Corrected Transcript

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Dick's Sporting Goods, Inc. (DKS)

Q3 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the DICK'S Sporting Goods third quarter 2015 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. Please note, this event is being recorded. I would now like to turn the conference over to Anne-Marie Megela, Vice President of 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 third quarter 2015 financial results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer, Andrè Hawaux, our Chief Operating Officer, and Teri List-Stoll, 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 30 days.

During this call, we will be making forward-looking statements, which are predictions, projections, and 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 factor 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 with 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. As announced this morning, our third quarter non-GAAP earnings per diluted share were $0.45, within our guidance of between $0.45 and $0.48. Net sales for the quarter increased 7.6% to approximately $1.6 billion. Within this, consolidated same-store sales increased 0.4%, below our guidance range, largely due to performance in a couple of key categories.

As we mentioned on our last call, our inventory was well-positioned coming into the third quarter for back-to-school selling season. Our merchants did a great job selecting key items, refining our product assortments. Overall, we were very pleased with our performance across the important categories such as athletic apparel, athletic footwear and accessories. At the conclusion of back-to-school, our comps were running at the higher end of our guidance. However, as the quarter progressed, record warm weather across the majority of our markets negatively impacted sales and traffic. This impact was notable in the critical cold weather categories.

The outdoor category comped relatively flat in the quarter. We saw strength in lifestyle camping, paddle sports and sport games, offset by a decline in hunting. We expect the hunt business to remain under pressure in the fourth quarter based on recent trends and an anticipated promotional environment. Our golf business continued to show meaningful improvement. During the quarter, our golf margins expanded over 200 basis points compared to last year, as both golf apparel and equipment comped positive on a consolidated basis.

We continue to leverage our strong vendor relationships, where we're working together to create and deliver best-in-class merchandise presentations and a new, unique shopping experience for our customers. Key vendors such as Nike, Under Armour, The North Face and adidas continue to make investments in our business at an increasing rate to support growth in important categories such as athletic apparel and footwear, where we delivered solid comp gains for the quarter.

With Nike, we opened up six Brand Jordan shops during the third quarter and have opened an additional four this quarter. We've also partnered with Nike to develop a new full-service footwear deck. With Under Armour, we're working to create a next generation shop concept that we plan to roll out next year. And we're also working with new partners such as Polo, and are opening 75 Polo shops this year.

Additionally, our investments in private brand continues to pay off. For example, CALIA remains well positioned to become our number three women's athletic apparel brand by the end of 2016. As a key element of our omni-channel focus, our eCommerce business remains strong. eCommerce penetration grew to 8% of net sales in the third quarter compared to 7.3% in the third quarter of 2014, reflecting a growth rate of 18%. We continue to move forward with our eCommerce independence 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, including faster testing times and implementation, and the ability to quickly stand up new sites.

Turning to the fourth quarter, we're off to a slow start, as the continuation of unseasonably warm weather across the majority of our markets is putting pressure on sales and traffic. This is obviously affecting our inventory levels, which are higher than we planned. To address this situation, we're working with key vendors to return slow-moving product, as well as canceling some orders. We are also developing markdown strategies and securing markdown allowances. We expect a more promotional holiday season that will create additional margin rate pressure. Given these dynamics, we have reduced our expectations for the rest of year, and Teri will provide more detail around our guidance.

I'd like to thank our associates for their hard work during the quarter and for delivering earnings in spite of a challenging retail environment. I'd now like to turn the call over to Andrè.

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President

Thank you, Ed. During the third quarter, we continued to execute against our growth drivers. In addition to striving to offer the best assortment and customer experience in store, we continue to invest in strengthening the reach, frequency and effectiveness of our marketing. These are critical to the success of our omni-channel platform, which we further expanded during the quarter, growing both our store base and our eCommerce business. This was our biggest quarter for new store openings in 2015. We opened 27 new DICK'S stores, relocated five DICK'S stores and remodeled two DICK'S stores.

We are very pleased with our new store productivity of 97.4%. Our DICK'S stores deliver a very attractive unit economics, on average generating an approximate 50% cash-on-cash return in year three, while our relocations and remodels generally provide a respective 15% and 5% sales lift in their first full year. We also opened seven new Field & Stream stores in the quarter.

We grew our eCommerce business to 8% of net sales compared to 7.3% of net sales in the third quarter of 2014, while continuing to make progress on growing and controlling our eCommerce business. Outdoor enthusiasts nationwide now have more ways to shop, as we launched Field & Stream's first ever eCommerce website. Along with Golf Galaxy, Field & Stream is now the second eCommerce site we operate in-house. This not only creates an additional sales channel, but allows us to begin to operate and gain experience from having two sites on a single platform. The launch of Field & Stream was the key step in successfully completing phase two of our eCommerce roadmap. We remain on track to transition DICKS.com to a proprietary site by January of 2017.

We also recently enhanced our mobile application to reward customers for an active lifestyle. Through the addition of the new Move feature, we now allow users to connect fitness tracking applications such as Under Armour's MapMyRun and Fitbit to earn ScoreCard points for achieving activity goals. This aligns with our brand belief that Sports Matter, and we hope this encourages our customers to be active and continue playing sports.

Additionally, we also enriched our highly penetrated ScoreCard loyalty program, which is a strategic asset and key differentiator from our competitors. We consolidated and streamlined the loyalty programs across DICK'S, Golf Galaxy and Field & Stream, allowing members to now seamlessly enjoy benefits across these banners. During the beginning of the fourth quarter, we completed our 2015 store development program. This brings our store count to 646 DICK'S stores and 19 Field & Stream stores, including four combo store locations.

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

Teri L. List-Stoll

Chief Financial Officer & Executive Vice President

Thanks, Andrè. I'll start with our third quarter financial results.

Total consolidated sales increased 7.6% to approximately $1.6 billion. Consolidated same-store sales increased 0.4%, compared to our guidance of 1% to 3% increase and compared to comps of plus 1.1% in the third quarter of last year. Within this, DICK'S Sporting Goods omni-channel, same-store sales increased 0.7%, driven by a 1.2% increase in sales per transaction and a 0.5% decrease in traffic.

Our non-GAAP earnings per diluted share grew 10% to $0.45 per share within our guidance range of between $0.45 to $0.48. Gross profit for the third quarter was $488 million or 29.73% of sales, and was up 13 basis points year-over-year. This improvement in gross profit margin was primarily driven by merchandise margin expansion, partially offset by occupancy and increased shipping expense as a percentage of sales due to the growth of our eCommerce business.

Excluding litigation settlement costs, our SG&A expenses were $387 million or 23.57% of sales and deleveraged 14 basis points from the third quarter of last year. This was primarily due to store payroll where we continued to invest hours to enhance the shopping experience in our stores. Expected litigation settlement charges of $7.9 million pre-tax or $0.04 per share relate to reaching an agreement in principle to settle an employment-related class action lawsuit. For additional details, you can refer to the non-GAAP reconciliation in the tables of the press release issued this morning.

Now, looking at our balance sheet, we ended the third quarter of 2015 with approximately $74 million of cash and cash equivalents and $342 million of borrowings outstanding on our revolving credit facility. Total inventory increased 13.1% for the end of the third quarter compared to the end of the third quarter in 2014. As Ed previously mentioned, we're working alongside our vendor partners to mitigate the risk, but still anticipate margin pressure in the fourth quarter. We remain focused on keeping tight control of our inventory, so that we're properly set for the spring business.

Turning to our third quarter capital allocation, net capital expenditures were $76 million, or $119 million on a gross basis. Additionally, during the quarter, we paid dividends of $16 million and also completed share repurchases of $150 million. Since we started our $1 billion authorization at the beginning of 2013, we've repurchased over $755 million of common stock and have approximately $245 million remaining under the authorization.

Now turning to our guidance. As we previously discussed, our current trends reflect record-setting warm temperatures. Because of the elevated inventory levels across the industry, we anticipate a more promotional holiday season. Given this, for the fourth quarter of 2015, we anticipate earnings per diluted share in the range of $1.10 to $1.25. We expect same-store sales to be in the range of negative 2% to positive 1%. Operating margin is expected to decrease driven by gross margin contraction, primarily due to lower expected merchandise margin in anticipation of a more promotional holiday season, as well as SG&A deleverage.

For the full year 2015, we're lowering our earnings guidance and now expect non-GAAP earnings per diluted share in the range of $2.85 to $3. We expect same-store sales to be approximately flat to an increase of 1%. Gross margin is expected to decrease primarily driven by occupancy deleverage, increased shipping expense as a percentage of sales due to the growth of our eCommerce business, and lower merchandise margin.

SG&A is expected to deleverage as we invest in key marketing strategies as well as expenses related to bringing eCommerce on to our own platform. Year-over-year preopening expenses are expected to remain relatively flat as a percentage of sales. As a result of these dynamics, we expect operating margins on a non-GAAP basis to decrease year-over-year. Net capital expenditures for the full year are expected to be approximately $245 million, or about $365 million on a gross basis.

With that I'll turn the call back over to Ed for some final remarks.

Edward W. Stack
Chairman & Chief Executive Officer

Thanks, Teri. There's no denying this is a difficult environment for many retailers, including us. However, what I can say with certainty is that we both have the mettle and the balance sheet to weather the storm. I'd like to remind our shareholders of the following.

We're the largest and most profitable full-line sporting goods retailer in the country. We have a very robust private brand engine, with exclusive brands such as CALIA, Top Flite, Field & Stream and others. Our eCommerce growth has outpaced the market. We have meaningful whitespace to broaden our footprint. And not only are we the largest retailer for most of our vendors, our key vendors have invested in us and are increasing those investments.

With these attributes, we are well positioned to capture market share. We'll continue to take a long-term view, return capital to our shareholders and make the right strategic investments to profitably grow our business. This concludes our prepared comments. We appreciate your interest in DICK'S Sporting Goods. Operator, if you could please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Yes, sir. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Kate McShane of Citi Research. Please go ahead.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

Hi, thank you. Good morning.

Edward W. Stack
Chairman & Chief Executive Officer

A

Good morning.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

My question is centered around outerwear and just some of the trends that you saw during October. Can you break down at all how the performance was between the more of the cold weather-related layering pieces like fleece versus jackets and heavier outerwear? What inventories looked like going into October, and then the final piece of the outerwear question is if it does get cold starting in the next week or so, which I know it's not predicted to do so, but if it does get colder, how much better can comp and margin be?

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President

A

Well, Kate, the outerwear and fleece categories, they performed relatively similar. We had issues with both of those. Anything related to cold weather product was an issue. I'd like to remind everybody that we said through back-to-school, our business was great. You kind of take a look at this through Labor Day, and we haven't really commented about what normally went on in a quarter, but this time, based on the guidance and we want to try to give you guys a very clear view of where we are and where we were, but through Labor Day, our comps were up in the high range of our guidance. We were really very pleased, and the warm weather continued, and it was right after Labor Day ,and it's like somebody turned off the switch, and it was primarily the cold weather-related products, so that would be outerwear, that would be fleece, that would be compression product that football players and soccer players would wear, it was the boot category that hunters would use, and all of those had a really difficult time and have continued to do so.

If it gets cold – and you're right, according to Planalytics that we look at every day, it doesn't look like it's going to get meaningfully colder through the month of November, although there is some optimism about what will happen in December. If it does get cold, we've got the inventory, we've got the right product. In some markets where it has gotten a little bit colder and we've actually had some snow, the consumer has responded that our content is right, the assortment is right and we're optimistic. So it could get much better if we do get that colder weather.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

Okay, thank you. And just another unrelated question, you had mentioned in your prepared comments about a new Nike footwear deck, I believe is what you said. Can you provide any more details at this time, what that is?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. So a new store that we opened in Las Vegas and another one that we opened in an LA suburb, we built a footwear deck in conjunction with Nike, we designed it together, that is a full service deck and does for the apparel – does for the footwear business what the Pinnacle shops did for the apparel business. And it's only been open for a few weeks, but it looks very good. And we like the way the Nike product is displayed and the selling, and we think that the other brands and the way that we focused on the other brands away from Nike, looks very good also. So we're pretty pleased with this and I suspect we'll do several more of these.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: And our next question comes from Seth Sigman of Credit Suisse. Please go ahead.

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

Q

Okay, thanks. A couple follow-up questions here. First on the hunting category, Ed, I think you talked about it remaining under pressure in the fourth quarter. Could you elaborate on some of the challenges that you're seeing in the category on a short-term basis, what's driving that increase in promotional activity that you alluded to? And then as you think about longer term, given the learnings from Field & Stream to-date, how do you think about the prospects for the concept over time?

Edward W. Stack
Chairman & Chief Executive Officer

A

So, we still think that the prospects for Field & Stream are very good. We feel that the majority of Field & Stream stores going forward will probably be in this combo format where we have a DICK'S and a Field & Stream right next to each other. We've got a few of those opened and the response from the consumer has been very, very positive. The hunting business has continued to be difficult. A lot of that, we feel, is caused by the warm weather, so the guys haven't had to buy any jackets, boots, socks, layering pieces, it's all been pretty difficult. And we expect it will continue. You kind of saw some other competitors in this space talk about the same thing, and we're kind of all experiencing the same sales.

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

Q

Okay. Understood. And then as you look at SG&A, did deleverage in the quarter, but seemed pretty well managed considering the sales shortfall and some of the ongoing investments. Teri, I think one of the things you talked about were some opportunities to be a little bit more efficient over time. If we assume that we remain in this low single-digit comp environment, and I realize weather's probably skewing that a little bit right now, but let's assume that continues, what are some of the steps that the company can take to manage the cost structure, including more efficient labor management, things like that?

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

A

Yeah, I think you've hit the nail on the head. What we're looking at is how we can drive efficiency literally in everything that we do. So when we talked – when I first came in, we talked about some things within the store that we think we can go after to reduce some of the tasking, but still allow us to invest as necessary to provide the customer experience that's so important. And Andrè can probably talk a little bit more about that. But as we look at the trends we're seeing, we're being very diligent in turning over every rock and understanding where can we be more efficient, where can we cut back on our spending so that we have the right level of support on the things that really matter to our customers, and cut out the things that are not value-added.

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

Q

And just to follow up on that, as you look to next year, you do have a pretty big investment plan in place as you get ready to take on the rest of the eCommerce business. Are there specific levers you can pull to try to offset that?

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

A

That's what we're looking at. Now a lot of those costs are fixed costs relative to the project, so we're not going to do anything that's going to jeopardize our ability to execute that project with excellence. But there are certainly some overhead investments that will be challenging to try to offset some of that.

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

Q

Okay. Thanks very much.

Operator: Our next question comes from Simeon Gutman of Morgan Stanley. Please go ahead.

Q

Hi, good morning. It's actually [ph] Tim (23:34) on for Simeon. I had a question on your exposure to the apparel category. I mean it makes sense, given that it's a faster-growing category and it's higher margin as well. But obviously there are things you can't control with it like the weather. So does that cause you to rethink your category mix at all?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, we think that that's really where the growth comes. There's a big opportunity for growth there. We've talked about that we're going to continue to invest in these higher margin, higher turning areas. And right now it is really weather-dependent, and if you were able to take a look at our reports, you could see the categories that are weather-dependent have had serious sales misses and the categories that are not weather-dependent have continued to perform really quite well.

Q

Okay, thanks. And then a quick follow-up if I can. I guess historically DICK'S has done a good job of avoiding markdowns through packaways, is that something that you've considered and that you're prepared to do at all?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we're going to try to mitigate these markdowns by returning some merchandise to vendors, the partners have been very helpful with this. We will take a look and cancel some slow-moving product that we had partner orders. And we've talked a lot over the years that we have these partner orders in winter merchandise where we've got – they're coming in at different dates. So some of these partner orders are slowing down, and if we don't need them, they won't come in. We're also working with the vendors to get some markdown dollars to help clear this merchandise.

And then we will take a look at some SKUs that if we're going to turn around and buy those SKUs again in a few months, we won't mark those down. So in the hunt category, a very good example is guns and ammunition. So if the weather kind of impacts this and the people aren't buying as much hunting product, as opposed to marking down some of the firearms or the ammo or some of the other hardlines aspects that we're just going to turn around and buy again next April or May, we won't mark those down. We'll just right-size the inventory with our order for next year, because the product is exactly the same product from one year to the next.

Q

Okay, great. That's helpful. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: And our next question comes from Camilo Lyon of Canaccord Genuity. Please go ahead.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Thanks. Good morning, guys. I was hoping to switch gears a little bit and discuss the parts of the business that have been working well, particularly in the footwear side, if you could give insights, Ed, on how basketball and running have performed. I would imagine that those categories probably are somewhat better aligned to warmer weather pattern. If you could comment on that, that would be great.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. So we indicated our footwear business was good and it comped positively in the quarter. I'm not going to get into it category-by-category, but our overall footwear business was really very good for back-to-school and has continued to be positive to date.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Okay. And then just a clarification question on the new Nike footwear deck. I think you said that that was expected to be a full-service format. Is that going to be staffed by DICK'S employee or by a Nike employee?

Edward W. Stack
Chairman & Chief Executive Officer

A

DICK'S employee. Nike helped design this with us. It's a big focus on their brand, but we've also focused on other brands giving them highlighted positions in this footwear deck. But it's to be staffed by DICK'S associates, not Nike associates.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Okay. And is that to say that there's a shift a little bit in how you're viewing the overall footwear service, kind of construction in that part of the store?

Edward W. Stack
Chairman & Chief Executive Officer

A

There is. We're planning to move to the full-service model. We think that, as we've tested it, the customer has responded very well to it. We like the assortment. We'll be able to offer a broader assortment of product with this presentation, and we're moving in that direction at a pretty rapid pace.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Okay. Good luck with the holiday season. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you. Thank you.

Operator: And our next question comes from Robby Ohmes of Bank of America. Please go ahead.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Hey, good morning. Thanks. Ed, actually a couple of questions. First question is, I don't know if you can do this, but if you look at what you're seeing recently and you look at the fourth quarter, if you separate out the sort of the cold weather-related merchandise, is there any impact you're feeling from some of the brands like Nike proliferating a little bit more into competitors like Kohl's and is that a pressure for the fourth quarter as well? And then I have a few follow-ups.

Edward W. Stack
Chairman & Chief Executive Officer

A

Hey, Robby, I don't think so. Kohl's is – and I know they called out that their business was pretty good in that category. Ours was very good in that category also. So we're not seeing the pressure from an athletic apparel standpoint around the true athletic apparel, the athleisure wear as people have kind of coined it. And if you take a look at what Kohl's has versus us, with the shops that we have, the environment, the broader selection of product, the key color-ups, the exclusive colors, the hookups with footwear, it's a very different shopping environment in our store than it is at Kohl's or even the department stores. So we're not seeing that as an issue right now.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

That's great. That's really helpful. The other question I had, as you look at your guidance for the fourth quarter and you think about this environment, any color you can give us on how you think this will play out in brick-and-mortar versus online or things that we should think about for that?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we're seeing right now brick-and-mortar and online behaving relatively similarly. So the cold weather merchandise is affecting our online business a little bit also. So we don't see a big difference between the two.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

That's really helpful. And last question. Anything you can tell us about your feeling on the golf business as you look into the spring season. Any thoughts you can give us would be great.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, so we're cautiously optimistic about golf. As we said, golf actually comped positively on a consolidated basis in the third quarter. Our margin rates, which we had indicated before, expanded approximately 200 basis points. And this is a much more profitable category based on the way that we've right-sized costs, the fact that we are comping positively and the fact that our margin rates are up 200 basis points, this is a much more profitable business for us than it was in the last year or so.

The third quarter is not a big golf quarter, but it's still I think – and as we indicated in the second quarter, our golf business got better. So we're cautiously optimistic. Some of the brands have brought out some great product. The new M-1 Driver from TaylorMade is doing extremely well, the Great Big Bertha from Callaway is doing very well. So we're cautiously optimistic. FootJoy has got some new terrific looking shoes out, some new technology out, so we're cautiously optimistic about the golf business. But it's still not going to be a big growth area for us, Robby. We think we've stopped the bleeding, so to speak, but it will be much more profitable.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Got it. Hey, thanks very much, Ed.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. Thanks, Robby.

Operator: And our next question comes from Aram Rubinson of Wolfe Research. Please go ahead.

Aram Rubinson
Wolfe Research LLC

Q

Hey, good morning, and thanks for taking the question. We've seen kind of situations before where things look like they're weather-induced and maybe there's something else going on as well, but I'm just curious if you can tell us about your capital allocation plans, because you're still growing pretty strong, you said your fastest growth in the last quarter. So I'm just trying to figure out, at what point in time do we start to think that maybe that growth spigot should be tapered?

Edward W. Stack
Chairman & Chief Executive Officer

A

Right now we don't. We think this is weather-related and we've got the data that backs that up. I've tried to articulate this. So if you take a look at the categories that are not weather-related, our business has been really quite good. The golf business comped positively both on the equipment side and on the apparel side, up 200 basis points. The athletic footwear business, the apparel business was good, and we indicated that our comps through Labor Day, through the back-to-school season was up at the high end of our range. And it's weather-related, and if you take a look at this and take a look at what our outerwear business had been, our fleece business had been this year versus last year and it's all that business. And if it wasn't, we'd let you know, but we've got the data that we can bear out that this is primarily weather related...

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President

A

Excellent.

Edward W. Stack
Chairman & Chief Executive Officer

A

...ex the hunting business. There's still pressure in the hunt business, but the vast majority of this is weather-related product.

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President

A

I'd also like to add that...

Aram Rubinson
Wolfe Research LLC

Q

But I ask...

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President

A

...I'm sorry, I'd like to add also that on the new store productivity at 97.4%, we also feel very good about the unit economics of our stores and what we also see is when we put new stores in new markets, we also see a corresponding significant increase in our eCommerce business as customers can now use and access the store for buy online, pick up in store and also return product. So we believe our fleet also encourages our eCommerce business as well.

Aram Rubinson
Wolfe Research LLC

Q

Well, I ask in part because the market with the way they're treating your stock is in no paying for your growth, and I just didn't know if it made sense to kind of take it off the table to fortify and ultimately prove the market wrong. But anyway, the follow-up I had is around inventory and if there is a growth projection that you would like your inventory growth to be at and at what time you might like to see that inventory at an ideal growth rate?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, we're not going to lay that out right now, but we just want people to know that we think the inventory is higher than we would like right now based on what's happening with this product that's related to cold weather, so the outerwear, the fleece, the cold weather compression product, winter boots, and we've tried to lay out what we are doing about it. We continue to work with the vendors to send product back. They've provided us some markdown dollars to help mitigate that margin rate pressure, and we've taken a look and we're canceling merchandise that is slow-moving. And so we're working hard to make sure that inventory is not a problem. We don't expect it to be a major problem based on how the team has reacted to this.

Aram Rubinson
Wolfe Research LLC

Q

Thanks for the opportunity.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: And our next question comes from Michael Lasser of UBS. Please go ahead.

Michael Louis Lasser
UBS Investment Bank

Q

Good morning. Thanks a lot for taking my question. I guess if we back up a step and look back over the last three years, you've grown your store base by about a third. Yet during that three-year period, if we take the midpoint of your guidance for this year, you'll have only grown your operating income by about 7.5%. Now recognizing that the weather is a bit extreme during this period, do you think the more sluggish trends over the last three-year period is just due to consistently funky weather, or are some of the concerns out there like a shift to online, a shift to the direct channel for your primary vendors, increased competition, are those factors starting to come to roost as well?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes. So all of those things I know you guys get concerned about, and some of them we can talk about in greater detail. But the big reason for the growth rate that you've talked about is we've made significant investments in this business, and we've talked about that we're going to continue to make investments in the business for the long haul. So we've made very meaningful investments from an eCommerce standpoint as we were exiting the GSI contract to have full control over our eCommerce business. That's an expensive proposition, but it's the right thing to do for the business. So we've made meaningful investments there.

We'll have to make meaningful investments, as we've guided to you, into next year also. In 2017 and 2018, we get the payoff because now we'll be fully eCommerce-independent as we talk here, and we will have complete control over this, the profitability goes up, the GSI fees go away and we've made those investments.

We've also made investments in the long-term in the Field & Stream concept. And as we've taken a look at other retailers and their growth pattern and what's happened to them, many retailers don't have a growth vehicle by which they continue to grow their business or expand their business when their primary vehicle starts to run out of runway. We've wanted to make sure that doesn't happen to us. That's why we've invested in Field & Stream. We've made an investment in Field & Stream over the last several years that has been pretty significant that we think we've found the right vehicle in these combo stores that will pay great dividends.

So it's really been more of an investment. The last three years have nothing to do with funky weather. The weather we're talking about has to do with where we're at right now in our guidance in the fourth quarter. It's been the investments that we've made in the business for the long-term that the investor community, if we hadn't made those investments, it'd be a different problem further down the road, but we've done what's right for the business long-term.

Michael Louis Lasser
UBS Investment Bank

Q

Do you think you've effectively balanced the pace of investment with execution in the core business, or has the tension between those two factors increased during this period?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, I don't think so. The group works very well together. I don't think that we're out of balance. I don't think we have an issue there. And the businesses are complementary. So the eCommerce business is obviously complementary. It's the main business we're in. Field & Stream is a complementary business. We've got that expertise. So, no, I don't think that we've done that. If we've got way outside our knitting, then I would say you might have a point. But we can leverage a lot of the resources, a lot of the vendor relationships that we have in DICK'S for the Field & Stream concept.

Michael Louis Lasser
UBS Investment Bank

Q

And then last question is you've bought a lot of stock over the last three years at an average price of about $51. Right now the stock is trading at $34.75. Why wouldn't you use your balance sheet capacity to lever up and aggressively buy the shares at this point?

Edward W. Stack
Chairman & Chief Executive Officer

A

We have an authorization for a $1 billion stock repurchase program. We've got about $245 million left on that repurchase program, and we will continue take a look and opportunistically purchase stock. We're not going to guide exactly what we're going to do, but we will continue to take a look at it.

Michael Louis Lasser
UBS Investment Bank

Q

Okay. Thank you so much and have a good holiday.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thanks. You too.

Operator: And our next question comes from Paul Swinand of Morningstar, Inc. Please go ahead. Hello, Paul from Morningstar, you're online, sir.

Paul Swinand
Morningstar Research

Q

Good morning, and thank you for taking the questions. I wanted to follow up on the store openings. I noticed just looking down the list, it looked like about 21 of the stores opened in the quarter were actually what I would call established, or East Coast or existing markets, even Illinois or Pennsylvania. And it seemed like actually the Field & Stream are almost all in existing markets. Would you say that the – as you still see the same net total store count in the long run, is it going to shift more towards West Coast and Southern markets where you're less stored, or are there still significant opportunities in the existing markets?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, there's still some opportunities in the existing markets, but we continue to look into South Florida, Texas, California. You'll probably start to see a little bit more heading in that direction. And as far as Field & Stream goes, we're looking at Field & Stream in some of our better hunt markets, our better outdoor markets. And as we take a look at what the hunting participation is, the fishing participation is, those are the markets that we've opened them up. And I would expect that most of the Field & Stream and the combo stores will be primarily East of the Mississippi and North of the Carolinas right now until we get a little more mass here.

Paul Swinand
Morningstar Research

Q

Just wanted to follow up also on one of the comments. I think somebody said when you open a new store, the eCommerce goes up significantly. Is that true even when you're filling into some pretty well established markets? Again I see several stores have opened in Pennsylvania, Illinois. Are you still seeing the eCommerce lift, for example, in Joliet, Illinois where you're probably well-known already?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we talked about that and opening in markets that we're not in. But be careful, you take a look at Pennsylvania, take a look at Illinois. Pennsylvania is a big state. Uniontown is 50 miles outside Pittsburgh. We didn't have a store in there. It's a non-competitive town. There's not many people from Uniontown shopping in a DICK'S Sporting Goods store because it's a very long drive. The Illinois store in Lincoln Park that's downtown Chicago. The people who are living in the urban setting in Chicago, they're not shopping at DICK'S Sporting Goods stores. So these are not markets where we're dropping a store six miles from another DICK'S Sporting Goods store. These are distinct trade areas that we do not service. So don't be too alarmed because we're opening up in a state that we're already in that that means we're cannibalizing existing stores.

Paul Swinand
Morningstar Research

Q

Excellent. Thanks for that. And real quick, when you said there wasn't so much competitive pressure from big box, are you seeing the markdown pressure or the competitive pressure from regionals? And are you seeing any difference by regions, meaning regional sporting goods?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, when we talk about the markdown pressure, we're probably going to have to do some markdowns to clear through the inventory. And we think some of the other retailers that have had some difficult times or maybe having a more difficult time than us are going to have to take markdowns. You can take a look what happened in Boston where I think City Sports had 15 stores, something like that. They've now gone out of business. Some other competitors have talked about significantly slowing their growth rate, their new store program. Others are closing stores, and we don't have to do that. We're in really very good shape. Our new stores are performing extremely well, and we're very well positioned to take advantage of this displaced market share when some of these people are closing stores.

Paul Swinand
Morningstar Research
Q

Okay, great. That's very important. Thanks again and best of luck for the holidays.

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure, thank you.

Operator: And our next question comes from Stephen Tanal of Goldman Sachs. Please go ahead.

Stephen V. Tanal
Goldman Sachs & Co.
Q

Thanks, guys, for taking the question. So a lot of color on the category trends. I think it would be somewhat helpful for us if you could just sort of summarize it. I know in the past you've sort of said golf, hunting and all others, obviously, you have three main categories: apparel, footwear and equipment. Footwear seems like it's positive. Anything else you can kind of give us on a high level to understand how big the differences were here?

Edward W. Stack
Chairman & Chief Executive Officer
A

Well, we're not going to get to what the differences were, but if you take a look, we're pleased with the Team Sports hardlines category, we're pleased with athletic footwear. Not the boot category, but the athletic footwear category. We're pleased with Athletic Apparel. We're pleased with the Golf business. And it's primarily the hunt business and those cold weather businesses that are the issue. And we've made a push into the team license business along the professional sports lines and the NCAA. And that's performed very well also.

Stephen V. Tanal
Goldman Sachs & Co.
Q

Got it. And finally, on the fourth quarter outlook, the profitability, the EPS guide seems to imply gross margins down something like 200 basis points, which seems pretty big. Can you talk about sort of the puts and takes here and whether there's an element of conservatism or if you're effectively planning to clear the decks so that the issues would be contained in the quarter?

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

So, as we said there's certainly an element of merchandise margin being depressed as we do clean through that inventory. We are very focused on ensuring that we are strong going into the spring season, and that we are clean from an inventory standpoint. There's also some deleveraging effects that come in with the lower sales growth. So, it's really as simple as that.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. Thank you.

Operator: And our next question comes from Matt McClintock of Barclays. Please go ahead.

Matthew J. McClintock
Barclays Capital, Inc.

Q

Hi. Good morning, everyone.

Edward W. Stack
Chairman & Chief Executive Officer

A

Good morning.

Matthew J. McClintock
Barclays Capital, Inc.

Q

I was wondering if we could talk about Chelsea Collective, just recent learnings from the new openings that you had, anything that you can provide there. And then the second piece that I'd like to talk about is hunting overall. Sounds like the hunt category would have been down even excluding the weather. What really needs to happen in that category to drive an acceleration in the business? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, sure. The Chelsea Collective, we opened two stores. They are really labs. The leases that we signed are only roughly 24-month to 30-month leases. And we've got little exposure there. What we've learned is that there's – we've learned some things that we can bring back into the DICK'S business around the accessory category, around some of the key brands that we have in the Chelsea Collective that we could bring into the DICK'S store. We've learned some things around the service element of how important that personalized service is to the woman coming into shop in the store. We've learned that the footwear component of this is very important, these hookups. And then broadening out to the lifestyle apparel in Chelsea Collective has been very good. So, we've learned some terrific things that we can bring into the main DICK'S store.

As far as the hunt business goes, it does continue to be difficult. Even if the weather was normalized, the hunt business would be under pressure. I think there's still an overhang from the buildup of purchasing that was done over the last couple of years, especially in the gun category. And we think it's going to – it still hasn't normalized and it's going to continue to be under pressure.

Matthew J. McClintock
Barclays Capital, Inc.

Q

Thank you very much.

Operator: And our next question comes from Sam Poser of Sterne Agee CRT. Please go ahead.

Sam Poser
Sterne Agee CRT

Q

Hello, thank you for taking my question. A couple of things. Number one, can we assume that the athletic footwear and those other brands that you called out – the other categories that you called out that were doing well, given the weather have continued to do well. And number two, regarding the markdowns and returns and cancellations, I assume that you would prefer to do returns and cancellations ahead of taking markdowns because when it gets cold, you don't want to have your goods at a low price.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, that would be...

Sam Poser
Sterne Agee CRT

Q

And then I have one other question.

Edward W. Stack
Chairman & Chief Executive Officer

A

That would be correct. And most of these returns, we've got commitments that will come post-holiday. So if it does get cold, we'll have the product to able to sell. And then from a footwear – repeat the footwear question, if you would, please.

Sam Poser
Sterne Agee CRT

Q

Well, you called out footwear, athletic apparel, athletic footwear, team sports, hardlines, and so on that did well in the third quarter. Given the weather and everything, I assume those have continued to do well to date without any specific anything?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, that means the footwear category continues to do well. The athletic apparel areas that are not cold weather based have continued to do well.

Sam Poser
Sterne Agee CRT

Q

Then one last thing, follow up on Chelsea Collective. Have you – I know it's a lab, but are you planning to open any more stores? You have stores slated for next year there as of now?

Edward W. Stack
Chairman & Chief Executive Officer

A

We have no stores slated for next year.

Sam Poser
Sterne Agee CRT

Q

Okay. Thank you, and have a good holiday.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. Thanks.

Operator: Our next question comes from Dan Wewer of Raymond James. Please go ahead.

Dan R. Wewer
Raymond James & Associates, Inc.

Q

Hello, thanks. Ed, I think it was about what, seven months ago when the company hosted an Investor Day, and at that time, you had adjusted the 2007 (sic) [2017] operating margin goal, it was, what, 10%,10.5%, and we lowered it to 9%, 9.5%. Based on where the updated guidance is for the current year, to reach the low end of that 2017 forecast, you'll need about 150-basis-point increase, which seems aggressive. Do you think we're at the point where we need to be maybe rethinking that 2017 operating margin goal?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, Dan, I don't think so yet. We've got to play this quarter out. We've indicated this is primarily weather-related, and I think as we get through this quarter and into the next quarter, we'll be in a better position to discuss that. But right now, we're not looking to make any changes.

Dan R. Wewer
Raymond James & Associates, Inc.

Q

During the last three years' margin, I think as Michael discussed earlier, again, margins have been under pressure, that lower operating margin cycle took place during a period of rapid eCommerce growth for the company. Can you remind us the operating margin – I don't expect you to quantify it, but if you can just give us some sense of the magnitude or the difference in margin rate between the direct sales channel and your bricks and mortar channel?

Edward W. Stack
Chairman & Chief Executive Officer

A

We've never provided that and we're not going to get to that level of granularity. We're not only – not only is it the fact of the margin rate that we're driving the eCommerce business, but it's the investments that we've made from an eCommerce standpoint and the investments that we've made in Field & Stream, which we really do think are the right long-term investments that put some pressure on the profitability and the operating margins right now, but we're not in this for the next quarter or two quarters or three quarters, we're really in this for the long-term benefit of the company, and they were the right decision to make.

Dan R. Wewer
Raymond James & Associates, Inc.

Q

Ed, a housekeeping item. A few instances during the call, you noted that the golf category achieved positive comps. In the news release it actually states that golf decreased 2.9%, at least the Golf Galaxy.

Edward W. Stack
Chairman & Chief Executive Officer

A

Dan, if you read that a little more closely, it will say that Golf Galaxy decreased 2.9%. What we said is that our total golf business on a consolidated basis ramped up, was positive and that we increased margin rates 200 basis points.

Dan R. Wewer
Raymond James & Associates, Inc.

Q

So, the Golf Galaxy is not performing as well as the DICK'S branded?

Edward W. Stack
Chairman & Chief Executive Officer

A

That's correct. So, Golf Galaxy ran a little bit behind what we did in the DICK'S business. But – and Golf Galaxy is really a small portion of our entire business. Golf Galaxy is only roughly about 3% of our total business, in the golf business as a whole. At DICK'S, Golf Galaxy combined comped positively, we had a 200-basis-point improvement in margin rate, we had a significantly reduced cost structure associated with that, so it's a much more profitable business.

Dan R. Wewer
Raymond James & Associates, Inc.

Q

And is that just the availability of PING product in a lot of your DICK'S stores compared to a year ago, is that what's driving a lot of that improvement, or...

Edward W. Stack
Chairman & Chief Executive Officer

A

No, we did – it was across the board. I mean, the new releases from Callaway did very well, from TaylorMade did very well, PING certainly does very well, some of the other categories in apparel have done well. We've got the inventory under control, the margin rates have been better, the cost structure's down. It's been a much better business for us. And we are cautiously optimistic that that will continue.

Dan R. Wewer
Raymond James & Associates, Inc.

Q

Okay, thank you.

Operator: And our next question comes from Christopher Horvers of JPMorgan. Please go ahead.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Thanks, good morning. I made it in. Can you share how much merch margins were up in the third quarter and how you're thinking about the merch margin decline in the fourth quarter?

Edward W. Stack
Chairman & Chief Executive Officer

A

So to get to that level of granularity, we haven't provided that, but the margins in the fourth quarter we think are going to be under pressure based on the promotional environment. And if you've talked to – you've heard from many other retailers that they expect it to be a promotional environment. And we will not be immune from that. We'll have our inventories under – we think we'll have our inventories under control with what we're doing with our brands, but to be competitive in the marketplace, especially at the holiday season, we expect we'll put pressure on our margin rates.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Okay. And then on the – another margin question. On the payroll deleverage in the quarter, how much of that was an acceleration in the payroll dollar growth due to some of the wage pressures in the environment versus the impact of deleverage? And as you think about going forward, is that sort of your leverage point on payroll going up as a result of wage pressures?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, so I think, we – I think, a lot of it was due to deleverage – just simply sales deleverage in the stores. We are seeing, in some jurisdictions, some rate pressure as a result of minimum wage increases, but that's about it. Most of the deleverage was due to simply the sales deleverage that we saw and experienced in the third quarter.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Okay.

Anne-Marie Megela
VP-Treasury Services & Investor Relations

A

If you think about the pattern, as Ed mentioned, that we're very strong in the back-to-school and then the falloff after, and we made the conscious choice that we wanted to protect some of those store hours during that period, so...

Christopher Michael Horvers
JPMorgan Securities LLC

Q

I got you. And then the more – a big – bigger picture question, understanding that DICK'S offering is better than the department store channel – more, better, best, you get better allocations, you get the best products from Nike and Under Armour. How do you think your store compares to the vendor direct channel, which I think is really the boogie man for a lot of investors? Do they – do you still have exclusive colors and products when comparing your assortment versus let's say Nike.com and UnderArmour.com, and is that changing at all at the margin?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, so I think that we still have – I don't know specifically what colors we have there different from the brands, but the relationship we have with the brands, and I do think that this is a bit overblown right now, from the investor community. And if you read some of the things that – from some of the vendors, they talk about how their eCommerce business is growing, but they also talk about how they continue to make investments and their wholesale business is going to grow. And for the most part, if we're not the largest, we're one of the very – the largest and the most important brands for the wholesale side to continue to support. So, we've got a great relationship with them.

And one of the things that we have over the brands themselves is that customers are looking for a broad selection across brands also. So, they want to be able to shop in a place where they can take a look at Nike product, Under Armour product, Adidas product, they want to be able to take a look at North Face product, Spyder product, Columbia product, in all of those different categories, and we offer that, and we probably offer – we offer the best assortment and the best shopping experience, not only in the store, but online, where they can cross-shop across all categories. And we think that's an advantage. The brands are going to do a very good job, they're going to grow that business, and I think it's going to have an impact on some other brands, but I think we'll be able to compete very effectively, and have been able to compete very effectively.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

And just one follow-up to that. Has there been a situation where you've gone back and say, hey, that certain shoe or that certain top or certain running short, where you're saying that that's a really hot product, and we would like some of that, and you just hadn't had access to it and it's been on their direct website?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I mean they've got segment – Nike has got a segmentation policy, a few other ones do, and there are some products that we don't have in every single one of our stores, but we've got a broad selection of product. And we don't really think the competitors are – our brands, our partners are going to be as big a competitor as the street thinks, because those brands continue and will continue to invest in us at an increasing rate. You can see that with the Jordan shops, you can see that with what Nike is doing with the Footwear deck, what Under Armour is doing with the new shop that they're looking at, what Adidas is doing with us. And even if you take a look at some of the statistics, if the eCommerce business gets to be 25% of the total business, people think 20% to 25%, even if it got to 30% of the total business, that still means 70% is going to be done in a traditional store. That's still a big part of the business. I think, some other people are going to have a difficult time operating in that environment. We're not. And we're well-positioned to take care of any of that displaced market share that happens if some other people aren't able to weather these storms.

Christopher Michael Horvers
JPMorgan Securities LLC

Q

Thanks very much. That's very helpful.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: Our next question comes from Matt Nemer of Wells Fargo. Please go ahead.

Matt Nemer
Wells Fargo Securities LLC

Q

Thanks so much. I'm wondering if you could talk to comp trends in markets where weather would be less of a factor, like in Florida, some of your stores in the Texas market.

Edward W. Stack
Chairman & Chief Executive Officer

A

So we're not going to talk about specific markets, but I did say we did see some markets that weren't as impacted by the weather right now, that they're – we're pleased with their performance. They're comping positively.

Matt Nemer
Wells Fargo Securities LLC

Q

Okay. And then secondly, can you just clarify if the guidance follows the forecast that we're seeing from Planalytics that things sort of stay cold this month and get a little better in December, or is there something else that you're tracking to?

Edward W. Stack
Chairman & Chief Executive Officer

A

You mean stay warm this month?

Matt Nemer
Wells Fargo Securities LLC

Q

Stay warm, yeah, I'm sorry.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, yeah. Yeah, we think, according to Planalytics, it's going to continue to stay warm for the balance of this month. It might get a little bit better, but we're trying to factor in that it – kind of what Planalytics is indicating, but then also we've incorporated this margin rate pressure from a promotional environment, and the fact that we're going to want to clear through some inventory.

Matt Nemer
Wells Fargo Securities LLC

Q

And then just lastly, does the NSP calculation, the new store productivity calculation, is that impacted at all by store size or mix shift to higher volume stores in California and other markets, or do you feel like the output of that calculation is fairly apples-to-apples?

Edward W. Stack
Chairman & Chief Executive Officer

A

It's apples-to-apples, because it eliminates – it does it on a per-square-foot basis, so it's apples-to-apples.

Matt Nemer
Wells Fargo Securities LLC

Q

Great. Thanks so much.

Operator: Our next question comes from Mike Baker of Deutsche Bank. Please go ahead.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Thanks. Couple real quick. One, so Field & Stream, you have 19 of the standalone stores open, I believe you said, but you're going forward with the combo, so what happens to those 19 stores, and what do you now – have your thoughts changed on what the sort of long-term footprint of that concept looks like, both standalone and the combo stores?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, just so we've got the right numbers, it's 15 standalones and 4 combos.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Okay.

Edward W. Stack
Chairman & Chief Executive Officer

A

So 19 stores in total.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Understood.

Edward W. Stack
Chairman & Chief Executive Officer

A

We've got another store coming up in Michigan next year, and we've got nothing else Field & Stream standalone. Anything else we've got going forward is going to be in the combo stores. I wouldn't say that we're not going to do any more standalone Field & Stream stores, but this combo store, we think, is really – has been great, and is where we're going to be heading in the future.

Mike Baker
Deutsche Bank Securities, Inc.

Q

And do you have a sort of total number of Field & Streams, both standalone and combo combined?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, no, we haven't done that yet. So we've...

Mike Baker
Deutsche Bank Securities, Inc.

Q

Okay.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah.

Mike Baker
Deutsche Bank Securities, Inc.

Q

Understood. Two other real quick here. One, just market share, I understand a lot of the public guys are weak as well, but if you look at some industry data citing some of the retail sales numbers and [ph] AICS 45111 (1:02:26) growing a lot faster than your comps, and has been for the last few quarters, do you think you're losing market share to anybody?

Edward W. Stack
Chairman & Chief Executive Officer
A

We don't. If you take a look at some of the other publicly held companies out there, ex-Foot Locker, I think, we're growing at at least a faster rate than the others.

Mike Baker
Deutsche Bank Securities, Inc.
Q

Okay. One more – we talked a lot about weather hurting things. Golf is getting better. Could the weather be helping the golf business, so that being sort of an offset on this whole weather thing? I know I was playing golf just recently up here in Boston.

Edward W. Stack
Chairman & Chief Executive Officer
A

I'm sorry to hear that, to be honest with you. Yes, the weather has definitely helped the golf business, yes.

Mike Baker
Deutsche Bank Securities, Inc.
Q

My playing partners would agree with you on that. Thanks, appreciate it.

Edward W. Stack
Chairman & Chief Executive Officer
A

Yeah. Sure, sure.

Operator: And our next question comes from Scot Ciccarelli of RBC Capital Markets. Please go ahead.

Scot Ciccarelli
RBC Capital Markets LLC
Q

Hey, guys, how are you?

Edward W. Stack
Chairman & Chief Executive Officer
A

Good. How are you doing?

Scot Ciccarelli
RBC Capital Markets LLC
Q

So, Ed, I think, you gave us a stat for when the golf and hunting business came under a lot of pressure, you told us roughly 20% of your sales were levered to those two categories, because that was a major callout. So historically, when you look at these cold weather categories that are being impacted, can you give us a percentage of sales of what they typically comprise in the fourth quarter, just so we have a magnitude that we can kind of get our heads around?

Edward W. Stack
Chairman & Chief Executive Officer
A

I could, but I won't. But it's meaningful. I mean, this is an important part of our business. That outerwear business, and then just not only the outerwear business but all the things that go with outerwear, so you've got –

you've certainly got the jackets and ski pants and all that, but then you've got base layer products, you've got fleece products, you've got boot products, we've got socks, we've got gloves, we've got hats, you've got cold weather running apparel, you've got cold weather running accessories, hats, gloves, headbands. It – the weather-related product is a very important part of our business in the fourth quarter.

Scot Ciccarelli
RBC Capital Markets LLC

Q

All right, but no other color in terms of better able to understand kind of the quantification of it – of the impact?

Edward W. Stack
Chairman & Chief Executive Officer

A

No, it's very meaningful.

Scot Ciccarelli
RBC Capital Markets LLC

Q

Okay. So the second question kind of related to that, I don't know if this is something that you're willing to answer in that case.

Edward W. Stack
Chairman & Chief Executive Officer

A

No problem.

Scot Ciccarelli
RBC Capital Markets LLC

Q

When you try and work with the vendors to help alleviate some of the heavy inventory positioning, can you give us an idea of how much you can kind of put back on the vendors and then how much is going to be up to you to clear?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, so we're still working through those issues. So we don't have final – we've got some final agreements. We don't have all of those in place right now. We're working through that. The vast majority of them, the – this will happen after the – after holidays. So at the end of December. We don't want to send back product, nor do the brands want to take back product, until we get through this holiday season to see how it sells. If it gets cold, it's going to do well. But we'll work through this. But we've got handshake agreements that they will help us either take back product, give us markdown dollars, and we have already canceled some merchandise.

Scot Ciccarelli
RBC Capital Markets LLC

Q

Got it. Okay. Thanks a lot, guys.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure, thanks.

Operator: Our next question comes from Rick Nelson of Stephens. Please go ahead.

N. Richard Nelson
Stephens, Inc.

Q

Thanks. Good morning. [indiscernible] (1:06:04) about $74 million in cash. That tends to build in the fourth quarter, particularly with this inventory reduction program you have in place. If you hit your EPS estimates and absent buybacks, where would that cash position look like at year end?

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

A

Yeah, I don't have that number right off the top of my head. We don't usually project cash at that level. If you want to talk offline, we can give you some more color on what kinds of things might be puts and takes.

N. Richard Nelson
Stephens, Inc.

Q

Okay. Got you. Thank you. Also I was curious about your comfort level with debt.

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

A

We don't have any debt to speak of. What you're seeing as we had the facility balance at the end of this quarter is our traditional pattern as we head into the holiday season, so there's nothing unusual. The movement there is consistent with the inventory build.

Andrè J. Hawaux
Chief Operating Officer & Executive Vice President

A

And we would expect that that would all be cleaned up by the end of the year. There will be no debt at the end of the year.

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

A

Yeah.

N. Richard Nelson
Stephens, Inc.

Q

Yeah, yeah. And I guess in terms of capital allocation, buybacks, obviously, [ph] lot of (1:07:25) potential. If you could sort of rank the alternatives with that cash position.

Edward W. Stack
Chairman & Chief Executive Officer

A

With regard to what would it – so buyback stock, dividends, and invest in the business?

N. Richard Nelson
Stephens, Inc.

Q

Exactly.

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, invest in the business would be number one. Based on where our stock is right now, probably buying back stock would be number two and dividends would be number three.

N. Richard Nelson
Stephens, Inc.
Q

Okay. Thanks a lot and good luck.

Operator: And our next question comes from John Kernan of Cowen. Please go ahead.

John Kernan
Cowen & Co. LLC
Q

Hey, good morning, everyone. Thanks for squeezing me in. All my questions got answered. Just wondered if you could help us understand where you think inventory levels will end in the fourth quarter if you hit your comp guidance. Is there going to be some type of inventory overhang as we head into 2016?

Edward W. Stack
Chairman & Chief Executive Officer
A

Well, will there be? I'm not sure yet. I think that the team has done a really good job of working with the vendors to take back the product as we've talked about. And I don't think we'll have any meaningful inventory issue.

John Kernan
Cowen & Co. LLC
Q

And then just finally, can you help us – remind us as the relationship with GSI rolls off, what the margin benefit should be as we head into 2017 and beyond?

Edward W. Stack
Chairman & Chief Executive Officer
A

We haven't provided that yet, but it's very meaningful. Those fees that we have with GSI go away, the fulfillment fees if we still use GSI or whoever we'll use, we'll use a third-party provider for a while. Those fees get to be activity-based, which today they're percentage based, so we provide – I won't give you the exact percentage, but we provide the same percentage whether we sell a pair of $50 shoes or a pair of $100 shoes. And it doesn't cost GSI any more to pick a $50 pair of shoes than we do $100 pair of shoes. So what we will be able to do as we go forward is to leverage those costs, which we can't do today because they're all variable. So, there's a very meaningful increase in profitability when we roll off this GSI contract.

John Kernan
Cowen & Co. LLC
Q

Okay. Thanks and best of luck.

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure. Thanks.

Operator: Our next question comes from Peter Benedict of Robert Baird. Please go ahead.

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

Q

Yeah. Hey, guys. Thanks. Pretty much all have been asked here. Just I guess one final one would be the fourth quarter comp guidance, does that assume that trends improve over the balance of the quarter or you're just basically guiding to where you guys are trending quarter-to-date? Thank you.

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

A

So as we said, what we're doing today is we're looking at November weather trends to continue pretty much as we've been seeing, so a little warmer. But then as we look forward into December and January, there, as we follow the Planalytics platform, it does show some improvement in weather. So it's not a complete extrapolation of today's trends, but it's not assuming a huge improvement either.

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

Q

All right, that's helpful, Teri. Thank you. And then I guess one more would be just on the Jordan shops, can you remind us how many you have and what the plan is to rollout of those as you're looking to next year? Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

We've got 10 of them right now. We're still working with Nike and testing these stores to see where the right place is, what the right assortment is, so we do – we will have more of them next year, but we're not ready to guide what they are.

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

Q

Okay. Thanks very much, guys.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: And our next question comes from Chris Svezia of Susquehanna Financial Group. Please go ahead.

Chris Svezia
Susquehanna Financial Group LLLP

Q

Good morning, everyone. Thanks for taking the questions. Most of them have been answered, but I just want to circle back, Ed to you, just on the Footwear deck, just the full service Footwear deck that you're talking about. Is that just in those stores where you're doing this Nike full service? Or is it across the entire store base? Just a little color about that, please.

Edward W. Stack
Chairman & Chief Executive Officer

A

In the new stores we're doing it. In new stores that we open up, the vast majority of them are going to be the new full service deck, not necessarily the Nike deck. We've got – we developed our own and so we've got two stores that have this Nike deck. The balance of them have this deck that we've done. But it's full service. It looks terrific. The customers responded very positively and the brands have responded very positively also.

Chris Svezia
Susquehanna Financial Group LLLP

Q

So, the existing – so all the other stores you're going to start retrofitting the older stores to have this full service, or are you still going to have a hybrid model in the older ones?

Edward W. Stack
Chairman & Chief Executive Officer

A

There will still be this hybrid model in the older ones, but based on what we're seeing we will probably go back and start testing, renovating some of those stores into this new format, and we'll see what kind of reaction we get.

Chris Svezia
Susquehanna Financial Group LLLP

Q

Okay. And just the last thing on the Polo, just any color about how that's performing? I know it's early days, but just any thoughts about that at all?

Edward W. Stack
Chairman & Chief Executive Officer

A

It's very early yet, and we'll have a better idea through holiday.

Chris Svezia
Susquehanna Financial Group LLLP

Q

Okay. All right. Thanks very much. All the best.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure. Thank you.

Operator: And our next question comes from David Magee of SunTrust Robinson Humphrey. Please go ahead.

David Magee
SunTrust Robinson Humphrey

Q

Yes. Hi, everybody. Good morning. Just had a couple of quick questions on eCommerce. Number one, the differential in the growth in the third quarter versus what we had seen in the second quarter, is most of that the warm weather impact?

Edward W. Stack
Chairman & Chief Executive Officer

A

Vast majority of it, yes.

David Magee
SunTrust Robinson Humphrey

Q

Thank you. And secondly, you had mentioned earlier that the new stores are a contributor to that – to the growth of the eCommerce business, which makes sense. Any idea what the growth rate would be if you stopped opening new stores?

Edward W. Stack
Chairman & Chief Executive Officer

A

I don't, because there's a difference between, as we said, in new markets where we open up where we don't have a presence, it goes up significantly. In markets where we have a presence, but it's a new trade area, it's not nearly as much. So, I can't give you that answer.

David Magee
SunTrust Robinson Humphrey

Q

Okay. Fair enough. Thanks, Ed.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: This concludes the question-and-answer session. I'd like to turn the conference back over to Mr. Stack for any final remarks.

Edward W. Stack
Chairman & Chief Executive Officer

I'd like to thank everyone for joining us today, and hope everyone has a great holiday, and we'll talk to you about our fourth quarter in March. Thank you.

Operator: And thank you, sir. Today's conference has now concluded. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.