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Dick's Sporting Goods, Inc. (DKS)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the DICK'S Sporting Goods Third Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Nate Gilch, Director of Investor Relations. Please go ahead.

Nathaniel A. Gilch

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

Thank you. Good morning and thank you for joining us to discuss our third quarter 2017 financial results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; Lauren Hobart, our President; and Lee Belitsky, our Chief Financial Officer. Please note that a rebroadcast of today's call will be archived on the Investor Relations portion of our website, located at dicks.com for approximately 30 days. In addition, as outlined in our press release, a dial-in replay will also be available for approximately 30 days.

During this call, we will be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release and the comments made during this conference call and in our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement. We have also included some non-GAAP financial measures in our discussion today. Our presentation of the most directly comparable financial measures, calculated in accordance with generally accepted accounting principles and related reconciliations can be found on the Investor Relations portion of our website at dicks.com.

I will now turn the call over Ed Stack.

Edward W. Stack

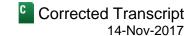
Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.

Thank you, Nate. I'd like to thank all of you for joining us today. As we announced this morning, for the third quarter we earned \$0.30 per share on a non-GAAP basis. This is at the high end of our guidance, which was \$0.22 to \$0.30. Our total sales increased 7.4% to approximately \$1.94 billion. Within this, consolidated same-store sales decreased 0.9%; our eCommerce business increased 16%. As expected, the environment was competitive and promotional.

While we were pleased to deliver continued growth across key businesses, such as golf, our private brands and athletic footwear, other categories including hunting and electronics remained under pressure. As expected, merchandise margins were under pressure in this highly-promotional environment and directionally in line with our expectations. We feel we continue to gain market share from our traditional competitors and will continue our current strategy and tactics to protect market share through the fourth quarter and throughout 2018.

In the fourth quarter, we expect the retail landscape to be fiercely competitive. With excess inventory still in the supply chain, broadened distribution strategies from some key vendors and a lack of newness and innovation, the fourth quarter and 2018 will continue to be promotional and pressure margins from last-year levels. Looking

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ahead, we see tremendous opportunity in our industry as it continues to evolve. Because of the confidence we have in our business long term, we plan to make significant investments in our business in Q4 and into next year. This will have a short-term negative impact on our earnings. However, we expect these investments will pay meaningful dividends in the future.

We plan to increase investments in our eCommerce business, the technology in our stores, store payroll to enhance the consumer experience. Meaningful investments will also be made in DICK'S Team Sports HQ and in the development and support of our private brands. Given these investments, continued gross margin pressure and approximately flat comp sales, we expect earnings per diluted share could decline as much as 20% in 2018.

As part of our focus on digital, I'm pleased to announce that Paul Gaffney will be joining us later this month as Executive Vice President and Chief Technology Officer. In this role he will be responsible for leading the company's technology efforts, including our infrastructure, eCommerce platforms and new and evolving digital platforms. Paul brings more than 20 years of technology expertise and is joining DICK'S from The Home Depot where he most-recently served as Senior Vice President of Information Technology responsible for the organization's software and engineering applications. I'm pleased to welcome Paul to the executive leadership team and am confident he will be instrumental in driving our digital transformation efforts.

At the core of our omni-channel business are our stores, the role of the stores is changing. We are going to continue to make investments that provide the consumer with an enhanced shopping experience. We are increasing our spend in store for training, faster checkout, more payroll, enhanced ship-from-store capabilities and more opportunities for our customers to buy online and pickup in the store. We are putting the consumer at the center of everything we do.

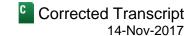
We also remain focused on driving differentiation and exclusivity within our assortment, and particularly in our own private brands, which are a competitive advantage. We will make significant investments as we build out great brands such as CALIA, Field & Stream, Top-Flite, Walter Hagen and new brands that will be launched in 2018. We continue to expect our private brand business to reach approximately \$1 billion in sales this year and believe it can double over a relatively short time.

Finally, we continue to develop and enhance DICK'S Sports HQ, a multi-year initiative and growth driver, which provides us with tremendous amount of data and an opportunity to establish new revenue streams. We love the position we occupy in the industry. The disruption in this space is a great opportunity for DICK'S Sporting Goods. We make these investments from a position of strength. Other than seasonal borrowings, we have no significant long-term debt. We have significant cash flow and a brand that is the largest and most profitable full-line sporting goods retailer in the country. We make these investments because we believe in the future of our business. We believe we are uniquely positioned in the industry to not only continue to lead, but to widen the leadership position we hold today.

These investments, which span across technology, innovation, the store experience, our associates, fulfillment strategies from an eCommerce standpoint, private brands and DICK'S Team Sports HQ, are the correct investments for the future. We make these investments because we believe in the long-term future of DICK'S. Of course, we cannot deliver on any of these strategies and tactics without the hard work and commitment of our associates who I'd like to thank for their dedication and upcoming efforts in this important holiday season.

I'd now like to turn the call over to Lauren Hobart, President of DICK'S Sporting Goods. After joining the company in 2011 as Chief Marketing Officer, Lauren was appointed President earlier this year. As President, she leads the company's customer and digital efforts overseeing marketing, eCommerce, our stores organization and DICK'S

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Team Sports HQ. Lauren has proven to be an invaluable and inspirational leader and her vision and extensive leadership experience will be instrumental to the continued growth and success of DICK'S. Lauren?

Lauren R. Hobart

President, Dick's Sporting Goods, Inc.

Thanks, Ed, for that very kind introduction. It's great to be here on today's call and I'm looking forward to working with each of you. DICK'S Sporting Goods is a great company. We are an incredibly strong brand and we have a real purpose in that we believe that sports make people better and that we play a crucial role in the lives of our customers. Each of our employees feel that passion every single day. But as we all know, retail is changing at a very rapid pace. Consumers have a multitude of options available to them for their shopping needs and we know that we have to earn their visit.

We have to make coming to DICK'S or shopping at dicks.com an amazing experience. And to win, we recognize we have to invest in our business. We need to lead the disruption and own the next generation of retail. We see tremendous opportunity to make improvements in our stores, in our digital channels in how we operate and in how we interact and engage with our customers.

To win, our first priority must be to put the customer at the center of everything we do. We are shifting our mindset and our culture to ensure that every decision we make, whether in our stores or at our customer support center, improves the customer's experience. We started with the launch of our Best Price Guarantee this past summer where we promise our customers if they find a lower price than ours, we'll match it. And over the next several quarters, we'll be making other key investments to allow us to deliver those improvements.

For example, we will be making significant changes to our ScoreCard loyalty program in order to make it more rewarding to our customers. In 2018, we will stop expiring accrued ScoreCard points at year-end as we have in the past and move to a rolling 12-month expiration. While there is an initial cost to making these improvements, we believe this is the right investment in our rewards program because it will help reduce the point of customer frustration and will provide us an opportunity to drive customers back to the store after they earn their points by shopping with us during the holiday season. We will also be launching a new tier of our ScoreCard program for our best customers in order to better reward their loyalty to us.

You will also see this renewed focus on the customer come to life through our upcoming holiday campaign. This campaign reinforces the benefits that come when you give a gift of sports, like leadership, confidence and togetherness, while also promising enhanced customer service, reduced lines and other benefits that we will offer to our customers this holiday season. As Ed said, we are very excited about our business. We are embracing the future and making the investments needed to continue transforming to meet our customers' ever-changing needs.

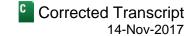
I will now turn the call over to Lee to review our financial performance in greater detail.

Lee J. Belitsky

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

Thank you, Lauren, and good morning, everybody. Beginning with our third quarter financial results, consolidated sales increased 7.4% to approximately \$1.94 billion. Consolidated same-store sales, which includes all banners both online and in-store, decreased 0.9%. The comp decrease was driven by a 0.9% decrease in transactions and no change in ticket. We also continued to deliver strong eCommerce sales results, which increased 16%.

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During the quarter, our golf and private brand businesses remained strong with each comping positive double-digits. We were also pleased with the performance of our athletic footwear business, which comped positive low-single-digits after anniversarying the bulk of our premium full-service footwear deck expansion in the spring. As anticipated, two areas that were under sales pressure were hunting and electronics.

First, our hunting business declined double-digits due to weak overall demand and excess inventory in the channel. However, we saw comps sequentially improve throughout the quarter as we began to capture displaced market share from the Gander Mountain closings. Second, our electronics business, which is primarily fitness tracking, continued to be very soft and with a general lack of newness and innovation, we expect this trend to continue into the fourth quarter.

In addition, the anniversary of favorable teams competing in last year's Major League Baseball playoffs pressured our comp sales during the quarter. While we are very pleased with sales of Houston Astros merchandise, these sales do not roll into our comp base given that the stores opened less than 14 months ago. This headwind in our licensed business is expected to continue into the fourth quarter as we anniversary the Chicago Cubs 2016 World Series championship.

Gross profit for the third quarter was \$534.1 million or 27.47% of sales and that was down 307 basis points versus last year. This decline was driven by lower merchandise margins in a promotional marketplace that were in line with our previous forecast. In addition, we saw occupancy deleverage and higher shipping and fulfillment costs as a percent of sales. SG&A expenses were \$475.9 million for the quarter or 24.48% of sales and on a non-GAAP basis leveraged 56 basis points from the same period last year. This leverage was driven primarily by our new eCommerce operating model, lower incentive compensation and other expense reduction initiatives. Preopening expenses also leveraged 65 basis points as we opened fewer new stores in 2017 and did not open any major new markets.

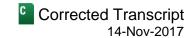
In total, we delivered non-GAAP earnings per diluted share of \$0.30, at the high end of our earnings guidance. During the quarter we received a multi-year state sales tax refund of \$8.1 million or \$0.05 per diluted share. This is included as part of other income on the consolidated state of income. We have excluded this item from non-GAAP earnings to enhance comparability. For additional details, you can refer to the non-GAAP reconciliation in the tables of the press release issued this morning.

Now looking to our balance sheet, we ended the third quarter with approximately \$112 million of cash and cash equivalents and \$455 million in borrowings outstanding on our revolving credit facility. Total inventory increased 4.1%, which is below our 7.4% sales growth in the quarter.

Turning to our third quarter capital allocation, net capital expenditures were \$136 million or \$151 million on a gross basis. Additionally, during the quarter we paid \$17.9 million in dividends and repurchased approximately 2.9 million shares of stock for \$76 million at an average price of \$26.57. We have approximately \$800 million remaining on our authorization. After the end of the quarter we had 104.4 million shares of outstanding common stock.

Now let's look at our outlook for 2017, which contemplates the continued dynamic and highly promotional environment. For the fourth quarter based on low-single digit negative consolidated same store sales, we anticipate non-GAAP earnings per share of between \$1.12 and \$1.24. Operating margins are expected to decline year-over-year, driven by an anticipated decline in gross margin, partially offset by SG&A leverage. For the full year, we expect non-GAAP earnings per diluted share to be in the range of \$2.92 to \$3.04, which includes

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approximately \$0.05 coming from the 53rd week. We expect consolidated same store sales to be flat to low-single digit negative.

Operating margins are expected to decline year-over-year driven by an anticipated decline in gross margin, partially offset by SG&A leverage. Please note that our fourth quarter and full-year non-GAAP earnings per diluted share guidance does not include one-time cost of approximately \$12 million or \$0.07 per diluted share related to the improvements in our ScoreCard loyalty program, which Lauren previously discussed.

As noted in our press release this morning, our full-year earnings guidance is not dependent upon share repurchases beyond the \$242 million executed through the third quarter, although we will consider using our authorization to continue to opportunistically repurchase shares.

Now let me wrap up with our preliminary thoughts for 2018. As Ed discussed, we anticipate the retail environment will remain challenging throughout next year. Based on the environment and the investments in our business, we expect 2018 comparative store sales to be approximately flat and earnings per diluted share to decline by as much as 20% compared to this year.

Based on what's happening in the real estate area, we continue to expect to reduce our new store growth, opening between 15 and 20 stores in 2018 compared to 59 stores in 2017. Net capital expenditures are anticipated to be between \$250 million and \$300 million compared to our guidance of approximately \$400 million this year. We plan to provide more details on our 2018 outlook on our fourth quarter earnings call in March.

Before concluding, I'd like to take just a moment to highlight some changes to our guidance practices. Beginning in 2018, we'll continue to provide annual guidance, which we will update quarterly, while moving away from providing quarterly comp and EPS guidance. We believe this approach more closely aligns with industry norms, and importantly, the longer-term view we take while planning and managing our business.

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: [Operator Instructions] Our first question comes from Kate McShane with Citi. Please go ahead. Kate McShane Analyst, Citigroup Global Markets, Inc. Hi. Good morning. Thanks for taking my question. When it comes to some of the strategic announcements that we've heard in the market over the last couple of weeks by a particular vendor, how are you viewing these announcements, reduced allocation of products from undifferentiated retailers? And how do you expect your relationship to evolve as one of the key partners over time? Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. I think it's actually beneficial for us. I think that we've got a great relationship with our brands. We see that we've got access to differentiated product that we didn't have access to before. Part of that's come through some of the investments that we've made in our business, including the full-service footwear platforms. But we actually think that longer term, it's good news for us. Kate McShane Analyst, Citigroup Global Markets, Inc. Okay. And if I can just follow up with regards to your price matching strategy. Could you maybe walk us through how that strategy worked during the quarter? Is there a limitation to what you're matching? And if there is exclusive product that you're selling, is that completely immune from any price match activity? Lauren R. Hobart President, Dick's Sporting Goods, Inc. Yes. We are matching anything that is an identical SKU to something that another retailer has. But our exclusive brands or private brands wouldn't be in that set. So, generally speaking, we have had tremendous success with the program and that is helping our associates actually close the deals and make the sales. But it is not materially impacting our margin in a meaningful way. Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. And our private brand margins were actually up roughly over 30 basis points in the quarter versus the previous year. Kate McShane Analyst, Citigroup Global Markets, Inc. Thank you. Operator: The next question comes from Robby Ohmes with Bank of America Merrill Lynch. Please go ahead.

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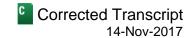


Rafe Jason Jadrosich Analyst, Bank of America Merrill Lynch	Q
Hi. Good morning. This is Rafe Jadrosich on behalf of Robby. Thanks for taking our question.	
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. Sure.	Д
Rafe Jason Jadrosich Analyst, Bank of America Merrill Lynch	Q
Some of the brands have discussed tightening their MAP policy after loosening it earlier this year. Are you set that play out at all? And then do you have the sense of how long it could take to return to a more full-price environment?	seeing
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	Д
I think the full-price environment is going to come from a couple of different things. So MAP policy is interest from an advertised standpoint, but it's got nothing to do with what you sell the product for in the store. So the policy may help but may not be — it's not the end all, be all to come back to full-price retail. To increase mark rates, the environment needs to become less promotional, which means that the brands need to bring product the marketplace that is more innovative and the consumer really wants to come and buy. And the newness innovation or lack thereof over this past year has contributed to the margin erosion.	ne MAF rgin luct to
Rafe Jason Jadrosich Analyst, Bank of America Merrill Lynch	Q
And then as you – you just talked about the innovation for 2017, as you look out to spring 2018 and the bac of 2018, do you see an improved innovation pipeline from the vendors?	ck half
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. Liver't get into what yenders we do and don't but some we do: some we do:	А
I won't get into what vendors we do and don't, but some we do; some we don't.	
Rafe Jason Jadrosich Analyst, Bank of America Merrill Lynch	Q
Okay. Thank you.	
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	Д
Sure.	
Operator: The next question comes from Brian Nagel with Oppenheimer. Please go ahead.	

Brian Nagel

Analyst, Oppenheimer & Co., Inc.
Hi. Good morning.

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Edward W. Stack

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

Good morning.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

A

So my question has to do – is centered on the price promotions and the gross margin weakness we witnessed here in the third quarter. Now clearly, I mean this was telegraphed by you in some of your previous comments. But as we look at these price promotions now, guess maybe, I wonder if we can get some more color on exactly how they're taking shape. Is it DICK'S-led or more – or is it DICK'S reacting to some of these promotions? Is it geographically skewed? And you've alluded to, with the guidance that you expect it to continue, but how should we think about just into the fourth quarter, into next year, given what's happened right now from a promotional standpoint, maybe just the overall direction of where we should be going from here?

Edward W. Stack

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

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Well, you know the old retail adage, the definition of a discounter is the other guy. And so is it DICK'S led? Is it some other retailers led? I think it's really the industry today. I think there's just so much promotion that's in – or so much inventory that's still in the pipeline. You can see that brands have discounted on their own sites; other retailers have broadened distribution strategies, have put pressure on margins as brands are more widely distributed and discounted. And we think that's going to last through the fourth quarter and into 2018. We see some brands that have brought some innovation and excitement into the marketplace, so we're bringing that in, in 2018. Some others aren't. The ones that are, we're going to focus on and try to drive that business. And others that haven't, we're going to continue to probably downplay some of those guys.

But overall, Brian, I think that the retail environment in this industry is going to continue to be promotional because there's just too much inventory sitting in the pipeline.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.



Got it. And maybe a follow-up question if I could? As we continue to talk about online or eCommerce and eCommerce becoming a more and more – a larger part of the DICK'S model, I know you have started to adjust your store growth. But is there going be a point at which you potentially, more dramatically change your thinking towards stores, the footprint and such?

Edward W. Stack

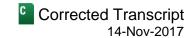
Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.



Yes. So if I can read between the lines here, are we going to stop opening stores and are we going to be closing stores? And the answer to both of those is maybe it'll be a few less stores than we're talking about in 2018, but not because of the reasons that people might think. We still think that there's a lot more real estate coming on the market, which means real estate prices are going to continue to come down in all except those really true A malls. I've said I actually think they might go up. But real estate prices are coming down, so we're not going be doing as many deals here because we think to do a deal today, in two years that price could be significantly lower.

So that's one piece. The second piece, I think if I read between the lines, are we going be closing stores? The answer is no. And part of the reason is we don't have stores that are unprofitable. We've got, I don't know, half of

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our store base or 25% of our store base coming up for renewal in 2013 and I think we have – or in three years. And we've got two stores that might be unprofitable. And when you take a look at an EBITDA standpoint, or an EBITDAR standpoint they're all profitable. So if we closed a bunch of stores we make a lot less money. Our stores – this is one thing I think the Street doesn't understand. Our stores are extremely profitable. And by closing stores it doesn't increase our profitability. It significantly decreases it, because we don't have stores that are losing money. Probably a longwinded answer to your question, but I hope I interpreted it correctly.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

No, you did and it's perfect. I appreciate all the color. Thanks.

Edward W. Stack

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

Great. Thanks.

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

Seth I. Sigman

Analyst, Credit Suisse Securities (USA) LLC



Thanks a lot and good morning. I wanted to follow up on the pricing strategy. Ed, in the past you've discussed the perception that perhaps prices in your business are too high. As you've changed the prices here, do you think the consumers' perception has changed? And do you have a way to measure that?

And then the second part of my question is, I'm just wondering. What does the financial model look like if you don't actually return to full prices and perhaps continue with more of an everyday low price strategy? Thank you.

Edward W. Stack



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

I think our price perception has gotten much better. We've been much more promotional. The consumer has reacted very well to our Price Guarantee knowing that they're going pay the, kind of, the going price for the product. And from a financial model, I don't think that we're going to stay with this financial model. I mean, I think we'll still be promotional. We're not going to go to an everyday low price. We've got premium brands in our business that we would like to continue to showcase in a premium nature. And I just don't think that the everyday low-price model is necessarily going to be great for the premium brands that we've built our business around.

Seth I. Sigman

Analyst, Credit Suisse Securities (USA) LLC



Okay. Understood. And just a follow-up question. When you think about the earnings outlook for next year, potentially down as much as 20%, it seems to imply operating margins down over 100 basis points again. How are you thinking about the balance between gross margin and continued price investments versus SG&A?

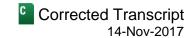
Edward W. Stack

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



So probably roughly half-and-half. And we're making these investments in store payroll, the technology aspect of this, our Team Sports HQ. The majority of this is from investments that we're making in the business because we look at this and are really excited about the long-term prospects of the business. And we think that it's the right

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thing to do to make these investments for the long-term. And we're willing to take this short-term hit from an earnings standpoint to make these right investments. So it's a combination that margin pressure will still be there. I think the margin pressure will be more in first half of the year than it will be in the second half of the year. But the investments that we're going to make are throughout the entire year.

Seth I. Sigman

Analyst, Credit Suisse Securities (USA) LLC

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Okay. Thanks very much.

Edward W. Stack

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

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Sure.

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

Simoon Ari Cutmon

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Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

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Hold on one second, please. He's just returning. Sorry about that. Ed, regarding 2018 I wanted to ask about the flat comps versus the down 20% profit. A slight disconnect because it seems like you'll be making investments. You have price matching. Is the flat comps more of an assessment that the industry is going to be flat versus how your share will progress or why the flat versus the down 20%?

Edward W. Stack

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

A

Well, the down 20% is from an earnings standpoint, which is driven by continued pressure on margins more in the first half of the year than the second half of the year. And the investments we're making from, as I said just a couple minutes ago, from a Team Sports HQ standpoint, the payroll we're going to put into the stores, the investments that we're making in our business, what we're going to be doing to build the private brands which we really think are a big key to our future as our private brands comped up positively in the third quarter, with an increasing margin rate – expanding margin rate in the third quarter.

So as we continue to make these investments in these brands, the Team Sports HQ piece of this and the investments in the store, it's going to put pressure on earnings. But these are the things we think we're supposed to do for the long-term benefit of the company. And as I said in the script, we look at – we do this from a position of strength. We've got virtually no long-term debt other than our seasonal borrowing. We've got meaningful cash flow. And the time to make these investments and try to change this business is when you do this from a position of strength versus a position of weakness. So, we're doing this right now and have been doing it a little bit this year and are going to make these investments next year because it's the right thing to do long-term.

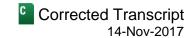
Simeon Ari Gutman Analyst, Morgan Stanley & Co. LLC



And it's early, Ed, but do you expect – are you thinking about the different categories that you sell into? Do you

think those categories or I guess how do you think they change from a growth perspective next year versus this year? More just industry, not DICK'S.

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Edward W. Stack

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

Yes. I think there's a couple of things. I think that what's been weighing on this industry has been the hunt business. And I think that gets a little bit better because as we've anniversaried the election now, we've started to see a little bit of a change in that. So I think that gets a little bit – that gets less bad. I don't know if it gets better, but it gets less bad. I think there're some key brands that are going to continue to do very well. We continue to invest heavily in the adidas brand. They've done a great job. We think golf is an area that we should continue. That was a great product cycle this year. We think that that's going be good next year also.

So from the portfolio of business we have, we think that comps will be flat because the industry is just relatively flat. We're going to make these investments in our business that will benefit us long-term. And then when we come out the other side. We think we will continue to widen our position in this industry. We think this disruption is really good for us long-term, a little painful right now, don't get me wrong, but we think it's good for us long-term.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

And my final question, Ed, is if you look at the store-only comps, and I'm not sure you would even endorse them because the business is largely omni channel. But store-only it was a minus 2.4% I think. That is an improvement on a sequential basis. Does that tell us that the promotional posture is working? Does is tell us – is it the price match? Is it the traffic flow changing to the store?

Edward W. Stack

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

I think it's – there's not one silver bullet. I think the price matching has helped. I think the promotion has driven traffic into the store. I think the marketing effort that we did in the third quarter was very good. Talking to the customer, we're doing something very similar to that in the fourth quarter. And we just think that we're starting to pick up a little bit of traction.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay. Thanks, Ed. Good luck in Q4.

Edward W. Stack

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

Sure. Thanks.

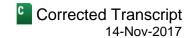
Operator: The next question comes from Michael Lasser with UBS. Please go ahead.

Michael Louis Lasser

Analyst, UBS Securities LLC

Good morning and thanks a lot for taking my question. What prompted the decision to provide guidance for next year at this point? It's not something you've done in the past, probably knew that your stock was going to get hit meaningfully on given where the consensus estimate was for next year?

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Edward W. Stack

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

That's a good question and the reason we did this is we knew we were going to make these investments. We've made a conscious decision to make these investments, and we thought that it was not fair to our shareholder base and The Street to be silent on these investments we're going to make in 2018. So – don't get used to this that we are going to give guidance this far in advance. But we felt that we knew we were going to make investments. We knew the impact it was going to have on our earnings, and felt that it was the right thing do for our shareholder base and people who may want to invest in the company, that it was just the right thing to do. We didn't want to come through and had – we had a pretty good third quarter. We've reaffirmed guidance in the fourth quarter. And do that and then come back in March and say, oh, by the way, we had a good fourth quarter, hopefully, and – but our earnings are going to be down. We just felt like that was whipsawing the Street and we had meaningful information of what we were consciously going to do and we felt that it was our duty to tell you.

Michael Louis Lasser

Analyst, UBS Securities LLC

And my follow-up question, Ed, is either buying your stock, becoming a shareholder from here is the view that eventually the business will become less promotional and you'll be able to recover some of the margin that you lost. So can you quantify the breadth and depth of the promotion and the price investments that you've made? So is it that you've gone broader throughout the store? It would be great if you could give us the exact percentage of the store that's on discount. Or is it more that you've gone deeper within those areas that you are discounting?

Edward W. Stack

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

It's a little of both and it depends on the area. So some areas and with some brands, we've gone deeper to try to clean the inventory. Some other places, we've gone a little bit broader. We talked about the margin rates were down in line with what we had anticipated, a little more than 200 basis points on a merch margin standpoint. But some it's broader, some it's deeper, and we expect that to continue into the fourth quarter and in some cases into 2018.

Michael Louis Lasser

Analyst, UBS Securities LLC

And when it does get better in 2018, will it be less deep and less broad? Or is it going be one more than the other?

Edward W. Stack

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

We'll have to wait and see. It kind of depends on what comes out with innovation and product from the brands and what we do from a private brands standpoint. But I'm not going to comment, do I think it's going to be narrower or broader when it gets better. And I didn't say it's going to get better in 2018. I just said that we continue to see this pressure in 2018 more in the first half than in the second half.

Michael Louis Lasser

Analyst, UBS Securities LLC

Understood. Thank you so much.

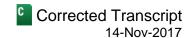
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Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. Sure.	A
Operator: The next question comes from Camilo Lyon with Canaccord Genuity. Please go ahead.	
Camilo Lyon Analyst, Canaccord Genuity, Inc.	Q
Thanks. Good morning, everyone.	
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	А
Morning.	
Camilo Lyon Analyst, Canaccord Genuity, Inc.	Q
Ed, just to understand the cadence or how we should be thinking about the comp cadence for next year margins are expected to continue to be under pressure in the first half and improve in the second half. expect the reverse from a comp perspective? In other words, should we expect comps to be higher in than in the second half?	Should we
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	A
Well, not to be a wise guy, you're getting a little bit greedy. We've given you 2018 guidance but we're reget to it by quarter by quarter from a sales standpoint or earnings standpoint. But we thought it was im us to let you know that 2018 would be kind of what we thought total 2018 would be. But we're not prep of talk about it quarter by quarter or first half by second half. I appreciate the question but we just don't should do that.	portant for ared to kind
Camilo Lyon Analyst, Canaccord Genuity, Inc.	Q
Okay. Had to ask.	
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	A
Yeah, I got it. I understand.	
Camilo Lyon Analyst, Canaccord Genuity, Inc.	Q
Maybe if we could just focus on the apparel category which hasn't gotten a lot of air time. Can you give thoughts on what you're thinking about the apparel category? Clearly, you've spoken about inventory in pipeline. Is that to say that there's undifferentiated product that's still coming down through the order we into your receipt calendar as well as excess inventory at retail, which would then lead to what you're ta	n the rindow and

continued promotionality in that segment?

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Edward W. Stack

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

Yeah, I think that our inventory from an apparel standpoint is in pretty good shape. Our team's done a very good job of modifying some incoming orders. They've done a very good job of promoting some products that we needed to get rid of. So we don't have an inventory issue in our company. You saw that our inventory rose about 4%. Sales were up about 7%. So, our sales are rising faster than our inventory. We're in really pretty good shape from an inventory standpoint. As a matter of fact, we have an open to buy that if there's some closeouts or there's some opportunity buys, we're actually in the marketplace buying some product off-price. So – but there's still some inventory in the total supply chain whether it's from the vendor to retail, other retailers. There's still some stuff that needs to be cleaned through. But from an apparel standpoint, we're really in very good shape.

Camilo Lyon Analyst, Canaccord Genuity, Inc. Okay. That's great to hear. And just as a matter of clarification, for that EPS guide for next year of up to down 20%, is that on the 53-week EPS this year or on the 52-week EPS? Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. 52-week to 52-week. Camilo Lyon Analyst, Canaccord Genuity, Inc. Got it. Perfect. Good luck with the holiday season. Thank you. Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. Great. Thanks a lot. Operator: The next question comes from Adrienne Yih with Wolfe Research. Please go ahead. Adrienne Yih Analyst, Wolfe Research LLC Good morning. My question is on 2018, can you give us the number of stores that you're expecting, maybe net number of stores that you're expecting to open? And then to the extent that there are any kind of share repurchase activity, if you can give us any color on that? That would be great. Thank you. Lee J. Belitsky Executive Vice President - Chief Financial Officer, Dick's Sporting Goods, Inc. So starting with the share repurchase status, as of right now we're not contemplating in the guidance that there would be any more share repurchases just for the purpose of the outlook for next year. That doesn't mean we won't do any but for purpose of modeling. And with respect to store closures, I'd expect low- to mid-single-digit closures just between DICK'S and Golf Galaxy stores along the way. Adrienne Yih

Analyst, Wolfe Research LLC

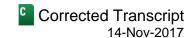
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Sorry, I was kind of thinking about the net store openings actually I think I might have misspoke.		
Lee J. Belitsky	А	
Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc. Okay. Net store, well, we're looking for 15 to 20 gross and it would be	iust a little bit less than that net, maybe	
somewhere two to five stores possibly closing, in that range.	just a mus on 1868 that that het, mayor	
Adrienne Yih Analyst, Wolfe Research LLC	Q	
Okay. Great.		
Edward W. Stack	Δ	
Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	/ \	
And most of those, on the DICK'S side, would be relocations.		
Adrienne Yih Analyst, Wolfe Research LLC	Q	
Perfect. My last quick question is on that increased SG&A, where sho level?	uld we be thinking about a breakeven comp	
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	А	
As of right now, going into 2018, we're not going to provide that inform more color on 2018 at the end of our fourth quarter call.	nation to you right now. We'll give you some	
Adrienne Yih Analyst, Wolfe Research LLC	Q	
Okay. Great. Thanks a lot. Best of luck.		
Edward W. Stack	Δ	
Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. Sure.		
Edward W. Stack	А	
Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc. Thank you.		
Operator: The next question comes from Matt McClintock with Barcl	ays. Please go ahead.	
Matthew McClintock Analyst, Barclays Capital, Inc.	Q	
Hi. Yes. Good morning, everyone. Ed, I would like to focus on just the talk a little bit about how your labor model is evolving, if at all? How do	-	

ask is because you talk about selling premium products but the other distribution points that sell similar brands or

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similar premium products have a much more expanded labor model than you do. Can you just talk to that? Thanks.

Edward W. Stack

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

One of the things we're talking about, the investments that we're making are in the store which is going to be adding some additional payroll there. We're also talking about – internally, we're not ready to talk publicly about it, but we're also looking at what technology solutions we might have to increase the service model in the store. So, our labor model in the store, we're going to add payroll and we're looking to add technology to that.

Matthew McClintock

Analyst, Barclays Capital, Inc.

And then as a follow-up question just, is there any evolution in the way that vendors partner with you to train and pay for that labor? Is that kind of something that we should expect going forward?

Edward W. Stack

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

Well, we've talked to them about it, there's some brands that participate in that, some that don't. And our view is that we would have more brands participating through the negotiating process of our vendor agreements. Right now, you should look at this as not a significant change.

Matthew McClintock

Analyst, Barclays Capital, Inc.

Okay. Thanks a lot, Ed.

Edward W. Stack

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

Sure.

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

Omar Saad

Analyst, Evercore ISI

Thanks for all the information this morning, and thanks for taking my question.

Edward W. Stack

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

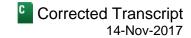
Sure.

Omar Saad

Analyst, Evercore ISI

Ed, I wanted to ask you a follow up. You mentioned a couple times that the disintermediation that's happening in retail and in the sporting goods sector is a big opportunity for DICK'S Sporting Goods. Maybe you could elaborate on some of the key opportunities you see as the market evolves and then goes through some of these kind of rough patches. Especially also could you relate it to the increased investments you're making next year in digital

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and eCommerce and what you think some of the key specific investment opportunities are in the digital landscape to position DICK'S well in this kind of new order, if you will. Thanks.

Edward W. Stack

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

A

Sure. Well, the market continues to be disrupted. We've seen Gander Mountain go out of business here. We've seen some other retailers that are direct competitors of ours who have had somewhat of a difficult time, actually a very difficult time compared to us. So we think that that's going to continue. We've seen retailers starting to slow their growth so there's not as many competitive stores being intrusive into our markets as we've had in the past and we think that will continue.

Some of the investments that we're making are around – some of the big investments are around the private brands that we've talked about. Some of the investments also that we're making around the technology piece. We've got to find ways to get product to the consumer faster than we do today. That's going be a competitive advantage going forward. So the investments from a digital standpoint, our brands, we're going to talk about investing in our brand from a marketing standpoint.

So there's a whole group of – or there's a whole menu of investments that we're making there, are baked into the guidance we've talked about, what would happen to our earnings long-term – short-term with a long-term benefit. But we're making these because we truly believe there are the right investments to make. We truly believe in the long-term growth of the company. And we think this is the time to make those investments.

Omar Saad

Analyst, Evercore ISI

Thank you. Good luck.

Edward W. Stack

Δ

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

Thanks.

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

Sam Poser

Analyst, Susquehanna Financial Group LLLP

C

Good morning. Thanks for taking my question. I have a couple. Number one, your inventory levels are basically the best they've been since Q3 2012 on a forward weeks of supply basis. Given that, why are you continuing – I mean, I understand the promotional activity but with your inventory as clean, why are you expecting this ongoing big hit in the gross margin pressure? Given that you're – appear to be controlling your inventories quite well.

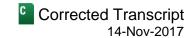
Edward W. Stack

Δ

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

Well, we think we have done a really good job of controlling our inventories. The team that we have there has done really a great job with the new leadership with Keri Jones. But the marketplace is still dictating the price. The marketplace is still promotional. So our inventory is in great shape. And we didn't take – when we talked before, you never heard us talk about that we were being promotional to get our inventories in line. We said we were being promotional to be competitive in the marketplace. And that hasn't changed. There's still going to be

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promotion out in the marketplace and we need to be priced with the market in order to make sure that we still have those consumers coming to DICK'S Sporting Goods.

I do think that it abates – it's more prevalent in the first half of the year than the second half of the year. And to be honest with you, Sam, I hope in 2019 it starts to move back in a positive direction. But I'm just not positive yet based on what other retailers are doing. Unfortunately, we don't live in a vacuum, as you know, and some other people are trying to get their inventory in line, we've got to be priced competitively with the marketplace.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Thank you. And that leads to my follow-up question. In the investments that you're talking about, what are the investments you're really making in the DICK'S – and I'm not talking about private label product, but sort of in the DICK'S brand to tell people the story about why they should come to you, why they should shop either online or in your stores sort of in a more subtle way that then might offset some of the pricing issues because isn't there a major risk that over time the customer just says, I can go to DICK'S now for the lowest price and you'll just train the customers that way? So I mean, how do you balance that and what are you investing in as far as messaging

Edward W. Stack

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

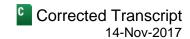
Well, I think that's a great question and so I'm going to answer this in a couple of parts. So we're working with brands on exclusive products that they're distributing to us alone. We're also working with brands to have more premium product that isn't as price sensitive that we haven't had as much access to, we're getting better access to that.

the DICK'S brand to really say, we're the place to come outside of a pricing issue?

And then what are we doing marketing ourselves in a bit more subtle way, I think you'll see that through the holiday time. As we're talking to the consumer about the fact of how important sport is, the things we're doing to make their shopping experience easier, not only with the Price Guarantee but with extra staff to help, extra cashiers to get you out quickly, to really trying to take those pain points that the consumer has today and eliminate those. So we are doing that and you'll see those ads starting to run in the next couple of weeks.

Sam Poser Analyst, Susquehanna Financial Group LLLP	Q
Thank you and good luck with everything.	
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	A
Great. Thanks.	
Operator: The next question comes from Rick Nelson with Stephens. Please	go ahead.
Rick Nelson Analyst, Stephens, Inc.	Q
Thanks. Good morning.	

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Edward W. Stack

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

Hey, Rick.

Rick Nelson

Analyst, Stephens, Inc.

I'd like to follow up on the private brand, \$1 billion in sales. You're targeting those here at roughly 12% to 13% of the total. You're talking about doubling that. Can you speak to the margin advantage of the private brand and also the timeline to get to that double?

Edward W. Stack

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

So to get to the double, I'm not going to talk specifically about that, but we think we can do that in a reasonable amount of time. That's undefined, I understand, but that's about as far as we're going to go right now. And, Rick, as far as the margin rates go, we see our margin rate somewhere between 600 basis points and 800 basis points higher than the brands that they replace in our private brand business. And, again, our private brands in the third quarter, those margin rates were up over 30 basis points versus last year. So we really do see this as a real competitive advantage and a way to help offset some of the margin erosion we're getting from the national brands.

Rick Nelson Analyst, Stephens, Inc.

You're not cutting price on those private brands to try to stimulate the comps?

Edward W. Stack

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

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

No. No. As a matter of fact, I mean the comps were up double-digits on private brands and the margin rates were up over 30 basis points. So that's a pretty good story in a market that's not a really – the industry is a little bit tough, but that's a pretty good story.

Rick Nelson Analyst, Stephens, Inc.

Okay. Great. Can I also ask about your negotiations with the landlords in terms of the rent concessions, what you're seeing thus far?

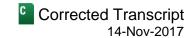
Edward W. Stack

Yeah. We're seeing – in a lot of deals that we're renewing, we're seeing some pretty good rent reductions, especially if there's another alternative, if there's another alternative to move our store down the street, across the street. We've had some pretty good rent negotiations. And I think part of that is because the landlords know that we always say we don't do the dance. We're not playing poker. If we say we're going to do something, then we're

And we've talked to them about the fact that if we can't make a new deal, then we'll move across the street. And we've done that a number of times and gotten a better deal. So the landlords – we have a really great relationship with the landlords. We have great respect for them. They have great respect for us. And one of the things that I

going to do it.

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think is important in these negotiations is they know that we don't play poker. We don't bluff. And so we've had a nice reduction in rent going forward.

Rick Nelson

Analyst, Stephens, Inc.

Got you. Thanks a lot and good luck.

Edward W. Stack

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

Sure. Thanks, Rick. Thanks.

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

Peter S. Benedict

Analyst, Robert W. Baird & Co., Inc.

Hey. Thanks, guys. Just following up a little on the private brands. Can you talk a little bit, Ed, about maybe how the complexion of the next \$1 billion might differ from what you currently have in terms of the private brand business? Any categories you're going to over-index relative to where they are today? That's my first question.

Edward W. Stack

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

Sure. I think that – we've got a nice blend of hardlines and softlines in our private brands, and we expect that to continue. We see a fair amount of growth in Walter Hagen and Top-Flite on the golf side, some on the softline side, some on the hardline side. Our fitness category, we continue to be able to think that we can continue to expand that. And in fitness I'm talking about, fitness hardlines. There are some key brands we really like. We love the CALIA brand. We love Field & Stream. We love Walter Hagen. And we're not prepared to go into this yet, but we've got two brands that we're planning to launch next year. One on the athletic side and one in the outdoor side that we think have some real opportunity going forward. So the build in this \$2 billion versus \$1 billion will be pretty level to where it is right now from how it builds.

Peter S. Benedict

Analyst, Robert W. Baird & Co., Inc.

Okay. Good. That's helpful. And then just on delivery. Maybe remind us where the stores stand in terms of supporting delivery. What percentage of the online business picked up in the store? What percent shipped from the store? And as you think – I mean you talked about being focused on getting product to the customer faster, maybe just any more specifics on what you're kind of thinking about from that standpoint. Thank you.

Edward W. Stack

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

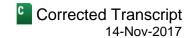
We haven't guided specifically. But the majority of our fulfillment from an eCommerce standpoint comes through the stores. We're looking at right now what the most efficient fulfillment model would be, stores, direct from the brands or the central distribution facility. But right now, the majority of it comes from the stores.

Peter S. Benedict

Analyst, Robert W. Baird & Co., Inc.

Okay. Great. Thank you.

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Edward W. Stack

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

Sure.

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

Mike Baker

Analyst, Deutsche Bank Securities, Inc.

Thank you. Just a couple of questions. One, just on some of the footwear business which seems to do pretty well. I think in the past you've under-indexed to adidas and over-indexed to Nike, adidas has been strong though. How does that impact your overall footwear business? And I think Nike helped you with some of the buildout for your new service model. Again, does that make it harder for you to get more adidas product in the store? Thanks.

Edward W. Stack

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

Yeah. No, the relationship we have with Nike has been terrific. The relationship we have with adidas has been great. We continue to invest heavily in adidas. We continue to invest heavily in Nike. And those are – from a footwear standpoint, those are a couple of the brands that will really continue to drive our business. But, no, we don't think what we did with Nike impacts adidas or vice versa. And with adidas, they've got – we've invested with adidas in our footwear platforms on the floor off the wall that adidas is very happy with and does not infringe on the arrangement we have with Nike.

Mike Baker

Analyst, Deutsche Bank Securities, Inc.

Okay. That makes sense. And I guess it's showing up in the decent footwear numbers. Two more quick follow-ups. One, you mentioned a lot of private label or private brand, I should say, but you didn't mention the Second Skin. Any update on how that product is being received?

Edward W. Stack

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

Yeah, we've just put that out in the marketplace. We haven't done a whole lot with it. We plan to launch it in a bigger way towards the back-to-school season. We're really just testing this product right now. The consumers, who have had the product, liked the product. It performs extremely well and we're pretty excited about this going forward.

Mike Baker

Analyst, Deutsche Bank Securities, Inc.

Okay. And then one last one, if I could sneak it in. Your debt, I understand it's just seasonal borrowings but it is higher than it has been in the past. Is that simply a function of having given a lot of cash back to shareholders over the last 12 months? Or is it a different capital allocation model to think about?

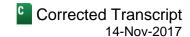
Edward W. Stack

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

It's pretty much we bought a bunch of shares back and paid a dividend, so the majority of that's gone back to shareholders.

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Mike Baker

Analyst, Deutsche Bank Securities, Inc.

Okay. Thanks for the color. I appreciate it.

Edward W. Stack

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

Sure. Thanks.

Operator: The next question comes from Joseph Feldman with Telsey. Please go ahead.

Joseph Isaac Feldman



Analyst, Telsey Advisory Group LLC

Yeah, hi, guys. Good morning. Was hoping to get a little more color on the ScoreCard. It sounds like – I get that you're making some changes to the tiering maybe but is there anything that you need to do that's sort of one-time in nature, I guess, like, in terms of like a new technology platform or a new way that it's rolled out or something? I'm just trying to better understand what is going to change beyond what you said already on the call.

Lauren R. Hobart



President, Dick's Sporting Goods, Inc.

The ScoreCard program is already an enormous asset for us. We have a very large percentage of our customers who kind of use the program. And our goals for 2018 are to make it just incredibly engaging to people so it's more than just a transactional site, so that it actually opens up opportunities. So, yes, that will involve improvements in our mobile app, improvements in personalization, and just, in general, making ScoreCard provide access to unique experiences at DICK'S. So it should run the gamut.

Lee J. Belitsky



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

But, Joe, with respect to the one-time nature, part of the changes, we have historically expired everybody's points at January 31 going back to when we put the program in place many years ago. And we've decided that that is not a very customer-friendly approach. And we want to make this a reason for customers to use the ScoreCard program. So we are going to stop expiring the points at our year-end every year. So that's the nature of kind of a one-time charge that we have in the fourth quarter for about \$0.07 a share.

Lauren R. Hobart

President, Dick's Sporting Goods, Inc.

Yeah.

Joseph Isaac Feldman Analyst, Telsey Advisory Group LLC



Got it. Okay. Thanks for that. And then a follow up, wanted to ask about also the in-store tech investment that you guys mentioned in the press release and on the call. What exactly is that going to be about? Is that, like, to have checkout in the aisle or changing the front end process? Or can you share a little more color on that?

Edward W. Stack



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

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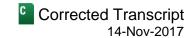


Yeah. So what we're going to do from a technology standpoint, we're talking about ways that we can have technology be a service component from an information to the consumer as opposed to an associate on the floor. We've got some technology in there called the MC 40s, which really helps from an inventory standpoint. The associates know what's in stock, what's not in stock. Helps the associate order product that might be out of stock for a consumer and have it either shipped to the store or directly to their home. We're looking at modifying the POS system. We've got a number of technology investments that we're going to put in place in the stores that we think, over the long-term, will definitely help the consumer experience.

Joseph Isaac Feldman Analyst, Telsey Advisory Group LLC	Q
Got it. Okay. Thanks, guys, and good luck with this quarter.	
Edward W. Stack Chairman & Chief Executive Officer, Dick's Sporting Goods, Inc.	Д
Thank you.	
Lauren R. Hobart President, Dick's Sporting Goods, Inc.	А
Thank you.	
Operator: The final question comes from Steve Forbes with Guggenheim Securities. P	lease go ahead.
Steven Forbes Analyst, Guggenheim Securities LLC	Q
Good morning, and thanks for taking the question. Just as it relates to the CapEx guide million to \$300 million net, can you help us break that down into the components, whethere stores, DC, IT, to help us understand the go-forward spending requirements maybe evodynamics of the business?	er it be maintenance, new
Lee J. Belitsky Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.	A
I expect that we'll get into more detail on that when we have our year-end earnings call it to give a heads up looking forward to the — so you can model a free cash flow into next year-end earnings call.	
Steven Forbes Analyst, Guggenheim Securities LLC	Q
Maybe just a higher level question, is there any DC related spend? I mean, you talk abo DC optimization and so forth and you have the – I think, you have the DC opening next piece of DC spend in that number?	
Lee J. Belitsky Executive Vice President – Chief Financial Officer, Dick's Sporting Goods, Inc.	A

There's a little bit of carry-over DC spend, but it's not the main part of – it's not a very big part of it for next year.

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Steven Forbes

Analyst, Guggenheim Securities LLC

Okay. And then I may have missed this before, but if you think about the gross margin performance during the quarter, maybe look at it by category. Are all three categories, Apparel, Footwear, and Hardlines, experiencing similar levels of pressure or is it more isolated? And then, if you think about kind of that upper 27 percentile rate that you're here right in for the back half, is that kind of a fair range to kind of think about a permanent reset for the business? If you kind of weigh whether it be the future drivers or future pressures you may experience?

Edward W. Stack

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

Well, I'd say that the margin pressures and the promotional pressures have been across the categories. Some more, some less, but they've been across the categories. And I would not necessarily look at this as a new normal, but this is a, into 2018, our hope is that it's a reset that we can start to build back off of but not necessarily as the new normal.

Steven Forbes

Analyst, Guggenheim Securities LLC

Thank you.

Edward W. Stack

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

Okay.

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

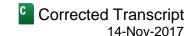
Edward W. Stack

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

I'd like to thank everyone for joining us today on our call, and we look forward to talking to everybody again in March. We hope everyone has a great holiday. Thank you.

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

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