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Dick's Sporting Goods, Inc. (DKS)

Q4 2015 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 Anne-Marie Megela, Vice President – Treasury Services and Investor Relations. Please go ahead.

Anne-Marie Megela

VP-Treasury Services & Investor Relations

Thank you. Good morning, and thank you for joining us to discuss our fourth quarter 2015 financial results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; and Teri List-Stoll, our Chief Financial Officer. André Hawaux, our Chief Operating Officer, will join us for Q&A.

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, in 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 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 to Ed Stack.

Edward W. Stack

Chairman & Chief Executive Officer

Thank you, Anne-Marie. Good morning. As we close out one of our more challenging years, it's important to step back and assess the state of our business in light of the opportunities that lie ahead. During 2015 we meaningfully grew our omni-channel platform, ending the year with 644 DICK'S stores, 73 Golf Galaxy stores, 19 Field & Stream stores, including 4 combo locations. We maintained a very strong new store productivity, well over our goal of 90% in these new stores.

And our stores continued to support our eCommerce business, which for the full year increased approximately 19% to over $748 million. We also made significant progress transitioning our eCommerce business onto our own web platform. We relaunched golfgalaxy.com onto this platform, including ship-from-store capabilities. We launched Field & Stream's first ever eCommerce website and both have been very successful.

Finally, we have a very strong balance sheet, ending the year with over $100 million in cash with no borrowings outstanding on our $1 billion credit facility. We returned over $420 million to shareholders through dividends and share repurchases, representing a 9.5% cash yield. We believe we are very well positioned to capitalize on the opportunities we see ahead. It will require some investments and some time to see the returns, but we remain confident in our ability to create substantial long-term value from here.

Before I get into more details on that, let's cover the fourth quarter. We delivered earnings per diluted share of $1.13, which is within our guidance range, total sales for the quarter were $2.2 billion, up 3.7%. Consolidated same-store sales decreased 2.5% below our guided range.

The results for the quarter were significantly impacted negatively by performance of cold weather-related categories. These categories include jackets, fleece, cold weather compression, boots and accessories. They represent a significant portion of our business in the fourth quarter and they were down double digits. Our team did a great job managing the inventory in these categories by taking aggressive markdowns, working with our vendors and along with packing up some basic winter items for next year. We are well positioned as we exit this quarter.

Looking outside the cold weather categories, the balance of our business performed very well, comping up nearly 3%. In particular, we continue to be very pleased with our performance across important growth categories such as Athletic Footwear, Licensed, and our Women's business where we have invested in improved product content, merchandise presentation, shopping experience and marketing. As anticipated the Hunt business remained under pressure due in a large part to warm weather. Within this category, guns and ammunition comped positively.

For the second straight quarter, margins in our Golf business expanded over 200 basis points compared to last year, reflecting cleaner inventory levels and less promotional product in everyone's pipeline. Our consolidated Golf comps were relatively flat for the quarter, supporting our view that this business is beginning to stabilize. In summary, given the challenging conditions we faced with the unseasonably warm weather, we operated very well in the fourth quarter, we delivered earnings per share within our guided range and continued to drive results in the important categories.

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

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

Thanks, Ed. Good morning, everyone. Beginning with our fourth quarter financial results, as Ed mentioned, consolidated sales increased 3.7% to approximately $2.2 billion. Consolidated same-store sales, which include all banners, both online and in-store, decreased 2.5%. Within this, DICK'S Sporting Goods' omni-channel same-store sales, which includes dicks.com and DICK'S stores only, also decreased 2.5%. Our eCommerce business grew 13% despite being impacted by the unseasonably warm weather throughout the quarter.

Gross profit for the fourth quarter was $672 million, or 30% of sales. And as expected, contracted year-over-year. This 200 basis point decline in gross profit margin was primarily driven by 131 basis points of merchandise margin contraction due to a more promotional holiday season, and markdowns due to the persistently warm weather. The balance of the decline was due to occupancy deleverage and increased shipping expense as a percentage of sales resulting from the growth of our eCommerce business.

SG&A expenses were $461 million for the quarter. This is 20.6% of sales deleveraging 29 basis points from the fourth quarter of last year. The deleverage primarily was due to store payroll and planned investments in building our brand and eCommerce, partially offset by lower incentive compensation. We delivered earnings per diluted share of $1.13 within our guidance of between $1.10 and $1.25. Within this, there's approximately $0.02 per share benefit associated with discrete tax items.

Now looking to our balance sheet. As Ed mentioned, we ended the fourth quarter with approximately $119 million of cash and cash equivalents, and no borrowings outstanding on our revolving credit facility. Total inventory increased 9.8% versus the end of last year. About $90 million of this is either merchandise being returned to vendors in the first quarter or cold weather merchandise that is being packed away for the 2016 winter season. This is split roughly 50/50. As Ed mentioned, our merchants did a great job managing our inventory exposure through this weather-challenged quarter. But we also recognized the need to stay focused on our overall inventory management.

Turning to our fourth quarter capital allocation. Net capital expenditures were $49 million, or $96 million on a gross basis. Additionally, during the quarter we paid dividends of $15.5 million. As you know, we recently increased our quarterly dividend by 10% to $0.15125 at an average payable March 31. We also completed share repurchases of $57 million at an average price of $36.44, taking advantage of what we believe is a very good value. Since we started our $1 billion authorization at the beginning of 2013, we have repurchased approximately $813 million of common stock and have approximately $187 million remaining under that authorization.

Now, let's turn to our 2016 outlook. As Ed will cover in more detail, 2016 will be an important investment year for us. First, we will continue to invest in eCommerce to transition to full operational control in January 2017. Second, we are partnering with the United States Olympic Committee and Team U.S.A. in a way that will have far reaching impact on our brand. And last, we have exciting plans to enhance the shopping experience in our stores, including an elevated Athletic Footwear business.

We estimate these strategic investments will have an approximate $50 million to $55 million impact on EBT in 2016. And due to the timing of the spend, this will cause earnings per diluted share to decline year-over-year in both the first and the third quarters. While investing in these important areas, we remain committed to operate with a lean mindset focused on reducing discretionary spending and driving productivity throughout the company. Importantly as we look beyond 2016, these investments will benefit our business for many years to come. For example, we expect our eCommerce business to generate at least 30 basis points in consolidated operating margin benefit in 2017 as compared to 2016.

All this considered, for 2016, we expect full year earnings per diluted share of between $2.85 and $3.00. We expect consolidated same-store sales to be approximately flat to up 2%. Operating margin is expected to decrease year-over-year driven by SG&A deleverage as we make these strategic investments in our business. This will be partially offset by an expected increase in gross margin. Net capital expenditures for the full year of 2016 are expected to be approximately $230 million, or about $420 million on a gross basis. 2015 net capital expenditures were $204 million, or $370 million on a gross basis.

As we noted in our press release this morning, our earnings guidance includes the expectation of approximately $100 million to $200 million of share repurchases in 2016. While the exact timing of the repurchases during the year may vary, we remain committed to returning capital to shareholders through both share purchases and dividends.

In 2016, we expect to open up approximately 36 new DICK'S stores and relocate approximately nine DICK'S stores. We also expect to open approximately two new Golf Galaxy stores and nine new Field & Stream stores with all but one of those in the combo store format.

For the first quarter, we anticipate earnings per diluted share of between $0.48 and $0.50. Consolidated same-store sales are expected to be approximately flat to up 1%. Operating margin is expected to decrease driven by SG&A deleverage while gross margin is expected to be relatively flat. During the quarter, we expect to open approximately three new DICK'S stores, relocate three DICK'S stores and open two new Field & Stream stores. Before concluding, I would take just a moment for a quick housekeeping item. Due to the fact that Golf Galaxy is only approximately 3% of our total sales, 2016 will be the final year we will disclose Golf Galaxy same-store sales.

With that, I'll turn it back over to Ed to review our 2016 strategy.

Edward W. Stack
Chairman & Chief Executive Officer

Thanks, Teri. This is certainly a unique time in the industry. The competitive landscape is evolving which is creating pressure for some and opportunities for others. As the largest and most profitable full-line sporting goods retailer in the country. We are continuing to make strategic transformative investments in our business during 2016 as we did in 2014 and 2015 to capture this opportunity and further solidify our leadership position. These investments align to our growth initiatives to drive store productivity, grow our store presence in new and underpenetrated markets, grow and control our eCommerce, and expand our presence in the outdoor space.

In 2016, we will enhance our assortment, our merchandise presentation, and the shopping experience. As part of this we will elevate our Athletic Footwear business through the industry-leading presentation and service and an increased marketing effort. We will also continue to drive growth and differentiation through our private brands. For example, CALIA will be expanded to all doors and it remains well positioned to become our third largest women's Athletic Apparel brand by the end of this year. Additionally, we have several new projects underway that will begin to launch in 2017. On the marketing front, our partnership with the United States Olympic Committee and Team U.S.A. will provide us the ability to significantly broaden our reach.

The Olympics are one of the few mass sporting events that appeals equally to both men and women and will enable us to build our brand equity on a much bigger stage. In addition, the Contenders program through which we are employing nearly 200 Olympic hopefuls brings our sponsorship to life in our stores and greatly enhances our customer service.

There is not a sporting event or set of athletes that align better with our company's core belief that sports matter, and we are thrilled to be able to provide these Olympic contenders with flexible work arrangements so they can pursue their Olympic dreams. Beyond that, we will continue to leverage the valuable customer data from our ScoreCard loyalty program and provide more tailored and effective digital marketing and improved consumer insights. We will aggressively seek to capture the displaced market share that we expect will continue to be available in the marketplace in 2016.

We will also continue to invest in our omni-channel platform, through both new stores and eCommerce. Our store growth will remain focused on new and underpenetrated markets. We remain on track to transition our eCommerce business to full operational control in January 2017. This will position us to capitalize on the significantly improved economics and other strategic benefits including the control to create a differentiated online experience, easier access to data and the ability to leverage cross-channel data, control over development cycles include our faster testing and implementation and the ability to quickly stand up new sites.

Lastly, we remain enthusiastic about expanding our outdoor business through the colocation and cross-shopping experience of our DICK'S and Field & Stream stores. We believe the merging of brands differentiates us from the competition and will enable us to capture share in this highly fragmented market.

In summary, 2016 is a very important year in which we are making strategic transformative investments to further solidify our leadership position. These investments are laying the ground work to build meaningful momentum as we progress through 2017 and beyond.

I'd also like to take a moment to thank our associates, for all of their hard work and dedication. They bring the skill and commitment that will drive our performance and create substantial value for our investors.

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

Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question will come from Seth Sigman of Credit Suisse. Please go ahead.

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

Q

Thanks, and good morning. I think one of the key investment questions here just centers on the investment outlook for this year. You guys outlined that $50 million to $55 million of spending in 2016. Can you clarify how much of that is incremental year-over-year? And also parse that out between the various buckets you mentioned. And I guess just a final piece of that, most importantly, how do you think about those costs and how they play out in 2017? Which of that actually goes away?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

So Seth, I'll start, and then I'll turn it over to Ed for some additional perspective. The $50 million to $55 million is the incremental spend. Now, not all of it is new news. So a portion of that is what we've referred to as Project Eagle, the eCommerce platform work. And we've disclosed previously that that's about $20 million, $20 million to $23 million, I think. $20 million to $21 million. Anne-Marie's helping me correct the numbers. And so that number remains about right. The other two pieces are for the additional store investments that Ed mentioned and then for the Olympics investment. So those incremental, maybe of the remainder, tilted a little toward the store environment, but split fairly evenly between those two.

As we think about it, those are current year investments. The Eagle investments then we expect very little to go into 2017. I think in previous conversations, we've talked about $6 million potentially being carryover into 2017, so somewhere in that range for 2017. And the rest, those investments, at this point, we don't have a plan for 2017. We obviously will look to see the benefits. The Olympics piece is obviously a one-year thing, but the store environment we will continue to look at to see the returns we generate and what may be necessary in the future.

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

Q

Okay. Got it. And then just specifically on eCommerce, in the past you've discussed $25 million to $30 million of net savings from that transition. How is your line of sight into those numbers today? And as we look out over the next 12 months, what are the biggest milestones towards that goal?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

So what we've talked about today was the 30-basis point improvement in consolidated operating margin that we expect to be able to deliver from Eagle. We've used other benchmarks in the past to talk about annual savings and that was really a bit more of a, kind of on a pro forma basis if we had compared the future steady state of – if we had stayed with our current provider versus an in-sourced benefit. So it doesn't translate directly into financial statement modeling. So that's why we wanted to give you the basis point benchmark today so that you can understand exactly how to play it through in the financial models.

André, do you want to talk a little bit about the milestones?

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President

A

Yeah, sure. I think, Seth, the milestones for us continue to be to add features and benefits to the two sites that we have up and running, Golf Galaxy and Field & Stream, such as continuing the ship-from-store methodology there, as well as buy online, pick up in store, and then getting ready for the dicks.com site to be ready by the time we transition. And there's a lot of things we're doing in advance of that to make sure that it's not big bang, that we 're installing new feature packs and things like that. So those are the big milestones, as well as getting our fulfillment center contracts lined up for some of the fulfillment that we'll do outside of our stores and outside of BOPIS. So those are the big milestones that we see coming down the road.

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

Q

Okay. Got it. Thank you.

Operator: The next question will come from Chris Horvers of JPMorgan. Please go ahead.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Thanks. Good morning, everybody. So following-up on that, the 30 basis points that you mentioned for the eCommerce, that seems to be – I mean looking at the numbers you put out for the spending side, that seems to be solely the benefit from less spending in 2017 versus 2016. So is there – there's benefits on top of that in terms of the fees that you pay to GSI. So is that accurate? And last year you talked about a three-year algorithm in the mid-teens, which would've implied earnings growth in sort of the high teens percent as you looked at 2017. So are you still comfortable with that – that overall?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, the 30 basis points that we talked about from an improvement in the consolidated operating margin is around $24 million, $25 million. And we're very comfortable with that.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

And that includes the benefit of lack of GSI fees?

Edward W. Stack
Chairman & Chief Executive Officer

A

That's correct, yeah.

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

In the first year. Correct.

Edward W. Stack
Chairman & Chief Executive Officer

A

In the first year, yes.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Okay.

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

Those benefits will ramp up over time.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Understood. So as you think about the algorithm you talked about and the sort of weighted nature of it to 2017, are you still comfortable with what you implied last year at the Analyst Day?

Edward W. Stack
Chairman & Chief Executive Officer

A

With regard to – I'm not sure what the question is.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

So you – last year you talked about a mid-teens algorithm, 2016 – 2015, 2016 and 2017, at the Analyst Day. And in the Q&A, based on the eCommerce savings and the investments that you made – you were making, it was weighted towards 2017. So – and it seemed to back into a high teens-type algorithm. So is that still intact for next year?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think the issue we're having is we don't ever remember talking about an algorithm. Are you talking about an EPS growth rate?

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Yes.

Edward W. Stack
Chairman & Chief Executive Officer

A

Okay.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

EPS growth rate.

Edward W. Stack
Chairman & Chief Executive Officer

A

We never used the word algorithm.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Okay.

Edward W. Stack
Chairman & Chief Executive Officer

A

But if we were to...

Christopher Michael Horvers
JPMorgan Securities LLC

Q

We do.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, okay. You guys might. We didn't. But, yeah, we're still comfortable in that from where we are right now, that growth rate of mid-teens.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Understood. And then one last question. What did you imbed for the potential impact of TSA and what's going on with their Chapter 11? Obviously if they close stores there's some potential comp lift, but at the same time if they go through a clearance phase, they're going to be very loud in the market and that could cause some promotional pressures, some traffic shifts. So could you share with us how you think about – how you've impacted that into the guidance? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yep. So – sure. So for right now with TSA we really don't have anything positive or negative impact in the guidance because as you said, as they go through this clearance time – and I suspect even the stores that they're going to leave open they'll start to do some clearance to kind of clear through some inventory – that there'll be some more promotional activity that could be a bit negative. But then as we get to the back half of the year when they start to – when those stores are closed, there should be a positive benefit. So we're really not sure exactly how to look at this right now, and we haven't baked anything into it. But I think as we go forward into 2017, net-net it will be positive.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Understood. Thanks very much.

Edward W. Stack
Chairman & Chief Executive Officer

A

And we're going to be – as we said in here, we're going to be pretty aggressive going to try to capture some of that displaced market share that we expect is going to become available.

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

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Oh. Thanks. Good morning. Just to – actually two questions. The first question, Ed, could you talk a little bit more about the elevated Athletic Footwear investment? And specifically maybe exactly what elevated means? And also, do you expect significant improvements in the type of allocations you get from the vendors in footwear related to this? And when could we look to see that in your stores?

And the second question is just a little more on the competitive environment. Appreciate what you're saying on Sports Authority, but also wanted to just ask about – really about the mid-tier channel like Kohl's, who is talking repeatedly about how well they're doing with Nike and also the off-price channel, which looks like they're getting a lot more stuff from some of your key vendors and how you're thinking about that as we look over the next six months.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, with the footwear, we've got this in a number of stores, this full service presentation, which is an elevated presentation not only from how the product is displayed but also the service level and the technology that we've employed in the stores to better take care of our – of the consumer. So we've got several of these open. We've found those pretty – we're pretty enthusiastic about this and we've got quite a few more that we're planning to do through this year. As far as the competitive landscape, there are two things that the mid channel Kohl's and those they may be doing fine with Nike. But we've got more of an elevated presentation and assortment than Kohl's does.

With the product for that runner for that the fitness women, men, the young athlete presentation we have, we certainly keep an eye on them, but they haven't really impacted our business. And as far as TSA goes, it will be interesting to see what happens. We've got – there's a list of number of stores that they are closing. And as I said we are going to be very aggressive to go after that displaced market share so it comes to us versus another competitor. And we expect that may be – may not be accretive with these investments we're going to make in those markets where they're closing stores right now in 2016, but we expect to be accretive as we move into 2017.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

And Ed, just to clarify, the stores you've done the full service presentation, are the assortments significantly different from the stores you haven't?

Edward W. Stack
Chairman & Chief Executive Officer

A

There is some difference in assortment, yes. And we're enthusiastic about what we can do with that assortment. But it is a bit different, yes.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Got it. Thanks very much.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. Thanks, Robby.

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

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

Q

Yeah, guys. Thanks. Just I'm going a follow-up on Chris's question a little bit. Teri, the 30 basis point lift to margins in 2017, from eCommerce coming in-house, I think the three-year plan that was laid out last year implied roughly something in the 50 basis points to 100 basis points of improvement in 2017. So my question is really on that incremental call it 20 plus basis points. What were those factors that you had – we're thinking about at least a year ago and are they still relevant as you sit here today?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

I think this is where we were afraid there might be a little bit of confusion so we wanted to provide clarity on how to think about the impact. So we had been talking about the benefit and it was really more of a pro forma modeling of kind of if we kept going with our current provider versus in-sourcing we would see that much of a differential, but that doesn't translate directly into a year-to-year impact as you tried to model our future results. And so there hasn't really been any kind of substantial change in any of the assumptions related to the eCommerce project. We still – if we ran that pro forma analysis today it would look about the same. We would ramp up to about the same level. So really, we just wanted to make sure that everyone understood what those numbers represented and then also provide a benchmark that's more relevant to the actual task of trying to model the outlook.

Edward W. Stack
Chairman & Chief Executive Officer

A

And we – I don't believe we ever said that there was 100-basis point improvement in margin – 50 basis points to 100 basis points of improvement in margin rate. From an eCommerce standpoint, we said a consolidated overall margin rate increase, which would be across all banners, and we're still comfortable with that.

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

Q

Yeah, no. Thanks. That's what I was referring to, but thank you for that, for the color. My second question would just be on kind of gross margin. First of all, in the fourth quarter the 70 basis points or so of occupancy and shipping pressure, any color on those two in terms order of magnitude between the two? And what really gives you the confidence in forecasting gross margin expansion for 2016? Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think as we continue to move through a mix shift as we focus more on the Athletic Footwear business, the Athletic Apparel business, the Team Sports business, we think the Hunt business is going to continue to be under a little bit of pressure, which is lower margins. So we think from a mix standpoint it will be better, and we also believe that – you know, we took some pretty aggressive markdowns in the fourth quarter to clear out merchandise that we don't expect that we'll have to do next year, and that should help margin rates.

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

Q

Okay. Thanks very much.

Operator: The next question will come from Kate McShane of Citi Research. Please go ahead.

Ryan Wallace
Citigroup Global Markets, Inc. (Broker)

Q

Hi. This is Ryan Wallace filling in for Kate. Just two quick questions on our end. The first one: can you just talk a little bit about the timing of the incremental investments? Sort of why now it makes sense to move forward with those? And then in the shorter term, can you just help us understand which categories you expect to drive comps the most in Q1?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we'll tell you our comp drivers, our business drivers, we think that the Footwear business is going to continue to be strong. We feel that the Team Sports business is going to be strong and the Apparel business is going to continue to be strong. We think the Golf business has stabilized. It won't be – we don't think that'll be dilutive to the business, and we think that there's a possibility the Golf business could even comp positively. And from a timing standpoint of why now, there's a lot going on in this marketplace right now. There's a lot of displaced market share that's going to become available as we know, from not only Sports Authority is closing 140 stores.

Last year, City Sport went out of business up in the Northeast. And Golfsmith is closing stores. And it's a big Olympic year. So there's a lot going on and we need to take advantage of what's going on in the marketplace. And we're doing the right – we're doing what's right for the business long-term and although some people on the Street may not agree with it, we're doing what's right for the business long-term, not for what's from one quarter to the next.

Ryan Wallace
Citigroup Global Markets, Inc. (Broker)

Q

Got it. Thanks, Ed.

Operator: The next question will come from Matthew McClintock of Barclays. Please go ahead.

Matthew J. McClintock
Barclays Capital, Inc.

Q

Hi. Yes. Good morning, everyone. I was wondering if you could, Ed, talk a little bit more about the Hunt business specifically. It sounds like in the near term you still expect softer results for that business. Can you elaborate that and take that over to store expansion plans for Field & Stream, how to think about that? And then just bigger picture, longer-term, what's necessary to get that Hunt business back on track? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think that the – it's just going to be a little bit softer. We think that long-term it's still a very good business and we have consolidated the Field & Stream business into the DICK'S business with these combo stores and we provide the consumer a shopping experience of Field & Stream right next to a DICK'S store and they can cross shop. They can move in between the two banners once inside the store. We've found that to be very compelling. There's only one independent or free-standing Field & Stream store that will open this year and we've got nothing else on the drawing board. They're all part of this DICK'S Field & Stream combo and the results we've had there we're really quite pleased with.

Matthew J. McClintock
Barclays Capital, Inc.

Q

Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

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

Simeon Ari Gutman
Morgan Stanley & Co. LLC

Q

Thanks. Good morning. I may have missed this, Ed, but the investments back in stores and Olympics, are you building in a meaningful benefit from those in the outlook? I mean the 0 to 2% against relatively easy comparison would suggest that maybe there's not much of a benefit in there from those investments.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we're not looking at a big investment in 2016. We think it will be in 2017. We're making – in footwear we're building out these new footwear platforms. There's a training component of that to get the people up and running to be able to service the consumer. We've got some write-offs associated with what we've got in the store today. We think it's the right thing to do with the business long-term. But there's not a huge benefit to this in 2016. We believe it will get that benefit in 2017. Some of it comes in 2016, terrific, but we think that there's a learning curve and an investment curve that we need to make sure we're positioned going forward into 2017.

Simeon Ari Gutman
Morgan Stanley & Co. LLC

Q

Okay. And then my follow-up, the e-comm growth in the quarter, was that entirely symptomatic of the tough weather and it just followed the tougher category sales and it was those categories that dragged down the overall growth from the eCommerce?

Edward W. Stack
Chairman & Chief Executive Officer A

Absolutely. It was cold weather-related across the entire omni-channel platform within stores and online.

Simeon Ari Gutman
Morgan Stanley & Co. LLC Q

Okay. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer A

Sure.

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

Camilo Lyon
Canaccord Genuity, Inc. Q

Thanks. Good morning, everyone. Ed, you made a comment a few different times about being aggressive and taking some of the market share resulting from the disruptions. Could you just articulate what that means? Does that mean that there's going to be incremental expenses that you anticipate engaging in to capture some of the lost TSA sales in the marketplace? Or you just try to reign in those customers that will be looking for places to shop?

Edward W. Stack
Chairman & Chief Executive Officer A

Yeah, there will be increased expenses. We'll increase our marketing expense in these markets. We'll be increasing some payroll dollars to make sure that those customers are serviced once we get there. Yeah. We're making the investments that we feel necessary to capture a big part of that vacated market share with the TSA closings. We want that business to come to us versus somebody else.

Camilo Lyon
Canaccord Genuity, Inc. Q

And that's embedded in the guidance?

Edward W. Stack
Chairman & Chief Executive Officer A

And we're going to be very aggressive going after this.

Camilo Lyon
Canaccord Genuity, Inc. Q

And that's embedded in the guidance you provided?

Edward W. Stack
Chairman & Chief Executive Officer

A

It is.

Camilo Lyon
Canaccord Genuity, Inc.

Q

Okay. And then just with respect to the recapture rates that you might contemplate in those markets where closures are happening. How should we think about that? Maybe you can use an analog from maybe some of the City Sports locations or prior store closures in markets that have – that are experiencing the same or did experience the same sort of phenomenon that the TSA markets are experiencing. How do we think about what your benefit is from those actions?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we're going to try to get as much of that market share as we possibly can. We can't really – can't lay out to you what we think that benefit is going to be, we don't really know what Sports Authority sales are on a per store basis. Each market is going to be a little different because each market has a different competitive landscape. Where we have a market where there's no other full-line sporting goods retailer, we'll get a bigger market share than a place where there might be two or three other competitors. So I can't really lay out something for you to take a look at because each market is so different.

Camilo Lyon
Canaccord Genuity, Inc.

Q

Okay. And then just two more final questions. Would you consider taking any of the leases over that are coming up for auction from TSA?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we're certainly going to take a look at some of those. They've got some real estate that we would be interested in and we'll be taking a look at that and see if it makes economic sense with what the value of the lease is, what the term left is on the lease, what they're paying from a rent standpoint. So there's a number of different things that go into evaluating a store, but we are going to be taking a look at some of those, yes.

Camilo Lyon
Canaccord Genuity, Inc.

Q

Okay. And my final question just relates to the Q1 comp guidance of flat to up 1%. It looks like it's a bit of an acceleration. Is that representative of how you're comping right now in the quarter or is that something that you expect to obtain as the quarter progresses?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we're not going to talk about exactly how the quarter is progressing. We've never done that. But it's a couple of different things. Last year, the weather really hammered us in the first quarter, if you remember. A year ago, right now, the Northeast and Boston and New England in particular was buried under roughly 8 feet of snow. So the weather has been more conducive to us right now.

And last year, a number – DICK'S Sporting Goods and a number of other retailers were also impacted by the port strike and didn't get some inventory in on a timely basis, and we don't have that. So between the easier comps, the better weather and the lack of any merchandise issues resulting from a port strike make us feel confident that we can hit these numbers.

Camilo Lyon
Canaccord Genuity, Inc.
Q

Understood. All the best. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer
A

Thank you.

Operator: The next question will come from Paul Swinand of Morningstar. Please go ahead.

Paul Swinand
Morningstar Research
Q

Good morning.

Edward W. Stack
Chairman & Chief Executive Officer
A

Good morning.

Paul Swinand
Morningstar Research
Q

A lot of stuff going on, and I know you're saying it's a little early with the closures of the competitors. But given that you're seeing the positive outlook for the Field & Stream coupled with the DICK'S, and obviously you've got a lot of competitive closures, would you still feel comfortable with your end game of how many stores you think your national network will be in approximately five years?

Edward W. Stack
Chairman & Chief Executive Officer
A

Yeah. We don't really see anything meaningfully different.

Paul Swinand
Morningstar Research
Q

The other thing I noticed was that the net CapEx-to-gross CapEx the spread got larger. Is that because you're getting more incentives from landlords? And then just as a follow-up to that, is that – that's all cash this year, and then it falls into the deferred construction allowance? Is that correct?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President
A

That's correct.

Paul Swinand
Morningstar Research

Q

Okay. Thank you. Best of luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

Operator: The next question will come from Sam Poser of Sterne Agee CRT. Please go ahead.

Sam Poser
Sterne Agee CRT

Q

Good morning. Thanks for taking my question. I just wanted to follow-up. On the $50 million to $55 million incremental, the spend this year on the Olympics and the store build, how much of that falls away next year? I mean, as you see it?

Edward W. Stack
Chairman & Chief Executive Officer

A

There's a fair amount of that. We're not going tell you – we're still working through some of that. But there's a fair amount of that that falls through – falls away next year. We'll take a look and see what kind of a return we get from the Footwear component of this, and if it's what we think it is, we could come back and say we want to do this again next year, but we would not see that accelerate to a greater degree than it was this year.

Sam Poser
Sterne Agee CRT

Q

And you'll be living off the payoff you'd be getting from it this year that you're not seeing because you already have a number of stores set up that way?

Edward W. Stack
Chairman & Chief Executive Officer

A

That's correct. Yes.

Sam Poser
Sterne Agee CRT

Q

And then, secondly, when you look at Field & Stream, the Field & Stream businesses, do you see a time where you start really accelerating those store openings there? Or how are you thinking about that right now?

Edward W. Stack
Chairman & Chief Executive Officer

A

We think it's – we think the rate of growth right now is where we feel comfortable. We feel that this is definitely a combo play of both the DICK'S and Field & Stream combined. There are certain places that this works and there's other places that we wouldn't put it there. So we're very comfortable with the growth rate right now, and don't see that accelerating any time in the next year or two.

Sam Poser
Sterne Agee CRT

Q

And then, lastly, on the inventory levels, you talked about the split of 45 RTVs, and it sounded like in 45 of pack-and-holds. As we look at the inventory-to-sales ratio, when do you see those falling into line this year? What quarter would we expect sales and inventory to be in line?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, there's going to be – the pack away merchandise is going to be with us through next year. So that's going to be built into this base. And this is merchandise that we would just go back and buy again next year. It's black ski pants. It's black gloves. It's base layer product. It's all very basic merchandise that has no – has really no end of life or fashion risk to it at all. The fashion risk product, the vendors were very helpful with us as we cancelled some merchandise and as we marked down some merchandise. We don't have a lot of this with fashion risk. So for the balance of this year, that inventory is going to be a little bit higher than we would like it to be because of what we're carrying forward.

Sam Poser
Sterne Agee CRT

Q

So, basically, by the end of next year, you expect inventories to be basically be in line with – by the end of this year, you'd expect inventories to be in line with sales. Or the price would be slightly elevated...

Edward W. Stack
Chairman & Chief Executive Officer

A

Oh, definitely. They could be slightly elevated through the balance of this year because of this pack-and-hold.

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

And as you know, Sam, I mean...

Sam Poser
Sterne Agee CRT

Q

Okay.

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

The inventory we carry at any given point in time is to match the expected sales going forward as opposed to the sales we just experienced. So that number isn't always the best one to look at to indicate. We look at the quality of the inventory, the aging, the turn. There are a number of metrics that we use internally to make sure we're comfortable with the amount and quality of the inventory.

Sam Poser
Sterne Agee CRT

Q

I mean, I looked at it. It looks like if you take out the $45 million of the RTVs you're going to have about 15 plus weeks of supply on a go-forward basis. Is that higher than you'd like? What is a good forward weeks of supply kind of thing for you guys?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

Yeah. And as Ed said, he talked about the factors that we have at the moment. Our overall as we look at it is we feel comfortable with where we are.

Sam Poser
Sterne Agee CRT

Q

Okay. Thank you and good luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thanks, Sam.

Operator: Our next question will come from Brian Nagel of Oppenheimer. Please go ahead.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Hi. Good morning. Thanks for taking my questions. The first question, on Sports Authority and recognizing it's very early in the process there, but how – as you've been talking to your key vendors, have the conversations changed at all? Is there positioning now for a potentially smaller major competitor in the marketplace?

Edward W. Stack
Chairman & Chief Executive Officer

A

With regard to – I'm not sure the question.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Well, I guess what I'm asking is, simplistically now DICK'S has even a greater standing with some of these vendors if Sports Authority begins to shrink.

Edward W. Stack
Chairman & Chief Executive Officer

A

Right.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

So and I recognize – I guess I recognize it's early. I mean is it – are you seeing this in your conversations with vendors? And how should we think about that either potential positive or negative going forward?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I would think it would be – we've got great relationships with our vendors whether it be Nike, Under Armour, TaylorMade, Callaway, North Face, we've got great relationships with them. We feel that we can – we'll continue to have those great relationships. And they've always been a partnership as opposed to who really has the upper hand. We work very closely with those brands. They work very closely with us. So we don't expect an awful lot to change. I think we'll have access to – as TSA closes some stores and may be cancel some inventory. We're going have – and we've had a couple of people call us and we've been able to buy some product off price that has been cancelled or doesn't want to be shipped to Sports Authority. So we'll get a bit of a benefit from things like that.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Got it. And then second question I had with respect to weather, as clearly weather had a – warmer weather had an impact on your business early in the fourth quarter. But at least in the Northeast and late in the quarter did get cold with a big storm. Was that – did that benefit your sales at all of that kind of product later in the period or was it simply just too little too late?

Edward W. Stack
Chairman & Chief Executive Officer

A

Any time it gets cold in the month of December or January or even the beginning of February if it gets cold that's helpful to our business. As I've always said, if we're playing golf in Pittsburgh on December 15, it's going to be a relatively tough quarter. And they were playing golf in December in Pittsburgh. The middle of January, they weren't. So it was a little better.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Okay. Fair enough. I appreciate it. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Great. Thanks, Brian.

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

Michael Louis Lasser
UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. So you previously outlined $21 million to $25 million of incremental spend for the eCommerce transition in 2016. Presumably that amount is the same based on your previous commentary. So that would mean there's an incremental $30 million to $35 million of spend associated with this full service footwear buildout, the Olympic partnership and some spending on marketing and payroll associated with the TSA transition. Is that right?

Edward W. Stack
Chairman & Chief Executive Officer

A

It's pretty close.

Michael Louis Lasser
UBS Securities LLC

Q

Okay. On the footwear piece, is this a reversal of the move to the shared service footwear decks that you've been undertaking over the last few years? And if it is, are there other parts of the business, other parts of the store that we should anticipate you might reverse or change in a similar way to the footwear piece?

Edward W. Stack
Chairman & Chief Executive Officer

A

So it is a change from what we had been doing with the shared service footwear. We felt that it was the right thing to do at that time as we've kind of gotten in there and we've tested this based on what people are looking for from a service standpoint, what they're looking for from a presentation standpoint. We've tested this. We've talked with some vendors on this. It's been very well received. So yeah, it's a change in direction here. Going back to basically our original roots of what we've done in footwear. As far as is there something in other areas of the store that you would see a big change in, the answer is no. It's just footwear.

Michael Louis Lasser
UBS Securities LLC

Q

And are you doing this because you think you're losing share within the footwear category?

Edward W. Stack
Chairman & Chief Executive Officer

A

We're doing this because we feel that we can give the customer an elevated and differentiated presentation in the marketplace and no one else is delivering footwear the way that we've done this in these test stores. The results have been very good. And we plan to now go roll this out.

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

One of the big things that has changed in the time that we went from full service to shared and back now to full service is technology. And so the experience previously was really quite slow for the customer. They come, they'd asked for a shoe. We'd go in the back room, we'd hunt and peck and try to find it. We'd come back and say, no, we're out of that size. And now with new technology that we're investing as part of this, there's that instantaneous checking of inventory, the ability to service the customer at a much higher level and provide even more opportunities to go beyond just the sale of the shoe to other items. So technology is a big enabler for this.

Michael Louis Lasser
UBS Securities LLC

Q

And then on the Olympics piece, Olympics occurs every couple years. Your business is already exhibiting increased volatility because of the weather. How do you think about the economic return and the variability from leveraging a partnership with an event that only takes place a couple of years.

Edward W. Stack
Chairman & Chief Executive Officer

A

We're using this as a great marketing effort to broaden the reach of our brand. And what we're doing with the Olympic hopefuls, the marketing effort we're doing there is all around building our brand. And it's not necessarily tied to how much business we'll do around the Olympics. It's around building a brand in a terrific sporting event that has equal interest for both men and women.

Michael Louis Lasser
UBS Securities LLC

Q

And then my last question is on the labor in the stores. You're going to be asking your stores to do a lot more as you transition to the – away from the eBay relationship. So do you think your stores are appropriately staffed? Do you think you have the right amount of labor? Or is that something that could be an incremental investment above and beyond the $50 million to $55 million that you're talking about today?

Edward W. Stack
Chairman & Chief Executive Officer

A

When we make this transition, it's got nothing to do with store labor. We already have a significant amount of the merchandise is in the ship-for-store channel of distribution. So as we move out of the GSI contract, it's got nothing to do with store payroll. We've already got all that covered. We're doing that today.

Michael Louis Lasser
UBS Securities LLC

Q

Okay. Thank you very much.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: The next question will come from Mike Baker of Deutsche Bank. Please go ahead.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Thanks, guys. So just two. You talked about maybe taking a look at some of these Sports Authority leases, which makes sense. If you were to take some of those, do you think those would be above and beyond, what your store growth plan otherwise would be? Or would those be embedded into the 36 stores this year and whatever else you were already thinking about for future years?

Edward W. Stack
Chairman & Chief Executive Officer

A

If we got to some of those, it would be above and beyond what we're doing right now.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Okay. Thanks. And then related to the store openings, just on Field & Stream, including the stand-alone ones you have and the combo stores, what do you now think is the ultimate number of Field & Stream stores that you would have?

Edward W. Stack
Chairman & Chief Executive Officer

A

Can't tell you that yet. We're still working through that. But we think it can be pretty meaningful.

Mike Baker
Deutsche Bank Securities, Inc.

Q

So originally I think when you first talked about this a few years ago, it was number of stores 50 or 55. Is that still the number? Or then I seem to recall it got cut down to 30 stores or so at one of the subsequent Analyst Days. So which one of...

Edward W. Stack
Chairman & Chief Executive Officer
A

Are you talking about total stores that we can put in the marketplace? Or?

Mike Baker
Deutsche Bank Securities, Inc.
Q

Correct. Total Field & Stream stores that you will have including the combo stores.

Edward W. Stack
Chairman & Chief Executive Officer
A

In the marketplace over what period of time?

Mike Baker
Deutsche Bank Securities, Inc.
Q

I guess the sort of total that you think the market can support.

Edward W. Stack
Chairman & Chief Executive Officer
A

Oh. No. Go back and look at that. I don't think that's what we said.

Mike Baker
Deutsche Bank Securities, Inc.
Q

All right. I guess it was over five years.

Edward W. Stack
Chairman & Chief Executive Officer
A

Meaningfully more than 50 stores or 55 stores. How many we can put in the marketplace? We're not sure yet, but I can tell you that it'll be well north of 55 stores.

Mike Baker
Deutsche Bank Securities, Inc.
Q

Okay. And then one last follow-up to that. The side-by-side stores, so those are roughly 50,000 square foot DICK'S stores right next to a 50,000 square foot Field & Stream, right? It's a sort of total of 100,000 square foot, is that right?

Edward W. Stack
Chairman & Chief Executive Officer
A

The Field & Stream is 40,000 square foot to 50,000 square foot.

Mike Baker
Deutsche Bank Securities, Inc.
Q

Okay. Understood. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you. Sure.

Operator: The next question will come from Rick Nelson of Stephens. Please go ahead.

N. Richard Nelson
Stephens, Inc.

Q

Thanks, [ph] Harry (55:47). Good morning.

Edward W. Stack
Chairman & Chief Executive Officer

A

Hey, Rick. Good morning.

N. Richard Nelson
Stephens, Inc.

Q

The store closings [indiscernible] (55:54) 140 that they've outlined. How many of those do you think directly overlap with an existing DICK'S store?

Edward W. Stack
Chairman & Chief Executive Officer

A

There's probably close to 90 to 100 of them, give or take.

N. Richard Nelson
Stephens, Inc.

Q

And any potential share gains in those 90 to 100? Can you frame that up, sort of low end, high end?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, Rick, we really can't. It depends on what's going on in the marketplace, what the competitive set is, how far away a TSA store is from a DICK'S store. If there's one a mile away it's going to be a different number than if it's 10 miles away. So I really can't. I can tell you that we're taking a look at this and we're going to go after this market share that displaced pretty aggressively, and we will go more aggressively with stores that are closer to us than that are further away.

N. Richard Nelson
Stephens, Inc.

Q

Okay. Thanks for that. Also, would like to ask about the hunting business. We've seen a big increase in the nics checks, how you're thinking about that as to what 2016 unfolds?

Edward W. Stack
Chairman & Chief Executive Officer

A

We think this business is going to continue to be under a little bit of pressure. Some of the – what's driving the nics we're not into. So a lot of it is handguns, and in the DICK'S stores we have handguns in only – in not many stores.

N. Richard Nelson
Stephens, Inc.

Q

Okay. That's very good and thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. Thanks, Rick.

Operator: The next question will come from Stephen Tanal of Goldman Sachs. Please go ahead. Mr. Tanal, your line is open.

Stephen Vartan Tanal
Goldman Sachs & Co.

Q

Thank you, guys. Can you hear me?

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Stephen Vartan Tanal
Goldman Sachs & Co.

Q

All right. Appreciate the question. I guess just on TSA to kind of round this out, Ed, you mentioned you're going to go aggressively after the share that's displaced. You also mentioned looking at leases. Can you make any sort of comment on how big the lease fees could be? Is the big thing here that you're gaining share organically, or is there potentially something bigger strategically that could happen here that we should be aware of?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we can't lay this out. We're – this is all very new information. We're just taking a look at the stores that they're closing. We're taking a look at what stores might – that we may be interested in. And then we've got to do a deep analysis of what's associated with those leases. So what's the rent, what's the CAM, what's the whole occupancy cost, how much term do they have left on the lease, do they have any options left on the lease and what we think our sales and profitability could be in that. So we're way too early on this to be able to give you any of that information. We'd love to, but we just can't. It's too early in the process.

Stephen Vartan Tanal
Goldman Sachs & Co.

Q

Understood. No, that makes sense. Then thinking about the Hunt business, obviously nics data's been strong. Clearly that's handgun driven, and that's less helpful to you guys. Is there anything you'd care to say about competitive pressure? I mean, it seems like the store growth in that sector broadly is slowing down. Do you take any solace in that? Does that help your outlook, or how are you thinking about the competitive environment?

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. The outdoor competitive set from a store opening in square – additional square footage is slowing down, and that'll help our business. It will be less of a competitive intrusion into our business. So yeah, it will help our business.

Stephen Vartan Tanal
Goldman Sachs & Co.
Q

Okay. And then lastly here, the ramp that's sort of innately embedded in the 2016 guide with 1Q kind of below – at the lower half of the range, is there anything more than sort of easier back half compares, which of course is real we can see that, but is there anything more than that to that kind of a ramp?

Edward W. Stack
Chairman & Chief Executive Officer
A

Well, we think that the Olympics will be happening in the third quarter. We'll have those footwear decks in a pretty good shape at that point. And in the fourth quarter, we could have a fourth quarter weather pattern exactly the same way as we did last year. But we're counting on something slightly different, not meaningfully different but slightly different.

Stephen Vartan Tanal
Goldman Sachs & Co.
Q

Got it.

Edward W. Stack
Chairman & Chief Executive Officer
A

And if nothing else, the margin rate should be better because we've got – we're a bit more conservative from a buying standpoint.

Stephen Vartan Tanal
Goldman Sachs & Co.
Q

Okay, great. Thanks so much, guys.

Edward W. Stack
Chairman & Chief Executive Officer
A

Thanks.

Operator: The next question will come from Matt Nemer of Wells Fargo Securities. Please go ahead.

Matt Nemer
Wells Fargo Securities LLC
Q

Thanks. Good morning. Two quick questions. First, your interest in some of the TSA real estate, does that indicate a willingness to look at some smaller store formats? And how much would you need to change the DICK'S planograms to fit into one of those boxes? And then secondly, could you remind us what the historical benefit is of a summer Olympics to your business? Thank you.

Edward W. Stack
Chairman & Chief Executive Officer
A

Yeah, so as far as do we go a smaller box, we've got a smaller box. So we've done a smaller concept box and if the trade area the TSA is in warrants a smaller box, we'll take a look at it if all the other attributes fit into our, kind of into our game plan. And as far as summer Olympics, what it does to our business, it actually doesn't do an awful lot to the business from a selling of Olympics product, et cetera.

We think it is a great marketing opportunity to support. It's a great opportunity for us to support the U.S. Olympic Committee and Team U.S.A. It's a great opportunity for us to market and broaden the reach of our brand in partnership with the U.S. Olympic Committee and Team U.S.A. and it's given us a great opportunity which we think is really important around that sports really matter in people's lives to give these Olympic hopefuls an opportunity for a flexible work arrangement while they're trying to make the Olympics team. So this is not as much about how much business are we going to get because of the Olympics. It's how we can market our brand and align our self with a great partner like the U.S. Olympic Committee and Team U.S.A.

Matt Nemer
Wells Fargo Securities LLC
Q

Understood. It's a noble cause. Thank you very much.

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

Joseph Isaac Feldman
Telsey Advisory Group LLC
Q

Hi, guys. Thanks for the question. Wanted to ask about Chelsea Collective and what you're learning I guess from the two test stores right now and, you know, how that's impacting the store – the actual DICK'S chain. Are you rolling out anything? Have you learned any brands or things you can chat about?

Edward W. Stack
Chairman & Chief Executive Officer
A

Yeah, so what we're learning is that there's different brands that we've put into the Chelsea Collective that are – can play in the DICK'S store. We're just starting to roll some of those out. I'm not going to get into details on those or who they are. But we're learning a lot about that consumer, about the different brands, about the products around footwear, the accessory piece of this. And we continue to be excited about this test with the Chelsea Collective. We couldn't be happier that we put it in place.

Joseph Isaac Feldman
Telsey Advisory Group LLC
Q

That's great. That's great. And then one other sort of unrelated question. When you were talking about gross margin and the impacts in the quarter, I know shipping expenses were part of that. Can you remind us – maybe I missed it – what that impact actually was and how we should think about that going forward, especially as you guys do ultimately take full ownership of the website next year? How you're baking that in?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President
A

I'm sorry. Could you repeat the last part of your question?

Joseph Isaac Feldman
Telsey Advisory Group LLC
Q

Yeah, I just wanted to understand how you're thinking about shipping cost, as you have full ownership of the eCommerce business and if that actually continues to ramp or if it's sort of a stable level, how you think about that going forward. Because obviously, with shipping cost pressures on web sales, it's a big factor. So we're just trying to figure that out.

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

Yeah, what we saw in quarter was nothing extraordinary. It was just matched with the growth of the business. So we would expect that to be proportionate as we move forward.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Q

Got it. Okay. Thanks. Good luck with this quarter.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

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

Mitch Kummetz
B. Riley & Co. LLC

Q

Yeah. Thanks for taking my questions. Got a few. Ed, let me start with you. You made comments around the Q1 comp environment, talking about an easy compare as it relates to weather and the port situation last year. So that sounds like a pretty favorable backdrop. So I guess I'm wondering why your comp outlook there isn't a little stronger than flat to plus 1%. Is that more of an indictment of the consumer these days? Or is that because maybe February was a little soft, given that I would suspect that you were maybe still hoping for some colder weather in February? Can you speak a little bit to that comp guidance based on what I – what, again, sounds like kind of a favorable backdrop to last year?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, you can look at it as a favorable backdrop to last year, but the consumer, I think the consumer is fine. But the consumer, as a couple of other retailers have indicated, is kind of cycled out into some other categories right now. And so I think that's a bit of an issue at traditional retail. We're being – we're taking a look at what's happening in the Hunt business still based on the recent trends that we've had, and we feel that we're – this is the guidance we're comfortable giving right now.

Mitch Kummetz
B. Riley & Co. LLC

Q

Okay. And then on the [ph] maturity the people had (66:27)...

Edward W. Stack
Chairman & Chief Executive Officer

A

The other component of this, too, is that we feel – there will be some pressure from the TSA closings in this first quarter, second quarter. I don't know how far they'll go. Longer-term, I think they will be – it will be a net positive for us, but the TSA closings and the promotional activity will – could have an impact. And in those stores, I suspect, that they're closing and running some going out of business sales, they'll move merchandise from other stores in there to try to clear it out. If they have a liquidator, a liquidator will bring in some additional merchandise to try to clean out of there. So there's going to be some competitive pressure in this first quarter with the TSA closings, we suspect.

Mitch Kummetz
B. Riley & Co. LLC

Q

Got it. That makes sense. And then on the, Teri, on the Q1 gross margin guide, you're saying flat. I'm guessing from a merchandise margin standpoint, you're not really looking at much pressure in Q1. I mean, it sounds like the $90 million in excess inventory that's RTV and pack aways, I mean, that's really not going to put any pressure on your margins really. I mean, you're not expecting a lot of inventory liquidations occurring in the first quarter. Is that correct?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

Well, that's not entirely true. I mean, we did have outerwear that post the end of the fiscal we were still clearing through. So well, it was kind of a mix of things, as Ed said, we managed our orders, we did promotion which carried through into part of the first quarter and then we had the vendor agreements, as well as the pack away. And then we do have some of the ramp-up of the investments that we talked about. So some of those will start to hit the first quarter and will impact that.

Mitch Kummetz
B. Riley & Co. LLC

Q

Okay. And remind me, can you leverage occupancy on a flat to plus 1% comp?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

No.

Edward W. Stack
Chairman & Chief Executive Officer

A

No

Mitch Kummetz
B. Riley & Co. LLC

Q

Okay. So – all right. I guess I'm still maybe having a tough time reconciling the flat gross margin in Q1, but I'll move on. Last question, just in terms of – I know you talked about I think it's 47 new stores for the year when you add up the concepts, but I assume that's a gross number. Is there a net number that you can give us? I don't know what kind of store closings you have baked into that.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we've got – we're relocating some stores. But we don't have any...

André J. Hawaux
Chief Operating Officer & Executive Vice President
A

It's a gross number.

Mitch Kummetz
B. Riley & Co. LLC
Q

Okay. So what is the net number?

André J. Hawaux
Chief Operating Officer & Executive Vice President
A

We don't typically disclose what we're going to close during the year. We talk about when we've actually closed those stores, but our gross number is...

Edward W. Stack
Chairman & Chief Executive Officer
A

There's not much, though. I mean...

Mitch Kummetz
B. Riley & Co. LLC
Q

Okay. Fair enough. Thanks, and good luck.

Edward W. Stack
Chairman & Chief Executive Officer
A

Thanks.

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

Q

Hello?

Edward W. Stack
Chairman & Chief Executive Officer
A

Yeah, hi, Scot.

Michael Lehrhoff
RBC Capital Markets LLC
Q

Hi. This is Mike Lehrhoff on for Scot Ciccarelli.

Edward W. Stack
Chairman & Chief Executive Officer
A

Okay.

Michael Lehrhoff
RBC Capital Markets LLC

Q

Sorry if you already mentioned this; I was wondering if you could give some more detail on the cadence of the investments you're making over the next year as far as quarter-to-quarter?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

Yeah, we haven't been specific quarter-by-quarter other than to indicate that the way the variety of factors will fall. We do expect the first quarter and the third quarter to be below prior year, and then the second half we'll start to see, particularly in the fourth quarter, better progress.

Michael Lehrhoff
RBC Capital Markets LLC

Q

I'm sorry, from an investment perspective?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

Yeah, well, in the fourth quarter, we'll have – from an overall earnings standpoint I was talking.

Michael Lehrhoff
RBC Capital Markets LLC

Q

Okay. But I'm sorry, what about the $50 million to $55 million, what should we expect kind of on the cadence throughout the year?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

So there will be peaks of spending. So for example as Ed mentioned in the third quarter, that's where the bulk of the Olympics spending will be which is why we expect that quarter to be below prior year. The footwear investments and the store environment investments will be more pro rata, slightly less in the fourth quarter so you start to get some slowdown in the fourth quarter.

Michael Lehrhoff
RBC Capital Markets LLC

Q

Okay. And then just a quick question on Team Sports. It seemed like you called that out as a positive. I saw a report from Performance Sports Group this morning calling out weakness in baseball. Just wondering if you've seen any of that or you have any thoughts there?

Edward W. Stack
Chairman & Chief Executive Officer

A

We don't talk about category-by-category specifically, but the Team Sports area we think still is an important business for us. It's a growing business for us and the longer term would be – with the TSA sports closings that business should get even better for us longer term.

Michael Lehrhoff
RBC Capital Markets LLC

Q

Okay. Great. Thank you, guys.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

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

John Kernan
Cowen & Co. LLC

Q

Good morning, guys. Thanks for taking my questions.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

John Kernan
Cowen & Co. LLC

Q

A lot of questions, obviously, got answered, but I wanted to go back to the deferred construction allowances. It looks like it's going to be about $190 million this year, up from $102 million in 2014. So is there anything that's going reverse there? Or is that type of run rate for the deferred construction allowances sustainable for the next couple years?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

So that's really more a function of the nature of the lease terms. And so as we do more – and really is the non-cash accounting kind of effect as opposed to its cash effect. So it really is a function of moving more toward a reverse build-to-suit where we take on some accelerated timing of the recognition of rent which then reverses itself over the remaining term of the rent. So as we have particularly with our combo store format, that tends to be more in that kind of lease structure and so that's where you're seeing the elevation.

John Kernan
Cowen & Co. LLC

Q

Okay. And then just on the $90 million in inventory you're planning on return to some of the vendors, is that concentrated with any vendor or any specific category?

Teri L. List-Stoll
Chief Financial Officer & Executive Vice President

A

I just want to be clear, the $90 million is not all being returned to vendors. It's split between that and pack away.

Edward W. Stack
Chairman & Chief Executive Officer

A

And it's through a broad range of vendors that have been – that we've cooperated with and have cooperated with us. But I wouldn't call out any one or two vendors that is the majority of it.

John Kernan
Cowen & Co. LLC

Q

Okay. And then just finally the mid-teens earnings growth that you're comfortable with, that's off of 2016 numbers into 2017.

Edward W. Stack
Chairman & Chief Executive Officer

A

Correct.

John Kernan
Cowen & Co. LLC

Q

Okay. Thank you.

Operator: The next question will come from Chris Svezia of Susquehanna Financial Group. Please go ahead.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Good morning, everyone. Thanks for taking the questions. I guess first just to clarify, the Sports Authority, th e 140 stores that are closing you're anticipating investments to go after that market share but this year but absolutely no benefit as you think about the P&L. Is that fair?

Edward W. Stack
Chairman & Chief Executive Officer

A

Chris, we didn't say there was no benefit. We said that there may not be any net benefit this year. There could be pressure as they go through the liquidation. And then as we get to the back half of the year, we could be picking up some market share. Net-net it could be neutral this year. We expect it to be positive next year.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Okay. And you're not making any assumptions that there's additional, potential additional store closures either?

Edward W. Stack
Chairman & Chief Executive Officer

A

No. We're reacting to what they have disclosed which is 140 stores. If it's more than that then we'll go after – we'll take a look at what those stores are and we'll try to go after those stores also.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Okay.

Edward W. Stack
Chairman & Chief Executive Officer

A

But right now they've announced 140 stores. That's all we know.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Fair enough. And then on the full service footwear, just remind us that how many stores you'll have this year with full service footwear. And is it just Nike that you're dealing with? Or was it a host of other brands that are supporting it?

Edward W. Stack
Chairman & Chief Executive Officer

A

No. There's a host of other brands that will be supporting this also. And we're going through the process right now. And we'll let you know in next quarter how many we think we'll get done for this year.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Okay. And then last question I have is just on the last call, you made some reference about long-term targets 9%, 9.5% operating margin by 2017 and at that point, we're not willing to say it's off the table. Since we stepped into this year, you've had, call it, 40 basis points of additional expense related to the Olympics and the full service footwear. So I guess maybe can you just refresh back to this targets of 9%, 9.5%, just how we think about it for 2017? Is it completely off the table? Just sort of your thought process in and around that.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, there's some things that have changed. So what the pressure is going to be with TSA right now, what the opportunity would be with TSA going forward with what's happening with some other competitors. So we'll try to come back to you with some more information over the next couple of quarters but there's just too much uncertainty in the marketplace right now to talk very meaningfully about that.

Christopher Svezia
Susquehanna Financial Group LLLP

Q

Okay. Fair enough. Thank you very much. All the best.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. Thanks.

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 thoughts.

Edward W. Stack
Chairman & Chief Executive Officer

I'd like to thank, everyone, for joining us today as we discussed our fourth quarter call and look forward to talking about our first quarter call in a couple of months. Thank you.

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