

08-Apr-2026

Dick's Sporting Goods, Inc. (DKS)

JP Morgan Retail Round Up Forum

CORPORATE PARTICIPANTS

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OTHER PARTICIPANTS

Christopher Horvers

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Christopher Horvers

Analyst, JPMorgan Securities LLC

We're going to kick it off and talk a little bit about Foot Locker. We've looked at the Foot Locker acquisition as in terms of like playing long ball in terms of balancing the power between you and the vendors. At times, in the past, vendors have been irrational at times, and it seems like this is your longer-term vision to try to create more stability in the relationship. And then obviously there's a lot of substantial retail 101 margin improvements.

QUESTION AND ANSWER SECTION

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

So our first question on the topic, is that the right way to think about it? Is it – or I think the bear case is that it's sort of a necessary means to expand your TAM because you have such high share in your core Dick's business?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah. Well, thanks. It – it's nice to be here, so thanks for having us. It's not to increase our TAM. I mean, our business is a pretty good-sized business right now. We've only got roughly 9% market share here in the US. So, we've got a lot more market share that we could go after.

The Foot Locker acquisition was really about a different consumer than what the Dick's consumer is. It was really about the fact of we thought we could create some real value in Foot Locker based on the fact that they kind of did kind of forget about retail 101, the due diligence we did and all the things that we looked at from a Foot Locker standpoint. There's a big opportunity in Foot Locker from making sure that they've got the right assortment, and the retail execution that we can bring to the business is pretty substantial.

So, we couldn't be more excited about Foot Locker. I've said before and I'll say it because it's Masters week and use a golf analogy, if we had a mulligan, we'd buy this all over again, and we would do nothing different. We just think there's that much of an opportunity. So this was not a defensive play. This was not a kind of – I'm not sure I would characterize the brands as irrational, or at least I wouldn't say that publicly. You can't, I can't. But it really wasn't about that. It was really about the value that we can create, a different consumer that we can service, that we don't service at Dick's today to give us a global footprint that we don't have today, and that we think that there's a very big opportunity.

And as we've gotten into this, since we closed, we're even more excited about the opportunity than we were when we first bought the business.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

You've talked about vendors being very supportive of the acquisition and getting behind the merchandising changes that you're trying to do there. Have vendors voiced any concerns? And as you think about what investor questions have been asked of you, what's been the essentially the pushback, if any, from the vendors and from the investor community?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

So there's been no pushback from the vendors at all. The vendors couldn't have been more supportive of us doing this because they see the potential of what Foot Locker could be for their business also, and it wasn't living up to the potential that they thought could help their business. So, the brands couldn't have been more supportive of this. They helped us with the whole idea of cleaning out the garage, they've helped us from an access standpoint, allocation standpoint and really want there to be a growing, vibrant Foot Locker. So, they couldn't have been more supportive.

The investment community is all the things that you would expect it to be, and it's why did you do this? Your business is doing so well, why would you do this? Well, the answer is all the things that I just talked about that gives us a global footprint, service a consumer that we don't service today, and we see big upside, and we understand all that.

The other piece of this is, can you really turn Foot Locker around? We believe we can. We do understand that we're kind of in a bit of a wait and see aspect that the vendor – the investor community wants to say, okay, great, we've got a lot of trust in you and what the management team, Lauren and Navdeep, myself, the rest of the management team have done, we've got great confidence in you.

But we really want to see if you can really do it. And I can tell you, we really can do it, and we'll prove it to you and we understand that that's the kind of the rules we – the rules of the game and we'll go do that. But other than that, that's kind of what we've heard from the investors, and like I said, the brands are totally jazzed that we did this.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

As you think about the 11 Fast Break Foot Locker test stores that you opened last quarter or opened and had for a full quarter, how did these stores – I think some of us have been in the stores, but can you maybe help us visualize how those stores are different from what the old Foot Locker stores looked like, and what have been your biggest learnings so far?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah. The big difference between us, and heard me kind of talk about this when we were buying Foot Locker. If you walked into a Foot Locker store and looked at that wall of shoes was merely a run-on sentence. Just a bunch of shoes stuck in a wall. There was nothing really – you couldn't tell what was important. There was – couldn't tell what the story was you were trying to tell.

And when we did this, and we had planned this, because when we went through the due diligence process, that was the plan. As soon as we closed, we were going to start this Fast Break process.

And we took everything off the wall. We took roughly 30% of the SKUs out and rebuilt the wall and laid out what was important to the consumer, what was the hot shoes, what story we were trying to tell, and had a huge impact on the business, on those 11 stores. And we did this across some stores that were lower volume stores, higher volume stores, some street stores that you would find here in New York City, some mall stores. We did a real cross section of those.

And we've – we're really more than pleasantly surprised of what went on. We brought apparel back into the stores, because they had taken a lot of the apparel side out of the stores. We put apparel back in there, and the results were great.

Around the NBA All-Star Game, we went – we did 10 more of these stores in LA and got the same type of result. And now what we'll have is we'll have around 250 of these stores in the US by back to school that will have been Fast Break. We will have done the same thing that we did with these 21 stores now, we'll have done that with 250, and we're pretty excited about the results.

When doing this, the brands have come to us and said, hey, we like what you're doing. We can instantly see when we walk into the store how different it is, and they've given us access and allocation to product that Foot Locker didn't have before. We've taken these Fast Break stores.

And one of the things that Foot Locker had kind of gotten away from looking [ph] as (00:07:04) important was the lease line. So, the lease line is really the billboard that you kind of – the store version of the billboard when you're driving down the highway and see all these billboards on the highway. The lease line is that billboard with the consumers walking by. You've got to get that lease line and make it interesting for them to come into the store. We've done that. And around Valentine's Day and a number of the stores we tested this in, there was a Valentine pack of shoes. So it was red, white, pink shoes right in the window when you first walked in. It was great. It was highly successful.

There was the launch of the Air Max 95 shoe a few weeks ago. We did the same thing; highly successful. So you'll see very different wall treatment of what the wall looks like, the wall of shoes. You'll see more apparel in there. You'll see a different lease line. You'll see different marketing. Basically everything in Foot Locker will be pretty different than it has been. And like I said, the results so far have been really phenomenal.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

You've characterized it as retail 101, and I think you did a great job of explaining that in terms of how the store operates. It's only 11 stores.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

It's up to 21 now.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

It's 21. Foot Locker's merchandise margins are maybe down 500 basis points, 600 basis points...

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Correct.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

...for the past five years. What's been the margin observation so far in the stores?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

They had too much of the wrong product and not enough of the right product. So, the markdowns that they had to take really impacted those margin rates, and they reduced significantly the apparel side of their business. So you're right. Their margin rates were down 500 basis points to 600 basis points. And I won't say that we're going to get that back in year one, but you're going to start to see margin rate improvement.

Christopher Horvers

Analyst, JPMorgan Securities LLC



Got it. Perfect. So I want to talk a little bit about the secular drivers of the category in the footwear cycle. I've raised two girls. Female participation in sports is clearly a driver in the world today. Health and [ph] casualization (00:09:09). You've talked about that a lot, Lauren, as drivers. But you've also had the new brands of the emergence of two new brands in On and HOKA. And we've covered retail for 23 years and when there's innovation, specialty retailers win share, and when sort of the product cycles slow, often time that share goes in the other direction. So it actually reminds me a lot of Under Armour post the [ph] GFC (00:09:35) and how much traffic that that drove to your stores back then.

So the question that I have is, is it possible to disentangle, though, the tailwinds from the footwear cycle, how that is – how do you think that's playing out in the innovation versus some sustainable structural secular drivers? Yeah.

Lauren R. Hobart

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



Great question. I think there's two things going on in our business. There's more than two things. But two things related to your question. One is that our consumer – the secular drivers, our consumer is obsessed with sport, the country is obsessed with sport. And we sit right at the intersection of sport and culture. And that's true in footwear, but it's also true across our entire portfolio. So wherever we see newness or technicity, technological product or trend. So even in the hardline-sapped categories, we're seeing trends in bat launches that we used to only see in footwear launches. Like the whole world has become obsessed with sport, with culture, with newness and innovation.

So yes, we have secular trends that are helping us, but it's really important to note within that, they're not helping everybody. Increasingly, Dick's is the place where consumers, athletes we call consumers, are choosing to meet all of those needs.

And that, I think, speaks to the second part of your question, which is the innovation in our assortment, the innovation in how we approach our athletes. So, we have a House of Sport concept now. If you haven't been to it, I would suggest going. It's unbelievable. It's redefining retail, really experiential. And brands are leaning into that and giving us the newest and the coolest and the best new product because it is rooted in sport. We can tell a brand story head to toe, and it's just really reinvented the entire way with – that retail is going to market. So there's innovation everywhere.

In the footwear side, same thing. We see it – we see innovation in how we're bringing footwear to life, but we also see innovation that we're excited about in a lot of the footwear that we see coming down the pike with our core brands.

Christopher Horvers

Analyst, JPMorgan Securities LLC



And so as you think about is there – is – do you have any concern that if you look at HOKA and On's wholesale numbers, US numbers, they're incredible.

Lauren R. Hobart

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



Yeah, they're incredible.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

And we're all second derivative crowd here. And they've slowed to pretty strong levels. So, do you have concerns that we're seeing the tail end of the footwear cycle?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

We still have upside across. We are planning. We won't get into specific category growth, but we plan to Dick's to 2% to 4% comp growth. We see growth. We will have growth in footwear. And On and HOKA, we still have upside in terms of door count that we're having, but we're also seeing the thing that's great about our position is because of our relationship with so many brands, we can lean into what's hot and where the trends are going. So we're seeing growth in the Nike run construct, we're seeing – there's brands come – they get hot, they become on trend, but in general, the category, we have a lot of confidence in. We will be growing footwear.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Awesome. More specific to the consumer, obviously, [ph] is that (00:12:47) this conference is so well timed. We had Liberation Day a year ago. Last night we have...

Lauren R. Hobart

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

A

Thank God really.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

We're all still here. It's nice.

Lauren R. Hobart

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

A

Yeah. Thank God.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

But there's a question, right. You have tax stimulus out there, gas price is above \$4 nationally, not \$5, like we saw in 2022. How would you assess the health of consumer and how do you think the balance between like energy price pressures and stimulus is maybe playing out?

Lauren R. Hobart

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

A

Yeah. Our consumer is very, very healthy. So in addition to everything I said about the sport and culture coming together, the consumer is obsessed with sport, we've seen – we haven't seen trade down from best to better and better to good. We've seen growth across all income demographics, and that's at the Dick's side.

On the Foot Locker side, we actually very much see that when there's newness and when we have the right product, that consumer also values the categories so much that they respond really well. So, our consumer is healthy. We just have to keep right product, the best experience, and that's how we're doing that.

Christopher Horvers

Analyst, JPMorgan Securities LLC



Awesome. I think we're all so sensitive to traffic, and in the fourth quarter the traffic did decline. You talked about it being more of a comparison. How do you think about the balance of traffic and ticket as you think about your 2026 outlook?

Navdeep Gupta

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



Yeah. Chris, like the way you characterized, the traffic was down. But if you look at it, in fourth quarter, our results were really, really strong. We posted a 3.1% comp on top of a 6.6% comp from the year prior. So on a two-year stack basis, if you look at it, we were almost about 10% comp, which was pretty consistent with where the business had been trending all of 2025. And so that's the way to look at it, and traffic is just one way to look at the quality of sale. And this is where we say, we look at it multiple different ways, the sales. We look at it how is – how are channels doing, how is e-com doing, how are stores doing, how our core category is doing?

And we saw strong growth coming out of all of our core categories, apparel, footwear, team sports, golf, license business, the collectors business, which Ed and Lauren have talked about, are fantastic growth drivers for us for the long term, and we saw strong traction with those categories. And then like Lauren talked about, we look at it at the income demographic to say is the quality of sales still good? And that's what we saw.

In terms of the outlook, we don't give the outlook broken down between traffic and transaction, but here's what gives us tremendous amount of confidence. It's the core drivers of the business. And keep in mind, in 2026, we also have the excitement for the FIFA World Cup that has been contemplated into the guidance that we have provided.

Christopher Horvers

Analyst, JPMorgan Securities LLC



Fantastic. Going back a little bit to the Dick's Foot Locker combination, it looks like you're about 22% of Nike's wholesale business. Is that right? And surely that's a big number across the big brands outside of Nike. If you think about that and just assume one point of like volume buying discounts from the increased scale, it does make the \$100 million to \$125 million look a bit low. So just trying to work through that math and think about what's the baseline sort of volume, market share that you have with some of the larger brands. And is it implicitly you're assuming something less than a point from the volume discounts?

Navdeep Gupta

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



Well, so [ph] I think just (00:16:22) going back a bit, the synergy guidance is. And the synergy guidance that we have given is \$100 million to \$125 million over the medium term. Keep in mind, synergies are one way to think about this transaction. This is about, like Ed says, we didn't buy this asset for one year. This is how we are going to run this company and this – and quite frankly, these combined companies over the next several years.

So synergy is what you have – what we have guided is, is two components: one, merchandising synergies and the non-merchandising buying. And if you look at that and say that's just what the cost synergies would be, what – we have said that over the medium term. The opportunity is much broader than that. Like I had said, better access, better allocation, looking and partnering with them in a very, very different way. If you look at the sports – so the ad that is going on right now at Dick's, having the athletes – actually Nike is sponsoring that ad with us. They gave us access to their athletes. That's a broader way to define synergies than just what we have talked

about. And that's the way we have thought about this opportunity as a collective way of shaping this industry for the long term.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Sure. Staying on Foot Locker for a second, you're rolling Fast Break to 250 doors in 2026 by back to school. How are you thinking about the scale of the remodel program globally?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

So, we're starting Fast Break in Europe. So we're further ahead in the US than we are in Europe right now. We've got a couple of Fast Break stores in Europe which are – we're really pleased with what's happening there also. And then we've got guidelines of what we're going to do there in Europe. A little bit – it's a little bit slower for us to get the fixtures that we need and some of the things that we needed.

The management team is still being built a little bit more in Europe. We've got a great leader in Matthew Barnes we brought from Aldi, a couple of other people. We brought another person back from – be the chief merchant there. But you will see – I'm not going to guide how many we're going to have by back to school for Europe, but you're going to see a meaningful number of them in Europe by back to school also. Won't be near the 250 number that we have in the US, and you can just look at Foot Locker in Europe is probably going to kind of run roughly six months behind what we do in the US.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

But it will get there.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

So one of the questions that we get is how the Foot Locker acquisition is impacting the core business. You were very clear from day one saying that you're sort of taking over Foot Locker and organizing management and merchandising, and the core business is not going to be affected.

One of the questions that we get is you're guiding to 67 House of Sports by the end of 2027. That's slightly below the initial 75 to 100. This is despite CapEx going to \$1.5 billion in this year. So, I think the question is to what extent is that actual an indication that your – the stretch of sort of the capital deployment and management time is affecting what is a wonderful House of Sports opportunity?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah, it's got nothing to do with that. One of the things that we're finding now is with House of Sport, we're getting access to real estate that we would have never had access to before. And so we're just being a bit more patient.

Some of the access to product we have – to real estate we have right now, this will take a little bit longer to get done.

So an example of that is if you looked at this five, six years ago, we wouldn't be able to put a two-level Dick's store in some of these malls. So, Tysons Corner's in Washington DC, what we're doing with Cerritos in LA, Palm Beach Gardens in Florida, Barton Creek in Austin. We have access to real estate. One thing we're working on in a couple of [ph] others is (00:20:30) that we would never have had access to that real estate before, and we will be the main new anchor in these malls.

So we're just being patient. We don't want to rush. We don't want to go and hit a number to just be able to hit a number. The access we have now is very different. The volume of these stores that we're going to do are going to be meaningfully – we expect to be meaningfully higher than what we had originally anticipated from a House of Sports standpoint. So this new access to real estate is what the difference is between the 75 and the 68. And when you take 67 or 68 and when you look at that, it's a pretty meaningless difference in the grand scheme of things.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Understood. Just a quick follow-up on that. You talked about volumes being meaningfully higher than the original mall that you talked about. Obviously, rent in those locations are higher. So how do we think about the four-wall EBITDA margin profile of those better locations?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Well, some of these – don't assume that the rent is going to be higher, or meaningfully higher. The – there're some of these mall developers where there's a vacant department store in some of this better real estate. There also – so if it was a Sears box or it was a vacant box, some other retailer, that wing of the mall is not the best leased with the best tenants at the best rents. And so what the landlords find is when we put a House of Sport store there, that wing of the mall, they can bring in better tenants who will pay higher rents, and we're – can be the beneficiary of that. So don't automatically go to the fact that the rents are going to be higher.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Excellent. Sticking on the margin topic, a topic that's sort of faded into the background a little bit with [indiscernible] (00:22:20) and with some of the promotionality, I think, over the holiday season and now Foot Locker is that as you think about the core Dick's business, what the structural gross margin level actually is and then how that – how does that Media Network and GameChanger change what you used to speak to from a structural gross margin perspective? Does that take it ultimately higher?

Navdeep Gupta

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

A

Yeah. No, it's a great question. First of all, we don't call core non-core. We see Dick's and Footlocker as the core parts of the business. And so just staying with the Dick's where the question is, we see the secular drivers of the gross margin expansion continuing to be in place. The access to the product is the first unlock. And what both Ed and Lauren have talked about, the relationship now we have with the vendor community is at a whole different level. We had great access to begin with. That access is even further enhanced.

The investments that we are making when – in House of Sport, in Field House, in Dick's Media Network capability is actually allowing us to partner even deeper with some of the emerging brands that in few years ago, we didn't have that level of depth of relationship. So that opportunity remains really, really well in place.

The work that our teams are doing on vertical brands, so we used to talk couple of years ago that the vertical brand margin was 600 basis points to 800 basis points higher. We have said in the recent years that it's now 700 basis point to 900 basis point. Actually, the margins are even becoming better than the – our current expectations that we have. So, the teams are doing a fantastic job not only at driving growth and how well that product that are resonating with the athletes, but also driving margin expansion.

And then the new, latest drivers that you talked about between GameChanger and Dick's Media Network. We feel we are an early growth opportunity with both these opportunities. Fantastic and probably one of the most not well understood and a true hidden gem is the GameChanger business. It's almost about \$150 million in revenue size, very fast growing, very profitable, and we believe that that will be continuing to be a differentiating capability as we look to the long term.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Do we get a new number today?

Navdeep Gupta

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

A

Well, we have not given...

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

[ph] No (00:24:32).

Navdeep Gupta

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

A

We have not given a long-term rubric, and I won't do that today. But I – we feel really confident that the secular drivers continue to remain well in place.

Lauren R. Hobart

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

A

Yeah. We've had about a 40% CAGR three years, so.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

And so on the other side of the business, and to your credit, Ed, you've always embraced investment. You've always embraced building a brand. The nature of this category is different from some other companies that in my coverage, there's newness, there's trend. Conversion is so important in the store. Display is so important to the store advertising. You – 4% of sales versus some of my sort of more consumables-oriented retailers spend 1.5%, 2%.

So the question is how to think about the structural growth rate in SG&A dollars in the context of the category that you operate in? And related to that, how do you think about what the right leverage point on SG&A is?

Navdeep Gupta

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

A

Yeah. So, Chris, so this is something that we have been talking about for last couple of years very clearly, that look to us to drive top line growth and bottom line growth. There will be interplays between SG&A and margin. So for example, like last few years, we have been investing from an SG&A perspective while delivering really strong gross margin. And the investments have gone into the things that are driving these differentiating results: Dick's Media Network, GameChanger, the capabilities that we have built around personalization, the e-com drivers. Those investments show up in SG&A, but the benefits show up in margin. So that's the interplay that we have always talked about.

From a leverage perspective, we will balance the near-term results against the long-term differentiating capabilities. We still feel there is a clear opportunity for us to gain share. We are at 9%, even just looking at Dick's. We want to continue to build on that opportunity that we see.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

So at this point, I'm going to pause and see if there's any questions in the audience here. There are microphones on the table. So if you have a question, if you could speak into the microphone so people on the – could hear you?

Q

Hello. Can you hear me?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

[ph] Can (00:26:52) hear you, [ph] Danny (00:26:53).

Q

Yeah. I got a couple interesting questions. First of all, could you talk [ph] briefly maybe (00:26:58) – you talked a little bit about cultural change and like how the level of enthusiasm is within the company, because I think that's one that's important. Another one is, I noticed the warehouse stores that you're cleaning out. You didn't mention anything about that, how it's working and potential growth.

And the third one that you did touch on, which is GameChanger, I think it's phenomenal. But a lot of people that are even signed up, they don't know it's part of Dick's. So how do we get that out there and get them into the stores as well? How are you going to capitalize on that opportunity? That's it.

Lauren R. Hobart

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

A

All right, so.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

It's all you.

A

Lauren R. Hobart

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

All me. All right. Great, great, great. Well, we'll start with culture. I think you're right. And sometimes people don't understand that all of our strategies, the product, the reinvention of retail, all of our digital strategies only come to life because of the strength of our team. And we have an amazing management team.

A

But even more important, the culture throughout our stores is so energetic and so focused on wanting to win and deliver. It is a secret asset. It is a secret weapon. And I would say with the Foot Locker acquisition, happens to be also their secret sauce. When they have the right product, you – wait till you see what these Strippers could do. So I think the dynamic in the company is absolutely part of what's driving the growth.

Now, I remember number three was GameChanger. What was number two?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Going Going Gone.

A

Lauren R. Hobart

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

Oh, Going Going Gone. You want to take that one? It's good.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Going – sure. I'm going to come back to the culture piece too.

A

Lauren R. Hobart

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

Okay.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

So, we just did our annual engagement survey. And to put this in perspective, kind of – and you benchmark it against other retail. Our benchmarks for – from an engagement standpoint are almost 2,000 basis points higher than the average retail. So the culture in the company can't – I won't say it couldn't be better, but it's as good as there is in retail and better than most everybody else in retail. The team that we've got – and this isn't just at the senior management level. This is throughout the whole organization, down distribution centers, the stores, everything. And we couldn't be happier and the – a big part of the culture being what it is, is really Lauren's leadership of how she's really taken culture and really and our remapped culture and our head of HR, Julie, it's – the culture...

A

Lauren R. Hobart

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

It's important.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

...couldn't be any better. In Foot Locker, the culture was somewhat difficult. The culture in the stores are great. These – the Strippers and these young men and women love sneakers. They know sneakers. They love talking about it. They know about their business. They give us great insight into it. With the culture inside the organization was somewhat siloed, and we're breaking that down. We hired Ann Freeman from Nike to – as President of Foot Locker. We took some people from – the Head of HR for Foot Locker comes from Dick's. So he's trained under Julie and making real strides there, and the culture in Foot Locker has changed meaningfully.

If you sat and talked to people in Foot Locker today and said, how are things today versus what they were six, eight months ago? They would tell you it's entirely different and they couldn't be happier.

From a Going Going Gone standpoint on the value chain that we have, this has been a great win for us. It gives us the ability to get product. You run a business – any retailer. You're going to buy product and you're going to think that it's going to sell, and it doesn't sell as well as you think. So it's a great way for us to clean that product out, clean the product out of the existing stores, bring new product in at full margins in the existing stores. And part of our margin rate improvement that we've had over the last several years has come from the execution from our Going Going Gone, our value concept. So it's something that will continue.

This Going Going Gone concept will also help us with Foot Locker because we'll be able to clean out footwear product in Going Going Gone Foot Locker's product through that channel that Foot Locker didn't have the ability to do before.

And we haven't guided to this and I don't really think it's that big a deal to tell you, the footwear capacity in the Going Going Gone stores has never been at 100%. So we actually have some capacity from a standpoint to put more shoes in the Going Going Gone concept, and we'll be able to do that and help Foot Locker kind of clean out their excess inventory, which will help their margins and help keep that – we're not going to let that run-on sentence come back in in Foot Locker. So, [ph] Danny (00:31:53), I think that hits everything you...

Lauren R. Hobart

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

No, GameChanger.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Yeah. Well, GameChanger...

A

Lauren R. Hobart

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

So...

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

...which is our secret weapon. I mean it's like...

A

Lauren R. Hobart

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

Yeah, it's just like our culture. Yeah. So you – GameChanger, you're right, it is an incredible asset and you're probably also right that we don't merge the two branding between Dick's and GameChanger. GameChanger, it says a Dick's Sporting Goods company under it. Increasingly, we – you're going to see that change and it's both for the consumer, but also behind the scenes.

A

So, for example, GameChanger because of the authenticity [ph] and (00:32:26) Diamond Sports has created a concept called Bat Lab, where we're bringing in the best high school players around the country to test out the new bats. And that we are literally – so if you go into a Dick's store today, you're going to see this is the Bat Lab recommendation by GameChanger. So that's happening. People are increasingly aware. We've got some ideas long term about our loyalty program, kind of opening up some access to GameChanger.

But behind the scenes, the data that we have at GameChanger and the data we have at Dick's are brought together and we use it for co-marketing. We use it for our Media Network so the Media Network actually goes to market as one where you can have access to all things sport, our scorecard data, as well as our GameChanger data, as well as our teammate product knowledge.

So, I think you're right. We're early innings in terms of overt brand recognition, but we're moving quite quickly toward partnership even more than we've ever had before, and then data, bringing that to life in a combined way.

Navdeep Gupta

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

And then similar to what we said about Dick's and Foot Locker, GameChanger is a fantastic growth engine. So what we also want to be careful of is to be purposeful in what are the places that we are bringing these two brands together. And because we don't want to distract – similar to Dick's, we don't want to distract the GameChanger on the 40% CAGR that it has had for the last several years. So that's the balance that we always strike as well internally.

A

Christopher Horvers

Analyst, JPMorgan Securities LLC

Question.

Q

Yeah, hi. Thank you. So, you've talked about the Foot Locker customer. They seem to be in pretty good shape. They respond to newness and innovation that there was big miss-execution on merchandising. So any reason to believe that the Foot Locker margin couldn't recover to its historic level or is there something structural there that might have changed? Thanks.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

I don't think there's anything structural. We're not going to give a timeframe right now, but there's nothing structural that would keep you from being able to do that.

Q

[indiscernible] (00:34:29).

Christopher Horvers

Analyst, JPMorgan Securities LLC

Apparel.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

You're putting words in my mouth, but...

A

Christopher Horvers

Analyst, JPMorgan Securities LLC

Apparel.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Yeah, yeah, but – that we think that there's meaningful margin expansion. And as we get further along in this process with Foot Locker, we'll continue to provide more and more information. But I think when you get done and we look back on this, it'll be that this was a transformational acquisition that Dick's made for Foot Locker – with Foot Locker.

A

Christopher Horvers

Analyst, JPMorgan Securities LLC

You're obviously reading my questions here. I have a follow-up to your question, which is merch margin being down about 600 basis points. How would you break that down between bad merchandising driving promotion versus lost vendor support?

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

That's a really good question. And on – haven't – I don't know that you can bifurcate the two, because bad merchandising, if loss of vendor support, then the team went – and I can understand this – went and bought the next tier product to try to offset that, and it didn't work quite as well, so that caused some markdowns. So they're connected. But between better access, better allocation, better merchandising standards, better buying standards, we think we can get that margin rate back up there.

A

One of the things Foot Locker didn't have, they didn't really have a defined planning allocation and replenishment group. And so the product wasn't allocated properly and there wasn't as much of a planning process as there would be. It was too siloed. So there's all of these things that are interconnected. It's a great question, but they – it's tough to bifurcate the two.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Additional questions.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Any other questions?

A

Christopher Horvers

Analyst, JPMorgan Securities LLC

There's one in the back. Yes.

Q

[indiscernible] (00:36:26-00:36:38).

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

You're talking about the footwear – the Foot Locker Reimagined stores?

A

Lauren R. Hobart

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

She – at Fast Break, though. I think you said 11, the 11 stores.

A

Christopher Horvers

Analyst, JPMorgan Securities LLC

Right. Like the question was basically, of the 11, thinking about the 250 that you're rolling out this year, like how quickly does that – could that accelerate over time and what's the evaluation period?

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Okay. Well, I think we've evaluated – well, we'll continue to evaluate. But the early evaluation is that we're pretty excited. We're not giving a timeframe. We've got one internal. We're not going to communicate it yet. But back to school is 250. We have a timeframe by which what we would like to get done by holiday, but we're going to keep that to ourselves for right now.

A

Christopher Horvers

Analyst, JPMorgan Securities LLC

Understood.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Other questions?

A

Q

[indiscernible] (00:37:29) follow-up to that. So what [indiscernible] (00:37:34-00:37:42)?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

It – so it is. But we've actually gone to 21, okay. Not that 21 is a whole lot different than 11 in a store of like 650 or 700 stores. But we've got great confidence, what we've seen in how these stores have performed. We've got great confidence because the brands have come to us. So the brands that have kind of taken some allocation away or some access away have come back and said, we're back in, we're going to give you this, we're going to give you more of this product. We're going to help you. We see the investments you're making. They've walked into the Fast Break stores. They see the difference. They see what we're going to do from a marketing standpoint. We've laid out a plan of how we're going to invest in this business and how we're going to market this business and turn this business around, and the brands are all in.

So one of the reasons we've got this confidence is that the brands are going to be supporting this. And we've started to see that. And when you went to – we went to the brands and we said, hey, we need some product and they couldn't give us everything we needed. But when we need this product to test this in 11 stores, they can usually find product to kind of help you kind of validate this in 11 stores or then 10 more stores around the LA All-Star Game.

So as we've kind of put all of these things together, it gives us tremendous confidence that this will work. And if you know, we're relatively conservative and we wouldn't be out here talking about this if we weren't confident that we're going to be able to do it.

Lauren R. Hobart

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

A

The other [ph] thing (00:39:21) is, though, they're really capital-light. I mean this is not a massive investment, but it's not swinging – usually not swinging hammers. It's just – so it's really more of a visual merchandise update which is low risk and high reward.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

The only thing that there is – and Lauren's right. For the most part, it's not – we're not swinging hammers. The only place where we're swinging hammers is if there was a House of Hoops store next to a Foot Locker store. And then we're taking that wall out of House of Hoops, opening this up so you get a much bigger Foot Locker store, much different sightlines. We've got some space to put apparel back in there. So that's the only place that we're swinging hammers is when we eliminate House of Hoops.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

We have a question, [ph] right (00:40:07).

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah.

Q

From our perspective, it seems like some percentage of the Foot Locker turnaround is dependent on high-heat product. It seems like there was some stuff done around February, the All-Star Game week on the Fast Break stores that might have changed relative to the past couple of years. Could you just talk about those changes? How much of that was your guys' actions and then how we should think about that as we move into back to school and how some of the successes from February, the All-Star Game weekend might impact the go forward?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah. So, there is some high-heat product that's important to make yourself relevant in the marketplace. Foot Locker in the past was too dependent on that high-heat product. And so we're building out this – the assortment to be kind of more of a base business. There will certainly be high-heat product that is important, whether it's a Jordan Retro fill in the number. That's still going to continue to be important, but it's not going to be as important going forward. We're going to build out this base.

When you think about it, when you look back, Foot Locker pretty much missed the retro run category. Didn't have much of that. If you take a look in Europe, I was surprised when I finally got there that in Europe, they didn't buy a retro run shoe, they didn't buy a P-6000, they didn't buy a Merrell 5, they didn't buy anything from a retro run standpoint. And that's a big miss. So that's a big part of a base business that we can build back. So we're going to build back the base business, the high-heat product is going to be important. And we'll have more access to that high-heat product than we've had in the past based on the relationships we have with the brands.

Any other questions? We got six more minutes to burn here, so...

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

I have...

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

...if there's any more...

Lauren R. Hobart

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

A

Oh, wait.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

I have a whole list.

Lauren R. Hobart

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

A

You have more? Okay, good, good.

Christopher Horvers

Analyst, JPMorgan Securities LLC



As you think about staying on Foot Locker for a minute, it's really a two-parter, right? I mean, buying synergies should be instantaneous. Like you should capture, whatever, back to school, back half of this year to the front half of next year. You should make Yeoman's progress on the buying synergies. Is that right?

And then with respect to now that the garage is cleaned out right, so you're not going to have the clearance pressures that Foot Locker experienced a year ago. Some degree, some of the promotionality is going to be a lot lower. So I'm trying to understand shouldn't the merchandise margin rebound at sort of – at Foot Locker be sort of this accelerating curve as we start from the first quarter into the first half of next year?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.



So, we're not going to provide that guidance for you. But we do have kind of indicated that we expect that margin rate to get better. And as of right now, that's kind of what we're going to – we're not going to – we're going to make sure we don't get out in over our skis. But you will see margin rate expansion, which is part of what's taken us to grow this business again and to return it to profitability. But like I said, as we get a little bit further along, we'll – and we can prove it, we'll give you more visibility to it.

Christopher Horvers

Analyst, JPMorgan Securities LLC



And then another question I have is a hot topic, which is – and then we can – here is exposure to rising energy costs. Obviously, ocean freight – you buy from Nike US, so you're buying onshore mostly, but – and so ocean freight shows up later. But how do we think about like sort of domestic trucking energy cost exposure?

Navdeep Gupta

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



Well, so the direct exposure will be through the supply chain costs and you know that over the last several years, the team has navigated the ups and downs of that and something that, I would say, that the team will continue to navigate as we go through the balance of this year. It's been volatile, and we just are trying to do the best that we can to continue to manage that cost. But we feel that the capabilities and the relationships that we have with the merchandising side and on the non-merch side will be something that will...

Christopher Horvers

Analyst, JPMorgan Securities LLC



[ph] Rock (00:44:42)?



Could you talk about share repurchases and how that could evolve over the next couple of years?

Navdeep Gupta

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



Well, so I think it goes to a larger capital allocation strategy. The first, as we have said consistently, that our first priority is to invest into the business. The opportunities that we see with repositioning our portfolio of stores, building new capabilities like distribution center that we are in – that we are building this year. If you look at it, our

sales are up over 60% – or close to 60% versus 2019. We have the same exact number of distribution center. So those are the fixed infrastructure investment that you have to make, the capabilities, investments that we are making in GameChanger, in technology. So that's the first priority for us.

Outside of that, our focus continues to be that we want to continue to return the excess cash to our shareholders. We have done that through growing our dividends 12 straight years, Nate, I'm looking at. And then from a share buyback perspective, we have been pretty consistent. But at the same time, we are opportunistic. So that's what has been contemplated in our guidance, just basically offsetting the normal dilution. But we'll continue to be opportunistic with the share buyback. We have plenty of capacity on the balance sheet.

Q

And if I could, I mean, I think there's a DC that's going to open this year, but I assume some of that CapEx from this year will ramp down as we think about next year and beyond. How do we think about CapEx over the medium term?

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

A

Yeah, we haven't given the long-term outlook for the CapEx. But keep in mind that what is the biggest driver of the CapEx growth, especially when you look at over the last few years, is the repositioning of the portfolio. So what is included in the CapEx guidance for this year is opening of, call it, about close to just over 30 House of Sport store locations, including 18 that we'll be opening in 2027.

Christopher Horvers*Analyst, JPMorgan Securities LLC*

Q

Any other last questions? We have one more.

Edward W. Stack*Executive Chairman, Dick's Sporting Goods, Inc.*

A

Okay. [ph] Dan (00:46:35).

Q

You didn't – Locker had a kids business and separate store in kids. You didn't say anything about the little kids business.

Edward W. Stack*Executive Chairman, Dick's Sporting Goods, Inc.*

A

Well, when we talk about Foot Locker, we talk about the Foot Locker brand. So Foot Locker is the...

Q

[ph] It's the (00:46:49) whole kids business.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

KFL. The kids business is really important to Foot Locker. We think there's – continue to be a big opportunity there. One of the things that we did after the – right after holiday, we got on a video call and probably talked to over 100 different managers. We had different parts of the country kind of jump on there with 10 stores each time. So, we talked to well over 100, and there was a common theme around kids, and it was kids' basketball, kids' basketball, kids' basketball. So they were really – we were really underinvested in that, and we think there's a real opportunity from a kids' standpoint going forward that Foot Locker kind of let kind of slide. So we'll be really investing in that. That's part of the whole Foot Locker strategy.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

I'm seeing blue and maize Nike basketball sneakers.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Navy...

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

[indiscernible] (00:47:46) the spring.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Navy blue and maize?

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Yeah.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah, yeah, yeah.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Oh [indiscernible] (00:47:51).

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah, everybody from Michigan is pretty happy today and yesterday. Yeah.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Q

Absolutely.

Lauren R. Hobart

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

Exciting.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Yeah.

A

Christopher Horvers

Analyst, JPMorgan Securities LLC

Well, with that, I want to thank you so much for joining us today and all your time and all your – all the wonderful responses.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Great. Well, thank you. Thanks for having us.

Lauren R. Hobart

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

[indiscernible] (00:48:04).

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thanks, everybody.

Christopher Horvers

Analyst, JPMorgan Securities LLC

That was great.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Yeah. Thanks. Appreciate it.

Christopher Horvers

Analyst, JPMorgan Securities LLC

No, that was great. Thank you so much for coming.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

My pleasure.

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