07-Mar-2017

Dick's Sporting Goods, Inc. (DKS)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Nathaniel A. Gilch

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

Thank you. Good morning, and thank you for joining us to discuss our fourth quarter 2016 financial results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; Andrè Hawaux, our Chief Operating Officer; and Lee Belitsky, our Chief Financial Officer.

Please note that a rebroadcast of today's call will be archived on the Investor Relations portion of our website located at dicks.com for approximately 30 days. In addition, as outlined in our press release, the dial-in replay will also be available for approximately 30 days.

During this call, we will be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release and the comments made during this conference call and in the risk factors section of our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

We 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 to Ed Stack.

Edward W. Stack

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

Thanks, Nate. I'd like to thank all of you for joining us today. As we announced this morning, we had a strong fourth quarter and delivered non-GAAP earnings per diluted share of $1.32. This exceeded the high-end of our guidance and represents a 17% increase over last year.

Our total sales increased 10.9%, and we improved non-GAAP operating margins year-over-year. We delivered comp sales growth of 5% supported by increases in both ticket and traffic. Our e-commerce sales increased 27% to approximately $444 million and grew to 17.9% of our net sales compared to 15.7% in the same quarter last year.

During the quarter we continued to realize meaningful market share gains and saw growth across each of our three primary categories – hardlines, apparel and footwear.

Our footwear business was strong, and we remain encouraged with the results of our premium full-service footwear decks. We are pleased with our apparel business which benefited from the Chicago Cubs World Series championship and favorable weather patterns that helped our cold weather business. Golf was also positive, while the outdoor category was slightly negative driven in part by a decline in hunting.

2016 was certainly a unique time in our industry. We've taken advantage of the market disruption by capturing significant market share left behind by TSA, Sport Chalet and Golfsmith.

As we've studied the consolidation in our industry, we felt it prudent to conduct a thorough review of our business including our stores, merchandising strategy and vendor structure.

Based on this review, we are implementing a new merchandising and vendor matrix to better serve our customers how and wherever they choose to interact with us. Our vendors will be divided into three segments. Segment A will be strategic vendors. These partners will invest significantly in our business, both online and in-store, and we will invest significantly in their business. These strategic vendors will also provide us exclusive and differentiated products in the marketplace. We will overtly move market share to these partners in an effort to drive growth in our respective businesses.

Segment B will be vendors that we simply have a transactional relationship with. And Segment C will be vendors who we will eliminate from our stores.

We have already started this process and expect to eliminate up to 20% of our vendors this year. We have identified the merchandise that doesn't fit within this vendor and assortment strategy and have taken a $46 million charge to write it down. We also conducted a comprehensive review of our store portfolio and other assets.

As a result of this review, we've closed only three of our 676 DICK'S stores. Separately, in conjunction with acquiring the best Golfsmith location, we closed 10 of the original Golf Galaxy stores we bought that were located in close proximity to an acquired Golfsmith store that is better positioned to serve our customers. We also impaired the leasehold improvements of 12 additional stores and other assets as well as incurring TSA and Golfsmith integration costs. In total, these charges were approximately $47 million.

During 2016, we fulfilled the needs of displaced TSA, Sport Chalet and Golfsmith customers. We acquired their best store locations, customer information and transaction details at the SKU level. Leveraging this data, we reached out to displaced customers and planned for their needs with the right product offerings in the right locations. As a result, we realized meaningful market share gains, both in-store and online.

In 2017, we'll remain focused on aggressively capturing displaced market share. Our new growth, new store growth, will center on new and under-penetrated markets which were historically served by TSA and Sport Chalet. We will also continue to leverage the transaction details along with the TSA and Golfsmith customer lists to target millions of new customers.

Turning to digital. I'm proud to report that at the start of this fiscal year we successfully re-launched dicks.com on our proprietary Web platform. The re-launch was a critical moment for us and we're optimistic as we continue to iterate on platform functionality. We believe there is meaningful opportunity for future profitable growth which we will drive by remaining focused on consistently and deliberately meeting our customers' needs across all channels.

Looking ahead, one way we'll continue to meet our customers' needs is through our Team Sports Headquarters business, which is a roll-up of Blue Sombrero, Affinity Sports, and GameChanger. Our goal is to create a holistic digital ecosystem to support and equip youth sports. Importantly, through agreements in principle for exclusive partnerships with Little League Baseball and Softball, Pop Warner Football and US Youth Soccer, we have established relationships with millions of players. Team Sports Headquarters will also keep us top-of-mind for athletes and their families and will create a powerful data set that we will use to develop offers that are tailored and timed to meet the needs of these athletes. We see this as a multiyear initiative that will be a growth driver for us.

Lastly, our private brands and premium full-service footwear decks are key pillars of our new merchandising strategy. For example, we remain extremely enthusiastic about CALIA, which has risen to become our third-largest women's brand in less than two years. Looking ahead, we will expand offerings in CALIA, Field & Stream, Reebok and other key brands. We'll also be launching two exciting new brands this spring. As a result, we expect our private brand business to reach approximately $1 billion in sales this year.

Our premium full-service footwear decks also provide us a compelling product offering. With this presentation, we're able to offer products that our customers cannot find at many other sporting goods stores and department stores.

In summary, during this time of significant disruption in our industry, we are very optimistic about our future and the strategies we've outlined. I'd like to take a moment to thank our associates across the company for the hard work and commitment they showed to deliver our fourth quarter results and for their upcoming efforts in this fiscal year.

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

Andrè J. Hawaux

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

Thank you, Ed. In 2016, we profitably grew our omni-channel platform, ending the year with 676 DICK'S stores, 91 golf specialty stores and 27 Field & Stream stores. We maintained strong new store productivity and our stores continue to support our e-commerce business, which for the full year increased approximately 26% to $939 million.

During the fourth quarter, we reopened the first three former TSA stores as DICK'S stores and acquired 30 Golfsmith stores which are being converted to the Golf Galaxy brand. In 2017, we expect to open approximately 43 new DICK'S stores, primarily located in California, Florida, Texas and the Pacific Northwest, and relocate approximately seven DICK'S stores. Nineteen of these are former TSA stores that will reopen as a DICK'S store largely during the first half of the year.

Additionally, we expect to open approximately nine Golf Galaxy stores, relocate one Golf Galaxy store and open eight Field & Stream stores. Eight of the Golf Galaxy openings will be Golfsmith conversions, while the remaining location will be in the combo store format. All of the Field & Stream stores will be in the combo store format.

During the first quarter, we expect to open 16 new DICK'S stores including 10 former TSA stores and relocate two DICK'S stores. We also expect to open two Field & Stream and nine Golf Galaxy stores including eight former Golfsmith stores.

Lastly, we continue to drive store productivity through our premium full-service footwear decks. At the end of 2016, we had 184 in place and expect to add approximately 50 additional decks in 2017, primarily within our new DICK'S stores.

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

Lee J. Belitsky

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

Thank you, Andrè, and good morning, everyone. Beginning with our fourth quarter financial results, consolidated sales increased 10.9% to approximately $2.5 billion. Consolidated same-store sales, which includes all banners, both online and in-store, increased 5%.

Within this, DICK'S Sporting Goods omni-channel same-store sales increased 5.3%, driven by a 2.4% increase in ticket and a 2.9% increase in traffic. Golf Galaxy omni-channel same-store sales increased 13.2%. We continue to see strong growth in our e-commerce business which increased 27%.

On a non-GAAP basis, gross profit for the fourth quarter was $766 million or 30.85% of sales, up 85 basis points over last year as merchandise margins expanded and we leveraged occupancy expenses partially offset by higher shipping costs associated with our rapidly growing e-commerce business.

Non-GAAP SG&A expenses were $533 million for the quarter or 21.46% of sales, an increase of 86 basis points from the same period last year. The deleverage was primarily driven by higher incentive compensation expense. In total, led by our strong comp sales performance, we delivered non-GAAP earnings per diluted share of $1.32, which represented a 17% increase over the same period last year.

On a GAAP basis, our earnings per diluted share were $0.81, which, as Ed discussed, included approximately $93 million in charges. For additional details on this, you can refer to the non-GAAP reconciliation in the tables of our press release that we issued this morning.

Now looking to our balance sheet. We ended the fourth quarter with approximately $165 million of cash and cash equivalents and no borrowings outstanding on our $1 billion revolving credit facility. Total inventory increased 7.3%, which is below our 10.9% sales growth in the quarter. This increase includes inventory purchased for the 30 Golfsmith conversions as well as our 27 new store openings planned for the first quarter. As we transition into the spring season, we are comfortable with our inventory levels for our go-forward merchandise and are confident that our new merchandising strategy will drive better inventory productivity.

Turning to the fourth quarter capital allocation. Net capital expenditures were $49 million, or $115 million on a gross basis. Additionally, during the quarter we paid $16.7 million in dividends and as you know, we recently increased our quarterly dividend by 12% to $0.17 per share. We also repurchased 29.7 million of stock at an average price of $54.06. In total for 2016, we repurchased 3,130,000 shares of stock for $145.7 million and we have approximately $1 billion remaining in our authorization.

Now let me wrap up with our outlook for 2017, which will be a 53-week year. For 2017, we anticipate non-GAAP earnings per diluted share in the range of $3.65 to $3.75, which includes approximately $0.05 coming from the 53rd week. We expect consolidated same-store sales to increase between 2% and 3%.

As we discussed, digital is a top priority. Within our guidance we have contemplated continued investments to enhance our digital capabilities, including our Team Sports Headquarters business. This also includes support for our new e-commerce platform primarily within the first quarter which we previously planned for as part of the launch. Additionally, we will maintain our investment in premium full-service footwear. All this considered, we expect operating margin to increase year-over-year, driven by SG&A leverage and expected expansion in gross margin.

Net capital expenditures for the full year of 2017 are expected to be approximately $350 million, or about $465 million on a gross basis. 2016 net capital expenditures were $242 million, or $422 million on the gross basis.

Our earnings guidance assumes an effective income tax rate of approximately 37.5% and is based on an estimated 111 million to 112 million diluted shares outstanding. This includes the expectation of share repurchases to fully offset dilution in 2017.

Turning to the first quarter, we anticipate non-GAAP earnings per diluted share of between $0.50 and $0.55 with an increase in consolidated same store sales of between 3% and 4%. We expect earnings growth in Q1 to be a little lower than our annual rate of growth as we will have higher preopening expenses due to opening 22 more stores compared to the same period last year and previously planned one-time expenses to support the launch of our new e-commerce platform. These items account for about $10 million of incremental expenses in the first quarter.

Looking ahead, we expect to deliver accelerating earnings growth in the second quarter. Please note that our first quarter and full year non-GAAP earnings per diluted share guidance does not include approximately $3 million of occupancy and professional fees to convert former Sports Authority stores. We will continue to report these costs to you in future periods.

Before concluding, I will take just a moment for a quick housekeeping item. As previously indicated, since Golf Galaxy was only approximately 3% of our total sales in 2016, we are not planning to specifically call out Golf Galaxy comps. Rather, we'll speak to our golf business on a consolidated basis.

This will conclude our prepared comments. We appreciate your interest in DICK'S Sporting Goods.

And operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions] And our first question will be from Kate McShane of Citi Research. Please go ahead.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. Thanks for taking my question. My question is around the vendor consolidation. Just why is the right time now? And with the change in the vendor strategy and the competitive landscape changing, how are you viewing your balance of opening price points in your mix as good, better, best?

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

A

Kate, this is the right time based on the disruption that's happened in this industry over the last year, we felt that it was really the right time to review, really an in-depth review of everything that we do in the business. As we look at this, we felt that it was the right time to consolidate our vendors and we will continue to have a good, better, best strategy that isn't really going to change. We will still have opening price point product, we'll have good products. And we'll still have the product to be able to serve that enthusiast. But some of those tertiary vendors, like I said, we'll probably be eliminating up to 20% of our vendor base. And we think it's the right thing to do long-term for the business.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Is there a particular category where that vendor base is concentrated or is it across the board?

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

A

It's really across the board. We're not going to get into the vendors that we are eliminating. We are not going to get into talking about what vendors are in what particular segments, but it will be across the board.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

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

A

Sure.

Operator: The next question will be from Michael Lasser of UBS. Please go ahead.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Good morning. My first question is on the vendor consolidation as well. What do you expect the sales and margin implications of the strategy to be? And is it really a play on trying to get more exclusive products? Or is it really about getting better margins and terms from your partner?

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

A

It's really across all of those. So with the comp sales gains and the earnings that we have anticipated, we don't expect to give up any sales or any margin rate. It's going to be across a broad range of products, and it will also give us an opportunity to showcase our private brands more and drive that business, which we've indicated we expect to be approximately $1 billion this year.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Okay. And recognizing that you don't want to call out specific vendors, but should we expect any major vendors to be no longer featured in your stores?

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

A

Yeah, I would tell you that our – the top 10 vendors we do business with today, they will not be – there's none of our top 10 vendors being eliminated.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

Okay. And my question's on store growth, Ed. You said you did a comprehensive review of the business.

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

A

Yeah.

Michael Louis Lasser
Analyst, UBS Securities LLC

Q

The opening and converting a bunch of stores this year. What's the outlook beyond that? When do you start to get to the point where you say, look, we're comfortable with our store base, we don't need to open many more locations to reach that incremental consumer, and we probably have more productive uses for our capital as a result?

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

A

Well, I think there's still – so we're kind of at that point in a number of markets, but there's some markets that are still wide open. We still have – we don't have many stores in California; take San Francisco, for example, the Bay Area, we only have a handful of stores. Down in South Florida, Miami, we have a handful of stores. We've got nothing in the five boroughs. We've only got – we've got six DICK'S stores in Houston, which I think is the fourth largest market in the country. So we – we're going to be just – as we said, we're going to be opening in new or very underpenetrated markets is our plan going forward.

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

And, Michael, this is Andrè. Again, we use very rigorous criteria. That new store productivity number for us as well as very strong returns criteria. Otherwise, we don't open stores. And to Ed's point, it's really right now in markets where we are largely either white or a very severely underpenetrated where we'll open stores. Otherwise, we won't.

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

And we look at this going forward that now is absolutely the right time to be patient from a real estate standpoint with all the real estate that's going to come up on the market. Penney's announcing stores that they're closing, Macy's announcing stores. Some other people that are rumored to be closing stores or – consolidation in this industry is not over, and this is a time that we're going to be very patient going forward.

Michael Louis Lasser
Analyst, UBS Securities LLC
Q

Okay. Thank you very much.

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

Sure.

Operator: The next question will be from Seth Sigman of Credit Suisse. Please go ahead.

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

Thanks. Good morning. I wanted to follow up on the guidance. So you re-launched the e-commerce site; previously discussed 30 basis points margin benefit from that transition. Has that math changed at all? And maybe you could give us a sense of how to think about the timing of that benefit. And related, you had talked about $6 million to $7 million of investments falling into 2017, obviously less than last year. But are you assuming the need to reinvest in perhaps other areas, specific to online and how that could impact the P&L?

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

Well, so the 30 basis points is still a good number and we expect that number. It will be toward the second quarter, third quarter and beyond. We've got some investments around the launches, as Lee indicated in his remarks, that we had previously announced in that $6 million, $7 million range that we would be investing to launch the brand.

Other investments. We're extremely excited about Team Sports Headquarters and the acquisitions that we've done over the last couple of years and a couple of them last year around Blue Sombrero, Affinity and GameChanger. We think this truly is a big unlock for how we're going to approach these young athletes going forward, and that there will be some investments that we will be making there to drive that business.

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

Q

Okay. Thanks. That's helpful. And then one follow up on the merchandising strategy. The change seems to imply a higher concentration of certain vendors, correct me if I'm wrong. But can you give us a sense of what's embedded, if anything, for the financial benefits in 2017 related to this strategy to perhaps balance some of the long-term risks associated with that concentration?

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

A

Well, we haven't played a – we think that there will be some – there are going to be some margin rate expansion here going forward. We haven't played a lot of that into this guidance. We think that the brands that we work with are providing us, as we said, exclusive and differentiated product. They're making meaningful investments in our business, and we think it will be very good for our business going forward. And – but we don't have a whole lot baked into this year for this consolidation.

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

Q

Understood. Thank you.

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

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning. I do – I want to follow up first on the vendor question. Ed, I guess it's hard to say where the concentration is going to go, but I guess – and the first assumption is that it could be a greater concentration with some of the bigger vendors. I don't know if you agree with that or if within the top 10, you go bigger such that the numbers one and two don't get too big.

And then related to that, I guess, is there a risk here? I mean, you're going to eliminate certain vendors. I'm guessing they'll look for other outlets, maybe look for DTC channels. But is there a risk that some of the existing vendors look for that exposure as well? I don't know if different than normal, but just curious how your thoughts are there.

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

A

Yeah, I don't think that – so there's going to be a concentration of more with these vendors, but the investments that they're going to be making in our business and the investments that we're going to be making in their business are going to be great investments.

As far as some of these other vendors looking for other avenues, they probably will. But you have to remember, they are not that important to us as we are eliminating them from the mix and then being able to look at terms and conditions of sales and how we come to market with other brands that really make a difference. And we think it's absolutely the right thing to do. And the brands that we have talked with so far, our plan is playing out very nicely.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then different topic, just on the outlook for earnings. It looks like the second half there's a pretty good step-up in both earnings growth despite some tougher compares. Just curious what's behind the forecast, and if you could shed any light and color between GM and SG&A in the back half?

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

Part of this, and I'll let Lee jump in if he needs to, but part of this is that some of the investments that we're making in the first quarter. As we said, there's about $10 million of investments in the first quarter that's depressing the first quarter, and we expect accelerated growth in the – in going forward after that.

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

And I wouldn't bank on it all in the second half. I think we'll really get this going in the second quarter as well.

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

Okay. Thanks. Good luck.

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

Thanks.

Operator: The next question will be from the line of Camilo Lyon of Canaccord Genuity. Please go ahead.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Thanks. Good morning, guys. Maybe asking just another question on the vendor change program. So is it right to assume that with the 20% reduction in vendors and the inventory that there will be a 20% reduction in square footage that was allocated to them that will be reallocated to the top brands, your top 10 brands? Or is that going to go to private label? And does that impact how you think about future store size as you go forward with the openings?

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

You have to remember that 20% of our vendors isn't 20% of our business or 20% of our square footage. These are vendors that we think don't really have significant growth going forward. But there will be a combination of some of this will go to existing vendors that we're going to partner with, and part of this will go to our own private brands.

And as we said, our private brand business we expect to be $1 billion this year. That's a pretty good chunk of change. We're pretty excited about what we're doing from a private brand standpoint. And take a look at what we've done with CALIA. It's gotten to be the third-largest women's athletic brand in the company, and it's growing pretty rapidly.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Great. And then just switching topics to, I believe it was in the December period that you began to mine the customer data that you purchased from the bankruptcy proceedings. Were you able to see any monetization of that data, or is that still yet to unfold?

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

A

Well, we've see some, but it's yet to – the biggest benefit, we think, is ahead of us, not behind us.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

And did you see a materialization of any of that benefit in the fourth quarter? Or not yet?

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

A

We did, yes. Yes. Yep. It was in that, yeah.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay.

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

A

More from TSA than from Golfsmith.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got it. Got it. And then just a longer-term question. As you see your, the share gains continue to accrue to you as the industry continues to consolidate, how do you think about how your EBIT margin potential and where the right EBIT margin should rest for this business on a go-forward basis once things have settled out and there's obviously more of a share opportunity that you have in front of you to capture?

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

A

Yeah, so we're not going to get to the point where we're going to provide that guidance, but we do think that there's meaningful upside, and we'll start to see that. We'll start to see some of that growth this year.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got it. All the best, guys.

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

A

Thank you.

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

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Good morning, guys. Thanks for taking my question.

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

A

Sure.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Just wanted to understand, I think it seems like same-store sales are maybe slowing a little bit in the core, and I guess the weather was said as being fine. Is there anything else to call out? Potentially, impacts from department stores pushing in? Or any change in the TSA share capture that you think you got in the quarter versus 3Q? Any color there? Or maybe by category, it would be a better way to approach it just as we think through that?

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

A

Are you talking about in the fourth quarter?

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Yeah, the fourth quarter same-store sales rate.

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

A

Yeah, I mean, well, we thought a 5% comp sales gain is pretty good. Part of it was driven by the – the Cubs were helpful. The weather pattern was helpful. And our team just did a really good job of going out there and grabbing business. We were pretty pleased with 5% in the environment that was out there.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Got it. And I guess there was nothing to call out by category? Apparel was fine versus the others?

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

A

Well, we did say that the hunting business was difficult. That hunting business continued to be – it continues to struggle and struggled in the fourth quarter, both firearms and a bit from an ammunition standpoint.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Got it. And are you...

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

A

Which I think has been prevalent in the marketplace right now.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Yeah, well, so, in looking at the consolidated comp, obviously versus core DICK'S, that we sort of sussed out that Field & Stream must have been pretty tough. But I don't know if you can provide any other color there?

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

A

No, I mean, Field & Stream was a bit more difficult, down kind of mid-single digits, and the hunt business inside DICK'S was difficult. It's just that structurally is a difficult business right now. We think we did a very nice job offsetting that with what's going on with the golf business and with the TSA market share gains.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Got it. And just a last one for me then. Can you help us think about what percent of sales would be represented by sort of the segments of vendors just to get a sense for how things will shift, specifically Segment C? I'm just curious around that.

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

A

Yeah, so we're not going to get to that level of detail, especially in segments one and two, but Segment C is 20% of our vendor base and it's meaningfully less of our business than the 20%.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Got it. That helps. Thanks guys.

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

A

And we've got a solve for – anything that we're eliminating, we've got a solve for how we make up that business.

Stephen Tanal
Analyst, Goldman Sachs & Co.

Q

Understood. Thank you.

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

A

Sure.

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

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Good morning, guys. Two questions. First, how large was the compensations swing 4Q 2015 to 4Q 2016?

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

A

It made up most of the change in SG&A expense and SG&A expense as a percent of sales. We had a really solid year this year off a relatively weak year last year so comp...

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Most of the change on a percentage basis?

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

A

Yes.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Got it.

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

A

Not dollar basis, but basis points, yes.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Okay. And then a second question. You guys have been talking about private label. You think it's going to hit $1 billion. Can you give us an update, kind of where private label ended the year on a percent mix? And then kind of how much it was up this year, just so we can kind of gauge the trend line that it's following?

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

A

Well, I mean, it was up a bit. It was up – we're not going to get into real specifics right now for competitive reasons, but it was up and we expect it to – that growth to accelerate going forward. We have got some terrific plans for our PD business. We saw some of that materialize last year and we are pretty confident we can get this to roughly $1 billion this year.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

And is the margin still much better on that? I think we've talked several basis points historically.

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

A

Probably 600 basis points to 800 basis points difference than the brands that it's eliminating.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Got it. All right. Thanks a lot, guys.

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

A

Sure.

Operator: The next question will be from Brian Nagel of Oppenheimer. Please go ahead.

Brian Nagel
Analyst, Oppenheimer & Co. Inc.

Q

Hey. Good morning. Thanks for taking my question.

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

A

Sure, Brian.

Brian Nagel
Analyst, Oppenheimer & Co. Inc.

Q

So first question just with respect to market share gains. I know, Ed, you'd mentioned that market share gains remained the driver of the business here in the fourth quarter. Can you help us understand was it more or less the driver in the third quarter, we break out looking at your 5% or so comp, how much of that came from market share gains?

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

A

I'd say a big part of that was market share gains then also. If you remember, we talked about at the end of the second quarter we were a little bit conservative of our guidance, we weren't sure what those market share gains were going to be. We thought the liquidation of Sports Authority would have a bigger impact than it did, it didn't. The gains continued into the fourth quarter and we were very pleased with the way that the marketing team, the operations team, and the merchandising team went after that market share.

Brian Nagel
Analyst, Oppenheimer & Co. Inc.

Q

And then looking into 2017, we have your initial guidance now. How should we think then about, given what you've seen so far with the market share gains, the cadence of those gains continuing through 2017?

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

A

Well, Q1, Q2 should be pretty good. We will start to come up against them in Q3. But based on the fact of how we are mining the data, we don't think the market share gains necessarily end beginning with the third quarter because we continue to mine this data, understand this data, test this data, and we think there is still more upside for us. And it doesn't stop in the beginning of the third quarter.

Brian Nagel
Analyst, Oppenheimer & Co. Inc.

Q

Got it. And then just a follow up on separate topic. With respect to the merchandising changes you're making. How should we think – the product you've written down, or taking the charge for here in the fourth quarter, how should we think about the flow of that product through your stores? Has a lot of it been cleared already or will it be cleared here as we work into 2017? Is there some strategic use for it as a traffic driver as you clear that product?

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

A

We've cleared it, Brian. We've taken it off the floor. Made room for the spring receipts and we've cleared that off and we're jobbing some of that out, but it's gone.

Brian Nagel
Analyst, Oppenheimer & Co. Inc.

Q

Great. Thank you.

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

A

Sure.

Operator: The next question will be from Sam Poser of Susquehanna. Please go ahead.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good morning. Thank you for taking my question. In your guidance, can you give any impact you would've had from the later tax refund for the first quarter?

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

A

Yeah, we are not aware of any particular impact delayed tax refunds have had. We haven't really tracked that historically. So if there is anything from that that we'd pick up later, then that's fine, but we are not counting on it in the first or second quarter.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you. You may have said this. Can you give us what your annual pre-opening expenses are looking like this year?

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

A

We can. Just give us a second, Sam, we'll get to those. But in the first quarter they are significantly higher. We are opening 22 more stores in the first quarter than we did last year, of which roughly eight of them or so are converted TSA stores. But that increase in pre-opening is a big number in the first quarter.

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

A

Right. It should be...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

But you don't think it'd almost double in Q1 and then it would sort of settle down?

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

Right. It's expected to be roughly flat year-over-year, pre-opening. So it's really a shift into the first quarter and out of future quarters.

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

Yeah.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And then...

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

So year-over-year assume it's flat and then just more weighted to the first quarter than it's been in the past.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And then lastly, you mentioned these new brands, the new private label or private brands that you're working on. Can you give us some idea of what categories you may be looking at there?

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

Not yet, Sam. But we will at the, if not the next call, then on our call at the end of the second quarter.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay. And then one more then. In the 20% of the vendors that are going to go away, you talked about it much less in sales. I would assume also that their profitability is also under the – their EBIT is under the company average as well. Is that a fair assessment too?

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

Actually, Sam, it might not be. It's just that we've decided that some of these vendors that are smaller vendors, we can replace them someplace else where we can get a bigger bang for our buck or we can take some of this and we can put our own private brand on it which would increase our profitability. So all the brands that we're getting rid of are not necessarily less than acceptable returns. We just think as we go forward we can get a better return.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Part of that would come in co-op advertising and things like that from the more important brands as you would grow them?

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

A

Yes. And different terms and conditions of sales and a number of different – as we kind of look at the whole thing, it's better to move some of these brands out.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much. Good luck.

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

A

Thank you.

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

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Good morning. Congrats on the fourth quarter on the comp there. Very nice. My question is also on the inventory write-offs. Can you talk about whether the composition of that was mostly the non-go-forward branded category? Was it seasonal? If you can give us any more color on that, that would be very helpful. Thank you.

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

A

Adrienne, it was a combination of all. It was a combination of some non-go-forward merchandise with brands that we do business with. Some brands that we're doing business with also that are going to the transactional segment are – we are eliminating or scaling back categories of merchandise that we do with those brands. So it was some non-go-forward product with brands that we're going to continue to go forward with and then also in there are the brands that we're not going forward with.

Adrienne Yih
Analyst, Wolfe Research LLC

Q

Okay. Fair enough. And then just secondarily, the golf comp was so strong. Just wondering if we should expect sort of to model in that type of double-digit comp as we go into Q1 or whether we should look for some moderation there as well.

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

A

Yes, I wouldn't be quite as enthusiastic. There were a couple of – the Golfsmith stores that closed were really helpful around the holiday season at both Golf Galaxy stores and DICK'S stores. And we've got to just see how this plays out a little bit. But a double-digit comp in golf would be fantastic, but I wouldn't necessarily get too enthusiastic and model that right now.

Adrienne Yih
Analyst, Wolfe Research LLC
Q

Okay. Fair enough. Thank you very much and best of luck.

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

Thank you.

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

Steven Forbes
Analyst, Guggenheim Securities LLC
Q

Good morning.

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

Good morning.

Steven Forbes
Analyst, Guggenheim Securities LLC
Q

You mentioned an incremental 50 premium footwear decks right this year, mostly in the new stores. I know the plan was always to digest last year's rollout. But given that we're farther along here, can you comment on the pace of the rollout? Why not go faster? Where are we relative to expectations? And maybe also how has it impacted your relationships or your go-forward relationships with your footwear vendors?

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

It has been very positive. We're making some additional modifications to the footwear deck. You'll see a much bigger Adidas presence in the footwear decks now with how we're positioning that brand. You'll see some new things that we're doing from Nike on the wall. So it's been very good. We're going to open up about 50 more. A lot of those will be – not all of them, but a lot of them will be in new stores. And we're taking some other relocated stores and doing this. So we're comfortable with the pace that we're going at right now, but you'll continue to see these things expand.

Steven Forbes
Analyst, Guggenheim Securities LLC
Q

And then maybe just a quick follow up. As we try to digest what's going on in the marketplace and I'm sure you guys are as well, as you think about your ability to maybe put out an updated long-term target, are we – is it something you envision doing? You probably don't want to give a specific time line on it, but do we have to get through this year first before we can revisit those?

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

I would say probably right now we'd like to see how the whole thing shakes out. There's probably more – as I said, there seems to be more consolidation probable in the marketplace that we see. So I think this consolidation's not over yet and we've got to get through it all before we're going to make any long-term targets. But I'd say we are extremely enthusiastic of the position we sit in right now in the marketplace with the profitability of our stores, the – what we're doing from an e-commerce standpoint, what our balance sheet looks like. We like a lot the position we're in.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you.

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

A

Sure.

Operator: The next question will be from Peter Benedict of Robert Baird. Please go ahead.

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

Q

Hey, guys. Thanks for taking the question. First, just rough math on the guidance; maybe implies something in the neighborhood of 50 basis points of EBIT improvement this year. You mentioned gross margin and SG&A would both be favorable. Do you expect it to be more favorable for one versus the other or is it a pretty even split?

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

A

I don't think we're at the point right now where we're ready to give more detailed guidance on that. But they'll both be going in the positive direction.

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

Q

Okay. And then just over on CapEx, I mean a couple years ago the plan that was laid out had 2016 as kind of the peak CapEx year. I know a lot of things have changed, of course. And so how should we think about CapEx beyond 2017? I mean is 2017 kind of a peak? It sounds like maybe a little bit more rational or slowing down on the store growth as you look longer-term. Should we assume that 2017 level persists, or does CapEx kind of start to step down after 2017?

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

A

In 2017, we have just one unusual item in that we're adding a distribution center in 2017. So I'd say that's kind of an unusual blip for this year.

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

Q

Okay.

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

A

this would be kind of – this would be primarily the peak year.

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

Q

Yeah, okay. Good. That's helps. And then just lastly around e-commerce and the Team Sports stuff. I mean as you guys look out to 2017, do you think that 20% plus e-commerce growth rate is sustainable? I mean there's obviously great momentum in the business. Just trying to get your feeling around that. Thank you.

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

A

Yeah, I think right now, it's – I would say it's probably not – as you launch a new platform like this, you've got natural search that needs to reset. We've got some things that we need to continue to do from a – improvement from a functionality of the site. So in 2017, I would say probably no. Going forward after that, I think – or the back half of this, I think you'll start to see, we're pretty confident of what we can do from an e-commerce standpoint.

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

Q

Okay. Great. Thanks. I appreciate the perspective. Thank you.

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

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

Yeah, thanks for taking my questions. I've got a few. Let me start on the vendor matrix. You talked about one of the benefits, the focus be more on strategic vendors is more exclusive differentiated product. Is there any way you could speak to kind of what that's – like what level of that or percentage of that's been historically and like much that bumps up and maybe how much margin benefit you can see from that? Is there any way to kind of break out margins, differentiated versus non-differentiated products, just like you talked about the difference between private label and brands?

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

A

Yeah, we're looking through that. We're not ready to kind of provide all of that, as we're still going through some of these conversations with some brands. We've had a number of brands that we've had these conversations with have come to an agreement on where they're going to be from a strategic standpoint, a transactional standpoint or some of them that are going to be eliminated. But how that all flows through yet, we're still working through that. But we've got a model that we're confident that we can meet or exceed.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

So is it fair to assume the more differentiated project you have, the better it is your margins?

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

A

Yes. Yeah, so you've got less competition out there. Yeah, definitely.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

And then on the full-year guide, I know a year ago when you guys provided the out-year guidance, you kind of talked about some discrete items that were pressure points on the earnings. Is anything that you'd like to call out in terms of the 2017 guidance? It sounds like you're going – the e-commerce helps you in terms of the 30 basis points of EBIT there. But anything else in terms of like, [ph] Mark (48:32), I know last year there was some Olympic spend and the footwear deck investments. Is there anything that's worth calling out?

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

A

What we're going to do from a – how enthusiastic we are about Team Sports Headquarters in these technologies of Blue Sombrero, Affinity and GameChanger that we acquired. And we think this is a – there's a big unlock here that we're working through.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

Okay. And then last question on the margins. I know shipping was a drag on the quarter. Is there any reason to believe that, that won't change going forward? And is there any way to kind of speak to the overall e-commerce margin versus the store margin? How are they – how do they compare?

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

A

Well, still the – so we expect as we continue to grow the business that the shipping costs are still going to become a bigger piece of the expense structure as the business becomes a bigger piece of the entire business. We're looking at ways at how we might be able to slow that – those shipping costs, and we're working through those. But to kind of call out the profitability of e-com versus the profitability of the store, we're not ready to do that. But I will tell you that the e-commerce business is probably more profitable than you think.

Mitch Kummetz
Analyst, B. Riley & Co. LLC

Q

Okay. All right. Thanks. Good luck.

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

A

Sure.

Operator: The next question will be from David Magee of SunTrust. Please go ahead.

David G. Magee
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yes. Hi. Good morning. You mentioned the success of the footwear decks, which makes a lot of sense to us. Were there other things that you're doing in the stores that would have – also have an impact, whether it be additional vendor shops or what have you?

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

I think a big piece of what we're doing is this – are two things, is the vendor consolidation that we've implemented and re-looking at our vendor structure and what segment a vendor is in and then what rights or privileges those vendors have inside our business, the investments we're going to make, the investments they're going to make, and then also what we're going to be doing from a private brand standpoints. We have gotten much more aggressive with private brand. You can see what we've done with CALIA. Field & Stream has been great from a private brand standpoint.

One of the biggest issues that we have going forward, biggest opportunities, is private brand, and we're investing very heavily in them from an infrastructure standpoint. You're going to see more marketing of these and over the next few years, you'll see our private brand business grow pretty dramatically.

David G. Magee
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thanks, Ed. And then secondly, with regard to Field & Stream, how do you feel about how that's positioned right now, just given the sector backdrop, the probable consolidation that's going to take place in that sector? Are you still happy with the combo store format and also the price points within Field & Stream?

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

Yes, we are happy with that. We think if some of this additional consolidation happens, we're in a great position to pick up a significant amount of that market share, whether it be at DICK'S or Field & Stream, the same way as we were able to pick up – we think we can pick up market share in the golf business when Golfsmith has gone out in both Golf Galaxy and in DICK'S. So we like the position we're in. This industry is a bit more difficult right now. We think it's going to continue to be that way on a macro basis, but we do expect some consolidation, and if that happens, we'll be – we're in a great position to pick up that market share. So I actually think toward the back half of the year that could be a good business for us. But we're not planning on that right now.

David G. Magee
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Great. Thank you.

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

Sure.

Operator: The next question will be from Jim Duffy of Stifel. Please go ahead.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thank you. Good morning.

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

Good morning.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Believe it or not, I have more questions on the merchandising direction. Ed, can you talk...

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

Shocking.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Can you talk about the development timeline for this strategy? How long has this been in the works? How long have you been in conversations with the vendors? Will we see a lot of these exclusives in the spring assortments?

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

You won't see as many of them in the spring assortments as you will toward the back half of this year. We've been talking about this for quite a while. And as we've kind of talked about this, done this analysis of the business and we've decided we've got to pull the trigger and we've got to do this. And it's difficult to do. It's difficult to tell people that you've done business with for a long time that we're not going to do business going forward. So this is something we've been talking about for a while. And based on what's going on in the industry today, we felt this was the right time we had to do this.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Ed, following the change in strategy and inclusive of the $1 billion private brand business, how much of the volume do you expect will be exclusive to DICK'S versus in-line product that may be available to other retailers?

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

Yeah, so we're not going to guide to that right now. We're still working through this. We're still working through some vendor agreements and how we're going to do this and how we're going to either – our private brand business, how we may co-create with some brands product, but this has definitely been the right thing for us to do.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

And then final question on this, beyond the exclusive, what are some of the other investments these vendors are making in the business? Does the vendor concentration bring you better pricing? Better terms? If you could help with that, that'd be great.

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

Well, every vendor is a little bit different and every category is a little bit different, but you should look at that we will get some combination of, and this is a two way street. So we are also investing also. We are providing them additional square footage. We are investing with them to be a bigger part of our marketing campaign. But you should look at this as it's around pricing. It's around discount. It's around marketing. It's around in-store presentation. So this is not a one size fits all. And every category and every vendor would be different. We'd be looking for something different from somebody in the golf business, might be different than what we would be looking for from someone in the baseball business. So but this has been pretty successful out of the gate. And as you can imagine, the vendors that are going into that strategic bucket are very excited about it.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks for that perspective. I'll leave it at that.

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

A

Sure. Great, thank you.

Operator: The next question will be from Joe Feldman of Telsey Advisory Group. Please go ahead.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Hey, guys. Thanks for taking my question. I wanted to go back to the digital ecosystem for a minute and I think it's pretty innovative way to get customers. And can you share any thoughts to dimensionalize it for us? Like how much you think it could become one day or even in this year how much it might contribute to sales or profit and how do you might work these partnerships with Little League and Pop Warner?

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

A

Well, we are not going to get into the economics around this right now but the way this works is Leagues will sign up on our platform, whether it be Blue Sombrero, the governing body sign up on our platform which is Affinity and then GameChanger is an interactive application that primarily around baseball right now but is going to be broadened out to other sports. And they interact with this, we are able to understand who is doing what, who is playing what sport and be able to market to them. I thought there was a great comment when we were looking to buy GameChanger with their CEO, who said – I don't remember exactly the number of teams, but they've got an awful lot of teams, and said, I know everybody in Little League that bats cleanup. I know in high school baseball almost everyone who plays the position of catcher. So we can market to them that particular way. And it is a great database that we have only begun to mine. So there is still a lot to do. But we can get to that level of detail with people and these young athletes that I think we'll be able to serve them better and we'll be able to provide them what they really need.

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

A

Another great thing about it is that it's a database that continuously refreshes. So as you have new kids coming into each of the sports, we know who those new kids are as they enter the sports and we have the ability to get the right kind of offers to them and their parents so they know what to buy at the right time. So the constant refreshing aspect of this is really important to us as well.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

That's great. Thanks. As a user, I know how effective it can be. It's great. Thanks.

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

A

Who are you using?

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

The GameChanger app quite a bit. And actually Blue Sombrero. Our Softball League uses that.

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

A

They are both terrific companies.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Yeah, yeah. One other question I wanted to ask, when you guys look at the way the comps, maybe by region or by area, presumably those closest to outgoing TSAs perform better, like was there any variance you can share, those closest or furthest away from TSA or the non-affected ones?

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

A

As you can imagine, the closer our store was to a TSA store, the better it did. And the further away, then not as good as one that was as close. But we've got the transaction data for all of their business down to the SKU level. So we can target by store from a marketing standpoint and we can target by store from an assortment standpoint to better serve those athletes.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC

Q

Got it. Thanks. And then just one other kind of [indiscernible] (59:13) question. We get asked a lot on our side of the table like, well, if there is so much consolidation going on in the industry and it seems like there's others out there with a lot of pressure and we are definitely seeing it, as you are, but yet DICK'S continues to outperform and do well. Does it ultimately get to a point where DICK'S gets caught up in that as well? Is it more a sign of a lousy industry versus – or an industry in decline? How would you respond to that, I guess?

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

A

Well, as we've taken a look at that, we've done a deep dive into not only our business but some of the businesses that have consolidated. And we took a hard look at this and said we've got to make sure that we don't have symptoms of the disease that these other companies atrophied from and died. And some of the things that we looked at that they had issues with is they had extremely high debt, private equity owned, high debt. They didn't invest in their e-commerce business the way that we've invested from an e-commerce standpoint. They did not invest from a product development standpoint the way that we have across not only good, better and best categories of products. They also did not invest in their stores. And they also had a constant revolving door from a leadership standpoint.

As we looked at these, we don't have any symptoms of those disease. We have no debt. We've continued to invest in our e-commerce business pretty aggressively, and you have seen the growth there. This past year, our e-commerce business was almost $1 billion.

As we take a look at what we're doing from a PD standpoint, our PD business is going to be roughly $1 billion. We expect margin rates to expand. We've developed great partnerships and relationships with the vendors that the others didn't.

So, is this a great industry right now? I think it really is a very good industry that there were some weak links and some companies that couldn't survive. And I think you're seeing this in some other retail industries, too. So I don't think this is something that we get caught up in as long as we continue to run and manage our business. Which is why when this whole thing happened, we didn't take time to celebrate. We said, okay, let's do a thorough review of our business and make sure we don't have symptoms of this disease. Which is why we've gone back and we've redone the vendor structure and took some of these charges to kind of clean out a little bit of the issues to make sure that we don't have these issues going forward.

Joseph Isaac Feldman
Analyst, Telsey Advisory Group LLC
Q

That's really helpful. Thanks so much, guys, and good luck this quarter.

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

Thank you.

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

Krista Zuber
Analyst, Cowen & Co. LLC
Q

This is Krista Zuber on behalf of John. Thanks for taking our questions and fitting us in. Just a few here to add. Are there any anticipated inventory write-downs embedded or future write-downs embedded in the 2017 guidance?

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

No. No, it's all behind us.

Krista Zuber
Analyst, Cowen & Co. LLC
Q

Okay. Great. And then secondly, did you anticipate any additional investments in fulfillment or technology or even digital that could sort of increase CapEx, kind of going back to another colleague's question earlier in the call, going forward beyond fiscal 2017?

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

A

At some point, it would just depend from a fulfillment standpoint if we developed our own fulfillment center. But other than that, I don't think so. And we've got a terrific fulfillment partner right now in Radial and we're very happy with them.

Krista Zuber
Analyst, Cowen & Co. LLC

Q

Okay. Great. And then final question. In the 2017 CapEx guide, you mentioned that there's a new DC included in that. Could you just sort of give us a sense of the cost of the DC so we can strip it out in future years?

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

A

This year we anticipate putting an additional $50 million into that building.

Krista Zuber
Analyst, Cowen & Co. LLC

Q

Okay. Terrific. Thank you very much.

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

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Good morning, everyone. Thanks for taking my questions. I guess first, Andrè, for you, if you can talk to maybe the store productivity rate of the big stores only? If you could give any color where that ended up in the fourth quarter?

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

A

Certainly. It was north of 90%. And you'll recall when we've talked to you, we've said 90% is really that waterline for us in year one. So we plan our stores to be 90%, 95% and 100% in the three-year ramp, and we were north of 90% in the fourth quarter.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And just on the gross margin for the year, could you maybe just decipher between product margin opportunity versus occupancy, either leverage or deleverage? And I know there's a shipping cost element on e-commerce, but any color you can give on some of those buckets one way or the other would be helpful.

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

A

Yeah, I don't think we're going to guide specifically on kind of those basis points right now, but we do think it will be up somewhat in total for the year.

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

A

We do expect merchandise margins to expand.

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

A

Right.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Okay. Got it. Ed, for you, just on the e-commerce versus physical store. At what point do you become agnostic in terms of where that consumer transacts from an operating margin perspective? Is that potentially – does it get into the second half of the year as you maybe lap some investments in the first quarter? Just sort of where is that inflection where it doesn't make any difference; the operating margins are pretty similar one way or the other?

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

A

Well, actually, I don't think we get there this year, but we are very agnostic as to where they shop. We just want to make sure they shop with us, whether it be in the store or online. But the store right now is still a bit more profitable than the e-commerce business and we expect that to continue throughout the year as we continue to heavily market this because of the new site. With a new site, you got to treat it with some tender loving care. And we've got some investments that we're going to make there from a marketing standpoint; infrastructure to make sure that we do that.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. Two final things real quick here. Is lucy – because I know you sell lucy in your stores – is lucy's – because I think VF is winding down the lucy brand. Is that one of the brands that exits your business and is replaced by something else, whether it's another brand or CALIA, for example?

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

A

Well, this is the – it would be safe to make that assumption.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And then finally, just on the market share opportunity. Once you get into the third and fourth quarter, how – I know you answered this a little bit earlier, but just your confidence level to be able to get same-store sales growth out of the DICK'S concept as you go into the back half of the year, even though you're anniversarying the comparisons, just your level of confidence and are able to do that. Maybe if you can talk a little bit more about that because there's still this notion that once you get to the second quarter, it just sort of – it's all gone, which is, I don't believe is true but I'm just curious your response to that.

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

We don't think it's gone, either. We think there's still opportunities. We've got – as I said, the data that we were mining in the third and fourth quarter were much better at it going forward. We think that there's still more market share to get. And as we said, we think there's still more consolidation to happen in this industry; that the consolidation is not done.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Okay. All right. Thank you very much and all the best to you.

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

Sure. Thank you. You too.

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

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

Okay. Thanks. Thank you. Question on just performance of your mall-based stores versus the off-mall stores. Wondering if there's any meaningful difference there in terms – especially as it relates to store traffic, which I think you said was up 2.9% for the DICK'S stores.

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

Yeah, not a lot of difference. We're a destination retailer. We're not really – we don't need the mall traffic to drive our business. We're a destination. We actually help the mall traffic, so there's no real difference.

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

And what – I mean as you look forward, I know a good number of the stores that you're opening in 2017 will be conversions of former TSA stores or Golfsmith stores. But what would – how would the – as it relates to new stores, how would the mix be, mall versus non-mall or off-mall stores?

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

This is Andrè. The bulk of the TSA conversions, really, they were not very mall-based. So many of them are in power centers or stand-alone locations. So the bulk of this will largely be in the first two quarters will be – the bulk of them will be conversions. And many of them are freestanding or, as I said, power center. There are a few mall-based stores that we're opening in some other markets in the first and second quarter, but it tilts mostly to power center.

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

And then just a last question for me on – just on the earnings guidance. I mean it sounds like a lot of the difference, I guess, between Street expectations and guidance is in planned investment spending, including more spending on e-commerce. Is there – and I think you said gross margin up for the year and looking for stronger merchandise margins. But I'm also looking – right now I'm looking at the MC Sports website, and they're doing a going-out-of-business sale. I mean it's obviously not a huge company, but the $110 million in inventory that they're talking about has to be sold. So my question is, in gross margin are you anticipating any negative impact from competitor liquidation sales?

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

Not MC.

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

Okay. Just too small?

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

Yeah, too small. Yeah, no, nothing there.

Patrick G. McKeever
Analyst, MKM Partners LLC
Q

Okay. Thank you.

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

Okay.

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

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

I'd like to thank everyone for joining us on our fourth quarter earnings call, and we'll look forward to seeing everyone when we report the first quarter. Thank you very much.

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