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Dick's Sporting Goods, Inc. (DKS)

J. P. Morgan Retail Round Up Conference - Fireside Chat

CORPORATE PARTICIPANTS

Lauren R. Hobart

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

Navdeep Gupta

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

OTHER PARTICIPANTS

Christopher Horvers

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Christopher Horvers

Analyst, JPMorgan Securities LLC

Thank you everybody for joining us this afternoon. We are going to go at it again. And this time we have Dick's Sporting Goods management team with us. Very pleased to welcome, Lauren Hobart, the President and CEO, and Navdeep Gupta, the Executive Vice President and CFO. So just like in other webcasts, we'll ask questions for a period of time, and we'll leave some time at the end for everybody to jump in.

QUESTION AND ANSWER SECTION

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

So with that, it's a question we've been asking everybody. So, retailer commentary on the consumer has been mixed depending on who you are talking to, some are calling out weakness at the low end, some talking about shopping close to needs, and while others are talking about green shoots, green shoots in discretionary category. So, how would you describe the current state of the consumer from Dick's perspective and how has that changed over the past year?

Lauren R. Hobart

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

A

Thanks Chris and thanks for having us. Thanks everybody for your interest. So, our consumer has held up very, very well. And you saw that with our last year comp. We had a 2.4% comp, a 2.8% in the last quarter. And really thanks to, I think the fact that the consumer has been very, very strong in our category. So they have been valuing a healthy and active lifestyle, they value team sports, they are out running and walking, but I think really importantly also, they are increasingly choosing Dick's to meet their needs.

We didn't see any trade down from any income demographic. We didn't see a trade down from best to better or better to good. So across the board people are voting that they are interested in sports. I do want to point out that, I think beyond just the consumer being strong, I do think a lot of our long term strategies are really coming to fruition and working really well. And I would point to the differentiated product that we have access to where we can offer everything from entry level to enthusiast level product, where we have gotten brands that are little bit on trend and a little more lifestyle forward. And in general we are elevating the athlete experience from a service standpoint as well.

So, if you look at our House of Sport, we just announced we'll have 75 to 100 House of Sports and we just released what the economics of those look like and that is a complete re-imagining of what the athlete experience can be, and it's also enabling us to get more differentiated product because it is – it is bringing brands to life in such an incredible way. So across the board, I would say strong consumer, but also very glad to see that our strategies are working.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

And just as a dovetail off that a little bit, how do you – how much of this is just a lifestyle component versus COVID sort of health behaviors carrying forward? Because it seems like the brand is sort of expanding into your point into both sides of it.

Lauren R. Hobart

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

A

Yes. Yes. I mean, I think we are very much entrenched in the consumer today. I think we're well past for our business anyway. People are actually, there's been a trend toward casualization. There's definitely a priority on being outside. Team Sports are back with a vengeance. Even Golf Rounds are at an all-time high last year. So I think this is the – this is the new normal. And our DICK'S is innovating continuously, relentlessly innovating to try to just create a better athlete experience and unique athlete experience. And that's what's been paying dividends.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

I'm sure you've been asked the questions a lot today. Nike has been, even more so recently, emphasizing how important their wholesale partners are and leaning into that, obviously, you've a very strong relationship with Nike. Navdeep, you mentioned earlier, the mix was up to Nike last year. Can you talk about not only just Nike but the vendors broadly, like what kind of customer are they trying to acquire? I think a lot of people would go back 5 years, 10 years ago and they say, oh, it's a family and it's a more technical athlete, right? How has that – how have the brands' view of the Dick's customer acquisition opportunity changed over time?

Lauren R. Hobart

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

A

Yeah, it's a great question. So I think there's two reasons why our brand partnerships are at an all-time high. And I think that's one because we are rooted in sports. So at our core, we believe that sports have the power to change lives. And if you look at all of our key vendor partners, they share that same belief. But at the same time, they also want to bring their entire brand to life. So if you think about a head to toe experience where you can really outfit somebody, accessories are can be brought to life or the brand can live.

As you think about wanting to bring your brand to a wholesale channel, you would want to put rooted in sport and an amazing brand experience first and foremost. House of Sport, by the way, if anybody has not been to a House of Sport, I really encourage you to come because it's very hard to describe in words. They are just amazing experiences. But that's another area where we've been able to develop new relationships and/or relation – different products access from our core partners, because we can really create this incredible showcase. We have these collab spaces, collaborative spaces where we can showcase incredible, exciting little moments in time and drops. And so that's bringing in a whole different level of partnership.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

And so I guess maybe could you talk more specific about what you're trying to accomplish with House of Sports and the next-generation format like, I understand it's much more experiential, but is it – is there the sort of casual fashion side as well as the experiential and technical? And how would that compare in the next-generation store? I haven't seen that.

Lauren R. Hobart

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

A

Yeah.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

I saw the Houses – House of Sport examples.

Navdeep Gupta

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

A

Yeah. So Chris, maybe I'll build on that one. So first of all, think of House of Sport as four key pillars around which we have built this whole concept. And actually, if you go back, the challenge that was given to us and almost about eight years ago, the challenge was imagine a store if that is put right opposite of an existing Dick's Sporting

Goods store will put the existing Dick's Sporting Goods out of business. So that's the way we imagined House of Sport location and like I said, there are four key pillars as part of that.

First and foremost, it has to begin with the product, that the product has to be different and differentiated enough from what we carry today. The second is around experience that it is not just about being able to curate the product, have the right price point, have the right availability, the service has to go, the engagement with community has to be a big pillar. And then as we think about it, the service element of that and the experiential element. So when you walk into a House of Sport location today, not only will you see great product, you will see great service that comes with it. You will have experiential elements like a climbing wall. You will have HitTrax batting cage, you will have what we call as the House of Cleats, which is the best representation of a cleat, kind of the visual assortment that is available.

And in that you also have like three hitting bays where you can actually not just go and try out the new golf club, but you can actually get fitted. And like you were just saying that you are training classes, you can actually take classes in House of Sport location. So that's how we have imagined this location that it needs to be really different and not just about product, it needs to be about service and engagement with the community. So when you have a field that's a 20,000 square foot field that is attached to a store where you can host classes for kids or youth athletes and you can actually have an enthusiast level athlete take the product out and actually go test it out on a turf that actually they will be running on or will be practicing with their cleats.

And so that's the differentiation that we have built and that is the same experience that we are trying to take that into a 50K format. Again, you can't take everything that is in 100K or 120K format into a 50K. But there are unique experiences and kind of the athlete engagement opportunities that we can cascade. So how we think about buy online, pick up in store, how can that experience be cascaded into a 50K, the fitting room experience which is so important, especially the female athlete that's so important. How do you take that experience into a 50K? So those are the learnings that we are taking from House of Sport and bringing that into a 50K.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. And then just jumping back to the casualization trend. Obviously, even at JPMorgan, you walk around this building on a Friday, there's a lot of white soles every day of the week now, but particularly so on Friday. So where are you seeing casualization have the greatest impact on your business and you have a lot more understanding of the innovation that's coming out over the year. Where do you think are we on this sort of casualization, rising tide because it's obviously helping your business, especially as you've expanded the assortment?

Lauren R. Hobart

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

A

Yeah, I mean, the obvious answer would be footwear and apparel. Certainly, the casualization trend has been a factor there. But I think it's more than a trend. I do believe it's here to stay. We believe it's an important part of the future. And I think that's because people are looking for convenience, for comfort, for the ability to have a long walk and be comfortable while they're doing it, look good, while they're going to and from the gym or to and from the office. And there's a lot of – you've mentioned style and lifestyle a few times, but there is a lot of style in some of that product and it's breaking down sort of where it's acceptable to have cool pair of sneakers. And so yeah, we're very much – we believe it's a trend that's here to stay.

Navdeep Gupta

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

A

Yeah. Chris, what I would add is I think that we are at a confluence of couple of different trends. Casualization is one trend. The other trend that you would – like Lauren called it out there is a higher propensity for an active lifestyle. So that is the other trend that we are looking into. The third is I think so the apparel and footwear themselves have evolved where there is a blurring of the lines that is happening between what used to be considered an athletic footwear that has enough lifestyle and a fashion component that is included in it, that it's a multiuse type of a footwear that you can use or like, we have like the worst pant that we have in our portfolio that you can as comfortably wear into the office, wear it out for a long walk as well as go and wear that in a bar, and you will feel comfortable in all of those opportunities. I think so there's confluence of couple of different things that is happening right now in the industry and over the last few years that actually has further built upon its own success that we saw since COVID.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

It's a great dovetail in terms of the question that we were talking about earlier, which is sort of the balance of power between innovation that's going on amongst different brands. Nike, favoring a key partner like you and other wholesale partners has been very positive. But you've also seen innovation from some brands. So I guess how do you think the Dick's brand has been propelled off of, I guess, more balance of power out there on the innovation side related to many of these trends?

Lauren R. Hobart

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

A

I think the – everything I mentioned before about the fact that we are able to bring our brand to life holistically and that we are rooted in sport. And the fact that we have reinvented to the House of Sport, where we can really curate and get to know a brand and bring it to life in a very specific way, has opened a lot of doors, so I don't know if I would call it a balance of power, but we benefit from the fact that 80% of our – the athletes, we call customers athletes, who come in our doors, are looking for a multi-branded experience. They're shopping multiple brands. And we have complete flexibility. Both our House of Sport and our 50K, our new prototype, are completely flexible so that we can make whatever is trending and hot right then be the center stage and then quickly move. And so we have seen across the entire portfolio pockets of really exciting innovation and I could call out categories. You'd be surprised that there's innovation in some of the hard lines.

I mean, there's a lot of innovation going on. And then we've got even within some new apparel brands, new footwear brands, trending brands. So we have no shortage of innovation in the door.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

And maybe just sticking on the innovation side, a lot of retailers have mentioned green shoots in some of the hard lines categories like home decor, maybe small kitchen electrics, early COVID beneficiary categories. You've leaned your assortment more towards the apparel and footwear side over the past 10 years. Can you talk about the newness and if you're seeing any green shoots in some of the categories that were early COVID beneficiaries that perhaps went through a little bit of a divot in the post-COVID recovery?

Navdeep Gupta

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

A

Yeah. So first of all, these categories as you are calling them, like, the hard lines, like the big ticket items could be fitness as part of that. Those categories, first of all, are not a significant portion of our business, and they were not a significant portion of the business even when you look into 2019. They did surge, they helped the business. But our portfolio was really, really oriented towards the four key categories we talk about footwear, apparel, theme sports and golf.

So in terms of the performance of these outdoor categories, yeah, there are certain categories that are starting to see very, very early green shoots. But there is like we continue to focus around the four key categories that we feel so confident about, that our experience and our assortment and our ability to engage with the athlete is really differentiated, and that's where we feel like our focus should be and that's where we are focused on.

Lauren R. Hobart

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

A

And I would just add to that that each of those categories are significantly larger than they were pre-pandemic. So there's still been more athletes in the categories. It's just a rebalancing.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. As you mentioned, you announced the new store model, new store model for House of Sports, as well as the next-gen, a bit of an open mic question. So what have been the questions? I'm sure you've received a lot of questions about the model that perhaps you could address with the crowd today.

Navdeep Gupta

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

A

Yeah, I think so the first question was, when are you going to share the economics? So that was probably the question that we had heard for almost about a year plus. Nate and I used to always feel that question and we just didn't feel that we had enough amount of maturity behind us, and the sample size was large enough to be able to share the economic model. What we always express consistently with all investors, well, we are very enthusiastic about the model, the results that we are seeing, and not just the financial results, because the results are much better when you start to look at it and say between how well it is resonating with the brands, how well it's resonating with the landlords, how well it is resonating with the community and the athletes.

So we knew we had something very unique there and the financial results were great. So the questions that we are getting is, okay, help us understand how fast can you go with the strategy? So the answer we continue to reiterate to everybody that over the next three years we can be finished with last year with 12 House of Sport locations. Our goal is to finish by the end of this year with about 20 of them. And our goal over the next 2027 timeframe is to have 75 to 100 of these locations.

So that's kind of one question that we get a lot. The other question that we are getting is, is this all going to be brand new square footage growth or is this going to be reimagining of our existing portfolio?

And again, the answer there is it's a re-imagination of the portfolio. Do we have unique opportunities like Prudential Center in Boston? Yes, that's a true greenfield opportunity, but that's not predominantly across the country as we look at it. So this is re-imagination of the portfolio where we will be either taking a 50K box, 80K box or a 100K box and reimagining and repositioning them, relocating them into this House of Sport location. So it's not going to be all new net square footage growth. It is so much going to be about reimagining of our store

portfolio. So those are, I would say, the couple of the big questions that we have been reiterating, in addition to answering any questions around the economic return itself.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

And maybe good dovetail to can you revisit the sales and margin lift that you're seeing in the next-generation remodel and how that ages over time?

Navdeep Gupta

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

A

So the next-generation remodel, the economic returns are first of all great. This is bringing down some of the learnings from House of Sport like I said, from an economic return perspective, the top line benefits are a slight – we get slightly higher sales lift because you are able to get more productive use out of the square footage. The EBITDA percentage, as we have disclosed, is still 20% and the cash-on-cash return is really healthy. So – and we look at it and say it's not just about an economic return. The focus within the company is also to make sure that we are keeping our chain fresh and vibrant. We want to be able to bring that innovation and the experience of these new features to all our athletes. So it's not just about, okay, making an investment to drive top line results and the bottom line which is fantastic. Also ensuring that we are keeping our chain fresh and vibrant.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

I think in the House of Sport model, you had talked about a more favorable merchandise margin because of the mix. Do you also see that or do you also expect to see this in the next-gen remodel, and it's just simply the offset is some higher depreciation expense that's offsetting that to keep the EBITDA margin flat.

Navdeep Gupta

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

A

Yeah, I would say the margins are not as better as the delta that you see between like a legacy store and a House of Sport. It is slightly better. But you are investing definitely in the service levels in these next-gen 50K as well, but not as much as you are investing in House of Sport. So it's not significantly different, but the overall economic return is still pretty exciting for us.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Opening large format stores or acquiring large format stores in terms of like Dick's history, it's something that has come in and out of favor with retail, particularly in the sporting goods category, because, 80,000 square foot is a lot of space. What do you say to an investor who looks at the 80,000 square foot House of Sport and say, wow, that you're taking on a big real estate liability?

Lauren R. Hobart

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

A

Yeah, I would say we started with a green, white sheet of paper, clean sheet of paper, and said, what would be the next – what is the future of Dick's Sporting Goods. And we started to say, what do we need to bring that to life? If we want to have this experience, we want to have these categories, we want to showcase brands in this way. And we came up with about 100,000 to 120,000 square feet. That said, we're not converting the entire fleet to 120,000 square feet. We have a real estate model that looks at everything in terms of where market. And by

the way, we've had success in small markets like Rochester. We're going to be opening in Boston next week. So it's not like there's only certain markets that can handle a House of Sport. It really does appeal to a wide variety of people, but at the same time, one can satisfy a pretty big geography. And then we have our 50K, which is the workhorse, which will always be, almost a hub and spoke model.

So I don't worry, if you saw it again, I would say, please come visit us. But it's a place where people are coming as part of the community and we're leaning into that aspect of it. And people are coming to summer camps and doing all these things in the House of Sport. So – and it's a reasonably 75,000 to 100,000 square feet is still, a targeted part of our portfolio.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

And sorry, just to clarify. So the 75,000 to 100,000 square feet is that how would you envision like an 80,000 versus a 120,000 square feet.

Lauren R. Hobart

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

A

So pretty much I mean, the average House of Sport is going to be closer to 120,000, 100,000 to 120,000 square feet. But 80,000 square feet, if we have the ability to do it right, we can do it in the 80,000 square feet.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Okay. Got it. Before we get on to, I guess, a dovetail into the margin comment, there's an election in the back half of the year, I don't know if you've heard about it. There it should get even more exciting as time passes. So a two-part question is, I guess to, what extent did you bake in some uncertainty around the election into your outlook? And then the other hot topic around the election has been the potential impact of tariffs. So maybe you could talk about that?

Navdeep Gupta

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

A

Well, I think so there are so many things that are uncertain right now. I think so the macro itself is still uncertain. The inflation continues to remain stubborn, I would say, and interest rates continue to remain high. So I think there's always an uncertainty in the macro election, potential, other types of wars that are happening in the world. So you always look at it and say, okay, how best do you control the things that you control and give the guidance based on the things that you can control and then continue to weigh and evaluate the macro risks. So I would say that's the way we have thought about the guidance as we gave. We feel really good about the guidance that we have given a 1% to 2% comp on top of a plus 2.4% from last year.

One of the things I want to reiterate that probably didn't get called out as yet is if you look within the 2.4% comp that we delivered, we actually delivered that on based on the strength driven by our transaction growth. Our transactions were up 1.6%. This is coming back to the first question that you asked. So we are driving what I call as the quality of sales that the sale is actually coming from higher transactions and balance with the AUR led. So that's the way we have thought about the guidance to be prudent, factoring all of these macro things, also bake, keeping in mind that we are still up against a plus 2.4% from last year.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Yeah. And obviously in the more discretionary categories, inventory levels and merchandise margin and promotions are always in focus. Can you share your thoughts on how you think about the overall promotional environment? It seemed to tick up a little bit in the fourth quarter and how you feel about your inventory levels and against that potential risk.

Lauren R. Hobart

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

A

Yeah. I'll start off with that. The inventory that we ended the quarter Q4 with was the cleanest it's ever been. So the lowest clearance levels that we've ever had. And so, we're really pleased with our inventory. Q4 was, as you say, a more promotional environment. We expected it going into it. It turned out to be a more promotional environment, more [ph] MAP break weeks, deeper MAP break (23:18) cuts. And because of our differentiated assortments and our personalized ability to market digitally and not have to decide more than two days in advance what the pricing is going to be, all of that, we were able to navigate through that pretty well. So we're optimistic about the year. We don't have any red flags coming.

Navdeep Gupta

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

A

Yeah, Chris, I'll build on what Lauren said. If you look in fourth quarter, our merch margins were actually up 200 basis points, over 200 basis points. So despite all the kind of the macro pressures around higher promotions, deeper [ph] MAP (23:50) breaks, we were able to not only navigate that, we actually expanded our sales up 2.8% comp improved merch margins and actually improved the operating profit.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. I guess going back to a topic that we were talking, speaking about at lunch earlier, there was a moment in time where Nike and back then Under Armour started to really expand their doors into the mid tier department store and emphasize a wholesale channel as they start to drive the overall brand growth. Taking the glass half full approach, Nike emphasizing the wholesale at the expense of direct, how do you think about the risk that maybe that brands can get too far distributed and disrupt the promotional environment, referencing your question on the fourth quarter, or your answer in the fourth quarter.

Lauren R. Hobart

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

A

I'll start. I think there's a lot more sophistication these days in terms of segmentation policy, differentiated products and differentiated retail locations. Our relationships with our partners are at an all-time high. They have been throughout this whole cycle. We look at the relationships as an enormous asset going forward. And I don't expect people are going to run to mass distribute unsegmented product. That's not my expectation.

Navdeep Gupta

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

A

Yeah. Chris, I'll build maybe one thing more. If you think about these national brands like Lauren said earlier, they want to be rooted in sports and when they want to be rooted in sports let's dwell a little bit deeper into that. What they want is a wholesale partner that can bring their whole brand portfolio to life. And so it's not just about footwear. It's about footwear, both athletic footwear and lifestyle footwear. It's not about apparel. It's apparel that is high, like enthusiast level athlete product as well as lifestyle.

They want hard lines, which is part of the team sports activity, they have accessories business. So they're looking for somebody that can bring this full portfolio to life because they don't want themselves to be a lifestyle brand company. And so, that's where when we have discussions with them, it's a much deeper and a richer discussion around what can we be doing helpful to them when, we say, 80% of our athletes that are walking out are walking out with a multi-branded portfolio in the basket, what insights can we share with them?

And we have an asset called as game changer. We can actually see what elements of a youth sports is actually emerging well, which markets are doing well. So there is so much of insights and partnership that we have with these brands that it's a much deeper relationship, much deeper dialogue than just about product and price and access alone. Hopefully that gives you a little bit of a more depth of these conversations.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. And you have a data sharing arrangement, right as well with?

Lauren R. Hobart

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

A

With Nike.

Navdeep Gupta

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

A

With Nike yes.

Lauren R. Hobart

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

A

With Nike membership.

Navdeep Gupta

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

A

Yes.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Glass half full question. I think for the past two years you've [ph] fought (27:01) – can you hold the 35% gross margin and can you hold this new operating margin since 2019, a lot of retailers faced that question. Going the other way, I guess how high is potentially high particularly as you add engagement, you remodel stores, you launch House of Sports? Is there an upper boundary that you face or is there a need to reinvest in price that you have a lot of branded products, that doesn't seem would be the case for most of your assortment. So I guess, is there a natural limitation on how high, obviously occupancies and gross margin, but ex that like how high merchandise margin could ultimately go?

Navdeep Gupta

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

A

So let's start with what we guided for 2024. What we said is that we are confident that we'll be able to maintain our gross margins and there will be puts and takes. So the put would be that we are going to be actually growing our merch margin because of the things that you called out, the work that we have done around the assortment,

the work that we have in terms of our pricing promotion and clearance optimization strategy, our vertical brand, which is a fantastic growth opportunity both on a top line basis, as well as a margin enhancement like, 600 basis points to 800 basis points higher margins in vertical brands.

So those are the big drivers that have been consistent. And we see that to be again consistent as we look to 2024. The offset to that would be the occupancy costs because of the capital investments that we are making. Here's what I will tell that the way we think about the business, our focus is driving top line growth and the bottom line improvement on a long-term basis. While there'll be puts and takes to it but we are very confident about the long-term expectation of continuing to differentiate ourselves, continue to gain share, drive top line and bottom line growth.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. And on the bottom line growth, would you consider operating margin expansion ultimately a goal?

Navdeep Gupta

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

A

Balanced against, the answer is yes. The easy answer is always, yes, you are always doing that. However, what we want to do is to balance that against making sure that we are investing appropriately into the business. We see this to be a very unique opportunity. We are the largest and the biggest player in our category, and our share is 8.5%. We are operating in \$140 billion TAM. And so we have unique opportunities for us to continue to drive the differentiation, continue to drive the long-term growth, and then want to balance that against driving profitability as well.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

I'm going to pause here to see if there's any audience questions.

Q

I was wondering if you could talk about where we are – I was wondering if you could talk about where we are in that kind of category normalization dynamic. You guys have seen profitability improve, talked about things getting better. Some others have talked more about some continuing overhang from the consumer being trained to shop on sale in the category. Do you think there's still some lingering impact of that and does that get better through the year such that even though you're doing well now, it gets – you could see an environment that's actually materially better in the category broadly in the second half versus the first half?

Navdeep Gupta

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

A

I think so. The way I would say the – the best way to characterize this would be we look at it and say our shares today at 8.5% gives us tremendous amount of opportunity to continue to differentiate and grow our share as long as there's no dislocation happening in the macro landscape. So if the industry continues to operate the way it is, we are confident that we'll be able to continue to gain share, as we have done in the recent past. I don't know, Lauren, if you will add anything.

Lauren R. Hobart

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

A

Yeah, I think we've just been a little different in that, this has been a long-term journey that we're a lot different than how you're describing in terms of the journey that we've had to differentiate the product to be much more surgical, personalized, marketing skills, digital, moving away from any sort of long-term print so we can be much more surgical. So I don't know, we're not guiding to specific quarters. But I do feel like part of the margin expansion that you've seen is as a result of all those long-term strategies coming to life.

Q

I have a question, over here.

Lauren R. Hobart

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

A

Oh, hi.

Q

I'm just curious. You've done very well consistently each quarter in kind of bucking the trend. If you take out the footwear department, you take out the drinkware department, maybe can you speak to how the other parts of the store are doing relative to how the overall store might be doing?

Navdeep Gupta

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

A

Yeah, so I would say we are very happy with the core parts of our business, right. You called out footwear, you called out hydration, the drinkware business. Agreed, they've done really well, but it's not coincidental. Again, let's look deeper within those two categories and I'll build on to the other category. The work that we have done around premium full-service footwear deck expansion, where you can provide a differentiated sit-and-fit type of an experience, which is par with what you would have in a specialty footwear department store is a conscious part of the strategy that we have done. So it's not coincidental to say, oh, while you gained share in footwear and that will go away. No, this has been a constant focus for us. We have been upgrading our premium full-service footwear decks for almost about 10 years now. So that's a very conscious strategy.

The work that our merchants have done in building relationship with ON, with HOKA, with New Balance, with Nike, and even more like emerging brands, our nascent brands like you know, the brand that we have within our own stores around Moolah Kicks, which is a brand that or the footwear that is designed for a female basketball player. So it's not coincidental that we are seeing gains coming out of that category.

Similarly, when you think about the hydration, the partnership that we have with brands like Stanley, with YETI, with even Hydro Flask, right. It's a conscious work that our merchants are constantly doing, trying to find out where the next leg of innovation is going to come from and how are we becoming continuing to be relevant to our athlete, but building relationships with the vendor so that hopefully answers that part of the question that we can't discount some of the strength that we have driven because that has been a conscious part of the strategy.

Flip to the other side, we are very happy with the performance that we are seeing out of our apparel business. When you look deeper within apparel, it's our own vertical brands. The work that we have done on CALIA, VRST,

DSG. Hopefully, you all have seen the advertising that is being done around CALIA and DSG because these brands, if you just look back five years ago were nascent brand, DSG did not even exist. DSG has become a number 1 selling apparel brand from a vertical brand perspective.

So again, really happy with the progress that we are making on the apparel side. Golf, the number of rounds played in golf last year were the highest ever. Golfers are key category for us, not just as you look within the four walls with the DICK'S Sporting Goods Store, but including Golf Galaxy. So we are continuing to gain share in all of these categories. Team Sports, like Lauren like mentioned is another key one.

So it's not just two categories that are driving our growth. We look at these core four categories being the drivers of our growth and continuing to make sure that we are gaining share in all of them.

Q

Thanks, Chris. And can you – you seem particularly excited today about – what you're learning about the private label brands and particularly how much traction you're getting with these as being sort of recognized brands within the store. Do you look at that opportunity in terms of – where you want to fill in prices, where you want to fill in category deficits, perhaps women's golf at a price point. Are you finding that with product innovation and deeper knowledge that you can transcend price points perhaps and work in parallel with some of the brands in ways, perhaps that you haven't before? And if you could just update us on penetration and across the categories men's versus women's and what this will be beyond perhaps apparel, where you're seeing some other opportunities.

Lauren R. Hobart

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

A

All right, I'll start, which is that generally speaking, and specifically in apparel, we have used the vertical brands to fill what we would say is white space in the portfolio. So CALIA was the first major launch we did of an apparel brand and it really was based on the insight that we had a lot of adult women, athletic females in the store, not core athletes, not maybe a 19-year old young woman, but who were not finding products that were designed for them. So we bought the clear brand, and that's now become the Number 2 women's brand in our entire store. And it's absolutely filling a wide space need. Fantastic.

And then you go to DSG, we had a need where we felt we were losing market share of an opening price point, high value, high fashion, high function, really core athletic brand. And we had a lot of insights that said that consumers would look for our brand and trust the brand from DICK'S Sporting Goods to actually deliver all of that value fashion function. And so DSG was one that's now our Number 1 vertical brand and it is an incredible – it just keeps – it keeps an occasion in the store that might have left and gone somewhere else and then burst a white space for men to same thing, sort of the opposite of CALIA. But for men in terms of athletic male who comes in and might be shopping for a kid and wants to get something for his self, could go to work.

So overall, generally speaking, they have filled white space. From a penetration standpoint, the other part of your question this past year, they declined slightly from a penetration standpoint. The athletic apparel brands did not. But there's two reasons for that. And it's not really how we look at the health of our business, the health of our business, we put a \$2 billion goal out there and we're moving towards that rapidly.

So the footwear business is an area where we have seen strong growth and that we don't have a really sizable penetration of vertical brands. And so as those grow, it's not really fair to say okay, we're looking at them separately. And at the same time, some of those outdoor categories are where we had a strong penetration. So

those that are having the temporary, they're small on an overall basis, but they're for a vertical brand standpoint [ph] not like them (00:38:22)

Q

[indiscernible] (00:38:23)

Lauren R. Hobart

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

It's not even – we're trying to not look at it that – we don't look at it that way at all because it's not telling the story. That's the truth.

A

Navdeep Gupta

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

Yeah, and maybe I'll build on two things. One, I think, so I don't know if you meant it that way, but at least I heard it, you said you're excited today about vertical brands. We have always been excited about vertical brands. So I want to make sure that we clarified that. We feel this is a very unique opportunity to not only differentially serve the athlete that is walking in and the vertical brands go well beyond apparel.

A

So if you think about Maxfli golf ball, the work that we have done in the golf category, in the hard lines category, the work that we have done even in the outdoor category on the outdoor apparel side are unique opportunities for us to continue to grow the portfolio.

We talk a lot about the apparel brands because there is so much amount of hard work and discipline that has gone into it in just standing up and creating these brands. But there's a lot of – like if you think years back, few years back, Field & Stream was our largest vertical brand. At that time in 2019, when we exited the hunt category, that brand quickly sunset. And not only did we replace all of that sale, we got the penetration back up to 13% by taking one of the largest selling vertical brand and replacing that with these brands that Lauren has talked about. So we continue to remain really, really focused on.

There is a reason why we call them vertical brands. This was a very conscious choice, that Ed, I know, challenged us and said, everybody calls these as labels. We don't see these as labels. We see these as brands, no different than a national brand. There is a reason why you see as advertising CALIA and DSG on national television because we truly see them as brands that have the self-sustaining and the self-standing power in them.

Q

[indiscernible] (00:40:13-00:40:19)

Lauren R. Hobart

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

Not necessarily. So I don't know if people could hear, but white space – you're asking white space doesn't particularly mean price and it doesn't. No, because the CALIA brand is actually full priced versus a full priced brand, some of the golf brands. So no, it's not about price necessarily, no.

A

Navdeep Gupta

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

A

And there are white spaces within the product portfolio. So as you think about like the worse pant that we have, which is kind of a pant that I was mentioning, that's – today, there was nothing like that in our product portfolio from the brands. And so, we are creating unique opportunities to fill the white space from portfolio and not just purely from a [ph] price (00:40:54). That's a very good point. Thank you.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

So I'll dovetail on the share question. Casualization and more lifestyle has been a big driver, I think share in the apparel and then more recently the footwear side. Where do you see the biggest opportunities to gain share over the next five years?

Navdeep Gupta

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

A

I would still say it continues to be from the four key categories, right. And then this is where sometimes we have to explain when people ask the question right, where will the [ph] share (00:41:29) come from? The next part of that question is who are you gaining the share from? And it's not a...

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Are you anticipating my follow-up?

Navdeep Gupta

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

A

There are things I've done just long enough to know what the next question is, but that's a very legitimate next question. But it's not a very consistent answer in our industry. We are the dominant player in our industry, so we have to find unique places where we are going to take share from. So when it comes to footwear, yes, we are taking share from lot of our direct peers, our direct competitors. We are also taking share from specialty footwear.

When it comes to Team Sports, there's no other dominant player in Team Sport, especially at the enthusiast level of the product. When we talk about, a cleat can be \$280 cleat in our store, when you walk into a DICK'S Sporting Goods store. A baseball bat can go up to \$400. A baseball glove can be in the \$300 range. Now, you're talking about enthusiast level player. That is just not looking the first place that they can find online and buy this product. They want to see the expertise. They want to understand the product, they understand the service, and there the share is going to actually come from lot of online pure-play players that exists.

In golf, it is coming from the green grass. So this is where when we look at share opportunity, one, it's consistent with the four categories. Two, it's going to come from different places and it's not going to be easily say, oh, it's all going to come from big box retailers, right? Apparel, definitely, the share is going to come from some of the big box retailer. But as we look beyond apparel and start to go into these deeper categories, the share is going to come, quite frankly, from a disparate number of places.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. Your category is one of these. And I think this is why you are the last brand standing of the national – in national stature. Ed's always invested in the athlete experience, always invested in the store. I think it's part and parcel to the nature of – it's change people's enthusiasm for different sports, fashion trends over the cycle. I guess, a two-part question, A, does that make it naturally a more SG&A growth intensive business? And then B, you had a cost reduction effort that's essentially funding the investment this year. So can you put those two together so over – is it sort of necessary to continue to find efficiencies? And is there a sort of an inherent change in the strategy and how you fund the business?

Navdeep Gupta

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

A

Well, the answer is yes. That's my goal. No, I'm kidding. No, the answer is the – the answer is yes to what you said. Ed is always and Lauren are always challenging us to make sure that the brand remains vibrant. We are playing a multiyear game, not just the next year, the next quarter. The second is we have to invest to build capabilities and the investment can take different forms.

So like the House of Sport investment or the \$50K investment that is going to come through occupancy and depreciation which will be part of the gross margins, building some of the tech capabilities, whether it is in the athlete centricity work that we are doing or the work that we are doing with game changer would be more on the SG&A side. So again, the different forms of investment will show up different places in the P&L. And that's the reason when you asked the question on long-term expectations, I said we will grow sales and profit.

We're not going to be pigeonholing ourselves that we'll grow sales, we'll grow gross margins, we'll leverage SG&A because that becomes that we know something that we don't actually want – don't know that right now because the investments can take different form. What we are confident is driving top line sales and appropriately investing into the business and still driving the bottom line impact.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

So that's another way, the cost reduction effort for this year, is that something different, i.e., in terms of like you had some ramp because of the House of Sports, but will you look to continue to create those efficiencies to keep this investment cycle smooth?

Navdeep Gupta

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

A

Yeah, so I would say the answer is yes. The reason we did the – and what Chris is referring to is Q2 of last year we did and we announced an exercise, which we called as business optimization exercise. The intent behind that exercise was if you're going to go from opening two House of Sports to opening 8 in 2024 and 15 in 2025, you have to reimagine how you do the business.

You have to reimagine the construction side of the business. You have to reimagine the visual aspects of the business. You have to reimagine marketing. And we knew we needed to make those investments. What we were also clear is we didn't want to make these investments all incremental. So we optimized our business. We looked deeper into our cost structure and said, what are the areas or the capabilities that we can deemphasize to be able to free up the dollars to invest back into the business?

And there is a clear focus within the company as we look what we guided in 2024, we said 1% to 2% of comp expectation, but we leverage our SG&A. And as you can imagine, leveraging SG&A in current environment is not

an easy thing. But that comes because of the work that we are doing around whether it's efficiency within the organization, whether it is looking deeper into the discretionary costs, whether it is also looking deeper into what can we be doing differently where the technologies is being implemented but it helps you drive efficiency. So the answer is yes. We will be looking deeper into that.

Lauren R. Hobart

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

A

Yeah, I would just add one thing, which is if you go back, I don't know years, five, six years, I mean, nothing about our business is the same as it was then. Everything has changed. And so this was a business optimization exercise that was pretty expansive. We are now – that's behind us. And now it's about just driving productivity and efficiency, technology tools. And so we had – it's not like I would expect that to happen every year so sort of the scale of the business optimization that we had.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. Any other audience questions. So with that, I'll wrap up with one. So which is one of my favorite questions I ask at the end of meetings. What do you think is most misunderstood about the DICK'S investment story? And as you look forward over the next couple of years, what are you most excited about?

Lauren R. Hobart

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

A

Thank you for the question. I think I sense a lot of understanding of the DICK'S story increasingly so. I would have answered that question differently a year or two ago. I think we've been pretty consistent that our core strategies are meaningful and that they're working strategies of differentiated product and athlete experience, investing in our brand and our teammate experience and those strategies on top of the fact that we are relentlessly innovating, reimagining, reinventing retail, reinventing even what it means to be our vision is to be the best sports company in the world, not to be the best sporting goods or retailer in the world, like we have very lofty aspirations.

So I think we have a tremendous amount of momentum. And I will tell you what's sort of not talked about, that is one of our biggest and most special assets is our team. And the fact that we are an incredibly fun, dynamic place to work. We have 50,000 teammates who love sports, who come in every day passionate and excited and focused on serving our athletes. And I just think there's a secret sauce there that it doesn't get talked about and that's a big part of our success.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Excellent. Well, thank you very much.

Lauren R. Hobart

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

Thank you.

Christopher Horvers

Analyst, JPMorgan Securities LLC

We really appreciate your time.

Lauren R. Hobart

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

Appreciate it.

Navdeep Gupta

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

Thanks, Chris.

Lauren R. Hobart

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

Okay. Thank you.

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