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# Dick's Sporting Goods, Inc. (DKS)

Goldman Sachs Global Retailing Conference

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

## Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Good afternoon, everybody. I'm Matt Fassler from Goldman Sachs. And as we move into the home stretch of the first day of our conference, I'm delighted to introduce members of the management team of DICK'S Sporting Goods and to moderate our fireside chat.

I'm personally delighted to be back as the lead analyst on DICK'S after a bit of hiatus when we had a – we had a different analyst covering the name and having worked on this stock since your IPO in 2002, I believe. Delighted to once again be back in the game, so to speak.

DICK'S Sporting Goods is the nation's leading sporting goods retailer. It has grown organically from a small single store family run business in Western New York and has emerged as a national omni-channel player in an industry that is extremely difficult, and it is done so with the industry-leading profitability, oftentimes industry-leading growth. This has been a really interesting time in sporting goods more broadly and a very interesting time for DICK'S, and I think we have a lot to speak about today.

Now, with us today sitting in the middle here, two seats to the right, Lauren Hobart. Lauren joined DICK'S first in February of 2011 as Chief Marketing Officer and had been a Chief Customer and Digital Officer before being appointed President in May of 2017. Prior to joining DICK'S, she spent a number of years at PepsiCo. Sitting to her right, far end, Lee Belitsky who has been at DICK'S for 21 years, joined as Controller in 1977, became Treasurer rather in 2006, and is currently the CFO of the business.

Then finally of course, sitting directly to my right, sitting next to me, Ed Stack, who is the Chairman and CEO of the business. He's served in that capacity up for the past 34 years [ph] and I said (00:02:27) on that, and I'm delighted to engage in this conversation today. So, thanks for coming.

## Lauren R. Hobart
*President & Director, Dick's Sporting Goods, Inc.*

Thank you.

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

Nice to be here, Matt.

# QUESTION AND ANSWER SECTION

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

I want to start off by talking about your product and vendor ecosystem. Talk to us about the way – about the relationship between or how the relationship between you and your vendors is evolving in the context of their DTC efforts, your competitive positioning and some changes in the distribution footprint that some of them have pursued?

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

A

Well, the relationship we have with our vendors is, I will say, hasn't been better. The relationship we have with our key partners Nike, adidas, Callaway, TaylorMade, North Face, few others, UA, has never really been better. Yes, they're doing business from a DTC standpoint, but they're really interested in making sure that our online business, our omni-channel business is very healthy, and they're doing everything they can to help us drive that business.

They all share information of what's going with them online, they'll share with us what's happening out in the marketplace in their DTC stores, they provide all information that we need. And it's really [Technical Difficulty] (00:03:57) helpful and the relationships have really never been better.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

How are they looking to use the brick-and-mortar store, in your opinion? You think about the tactile element, the opportunity to showcase new product. Are they leaning more into that, how are they asking you to present their goods that might be different from what they had done in the past?

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

A

That's interesting. I think it's probably counterintuitive to what people think is happening and what in reality is happening. So the access we have to the key products, the hot products, if you will, from a footwear standpoint and apparel standpoint, we have more access to better product in more of the product than we have in the past. They're really looking at a few retailers and we're one of those few retailers that they really want to invest in in the stores from brick-and-mortar standpoint along with an omni-channel standpoint.

You take a look at the investment that the brands are making in our stores from a presentation standpoint, the quality of the products, what we're doing from a marketing standpoint, what we did with Nike with – what we did digitally with Nike; Nike campaign around back-to-school. They continued to invest more in us and we continue to invest more in them, and it's really – we're pretty enthusiastic about where we are with our vendors and the products that we have today.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Can you talk a bit more about that campaign? What it was and how it worked?

### Lauren R. Hobart
*President & Director, Dick's Sporting Goods, Inc.*

A

Yeah. We collaborated with Nike to do a campaign that showcased our two brands, it's a long-form video and digital format that got over 20 million views almost immediately. It's very tight collaboration that we have with Nike and [indiscernible] (00:05:42) effort to our joint marketing is a proof point of that.

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### Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

You had also, I mean historically, always worked closely with Nike, Under Armour and others for stores within stores, and they had invested capital and people. And I think about the Best Buy model that is cited as the kind of template for how vendors and retailers can work together in a challenged omni-channel world. You were doing this before Best Buy, was doing it in a very intensive way that was fairly unique within the durable goods business and the athletic business for sure. How much more is there to go in terms of the potential for that kind of collaboration?

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

A

I think there is a long ways to go. We continue to do that in our stores, we're going in and revamping what those shops look like. If you take a look at the footwear of how we've revamped our footwear presentation and experience over the last couple of years with a premium full-service footwear area that Nike was very much involved with and supported, you can see in those footwear areas right now what adidas is doing with the adidas shops.

We're looking to do – you'll see things we're doing with Yeti, which is really an extremely hot brand right now. And you walk into our store and the presentation we have with Yeti is better than any other retailer in the country today. And we continue to find new ways to innovate and the brands find new ways for us to innovate together, and it's far from over. We've got a long ways we can go there.

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### Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Now, you spoke you put Under Armour among that group of key vendors [ph] with some (00:07:22) relationships; relations have never been better. You call that Under Armour as an underperforming brand in the quarter within your stable of brands. Can you talk about how much of that was the efficacy of their product? How much of it might have been dilution of your share through their distribution? You also spoke in pretty upbeat fashion about your expectations for Under Armour 2019. So it sounds like they have moving pieces and you have moving pieces with them. So, how should we look at that dynamic?

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

A

Well, the Under Armour business has been difficult. The broadened distribution certainly had an impact. We were Under Armour's largest retailer. They were an extremely important part of our business and we have theirs. And they made a decision to broaden that distribution with 1,200 stores or approximately and it had an impact on our business.

We've scaled back that inventory, we've scaled back our expectations with Under Armour, and we do feel like we are at a point right now based on the product line that Under Armour has coming out, as they move to a segmentation policy. We hope that we've hit the bottom with Under Armour and we're going to start to move back in the right direction in 2019.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

And when you talk about segmentation policy, you're talking about differentiating the product that you at DICK'S will be getting relative to, say, the mass market or department stores or others?

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

A

Correct. We've got a number of exclusives that we're doing with Under Armour. One of them that we're the most enthusiastic about is around The Rock, Dwayne Johnson. It's a product that will be available at UA – in UA's direct channel and with us exclusively, and we're talking about ways to really broaden that out. It's going to have a bigger footprint in the store, a bigger footprint, so to speak, online and we're pretty excited about what we're going to do with The Rock going forward.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Now, at the same time, you have a big private brand footprint. I know you like that footprint, you've had it for a while, you've grown it pretty consistently. Where can you take it? Are there adverse consequences? Is this a net-net positive for you? Are there considerations you have about how you use it?

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

A

The net-net positive being Under Armour...

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

I'm talking about your private brands.

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

A

[indiscernible] (00:09:43) private brands.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Your own private brands.

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

A

Yeah. No, we have had tremendous success with the private brands. CALIA, in particular, has become the second largest female athletic apparel brand in our store, and we think there is tons of roadway ahead of us in terms of growing private brands. You'll see us launching a new brand in the outdoor category, called Alpine Design, which will be hitting the stores soon. We have other athletic apparel brands underway. Field & Stream brand remains our biggest private brand and doing very well. So, we've had double-digit growth in our private brand portfolio for some time, we think there is much more headroom there.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*
Q

Now, last week when you reported, you've – well, I should say, I observed [ph] last week after reported (00:10:31) that you had been pivoting between very aggressive share capture mode, which you are extremely articulate about – you certainly articulated it in no uncertain terms. And you pivoted, I would argue, this past quarter to more of a profit maximization mode. Your gross margins at a point last year were down quite sharply...

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

Right.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*
Q

...and that had surprised people because it came in the aftermath of retailer consolidation, which one would have thought would have reduced margin pressure for your business. This quarter in a pretty good retail environment your comp was a little [indiscernible] (00:11:09), your gross profit rate was strong, your gross profit dollars met expectations, your inventory is very well controlled, but actually felt like a quarter that only would have happened had you wanted it to go exactly that way, because everything that you could control was in a very good place.

Talk about the shift, particularly this last shift in strategy, and how long do you expect to keep this up and what could lead you to pivot back, if I may, in the other direction?

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

Well, there were a number of things last year did cause the margin degradation, which was – although there had been some consolidation, there was still some additional consolidation that was going on. Some people got pretty aggressive from a price standpoint. The expanded distribution also had an impact on that from what was happening in the junior department store from a pricing standpoint with our number two brand had certainly had an impact on the margin rates.

As we've gone forward, we have had – as I said earlier, we've had – we have access to – we've had access to more better higher-end key product, signature product, if you will, than we've had in the past and we haven't had to be promotional. It's more narrowly distributed product than we had been dealing with in the past. We've got a really good product cycle around the golf business right now.

Between Callaway and TaylorMade and golf balls – the Truvis golf balls, we're selling an awful lot of those at full price. The athletic apparel, we've repositioned the athletic apparel to more segmented product and our private brands are becoming a bigger part of our business. Not only our private brands comped to double digits, but they've also comped with expanded margin rates.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*
Q

Can you speak – and I know we'll talk about margin more so going forward. Can you talk to supply chain speed? So, a number of athletic brands are focused strategically on speeding up supply chain as our brands and retailers everywhere in the apparel and footwear ecosystem. Is this driving the needle or moving the needle and driving business at your stores at this point? Are you supportive of it? Does it make it tough or easier for you to manage the business?

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

A

We're supportive of it. The consumer today wants new product faster than they have in the past. So a faster supply chain, move product in, new styles in, old styles out is – will only be helpful to our business. If I can come back to the gross margin piece also is, one of the things that have helped our gross margin mix has been the decision we made along firearms.

So as we talked about in our call, firearms, that category – that hunt category, their margin rate is 1,700 basis points below our company average. So as we've de-emphasized that and focused on other categories to be able to grow, whether it'd be private brand, the athletic apparel business had much higher margin rates. There is a mix piece that's helping our margin rates also.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

As you think about the desirable categories, is this driven in your view by their intrinsic economics which have been fairly stable across the mix over a couple decades I would think. Is it driven by your view of innovation, i.e., active apparel continuing? Is it driven by your perspective on the competitive dynamic and where it goes? How are you putting categories into the good guy bucket here?

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

A

Well, the apparel business – the footwear business is really driven by, we think, around innovation whether it be new categories, new product – new fabrications that are out there in the marketplace to new styles of shoes, running shoes, basketball shoes. We're just in a really – we're in a very good product cycle right now.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

And tougher categories, you spoke about firearms, you also spoke about electronics. I mean, it sounds like that's kind of a done deal at this point. What has played out in that space and why the final decision to essentially de-emphasize them?

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

A

On electronics?

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Yes, sir.

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

A

The electronics business, it moves – the margin rates are relatively low in that category. It moves very quickly and we didn't really feel that we could appropriately grow in that business. And we looked at the investment that we were making in that category, we looked at the margin rates and felt that we could reallocate those dollars to other categories and other square footage in the store that would be more productive. And so, that's what we've done.

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Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Now, you spoke to golf within the hard goods space. What about the broader hard goods piece [indiscernible] (00:16:04) team sports piece of it? Where do you see competition there, has it – how is competition evolved, and are there sports or segments that you feel most optimistic about?

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

A

So, yes, the hardline side of the business, the fitness business has been very good. We're really enthusiastic about what's going on from a fitness standpoint. And from a hardline team sports area, the football business has been difficult. We've talked about that in the past and it's going to continue to be difficult. There is a structural decline in football. And the younger the athlete, the more structurally declined it's becoming.

So, just a lot of parents are just saying, my kids aren't playing tackle football. Where that business is going is soccer. So the soccer business is very good and the baseball business is very good. So fall baseball has really grown. We love the baseball business, it's a very high ticket item. You're buying metal bats at $200, $250, wood bats at $50, $75. From the products that we carry, baseball is a bigger ticket item than football. So football is where the difficulty is, baseball is where the opportunity is.

Along with some others, we can do a better job in soccer; and lacrosse, we think we can do a better job with also. But if you took a look at where we're really – where we would really invest our dollars, baseball would be the place.

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Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Now, I want to talk for a moment about real estate, talk about your different formats? What approaches within your non-traditional stores are working?

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

A

So, we have the DICK'S Sporting Goods stores and we have three different formats there, and have a 35,000 square foot small market store. Most of our stores are 50,000 square feet and then we have some larger market, 80,000 square foot stores. Going forward, on expansion, I expect it to be primarily in that 50,000 square foot range for the DICK'S Sporting Goods stores.

Field & Stream stores, we're not adding any more of those stores in that format at this point. And Golf Galaxy, we're looking at in the context of that golf business being strong and particularly strong in the Gulf Galaxy chain right now. We've backed off a little bit from opening stores, but we'll be taking a fresh look at that to see if that represents some growth opportunity for us going forward.

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Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Now, you made the move that you made in hunting. You still have a Field & Stream business. Obviously, you sold – you sell firearms across the chain – across the enterprise and the decision impacted the entire enterprise. How do you think about bluntly the viability of the Field & Stream initiative, given that you've made a decision? And I think everyone understands the basis for that decision, and I think there are probably some dividends in other ways associated with it. But how do you – how does that impact the viability of Field & Stream as a format?

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

A

Well, we've made that decision at the end of February, what we're going to do with firearms. And what we said is, we would not sell any of the assault-style rifles, we wouldn't sell high-capacity magazines. We'd never sold bumps stocks which turn a semiautomatic weapon into basically an automatic weapon, and we wouldn't sell firearms to anyone under 21 years of age.

So that's in February. It's still a little early to tell. So we're taking a look at this. It will depend on a number of things that we're going to be assessing through the balance of this year. So we've had some vendors who've decided based on our decision to not sell the assault-style rifle that was used in the Parkland shooting that they wouldn't sell us any longer.

So as you know, there's been some people who said we're not going to sell you any firearms anymore. We're not going to sell you our product. We've had some other people who've indicated that they wouldn't shop with us any longer. So we've got to take a look and we'll assess this through this holiday season, if the brands are going to continue to or not. Some brands are not going to continue to sell us. If consumers upset with us, we will make a decision of what we're going to do with Field & Stream.

My sense is that we can either take a look at closing that store, that concept or reconceptualizing it into a more of an outdoor type concept and we're taking a look at all of these things and by the end of – the peak of the hunting season is coming up in – and basically, the end of the third and the beginning of the fourth quarter and as we move into the end of the fourth quarter, we'll make a decision as to what we're going to do.

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### Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

As we think about the overall store traffic and the comp you posted in the second quarter, it is interesting because we thought about the direct consequences of the reduced sales of hunting related goods, but not to knock on effect of customers who might have shopped you for hunting and other things [ph] back in a way (00:21:01) do you feel like you might be able to tell what was loyalty and such? Whether you're having firearms' customers, who stop coming, had some additional consequences to the business. Do you think that's a factor?

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

A

Well I think it's definitely a factor and it's nothing that we didn't anticipate. As we put out kind of our guidance for the year and our earnings guidance for the year, we knew this would happen when – we've made some decisions on firearms in the past and we've had a pretty good idea of what these consequences were going to be. We felt that was absolutely the right thing to do. We would do the same thing again if we had a mulligan so to speak to do it again. And but at the same time, our business has been pretty good.

We've raised guidance at the end of the first quarter. We've raised guidance again at the end of the second quarter. So has it had an impact on the foot traffic and people who were upset with us on this? Yes. Has it impacted our profitability? No. We found ways to offset that. We're actually taking 10 stores. We talked about this in the call, we're taking 10 stores this fall and taking firearms out of all of those 10 stores and reconceptualizing the footprint, the product mix and we'll find out – we'll have a sense of what happens if we took that out. Now these are stores that the hunt penetration is relatively low, so it's not a perfect test, but it's – we're going to test this in 10 stores and see what happens.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

I'd like to talk to you about capacity and really the entrée for the question relates to all the capacity in the outdoor business. A lot of it at this point private and then move into the broader sporting goods, retail business, you obviously had one very notable exit from the category a couple of years back. There is still competition in the specialty arena. I'm interested first of all what you see in terms of the impact of capacity and the outlook for capacity in the outdoor business and then if you think about prospects for consolidation and competitive fall out that could benefit you in the broader sporting goods business.

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

A

Yeah. So we should probably define what the outdoor business is.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Sure.

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

A

So the outdoor business can be defined I think in two different ways. And I think the way you're defining it, Matt, the outdoor business is the hunt and fish business.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Yeah.

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

A

So if you take a look at what's happening in capacity and what we characterize as the hook and bullet category, which would be our competitors of Bass Pro, Cabela's, Sportsman's Warehouse. I don't know what those guys are going to do, I don't know if they're going to close stores, I don't know if they're going to open stores. But I don't think there is going to be a meaningful change in capacity in that category. We've actually helped those guys in that category based on our decision from a firearm standpoint.

The area where we're most excited about from an outdoor category is the up the mountain category or what the North Face talks about is urban exploration which is kind of the lifestyle of that apparel being worn as streetwear. And so the hook and bullet category, we're not terribly excited about. It's a difficult industry even without the conversation, the decision that we made, might be starting to get a little bit better but it's – the hook and bullet category is going to remain tough. The up the mountain or urban exploration category has got a lot of legs. The millennials out there, they love to go out and explore. They love the outdoor, they love the idea of urban exploration and we're really excited about what we can do with the up the mountain type products.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

If you think about the big box format, do your vendors indicate that or anyone else in the ecosystem indicate that some of your competition is at risk of closing stores?

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

A

No.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. So there's no new wave?

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

A

Yes. You're talking about in the outdoor category?

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

I'm talking about more broadly in your traditional business, I can name names, but you know who is out there.

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

A

Yeah. I think there's some conversations about – there may be some people that have a difficult time and may close some stores or consolidate completely, those conversations, I'm not going to mention names.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Sure.

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

A

But there is that – there's that conversation, but...

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. I want to move on and also on real estate, talk about location, so there have been mall anchors exiting. There have been lots of in-line mall tenants exiting, you are a mall player to some degree. There have been power center players exiting, Toys "R" Us being the most recent. Can you talk first about your mall presence, how are your malls holding up, how is your role holding up in malls. There are probably a couple of anchor opportunities, if you want them, or partial anchor opportunities. How is your thought process on malls evolved?

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

A

Sure. So we're not seeing really much differentiation in performance in our stores, really across our mall portfolio, versus our power portfolio, versus our freestanding store portfolio. They're all performing relatively consistently right now. But with all the store chains that are closing right now, whether it'd be Sears, or Bon-Ton, or Toys "R" Us, or whoever is closing stores, it does put a lot of real estate on the market that's available for us, and it makes it easier for us to negotiate rent reductions, or be able to relocate our stores at more favorable deals, because there's more real estate that's available out there, and the landlords are looking to make deals to fill those spaces and complete their shopping center. So net-net, it's a real positive for us having the additional availability.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Is co-tenancy a concern in any way for you at this point in time?

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

A

Yeah. Co-tenancy is concern, as we get into some of these malls that we're in, we've got a few of the – let's call D malls that are a little troubled right now, and co-tenancy is a concern for us. But at the same time, we can easily operate in a power center, and in some of those markets we can move to a nearby power center if we've got a strongly performing store where the mall may be troubled, we can easily move that store to freestanding box or a nearby power center.

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

A

We've also got – the vast majority of our stores, we've got co-tenancy language. So if a major tenant or two major tenants happened to leave a center, our rent is reduced significantly, they've got a cure period by which they can cure it, if they don't, we have the ability – in many cases, the ability to leave the center and/or renegotiate significantly lower rent which we've been able to do pretty successful.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

And Lee, have you – if you think about your power center presence, are there – can you think about centers that may have had their traffic put at risk by a competitor – by retailer exits? I'm thinking about toys, I'm thinking about bookstores, I'm thinking office plus stores and those businesses that are shutting down, net-net have you seen those sites – those centers [ph] have day-out (00:28:12)

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

A

Well, the book and the office supply guys kind of closed a lot of stores a number of years ago and fewer recently, so I think that that's kind of largely behind us. Toys "R" Us is the first season that those have closed and generally toys is not really the major traffic driver to a center. There are nice complementary part to a larger comp – larger power center. We think we can pick up a little bit of business from toys, a little bit sporting goods business, bike business that we can get from them, but we don't think it's going to really significantly impact the traffic in the vast majority of our power centers.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

I want to ask you about the role of social media in sports and the marketing. You spoke about your marketing campaign with NIKE a moment ago. You have always sort of tapped into the life and the mindset of the athlete and of the [ph] FANG (00:29:05). How are you deploying social in for sports and sportswear?

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

A

The strategy on social is similar to what the strategy is for the whole company which is to inspire, support and equip our athletes. So you'll see us putting video content, you'll see us putting a total – a platform called Pro Tips which is kind of how to buy, how to train and then you'll see products. So if you're on Facebook, we've got over 4 million followers on Facebook. You'll see for back-to-school, we had collections that we were showing in animated ads. It's an increasing part of our digital media mix and digital has become the largest part of our marketing spend.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

I want to talk about your insourcing of e-commerce. How has this effort played out operationally and financially for you?

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

A

So quite well. We insourced at the end of our fiscal last year, so end of January after a three year, very large push to get that done. It was not a small feat. Last year, was the year of stabilizing the site, making sure it was going to hit the holiday peaks just getting used to all of the new processes that have to happen when you insource a platform. It was a massive change effort for our organization. And then this year, we are now moving beyond stabilization into trying to optimize both the customer experience and some of the backend systems. We've improved profitability on the site by doing it and have much more leverage to grow profitability going forward. So overall, we are extremely pleased with how that's going.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

And operationally, you have...

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

A

No. Yeah and you saw that in Q1 that we had an enormous comp because we were comping volatile period. No operational problems in...

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

And if your e-commerce continues to outgrow your stores as it has for a while, what are the implications for your operating margin at this point in time?

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

A

Yeah.

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

A

I mean there's not a significant impact on our operating margins. Right now, the e-commerce business is a nicely profitable business for us. So we are agnostic as to where the customer shops at this point. If they want to shop online, that's fantastic. They shop in store, that's fantastic for us as well, so.

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

A

Yeah. We get tremendous flow through and we also get leverage the more we sell through the e-commerce channel the more profitable it becomes from a rate standpoint.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

I have a bunch of more questions to ask, but we have a lot of people here and we have a couple of roving mics and I want to give people the opportunity to ask questions, you can raise your hand and if you have done and we have one actually right there, we'll take that one.

Q

Hi. Just a question for you on the youth sports, you guys have put some time and money into developing these apps that help you guys track youth sports, things like that. Where are you guys on that initiative right now and what's kind of the timeline and how will you be able to monetize that going forward?

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

A

Yeah. So, the effort that I think you're referring to is the Team Sports HQ effort where we bought three different digital businesses that are really trying to become the ecosystem of youth sports and you see them on the screen there, Blue Sombrero, Affinity and GameChanger. We've made a lot of progress. I was asked in one of the small rooms, kind of what inning would we say we're in with Team Sports HQ when we probably would say the second inning. We have a long way to go.

We have now got data, we've gotten data on tons of used athletes in terms of when they're going to play, when they're starting a season, what position they're playing, when their next game is and the opportunity we see is that that database which is sort of a separate database can merge with our ScoreCard CRM database which is over 20 million people and over 70% of our business and the power of all of that personalized data getting into our ScoreCard data we think is a huge unlock for future growth.

In the meantime, we're making progress the GameChanger app, GameChanger company brand just launched an app that is a team manager app, so helps you figure out where you're going on Saturdays or who is bringing the oranges, what's the schedule is for that, where the game, where the practice is and that we think can be very expansive to the opportunity as well and we took on bulk sales, so we are selling sort of a B2B business to teams and leagues in addition to a B2C business. So it's a multipronged effort, we see much more room to grow.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

While we wait for the mic, I'll ask another one. I do want to ask you briefly and we do need a mic upfront, please. I want to ask you briefly on tariffs, whether depending on how this plays out, you think this could have an impact on your earnings next year?

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

A

Well. Looking at tariffs, there are a few categories of merchandise that we carry in our stores, that could be affected by tariffs right now, they're around the hunting and team sports businesses at this point. And it will remain to be seen right now when they get finalized if they do, there will be some pressure to pass some of those cost increases along to our customers, which our competitors will be doing as well. So we don't think tariffs are good for the consumer, that's there right now. But we have to pass some of those increased costs along, that's what we'll have to do.

Matthew J. Fassler
*Analyst, Goldman Sachs & Co. LLC*

Q

Go ahead.

Q

Just on your guidance that you provided last week, a couple of questions. Why are you guiding to a flat gross margin for the year when all the reasons you gave, all the growth categories are all seemingly higher margin categories and the ones that are being phased out are lower margin categories.

And then related to that, I sense that the – I think on the call, it came out that ex-hunt, ex-Under Armour...

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

A

Electronics.

Q

...and electronics, electronics you were up 1% same-store sales. There must be other categories that are in decline, what I sort of estimate mid-single to high single digits, is that the football you're talking about? What other categories are in there that are declining this year and what's the prospect for those going forward?

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

A

Well, there's some that are up and some that are down, but those are the major ones that really drove the change. If you take a look at the other major categories, we feel we're in pretty good shape. We're happy with footwear, we're happy with apparel. The team sports business we think is okay. We can do some things a little bit better from a team sports standpoint. If you want to get really granular, you have football is a problem, but we've been saying football has been a problem for a couple of years now.

Q

But that's not a big mix of your business or is it?

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

A

What football?

---

Q

Yeah.

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

A

No. It's not. That's why I've said, I wouldn't get terribly excited about that. But our fitness business is good. Our footwear business is good. Our apparel business is good. Our baseball business for the year has been good. It was those categories that we called out that were the culprit, if you will. Some of them self-imposed because of the decisions we made on firearms. Some of them kind of out of our control, but that's okay. We have to control the things that are out of our control and we're going [ph] about (00:36:40) and how we're going to replace that apparel business with the different brands, we're working with Under Armour to try to drive their business and turn that business back around.

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Q

Gross margins.

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

A

So with respect to gross margins is a little bit of a difference here, in our merchandise margins which are really trending very favorably right now and we expect those to continue to trend very favorably for the balance of the year and our gross margin – and gross margin is largely affected by the calendar shift right now. So the way our year ended, a week later last year, hence caused a lot of movement between quarters. So we had a benefit to earnings and to our gross profit rates because we're able to leverage more fixed costs kind of in the first-half of the year and that benefit was to the tune of about $0.18 a share and we think of the detriment, the offset to that is going to be in the back half of the year to the tune of about $0.18 a share, which is mostly on the gross margin line has to do with leveraging of rent expense, and our fixed distribution expenses and so on.

And in addition to that last year, we had 53 weeks, so we had 27 weeks in the second half of the year and that gave us additional sales to offset fixed costs within the gross margin line. So I think we have a calendar shift issue in the back half of the year with respect to gross margins, but we expect a pure merchandise margin. What we're buying the stuff for and what we sell the merchandise for to continue to be significantly positive versus last year.

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**Matthew J. Fassler**
*Analyst, Goldman Sachs & Co. LLC*

Q

I'm going to close with the two quick speed round questions. Your expectations guys for the [indiscernible] (00:38:16) environment in the second half of the year relative to the first half?

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

A

Not meaningfully different.

**Matthew J. Fassler**
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. And your expectations about operating margin for the business as you look into next year and beyond, where can this go?

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

A

Well. We haven't given guidance and you knew I was going to say that, Matt, but nice try. We're glad you're back. But we haven't provided that guidance and we're not going to provide that guidance.

**Matthew J. Fassler**
*Analyst, Goldman Sachs & Co. LLC*

Q

Fantastic.

**Matthew J. Fassler**
*Analyst, Goldman Sachs & Co. LLC*

Anyway guys before we move on, next up in this room we have National Vision, upstairs we've TJX. Please join me in thanking the team for their conversation. Thank you.