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Dick's Sporting Goods, Inc. (DKS)

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MANAGEMENT DISCUSSION SECTION

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Good morning, everyone. Welcome to the Morgan Stanley Global Consumer and Retail Conference. I'm Simeon Gutman, Hardline, Broadline, Food Retail Analyst. Thanks for being here. We're going to start. We have these 40 minute sessions. I was chatting with Navdeep and we're going to open it up after we start. So feel free once we get into dialogue to ask questions along the way. I'm going to read disclosures, make a quick intro and get started. For important disclosures, please see the Morgan Stanley Research Disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

I'm pleased that Dick's Sporting Goods is here with us, represented by Navdeep Gupta, EVP and CFO. Thanks for being here. Dick's has been a regular attendee at this event for several years.

I'd say this is one of the more controversial, but yet performing companies over the last few years. Much higher margins post-COVID and the debate rages on. Whether some of these trends, these habits, these lifestyle movements will continue. And so far, the company continues to prove it right. And we think ultimately they will. So with that, I'm going to sit down and get started. And, again, feel free to raise your hand and we can chime in along the way. Thanks again for being here.

QUESTION AND ANSWER SECTION

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

So, we were here a year ago. We talked about the top line. We talked about the margin for 2023. Talk about what surprised you for 2023. You know, from when we were making predictions a year ago?

Navdeep Gupta

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

A

Yeah. Good morning, Simeon. First of all, thanks for having us. And, Nate reminded me that I need to make another disclosure from similar to you that you did. So our Safe Harbor statement is posted on the IR's website. If anybody has more questions on that, we'll take that separately. But, Simeon, I think you said it, the word that you used was controversial. We see it that our performance this year has been pretty much consistent with what we said last year. What we said was we couldn't be more excited about the long-term growth opportunities that we see ahead of us. The differentiation that we have been able to establish very clearly, not just from the product perspective, but the service and the experience that we are providing in our stores continues to resonate really well. I will give a lot of credit to how well the overall team has managed the business in the current economic climate. If you look at the comps that we have delivered, 2.6% comp in just the recent quarter, 1.7% comp on top of a 6.5% comp from last year. It continues to show how well the team is navigating the macroeconomic landscape and how well our strategies are resonating.

The two quick further thoughts on the top line performance. What we have seen is the fact that we continue to resonate – our product, our service and our experience continue to resonate really well with the athletes as kind of evidenced by the fact that we saw in Q3 growth both in our transactions and in our ticket. And then, lastly, I would say is that, everything comes down to are you gaining share or not? And not just this year, but actually, I would say in the last several years, we have consistently gained share in a highly fragmented industry. So that kind of gives you not just the consistency of the performance, but what we were excited about an year ago, we continue to remain really excited.

In terms of the second part of your question. In terms of what has surprised us, I would say, shrink is one element that definitely surprised us. We saw an elevated level of theft happening within the stores and we saw that manifest through the P&L in second quarter with about a 50 basis points of headwind that we saw in shrink. That has remained in line with our expectations with the Q3 counts that we have done. So that, I would say, definitely surprised us. The other, I think so, we have become so much more focused around keeping our inventory clean. So the discipline of having the inventory really be clean, well-positioned, bring the exciting assortment to our stores, to our athletes, is a core tenet of how we do the business. I would say we became a little bit more focused about that starting in Q2 with the actions that we took in the outdoor category.

Coming back full circle as I sit here today. I look at it and say that the excitement that we have about the company, about the industry that we are in, the core strategies like House of Sport, the next-gen 50k, the work that has been done around the Golf Galaxy Performance Center and the investments that we are making from personalization within the technology, you and I talked this morning about game changer platform are all significantly differentiating opportunities that give us tremendous amount of confidence as we look to the future.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Durable goods as a percentage of PCE is roughly 50% of the way back reverted. That's on a nominal basis. Sporting goods is 20%. And if you look at the rest of the durable categories, closer to 80%. So sporting goods is the outlier. First, do you look at reversion in that same way. Are there categories that have fully reverted? Sometimes the definition of the data that we look is different. And then why has sporting goods theoretically not reverted or why won't it?

Navdeep Gupta

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

A

Well, I think it goes back to what did the consumer or as we call them, our athletes learn through COVID. And I would say the propensity for an active lifestyle, the propensity towards more kind of an active form of lifestyle has continued to remain really high. You look at it, the casualization of the workplace that has happened, the propensity of wearing more casual apparel, footwear, the team sports has started to come back again. So the core aspects of the business or the core categories, as we call them, continue to do really well. And even some of the COVID surge categories like the fitness and the outdoor categories, even those continue to remain elevated versus 2019. So this was that what we have been seeing from the industry as well as the adoption of this active lifestyle continues to remain kind of an ongoing theme.

And then, as we look at internally, we see this as a great opportunity. When you look at the overall industry, it's \$140 billion, it's highly fragmented. So when we think about our core capabilities, what we can control, we see a great opportunity for us to continue to differentiate ourselves and continue to gain share.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

So some of these big ticket categories, the COVID winters, those have [indiscernible] (00:06:38) bottom leveled off and not getting worse. And whereas, these other habit forming categories, those continue.

Navdeep Gupta

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

A

Yes.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Fair enough. So, before COVID, Dick's was going through a transformation, which I think got lost in the shuffle. A few things, product assortment, vendor, narrowing the proliferation of vendors and some changes on marketing. Can you talk about those changes just on the cusp of COVID and what they meant for the business?

Navdeep Gupta

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

A

Yeah, no, I think so. It's a good reminder for everybody, like sometimes this – that our transformation story gets combined along, but this happened all during COVID. Actually, if you go back in 2019, in the second half of 2019, we were already delivering a plus 6% and a plus 7% comp going into when all the stores were closed in early part of 2020. We were actually delivering a plus 7% comp. So our transformation was already taking hold as we were going into COVID. And in terms of the category performance, we continue to focus on the four core key

categories for us, which is athletic apparel, athletic footwear, team sports and golf. And as you talk about it, those include both the Hardlines and the Softlines category.

So we are – when we look across the portfolio, we are really excited about the combined overall portfolio. Our focus, as you have seen, the investments that we are making in premium full-service footwear decks allows us to not only get very differentiated access, but actually builds a very deeper level of an engagement with the athlete where you can provide the fit and the fit type of an experience to the athlete. And then the – just on the vertical brand side, the investments that we have made in growing our vertical brands portfolio like CALIA, VRST, DSG are all differentiating products that we are able to showcase to our athletes.

And then the team sports, that's part of the core of how we have gone to the business. And golf, we continue to remain really excited with the investments that we are making in the Golf Galaxy Performance Center.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC



The private brands, where is that as a percentage of your business today?

Navdeep Gupta

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



So it's an annual metric for us. So at the end of 2022, it was 14%. But if you can imagine, that has totally transformed because hunt was a big piece of that business. And over the last four years, we have significantly not actually totally transformed out of the Field & Stream brand that we had. That was a very big category for us and gone into more of these. Vertical brands have actually become number one or the number two brand across all of our categories except for footwear.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC



Yep. Age old question. We've talked about Nike. And for the past decade, is there a dependence on a supplier. There's more brands now that have grown rapidly. Just generically talk about brands and then the threat of those brands going to DTC and how this business has managed that over time?

Navdeep Gupta

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



Yeah, I think so. There's a three part question there. I'll take an individual piece. So our relationships with not just the national brands, but I call them the emerging brands and some of the really high growth brands like HOKA, and ON, Free People Movement continue to be really, really strong. We couldn't be more excited about the relationship that we have established with Nike, with Adidas and with Under Armour, including some of the golf brands, really excited about the relationships there. The work that we have consistently done and that differentiates us not just from an wholesaler perspective, but in the minds of our brands, is the fact that there is nobody that can showcase the brand that we can – the way we can do that in our stores, right? We can bring not just your athletic apparel, but the footwear, including the hardlines.

There are no – there's no other retailer that can showcase the brand like the way we are able to do. The work that we have done between the Golf Galaxy Performance Center, House of Sport, the way we can not just showcase the brand, but actually bring the experience and the engagement with the community to life is again a very differentiating aspect of the business.

And then the Nike connected membership is kind of an evidence of the fact that how well do we know, not just about our consumer, but how kind of robust capabilities we have between e-comm and on the technology side. So we look at it and say across these elements of the business, we are differentiating ourselves significantly, which is allowing us to build very deep relationships with the brands.

And then the last question was, in terms of the DTC, I feel the more and more you read and you listen to the brands, they themselves talk about it that they need key wholesale retailers to be able to be part of the overall solution as they look to the future. And that's continuing to be the case that they will focus on select few wholesale partners, especially, that are going to be able to allow them to differentiate.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. One piece of the transformation marketing. [ph] Your (00:11:33) You've more personalized data centric marketing has helped target and retain customers. Can you talk about how that's helping the business?

Navdeep Gupta

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

A

I would say it's night and day different compared to just where we were about four years ago, not just from a capability, the databases that we have. So our athlete database is 150 million athletes right now. We have acquired almost about 20 million – over 20 million athletes in last two years, 1.6 million athletes just in the last quarter. So not only is our database growing, it's becoming actually more diverse. We have acquired more female athletes, more urban and younger. So that's another differentiating aspect on how well and how wide our product and the assortment is resonating.

And then if you're top on that, the capabilities that we have built between personalization, some of the work that we are able to do from the localized assortment perspective allows us to look at this collective ecosystem and actually address the athlete demands in a very differentiated way than we were able to do before. Where it is evidenced is allowing us to have a much more localized assortment. We can look to our shipping efficiencies within our e-commerce channel. And then the lastly is around the pricing and promotion optimization work that we can do associated with this data.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

How localized is Dick's?

Navdeep Gupta

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

A

I would say we're in [ph] well, (00:12:56) it's a journey, you're never ever at a destination. I would say the work that has been done over the last several years as evident by the fact that as we were exiting hunt, which was a key category for us. As we were exiting, it wasn't a single solution that we said, okay, we're going to replace this 5,000 square foot, with this type of product, we actually created localized solution based what was regionally relevant and locally relevant to that athlete. And we actually created customized solution as we went across that chain, across our whole over 800 store portfolio. So the work that was done starting in 2019, we have significantly advanced that over the last several years.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

House of Sport. We haven't had a lot of innovation in retail new concepts. This is one of them. Sports seem to matter no pun intended. It's a concept that should resonate with a lot of folks. I'm trying to get some economics out of you with that intro, but if not, can you talk about what have you shared on House of Sport? And what can we talk about the future, whether it's comp uplift, economic model, et cetera?

Navdeep Gupta

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

A

Yeah. So I'll start with the macro view. We couldn't be more excited about the work that we have done with the House of Sport concept. As you called it, it's the best expression of retail, I would say, in totality. In sports retail, there is nothing like this anywhere else. There you are combining, not just the product, the experience, the engagement with the community and experiences. It is something that we feel not just excited about what we are bringing to the industry, but actually how well it is resonating with the community.

We only have 12 of them right now, 9 of them are opened, I would say, less than six months ago, so still early in our journey, but very excited about the overall return that we see. And we look at return as everybody looks at it from a financial point of view. But we are looking beyond. We look at it and say, how well is it resonating with the athlete? How far an athlete is willing to travel to come to this type of a destination than they were in normal Dick's store. How well is it resonating with the brands? The access that we have gotten in terms of the partnership with new brands and especially emerging and innovative brands is very different.

The last thing that I would add is the community engagement. At the end of the day, you have to make sure that this is not just a place for you to come and buy. You have to be able to engage deeper with the community, having an ice rink, having a feel that is attached to the store, having a climbing wall, which can be a much more social experience than just coming and buying your product is really resonating well with the community. And yes, the financial returns are good. Otherwise, we would not be saying that we will open 75 to 100 [ph] doors (00:15:48) by 2027. So, we'll share more as we learn and our goal is to share as these things mature out. But be assured we are very happy with the financial returns as well.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

May I ask this 75 to 100, those are conversions or those could be new boxes?

Navdeep Gupta

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

A

They'll be a combination of new boxes and conversion. But I would say that more and more of these would be relocation. One of the kind of not well-understood fact about our business is the flexibility that we have in our portfolio. So almost about 100 stores each year come up for lease renewal for us, which gives us tremendous amount of flexibility to decide do we want to renew in the existing location. Just reimagine how we want to serve the community or [ph] go and put (00:16:33) together a very different form of an experience. So the work that we did this year where we converted eight combo locations into House of Sport, I don't see those opportunities going forward. So you will see more relocations or brand new store openings. We are excited about the Prudential Center opening in early part of next year, which will be in Downtown Boston. You're going to have a store in Tampa. You're going to have a store in Pittsburgh in our hometown. That will be our first House of Sport location in hometown Pittsburgh.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

The total store network several years from now and how do this 75 to 100 fit in that number?

Navdeep Gupta

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

A

I would say it fits within that number. If you start to think more of a relocation opportunity and reimagining of the existing footprint.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. At community engagement, curious, these sports facilities continue to be busy around the clock. The participation rate.

Navdeep Gupta

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

A

Yes, we are very excited. And as a matter of fact, the community starts to learn about these capabilities over time more than they learn in the first year. So we are seeing a different form of an engagement with the community as the store like Victor has gone into the second year of their operation.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

What about the vendor engagement? Has it changed the conversation where they want to think about innovating even more for that concept?

Navdeep Gupta

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

A

Yes. So we have this curated section within the store, call it 4,000 or 5,000 square foot, where they can showcase their full brand. And it's more of a curated assortment that we pull together just dedicated to the brand. And there is a lot of excitement about showcasing new and innovative and more engaging form of an experience that we can provide to the athletes from the brands.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, I want to pivot back to the category and how do you think of the drivers and whether it can continue to grow year in, year out? I know there's a lot of consumer headwinds?

Navdeep Gupta

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

A

So, I think it's only time will tell how the category continues to evolve. What gives us excitement is the fact that when you look at some of the core drivers of the business, like the athletic apparel, the footwear, the team sports and the golf categories continue to resonate really well with the athletes. The work that we have done to differentiate ourselves in this \$140 billion highly fragmented industry where we only have 8% share, we feel there is tremendous opportunity for us to differentiate ourselves, even if the industry is moderated in its growth expectation over the next few years. We feel we have a tremendous opportunity to just differentiate ourselves and continue to gain share.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC



I'm going to shift to gross margin and just remind everyone we have 20 minutes. If people have questions, feel free along the way. So gross margin, I think, peaked almost at about 800 points higher than pre-COVID. Now I think ex-rent maybe we're [ph] sitting \$200 or \$300 (00:19:24), so it's still higher. Can you talk about the factors that enable you to stay at that level and not revert the entire way?

Navdeep Gupta

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



Well, that's kind of the key part of the earnings thesis. As things that we have structurally talked about. And I'll talk in two parts of this answer. So the first part would be on the merch margins side, things that we have consistently said that allows us to keep our merch margins elevated and we have said, right, excluding shrink will maintain 50 basis – 50% of the gains that we have delivered over the last several years continue to be consistent.

The first and foremost is the product, the access that we have, how differentiated that access is, how less exposure we feel because of that product, with the overall promotional landscape is really different than where we were, call it, even in 2019. Second, the work that has been done in terms of the vertical brand penetration, the mix itself, right, hunt was a big piece of the business, 1,700 basis points, lower margins compared to the rest of the category. We have exited that business, and we have replaced that business and those sales with more normalized margin. So the mix associated with hunt going away as well as the work that has been done on vertical brands, vertical brands, just to remind everybody, carries 600 to 800 basis points of higher margin rate than the national brands that have. So the more penetration we are able to drive allows us to continue to drive margin gains.

And then, as we talked a little while ago the work that has been done from the data and analytics perspective, from a pricing promotions management, the work that has been done on personalization, those I call them as the secular drivers of the margin expansion as we look to the future, including the drivers that have driven our margin gains this year.

And then, turning to the gross margins, the scale of the business in terms of the revenue profile of the business is significantly different. We don't talk right now about our e-commerce business, but be assured we are very happy with the returns that we are seeing and how much of work that we have done around the e-commerce profitability. The last mile, which is a pretty expensive part of the business, the work that got done during COVID around curbside pick-up, the ship from store capability that was launched, as well as the overall scale of our e-commerce business, the profitability of the e-comm business is the same as that of our stores. So we are indifferent on how we get the sales, and that continues to be a big driver of the gross margin expansion.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC



So we've had two gross margins snafus, hiccups. It was a year ago when a vendor was helping with clearing product, and then this year with outdoor. Is the gross margin now battle tested? Have we seen where the right level should be even with the normal clearance of goods?

Navdeep Gupta

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



Yeah. So I would say there have been three hiccups, including shrink, which was included in our gross margin conversation. So we have said 50 basis points of headwind in shrink is included in our expectation. In terms of the

hiccup, I would say last year was a different one, and probably the continuation of that what we saw this year. So last year, if you recall, the supply chain was extremely disrupted, right. The spring apparel came very late, not just for us, quite frankly, across the industry. And rather than holding on to the delayed arrival of the spring product into fall, we all became very clear about the fact that we needed to address it and move out of it. And that's what we did. We became very decisive. We addressed that in the last part of 2022.

We saw there was a similar situation with a little bit of the overhang of the outdoor category in terms of the COVID buys. What we are very clear about is the core tenet of the business is that we want to keep our inventory clean and fresh so that not only are we bringing in fresh receipts, but we can actually showcase the innovation that is within the marketplace, things that are resonating so well with our athletes, that is allowing us to gain, drive more traffic to our stores. Each time the athlete is coming, they are actually buying more, and then continue to drive a deeper level of engagement with our athletes, so it is the kind of the focus for us. And if you have to manage margins in a slightly different way, we are definitely confident to be able to manage that.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Is that meaning being more defensive with inventory?

Navdeep Gupta

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

A

Not necessarily defensive, but being decisive with that inventory to make sure we are not hanging on to something that we feel either will be turning slower than our expectation or just continuing to hold on to it. We want to be very decisive, make sure we are cleaning up that so that we can bring fresh receipts, we can showcase the innovation that is available to us.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

You mentioned shrink I think twice in some answers. So can we talk about what your experience has been with shrink? Remind us when or how physicals are going to get done, and then anything changed in how you're dealing with shrink.

Navdeep Gupta

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

A

Yeah. I would say structurally, everything with shrink has changed in terms of not only how we are doing physical inventory. So we used to do our physical inventory once a year. That's no longer the case. We are sampling stores. We had sampled the – actually counted vast majority of stores in third quarter. And the results from the physical inventory process with the stores that were counted in third quarter came in line with our expectations of the elevated shrink level that we foreshadowed at the end of the second quarter.

The work that we are doing right now is focused around three things: one is to make sure that our athletes are safe when they are shopping in our stores; second that our teammates feel safe; and then third, the product is actually available for athlete to be able to buy it. And so we have done multiple things, all the way ranging from higher levels of technology within our store. So you have RFID capabilities now on some of the products that we have in apparel and footwear. So we have launched that capability to be able to rapidly recognize the product that is actually available to sell within the store.

The work from the technology team that have done in terms of higher resolution cameras that have been installed in not every location, but I would say in the select locations where there is elevated level of theft happening, all the way to the other end of the spectrum where we are addressing this more as across the society type of an opportunity working with other retailers, working with the local law enforcements. If you follow us on LinkedIn, you will see us talk a lot about shop with a cop type of an opportunity where we bring in the community, we bring in the cops that are local within that community to be able to – One, to experience the store, experience the product, and then actually build deeper relationship within the community. Two, I would say in between that we are testing out different levels of service standards within our stores, where we are elevating the standards within the store, providing higher levels of service, higher level of engagement with the athletes, especially on some of the brands or the products that have higher levels of shrink.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Have you quantified it to us? And now that you're doing these things, should we have seen the peak rate of shrink?

Navdeep Gupta

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

A

I would say it'll take a little bit of time when you will see the impacts of these things. This is not a switch on and switch off type of a thing. What I would say is the 50 basis points of the headwind that we have contemplated in our guidance, we feel good about it. And we'll continue to monitor and make the right investments to keep the athletes and our teammates safe.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Okay. I'm going to pivot to SG&A. And again, if people have questions, feel free to raise your hand. Hiring for the holiday, this will be my way of asking about the holiday through staff. Talk about staffing levels through holiday, wage pressures. Considering a few initiatives you've done over the past few years in store associates recognition, more seamless shopping experience, how satisfied are you with the performance of store associates?

Navdeep Gupta

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

A

Yeah. We couldn't be more excited. Like I said, if you follow us on LinkedIn, you will see we call something called the Reindeer Run, where you literally go across the stores, across the country to see the readiness in the store. And we look at it in three different ways, not just how well the product is available within the store, like how good the assortment is, how deep the assortment is, how quickly can we replenish the product that is sold during the day itself to the experience that we are able to provide, and then the service with it that is available. We are really excited about the holiday season. The important ingredients that have to be in place from products, service and capabilities, we really feel good about it, including stores and on e-comm.

In terms of the wage pressure, I would say the wage pressures continue to remain prevailing within the industry overall. They have moderated slightly from where they were, I would say, in the recent few years, but they continue to remain high. And in terms of how we think about it, it's not just what the absolute wage pressure is, we look at it and say, what's the cost of providing this level of experience that we want to provide to our athletes. So for us, it's not just looking at the wage pressure, we also look at the talent that we want to bring within the stores to be able to showcase the excitement, and provide the differentiated experience to our athletes.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC



We talked about SG&A growth moderating into 2024. You've done some business optimization, I think you're integrating Moosejaw. And then also if you can talk about a comp that you would need to leverage SG&A going forward?

Navdeep Gupta

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



So there were three questions there. The first and foremost, so this year we knew was an year of investment. We were making investments in the core capabilities within the company, and one of the questions that we were getting from the analysts a lot is, what do you see as the SG&A CAGR as we go into next year. And so what we have foreshadowed is the fact that we expect our SG&A to significantly moderate from a growth perspective into next year. And the actions that we have undertaken and kind of manifested through what the results we posted here in Q3 where our SG&A did deleverage, but 100 basis points lower than we had guided at the end of second quarter was because of the actions that we are taking within the company to be able to look deeper into our discretionary costs away from the core strategies of the company and kind of make the organization more flexible and nimble.

As you said, we did two business optimization exercises: one we call as fuel for growth, think of it as a simplest way of doing that we made investments in certain areas and capabilities of the company over the last several years. We are looking at it and saying the capabilities and the talent that is required to drive the growth in the next few years is going to be different. And it's not that we need more of, we need a different form of an investment. So divesting out of some of those capabilities that we invested for last several years, and then being able to redeploy those resources into driving the growth into the future years. So that's a repurpose of the assets and that we see into 2024 and beyond.

The second is we did the acquisition of Moosejaw, and there's definite opportunity when you do an acquisition to be able to integrate and synergize the back-end of the operations of the business. And that's the structural driver that will kind of help us moderate our SG&A expectations into next year.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC



I want to tee up a couple of topics, and again warm up the audience if anyone wants to ask. Capital allocation, I do want to ask about the GameChanger app, and then maybe lastly on innovation. Just on capital allocation, the different buckets that are prioritized, has there been any movement in how those buckets are prioritized?

Navdeep Gupta

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



No, I would say we remain consistent. The first and foremost is to make sure that we have sufficient liquidity, so we'll look at that. The second is we became investment grade recently. And our debt profile and the maturity profile and the fixed aspect of the cost of debt, really happy with the transaction that we did in, call it, about three years ago. So overall, keeping a very good liquidity profile, making sure we continue to remain investment grade are the important tenets of the capital structure. Those are well in place.

The third I would say is to invest back into the business. The opportunity that we see in House of Sport, the next-gen 50,000 square feet, the expansion of the Golf Galaxy Performance Center capabilities, whether it is in

GameChanger or within the core technology capabilities, those will continue to be higher from a priority perspective. And then, if there is an excess cash that is left over, we will definitely return that to the shareholders.

As a reminder, we doubled our dividend at the beginning of this year, as well as our stock was dislocated at the end of second quarter, and we stepped in and bought \$350 million of stock. And this year, we have returned over \$900 million of excess cash to our shareholders. So those will continue to be the way as I think about the priority. We're not a very acquisitive company, but we continue to evaluate M&A opportunities as well.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

So can you describe the GameChanger app?

Navdeep Gupta

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

A

Yeah.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

And then, if you have statistics on the overlap, means I guess your customer engagement as well, and then how do you mind that?

Navdeep Gupta

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

A

Yeah, no. So I don't know how many of you are familiar with the GameChanger app. GameChanger app is actually owned by DICK'S. It's the premier sports streaming stats as well as just the athlete profile data that is available. This is an app that is – and there's a page on our Investor Relations website around this. This is a very high-growth business, highly profitable, very differentiating.

And, Simeon, to answer your question what we are recognizing is the fact that our most engaged athletes that are part of the DICK'S family are also GameChanger user. And the profile of these athletes as you can imagine, they are 2x larger from actually the most engaged athletes that we have. So they are extremely engaged, they're extremely loyal, and the opportunity to be able to engage with them, not just within the DICK'S platform but on the GameChanger platform is a very unique opportunity. And then, as you can imagine, retail media network is another differentiating opportunity that you can engage with these athletes. Really excited about the work that the team has done. In baseball, softball, we have expanded that to hoops product. We also have that in volleyball. And we are building three or four additional sports on this platform.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

I'll ask about innovation. Again open it up to – okay, we'll go with the audience. Thank you.

There's a mic runner, I'm sorry.

Q

Hi. Thank you. Maybe talk about the golf category for a second. You've got capital moving into this business. How do you think about that long term? It has historically had a cyclical to it, not necessarily macro-driven, but lifestyle-driven in terms of rounds played.

Navdeep Gupta

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

A

Yeah.

Q

So maybe just talk about how you're thinking about that long term.

Navdeep Gupta

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

A

No, it's a great question. So we continue to remain really excited about the golf category, right. We are the largest golf retailer in the world, and we see the opportunity not just being able to sell the product and the equipment, actually provide the service as we call it, the fit experience, right. It's not just about selling the equipment once, but actually how do you better the athlete that is within you. And so the investments that we have made in the technology within our Golf Galaxy Performance Center, we have installed Trackman technology that you can actually go and get fitted. You have the professionals within our stores that you can actually get serviced. And Simeon, I've been trying to convince him to go and take some training lessons. It is a differentiated aspect about golf. So in terms of the overall rounds played actually continue to remain elevated well over 2019, actually have seen growth even this year. So we continue to remain really excited about the golf opportunity and how much of market share still is there to be had.

Q

[indiscernible] (00:35:40)

Navdeep Gupta

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

A

So we don't break that out. From a Galaxy perspective, I would give you as a size of the prize, think about it, Galaxy has just over 100 locations right now with, I would say, maybe in high-single digits, actually in teens you have the Golf Galaxy Performance Center, which are the new prototype of how we are evolving the Golf Galaxy. But then, we are also servicing the same athlete from the DICK'S stores as well, like you don't have Golf Galaxy in every location, but you have a very different level of athlete engagement. Like if you ever walk into a House of Sport location, you will see the House of Sport actually has the same experience that we can provide to our athletes from a Golf Galaxy location.

Q

You guys have a lot of things going on in the company. When I walked into something called the Warehouse club, I couldn't believe the pricing and how packed the place was. Is this something that we're doing going forward expanding, bringing in new customers, lower-price customers? Seems very interesting.

Navdeep Gupta

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

A

It's a fascinating question. I agree with you. Maybe I'll start with where you ended. We couldn't be more excited about the different athlete that we are bringing to our database with this concept. It's a very different type of a value-conscious athlete that is walking into these locations. And it's not that this is a new product. You always had clearance. You always make mistakes when you are a retailer. The question is how well do you handle that mistake. And what we have recognized over the last several years, this is another learning through COVID that we found that actually curating this clearance inventory and actually showcasing that to an athlete gives you a better recovery on that product than you were able to get before.

One, if you think in a 50,000 square foot, when you are trying to focus on innovation, you are trying to bring the best of the best product out, this product was sitting in the back of the store. It never got sold. It continued to languish there. Whereas now you are able to not only bring it forward, you can actually provide the full size runs. So this is not just the XXLs or the smalls that are left over that somebody has to, and we can actually create a size run. The third is actually the engagement with the athlete and store is great, but the recovery that you are able to showcase this product online and find it more quickly allows you to actually get a much better recovery than we were able to get in the past. So in terms of the growth, we are at like around 50 to 60 stores where we are right now. We feel that's the right amount of stores. What we don't want it to happen is it becomes – we wanted this to be about clearing the DICK'S stores, not necessarily another growth vehicle for the company.

The core focus for us is to make sure we can curate the product, keep the DICK'S stores really clean, continue to showcase the product and the innovation in those stores, and then continue to showcase this value offering to our value-conscious customers.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

By the way, just to clarify, is that version 2.0 of Going Going Gone! or they become the Warehouse stores?

Navdeep Gupta

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

A

Well, so it's not a version 2.0. We have a strategy called as Try Before You Buy. So we start out these locations as Warehouse-plus locations. So we have – vast majority of the 50-plus stores are actually Warehouse-plus locations. The lease duration in these stores is somewhere between six months to one year. So we'll open this location as a pop-up locations, curate the product, showcase it, see well how that location resonates with the athlete. If it resonates really well, we'll make the five-year commitment and convert then into a Going, Going, Gone! So it's kind of an evolution of how we think about the clearance strategy.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Thank you very much for your time. Thank you for being here. I appreciate it. Next up in this room is Lowe's. Thanks.

Navdeep Gupta

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

Fantastic. Thanks, Simeon. Thanks, everyone.

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