29-Aug-2018

Dick's Sporting Goods, Inc. (DKS)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

Steve West
Vice President, Investor Relations, Dick's Sporting Goods, Inc.

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

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

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

OTHER PARTICIPANTS

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Michael Lasser
Analyst, UBS Securities LLC

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Christopher Horvers
Analyst, JPMorgan Securities LLC

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

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

Mike Baker
Analyst, Deutsche Bank Securities, Inc.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Steven Forbes
Analyst, Guggenheim Securities LLC

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

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

David A. Schick
Analyst, Consumer Edge Research LLC

Sam Poser
Analyst, Susquehanna Financial Group LLLP

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the DICK'S Sporting Goods second quarter earnings conference call. All participants will be in a listen-only mode. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Steve West, Vice President of Investor Relations. Please go ahead, sir.

Steve West

Vice President, Investor Relations, Dick's Sporting Goods, Inc.

Good morning, everyone, and thank you for joining us to discuss DICK'S second quarter 2018 results. On today's call will be: Ed Stack, our Chairman and Chief Executive Officer; Lauren Hobart, our President; and Lee Belitsky, our Chief Financial Officer. Today's call will be archived for approximately 30 days on our Investor Relations website located at investors.dicks.com.

As a reminder, we'll be making forward-looking statements which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factors discussion in our filings with the SEC, including our last Annual Report on Form 10-K and cautionary statements made during this call. We assume no obligation to update any of these forward-looking statements or information.

Please refer to our investor website at dicks.com to find the reconciliation of non-GAAP financial measures referenced in today's call. And finally, for your scheduling purposes, we are tentatively planning to publish our third quarter 2018 earnings release before the market opens on November 28, 2018. Subsequent earnings call at 10:00 AM Eastern Time.

With that, I will now turn the call over to Ed.

Edward W. Stack

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

Thank you, Steve. Good morning, everyone.

This morning we reported second quarter earnings per diluted share of $1.20. Revenue grew 1% to approximately $2.18 billion. Adjusted for the calendar shift due to the 53rd week, our consolidated same-store sales declined 4%, and our eCommerce business increased 12%. As a percent of total net sales, the online business increased to approximately 11% compared to approximately 9% in the same period last year.

We also delivered double-digit growth in private brands and athletic apparel, excluding Under Armour, however, as expected, sales were impacted by strategic decisions we made regarding the slow growth low margin hunt and electronics business which accounted for nearly half of our comp decline. In addition, we experienced significant declines in Under Armour sales as a result of their decision to expand distribution.

Notwithstanding these challenges, the health of our core business is relatively strong, and we're confident sales trends will improve next year as these headwinds are expected to subside. I'd like to point out that the operating margin of the hunt and electronics categories are approximately 1,700 basis points lower than the company average. Therefore, while decisions regarding these slow growth low margin categories are impacting sales, they have limited impact on our ability to generate earnings.

As we focus on driving profitable sales, we had another very good quarter on the margin front. Merchandise margin expanded 141 basis points primarily driven by improved product cycles, fewer promotions, and a favorable merchandising mix. The stronger merchandise margin drove an improvement in gross margin, which increased 74 basis points. While the retail landscape remains highly dynamic, we remain committed to driving profitable sales, while making improvements across our business.

From a merchandising perspective, we continue to refine our assortment with a focus on key items and better in-stock positions. Our efforts are paying off in tangible ways as we grew revenue by 1% while our inventory declined 6.4%. We remain pleased with the improved product we're seeing from many of our key partners and private brands, and are optimistic about the pipeline as we look to the second half of the year and into 2019. We also continue to be enthusiastic about the product improvements we're seeing from Under Armour, particularly the innovation they're delivering with the HOVR shoe as well as foundational core products such as ColdGear and Compression.

Our private brand remained strong, delivering double-digit growth again this quarter. In addition to allocating premium floor space to our own brands, we've also expanded our existing brands to new categories. For example, in CALIA, we went after swim in a big way and are very pleased with the success of that product. Additionally, our Team Sports license agreement with Adidas has significantly expanded into American football, which is exclusive to DICK'S. Driving exclusivity is a priority, and we expect the momentum in this business to continue as we deliver growth through our existing new brands, including our new Alpine Design outdoor brand that just launched this third quarter.

We continue to believe we can grow our private brand business to $2 billion over time. As we refine our assortment, we're adapting our product offering to better align with the categories that our athletes demand, reallocating valuable floor space to growth categories, and brands that are outperforming. This includes our private brands as well as elevating the assortment with key partners such as Nike, Adidas, Callaway, Brooks, New Balance and Yeti. Additionally, as the hunt industry continues to face headwinds, we're evaluating our strategy for this category across all banners. This includes optimizing that assortment and reallocating the floor space to categories that drive profitable sales growth.

Later this quarter, we will remove virtually all of the hunt products from 10 DICK'S stores where the category was significantly underperforming, and replace it with the product and in-store experience that are most relevant to our athletes in those markets. Some examples include an elevated outerwear and license shop assortment, and more experiential elements such as the Hitrax batting cages in our baseball area. We're executing our strategies to better navigate the dynamic retail environment and ensure the long-term success of DICK'S Sporting Goods. We remain extremely confident and are upbeat about the future of our company.

In closing, I would like to thank our associates for their hard work and dedication to this company. And now, I'd like to turn the call over to Lauren.

Lauren R. Hobart

President & Director, Dick's Sporting Goods, Inc.

Thank you, Ed, and good morning, everyone. As I outlined on our last call, we are focused on delivering our three key strategic initiatives to provide the best omni-channel experience for all athletes. I'd like to highlight some of the great progress that we've made on each of our strategic pillars during the quarter. The first pillar of our strategy is the relentless improvement of our core execution to deliver the best shopping experience in retail. Improving convenience for our athletes is a top priority, and we are continuing with our rapid data-driven testing approach to deliver key improvements to the omni-channel shopping experience.

Last quarter, I discussed our new BOPIS locker test at the front of select DICK'S stores. Initial results were very encouraging, and we quickly expanded that test from 3 stores to 10. Positive results included significantly higher satisfaction for our online athletes, but the surprise for us was a much improved satisfaction scores from our in-store athletes as well, as they benefited from shorter wait times and improved service levels. This rapid testing approach continued through the second quarter, and we are now testing curbside pick-up in select stores as well.

Looking ahead, offering these types of services to improve convenience and remove friction for our athletes is critical to maintaining DICK'S as a leading omni-channel retailer. We see significant opportunity to drive continued improvements. Additionally, from a product standpoint, we are delivering a much stronger, more curated assortment with a greater focus on key items. We've narrowed and removed complexity from our assortment, which has allowed us to add more depth behind key items and significant business drivers. This increased depth is leading to stronger in-stock positions, which is resulting in an improved customer experience.

This brings me to the second pillar of our strategy, which is leveraging the power of our expertise to guide and inform athletes. In addition to the refinements we've made to our assortment, we're improving the in-store presentation to provide our athletes with a clear point of view of what's important through what we're calling strike points. With this elevated presentation, the athlete is drawn to these key items making our stores easier to shop. We've been extremely pleased with how the athletes has responded, and the increased depth and elevated presentation of these strike points is resulting in strong double-digit sales growth on many of those key items.

We're also partnering with our vendors to elevate our collective voices, as we did recently with the Play Like You Own It campaign that we co-launched with Nike, which received over 20 million views in its first week. The early reads on this elevated presentation and marketing have been very encouraging, and it's clear that athletes are responding to our strong point of view. These joint efforts with our vendor partners illustrate the strength of our relationships, and we continue to look for ways to better leverage our partnerships to drive growth in our business.

Additionally, we are leveraging our ScoreCard and Team Sports HQ databases to deliver customized marketing to our athletes. This includes personalized offers as well as content tailored to athletes' preferred sports and interests. Our teams are beginning to consolidate this data into an even more robust combined dataset, which will allow us to deliver even greater personalization in the future.

Finally, on the ScoreCard loyalty program, we're continuing the expansion of the gold tier through 2018. This new gold tier will better reward our most loyal athletes with perks such as early access to new product launches, special triple-point days, free select pro services, elevated in-store experiences, and exclusive events in partnership with local communities.

Our third strategic pillar is improving productivity. Across the organization, we are laser-focused on lowering costs and eliminating unnecessary spending to reinvest in strategic growth initiatives. We've reduced expenses within our stores and at our support center by improving efficiency through workforce productivity initiatives. Moving forward, we will continue to make critical investments in the customer experience, the store environment and in our supply chain, as well as in key growth areas such as eCommerce, our private brands, and Team Sports HQ. At the same time, we'll be highly disciplined in how we invest our time, resources, and capital and look for opportunities to drive efficiencies across the business.

In closing, we see tremendous opportunity as we continue to execute our strategy to drive competitive advantage and strengthen our leadership position.

I'll now turn the call over to Lee to review our financial results and outlook in more detail.

Lee J. Belitsky

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

Thank you, Lauren, and good morning everybody.

I'd like to start with a brief overview of our second quarter results. Consolidated sales increased 1% to approximately $2.18 billion. This included a benefit from the calendar shift of $50 million, or $0.08 in earnings per diluted share. Our adjusted consolidated same-store sales declined 7% (sic) [4%]. Transactions declined by 4.7%, driven partially by the continued decline in our hunt business and fewer promotions. And average ticket increased by 0.7%, due primarily to a less promotional environment.

During the quarter, our best performing categories included outdoor apparel and fitness equipment. Licensed sales also comped positively benefiting from the World Cup Soccer tournament. Additionally, we continued to drive double-digit growth in our private brands, which significantly outpaced the company average, driven by continued strength in CALIA and our new brands. As Ed mentioned, athletic apparel comps excluding Under Armour grew by double digits. Finally, athletic footwear and golf were also areas of relative strength for the quarter, and overall we are really very pleased with our apparel business for the quarter.

Despite these strengths, however, sales were negatively impacted by the strategic decisions we made regarding the hunt and electronics businesses, which contributed to nearly half the comp decline, as well as weakness in outdoor equipment.

The positive takeaway is we are benefiting from a margin rate perspective. As Ed mentioned, the operating margin of the hunt and electronics categories are approximately 1,700 basis points lower than the company average. Therefore, we need to only recover about 60% of the lost hunt and electronics sales to generate the same levels of gross profit dollars.

This leads me to margins. Gross profit for the second quarter was $659.3 million or 30.28% of sales, a 74 basis point improvement versus last year. Within gross margin, merchandise margin increased 141 basis points, primarily driven by improved product, narrower inventory assortments, fewer promotions, and a favorable merchandise mix. Partially offsetting improved merchandise margin were higher freight and shipping costs as well as modest deleverage in occupancy expense.

SG&A expenses were $495.3 million for the quarter, or 22.75% of sales, deleveraging 128 basis points versus non-GAAP SG&A of 21.47% last year. This deleverage was driven predominantly by higher incentive compensation accruals and continued investments in our growth initiatives to support our long-term strategy.

In total, we delivered second quarter earnings per diluted share of $1.20.

Now, looking to our balance sheet, we ended the second quarter with approximately $124 million of cash and cash equivalents and $108 million outstanding on our revolving credit facility. Additionally, our inventory levels were down 6.4% in the quarter.

Turning to our second quarter capital allocation, net capital expenditures were $40 million. We repurchased approximately 2.2 million shares for $74 million at an average price of $33.27. Additionally, we paid approximately $22 million in quarterly dividends during the quarter.

As previously announced, we are investing in our first company-operated regional eCommerce fulfillment center in Binghamton, New York area, which can serve customers in our concentrated markets in the Northeast within one business day. This fulfillment center will utilize robotics to increase the facility's throughput and make it much more efficient than our current in-store fulfillment processes. We expect the facility to open in the third quarter of 2019.

Additionally, we plan to open a smaller regional eCommerce fulfillment center for the Western region of the U.S., which will also come online late in 2019. We expect these new fulfillment centers to reduce delivery time to our customers, allow us to scale quickly, and be more efficient as we continue to grow our eCommerce business.

Our continued investments in the long-term optimization of our eCommerce business are paying off. Our eCommerce business comped up 12% in the quarter or 31% on a two-year stack. Additionally, we are very pleased with the current operating margin in eCommerce and its improving trajectory as we leverage fixed cost investments from previous years.

Now moving on to our fiscal 2018 financial outlook, we are now expecting full-year comp sales to decline by 3% to 4% compared to our previous guidance of flat to low negative single digits. However, we are raising our full-year earnings per share guidance to $3.02 to $3.20, due primarily to better than expected merchandise margins.

With respect to gross margin, I'd like to address a common question regarding the notion of easy earnings comps in the back half of the year. While it certainly appears less difficult given the significant margin declines we saw in the second half of last year, recall that due to the calendar shift, our sales and margins benefited in the first half of the year, and we expect a subsequent negative impact in the second half of the year.

That said, we expect to continue to benefit from the positive mix impact due to the decline in our hunt and electronics sales, as well as more rational promotional environment, improved product and clean inventories. Therefore, we now expect gross margin to be approximately flat for the year versus our prior guidance of slight decline. We expect gross margin expansion to continue in the third quarter, however, we expect it to decline in the fourth quarter due to the shift in the calendar.

This concludes our prepared comments. Thank you for your interest in DICK'S Sporting Goods. Operator, you may now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question today will come from Simeon Gutman of Morgan Stanley.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, guys. Good morning.

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

A

Good morning.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Good morning. I wanted to ask and I don't know if we can shed light on Under Armour some more, but I wanted to ask to clarify if they've increased their channel distribution or there's a mix shift that's occurring, meaning they're just growing quicker elsewhere. And then connected to that, this was math that we put out at the early part of the year. We said, look, if Under Armour was down another 10% with your business this year, it could be hurting you by as much as 90 basis points. Curious if you'd comment on that math.

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

A

So I'm not sure about the math, but our Under Armour business has been difficult. It was based on their – the change in distribution which I understand why they did it, but they had a significant change in their distribution strategy, and that has impacted our Under Armour business. We're in the process of replacing that business and also looking at how we can grow the Under Armour business going forward. We're pretty excited about their pipeline beginning in 2019 of things that we think we can start to replace some of that Under Armour business.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And connected to that, I think Lee mentioned the transaction number, but I think that was all-in. Can you share a transaction number if you exclude hunt and electronics? And I don't think you can exclude Under Armour from that, but if you just – if we try to strip out the noise here trying to gauge the underlying trend in the business.

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

A

Well, we can't. But if you take a look at that, our comps without those are 1%. And when you think about it, the concern with our negative comp, and I can understand that, but it's really focused on three things that are changing; one business we are exiting, which is the electronics business; we're downplaying the hunt business based on what's going on not only from what our policy on firearms, but just the industry is challenged; and we are repositioning a third with Under Armour, and we're pretty excited about what we can do with Under Armour as we kind of move into 2019. The other ones are businesses that are going to, like I said, are exiting or significantly downplaying. So without those three areas, our business is really good. We're really excited about it. The athletic apparel business comped double-digits. We're happy with our footwear business, our golf business. The outdoor category, we weren't really happy with that, but other than that, we're really excited about our business.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. And then, just lastly, same topic on comp. Maybe can you just remind us what the calendar does to the comp for the back half? And I'm looking at the implied back half comp based on what you've done in the first half. It looks like it gets, it could contemplate the world getting a little bit worse, but I think that might just be the shift.

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

A

Yes, it is the shift, as we see it. We picked up $0.18 a share in the spring season, and we expect that we will give back those $0.18 a share in the fall due to the calendar shift. And in addition to that, last year we had 53 weeks, so we had a 14-week fourth quarter, which also accounted for about $0.09 a share in addition to that. So we've got a calendar shift and we've got an extra week in last year's fourth quarter to go against.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks, guys. Good luck.

Operator: The next question comes from Michael Lasser of UBS.

Michael Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. Ed, I think you just said that if you exclude hunt and electronics and Under Armour your business was up 1%. Is that versus the down 4% that you reported?

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

A

That's correct.

Michael Lasser
Analyst, UBS Securities LLC

Q

So you said that...

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

A

On a comp basis.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah. The hunt and electronics business accounted for half of the comp declines, so that's 200 basis points. So that means that Under Armour accounted for another 300 basis points of decline in the second quarter.

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

That's the math.

Michael Lasser
Analyst, UBS Securities LLC
Q

Okay. You also, and I think this was in Lee's remarks, talked about less promotional activity. So you kind of going through and making the decision to become less promotional, at a time your margins are getting better, and arguably you could use some of that fire power to draw in traffic when maybe some of your competitors are not doing as well. So why are you making that strategic decision, particularly at a time when the consumers are in a pretty healthy spot and we're seeing really good trends across a lot of other types of retailers?

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

Well, the margin rate, as we said, it's a less promotional environment out there. We have access to more better product from a footwear standpoint than we had before, with Nike product, Adidas product. And there is a mix shift here. We talked about the gun and electronics business being 1,700 basis points below the company average. So as we downplay that and move business to other areas, there's a positive impact to margin rate from a mix standpoint.

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

I think that we also don't want to be in the business for kind of training the customer to wait for promotions on our side, and get back to having the strong brand driving the sales for us. So we got pretty promotional last year, and we're trying to pull back a little bit from that.

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

And the marketplace is doing that. I mean, if you take a look at, we said that our athletic apparel comps were double-digits if we exclude UA, and those double-digits are at higher margin rates. There's better product. I talked before that we see better product innovation and product line this year and into next year. So there's no reason to promote it, and the negative comps are being driven by those three components of our business. And we don't want to promote and give away product in the other areas as we try to transition these three categories.

Michael Lasser
Analyst, UBS Securities LLC
Q

That's understandable. I guess the question would be, you expressed some confidence that next year your comp trends will improve once you no longer see a drag from these issues. But where do you get the confidence that something else, another category, might start to see an issue?

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

You never know. We're not seeing that right now. We had been seeing the gun and electronics piece coming for some time. I mean, right after the election, you go back and take a look at others in this industry that were public or the manufacturers, and the quarter or so after the election, those businesses started to have a problem. So we've seen this coming in the gun piece. And the electronics piece is just a low-margin business that we don't feel that we're well-equipped to focus on that, and we think we can focus on other areas of the business that can drive more profitable sales. And we think we can drive more shareholder value in the long-term through more profitable sales as opposed to trying to chase after a couple categories that are 1,700 basis points below the company margin rate.

Michael Lasser
Analyst, UBS Securities LLC

Q

Understood, thank you so much and good luck.

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

A

Sure, thank you.

Operator: Our next question comes from Robby Ohmes of Bank of America Merrill Lynch.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Oh, hey. Thanks for taking my questions.

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

A

Hey, Robby.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Hey, guys. One follow up, just the timing of the Under Armour drag going away, should we sort of view the second quarter as the biggest drag from the changes with Under Armour? And so is it the first quarter of next year that we could see Under Armour going back to being a comp contributor?

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

A

Yeah, I would say the first quarter of next year is when it'll be much less of a drag. We don't think it'll be an issue beginning in the first quarter of next year. And like I said, we're quite confident on some of the things that they're doing. The HOVR shoe is great. We're kind of moving back into some of the core foundational product in Under Armour. We're excited about that. So I think the first quarter of next year we're feeling a lot better.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

And the other question I had, I think you guys said average ticket was up 0.7%. And I will just – given the less promotional environment, is it mix that's holding it back from being up more, or is average ticket in apparel and footwear not up significantly? Any color on that you can give us?

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

A

When you take the hunt business down, a firearm is $300, $400, $500, $800. And when you start taking a look at the average ticket in firearms, that's pretty high. And that business, we are downplaying that. And as we said, we're taking that out of 10 stores this fall, repositioning the floor space to higher profitable areas that we think we can get sales growth out of, such as the licensed category, we're going very aggressively after the baseball category and our private brands.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

So it's fair to say the apparel and footwear average ticket was up much more than 0.7% in the second quarter.

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

A

Yes.

Robert Ohmes
Analyst, Bank of America Merrill Lynch

Q

Terrific, thanks so much, Ed.

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

A

Sure, thanks.

Operator: And next we have a question from Christopher Horvers of JPMorgan.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, guys.

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

A

Good morning.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

So I have a few questions. So as we think about the back half, if we assume the declines in hunt and electronics business persist, with the comp headwind from these businesses roughly double, and is there any differentiation between the third and fourth quarters considering the peak of hunt I think in 3Q, but then electronics really starting to fall off in 4Q? So how are we thinking about that headwind and the differentiation between 3Q and 4Q?

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

A

I wouldn't plug in your model that the peak of the hunt business is in Q3. A lot of the big game hunting seasons open up in November in areas where we're really highly concentrated. So Q4 is a very big hunt piece of our business, and it's been a good gift item in the fourth quarter also.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

So does that headwind, from a mix perspective, does this headwind roughly double the nearly 400 basis points in these two categories in the back half?

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

A

We haven't quantified. There is some more risk on the overall comps from the hunt business in the back half of the year. However, we feel good about the apparel and footwear businesses going into the back half of the year as well. We're in a much better position with Adidas and Nike going into the fall in terms of our in-stocks with those brands.

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

A

And we've got that all baked into the guidance, which is why we took the sales guidance to where we took it. So it's all baked in there.

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

A

Right.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Understood. So basically, it sounds like you're thinking, the apparel and footwear business is showing acceleration, and then in 4Q you have this easier gross margin, easier eComm comparison on the website functioning last year and the holidays.

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

A

Yes.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

And so in terms of, as you think about the gross margin in the fourth quarter, you mentioned it's expected to be down. Can you talk us through that? I understand you have the 53rd week and there's leverage on occupancy, and then there's this shift headwind from a sales perspective. But by the same token, your merch margins look like they were down 100 basis points. So any discussion there to help us think through why the gross margins are down in the fourth quarter?

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

A

We're losing a week of sales to leverage fixed costs. So we had 14 weeks last year versus 13 weeks this year when you look at it in its totality. So that's one factor. And with the shifted calendar, overall there is like a double impact. One is losing a week, and the second is the shift puts more of the business behind after Christmas. So that causes a loss in the businesses and loss in sales as well. So that's why we've been reporting the comps on a shifted basis so you get a reasonable basis for that. But it's really leveraging the fixed costs both in our supply chain and in occupancy costs.

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

A

It's virtually all based on the shift.

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

A

It is.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Okay. So then the last question is, you think about the shift and understanding the impact of sales, but is there a big impact on the SG&A line? Because at least relative to our model, the SG&A came in about $15 million below expectation, despite higher incentive comp headwind. So is that just corporate discipline, or is that more having to do with the sales shift?

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

A

That's not in the shift. That's more disciplined spending on our side.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Understood. Thanks very much, best of luck.

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

A

Sure, thanks.

Operator: The next question comes from Camilo Lyon of Canaccord Genuity.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Thank you. Good morning, everyone.

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

A

Good morning.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Ed, just going back to the Under Armour discussion, since it's been such a drag for you. I'm curious. You mentioned in a prior question that going into next year you don't expect it to be much of a drag, which doesn't suggest that you expect it to grow, it's just that it's much less of a detractor to comp growth. As you think about –

as you see the product pipeline over the next 9 to 12 months, and know that that expanded distribution to mid-tier department stores is not going away, why do you think that there's going to be an improvement in the brand for you? Is there a dramatic shift in the segmentation that you're seeing from a pricing perspective or a quality perspective? I'm just trying to understand the finer points around the confidence intervals that you have around the product improvement going forward.

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

A

So a couple things, I think the product that they've got will be – they're working from a segmentation standpoint. We worked with them on exclusive product that would be available to us and how we're focusing on that. One of the product lines we're going to expand that's exclusive to us and at Under Armour's own stores and website is the product around The Rock. We're going to take him. He's a hot commodity right now. Everybody loves him. This is one of the areas that this is exclusive to us that we'll be expanding. We're excited about their HOVR shoe, and we're excited about the products that will be put in more of a premium authentic athletic environment as opposed to more of a discount mid-tier distribution. So time will tell, but we're excited about it and we're working very closely with them. And we're great partners, and we think between us we're going to get this figured out.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got it. And so just to be clear, it sounds like you don't expect it to grow next year at least as you can see right now. It's just that it will be a slower decline of your business.

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

A

I didn't say I didn't think it would grow. I didn't say that. I'm not going to comment on the growth of it. I will tell you that we're quite excited about – there will be a significant change in direction of Under Armour.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got you. I was just trying to understand the much less of a drag comment that you made earlier. Okay. Great. And then just a question on the eComm business; it looks like the growth rate decelerated a little bit. Was there something that happened in the quarter that would explain the deceleration from the robust growth in the first quarter?

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

A

The first quarter, we had mentioned that we benefited significantly from the fact that a year ago we brought our platform in-house, and as a result of that we had a lot of work to do to kind of get the marketing back up. We had to get SEO back up. So we had easy compares in Q1 that helped to drive a very strong comp growth in Q1 of this year. On a quarter-to-quarter basis, the eComm business remained penetrated at 11% of our sales in Q1 and 11% of our sales in Q2. So the deceleration was more of a result of a spike in Q1 that was due to an overlap issue.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. So is that the right kind of growth rate to think about going forward or mix penetration?

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

We're not going to comment. We're not going to give guidance of exactly what the eCommerce piece is going to be. But we're very comfortable with the growth rate we had in the second quarter.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Okay. Thanks a lot, guys, and good luck in the back half.

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

Sure, thanks.

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

Thank you.

Operator: The next question comes from Matt Fassler of Goldman Sachs.

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

Thanks a lot and good morning.

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

Good morning, Matt.

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

So two questions for you. First of all, as you think about the promotional backdrop, would you say that the environment broadly across categories is more rational diminishing the need to be promotional, or are there certain areas that remain hot where you've essentially decided to step back and not to play, and that would other of course than hunting where I know the decision is a bit more strategic.

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

Yeah. No, it's pretty rational out there. The industry is consolidated and it's gotten more rational. And one of the ways that we're able to become less promotional is the exclusive products that we're carrying in the store right now, whether they're some exclusive products from Nike or Adidas or our own private brands. And so we're able to sell those at full price. They're differentiated in the marketplace. The consumer finds a value in them, and we don't need to discount them to push them out the door.

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

Got you. And then the second question relates to the inventory decline, which obviously is quite impressive relative to the sales number. Can you talk about how much of that decline, again, relates to the categories that you called out or you've decided to pull back, specifically hunting, electronics? I'm not sure how much you've also pulled back on your Under Armour inventory commitments and perhaps what the inventories look like in categories where you're comping.

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

A

We're not going to get to that level of detail, Matt. But we're pleased with the inventory being down a little more than 6%. We've been much more – our buying group has done a much better job of buying product this year than maybe last year, we've made some improvements. And what Lauren talked about these key items to make sure that we're in stock, and the key items sell at a faster rate at a higher margin. And so we've just done, the team's done a better job from a merchandising standpoint in the second quarter than in the past.

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

Q

Okay, thanks so much, Ed. I appreciate it.

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

A

Sure. Thanks, Matt.

Operator: The next question comes from Mike Baker of Deutsche Bank. Mr. Baker, your line is open.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Sorry, I was on mute. Can you talk about your market share? Even when you add back those three categories, your sales are up 1% on a comp basis, and that includes a lot of private label. Anyway, it's a strongest consumer environment that's been a lot of retailers are saying in decades, certainly years. Is the sporting goods space is growing slower than other areas of the economy, or do you feel like you're losing share maybe to some of your vendors? Can you just talk about that dynamic? Thanks.

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

A

Sure, I think our market share is stable. If you take a look at what some of the others in the industry have reported in sporting goods, I think we're doing really well, especially when you take out those three areas. Our comps in athletic apparel being up double-digits, ex the one issue, I think it's pretty positive. And so we're pretty comfortable with our market share. We think that we've got the ability to go garner more market share with what we're doing, reformatting the store, with these strike points that Lauren talked about in the key items. So we're pretty excited about it.

I think one thing that we want to make sure the Street doesn't miss is – and I understand you may be disappointed with the negative 4% comp, but this is the second quarter in a row we've raised our guidance, and if we weren't enthusiastic about what's going on in our business we wouldn't have raised our guidance for the second quarter in a row. And if we weren't excited about our business, we wouldn't have bought back $182 million worth of stock in the first two quarters. So I think they are a couple of pretty bullish signs of how we feel about our business going forward.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Those are fair points, and I appreciate that. If I could ask a couple of more follow ups; one, maybe I missed it or maybe it's embedded in the math somewhere, but have you ever told us how big the hunt and electronics businesses are? We now know the margin rate and we know the comp drag, but just total size, or penetration.

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

No, we haven't, and we haven't gotten to that level of granularity and we're not going to start now.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. So I guess we'll all just make our own estimates on what that would be based on the information you have provided. All right. One more quick follow-up is, we know the calendar shift, it's helped by about $83 million year-to-date. You say you're going to give that back in the third quarter and fourth quarter. Can you differentiate how much gets back in which quarter, or again the analysts will just make their own assumptions and we'll go from there?

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

One of the things we did is we went to annual guidance, and so we've given you guidance of what we're going to do for the year. This is the second quarter in a row we've raised guidance, but we're not going to break it down quarter-by-quarter.

Mike Baker
Analyst, Deutsche Bank Securities, Inc.
Q

Right. But you are telling us what the calendar shift has been in each of the quarters. So all right. Well, anyway, we can just make our estimates. I appreciate the color. Thanks.

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

Yes.

Operator: The next question comes from Scot Ciccarelli of RBC.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC
Q

Good morning, guys. Scot Ciccarelli.

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

Good morning.

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

Good morning.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC
Q

Can you help us understand the change in the eCommerce fulfillment side a little bit better? I guess, what I'm a little confused about is you're talking about improved efficiencies and speed of delivery from the new eComm center. But frankly, I guess, I thought the whole idea around the store level fulfillment is that your stores were already closer to customers than a DC ever could be, so that would enable faster delivery. So if you can kind of connect those two that would be helpful.

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

Sure, I think that in a centralized eCommerce fulfillment, you can get more consistent execution. We do have the inventory close to the stores, so obviously the shipping time is light, it's small coming from the stores. But the consistent and the execution and the picking isn't as consistent as it is coming out of the centralized fulfillment center.

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

And it's still going to be a combination of – we're still using stores for distribution. We're going to be using a central fulfillment strategy. So it's going to be a combination of the two, and we feel that's the best use of our capital and the best for the consumer.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC
Q

But for an average order, let's say, is the faster fulfillment coming from a DC or is it coming from the store that might be a couple of miles away?

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

Well, once we put the distribution center in the Northeast it'll be faster from the DC. But right now, we have a central fulfillment in the Midwest that serves the whole country. So at this point the fulfillment from the local stores is faster.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC
Q

Okay, understood. All right. Thanks, guys.

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

Sure.

Operator: And the next question comes from Steve Forbes of Guggenheim.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Good morning.

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

A

Good morning.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

I wanted to focus on the 2Q merchandise margin dynamic, right? So you mentioned 141 basis points, and I guess we could try to do some math around what part of that, I think the majority of it is due to the increase in private brand penetration. So maybe just correct me if I'm wrong there. And then just touch on what's happening in the branded SKUs, given the reduced promotional activities. Are those merchandise margins still under pressure or have they stabilized?

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

A

They've stabilized and actually increased. Again, so we talked about some of the – not only our private brands but exclusives that we have with the brands. That's gotten to be a bigger part of our business also, and the brands' margins have increased also.

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

A

And a big part of this is mix as well. So we talked about electronics and hunt being 1,700 basis points below the chain average. So the big reductions we're seeing there is helping merch margin as well.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And then just a quick follow up on the reduction in CapEx guidance for the year, so about $25 million net. What's driving that if you could just focus us in on what's changed quarter-over-quarter here?

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

A

It's really timing and the build-out of the fulfillment center that we've got in Conklin, the timing of when the spend is going to hit we're looking to open that facility in the third quarter of next year. We thought that more of it would be in the back half of the year this year, but the way it's coming out it's going to be more in the early part of next year.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: And the next question comes from Kate McShane of Citi.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking my question.

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

A

Sure.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

I wondered to the extent that you can, can you talk about the cadence of comps that you saw throughout the second quarter, and any high level commentary about back-to-school?

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

A

Yeah. So Kate, we haven't commented on the monthly breakdown on the comps throughout the quarter. So we won't be doing it at this point. And again, we haven't given any guidance going into the third quarter either as well. So unfortunately, we're not going to be able to add some color to that.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And there has been a management change in one of your closer competitors in the Texas, Oklahoma area. Just wondering if you've seen any real change there in the competitive environment?

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

A

No.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then my last question is, just as we look towards Q4 and fully understanding you don't guide by quarter, but just how should we think about Q4, and just some of the strength you saw particularly with the cold weather apparel, how should we think about that this year, and then maybe some offsets to lapping that strong compare?

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

A

Well, we continue to be enthusiastic about the business, like I said. But the one thing that I think the Street needs to understand is the calendar shift, and I'm not sure that you guys completely understand that yet, that it helped us in the first half of the year, which we guided earlier in the year, and it's going to be a bit negative in the back half of the year.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

A

Sure.

Operator: The next question comes from Brian Nagel of Oppenheimer.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Hi, good morning. Thank you for taking my questions. So the first topic I wanted to talk a little bit further about is with Under Armour. Clearly, Under Armour has been a key partner for you for a while, and your stores have been historically...

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

A

Brian, it's tough to hear you.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Can you hear me now?

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

A

I can hear you now. Great, thank you.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Perfect. Sorry. So the first question I wanted to ask is dive a little deeper into the Under Armour issues. Clearly, Under Armour has been a key partner for you historically. Your stores have been very geared towards Under Armour. Just what's happening with their distribution necessitate over time for you to a certain extent retrofit your stores towards other brands?

And then the second question I have on Under Armour, with what's going on now, it sounds like more of a shorter-term issue. You expect to bounce back next year. Is there some type of support coming to Under Armour, special support coming to DICK'S from Under Armour that's helping you get through this period?

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

A

So as far as retrofitting the stores, we're taking a look at space of what we're going to do. We've changed some space as it relates to the women's side of the business. But again, we're enthusiastic about Under Armour's pipeline, and we think this headwind is going to subside in the first quarter, beginning in the first quarter next year. And from a support standpoint, Under Armour has always supported us and we've supported them, so there hasn't been any meaningful change in the relationship from what we've always had.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Okay. And the second question I had, or second topic on CALIA, you called it out now for a while as an area of strength and a success with your private brands. As you look at the demand trend there, can you say where it's coming from? Do you think that customer is switching from other brands to CALIA? Is it new customers, is it different than what DICK'S has catered to historically?

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

When we built the CALIA brand, we did it because we felt we had a white space in our stores, and that this brand is tapping into it. So lots and lots of women shop our stores and were not always shopping for themselves. They were shopping maybe for kids, and the CALIA brand has tapped perfectly into that consumer in a way that some of our other brands which target a little younger was not doing.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Got it, thank you.

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

Sure.

Operator: The next question will come from Peter Benedict of Baird.

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

Hey, guys. Thanks for taking the question, just two. First, Lee, I don't know, can you provide any more color on maybe the cost of these DCs that you have coming on? I'm just curious what the capital is you have set aside for those.

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

We haven't disclosed that at this point.

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

Okay. Once you get these two up and running, how do we think about longer term? Does that set you guys up for the next few years, or do you think there's additional supply chain investment that needs to be made?

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

It will probably carry us for a few years.

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

Okay. And then just shifting over the ScoreCard, any stats you guys can share around the loyalty program, number of members, penetration, what really the opportunity is there?

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

A

A significant majority of our shoppers are ScoreCard members. I believe that we announced last quarter that it's over 22 million people, and that is the engine of all of the data that we use to drive personalized marketing. So we use it to drive our investments in direct mail, in e-mail. And even when we go buy media we know where our ScoreCard members are and how they skew. The work that we're doing now is to merge those databases with the Team Sports HQ database so that we can drive even more personalization. But ScoreCard is a huge, huge engine of our marketing and our data knowledge of our customer.

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

Q

Okay, great. Thanks, guys.

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

A

Thanks.

Operator: The next question comes from David Schick of Consumer Edge Research.

David A. Schick
Analyst, Consumer Edge Research LLC

Q

Hi, good morning. Thanks for taking my question. One on golf, been having a better year industry-wide, you guys I think as well, it's product intros I guess and economy. Just, Ed, your thoughts on whether it can comp the comp going forward, the industry has tended to have more pendulum swings. Is there something changing in the way you think about the golf industry?

And then second is across retail, a little bit of a re-emergent theme perhaps in more wage dollars going back into the models out there. I know you guys are in – you've been clear, you're investing for what's right for the business. What are you seeing and doing on the wage front? Thank you.

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

A

We'll start with golf first. We think golf is really in a good place. There's a couple reasons for that. The guys that are out there right now on tour are bringing some excitement back to the game, and it only got multiplied with Tiger coming back and playing well. So we think golf is really in a really good place. I was out to see. We're enthusiastic about the pipeline for Callaway going forward. We've seen the new Titleist driver which is really good, and we were at TaylorMade yesterday out in California and looked at their product line and are really enthusiastic about that. So I think there's at least another year of a good product cycle of great product and great marketing from the brands to come in and keep this going. There are some new innovations in golf balls and clubs, wedges, putters. It's across the whole spectrum right now, and we continue to be enthusiastic about golf.

As far as wage pressure, I think everybody is under wage pressure, and we're dealing with that the best we can. We're making sure we've got the right people in the store. We're looking at our labor model to make sure that our labor model works, and then we serve our athletes also. So it's a complicated jigsaw puzzle we put together, but we feel we're doing very well in that area right now.

David A. Schick
Analyst, Consumer Edge Research LLC

Q

Thank you.

Operator: And our final question today will come from Sam Poser of Susquehanna.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you for taking my questions. I have a couple of follow ups. Lauren, I think you mentioned on doing a lot of things to improve the shopping experience, both online and in-stores. I wanted to just discuss the staffing levels in the stores and training within the stores and sort of what's evolving in that.

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

A

We have had a huge focus in our stores on training and specifically on cross-training so that our associates and teammates now are not just able to work in one area but each of them can help each other out and lead one of our athletes through the entire store. It's been a huge initiative for us so that we're getting more bang for the buck with every teammate that we have in the store. So we are very, very focused on service. We are very focused on efficiency and productivity so that we can free up those teammates to serve the customer better.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you. And then just to confirm, the double hit in the fourth quarter is the week of sales that you lose and the calendar shift which makes the loss of sales quarter-over-quarter much greater in the fourth quarter than it is in the third quarter. Is that a fair statement?

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

A

Yeah, we lose a week and we have a calendar shift, yes.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then lastly, I'm sorry to beat the Under Armour question to death here. But I guess you have some items that you're excited about for spring. However, beyond that, you're building out your private label apparel business, you're building out Nike, and it sounds like you're building out Adidas. So anything from anybody else has to be able to take share from that stuff or it has to be incremental. So outside of The Rock and the HOVR, I mean, are you seeing real strength, or is it just those things that would mitigate the current declines that you're seeing?

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

A

We think these things can help mitigate the current decline, but we're also seeing things from a pipeline standpoint that would be exclusive to us that we're working on other products that can help stem this decline, and we've been great partners with Under Armour. They've been great partners with us, and we're both working on this to get this to be a growth vehicle for both of us again. And our teams are working very hard and collaboratively, and we think that in the first quarter of next year we start to make the turn. It will be much less of a drag then.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So are you testing this with the consumer, in that when you're dealing with active apparel or athletic apparel, is it really – it's much more difficult to differentiate than footwear, I mean, the difference between generally what's carried in footwear in the moderate channel versus with you is significantly different, you could see it, it's marketed differently, but with apparel that's a much finer line. What's going to make that work?

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

A

We think the product is differentiated. It's higher technology. The real athlete who is looking to use the product to actually perform in as opposed to look like they perform in, we're confident some of this stuff will work. And that's part of what we're supposed to do as merchants, is kind of look at this, determine what we think is going to sell, talk to the brands that we're doing business with, and let them know where we think the gaps are. And Under Armour has been great listening to us, we've been great listening to them, and we're pretty enthusiastic that this will get better beginning next year.

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

A

And Sam, the customer is able to tell that differentiation with the other brands like Nike and Adidas and so on. And the guys like Kohl's and us, we can both succeed with those brands really well with differentiated product assortments.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

All right, thank you very much and good luck with the rest of the year.

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

A

Thanks, Sam.

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

A

Thank you.

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

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

I'd like to thank everyone for joining us on our quarterly call. And we'll look forward to talking to you at the end of November. Thank you.

Lauren R. Hobart

President & Director, Dick's Sporting Goods, Inc.

Thank you.

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