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Dick's Sporting Goods, Inc. (DKS)

Q3 2016 Earnings Call

CORPORATE PARTICIPANTS

Nathaniel A. Gilch
Director-Investor Relations, Dick's Sporting Goods, Inc.

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

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

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

OTHER PARTICIPANTS

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

Michael Louis Lasser
Analyst, UBS Securities LLC

Rafe Jason Jadrosich
Analyst, Bank of America Merrill Lynch

Mike Baker
Analyst, Deutsche Bank Securities, Inc.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Benjamin G. Zerman
Analyst, Morgan Stanley & Co. LLC

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Steven Forbes
Analyst, Guggenheim Securities LLC

Adrienne Yih
Analyst, Wolfe Research LLC

Rick Nelson
Analyst, Stephens, Inc.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

John Kernan
Analyst, Cowen & Co. LLC

Matthew McClintock
Analyst, Barclays Capital, Inc.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Patrick G. McKeever
Analyst, MKM Partners LLC

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the DICK'S Sporting Goods Third 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, sir.

Nathaniel A. Gilch

Director-Investor Relations, Dick's Sporting Goods, Inc.

Thank you. Good morning, and thank you for joining us to discuss our third quarter 2016 financial results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; Andrè Hawaux, our Chief Operating Officer; 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, the 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 the risk factors section of 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've 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.

Now, I'll turn the call over to Ed Stack.

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. But before I begin, I'd like to take a moment to introduce Lee Belitsky, our new Chief Financial Officer. Lee's appointment comes following an already distinguished career at DICK'S Sporting Goods that spans nearly 20 years. In that time, he has held a number of leadership positions such as VP, Controller and Treasurer, Senior Vice President of Strategic Planning and Treasury Services, Senior Vice President of Store Operations and Supply Chain, and most recently the Executive Vice President of Product Development, Merchandise Planning, Allocation and Replenishment. Lee's strong financial acumen and extensive leadership experience will be instrumental to the continued growth and success of DICK'S Sporting Goods.

Lee J. Belitsky

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

Thank you, Ed, and thanks for the kind words. It's great to be here this morning, and I am looking forward to working with all of you.

Edward W. Stack

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

Thanks, Lee. We had a strong third quarter and delivered non-GAAP earnings per diluted share of $0.48 and consolidated comp store sales of 5.2%, both exceeding the high end of our guidance range. Our eCommerce sales increased 33% and grew to 9.6% of sales compared to 8% in the same quarter last year.

During the quarter, we realized meaningful market share gains and saw growth across each of our three primary categories – hardlines, apparel, and footwear. Both our outdoor and golf businesses comped positively. Footwear was strong and we remain encouraged with the results of our premium full-service footwear decks. Growth in apparel was driven by licensed, which benefited from the favorable teams in the Major League Baseball playoffs. This growth was partially offset by declines in some cold weather categories.

We continue to drive differentiation through our strong private brand portfolio and we are very pleased with the performance of key brands such as CALIA and Field & Stream. Looking ahead, we expect private brand annual sales to reach over $1 billion in the next three years and have multiple new launches planned in 2017.

Now, let me provide a few updates on how we remain focused on driving profitable growth and capturing market share. On the marketing front, our recent Olympic campaign and Contenders program was a great success, garnering over 600 million media impressions and generating significant brand awareness. Building on this momentum, we announced the extension of our Team USA partnership and in-store employment program through the 2018 Winter Games in South Korea. Additionally, we're making progress on the recently acquired TSA customer information and will be directly marketing to these customers during this holiday season.

In early November, we completed the purchase of Golfsmith's strongest assets including intellectual property and lease designation rights. This marks a terrific opportunity for us, as we continue to build our position as America's number one golf retailer and focus on capturing a significant amount of market share, as the industry consolidates. Looking to next year, we expect this acquisition to be accretive to our earnings.

Digital is a big priority and this business continues to accelerate. We have made significant investments in our eCommerce business and remain on track to re-launch dicks.com on our own web platform in the first quarter of next year. Our eCommerce sales will be just under $1 billion this year, and we believe there is meaningful opportunity for future growth.

We're also pleased to share an update on DICK'S Team Sports HQ platform, which we launched this past January. Team Sports HQ is a suite of digital tools that provide youth sports leagues and their affiliates with access to free online registration, team websites, custom uniforms and fan wear, as well as a mobile app through which teams can schedule and communicate with each other. Our aspiration is to become the hub of youth sports for kids, parents, coaches, and league officials, making this platform the authentic resource for all the needs in team sports.

As part of this strategy, I'm excited to announce that we now have an agreement in principle to become the official league technology provider for Little League Baseball and its affiliated organizations. Through this partnership, Little League's over 2.1 million athletes, coaches, and administrators will now have access to DICK'S Team Sports HQ services. Looking onto the fourth quarter, we're confident that our assortment and marketing will help us to continue to capture this displaced market share this holiday season.

In closing, I'd like to thank our associates across the company for the hard work and commitment they have showed to deliver these significant third quarter results and for the upcoming efforts in this important holiday season.

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

Andrè J. Hawaux

Chief Operating Officer & Executive Vice President, Dick's Sporting Goods, Inc.

Thank you, Ed. During the third quarter, we continued to execute on our growth drivers and expand our powerful omni-channel platform. We opened 27 new DICK'S Sporting Goods stores and relocated four DICK'S stores. We also opened seven new Field & Stream stores and two new Golf Galaxy stores and closed one Field & Stream store.

Sixteen of the DICK'S stores opened in new markets, including Houston, the fourth largest city in the country, where we've historically had no DICK'S stores. The Houston grand opening was the largest in the company's history. We opened 10 stores on the same day, including two locations that feature DICK'S, Field & Stream, and Golf Galaxy stores, all housed under the same roof. These unique shopping destinations are the first of their kind and provide the Houston community with unmatched selection and service for all of their sporting goods, outdoor and golf needs.

Last quarter, we purchased TSA's intellectual property and the rights to acquire 31 store leases. After a thorough review process, we have retained 22 of these leases, primarily located in California and South Florida. Next week, the first three of these former TSA stores will reopen as DICK'S stores, and the majority of the remaining stores are expected to re-open during the first quarter of 2017.

As we've discussed, one of the ways we are driving store productivity is through our premium full-service footwear decks, which encompass a best-in-class merchandise presentation, elevated service levels and a broader assortment. At the end of the quarter, we had 182 premium full-service footwear decks and we'll convert the final two stores in time for the holiday season. The sales results are encouraging, and we plan to incorporate these decks in the majority of our new stores next year.

Lastly, as Ed mentioned, we recently purchased Golfsmith's intellectual property and the rights to acquire store leases along with the inventory for 30 stores. The purchase price was approximately $43 million, of which $32 million is related to inventory. The intellectual property includes the name Golfsmith, as well as domain names, owned private brands, and importantly, customer information.

The deal was structured with maximum flexibility where we have the right to retain or reject any or all of the leases. In total, we plan to evaluate approximately 40 leases. These include 30 of Golfsmith's most profitable locations where we acquired the store inventory. We are currently operating these locations, and we plan to convert them to the Golf Galaxy brand by the end of the fourth quarter.

I'll now turn the call over to Lee to review our financial performance in greater detail.

Lee J. Belitsky

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

Thank you, André. Good morning, everyone. Beginning with our third quarter financial results, consolidated sales increased 10.2% to approximately $1.8 billion. Consolidated same-store sales, which includes all banners, both online and in-store, increased 5.2%, which was above the high-end of our guidance.

Within this, DICK'S Sporting Goods omni-channel same-store sales increased 5.5%, driven by a 1.3% increase in ticket and a 4.2% increase in traffic. Golf Galaxy omni-channel's same-store sales decreased 3.3%. We continued to see strong growth in our eCommerce business which increased 33%.

Gross profit for the third quarter was $553 million or 30.54% of sales, up 81 basis points over last year. Within this increase, merchandise margins expanded and we leveraged occupancy expenses, partially offset by shipping costs associated with growth of our eCommerce business.

Non-GAAP SG&A expenses were $453 million for the quarter or 25.04% of sales, an increase of 147 basis points from the same period last year. The deleverage was primarily driven by three items: First, we increased administrative head count to support our growth initiatives such as our eCommerce platform; next, we invested in our Olympic marketing campaign; and lastly, we continued to invest in payroll to enhance the shopping experience within our stores, including premium full-service footwear. We also received a multi-year $2.9 million sales tax refund that favorably impacted other income in the quarter.

In total, led by our strong comp store sales performance, we delivered non-GAAP earnings per diluted share of $0.48, which exceeded the high-end of our earnings guidance of $0.42.

During the quarter, we incurred approximately $7.6 million of costs pre-tax or $0.04 per diluted share to begin converting former TSA stores to DICK'S stores. These costs include occupancy expenses and professional fees related to the transition. During the same period last year, we recorded a litigation settlement charge of $7.9 million pre-tax or $0.04 per diluted share. For additional details, you can refer to the non-GAAP reconciliation in the tables of the press release issued this morning.

Now, looking to our balance sheet, we ended the third quarter with approximately $85 million of cash and cash equivalents and $261 million in borrowings outstanding on our $1 billion revolving credit facility. Total inventory increased 4.8%, which is well below our 10.2% sales growth in the quarter. We're very comfortable with our inventory levels and the quality of our merchandise as we transition into the holiday selling season.

Turning to our third quarter capital allocation, net capital expenditures were $53 million, or $99 million on a gross basis. Additionally, during the quarter, we paid $16.8 million in dividends and repurchased $9 million of stock at an average price of $51.53. Our year-to-date share repurchases totaled $116 million and we have approximately $1.1 billion remaining in our authorizations.

Now, let me wrap up with our outlook for the remainder of the year. As Ed indicated, we believe we have the merchandising and marketing plans in place to drive sales during this important holiday season. For the fourth quarter, we anticipate non-GAAP earnings per diluted share in the range of $1.19 to $1.31 with an increase in consolidated same-store sales between 3% and 6%. Fourth quarter operating margin is expected to increase slightly at the higher end of our comp guidance range, and decline towards the lower end of our range. Within this, we expect gross margins to increase, and SG&A expenses to deleverage.

Looking at the full year, we are raising our guidance and now expect non-GAAP earnings per diluted share of between $2.99 and $3.11. This compares to our prior guidance of between $2.90 and $3.05. We now expect consolidated same-store sales to increase between 3% and 4%.

To remind everyone, we're investing in three key initiatives in 2016 impacting EBT by approximately $50 million to $55 million: First, to transition and grow our eCommerce business; second, to build that brand by partnering with the U.S. Olympic Committee and Team USA; and third, to support the rollout of our full-service footwear decks. As result, higher SG&A expenses, with some partial relief from gross profit improvements, will cause operating margins to decline year-over-year.

Net capital expenditures for the full year of 2016 are expected to be approximately $275 million or about $450 million on a gross basis. Please note that our fourth quarter and full year non-GAAP earnings per diluted share guidance does not include certain costs, which I previously described, to convert former TSA and Golfsmith stores. We'll continue to separately report these costs to you in future periods. This will conclude our prepared comments. We appreciate your interest in DICK'S Sporting Goods.

Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. At this time, we will begin the question-and-answer session. [Operator Instructions] And your first question will come from Seth Sigman of Credit Suisse. Please go ahead.

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

Q

Thanks a lot. Good morning, and really nice quarter, guys. I wanted to dig into the guidance a little bit for the fourth quarter and kind of the thought process behind comps up 3% to 6%. You have a pretty easy comparison and I'm sure there's naturally some conservatism just given how big the fourth quarter is, but any considerations, maybe weather or something else that we should be watching?

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

A

Yes. Seth, it's primarily around weather. And we've had a similar weather pattern than we had last year, and we're weather-sensitive in the fourth quarter. So, we've got a lot of outerwear, both ski outerwear, cold weather outerwear, hunting outerwear, and we're weather-sensitive in the fourth quarter, and we're just concerned about what's going to happen from a weather standpoint.

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

Q

And then, to follow up, as you think about what's embedded for the fourth quarter in terms of margins, is there an assumption that maybe there's a little bit more discounting or promotional activity to work through? Any sort of cold weather inventory that maybe out there?

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

A

Not really. I mean, we're concerned about what'll happen from a cold weather standpoint, but we don't have anything baked in from a more promotional environment. As you saw, our inventory increased at half the rate that our sales increased, so we're really – we're confident in the inventory level that we have and the quality of the inventory. So, we're not terribly concerned there.

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

Q

Got it. Okay. And then, just on gross margin in the third quarter, any way to quantify how much of the leverage was occupancy leverage versus merchandise margin improvement?

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

A

So, majority of it is in the merchandise margin improvement.

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

Q

Okay. Great. Thanks.

Operator: And the next question will come from Michael Lasser of UBS. Please go ahead.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. If you look at the stores that were not in areas that directly surrounded a competitor closing, how did those stores comp during the quarter?

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

A

No, we don't provide that level of granularity, but – so we're not going to give you specifics. But the stores where we have market share opportunities where Sports Authority closed and we're starting to see a little bit of that; where Golfsmith is closing or closed. Those stores, as you would expect, performed better than the stores that had no change in the competitive environment.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Were they like 2x, 3x or just more marginal effect?

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

A

We're not going to provide that level of granularity.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Okay. And Ed, heading into this year, you expected the strategic investments between building up eComm, the Olympic marketing campaign and labor investments that cost you $50 million to $55 million. If you back that out from your SG&A run rate and what's implied in the fourth quarter, you're still going to deleverage SG&A considerably. So, are you just reinvesting a significant amount of the market share back into other parts of the business and this is how philosophically you want to see the business unfold over the next 12 to 18 months?

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

A

Well, I think that that investment will slow as we go into next year. But we made the number of investments, as we said from an eCommerce standpoint, from what we're doing with the full-service decks from the Olympic campaign, growing our brand in general, but that growth will slow going into next year.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Do you expect the flow-through to be much better next year than it is this year?

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

A

Well, we've talked about just with the fact of what we'll do from an eCommerce standpoint that we expect the operating margins to increase approximately 30 basis points from what we're doing from an eCommerce standpoint. And we're not going to provide our guidance for 2017 now, but you could expect that those operating margins will increase next year.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Okay. Thank you so much.

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

A

Sure.

Operator: The next question will come from Robby Ohmes of Bank of America Merrill Lynch. Please go ahead.

Rafe Jason Jadrosich
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning. This is Rafe Jadrosich on behalf of Robby. Can you just discuss the trends you were seeing in apparel kind of excluding the license business? Do you think the softness you're seeing there is entirely based on the warmer weather?

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

A

Well, we think that the weather has impacted this. We're pretty pleased with what's going on with our apparel business overall. On the athletic side, the cold weather merchandise has not been what we had hoped it would be. We're hoping for a little different weather pattern. But, with that being said, we've been very – our team has done a great job from an inventory standpoint. Our brands have worked great with us on inventory. And even if the weather doesn't get cold like we hope it would be, we don't really see that we have anything meaningful from an inventory issue.

Rafe Jason Jadrosich
Analyst, Bank of America Merrill Lynch

Q

So, excluding license, apparel still grew?

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

We're pleased with it. Yeah, it did.

Rafe Jason Jadrosich
Analyst, Bank of America Merrill Lynch
Q

Okay. And then, what was the traffic in ticket during the quarter?

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

We've got – let us get back to you on that.

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

Yeah.

Rafe Jason Jadrosich
Analyst, Bank of America Merrill Lynch
Q

Got you. And then, just one final question. Just on the 22 TSA stores you're converting to DICK'S stores, just in the context of maybe next year's store growth, should we think about those as replacing DICK'S openings or would those be incremental?

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

Well, it would be a little bit of both. So, it's going to be some incremental, because when we bought these, we had already had a real estate plan in place. So, it's going to be slightly incremental, but all of them opening up, it won't be all incremental. We slowed a little bit in the back half of the year and moved some of them to 2018.

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

And the ticket was up 1.3% and traffic up 4.2%.

Rafe Jason Jadrosich
Analyst, Bank of America Merrill Lynch
Q

Great. Thanks so much.

Operator: The next question will be from Michael Baker of Deutsche Bank. Please go ahead.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Thanks. What happens if the weather gets cold? How quickly can you get more merchandise into your stores, because your inventory per foot is down quite a bit? So, how does that work with your vendors?

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

Yeah. We've got what we characterize as partnership orders with the vendors that there is product that if it gets colder and we need it or we see certain styles selling that we will release that inventory, and it'll be into our system. So, if it gets cold, we'll be fine from an inventory standpoint. If it doesn't get cold, we'll still be fine from an inventory standpoint. We've got these partnership orders, and the brands have been terrific to work with.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.
Q

And so, I guess a follow-up on that, with the competitive situation having evolved as it has, are you seeing more access to partner inventory? Or are those conversations sort of improving in your favor not just for the partner inventory, but just in general with your vendors?

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

Let's put it this way. They've gotten better. But, we've gone about this in a true partnership with the brands. They've talked to us about what opportunities they think that we can pick up from TSA. We're starting to have conversations with the golf vendors about what opportunities we might have to be able to pick up with Golfsmith that we may not have been fully aware of. So, the partnership and the communication, and the collaboration with the brands has been very helpful.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. That's great. Thanks. One more quick follow-up, if I could slide in. You've extended the Olympic deal, so any way to quantify what that will cost? From your $50 million to $55 million this year, we were able to sort of estimate the impact to 2016, I thought it would be zero next year. Now that it's extended, what should we assume in our model?

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

Not significant. It's all built into our total marketing budget.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Appreciate that. Thank you.

Operator: The next question will come from Stephen Tanal of Goldman Sachs. Please go ahead.

Stephen Tanal
Analyst, Goldman Sachs & Co.
Q

Good morning, guys. Thanks for taking the question. Just wanted to talk for a minute about some of maybe the puts and the takes in the comp. Ed, you had mentioned that there may have been sort of an overhang from the TSA sales heading into back-to-school and cleats and that sort of thing. Do you feel like that actually happened? And do you have any different expectations for share gains from TSA in 4Q versus 3Q as a result?

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

A

Well, did some of that happen? Yeah, it did. It wasn't to the extent that we had anticipated. So, it was better than we had anticipated. Going forward, we think that there's still meaningful market share gains to get over the next couple of quarters, and our fourth quarter is really – a lot of it is driven by weather. But, we think that from TSA and Golfsmith closing as this industry consolidates, we're clearly one of the big winners in this consolidation, and we expect those market share gains to continue.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Okay. That's helpful. And just on license, as we try to think about what the World Series may have done there in that business overall, is there anything you could share? Obviously, best would be an estimate of what you think license did to the comp, but if not that, maybe just size up license as a percent of total, just to help us think about order of magnitude there.

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

A

Well, we won't give it to you – as granular as you probably want it, but it was really important to that quarter. And our team did a terrific job all through the pennant races and then leading up to the World Series. The team really did a great job. We reopened stores when the Cubs and the Indians clinched the pennant, and both cities responded. Both cities were really excited about their teams being in the playoffs, and it was helpful to our business for sure.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Awesome. And then, last just last for me, I'd love to understand kind of your initial expectations around the TSA conversions and the Golfsmith stores as well. Just as we model those in, are the TSA sites, the ones that re-opened under DICK'S, likely to look like a DICK'S from a sales and profitability perspective? Or should there be some sort of a ramp? And same question for the Golfsmith, which obviously you're operating today, so you probably have a better feel for that versus Galaxy.

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

A

So, Steve, this is Andrè. I'll take the first part of that relative to the TSAs that we're going to be opening. Many of those are going into very much underpenetrated market for us. So, we see actually them performing very, very well, very similar to the kind of returns we see in a DICK'S store. They're slightly smaller, not a whole lot smaller, but they'll do very well in those markets. We also expect to see a significant market share pick up from what is happening in the golf space today between what Golf Galaxy will pick up and the market share we'll pick up as a result of picking up the most attractive leases we see in the Golfsmith portfolio as we go forward.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Got it. Okay. Thanks a lot.

Operator: The next question will be from Simeon Gutman of Morgan Stanley. Please go ahead.

Benjamin G. Zerman
Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. This is actually Ben Zerman for Simeon. Just a quick question around, I think, you expressed some conservatism about Q3 with respect to inventory in the marketplace. What went better in the quarter? Was it the consumer behaved stronger? Or there was just less overlap? I know you called out a million pairs of cleats in terms of inventory. Did you see impact at all this quarter?

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

A

Yeah. As I said, we thought the impact was less than we had anticipated.

Benjamin G. Zerman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks. And then, just one more. On a two-year basis, gross margins were up 93 basis points this quarter. I know you didn't give explicit gross margin guidance, but playing with assumptions, it doesn't appear to be much GM growth despite relatively easy comparisons. Can you kind of help us understand why?

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

A

I'm not sure I understand the question.

Benjamin G. Zerman
Analyst, Morgan Stanley & Co. LLC

Q

On a two-year basis, GM was up 93 basis points and I know you didn't give explicit guidance, but given the significantly easy comparisons last year, I would've thought there would have been a bigger lift. Was there anything noteworthy impacting that line this quarter?

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Hey, Ed. It's Simeon. I just jumped on as well. I think we're meaning specifically for the fourth quarter, as we look into it. Again, you didn't tell us the breakdown between GM and SG&A, but it looks like you did set up on a rolling basis to do better on GM, and that's what we're trying understand, if there's any color around it.

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

A

Are you talking about the third quarter? The question was the third quarter.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

The third quarter, the run rate was good and we're asking about the fourth quarter.

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

A

Okay. Nothing there. We just – we are so sensitive from a weather standpoint. The cold weather merchandise is a high margin product and we're not sure – we were hoping it would have gotten colder earlier than it has already.

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

Yeah, and just to reiterate, on the Q3 operating performance of gross margin, we feel very good. Our merch margin was very strong and we leveraged occupancy, offset by a little bit of increased shipping expenses as a result of the strong growth we had in our eCommerce business. So, we feel very good about what we saw in our Q3 gross margin performance.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Okay. And then, I just want to lop on one more. I apologize if this was asked, but in terms of the SG&A, I think you read an order of a couple of headwinds at least in the third quarter. You mentioned administrative expense, Olympic and then store payroll. I guess the Olympic one is fairly clear as far as rolling off, but those other two items, does that, let's say, stay in the base? Does that elevate in the base? I guess, payroll was to take advantage of some of the dislocation out there, but how should we think about that going forward?

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

Well, the payroll is primarily around – premium full-service footwear decks is a big part of it, and then the administration piece was really the investments that we're making from an eCommerce standpoint. And we indicated that, before you jumped on the call, we indicated that, to remind everyone, that we talked about going into next year when we re-launch our dot-com business on our own platform that you can expect a 30 basis point improvement in operating margins.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Got it. Okay. Thanks, guys. Good luck in the fourth quarter.

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

Yes. Thanks, thanks, thanks.

Operator: And the next question will come from Camilo Lyon of Canaccord Genuity. Please go ahead.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Thanks. Good morning, guys. Ed, you mentioned a couple of times that you had meaningful market share growth. Could you care to quantify what that is? What you mean by meaningful, relative to your expectations before the TSA stores' close? And then, more broadly, how do you view that market share capture unfolding in the fourth quarter and next year? In other words, do you expect your market share gains to accelerate?

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

Well, we're not going to give you exactly what we thought it was, but we had a plan of what we thought those market share gains would be and we were real close, right on that plan. I think that the fourth quarter, we'll continue to get market share – pick up market share gains. I think we'll be able to do that again in the first quarter.

We indicated that we thought this would last for three or four quarters as this displaced market share needs to go someplace, and we're really confident in our ability to pick that up. We've been executing it right on our plan, and we're pretty excited about it.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Would you say that that rate of recapture is consistent in your expectations going forward, or is that something that builds over time as more of those TSA customers are flocking to your stores?

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

A

Well, I think it'll be relatively consistent. Each quarter will have a different pure dollar amount depending on what categories are looking for a home, if you will, but I would say that it'll be pretty consistent.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

And then, just going back to your guidance, outside of your weather expectations, is there anything that you're seeing in the business that would cause your guidance to effectively have a pretty meaningful 360 basis point two-year deceleration?

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

A

No. I mean, again, we're just concerned about what's going on with the weather. We would have thought that – we would've hoped that it would have gotten colder earlier this year versus what it did in the past, but not really.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

And so, that guidance then implies that there's no change in the weather pattern from what you're seeing it today? Is that how to interpret it – interpret that?

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

A

I would say towards the low-end of the guidance, no change in the weather pattern versus how it's going today would get us toward the lower-end of the guidance, and if we return to more seasonable weather for December and January, get toward the higher-end of the guidance.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. Great. And then, just lastly on the license benefit, was there any extension of that benefit into the fourth quarter, post the Cubs winning the World Series?

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

A

Yeah, a little bit, because they won it in the fourth quarter.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Great. Thanks a lot.

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

A

Yeah, the final game was in the fourth quarter.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Thank you.

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

A

Sure.

Operator: The next question will come from Scot Ciccarelli of RBC Capital Markets. Please go ahead.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Good morning, guys. Two questions. First, just to clarify something on that last question, the low-end of your 4Q comp guidance assumes weather patterns basically similar to last year then because that kind of went through the full quarter?

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

A

Yeah. Relatively similar to that.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Relatively similar. Okay. Thank you. And then, second, have you guys accelerated the planned rollout of your footwear decks? Because, I guess, I didn't think the prior plan was to roll it out to most of the chain. I think that's what you said in your prepared remarks. And then related to that, is there any color on magnitude or even anecdotes at this point that you can provide to us regarding the lift you're seeing in these new decks? Because, obviously, you continue to roll it out, so must be happy with what you're seeing.

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

A

We are happy with what we're seeing. Look, we didn't say it was going out to most of the chain, we said it's going out to most of the new stores that we're opening.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Got it.

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

A

But, we are very happy with the lift we've gotten. It's meaningfully different than the stores that did not get this lift, and we'll continue to assess this and see where we want to go with this. But, new stores – most of the new stores will have the new footwear deck.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Got it. And then, by the end of next year then, how many footwear decks would we actually have within the base, or what percentage; however you guys want to think of it?

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

A

I'm going to say by the end of next year, we'll have over 220.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Got it. All right. Thank you, gentlemen.

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

A

Sure.

Operator: The next question will be from Steven Forbes of Guggenheim Securities. Please go ahead.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Good morning.

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

A

Good morning.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

As it relates to the near-term revenue transfer associated with the competitive closures, how has that transfer played out by sales channel relative to your original expectations? And how do you – maybe it's too early, but have you seen repeat orders from new customers in both channels that have converted to the brand, or is it too early to measure that?

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

A

Well, it's a little too early to measure it, but we're seeing share gains both throughout the entire omni-channel experience, so both in-store and online.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And I guess relative to your expectations, has the channel – maybe don't look at it that way, but has the channel mix played out as expected?

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

A

Yeah. We do look at it that way, and yeah, it's been pretty much as expected.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And then, just as a follow-up, again, it might be too early to comment here, but what is the experience thus far regarding the competitive environment in Houston? And/or maybe just comment, right, on the competitive environment in general, right, in markets where there's a greater level of competition post the TSA closures, given the magnitude of the displaced share. Houston obviously stands out as you mentioned within the prepared remarks too with a new format and such and the efforts you put there, so any commentary would be helpful.

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

A

Sure. Houston, we opened 10 boxes, so we opened six DICK'S stores, two Field & Stream, two Golf Galaxy stores. Two of the units have a DICK'S, Field & Stream and Golf Galaxy all under one roof, which is a terrific shopping experience. We're very pleased with the Houston opening. It was – we've talked about. It was the biggest grand opening in our company's history both not only from the number of stores, but just the total sales volume we did. So we've been very happy with Houston. The Houston market has embraced us. I think we provide a different shopping experience than what is down there on a competitive standpoint today. So we're really happy about that. We have not seen any irrational behavior throughout the rest of the country from a competitive standpoint. It's relatively rational out there, and I think it will stay that way through the fourth quarter.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you.

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

A

Sure.

Operator: The next question will be from Adrienne Yih of Wolfe Research. Please go ahead.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Good morning. Let me add my congratulations. A couple of questions. I guess the first is on the TSA IP, the customer information list. How many on that list are new names to you? And then secondarily, can you give any color on the quarterly progression and quarter-to-date comp trends right now? And then for CALIA, we saw the TV advertising. What type of bounce did you get from that and how large can that business be in the future? Thank you very much.

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

A

So as we talk about the progression in the quarter, we don't provide guidance or discussion about that or where we are right now.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Okay.

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

A

We have never done that. But we're pleased with the way things have been going. As far as CALIA, that's one of the brands we're going to continue to invest in. We're very pleased with that, we're actually going to be expanding the square footage in a number of stores to test a broader assortment of CALIA and we continue to be extremely enthusiastic about CALIA. And what was the – you had one other part of your question.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

It was the customer information list. How many of those are new names to you?

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

A

Yeah, we're still de-duping all of that, but there's an awful lot of new names.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Okay. Great. Thank you very much, and best of luck.

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

A

Thank you.

Operator: Your next question will be from Rick Nelson of Stephens. Please go ahead.

Rick Nelson
Analyst, Stephens, Inc.

Q

Hey. Good morning. I don't know if you called out probably in the area of $50 million of $55 million for the brand for the Olympics and eComm in the full-service footwear in-store. How much of those expenses carry over into 2017?

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

A

So the footwear deck, they won't accelerate. So the footwear information or sale of expenses will continue because we've got to operate those. The Olympic expense will not go forward and the expenses associated in the investment associated with eCommerce will slow considerably, and we've indicated that once we make this change to our own platform in the first quarter of next year, we expect to see a 30-basis-point improvement in our operating margins.

Rick Nelson
Analyst, Stephens, Inc. Q

Got it. Thanks for that. I think you called out earlier $6 million related to eComm.

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

Roughly, going into next year.

Rick Nelson
Analyst, Stephens, Inc. Q

Right. Okay. And zero – or is it close to it for the Olympics and zero for the full-service in-store?

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

The full-service won't accelerate anymore, but that expense will stay in the base. We've got the amortization associated with the capital that we put into the space, and then we have the payroll to operate it.

Rick Nelson
Analyst, Stephens, Inc. Q

That's a great callout. [ph] Was it (42:01) $17 million for this year?

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

We never gave that for the total year. We didn't break it out.

Rick Nelson
Analyst, Stephens, Inc. Q

Okay. All right. Curious thoughts about Field & Stream stores? How they're performing side-by-side with the DICK'S stores versus the freestanding?

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

Well, we love – there's a bit of a difference in the payroll associated. So we think they're doing better. We're pleased with that. We can leverage management expense. We can leverage construction expense associated with them. We leverage a bit of the marketing expense. These triple-plays and combo stores, we like a lot.

Rick Nelson
Analyst, Stephens, Inc. Q

Great. Thanks, and good luck.

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

Thanks, Rick.

Operator: And the next question will come from Sam Poser of Susquehanna International Group. Please go ahead.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

Good morning. Thank you for taking my question. I was just wondering – it may have been asked, but when we think about next year in store openings and whitespace created by TSA, I particularly think of California and Florida, how should we think about, I guess, your long-term store size for DICK'S as well as closer term store growth?

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

A

So, Sam, I think as we talked about earlier, for next year, I think you'll see a slight uptick versus what we did this year largely as a result of the integration and bringing on in the first quarter 19 of those 22 TSAs as we're launching three of them in the fourth quarter. From a size standpoint, I think we like our 50K, but that doesn't mean that in some markets we won't be slightly smaller than that based on our small market. And in some markets, we won't go after the market with an 80K from a size standpoint.

We continue to have a very rigorous real estate approach and policy, very financially driven, and that was again accentuated in the fact that we rejected several of those – or about nine of those leases that we acquired from TSA because they did not meet our hurdle rates and they weren't the right real estate. So you can expect us to continue to be very focused on how we look at the metrics on a real estate standpoint as we go forward.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

If I could just follow up on that, though, I mean you've got California and Florida that lost us a ton of stores. I'm not saying going into where the locations where Sports Authority was, but all of a sudden where there wasn't – it was TSA or Sport Chalet in California or just TSA in Florida, I mean all of a sudden, there's areas that all of a sudden that you weren't there, they were there. And all of a sudden you have customers that are being underserved. That wasn't true two years ago. So I mean it just sounds like it creates a huge opportunity, I would even say, more in California because of Sport Chalet.

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

A

And you're right. So if you were to ask us the areas that we are most focused on from a real estate standpoint, I would say it would be Florida, California and the Pac Northwest. And those are areas that we think that there's a lot of opportunity. California, you're right. TSA and...

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

A

Sport Chalet.

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

A

Sport Chalet exiting that market, there's a big opportunity there. In the stores that we took from Sports Authority, understand, we took their very best – some of their very best stores that weren't competing directly with a DICK'S Sporting Goods store. So we think these stores are going to be really terrific stores for us.

On top of that, we know there's a lot of whitespace, and from a real estate standpoint, that's where we're focused on is where Sports Authority exited and then there is nobody there. There's nobody in Southern California. There is nobody really in Florida in any meaningful way, and we think there's opportunities for us.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

Is that a 2017 or an 2018 story, I mean just thinking about it?

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

A

It's a 2017 and 2018 story because you just can't turn on the pipeline, and we've got some real estate that we're looking at there that is going to be ground up. We're going to build new stores. We've got some other things that we're looking at that are going to be taking over existing stores, but it takes time to – and in Florida, in California, which a lot of people won't think of this, but from a permitting standpoint, they are slow from a permitting standpoint and difficult from a permitting standpoint. So there's just some lead time to get these stores open, and we're working as fast as we can.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

Thank you very much, and best of luck.

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

A

Sure. Thank you.

Operator: The next question will be from John Kernan of Cowen. Please go ahead.

John Kernan
Analyst, Cowen & Co. LLC

Q

Good morning, Ed, Andrè and Lee. Congrats on a nice quarter.

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

A

Thank you.

John Kernan
Analyst, Cowen & Co. LLC

Q

Can you just talk about the philosophy around golf? The 30 new Golfsmith stores increases your exposure fairly significantly combined with the 70-plus Golf Galaxy stores. Can you just remind us where the profitability and margins for this category lie in general, both in the Golf stores and in DICK'S Sporting Goods stores?

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

A

Well, we can't remind you because we never told you, but what we have said is that golf is still – although it wasn't a – has not been a growing business, it's still a very important business to us and a very profitable business to us. And with these Golfsmith stores, we took their 30 very best stores. We've got lease designation rights on all of them, so we can talk to the landlords and see if we can get the right real estate deal on some other ones, but these are very, very profitable stores, they are their very best assets. And we feel that golf will be more accretive to earnings than they have been in the past, and we think this has been a great transaction for us.

I understand we talked about this, we understood The Street may not really like it because there is not a lot of appetite for golf, but we needed to do the right thing for the business, and this is a great opportunity for us to increase our profitability in golf, which is already a very profitable business for us, if not a growing business. So now for this next year, golf will be a growing business for us because with the market share for the stores that we are – the Golfsmith stores we're opening up, that were their best stores. But also there's a lot of market share opportunity with Golfsmith going away that is going to be picked up by Golf Galaxy stores and by DICK'S Sporting Goods stores. There's a number of – there's an awful lot of Golf Galaxy stores and DICK'S stores that are within a very short drive of Golfsmith, and we are already starting to see some of that market share get picked up.

John Kernan
Analyst, Cowen & Co. LLC

Q

Okay. Sounds like there are returns on the – I'm sorry, go ahead. Sorry.

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

A

The other things that we are doing a little differently with the Golfsmith stores is we're not putting a significant investment into those stores. So we're going to put in our POS terminals and change the signs from Golfsmith to Golf Galaxy, work on improving our real estate deals there and then go forward with them. So we're really just buying the inventory in the stores and going forward with profitable stores with very modest investment.

John Kernan
Analyst, Cowen & Co. LLC

Q

Okay. Sounds like it will be accretive for next year for sure. A final...

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

A

It absolutely will be accretive.

John Kernan
Analyst, Cowen & Co. LLC

Q

Okay. And then my final question just centers around some topics that were talked about during the elections. One, minimum wages, there were several states that approved higher minimum wages for next year and into 2020. And then also on potential lower corporate tax rates, I think you guys pay one of the highest corporate tax rates in our sector right now. So I'm just wondering how higher minimum wages and higher labor rates are going to impact your SG&A for next year? And then if you just talk about the potential for lower taxes long term, that'd also be helpful. Thanks.

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

Well, just on the labor rates, we've got that factored into our Q4 outlook as many of those rates went into effect, and as we talk about our outlook for fiscal year 2017 on the fourth quarter call, we'll let you know. It's not material as we've looked at this already and looked at it forward, it's not going to be material, it won't change our long-term outlook. And with respect to tax rates, if we can get lower tax rates, that would be great. I mean I think everybody would love a lower corporate tax rate. So we are all in favor of that.

John Kernan
Analyst, Cowen & Co. LLC
Q

Okay. Thanks. Best of luck.

Operator: The next question will be from Matt McClintock of Barclays. Please go ahead.

Matthew McClintock
Analyst, Barclays Capital, Inc.
Q

Hi. Yes. Earlier, you mentioned that it seemed like the competitive environment is rational. I was actually wondering, as you look across the broader competitive landscape in both footwear and apparel, are you seeing a return to more full-price selling across your competitive tiers, especially now that the vendors seemed to have cleaned up some of the inventory in channel?

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

I don't know if it's really more full-price selling, but it hasn't gotten any more competitive, no more – there's nothing irrational about what's going on. With that being said, we do expect our merchandise margins to have some more room to run. That will be a combination of what we're doing from our private brands such as CALIA, Field & Stream. The fact that our inventory is in great shape, you saw our inventory grew at half the rate of our sales, which our inventory is in great shape. We think that that will mitigate some markdown exposure in the backend. So we are enthusiastic about what could happen from a margin rate standpoint.

Matthew McClintock
Analyst, Barclays Capital, Inc.
Q

Thank you very much.

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

Sure.

Operator: The next question will be from Mitch Kummetz of B. Riley. Please go ahead.

Mitch Kummetz
Analyst, B. Riley & Co. LLC
Q

Yeah. Thanks for taking my questions. So the fourth quarter earnings guidance, the range, $1.19, $1.31, that was basically the default guidance previously given kind of where the full year was and what you were seeing for Q3. So it does sound like you're being a little bit more cautious on the weather side. I'm wondering if that caution was already baked into the kind of prior default Q4 guidance or if it wasn't, if something improved to kind of offset you're being more conservative on the weather side. I don't know if that question makes sense.

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

A

I know what you're trying to say. We are concerned about what's happening with the weather. When we had talked about the fourth quarter guidance, we really weren't sure what was going to be the implied fourth quarter guidance.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

Right.

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

A

It's what we gave at the end of our second quarter. So we really didn't know what was going to happen with the displaced market share with TSA. We had a sense of what we would do. We're able to do very well and be right on our plan for what we thought we would be able to capture, but we're sensitive to the weather in the fourth quarter and we have not got any cold weather to speak of. Where it has gotten cold here and there a little bit in the Northeast a couple weeks ago, a couple weekends ago, business was terrific. It was great, but we're not sure how sustainable that's going to be.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

So is it fair to say then that you're maybe being a little more cautious on the weather than you were previously, but to offset that, maybe you're being a little bit more aggressive on the market share gain side so that net-net it kind of ends up the same way in terms of that range?

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

A

I don't want to get involved and pulled into semantics here, but we're concerned about what's going to happen with the weather.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

Got it. Fair enough. And then in terms of – you guys mentioned from a category standpoint all three kind of major buckets were up in the quarter in terms of comps. I know you don't want to get into too much in terms of kind of what the recapture was in the quarter, but from a category standpoint, are you seeing any better results from a recapture perspective in certain categories versus others?

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

A

Well, so the answer is yes. And then if I leave it just at that, your next question will be, well, can you tell me which categories, so I'll just answer that for you. I'm not going to get into a lot of detail there, but we've captured it around the areas that we had anticipated. So we knew that the team sports area would be a big opportunity for us. There is just less competition out there for that area. Athletic footwear was really very good. Apparel was good. So those areas were – you would think Sports Authority was strong when you walk into a Sports Authority store and that business is gone. That's where we picked up a lot of market share. The team sports area was one that we thought would be terrific for us and it has been.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

Okay. And then lastly, I don't think you guys have gotten a Field & Stream question yet, but I'll ask one. There's some stores in the comp base that are now -so I don't know if you could talk about maybe the performance of those stores. And I would imagine the stores kind of – I think you said outdoor in general comps positively, but I would guess those stores maybe skew a little bit more towards weather. And so I'm just kind of curious how you're thinking about those stores in the fourth quarter as well.

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

A

Well, we're pleased with the performance of those stores. And from a profitability standpoint, better than the last year. We're pleased with those stores, but they're also a bit weather sensitive because the men and women and kids who are going hunting, if they're hunting, if they need boots and they need base layer product and they need jackets and gloves, that's better for us than if they don't. Last year, they didn't. We hope they will this year. But again, it's a bit of a weather story associated with the apparel and boot categories in Field & Stream also. But bottom line is we're pleased with what's going on with Field & Stream.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

Got it. All right. Thanks. Good luck.

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

A

Thank you.

Operator: The next question will be from Joseph Feldman of Telsey. Please go ahead.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Yeah. Hi, guys. Thanks for taking the question. I want to go back to the stores question for a moment. Can we talk about organic growth? And I know without wanting to give too much guidance for 2017, but how should we think about organic growth considering the 22 TSA stores, the 30 Golfsmith stores that you've acquired, like how will that factor into how the growth plans will look next year or beyond?

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

A

Well, we actually look at the TSA stores that we're taking over as organic growth. Organic growth is operating a DICK'S Sporting Goods right from the ground up. These stores are closed. It's not like we're buying an ongoing business and trying to then integrate it into DICK'S. We're basically – the TSA deal for us, as the Golfsmith deal, is really a real estate play for us. The Golfsmith – the TSA stores other than a couple that we're just opening up quickly are going to get renovated and look pretty similar to a DICK'S Sporting Goods store. So we really think it's all organic growth, even the TSA or Golfsmith stores that we're taking over because they're really, as I said, just a real estate play.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

That makes sense. Okay. So we should think about then total growth rate for stores or square footage similar to prior guidance that you've given and incorporating those TSA stores. That makes sense.

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

A

In 2017, it might be a bit higher than what it has been because we're opportunistic about these stores. We had a development plan in place for 2017 and had started on one for 2018. We tried to modify it to smooth it out a little bit, but you can expect that our square footage growth in 2017 will be greater than it has been, but then will get back down to a more normal level in 2018.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Thanks. And then two other questions. One, golf and outdoor, I know, were positive and while one quarter or one short period doesn't make a trend, do you feel like that has turned the corner and we should see more likely positive or at least flat to positive results going forward for the next year?

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

A

I feel, I would say probably. I mean I would think that to be honest with you, I think the golf business, I'm going to go out on a limb here. Our General Counsel will probably kick me under the table. I think that will probably comp positive because of the market share gains. We've got 100 and some DICK'S stores that are within 10 miles of a Golfsmith store that are closing and the TSA stores did some golf business too. So when you think about that, we've got 126 DICK'S stores and 26 Galaxy stores that are within 10 miles of the 79 Golfsmith stores that are closing and then we've got 50 DICK'S stores and 11 Golf Galaxy stores that are within 10 miles of a Golfsmith store that we're currently operating and some of those may result in a Golf Galaxy store closing in favor of the Golfsmith's location. So I think they're going to actually comp positive going forward.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Okay. That's very helpful. Thanks, Ed. And then the last just brief question, with the election, had you guys seen any impact of pressure on sales to start November? We've heard other retailers talk about a little bit of a distraction given the election, especially at the beginning of the month, so just curious if you can comment on that.

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

A

It was such a short period of time and depending on what happened with the weather and baseball playoffs and this and that, so I couldn't tell you. We don't really think it had any impact.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Got it. Thanks. Good luck with this quarter, guys. Thank you.

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

Thank you.

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

Thank you.

Operator: The next question will come from Patrick McKeever of MKM Partners. Please go ahead.

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

Okay. Thanks. Good morning, everyone. Just a big picture question, thinking beyond The Sports Authority and Sport Chalet and Golfsmith. How do you view the health of some of the smaller sporting goods players that are still out there, some of the regionals, some of the independents? And how do you think about your current market share and the opportunity across the industry as a whole?

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

Well, I love the position that we're in right now. You've got some smaller guys out there and they run their businesses differently. Some are doing very well, I suspect, and others might be having a bit of a difficult time. But we love the position that we're in right now. As this industry consolidates, we think that we are best positioned to pick up the lion's portion of the market share. I think as the industry consolidates, we're the ones that are in position to go back and fill back in to some of those markets where TSA or Sport Chalet has vacated. Similar to Sam's question when we said we're really focused on Florida and California from a real estate standpoint, and I think we're the ones that we've got the balance sheet to be able to take advantage of those opportunities. We can move quickly and I really like the position that we're in right now.

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

Okay. Got it. And then on the comment about the focus next year – being the hub of youth sports or planning to be the hub of youth sports, I mean I saw that with my son's travel soccer team that, I think, you're hosting or not hosting, but supporting the website through Blue Sombrero, I think.

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

Correct.

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

So the question is where do you feel you are market share-wise within the youth sports business and what kind of an opportunity do you see there, even thinking just bigger picture?

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

So it depends on how you look at market share for youth sports. So if you look at it from a standpoint do people come and shop our stores for youth sports, I think we are in pretty good shape there. A lot of these teams, though, are going to buy their product, whether it be online or someplace else. We think we've got a big market share opportunity there. If we take a look at the market share across the social aspect, if you will, of team sports being able to have a technology solution to schedule practices where the games, directions to the games, all of that stuff, I think we are in the very early innings here, and we think we've got a big opportunity.

The amount of names that we are amassing through Blue Sombrero or Affinity that we bought or how we're growing these names, and how we think we can market to these young men, women, their parents, coaches, administrator, we think that there's a big opportunity here that we are in a great position to unlock. And one of the reasons – there's other competitors in this space, but we think we are going to do – have already done very well and are going to continue to do very well and be the largest market share recipient here because we can provide these services for free, where others have a difficult time doing that because we can monetize this through the sale of product and how we can market them to come into our stores, others can't. So we think there is a very big opportunity here that nobody has tapped, and there is nobody in our industry that can tap this potential the way that we can.

Patrick G. McKeever
Analyst, MKM Partners LLC

Q

Great. Thanks, Ed.

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

A

Thanks.

Operator: The next question will come from Jim Chartier of Monness, Crespi & Hardt. Please go ahead.

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Good morning. Thanks for taking my questions. Just curious, were you able to leverage the customer lists and e-mail database of Sports Authority to impact your back-to-school or third quarter marketing plans in general? And is there a greater opportunity given that you've had longer time to look at the data to impact the fourth quarter business with that information?

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

A

No, actually the third quarter, we weren't. Things were baked and we were still going – so the answer is, no in the third quarter, very little impact if anything. It'll have a much bigger impact in the fourth quarter and going into the first quarter and second quarter of next year.

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Is that an opportunity for kind of incremental share gains versus what you're able to achieve in the third quarter?

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

A

We hope so.

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Great. And then you mentioned earlier, I think, multiple new private brand launches planned for next year. How did The Sports Authority and Golfsmith private brands play into that? And which parts of the assortment do you see the most opportunity?

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

A

There will be – the one from Sports Authority that we think we'll have an opportunity to launch around Alpine Sports, the cold weather category. The other one – a couple of things that we're doing organically that we are not ready to discuss yet, but we think we are pretty excited about them. I think they will have a big impact a couple of years down the road. And what we were able to do with CALIA in a short period of time making that now the number three women's athletic brand in roughly a two-year timeframe gives us a lot of confidence that we can move market share when we want to.

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Sounds great. Thanks. Best of luck.

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

A

Thank you.

Operator: The next question will be from Chris Svezia of Wedbush. Please go ahead.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Thank you very much for taking my questions. I guess the first one Ed, just for you, just on the inventory as it relates to outerwear and cold weather merchandise, where do you want to talk to DICK'S specifically or just in the channel, I know coming into this fall there's a lot of inventory supposedly in the channel off-price. Just maybe your thoughts and context relative to the weather in the inventory that's out there, and how we should think about it in the context of DICK'S and their performance in that category?

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

A

Well, our inventory is in great shape. So we're right on plan. We've got some flexibility on how we manage our inventory going forward. So whether it's cold or whether it's warm, we will be in pretty good shape from an inventory standpoint, we suspect. I mean, obviously, it would be better if it's cold than it's warm, but we don't think we've got any significant exposure. Our team has done a great job planning for that, having contingencies associated with the weather pattern. [indiscernible] (01:07:32).

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And you don't think there's any exposure sort of off-price channels, other retailers and category that would negatively impact you guys?

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

A

What might happen later in the quarter, I'm not sure. But right now, we don't see anything.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. With regard to the fourth quarter and just sort of the SG&A, I just got a question around that. It looks like in the third quarter sort of the non-GAAP SG&A dollar increased year-over-year roughly $66 million or thereabouts, and kind of backing to your guidance for the fourth quarter from an earnings perspective, it looks like the SG&A dollar increase would be about the same give or take. I'm just curious given the kind of roll-off of the Olympics, what other increases are there potentially in that fourth quarter that maybe we're not thinking about previously, whether it's Golfsmith and that's now a part of the cost or incentive comp or things like that? Is there anything else that's going on in that number I should be thinking about?

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

A

Yeah, so we've got a couple of things. One, the quarter is just bigger and we've got comps built in it up between 3% and 6%. The other piece would be incentive comp year-over-year movements going to be also a factor. And we continue to have investments in premium full-service footwear and we have investments as we come to the end of our eCommerce roadmap into getting ready to launch the site. That was even over all four quarters. So you'll see some of that. What's really tailed off in the fourth quarter would be the Olympic spend, which was predominantly in the third quarter.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Thanks, Andrè. And just finally, just optically, when you step back and think about the market share gains that you're getting, is it costing you any more than you maybe initially thought to get those market share gains in Sports Authority or Sport Chalet, or is it actually maybe more accretive than you thought? I guess the question is, is it just costing you more to get those share gains that you expected or no?

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

A

No, it's not. It's basically right on plan. We're right where we anticipated we'd be.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Good to hear. All the best around the holiday. Thank you.

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

A

Thank you. You too.

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

A

Thank you, Chris.

Operator: And the final question will come from Peter Benedict of Robert Baird. Please go ahead.

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

Q

All right, guys. Thanks for sneaking it in. Three quick ones. First, just on the Golfsmith stores, are they more profitable than your Golf Galaxy stores, and if so, why?

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

A

Well, the stores that we bought, I would say, are probably going to be more profitable than the Golf Galaxy stores on average because we bought the best stores. So if you took a look at our best stores, their best stores, not sure there will be a whole lot of difference, but on average, these will be accretive because we got their best stores.

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

Q

Okay. Understood. That makes sense. And then secondly, you talked about CALIA and some of the footwear decks. Any other brands or categories that are going to be seeing some square footage allocation changes in the core DICK'S stores? I'm thinking particularly about the holiday, and then maybe plans for next year.

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

A

Yeah, around the holiday, not an awful lot different than what we're doing with CALIA; a little bit Field & Stream, but you won't see a huge difference this fourth quarter. And into next spring, we're still working through some of those issues. You'll see some changes. You'll see adidas get more space next year than they have this year, and actually in the fourth quarter, they might get a little bit of space in some stores in the fourth quarter, but next year, we expect to see the – the biggest change in square footage would be around adidas.

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

Q

Okay. Perfect. Thanks, Ed. Then lastly, just on the outdoor category, the positive comps, can you give us a little more color as what the drivers were there? Was it kind of across the category or was it driven by one or a few category items? Was it firearms or camping, et cetera?

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

A

Well, that outdoor camp, water sports, paddle area have been very good for us, and that's where the biggest growth would've come from.

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

Q

Okay. Great. Thank you.

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

A

Sure.

Operator: And ladies and gentlemen, this will conclude our question-and-answer session. I would like to hand the conference back over to Ed Stack for his closing remarks.

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

I'd like to thank everyone for joining us for our third quarter call, and we'll look forward to talking to everyone after the holiday season. Best of luck to everyone. Thank you.

Operator: Thank you. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.