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Dick's Sporting Goods, Inc. (DKS)

Barclays Eat, Sleep, Play, Shop Conference

CORPORATE PARTICIPANTS

Navdeep Gupta

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

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Adrienne Yih

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Adrienne Yih

Analyst, Barclays Capital, Inc.

Okay. Great. Thank you, everybody, for joining us. Good afternoon. Well, thanks for joining us for the fireside chat with DICK'S Sporting Goods. My name is Adrienne Yih and I am the US Specialty Retail Analyst here at Barclays. So we have dug Dick's the next great compound growth retail story, which is actually quite rare in the cyclical world of retail. Today, more than ever, an investment in a multiyear growth story is an investment in the strength and vision of management. And so with me today, I'm very pleased to introduce President and CEO, Lauren Hobart; and EVP, CFO, Navdeep Gupta.

So remarkably, Lauren is only the third CEO in the company's history, having been promoted to the role in 2021, preceded by current Executive Chairman, Ed Stack, and the company's Founder, Dick Stack. Lauren joined DICK's in February 2011 as the Chief Marketing Officer and in 2017 was appointed as President of DICK's. She has been instrumental in driving technology adoption, e-commerce, culture and customer experience.

Navdeep joined DICK's in 2017 and was appointed CFO also in 2021. He's adeptly navigated DICK's through its transformation through COVID and now leads the financial aspects of the next leg of growth behind House of Sport and next-gen DICK's Sports, while at the same time is also spearheading the growth strategy for GameChanger.

I know you just did a webcast earlier this morning, so for the listening audience, I want to touch on a slight variation on many of the same topics with the goal of how to identify longevity of competitive advantage through executive leadership vision, strategic investments to grow market share, and why DICK's can maintain its position of industry dominance, so two housekeeping things. 4:00 today, there will be a cocktail reception for everybody who is still here, management and investors alike. And there will also be about 5 minutes at the end of the presentation for your Q&A. So if you have a question, please, there's a roaming mic.

So with that, okay...

Navdeep Gupta

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

Adrienne, can I do my Safe Harbor reminder?

Adrienne Yih

Analyst, Barclays Capital, Inc.

Oh, yes. Please.

Navdeep Gupta

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

So our Safe Harbor statement is posted on the IR website. Anybody has questions, reach out to Nate, not me.

With that, we will turn it over to you.

QUESTION AND ANSWER SECTION

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Fantastic. So let's start with a few questions that we're asking, sort of all the companies at the conference to get a sense of any common themes across consumer discretionary. So Lauren, I'll start with you, sort of consumer health, which is kind of the main topic of du jour. As we exit 2024, how has consumer health evolved throughout the year versus what you thought at the beginning of the year? And how are you thinking about the state of the consumer now that we're post-Black Friday as we enter 2025?

Lauren R. Hobart

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

A

Well, thanks, Adrienne. It's great to be here with you. It's great to see all of you. Our consumer has held up very well. This is not just a quarter story or a year story. It's been a few years now where people are prioritizing a healthy and active lifestyle. They're prioritizing things like fitness and golf and team sports and being outside. And that has benefited us. But at the same time, increasingly, they're coming to DICK's to meet all of their athletic and their athletic lifestyle needs. And I think as we look at the part of this year, we just finished comp at 4.2% during the quarter three. We've been above 4% every quarter this year and we've had beaten raised quarters every quarter this year. So almost definitionally, the consumer has been a little better than we even have predicted. We've seen growth across all income demographics. We've been getting new athletes joining our ecosystem and coming to shop with us. So I think, generally speaking, from our lens, the consumer is doing well. I do think the fact that we are rooted in sport is an important part of that.

So I think sport has had an increased impact on all things culture. I think culture is also having an impact on sport. And because we've been investing in our experience where we have premium full-service footwear decks and these incredible House of Sport locations, we have access to not just the great performance product that we've always had access to but also the lifestyle sport. And as that continues to build, it's another tailwind for us.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Perfect. Navdeep for you. Maybe a tougher one.

Lauren R. Hobart

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

That's right. Thank you.

A

Adrienne Yih

Analyst, Barclays Capital, Inc.

So the political backdrop, right, the new administration coming in, I think first and foremost, it's going to be your comments on sort of tariff. And then how do you think about the passage of policy that could come into force in 2025? How do you manage against the uncertainty and the unknown?

Q

Navdeep Gupta

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

Yeah. So maybe we'll start with tariffs until there is so much unknown in terms of what is likely going to be the policy, how much of this is just a negotiation tactic versus how much of this is expected to be actually implemented. We are going back to the playbook that we had in 2018 and 2019. So start with some of the thought being fleshed out, not just internally within our own vertical brands but also how we are thinking and partnering with the national brands. So that's the part and parcel there.

A

As far as 2025 is concerned, as we are starting to think about the budgets and everything, there are things that we are relying on are the things that are within our control. So things like what Lauren talked about, the work that we have done around building a very strong brand portfolio, the work that we have done and the confidence that we have gotten in our House of Sport strategy. I'm sure we'll be talking a lot about it. We have talked about the fact that we'll be opening 15 House of Sport locations additionally next year. The cascade of the House of Sport Learning Center, the Field House, which is the 50K format. We are really excited about that opportunity. We intend to open an additional 20 of those next year. So we are using the same playbook that we had for this year, building a truly a grounds-up expectation to say what revenue, what comp can we expect irrespective of the industry or the consumer environment that can be. There will be pluses or minuses as there is a tailwind if the consumer holds up well. That should actually help us. And if there is a little bit of a geopolitical uncertainty or if the tariff become a bigger topic of discussion, then we will know if we'll be able to pivot off of that. So we are focusing on the things that we can control.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Right. You may have already kind of answered this but what are you most excited about in terms of kind of 2025 opportunities? Lauren, maybe I'll start with you?

Q

Lauren R. Hobart

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

Yeah. I think building on what I said before about sport and the impact on culture, I feel like we are in a moment in sports in the United States and that's coming off of the Olympics. It's the women's basketball craze. It's the fact that the World Cup is going to be in the US in 2026 and LA Olympics in 2028. And so I get excited because what we provide like our vision is a lofty vision. We want to be the best sports company in the world. So the fact that the environment around sport is just growing, gives me a lot of hope, it opens up opportunities in footwear, in license and team sports, a whole bunch of different categories.

A

Navdeep Gupta

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

A

I would still say with the macro theme, right, that it's really exciting to see how important sport has become and how important the culture has become as part of the lifestyle and sport itself. And that intersection opportunity continues to be really exciting for us.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Right. So let's move to kind of like the overall sporting goods backdrop. You'd mentioned in kind of the earlier session that the backdrop for sporting goods is indeed promotional. And if you just look at anything on holiday, it's just promotional. Most people are foregoing average unit retail and margin in order to drive the comp through transactions. You're completely the opposite, right? Your transaction size, your basket was the driver of this whether it's brand, mix, et cetera. So what is so rare? And I think you've touched on this, but what allows you to continue to do that year in, year out?

Lauren R. Hobart

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

A

So when you look at Q4 and looking at holiday right now, we've mentioned it, in general, it seems like some people have a little too much inventory. Things are a little bit promotional. Similarly, last year, we were worried that the environment – not worry, we had noted that the environment would be a little more promotional than it had in the prior year. But we have been able to navigate through those promotional environment. So we will choose based on the product we have. We have a very differentiated product set where we don't have to just knee jerk. We've got access to fantastic product. We don't have to knee jerk and put it on promotion. We'll decide how many weeks and how deep to participate in an [indiscernible] (00:13:30) and base it on the products that we need to turn. So we factored in all of that promotionality into our guidance. We're still expecting a merch margin increase in the fourth quarter. And we feel this is part of what we've been building for all these years is our ability to navigate through these things and be more surgical.

Navdeep Gupta

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

A

What we're also differentiating is, in addition to the product as a service and the capabilities, right, our e-commerce platform, really resilient. We are really excited about the service and the quality of service that is available in our stores. So, in addition to product and the pricing opportunity that we see, that is the bedrock of what gives us the confidence and based on which we raised the expectations for comp in fourth quarter versus three months ago.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Fantastic. I want to talk about sort of the balance and negotiating power. This is kind of a say as much or a little bit as you want. It just seems like pre-pandemic, the 5% margins to the 16% to the 11% with some, obviously, room, head space above you, where have things turned in terms of, now, you're sort of you're the place where brands want to grow, right, and be seen? So how does that change sort of how you negotiate with brands and how important you are to them?

Lauren R. Hobart

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

A

Yeah. I love that question because it makes and this is – the question implies that it's like a transactional relationship like we're going to negotiate who's got the power. And the truth is over the last multiple years, the relationship that we have with our key brand partners has become so much more than that. It's really a strategic look ahead. What are the trends? What product are they developing? They'll take feedback and input from us and what we're seeing in the marketplace, they'll adapt. We are true, strategic partners and so we don't look at it as a battleground negotiation. It's more about how can we drive the consumer to love the products and to pick up what we all think is the best product and that results in a profit sharing that makes sense. But we have a great relationship. It's one of our biggest assets with our key brand partners.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Staying on the geographic...

Lauren R. Hobart

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

A

Just staying on that same topic, when you have emerging brands and one of these nascent brands that kind of – we've talked about this, it's kind of going from the minor leagues to the major leagues, right? And then, all of a sudden, if you succeed, there's a big order on the back of that.

So how do you prepare these brands for the main stage? Tell them what's probably coming, work with them on new categories, et cetera, and sort of just hold their hand and bring them up to speed.

Lauren R. Hobart

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

A

Yeah. It's a really important point because access to emerging brands and being able to get behind new and different emerging brands has been a key part of our strategy, and House of Sport has been a really terrific asset to do that in because we have 19 House of Sport now, but we can be very hands-on in terms of the experience that we provide. We'll go as well as the brand wants to go. Some people are concerned about going into wholesale. We have all the time in the world to get people to understand how we can bring our brand to life. We have a collab space, a collaborative space where they can have their hands in what it looks like can have their brand [indiscernible] (00:16:54). And so it's just an entry point so we can all get to know each other. And the trust builds that way. And we've had many brands have gone from that in honor of FP Movement. Free People Movement started off that way on, even started off with Public Lands and then the House of Sport. And so it's just a natural on-ramp that makes sense, I think, for everybody.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Right. I'm going to step a little bit back on kind of where we are in the footwear cycle. Clearly, during the pandemic, we were in high-performance athleisure and then high performance whether it's run or the performance athletic shoes, it seems like this year we've seen the emergence of adidas and Terrace Collection, kind of a flat bottomed, more lifestyle-oriented shoes.

So can you talk about whether those two things can coexist at the same time, right, because you still have HOKA and On that are the emerging stars but then you have like all these technical shoes that are now being used sort of not for technical purposes.

Lauren R. Hobart

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

A

Yeah. Yeah. Can they live together? A 100% they can live together. And I think it goes back to what I was saying about just sport and culture merging together. But people are wearing shoes that used to be the soccer shoe and it's a lifestyle shoe. Now, you wouldn't wear it on the [indiscernible] (00:18:09) but it would be – it's a fantastic looking shoe. And then look at things like the adidas Terrace Collection, it's really doing so well from a lifestyle standpoint, but it's not taking away from performance. I mean, some people need – we always say that footwear is the engine that pulls the train. So what we mean by that is the outfit starts with the foot, first of all and [indiscernible] (00:18:29) for sure in terms of how they look or look is but they need shoes for on court, on field going to from a slide, a cleat and then a lifestyle shoe, running shoe, training shoe. So there's a plenty of room and we keep investing in footwear. Our premium full-service footwear decks are a fantastic experience and our House of Sport premium full service footwear decks are so – they're bigger than some of our competitors in the mall. They're just really focused on footwear. And we have a lot of hope, a lot of belief that that category continues to grow.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Right. Now, I'm going to go specifically to your business model. If you were to talk about DICK's competitive moat, what is the most difficult thing to replicate in your business model? And why has DICK's succeeded as the largest national player where others have failed?

Lauren R. Hobart

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

A

Okay. I'll take it. Our competitive moat, I think, is a couple of very important things. It speaks to our long-term strategies. But the focus that we have on building strategic relationships with our brand partners, which we just talked about, is a key differentiator because it takes time to build the trust. Everything we talked about even from an emerging brand standpoint, then take it to some of our biggest partners, that is a relationship that doesn't just happen overnight. It's really important. At the same time, we are investing in athlete experience across all aspects of brick and mortar as well as online. But the service model, the team, the investment in people and training so that they can put people into the gear that is the absolute best product for them. I feel like the secret sauce behind our success is not really well-known, is the quality and the caliber of the team that we have, the 50,000 teammates. The culture in our company is amazing. We're in a fun business. We have fun – we work hard but we have a lot of fun. And in stores, teammates where most of the 50,000 feel they are empowered, they're excited. And that momentum feeds [indiscernible] (00:20:32). And I think that also contributes to the competitive moat, so to speak.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Great. In every industry, there's usually two players, a number one and a distant or not so distant number two. We can't really come up with your number two. Who do you perceive is your most direct number two competitor?

Lauren R. Hobart

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

A

The way we think about it is within each category of business. We are competing with the best specialty. And so we really do break it apart and look at it differently. Because you're right, there isn't one national competitor that we'd say, oh, that's the one, but it keeps us on our toes because in any given category, competing with somebody

who might just focus on that one category, it's a challenge for us. How do we keep all of those things top of mind as if we were just focused on that category and that's how we stay current.

Adrienne Yih

Analyst, Barclays Capital, Inc.



Right. So, Navdeep, I'm now going to go to you. Since 2019, the DICK's model has grown sales by about 50%, gross margins, these are dollars, by the way, by about 80% and EBIT dollars by over 200%. That profile is usually inverted for most of the people over the past five years. So this is pretty tremendous performance. It's significantly different. Can you talk about some of the permanent drivers that have made DICK's successful in expanding those operating margins from, call it, 5% to its peak of 16.5%, now settling in that kind of 11% range?

And then, I'll ask the margin question in a different way. From this 11% pre-tax margin, is the next leg of operating margin expansion more likely to come from top line growth and leverage? Or is there still more opportunity in gross margin?

Navdeep Gupta

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



Well, that's a pretty complicated question, but I think there's a – let's do a little bit of a look back. I'll answer it in two ways from if you look at the prospective versus 2019 to where we are right now. There's clear point driven – in retail environment, sales drive tremendous amount of value. So being able to drive sales up over 50% growth has been a big driver of how we have been able to drive leverage in the fixed cost whether it is supply chain, occupancy, you can name it. So that's the one factor.

The second one is actually, I would say, we should go back and take a look at it because 2019, sometimes we say is not the right timeframe to look at it. The 2019, you have to look back and say what was happening in 2018 as to why we were at that, call it, \$300 million or \$400 million of EBT dollars because we were making a big transition. We were exiting the hunt category. And as part of that decision, we were transitioning not only the category, we were changing the square footage within the store and we were making investments to be able to exit one of the key categories of the business and key value prop to our athletes and transitioning that whole business over to the new categories. So where we have driven the growth is, first and foremost, is when we transitioned out of that hunt category, we were very purposeful in what categories we were going to lean into. And that's where we talk about the fact that the core four categories for us, apparel, footwear, team sports and golf. That clearly became the focus area of our top line trajectory. And that's exactly where we have seen over the last five years where the share gains have come from.

Then you come into the margin story, the drivers of margin again goes back to the four key categories and the access that Lauren talked about, the partnership, the relationship that we have with the national brands, the work that we have done with our own vertical brands. DSG brand, as a brand, didn't exist, was not even an idea that we had a brand called a Second Skin at that time. And if you look – CALIA was still pretty much in the infancy stages. It was a little bit more mature. So the work that we have done, not only with the vertical brand, but with our national brand partners, getting access to differentiated apparel, footwear, team sports, that has allowed us to, one, capture much better margin recovery. You're not open to the promotional intensity that may be in the marketplace. Vertical brands have 600 basis points to 800 basis points of higher margin. Our e-commerce business, which was always profitable, but because of the leverage that we were able to drive, because of having that platform in-house, has been a big driver of the profitability improvement. We launched buy online, pick up in store capability in 2019. The work that we have done on supply chain as well as on the value chain and being able to clear and get the much better recovery on clearance margin are the big drivers of why the merch margin is

significantly higher and why we have confidence that we can continue to keep these margins going and growing in the future as well.

And at the same time, we have been investing in capabilities. You and I were just talking about the RFID technology that we have invested for over two years now, and that is starting to bear fruit in terms of what we are seeing from driving labor productivity, being able to recover more effectively, the sales that are within the four walls that we may have missed out because you couldn't locate the product, those are the opportunities where we are able to capture those sales and profitability more effectively. So let me pause there. Hopefully, that gives you the bridge from 2019 to now.

So in terms of forward-looking expectation, I think you will have to help us the way we – the way we think about it is our goal is to drive sales and profitability over the long term. As you look at what we have done this year, we have beaten our top line sales expectations. We have grown our merch margin and our gross profit expectations significantly over our expectations that we have said. And what we are doing is we are using a portion of this beat and investing that back into the business and that's where the SG&A deleverage is coming from. But then at the end of the day, we are still growing our top line and the bottom line in terms of profitability growth. And that's kind of the framework that I look to future as well.

Our margin opportunities exist where we can grow differentiated products. We have just launched our retail media network capability. Vertical brands, we are I think – so we finished last year at \$1.6 billion. We still have a goal to get to \$2 billion. So the organic opportunities of continuing to improve the margins exist in addition to new capabilities around retail media network that can drive continued margin expansion as we look to the future.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Very helpful. Okay. House of Sport, let's talk about House of Sport. So when I remember when we went to visit the Boston one, the comment was made that you want to create an entity that would put your old self out of business.

Lauren R. Hobart

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

A

That's correct.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

So, typically, these prototypes are an evolution, right? We go 50,000, maybe a little bit bigger. But this is a revolution, right, in the store format. What was the vision that was going to put the old DICK's out of business? And why are you so confident that this is the indeed the right format?

Lauren R. Hobart

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

A

Yeah. I'll start. But House of Sport, for anybody who hasn't been there, is just an unbelievable experience. It's hard to explain. The pictures don't do it justice, but it's over 100,000 square feet. So it's like 2x what a typical DICK's store is. It's got climbing walls and a track and field and incredible experiences, incredible fitting room experiences. There's treadmills in the fitting rooms. You can try on clothes and see how they work. It's our best expression and it's the first step that we have in terms of what we're calling repositioning the portfolio. But at DICK's, to your point, we're not iterative.

We consider our DNA as like relentless improvement, that's part of our DNA. And that was Ed's challenge when he gave it to the team and said, I want you to come up with the store. If it opened across the street from us, it would kill DICK's Sporting Goods. So we thought big and we iterated and we now have come up with this concept that is working so well like athletes are resonating with it, the community is embracing it, landlords love it and it's driving traffic to the mall. And so we're getting better real estate opportunities as a result of that, and our brands are able to tell their story in an incredible way. We've got a showcase of all of the seasonal fashion items, which can be team sports by the way, fashion is different for us. So it's just been a win-win-win. Yeah. Have I answered your question?

Adrienne Yih*Analyst, Barclays Capital, Inc.*

Q

Yeah. Yeah. And you've also answered the part about going back like that's the moat...

Lauren R. Hobart*President, Chief Executive Officer & Director, Dick's Sporting Goods, Inc.*

A

Yeah. No. That's the moat, right, exactly. And the learnings from House of Sport are absolutely translating into our Field House concept, which is our 50,000 square foot version, so smaller but based on the same principles of incredible products, incredible visual presentation, service experience. So it's been a really wonderful project. It's inspired all of us.

Adrienne Yih*Analyst, Barclays Capital, Inc.*

Q

Fantastic. So also staying on House of Sport, same topic, different question. The question is that and we talked about this historically, retail investors get scared of DICK's stores. We just are. It scares. What I would say is that, you have the model up there similar for Walmart and so all that works. But over the horizon, right, we always see kind of like, future horizon risk. So what you're seemingly doing differently is that within that same market, you're opening this new format, but you're not leaving the existing – like the dollars are being funneled, that you're almost like store real estate balancing as you go along, not just putting something up next to it that is going to service the same [indiscernible] (00:30:19). So can you talk about why we should think about this version of what you're doing differently and why we shouldn't be concerned?

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

A

Well, so first of all, let's start with the economic returns of the store that we have opened in the first year itself is really attractive. So it's not like a lot of times when you have seen the retail investment that there is an investment story, you have to believe it. There's a second year or a third year return on that investment and the returns that we see in a year one are really strong. And so that's the first thing. The second is what we are also focused on is we don't want to have a tired, old chain as part of the retail evolution. If you look at it, you can look at so many retailers that no longer exist because they were unwilling to invest in their own chain to be able to keep the customer experience relevant.

In today's day and age, pricing and availability is ubiquitous where you are starting to differentiate is you have expertise, you have service in your store, can you really provide me a full basket solution that is solution selling and that's what House of Sport is all about. In addition to having a really innovative product, access to the product, service is really a focus. The engagement with community is a real big focus. So that's where – when we look at it like in Pittsburgh and we have opened a [indiscernible] (00:31:40) store literally across less than a mile

away was a store with a very high-performing, 50,000 box, very high performing 50,000 box. And we were very purposeful in saying that we can differentiate this marketplace in a very different way with the House of Sport location [indiscernible] (00:31:55) which was a very high-performing, very productive box for us. And we purposely disrupted that and the returns that we are seeing are really attractive. And so that's where it's like – for us, it's also about the fact that what can we do to serve the marketplace really well by leaning into the fact that our real estate portfolio is really flexible. We have 100 stores that come up for lease renewal each year, so we can be a little bit more forward-looking, looking into 2026 and 2027 lease openings [indiscernible] (00:32:25) these are really productive locations and how can we be reimagining the marketplace overall.

Adrienne Yih*Analyst, Barclays Capital, Inc.*

Q

Great. Sticking to the stores topic, so House of Sport, big numbers by 2028. Texas is a market where you're clearly underpenetrated relative to the general retail landscape. So you have 50 stores there now. You just opened two House of Sport transformations, right, I think they were – and they're doing very well. What is the Texas market size? What's that TAM opportunity for you? How many House of Sport can it support?

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

A

Yeah. So I won't lay out the full plan but, as you think about it, it started out with Texas is really – and it's an exciting market. There's a lot of growth happening in that market. We have 50 stores. The stores do really well. But at the same time, when you look at it from a distribution capability perspective, we actually have a little bit of a hole in the middle of the America because we have distribution centers on the East Coast. We have a distribution center on the West Coast. So as we talked about distribution, center opportunity and where can we be differentiating in terms of service being provided in the marketplace, Texas was a real good opportunity. Then we also have Katy and Baybrook, the two House of Sport conversions that we have done really, really exciting results. So we feel like there is an opportunity for us to differentiate and serve that marketplace in a very different way going forward. We'll share more about our 2025 opening plans as part of the next earnings call. But Texas is an exciting opportunity for us.

Adrienne Yih*Analyst, Barclays Capital, Inc.*

Q

Maybe can I ask it a little bit differently, what has been the kind of impediment to kind of having Texas kind of be more similar to the double-digit exposure that some retailers have, just straight footprint, mall footprint?

Lauren R. Hobart*President, Chief Executive Officer & Director, Dick's Sporting Goods, Inc.*

A

I mean, there's strong competition in Texas and we do believe that the more of the – we opened with a splash in Houston, I think, for the first time five or six years ago. So we're still relatively new to the market and we just need to keep driving because when people come to shop at a DICK's, they're having a really positive experience and we're seeing that in the results. We are doing a really fun campaign right now in Texas where we have four athletes in each of the four major cities vying to see who can become the DICK's chief holiday decorating officer and whether that's going to be Chris Paul or Simone Biles or Dak Prescott or Quinn Ewers like all four of them are competing and driving incredible buzz. So we're not from there, like we need to put our roots down. And we've been doing that for the past 10 years and really driving the connection with the athletes there.

Adrienne Yih*Analyst, Barclays Capital, Inc.*

Q

Right. Let me take a quick pause and see if there's any questions in the audience. Raise your hand if there are.
[indiscernible] (00:35:17)

Q

Hi. Navdeep, earlier today, you spoke a little bit about opportunities to potentially leverage your balance sheet in case there were attractive opportunities to buy back the stock. Could you just talk about that a little bit? It's been a while since you guys accessed the debt market. You're fairly underlevered. So maybe just walk us through how you're thinking about utilizing that one piece of your capital structure.

Navdeep Gupta

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

A

The reason I chuckled as we talk about what is underlevered, right, we say we are optimally levered from our balance sheet perspective because we are a very conservative company. As you look back to even before pre-COVID, when we were not investment grade, our intent was to not have debt on the balance sheet. And so you have a capital structure which we feel is really adequate. Investment grade status for us is really important, having sufficient amount of liquidity, having managed our treasury through COVID was tough and probably learning experience that you don't want to go through again. So those things make you a little bit more cautious in how you think about the capital structure and balance sheet.

Having said all of that, if you look back to what we have done over the last three years, right, we have returned 100% of the free cash flow to our shareholders. We doubled our dividend in 2023. And then you look at it, we have paid dividends for over 10 years now. So our focus continues to be, one, position the company for long-term growth, continue to invest in the company. So if you look at our CapEx profile, it's up to \$800 million this year. So that's the, first and foremost, the goal besides maintaining an adequate liquidity and capital structure. The second is to return the excess free cash flow and in a capital [indiscernible] (00:37:06) way to the shareholders. So our focus is continuing to grow our dividend and then be opportunistic from a share buyback perspective.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Thank you. Okay. No conversation would be complete without a conversation with Nike. So the Nike relationship has grown from sort of just under 20% of sales to almost than a quarter of the business now in 2023 – 24% in 2023. So I guess it replaced some of the other brands perhaps. So how should investors think about the concentration of Nike representation? Is it kind of like an ebb and flow kind of moves just as any other brand would within the portfolio, the composition? And to the extent that there are other globally dominant players, right, I think you mentioned this earlier on in 2022 when Nike had kind of said that they were going to partner with you, it sort of elevated everybody else's game. So they kind of come to you with their best stuff. Can you talk about those two dynamics?

Lauren R. Hobart

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

A

Yeah. So our Nike relationship is incredibly important to us. They are our largest vendor but they are only 24%. So we benefit from 80% of our shoppers come in and want a multi-branded experience and that's definitely part of our DNA. There was a time until we invested in premium full service footwear and really started to elevate our partnership with Nike from a strategic standpoint, getting more access to the cool shoes. We had incredible Nike apparel presentation pads, and we used to say like the kids would come in and say, okay, this is fantastic, but where's the cool Nike shoe that I need, and we didn't have it. That was an enormous – that's really the main driver

for the premium full service but [indiscernible] (00:39:01) so that we never have to tell a kid whether it's Nike or another brand that, yeah, we've got this, but you can't complete the outfit.

So naturally speaking, as a result of investing in footwear and getting access to that product and the mix goes up, I think there's growth ahead of us for sure with Nike because we still have allocation and access gains to have and we've seen a look down their pipeline and feel very excited about the products coming. But we also have a very balanced portfolio and our vertical brands continue to grow and we don't feel like we have an overexposure.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Fantastic. So I usually end with this question, what question do you get most from investors that surprises you and what question do you not get that also surprises you that you believe is important to understanding the DKS story?

Navdeep Gupta

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

A

Do you want to take that?

[indiscernible] (00:39:50)

Lauren R. Hobart

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

A

So I think the question that we get that still surprises me is just sort of this comparison back to 2019 because I guess I understood that for a year or two years, three years, but I just feel like we are such a fundamentally different business. It seems like it's time to move on and look towards the future rather than trying to understand the past and how far we've come. The part that we don't talk about although it did come up today and I'm grateful for it is just the power of our people at DICK's and the culture. I just don't think people ask about that. And it's probably one of the most important things. Our team is extraordinary. Our leadership team is extraordinary. But the culture, the enthusiasm, like we were on all store calls all weekend, it's joyous like it's a fun place to work. So I think that's probably so many people under-focus on.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

I agree.

Lauren R. Hobart

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

A

Yeah.

Navdeep Gupta

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

A

Yeah. I would say it's similar to Lauren but, sometimes, you have to look deeper under the covers of the transformation that we were driving because 2019 is what everybody starts to pick as a point of inflection. But that inflection began if you look back into 2016 and 2017. So our transformation was well underway. It just that it happened in the second half of 2019 and early part of 2020, right before COVID happened. So that becomes the compare point. But we internally talked a lot about 2016 and 2017 as truly when we started to go through the

transformation process. So that's probably the one that I would say still not understood very well. People tend to take the early point and say, oh, that was a low point of EBIT or profitability and here you are inflected. The other point that I'll build on what Lauren said that is starting to be a little bit better understood is the opportunity that we have with GameChanger.

Lauren R. Hobart

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

A

Yeah. Good point.

Navdeep Gupta

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

A

It's a fantastic tool that is out there. It's the best tool from a youth sports tech industry perspective. It's \$100 million size that is growing at 30% to 40% each year, extremely profitable platform. So not only are we excited about the platform and what it can do, what are we also equally excited about is the TAM in that space is \$30 billion to \$40 billion and here is a tool that is \$100 million. The growth opportunity and the dominant position that we can have in that space is exciting. What can we do at the intersection of the data between that exist and the GameChanger platform, which is so much more at the subscriber level and at the youth athlete level, couple that with the data that we have at DICK's Sporting Goods itself, that's another really exciting opportunity as we look to the future.

Adrienne Yih

Analyst, Barclays Capital, Inc.

That is a wonderful place to end the conversation. Thank you so much and thank you for listening as well. Thank you.

Navdeep Gupta

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

Thank you.

Lauren R. Hobart

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

Thank you very much. Thank you.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Thank you so much.

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