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Dick's Sporting Goods, Inc. (DKS)

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Simeon Ari Gutman

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MANAGEMENT DISCUSSION SECTION

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Hello, hello, hello. Sorry for the delay. Hi, everyone. I'm Simeon Gutman, Morgan Stanley's hardline, broadline, and food retail analyst. Welcome to day two of our Global Consumer and Retail Conference. It is our pleasure to welcome DICK'S Sporting Goods represented by Ed Stack, Executive Chairman; Lauren Hobart, President and CEO; and Navdeep Gupta, EVP and CFO. Going to make a quick introduction, read the disclosure. Oh, and their Safe Harbor language on DICK'S Sporting Goods website, please see that. And then, ask the first question and have a seat.

Yesterday, I introduced another company saying it was the greatest retention of margin post-COVID. While DICK'S hasn't had all of it – retained all of its EBIT margin post-COVID, it is one of the biggest transformation stories post-COVID. I think part of that is there was a lot of change happening in the time leading up and they've amplified those changes in a megatrend category, and most recently going big with stores in a time when retail was mostly shrinking.

They've also gone small recently with the recent acquisition of Foot Locker in a category where they have a lot of expertise. And to be fair, we have been mixed on it because of questions that we didn't understand properly, and we're getting more clarity. So, we think it actually has among the best asymmetry in all of retail.

I'm going to turn it over to Ed in a second. There's a video circulating on Morgan Stanley that shows that Ed actually has a pretty mean spiral. So, take a look if you have a chance. So, for important research disclosures, please see the Morgan Stanley Research Disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

QUESTION AND ANSWER SECTION

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

To start, can we talk about this business transformation? I think it's an important precursor to where we are today. What was changing in 2019? How is the business different than pre-pandemic to today, and how have those changes positioned DICK'S for the future?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Thanks, Simeon. Thanks for having us, and thanks for everybody coming out to the talk with us today. I think the transition post-COVID, we talked internally that we don't do anything the same as we did in – starting in basically 2016, 2017. From the products we carry to the way we're merchandised in the stores to what we're doing from a marketing standpoint, the presentation in the stores, what we do from a distribution standpoint, what our e-commerce business is right now, we do virtually nothing the same as we did back then. And so, we've really evolved and elevated the business. A big part of that is the House of Sport concept.

And we did that – we probably started the House of Sport concept probably close to 10 years ago now. And the idea was that we were going to build the store of the future. And we designed it all, we kind of went through the whole process and designed it. And in our office, we've got about 25,000 square feet down in the basement where we can build different displays. And so, we build all these displays before they get to the store.

And we built part of it, and as we walk through it, sometimes things don't translate from paper to reality the way that you had hoped it would do. And when we kind of – when we did that and we walked through it, as I walked through it and Lauren and team and we said, it's not different enough from what we do today. And so, we scrapped it.

And we came back probably seven years ago to do this again, and developed this – what the store of the future would look like. We called it the ecosystem of the future because we knew we wanted to have a digital component of that. We wanted to have a community component of that, a service component of that, and then always the product component of that.

As we kind of – we talked about this and the North Star that we laid out was we need to build the concept that will kill DICK'S Sporting Goods. We're going to build the concept that if somebody else built this store across the street from us, traditional DICK'S store, we'd be out of business. And I think that's exactly what we did.

And when we built the first one, Nike came in. And Nike – we were walking through it with Nike and they said, this is the best expression of sport any place in the world. The question is, can you really scale it? Is this just a flagship store that looks great? Going to lose money, maybe breakeven, but is this really scalable? And we thought, it's definitely scalable. And we've done that.

So, since 2022, when we opened up the first one, to now we've got 35 of these, they are extremely productive. We've kind of laid out what the economics are, what the sales are, what the EBITDA margins are. We are going to continue to build these. We've opened up 15 of them this year, we'll open up roughly 15 of them next year and going forward. And it is really redefining the industry. It's also given us an opportunity to be in some of the most iconic real estate in the country that, five years ago, we wouldn't get access to.

So, that's the mall at Palm Beach Gardens or the Cerritos Mall in LA or Tysons Corner outside Washington, DC. We have access to these pieces of real estate today. And where we've put these in some of these really high-performing malls, the sales numbers here are just out of this world and we're pretty excited. And there are a lot of other things we've done from an e-comm and youth sports that you can kind of talk about.

Lauren R. Hobart

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

A

Yeah, yeah. I think the way to think about the four strategic pillars that we've been working against, we've worked differentiated products. So, some of that investment that we made in footwear DICK'S 10 years ago so we could actually have a sit-and-fit environment opened up an entire new category for us and ultimately became the House of Sport. But the way we focus on athlete experience, focusing on the e-commerce site, as well as the in-store experience, making sure our teammates are trying to get the perfect gift for athletes.

We actually say our vision is to be the best sports company in the world, so we don't say the best sports – retailer sporting goods. We want to be the best sports company in the world, and that's elevating all of our teammates to think of themselves as people who are delivering the perfect either gift for holiday or the perfect product for an athlete. We also have a huge focus on our teammate experience and our culture, which is really important, and our brand.

So, the DICK'S brand means so much to so many people, and the charitable aspects and the fact that we want kids to play. But we always speak with our brand voice and our belief that sports change lives. Those four pillars have really been unbelievably successful through that thread of the whole 10 years that Ed's been talking about.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

And maybe just to rephrase, because the market share of the business, the ability to take has profoundly changed.

Lauren R. Hobart

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

A

Yeah.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Granted there was a period of disruption in the 2000s from e-commerce for every retailer.

Lauren R. Hobart

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

A

Yes.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

But what you're growing at today and through the last several years when most retailers were shrinking, is quite different. And I think if I'm hearing it right, merchandising, teammate experience, and this brand elevation.

Lauren R. Hobart

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

Yeah, and athlete experiences. Athlete is our consumer, so customer experience.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Yeah.

Q

Lauren R. Hobart

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

Yeah.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

So, the stripes question, the zebra in the room now, which if we can call it that way.

Q

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Never heard it put quite that way...

Q

Lauren R. Hobart

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

That's clever.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

...but everybody knows what it means.

Q

Lauren R. Hobart

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

Yeah, yeah.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

That's good.

Q

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay. You're just being nice, but...

Q

Lauren R. Hobart

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

No one has ever said that before.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Okay. So, Foot Locker, I almost don't want to ask anything. I just want to open it up to Foot Locker. What was the strategic rationale? And then, I'll ask some questions with that.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah. The strategic rationale for us was that, we've always thought that footwear is the engine that pulls the train. So, every athlete needs footwear, whether it's that they're running from a training standpoint or to play basketball in or to – footwear is the engine that pulls the train. And this gives us the ability to be so rooted in in the footwear business, gives us the ability to be much more strategically involved with the key brands in this industry, and gives us a global footprint to access a part of the market that we've never had the chance to do before from a global standpoint.

And the Foot Locker consumer also is a more urban consumer, more urban driven. To put a House of Sport in Manhattan, I won't say it's never going to happen, but I can't imagine it ever happening. The rents are just so high, the economics don't work, and we're not ever going to build these stores that it's okay to lose \$5 million, we're going to chalk it off to marketing. That's not the way we do things. We've never done it. I can't imagine we'll do that. It gives us the ability to access a consumer that we'll just – we won't be able to access with DICK'S.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

The biggest opportunities in terms of merchandising, category mix, brand partnerships, can you elaborate on that, please?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah. I think somebody asked me a really interesting question in one of the meetings upstairs a few minutes ago. And the question was, what is the most misunderstood aspect of Foot Locker and DICK'S acquisition of Foot Locker? And my answer is really simple because the most misunderstood aspect of this is how simple this turnaround is. And not that it's not hard work, but we know exactly what we need to do, we know exactly how we need to do it, we know exactly who's going to do it, we knew exactly who's going to partner with us on it. And this is basically back to retail 101.

So, the previous team that was running Foot Locker really got away from retail 101, to have the right product, the right place, the right store. They didn't have the right product, they didn't have access to the right product. We'll have access to that product. We'll have it in the right stores. Distribution was really difficult. The – it is crystal clear to us what we need to do and we are well on our way to doing this. We have put together a world-class management team to run this.

So, Ann Freeman, who's running – who's President of Foot Locker North America, was a longtime Nike executive. Her first job was in a Finish Line store selling shoes, so she's a real sneakerhead. The new team that's come back into Nike, whether it's [ph] Elliott and TP (00:10:33) and the group, love Ann, a great respect for her, want her to win, want Foot Locker to win. I think the Street also doesn't quite understand that all the brands that we've talked to want Foot Locker to succeed. All these brands need a stable, growing, viable, predictable Foot Locker that they haven't had in the past, and they are all in in helping us helping us turn this around.

We've got a lot of work to do. So, the solution is simple, the work is hard. As we're talking about cleaning out the garage that we talked about in our last earnings call and getting rid of this inventory that's out there, getting things – getting a fresh start in 2026, and some people have asked, so why not better in Q1 and Q2? Well, we hope it's going to be better in Q1 and Q2, but we – our team did not buy the product for Q1 and Q2. We're still – from a future standpoint, the product that's going to be coming in was bought by a previous management team. Most of them are not here any longer. And the first time that we were able to touch the – and build the assortment for what Foot Locker's going to look like is in the back-to-school time. And that's why we say that you'll see a real step change in back-to-school.

Lauren R. Hobart

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

A

If I could just build on what Ed's saying, some of the opportunities, the retail 101, the strength that we have at DICK'S and that Ed is spending a ton of time with the Foot Locker team just kind of through osmosis translating, they are those core strengths. So, the ability to have the art and science of merchandising, visual presentation and telling stories and making sure people know what's important. So, we have this 11-store test that is being created that is really doing well. It's totally small and short amount of time, but we're thrilled with that. It's a visual presentation.

The art of building a brand and actually driving traffic, amazing. And then, the brand partners and the fact that we've had this incredibly long relationship that's been strategic and excellent for all these years, now we are a bigger global partner. Those are all things with the overlay of just operational excellence. Those are the things that we at DICK'S are going to bring to Foot Locker and they are the exact things that I think will turn the company around.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

When Ed was answering that, I was thinking of the post-COVID change in DICK'S percentage of high-heat merchandise...

Lauren R. Hobart

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

A

Yes.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

...and how it improved the gross margin.

Lauren R. Hobart

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

A

Yeah.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

And if you follow Foot Locker's erosion in gross margin, it followed the proliferation of some of the brands across other end markets. Is that a fair construct to think about?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Absolutely. And if you take a look at the biggest deterioration to Foot Locker and their profitability was their margin rates. Somewhere between, however you calculate it, 500 to 600 basis points of margin erosion. And we think we can reverse that trend. So, we're not going to kind of say what it's going to be, but we can reverse that trend.

And we've got an 11 – Lauren started to talk about this 11-store test that we've done. So – and we knew we were going to do this as we're going through the due diligence process. We said, okay, when we close, this is what we're going to do on day one. And it started literally on like day 10, we really started to do this. We didn't waste any time in doing this. And we took – taken 11 stores and we're taking all of the merchandise out of the store and re-layout the wall.

If you went into a Foot Locker store, and still all the Foot Locker stores out there other than these 11, the vast majority of them, if you walked into a Foot Locker store and looked at the wall, it was merely a run-on sentence, just a bunch of shoes stuck on the wall, not really kind of organized to – so when you walk in as a consumer to know, hey, this is the franchise that's really important, whether it's Nike Air Force 1s or the New Balance 9060 or the Campus at that time, there's nothing that it showed that this is important. We took all of that product out of the store and we re-laid out the wall. So, when you walk in, you can see the franchises that are important. There's roughly 30% less SKUs in these stores that we've redone. And I will tell you, the sales, we are – we'll just say we're really enthusiastic about what we're seeing.

The other thing that we did is that the Foot Locker over the last several years has, for the most part, exited the apparel business; and we've put apparel back in the business. Now, this – what we've got in these 11 stores is not exactly the perfect apparel assortment that we would pick if we could do it from scratch. We cobbled together what we could, and the apparel business there is much better. So, we see some real green shoots that we're really excited about this.

And I come back to the idea that the fix is simple, the work is hard. And the team that we've got working on this Foot Locker Business is all about rolling up their sleeves in hard work. And they've talked about – I spend every other week here in New York in Foot Locker's offices, and this team is having – they're working really hard, but they're having a blast. If you sat in on these meetings, you'd think that these guys are having – that these men and women are having the time of their life doing this. They love solving hard problems.

Lauren R. Hobart

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

A

Yeah. And then, because they're so good, and that's enabled the DICK'S team to stay completely focused on the DICK'S flywheel, which is one of the absolute prerequisites of doing this deal. We could not take our eye off the ball. DICK'S has so much momentum driving great business, so that's really been successful and it's a key part of why it's working.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

The thesis on the North America Foot Locker Business, if it wasn't clear, hopefully it's clear now. International and other assets was – is still a little surprising. What is the thesis behind those assets?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

So, the international business, we're keeping that, so we're not we're not getting rid of that. And if you go back to pre-COVID, international business was a very profitable part of Foot Locker's business, and the international business really got forgotten about. The team came in, they changed the reporting structure of what EMEA was. EMEA in the past had kind of kind of run – a group at EMEA ran it kind of independently.

When the team came in, a lot of the silos or a lot of the working – the team reported to some counterpart in the US, and they never really got out there to see the stores work with them. The capital going into those stores was stripped out of it, they didn't invest in it, they didn't invest in the people. They had the wrong people, we've changed those out.

And we've just hired a guy, Matthew Barnes, who was the CEO of ALDI grocery in UK. And we really felt that you needed to have a European and a European team running the European business, and that's what we've done. And quite frankly, North America is ahead of EMEA in this turnaround, but it will get there. But it's a little – we're further ahead in North America than we are in – from an international standpoint, but not terribly far behind.

Navdeep Gupta

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

A

Yeah. Simeon, let me just build on what Ed said. In addition, as you imagine, our partnership with the brands is a global. Those are all global brands. And so, this now gives us an opportunity to have a global-level conversation. And what Ed talked about, whether it is access or allocation or how the product was bought, that opportunity is even apparent when you look at the international businesses.

And when you talk to some of the international brands, they exactly tell you the same thing, that there's so much of low-hanging fruit in just buying the product better. So, that playbook and the relationship will be really important in that international turnaround as well.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Last one on Foot Locker – sorry to interrupt.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Okay.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

The approach you took to the fourth quarter markdowns, dimensionalizing it. You made a point earlier that I heard. I think it's important, the idea of hopefully not revisiting any setbacks from this point on. Is that reasonable?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah. I mean, it's a crazy world out there. You never know you're not going to have any setbacks. But we're trying to get all of this done at one time. And that's why we've said, hey, in the fourth quarter, expect our margin rates to

be 1,000 to 1,500 basis points below what Foot Locker was last year, because we're cleaning out the garage, we're getting rid of all of this product that we – that shouldn't have, that's old, that hasn't been – hasn't selling.

Our margin rates are going to be down. They're going to be down. Our comps are going to be down mid-single digits to high-single digits. And the reason we're doing this, this is all the foundation that we have to do to build – to have a fresh start in 2026. And we're making all those – we're doing all those things and get it out of the way.

We don't want to have it death by 1,000 cuts. We don't want to tell you, hey, we're going to have this charge in this quarter and then come back and tell you another charge in the first quarter and another big charge in the second quarter. We're trying to get all of this under our belt. We've done a really – our team's done a great job of identifying the issues and what the concerns are, and we think we think we've captured it.

Lauren R. Hobart

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

Yeah.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Holiday season, how is the consumer shaping up? Felt like Black Friday, the stores were packed. We're seeing some of the sales results come in fine, not gangbusters. So...

Q

Lauren R. Hobart

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

Yeah.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

...open ended.

Q

Lauren R. Hobart

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

Well, we don't comment on inter-quarter but thank you for asking. But I will say, our consumer has been terrific. I mean, we just came off of Q3. We've had seven quarters in a row now with a comp over 4%. We came off a 5.7% comp in Q3, which two year's back is 10%.

A

So, our consumer is clearly saying that sports are important. The intersection of sport and culture has never been higher, and the influence that sport has on the lifestyles of the culture in sport and vice versa has never been higher. We are in a fantastic lane from that regard.

Our products, our stores, our e-comm site is pumped and ready, our teams. I mean, I mentioned culture, but if you could see the enthusiasm of our team to get people into the right product for them, it's pretty special. And so, we are – we just took our guidance up for the – for Q4. We're very enthusiastic about the holiday season.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

How are you approaching pricing and promotion as the season unfolds?

Q

Lauren R. Hobart

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

Yes.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

I'm sure you have a plan.

Q

Lauren R. Hobart

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

Yes, we do. Navdeep...

A

Navdeep Gupta

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

Yeah. So, we keep a close eye on the pricing and promotion, especially during the fourth quarter and during the holiday season. From an overall pricing perspective, if you think about it, we expect the promotional landscape to be relatively similar to what it was last year.

A

But when you look at the guidance, to build on what Lauren said, we raised our comp sales expectation, we raised our margin expectations as well, that we expect the margins to continue to expand in the fourth quarter on a year-over-year basis versus the third quarter. And we still kind of believe that we'll deliver an expanded margin on a full year basis, both on the merch margin and on the gross margin side.

Lauren R. Hobart

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

I mean, one other thing I want to add. When you look at our Q3 and what we're excited about for Q4 is the strength across the whole business. So, if you – we have a footwear focus, we have apparel, we have team sports, we have golf. When you think about back-to-school, you would think footwear, apparel, team sports, check, check, check. And obviously, with a 5.7% comp, we saw growth in those categories. Golf also is having an incredible resurgence right now. So, we are seeing broad-based growth and across the entire portfolio of categories.

A

And we're adding things like the trading card Collectors Clubhouse, which is a whole new business for us that we're very enthusiastic about. And things like World Cup, which are coming, which goes back to the influence of sport and culture. We're already – we've got the World Cup balls in our stores are flying off the shelves, license in general is doing fantastic. So, that's what – that's why I think we love the lane we're in. It's the consumer's holding up, and then also, the breadth of the categories.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

House of Sport, talked about disrupting yourself. Can you talk about the path to 75 to 100 stores? I feel like we're getting close to a year three store, so a lot asking about comping the comp, and then talking about the leverage points as you look into the future.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

So, from a House of Sport standpoint, we're continuing to open those stores. We're continuing to be excited about them. As I said a few minutes earlier, we're getting access to real estate that we wouldn't have had access to in the past. And so, we think that's going to drive some additional sales where we've been able to get into those high-performing malls at \$800 to \$1,200, \$1,500 a square foot. The stores – those stores have been great. We're – House of Sport's working very well.

There are some tweaks we're making to it. As Lauren said, the collectibles business and the trading card business. Michael Rubin and Fanatics are doing a great job of really reinvigorating an entire industry. And any of you've got 12 to 15 year old, 16, 17 year old kids. I mean, these trading cards have been just phenomenal. So, we're continuing to do that. We've got new brands coming in there. We've got Gymshark in the – in 12 House of Sport stores right now, which we're really excited about.

Our vertical brands, we're getting more spaces with our vertical brands in House of Sport. And we've got a number of things in House of Sport that we're taking down, have taken down to the more traditional, what we call, Field House concept that have worked extremely well. So, right now, knock on wood, things are things are pretty good in House of Sport and DICK'S, and the team is operating at a really high level and we're pretty enthusiastic.

Navdeep Gupta

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

A

Yeah. Simeon, to build on what Ed said, like the stores that have matured as well, we continue to be really happy with the performance that we are seeing, both on the top line and the bottom line. The excitement that Ed – that Lauren and Ed talked about between the Collectors Clubhouse bringing new, innovative, and more exciting brand. What is resonating really well with the consumer right now is the newness and innovation.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Navdeep Gupta

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

A

So, the more innovation and newness you are able to bring in front of the customer presented in the right way, visually appealing way, the work that our visual team is doing in these stores, the level of excitement is really, really, really good.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

GameChanger, it's now at 9 million users and growing. Can you talk about what excites you the most about it? And I do – want to ask now that we have all these exciting parts of the story – Foot Locker, House of Sport, GameChanger – does your focus on other parts of the business take any of the momentum away from that GameChanger business?

Lauren R. Hobart

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

A

Absolutely not. I'll start and, Navdeep, I'll you finish. But GameChanger is an incredibly special part of our business and nothing has changed in terms of our focus on that. So, you're right, we have 9 million unique users. For anybody who is not a parent of a baseball or softball kid, you may not have experience, but it is the number one scoring and stat app, and you can video – live stream video your kids games.

So, it's allowing parents and grandparents across the world, and even we've got military parents who are watching and being able to engage with their kids that way. Grandparents who are doing that. It's an incredible thing. The synergy between the DICK'S customer and the GameChanger customer is incredible, obviously. And if they're – if they are a GameChanger athlete and a DICK'S customer, they are our best customers. So, that's another fantastic piece of it.

The last thing I'll say before turning it over to Navdeep is the Media Network that we're building is – has – we've got a ton of assets, but GameChanger is the most unique asset that we have in that it's its eyeballs of youth sports that can't be acquired anywhere else in the marketplace. And we can provide athletes, fans, grandparents, parents with highly relevant advertising at a point where they are super engaged. And so, win-win for everybody. Navdeep?

Navdeep Gupta

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

A

Yeah. So, Simeon, to your question, like do we have enough focus within that? It goes back to what Ed said. There is a dedicated management team that is leading that business. I know you have had a chance to meet with Samir. Samir and his team is doing a fantastic job. What gives us even more excited about this opportunity is when you look at the size of that industry, it's \$40 billion is the youth sports tech industry that is growing really fast.

And when you think about the opportunity that we have a GameChanger, which is the SaaS platform, \$100 billion of revenue last year, continuing \$100 million of revenue last year and very profitable. And we continue to believe that the growth of 30% to 40% in this business is very reasonable expectation because of the new sports that the app is now going into. Now, you have capabilities in basketball, volleyball, flag football are the new sports that we have launched on that app. and those are all resonating really well with the athletes.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

I think one more piece of this, too, is the – this whole youth sports platform and construct, the investment we made in Unrivaled. We led the last round of funding for Unrivaled, which is actually – they host the tournaments and host the events that these kids planned. And we think that there's a huge opportunity there, too. So, there's a whole ecosystem that we're investing in that we think will pay off dividends going forward.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

And you get subscription revenue vis-à-vis GameChanger. You turned on the media, the ad spend. Can you tell us where that is? And then, the flywheel of those customers ending up shopping at DICK'S?

Navdeep Gupta

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

A

Yeah. So, let's start with the last question first because the athletes that are on the GameChanger platform and are the ScoreCard members are the most engaged and the most loyal athletes that we have. So, that's the core part of the flywheel. And to your point, I would say, we are in not very, very early stages, but we are in middle stages of our DICK'S Media Network and the GameChanger capability. Excited about the opportunity.

When you think about the engagement, an average person that is watching, that is on the GameChanger platform, they're spending on an average about 45 minutes on that platform. So, the level of engagement, the level of how frequently they're coming back to the platform itself is a very unique opportunity that most of the companies don't have from a live sport opportunity to kind of showcase the DICK'S Media Network.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

And the growth rate that you generally mentioned on that \$100 million. That includes media or is that simply subscription?

Navdeep Gupta

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

That includes media.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay.

Navdeep Gupta

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

Yeah. So the \$100 million that we have talked about includes the media. But like I said, it's on very early stages.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay. Can we talk about brands? You've done a great job attracting the most relevant brands and then amplifying them on your platform. I won't mention; you can feel free to mention, but talk about where you are in brand evolution and then what's new. You mentioned a couple in one of the previous answers, but brands in general.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Our brands like...

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Oh, I'm sorry, key brands. So, I'll name them now, like HOKA and On and others.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Okay. Yeah, yeah. I think we've got a great relationship with all of these brands and they're very important to us, we're very important to them. When you take a look at what we've done from an On standpoint or what we've done from a Free People Movement. We've got Gymshark and are the first retailer to have Gymshark in the US, which has just been kind of off the charts in the stores that they're in right now.

We've got a great relationship with Nike. And we're really excited about what's going on from a Nike standpoint, what they did with the running construct around the 9box and in the Pegasus and the – and Structure and Vomero have just been out of this world, and how much market share they've picked up. And I think Nike's got a huge –

it's great for our industry, it's great for our business. It's great for Nike, too. But I think there's a lot of opportunity ahead with Nike.

And then, other brands that are out there, what's going on from a team sport standpoint, where we're going with the relationship we have with Fanatics around the license business, the team – so, the Jersey business, and then the collectibles business and the card business. There's just so much going on right now. And fortunately, we've got a broad-based management team that are focused on each of these businesses that are really doing a terrific job.

Lauren R. Hobart

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

A

Yeah, there's high-heat things coming out of categories we never saw before. So, like bat launches are happening and liquidating in moments. It's just there's – newness is a theme, that the consumer wants newness, they're willing to pay for products that help them perform better.

And the House of Sport has been an incredible opening point for us to engage with new brands who've maybe previously would have been a little worried to engage with a big company like a DICK'S Sporting Goods. We're able to bring them in, start with just, right now, Gymshark's in 12 House of Sport. And then, they get comfortable with us, they build the trust, and we can continue to roll. It's happened multiple times.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Connected to brands, marketing and merchandising related to World Cup, Olympics. Is that product already starting to enter into the...

Lauren R. Hobart

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

A

Oh, yeah.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah, yeah. The – I think the World Cup is going to be the biggest sports moment this country's ever had. I think they did a great job on how they've organized how these matches are going to be played, that – opening up in LA and they're going to have matches and in LA and they're going to have matches in Dallas, in Atlanta, and it finishes up in New York. And this is going to be – the World Cup in the weeks that they go through all the matches is going to be the biggest sports event the country's ever seen.

That's what we love about the lane that we're in and this whole kind of cross-section of sport and culture that we're right in the middle of that the country's having this sports moment. We've got – kind of take a look at what's going on in women's sports in the WNBA and the World Cup here in 2026 and the Olympics in LA in 2028, and what's going on from the next – the Women's World Cup is coming back here in the early 2030s.

And so, there's a five-, six-, seven-year window here that sports are going to be even more central to this country than they are today. And we're the most sports crazed country in the world, and what's going on right now is great for our business and we are right smack in the middle of it. We're in a great lane and it's our job to make sure we optimize that and be the choice for these consumers. In the World Cup jerseys, as Lauren said, the balls, it is just – it's going to be great.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

What does agentic commerce mean for DICK'S? And then, can you talk about the applicability of AI into the organization today?

Lauren R. Hobart

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

Yeah. First of all, I watched your podcast. I listened, I couldn't watch anything with the screen, but – a few days ago on agentic, and I think it was very helpful and it's consistent with how we're thinking about it. So, there's three buckets of opportunities as we look at it. First of all, there's teammates, our employees, and the efficiency that they can – that we can drive to give them the tools to be even better. And we've got to focus on that.

There's the athlete experience, helping them get into the best products, how do we make our teammates smarter to get them the recommendation engine that they want? And then, there's just new growth opportunity. So, GameChanger's been very advanced in using AI, even the basketball games that they film can – they have automatic report they can score for you, all of that.

I would say, though, as we look at it, we are in – we are – we have experiments going where we're all in early innings on what this is going to be. Obviously, the whole world is changing, so we've got things going on with labor management planning and sort of more machine learning. We've got regional relevancy, sizing curves, all of those things that I would say, again, early inning marketing, we're making a big bet next year and really changing how we produce our marketing.

The ability to act – to have highly-customized, highly-personalized content is another area we're investing. And when you guys were laying out sort of the pros and cons, I think the thing that made me very happy is we have a differentiated assortment of products, which is going to be, I think, a key driver in an AI-enabled world, an agentic commerce-enabled world. And we have incredible speed of distribution, so the fact that we are – our 800-plus stores, we are within a very short distance of most customers and our speed of service just keeps getting better.

So, I think if you – I mean, our stores this this year on Black Friday, without getting into anything, like they are accelerating and accelerating. We ship – almost 90% of our products come out of our stores because that's how we get closer to the customers. They're doing an incredible job getting it faster and faster. So, early innings but we're excited about the growth opportunities that we see.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Have you named your agent?

Lauren R. Hobart

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

It's Lauren. No, I'm kidding.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay.

Lauren R. Hobart

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

No, we have not named it. [indiscernible] (00:35:23) it's Ed. It's Ed.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay.

Q

Lauren R. Hobart

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

No, we haven't.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

From an AI standpoint also, what we see going on at Foot Locker has been fabulous, what they're doing to AI embedded into the merchandising system and how we can analyze the business and...

A

Lauren R. Hobart

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

Yeah.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

...what products are being sold with what categories of business. And it's going to be a very productive tool that we'll be able to use to manage our business and grow our business.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Maybe we'll close on margins, profitability. There's been a step change. We're now in the low double-digits post the COVID era. Premise is that it should expand over time next several years with Foot Locker with it as well. So, can you talk about the construct?

Q

Navdeep Gupta

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

Yeah, the construct doesn't change from what we have been saying. We – what we have consistently said is look to us to drive top line sales and the bottom line profitability improvement. And then, within that, if you look at the investments that we have been making, GameChanger, DICK'S Media Network, then like the machine learning capabilities that Lauren talked about, those are the investments that are yielding strong margin expansions that we have talked about. The early innings in terms of GameChanger, DICK'S Media Network, those will be drivers of the margin expansion into the future, but the rubric does not change. We will drive – our focus is going to be continuing to drive the top line and the bottom line improvement.

A

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

What about geography, though, within the P&L because there's some pressure maybe from House of Sport on SG&A? Does that ease and there's more contribution from gross for vice versa?

Navdeep Gupta

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

A

It'll be a combination of both things. So, like, for example, 2026, we'll opening a new distribution center, so there may be an investment that'll go into that. But then, this is where [ph] we said (00:36:58) we have plenty of flexibility in our cost structure from an SG&A to be able to deliver a bottom line improvement, even with those investments.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Good. Okay. Well, on that note, thank you very much for being here.

Lauren R. Hobart

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

Thank you for having us.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thank you.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Have a great holiday. Have an excellent 2026. And we'll be watching Foot Locker closely.

Lauren R. Hobart

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

Thank you.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Appreciate it.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

We will. We look forward to it.

Navdeep Gupta

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

Thanks, Simeon.

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