lot. We're not looking for anything meaningfully different in the back half of the year.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Got it. And as you think about operating margins over the next 12 months, do you expect them to increase, decrease or stay the same? And you could touch on any opportunities you feel that you have as you walk through that kind of question.

Edward W. Stack
Chairman & Chief Executive Officer

A

We would expect – it's kind of put in our guidance, we expect it to increase. We think we've got some margin rate expansion that is available to us. So we would say that it would increase.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. Third, the primary impact of eCommerce on your business, do you feel it's more of a top line or traffic impact? And this is more from the perspective of competition, potentially product margins. Or do you think from what you're doing internally, it's more SG&A and capital investment?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think that it's all of those. So we continue to make SG&A investments to take over the site completely from GSI. We think that it's top line as we continue to grow that. As we said, we've grown the CAGR roughly 45% a year. We expect it in 2017 to be north of $1 billion in sales. And we're very excited about what's going on from an eCommerce standpoint and how aggressively we've gone after it. We think it continues to be a big growth opportunity for us both from a top line standpoint and from a profitability standpoint.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Last one on the short list, labor and wages, sort of a big topic in retail today. Are you beginning to see any tightness in the labor market? And are there any ways you can mitigate the impact, if so?

Edward W. Stack
Chairman & Chief Executive Officer

A

We haven't seen it yet. We understand that it's going on out there. We haven't seen it yet. But I think we're in a – maybe a slightly different position than some other people out there that our business – we have people who want to work in our business because they love the sports business; they love the hunting business or they love the baseball business or the lacrosse business, the fitness business.

So we've still been able to – we haven't seen that that some other retailers have talked about. And I'm sure there's other retailers who are in the same position as we are that because their business is fun and they've got some real enthusiasts that want to work in that business that they've been able to mitigate some of those issues.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Sure.

Q

Have you seen any opportunities to convert existing DICK'S stores to a Field & Stream concept or something else?

Edward W. Stack
Chairman & Chief Executive Officer

A

To convert a DICK'S store to Field & Stream, not an operating DICK'S store that we would convert to a Field & Stream store, no. We will – there are a couple of them that we are talking about relocating to a combo store of a DICK'S and Field & Stream together, but to change from DICK'S to Field & Stream, no.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Any other questions? Okay. I think as we sort of think about omni-channel store growth, obviously, a big question these days. And I would say, it would seem as though you, sort of, slowed the pace of growth as online's really caught on. But the long-term targets are largely unchanged. Is that accurate? How are you thinking about the pace of growth? How is online and the growth there playing into your thought process? And could you sort of elaborate on that just a little bit?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, our growth has slowed a bit, but it hasn't been because of the online business. We've continued to grow our online business. And we've talked about this that we're really looking for areas to put new stores in that are vastly underpenetrated or not penetrated at all. We talked a little bit about that Houston we've got no stores; Miami, we've got, I think, two stores in Miami; San Francisco, we've got three or four stores; that we've got a number of these markets that we just don't have stores in that we need to put stores in.

What has really slowed that growth and it's starting to get a little bit better has been the real estate development. So there hasn't been a lot of new centers built. They're starting to bring some more centers out of the ground that we're taking advantage of in some of these markets that we're vastly underpenetrated or not in at all. So that's our plan; to move into these markets where we don't have a store. And as the development cycle starts to get a little bit better, we'll add those stores.

Stephen V. Tanal
Goldman Sachs & Co.

Q

So what are you seeing there? There's not too many retailers in a stronger position as you guys that are able to anchor them all and growing at the pace at which you're growing. Do you feel like the market's loosening up a bit? Are there better opportunities out there for you specifically now? How is that evolving?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think there's better opportunities out there because there are some centers coming out of the ground; some strip centers coming out of the ground. And as these developers look to redevelop the mall with some of the boxes, they'll get back from some of the retailers that might be consolidating. We are among the first people that they call in order to try to drive – to fill that space. A number of the mall developers that we've talked to are extremely enthusiastic about this combo store of a DICK'S and Field & Stream as it brings something to the mall that they haven't had in the past. And they've provided us great incentives to fill that space.

So we're pretty optimistic about what we can do from an occupancy standpoint in these malls.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. Sort of the incentives and just lastly on that, has that been getting better I assume as this has panned out.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. As we take a look at some of these malls, they're building our stores out, bringing at a lower rent number, because they've got big spaces to fill and they want to fill it with something that is different than what the mall has today in a DICK'S store or a combo store of DICK'S and Field & Stream does that. We've got a number of – we've got a couple of stores where we've got DICK'S on the lower level, Field & Stream on the upper level both with surface parking based on how the mall is graded out, with vertical transportation between the two.

We've got this combo store in Columbus, Ohio; Polaris, Ohio that we'll be opening up the DICK'S stores attached to the mall; the Field & Stream stores attached to the DICK'S store. You can get to the Field & Stream store through surface parking or through the DICK'S store. And the economics are on that deal were pretty compelling.

Stephen V. Tanal
Goldman Sachs & Co.

All right. Lots of interesting stuff to dive into. That about finishes up our prepared time here, but we'll go right into the breakout. So we'll skip the break, and we'll head up to the Rendezvous Suite and continue the discussion there. Thank you, guys.

Edward W. Stack
Chairman & Chief Executive Officer

Thank you.