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Dick's Sporting Goods, Inc. (DKS)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome you to the DICK'S Sporting Goods Third Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. I would now like to turn the conference over to Nate Gilch, Investor Relations. Nate, please go ahead.

Nathaniel A. Gilch

Vice President-Investor Relations, Dick's Sporting Goods, Inc.

Good morning, everyone, and thank you for joining us to discuss our third quarter 2025 results. On today's call will be Ed Stack, our Executive Chairman; Lauren Hobart, our President and Chief Executive Officer; and Navdeep Gupta, our Chief Financial Officer. A playback of today's call will be archived in our Investor Relations website located at investors.DICKS.com for approximately 12 months.

As a reminder, we will be making forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC, including our last Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the first fiscal quarter, as well as cautionary statements made during this call. We assume no obligation to update any of these forward-looking statements or information.

Please refer to our Investor Relations website to find the reconciliation of our non-GAAP financial measures referenced in today's call. And finally, a couple of admin items. First, a quick note on our comparable sales reporting. Foot Locker will be included in our comp base beginning in Q4 of next year, which will mark the start of their 14th full month of operations post acquisition. As such, all reported comp sales for this quarter and for the upcoming year pertains to the DICK'S Business only.

Second, I want to provide clarity on certain terminology we'll use throughout today's call and going forward. First, when we refer to the DICK'S Business, we mean our existing DICK'S Sporting Goods operations, including the DICK'S Sporting Goods, Golf Galaxy, Going Going Gone! and Public Lands banners, as well as GameChanger. Earnings per diluted share results for the DICK'S Business excludes the dilutive effect of the 9.6 million shares issued as part of the Foot Locker acquisition.

Second, the Foot Locker Business refers to our newly acquired operations, including the Foot Locker, Kids Foot Locker, Champs Sports, WSS and atmos banners. And finally, for future scheduling purposes, we are tentatively planning to publish our fourth quarter 2025 earnings results on March 10, 2026.

With that, I'll now turn the call over to Ed.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thanks, Nate. Good morning, everyone. Thanks for joining us today. This is an important call. It's our first earnings call as a combined company with Foot Locker. We have a lot to share. There's a lot of detail and a lot of

numbers. We want to make it clear, we're doing all that our shareholders would expect us to do to make the Foot Locker Business accretive in 2026. And I have to tell you, as the largest shareholder, I couldn't be more excited about the progress we're making in the opportunities ahead.

As announced earlier this morning, we delivered another great quarter with comps of 5.7% for the DICK'S Business and we continue to operate from a position of strength. Our momentum in the DICK'S Business remains strong as we execute against the key priorities that have fueled our success: a differentiated, on-trend product assortment, and an industry-leading omni-channel athlete experience. This is the flywheel of our success as a company, and it's driving consistent growth and performance.

Now, I will discuss the tremendous opportunity we see with Foot Locker. Completing this acquisition on September 8th marks a bold and transformative moment for DICK'S. Together, we're building a global platform that is at the intersection of sport and culture, one that we believe will redefine sports retailing. This powerful combination will allow us to serve a broader consumer base, deepen our partnerships with the world's leading sports brands, and significantly expand our total addressable market. When we announced this acquisition, we knew that business was going to need work.

Let me be candid. Foot Locker strayed from Retail 101 and did not execute the fundamentals. Post-COVID, Foot Locker did not react quickly enough when its largest brand pivoted toward a direct-to-consumer model, leaving Foot Locker with the wrong inventory, too much of what didn't sell and not enough of what did sell. Consequently, as we entered this transitional phase, the Foot Locker Business, as expected, comped negatively with pro forma comp sales for the full third quarter declining 4.7%, including a 10.2% decline internationally.

Now, after looking even deeper under the hood as the owners of Foot Locker, our conviction that we can turn this business around is only growing. We will bring our operational excellence, our supplier relationships, and our merchandise expertise to return Foot Locker to its rightful place as a top player in the specialty athletic channel. Today, we're even more excited about the long-term value we believe this acquisition will deliver to our shareholders. We're committed to investing in Foot Locker's business to return it to profitable growth. We've assembled a world-class management team to lead the Foot Locker Business, and I'm personally excited to guide this next chapter.

As previously announced, Ann Freeman, a longtime former Nike executive, is now serving as Foot Locker North America President. Ann brings deep industry expertise and leadership experience, and she is supported by a high-caliber team of senior leaders, a combination of key executives from Foot Locker, all of whom are well respected by the Stripers, Blue Shirts and our brand partners, experienced leaders from DICK'S, and talent from other world-class companies. This team was hand-picked to return Foot Locker to its rightful place in our industry, and we're already moving quickly in North America to build momentum.

In addition, we're thrilled to have just announced that Matthew Barnes, former CEO of Aldi, will be joining our team next month as President of the Foot Locker International business. Matthew has nearly three decades of experience in global retail and a track record of transforming brands. We look forward to working to stabilize and ultimately accelerate that business with targeted turnaround strategies to meet the evolving needs of consumers globally. There's a lot happening to position the business for the short-term and build for the long-term.

Our first priority is clear. We need to clean out the garage of underperforming assets. This means clearing out unproductive inventory, closing underperforming stores, and rightsizing assets that don't align with our go-forward vision for the Foot Locker Business. This is the groundwork for the transformation. We began this work shortly after the closing on September 8th. We have identified an initial number of underperforming assets around the

globe, including inventory that needs to be marked down and liquidated, along with a preliminary number of stores that need to be impaired or closed.

We initiated certain pricing actions in late-Q3 and will be more aggressive in Q4 to clean up unproductive inventory. Our intent is to get the vast majority of the inventory charges behind us by the end of the year, so we can start 2026 fresh and position Foot Locker for an inflection point during the back-to-school season in 2026. As a result, we expect Q4 margin rates for the Foot Locker Business to be down between 1,000 and 1,500 basis points, with pro forma Q4 comp sales being down mid- to high-single-digits. We believe this aggressive purging of underperforming assets is what needs to be done to return Foot Locker to its rightful position as a key leader in this industry.

Navdeep will share more details in his remarks about the charges we anticipate as part of this important cleanup effort. Importantly, we've met with all of our key vendor partners, and they are fully-aligned with our vision and are eager to support a thriving, growing Foot Locker. They indicated they are committed to investing alongside us to reignite the Foot Locker Business. We're moving with urgency and have already kicked off an 11-store pilot to begin testing changes in product in the in-store presentation. It's early, but we're encouraged by what we're seeing and learning.

Looking ahead, we expect back-to-school next year to be an inflection point as our new strategies, assortments, and processes align to drive meaningful progress in the Foot Locker Business, all supported by the work we're doing now by cleaning up the garage to position Foot Locker for future success. With these actions, we continue to expect Foot Locker to be accretive to our EPS in fiscal 2026, excluding onetime costs.

What amplifies our confidence are the talented people we found inside the Foot Locker Business. Over the past two months, we spent time in Foot Locker stores, offices, and distribution centers. Our teammates' passion is real, especially among the Strippers and Blue Shirts, along with the rest of the team members. They love sneakers, they're hungry for leadership, and they want to get back to playing offense. That energy is validating our excitement and building focus for what's ahead.

In closing, at DICK'S, we've built a business that leads our industry in performance, innovation, and customer loyalty. DICK'S has generated consistent growth and strong margins with a relentless focus on delivering shareholder value. While we're just getting started on Foot Locker's transformation, our deep expertise and our track record of growth and success fuel our conviction that we can turn this business around, and we are confident that Foot Locker will reemerge as a stronger, more resilient, and more dynamic business. We will do this with the same grit, vision, and execution that got DICK'S to where it is today.

Before turning it to Lauren, I want to take a moment to thank our more than 100,000 teammates across all of our banners for their passion and commitment during this exciting chapter for our company, and wish everyone a Happy Thanksgiving.

With that, I'll turn it over to Lauren to share more on the continued momentum across the DICK'S Business.

Lauren R. Hobart

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

Thank you, Ed, and good morning, everyone. We're very pleased with our strong third quarter results for the DICK'S Business, which continue to demonstrate the strength of our operating model and our team's disciplined execution. We are entirely focused on delivering on our strategies and sustaining our strong momentum. As always, our performance is powered by our compelling omni-channel athlete experience, differentiated product

assortments, best-in-class teammate experience, and our ability to create deep engagement with the DICK'S brand.

Today, we are raising our full year outlook for the DICK'S Business. This updated guidance reflects our strong Q3 results and the ongoing confidence we have in our business, grounded in our team's execution of the four strategic pillars I just mentioned. We now expect comp sales growth of 3.5% to 4% for the year, and EPS to be in the range of \$14.25 to \$14.55 for the DICK'S Business.

Now, moving to our third quarter results for the DICK'S Business. Our Q3 comps increased 5.7% with growth in average ticket and transactions. These strong comps were on top of a 4.3% increase last year and a 1.9% increase in 2023, as we continue to gain market share. Our gross margin expanded 27 basis points, in line with our expectations, and we delivered non-GAAP EPS of \$2.78 for the DICK'S Business, up from \$2.75 in the prior year's quarter.

As we continue to execute through our strategic pillars, we're seeing strong momentum across the three growth areas for the DICK'S Business that we are focused on for 2025. First, we're incredibly proud of the progress we're making in repositioning our real estate and store portfolio. In Q3, we opened 13 new House of Sport locations, the most we've ever opened in a single quarter, bringing our year-to-date total to 16 openings. This achievement reflects the outstanding work of our team, whose focus and execution made this ambitious rollout a reality.

We now have 35 House of Sport locations nationwide, a major milestone in the growth of this transformative concept. We also opened six new Field House locations in Q3 and opened another just last week, completing our 15 planned openings for the year and bringing us to a total of 42 Field House locations across the US.

These innovative formats are delivering powerful financial results, deepening engagement with our athletes, brand partners and landlords, and laying the foundation for long-term profitable growth for the DICK'S Business.

The second of our three major focus areas is driving growth across key categories. Our unparalleled access to top-tier products from both national and emerging brand partners continues to fuel athlete demand and excitement, driving strong growth across the DICK'S Business. At the same time, our vertical brands are resonating incredibly well with our athletes, further contributing to this momentum. For Q3, this growth came from having more athletes purchase from us with more frequent purchases and more spending each trip. We feel great about the product pipeline from our brand partners, and our inventory is well-positioned to meet athlete demand this holiday season.

I also want to highlight our ongoing expansion into trading cards and collectibles. In partnership with Fanatics, we've launched the Collectors Club House in 20 House of Sport locations, with plans to include it in every new location going forward. These spaces feature trading cards, autographed memorabilia and more, and the athlete response has exceeded our expectations. It's a unique and fast-growing category that's a great complement to everything we do, and we're very excited about the opportunity ahead.

And our third major focus area, our multibillion-dollar, highly profitable e-commerce business, continues to stand out as a growth driver, once again growing faster than the DICK'S Business overall.

I'd like to highlight three examples of ways we're building strength and differentiation in e-commerce. First, we're really leaning into our app experience, including app-exclusive reservations that are establishing us as a leader in launch culture across many key categories.

Second, we're continuing to invest in capabilities to deliver more personalized experiences, content, product recommendations, and search results. An example of this is how we're targeting NFL fans with personalized creative messaging and product recommendations for their favorite team.

Third, for the holiday season, we're making it easier than ever to find the perfect gift with a new capability for athletes to build and share their wish lists with family and friends.

Lastly, as part of our broader digital strategy, we're harnessing the power of our athlete data and continue to be enthusiastic about the long-term growth opportunities we see with GameChanger and the DICK'S Media Network. Our GameChanger platform keeps expanding with new features, partnerships and content that enriches the whole youth sports experience, and reinforces our leadership in the multibillion-dollar youth sports tech ecosystem. Great example is our new Game Insights feature, which gives coaches fast, actionable takeaways after every game, further elevating the value we provide to athletes, coaches, and families.

We're also seeing great momentum with our DICK'S Media Network, which is deepening engagement with consumers and key brand partners while expanding across new ad platforms. In addition to our collection of owned and our full spectrum of offsite channels, we're ramping up our in-store capabilities, like our interactive digital experiences and programmable spaces that are driving impactful brand activations in our House of Sport locations.

In closing, we're very pleased with our strong third quarter results and remain highly confident in our long-term strategies to drive sustained sales and profit growth for the DICK'S Business. We believe the power of our omni-channel athlete experience and our compelling differentiated product offering will resonate with our athletes this holiday season, supported by our fantastic holiday brand campaign which launched a few weeks ago.

I'd like to thank all of our teammates for their hard work and commitment, and for their focus on delivering great experiences for our athletes throughout this season. And also, a warm welcome to all Stripers, Blue Shirts, and team members from the Foot Locker Business. We're excited to have you as part of the DICK'S family and to achieve great things together. I share Ed's excitement about how we will bring our operational excellence, our supplier relationships and our merchandise expertise to return Foot Locker to its rightful place as a top player in the specialty athletic channel.

With that, I'll turn it over to Navdeep to share more detail on our financial results and 2025 outlook. Navdeep, over to you.

Navdeep Gupta

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

Thank you, Lauren, and good morning, everyone. Before I begin my review of our third quarter results, I would like to take a moment to provide important context for Foot Locker's performance included in our consolidated financial results.

As noted in this morning's release, our acquisition of Foot Locker closed on September 8th. As a result, our third quarter consolidated financials do not include the peak back-to-school selling season in August for the Foot Locker Business. They reflect just eight weeks of post-acquisition results in September and October, historically an unprofitable time period for the Foot Locker Business.

Let's now move to a brief review of our third quarter results for the consolidated company, including continued strong performance of the DICK'S Business. Consolidated net sales increased 36.3% to \$4.17 billion, driven by

an approximate \$931 million sales contribution from a partial quarter of owning the Foot Locker Business and a 5.7% comp increase for the DICK'S Business, as we continue to gain market share.

On a two-year and a three-year stack basis, comps for the DICK'S Business increased 10% and 11.9%, respectively. These strong comps were driven by a 4.4% increase in average ticket and a 1.3% increase in transactions. We also saw broad-based strength across our three primary categories of footwear, apparel, and hard lines. As Nate said, Foot Locker will be included in the comp base beginning in Q4 of next year, which is when they will commence their 14th full month of operation following the closing of the acquisition. For reference, pro forma comp sales for the Foot Locker Business in Q3, in its entirety, decreased 4.7%, with the comparable sales in North America decreasing by 2.6% and the comparable sales in Foot Locker International decreasing by 10.2%, primarily driven by softness in Europe.

Consolidated gross profit for the quarter was \$1.38 billion, or 33.13% of net sales, down 264 basis points from last year. For the DICK'S Business, gross margin increased by 27 basis points and was in line with our expectations. Notably, the year-over-year decline in consolidated gross margin was driven entirely by the mix impact from the lower gross margin Foot Locker Business. On a non-GAAP basis, consolidated SG&A expenses increased 40.8% or \$320.9 million to \$1.11 billion and deleveraged 84 basis points compared to last year's non-GAAP results, \$259.9 million of this consolidated increase was driven by Foot Locker Business.

For the DICK'S Business, expense dollar increased by 7.7% and deleveraged 45 basis points, which was in line with our expectation and driven by strategic investments digitally, in store, and in marketing to better position DICK'S Business over the long-term. Consolidated preopening expenses were \$30.6 million, an increase of \$13.8 million compared to the prior year. As Lauren mentioned, this supported the opening of 13 new House of Sport locations in Q3, our highest numbers opened in a single quarter-to-date, plus another 6 Field House locations we opened in the quarter.

Consolidated non-GAAP operating income was \$242.2 million, or 5.81% of net sales, compared to \$289.5 million, or 9.47% of net sales, last year. For the DICK'S Business, non-GAAP operating income was \$288.6 million or 8.92% of net sales. This year's consolidated results included a \$46.3 million operating loss in the quarter from the Foot Locker Business, which was primarily driven by the gross margin decline as we initiated certain pricing actions in late-Q3.

Importantly, since the acquisition of Foot Locker closed on September 8th, these results exclude a profitable back-to-school season for the Foot Locker Business in August and through Labor Day. For reference, pro forma non-GAAP operating income for the Foot Locker Business in Q3, in its entirety, was approximately \$6.8 million. On a non-GAAP basis, other income, comprised primarily of interest income, was \$12.7 million, down \$7.8 million from prior year. This decline was from lower cash on hand and a lower interest rate environment.

Consolidated non-GAAP EBT was \$239.9 million, or 5.76% of net sales, including the Foot Locker Business. This compares to an EBT of \$297.1 million, or 9.7% of net sales, in Q3 of last year.

Moving down the P&L. Consolidated non-GAAP income tax expense was \$59.4 million, or a rate of 24.7%. While the income for the DICK'S Business was taxed at a low-20% rate, the combined company was subject to a higher tax rate, primarily driven by the Foot Locker's EMEA business, where full valuation allowance remains in place.

In total, we delivered a consolidated non-GAAP earnings per diluted share of \$2.07 for the quarter. These results included non-GAAP earnings per diluted share of \$2.78 for the DICK'S Business, based on a share count of 81.2

million, which excludes the dilutive effect of the shares issued in connection with the acquisition of Foot Locker. This is up from the earnings per diluted share of \$2.75 last year.

The DICK'S Business results were partially offset by the effects of the partial quarter contribution from the Foot Locker Business, which include a \$0.52 negative impact from Foot Locker operations, including the gross margin decline as well as the higher tax rate; a \$0.19 negative impact from the increased share count, which was up 5.9 million, pro-rated for the eight weeks of the Foot Locker ownership.

On a GAAP basis, our earnings per diluted shares were \$0.86. This includes the noncash gains from our nonoperating investment in Foot Locker stock as well as \$141.9 million of pre-tax Foot Locker acquisition-related costs. For additional details on this, you can refer to the non-GAAP reconciliation table of our press release that we issued this morning.

Now, turning to our balance sheet. We ended Q3 with approximately \$821 million of cash and cash equivalents and no borrowings on our \$2 billion unsecured credit facility. Our quarter-end inventory levels increased 51% compared to Q3 of last year. Excluding the Foot Locker Business, inventory levels for DICK'S Business increased 2% compared to Q3 of last year.

We believe the inventory in DICK'S Business is well-positioned to continue fueling our sales momentum. For reference, on a pro forma basis, inventory levels for the Foot Locker Business increased approximately 5% as compared to the same period last year. And as I've mentioned, the work is underway to clear out the unproductive inventory at the Foot Locker Business.

Turning to our third quarter capital allocation. Net capital expenditures were \$218 million, which included \$201 million for the DICK'S Business and \$17 million for the Foot Locker Business. We also paid \$109 million in quarterly dividends.

Before I move to our outlook, I want to address a few key expectations surrounding the Foot Locker acquisition. First, as Ed discussed, our immediate priority is to clean out the garage of unproductive assets as we look to optimize the inventory assortment and store portfolio of the Foot Locker Business. We expect these actions, along with other merger and integration costs, to result in a future pre-tax charge of between \$500 million and \$750 million. Importantly, these future pre-tax charges are excluded from today's outlook.

Second, we remain confident in achieving the previously announced \$100 million to \$125 million in cost synergies over the medium term, primarily from procurement and direct sourcing efficiencies. Third, as Ed said, we continue to expect the acquisition to be accretive to EPS in fiscal 2026, excluding onetime costs.

Now, moving to our outlook for 2025. Today, we are providing an updated outlook that is specific to DICK'S Business and does not include the Foot Locker Business, which we will address separately. We are taking this approach to ensure comparability of our performance across the quarters and to provide ongoing visibility into the DICK'S Business. This outlook also excludes the investment gains as well as the merger and integration costs related to the Foot Locker acquisition.

As Lauren said, we are raising our expectation for comp sales and EPS for the DICK'S Business. Our updated guidance reflects our strong Q3 performance and includes the expected impact from all tariffs currently in effect. This outlook balances our confidence in the outcomes we are driving through our strategic initiatives and our operational strength against the ongoing dynamic macroeconomic environment.

We now expect full year comp sales growth for the DICK'S Business in the range of 3.5% to 4% compared to our prior growth expectation of 2% to 3.5%. Total sales for the DICK'S Business are expected to be in the range of \$13.95 billion to \$14 billion compared to our prior expectation of \$13.75 billion to \$13.95 billion.

Driven by the quality of our assortment, we continue to expect to drive gross margin expansion for the full year. We anticipate this expansion will be offset by SG&A deleverage as we are making strategic investments digitally, in store, and in marketing to better position ourselves over the long-term.

We still expect operating margins to be approximately 11.1% at the midpoint. At the high end of the expectations, we continue to expect to drive approximately 10 basis points of operating margin expansion. We now expect EPS for DICK'S Business in the range of \$14.25 to \$14.55 compared to our prior expectation of \$13.90 to \$14.50.

Our earnings guidance for DICK'S Business is based on approximately 81 million average diluted shares outstanding and excludes the dilutive impact of the 9.6 million shares issued in connection with the acquisition. This outlook for DICK'S Business also assumes an effective tax rate of approximately 24% compared to our prior expectation of approximately 25%. We continue to expect net capital expenditures of approximately \$1 billion for the full year for the DICK'S Business.

Turning now to the Foot Locker Business. We want to provide some perspective on our expectations for the fourth quarter. As Ed discussed, our priority is to position Foot Locker for a fresh start in 2026 and reset the business for long-term success. This includes taking strategic actions to address unproductive assets, including the optimization of inventory and the closure of underperforming stores.

As a result of our actions to optimize Foot Locker's inventory, we expect Q4 gross margins for Foot Locker Business will be down between 1,000 to 1,500 basis points as compared to Foot Locker's reported results in the same period last year, with the pro forma comp sales being down mid- to high-single-digits. Excluding the onetime costs associated with our actions to address unproductive assets, we expect Q4 operating income for the Foot Locker Business to be slightly negative.

Looking ahead, we expect next year's back-to-school season to be an inflection point to drive meaningful progress in the Foot Locker Business. As a reminder, we continue to expect the Foot Locker acquisition to be accretive to our EPS in fiscal 2026, excluding the onetime costs.

Before we wrap up, I want to provide a couple of consolidated company assumptions to provide clarity for your models. For the fourth quarter, we expect approximately 91 million average diluted shares outstanding, which includes the dilutive impact of the 9.6 million shares issued in connection with the Foot Locker acquisition. We also anticipate a consolidated company effective tax rate of approximately 29% for Q4, impacted by the expected Foot Locker losses in EMEA, where no corresponding tax benefit is anticipated.

As Ed and Lauren said at the top of the call, we are proud that we continue to operate from a position of strength with robust momentum in DICK'S Business and a significant effort underway to return the Foot Locker Business to growth. We are doing all that our shareholder would expect to make the Foot Locker Business accretive in 2026. We could not be more excited about our future together.

This concludes our prepared remarks. Thank you for your interest in DICK'S Sporting Goods. Operator, you may now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Robby Ohmes with Bank of America. Please go ahead.

Robert F. Ohmes

Analyst, BofA Securities, Inc.

Q

Good morning. Hi, Ed and Lauren. My first question is, I know we're going to be talking a lot about Foot Locker today, but on the DICK'S Business, it looked like a really, really great quarter, comps up 5.7%, et cetera, and you raised guidance. But just how are you driving that and how are you guys thinking about your confidence going into holiday here?

Lauren R. Hobart

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

A

Thanks, Robby. We are so proud of the team for 5.7% comp, and importantly, we are comping strong comps, so a two-year stack of 10%, and as you know, it's been several quarter, seven quarters in a row actually where we've had an over 4% comp. That really speaks to the fact that our long-term strategies are working, and I would point to the differentiated product assortment that we've been able to bring in, everything from newness from our strategic partners to emerging brands, our vertical brands.

Consumers and athletes are really resonating with the products that we are providing. And at the same time, our entire team is fully focused on delivering an engaging athlete experience; and that's in our stores, that's our digital environment. We are really focused on excelling and getting people the product that will give them the confidence, the excitement to do their absolute best.

So our strategies are working. If you look at Q3, one of the great things we saw was that we had growth across all of our key categories. And when you think of back-to-school, you think of back-to-sport, you think of footwear and apparel and team sports. We knocked it out of the park with those categories. But also, golf as well as our license business and our trading card business is really doing well.

So as we flip to holiday, all of those themes are the reasons why we are so excited and confident as we look to Q4 and that we just raised our guidance. We've got an incredible product assortment for athletes. The consumer is fully focused on sport, and we are right standing at the middle of the intersection of sport and culture, and we've got great gifts across our entire portfolio. So we're really pleased going into Q4.

Robert F. Ohmes

Analyst, BofA Securities, Inc.

Q

That's really helpful. And then, just my follow-up. Just on Foot Locker, what kind of assumptions did you make about Foot Locker's cleanup of inventory in the fourth quarter having on DICK'S Sporting Goods? And also, how many stores are you guys planning to close and what would the timing be there?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Thanks, Robby. As we take a look at store closings, we're still addressing that. We've got some stores that we think we're going to close. We're also looking to address just the upside that we think we have in these stores and

how many really need to be closed and how many can we make more profitable. So we'll give you some more guidance on that at the end of our fourth quarter call.

Navdeep Gupta

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

A

Robby, let me quickly add on to the Foot Locker cleanup of the inventory in the fourth quarter. So what Ed said in his prepared remarks as well as what I said, that we expect the gross margins in the Foot Locker Business in the fourth quarter to be down between 1,000 to 1,500 basis points. As you can imagine, that is primarily driven by us quickly addressing the unproductive inventory that is in the system right now and have the room available to bring the excitement assortment that will position the business really well for 2026.

Robert F. Ohmes

Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Your next question comes from the line of Simeon Gutman with Morgan Stanley. Please go ahead.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning, team. My first question on Foot Locker. So it looks like the business may have been a bit softer than the Street was expecting in Q3, and you're anticipating a slightly negative operating income in Q4. Yet, you're expecting the acquisition to be accretive to EPS in 2026. Can you walk through the building blocks to achieve it, and then what gives you confidence?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Sure. Thanks, Simeon. I can't tell you – we really couldn't be more excited about Foot Locker and the opportunity of Foot Locker. But there is some work that needs to be done to get it ready for 2026 and for it to be accretive to our business. So one of the things that we're doing, and we gave the Foot Locker team kind of a visual that we need to clean out the garage. So we're cleaning out the garage. We're cleaning out old unproductive inventory. We're going to be impairing underperforming assets. And from a confidence standpoint, those are all part of the building blocks that we need to put together to be ready for 2026.

We have tremendous confidence in this management team that we've assembled. In North America, as we talked about, it's being led by Ann Freeman, a longtime Nike executive, that we've got a tremendous amount of respect for and the brands have a tremendous amount of respect for. We just announced today that Matthew Barnes is going to run our international business. And he's a Brit, and we think that EMEA truly needs to be run by a European. We're making some real changes on how we are approaching the international business, which we think is going to be very positive.

And one of the things we love about Foot Locker and one of the reasons we bought it when we went out and did our due diligence before is the men and women in the stores, the Strippers and the Blue Shirts, these young men and women, they love sneakers, they love Foot Locker, they love to be around this product, and they really are – we really think they're our secret weapon as we go forward.

And the other thing that gives us tremendous amount of confidence is we've talked with every brand, and every brand has a renewed interest in being supportive to Foot Locker, and they've all talked that they want a stable and

growing Foot Locker. And to be honest with you, it's great for our business, but it's also great for the brand's business, and we've got complete alignment with the brands. And we are confident that in 2026, we do put all these building blocks together. We're confident that Foot Locker will be accretive to our earnings in 2026.

Simeon Ari Gutman*Analyst, Morgan Stanley & Co. LLC*

Q

So my follow-up, I guess, I'll make it two parts. First, just to that point on 2026 accretion. That's Foot Locker stand-alone including synergy. That's not, let's say, DICK'S Sporting Goods electing to buy stock back. That's Foot Locker math heading to DICK'S earnings base. That's part one of the follow-up.

And then, part two, you don't tell us what your footwear gross margin is inside of core DKS. But if you look at Foot Locker, they've been on a steady decline for the last several years, and a lot of it does track with one of your major suppliers' proliferation of product. Is it feasible once you're done with your cleanup that you can get gross margins at parity with DICK'S Sporting Goods, or is there something about the mix and the selection that you can't get it quite to that level? Meaning, how much quick repair could there be once you clean up the assortment?

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

A

Well, we're not going to guide right now, and we'll give you some more guidance at the end of Q4. But we're not going to tell you where it's going to be compared to DICK'S Sporting Goods, but we do know that it can be meaningfully different than it is right now. There is a huge opportunity. One of the reasons it struggled is they haven't had access to some of the key product. They haven't had allocation of some of the product. There's a number of stores that are out of stock in product that they don't have.

I was just in a store in New York this – yesterday, as a matter of fact – and talking to the gentleman who runs the store and he said, we're a great running store. We just got Nike's running construct in last week. And when you take a look at some things like that, there's just a huge opportunity. That product is being sold at full price. So yeah, we're really confident that there will be a meaningful increase in their gross margin, and we'll give you some more color on that at the end of the fourth quarter.

Simeon Ari Gutman*Analyst, Morgan Stanley & Co. LLC*

Q

And then, I don't know, Ed, sorry, it was a follow up to the accretion comment. If you can comment any more on that, whether that included buyback or that's just core Foot Locker?

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

A

That's core Foot Locker. That's not to say we might not...

Simeon Ari Gutman*Analyst, Morgan Stanley & Co. LLC*

Q

Okay.

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

A

As we've said, we've been – we'll be opportunistic based on what happens with the stock. We may buy back some stock. But we think from a core Foot Locker standpoint, it can be accretive to our earnings in 2026.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay. Happy holidays. Thanks. Good luck.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thank you. You too.

Operator: Your next question comes from the line of Kate McShane with Goldman Sachs. Please go ahead.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning. Thanks for taking our question. We were curious about how you were going to manage the markdowns at Foot Locker. I guess the concern is, is that if you do discount aggressively in the fourth quarter, do you think you'll be in a position where you can go back to full-price selling and the customer be ready for that as new product comes into the store?

And our second question on the discounting is, do you feel like the market is going to be heavy with discounts now in Q4, and how much do you expect that to impact the market and DICK'S own footwear sales?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Sure. Thanks, Kate. I don't really think that that's going to be an issue with these markdowns and then going back to full-price, because the product that we're marking down is older product that hasn't sold, product that's been sitting around for a while. So, when we get the new fresh product, we'll sell – we're confident we'll sell that at full price, and the consumer out there is looking for a new fresh product that is innovative in the marketplace, and that's what Foot Locker for the most part doesn't have right now, and we'll be bringing that product in as we get into 2026.

From a discounting standpoint, right now – and who knows, things could change, but right now, we don't think that the discounting is going to be meaningfully different than it was last year. We do feel that we've got – as Lauren said in her remarks, we've got different and innovative product, more premium product that you'll see, product that's not as fully distributed in the marketplace. We don't see that the promotional activity impacting our business a whole lot.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Thank you.

Operator: Your next question comes from the line of Adrienne Yih with Barclays. Please go ahead.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Great. Thank you very much. It's great to see the continued momentum at the DICK'S brand. I guess, Lauren and Ed, obviously, I'm going to talk a question about from – about Foot Locker. Is this a case of kind of just historically underperforming operations, and with some closures and inventory management, you can control the controllables to kind of turn the business or are there more infrastructure investments in some longer tailed structural things about the business?

Secondarily, are there banners within Foot Locker that no longer perhaps make sense and if you can talk about that? And then, finally, my follow-up is on inventory, 1,000 to 1,500 basis points is quite a bit. Is there a write-off/reserve within that? And is it just the depth of the promo or are you using third-party channels? Just trying to understand the magnitude of that and the quickness of trying to get through that in the next couple of months. Thank you very much.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Well, that's a lot, Adrienne. Let me start...

Lauren R. Hobart

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

That's all one question.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Hope you can. Thank you.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

That's okay. So, the idea of this is or historically underperforming operations, I think that's a big part of this. So, Foot Locker really didn't – they kind of got away from Retail 101 of trying to have the right product and the right store, and having those – I think, turning this around, we don't think there's going to be some capital involved and we're going to invest in the stores. But we've just done an 11-store test and it was pretty capital-light. And what we really did is we took the inventory, most of the inventory out of the store and we re-laid out the wall.

And one of the things that the DICK'S team is really good at and we're bringing that expertise to Foot Locker is from a merchandising standpoint and how those visual merchandising really can help drive the store. We took the inventory out of the store and we redid the walls, and no real infrastructure back in there. But if you had walked into a Foot Locker store and still walk into a lot of Foot Locker stores other than these 11 and look at the wall, it's kind of merely a run-on sentence of shoes. And what we've done is, we've taken and tried to segment it and show the consumer what's important in the stores. And we've got this 11-store test and now it's only 11 stores, but the results have been – we're pretty enthusiastic about the results. So, we think that we can definitely turn this around.

As far as the inventory being down 1,000 to 1,500 basis points, we are going to take markdowns to get this out of the store of older, underperforming SKUs. And we do expect at the end of the year, there will be a program that we will sell some of this off to a jobber and just clean out what's left from the inventory and be able to get a fresh start in 2026.

Lauren R. Hobart

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

Yeah. Adrienne...

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

So, that's why we're moving as quickly as we can to get a fresh start in 2026.

A

Lauren R. Hobart

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

Yeah. I want to just add to what Ed is saying. From my perspective, if you look at the core challenges that we're facing with the business, it really is – as you said, it's underperforming operations, it's inventory management, it's core Retail 101. And one of the things that's been so amazing to see is the team is coming together and Ed is spending a ton of time with them is that the core expertise in DICK'S, be it merchandising and the balance of art and science or the visual presentation, you can hear in his remarks, just talking about that, the fact that our – we are a marketing-driven company and we believe in brand. And so, those plans are being worked on for next year, and the brand relationships, there's just a heavy operational focus. All of those things are being transferred by osmosis, the coaching, mentorship, all of that, and that's what gives us the – what gives me the confidence that we are moving in the right direction.

A

Adrienne Yih

Analyst, Barclays Capital, Inc.

Okay. And just to be very crystal clear, the markdowns of the inventory are on lifestyle and will have kind of no competitive impact with the performance, premium performance at DKS. So, there's no crossover there.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

The product that we're marking down is not key product at DICK'S Sporting Goods. It's an older product that quite frankly, and the visual we used with the Foot Locker team and it is kind of caught on globally is we just got to clean out the garage. We got to clean out all the inventory that's kind of in the corner that's not selling that we need to have out of our system.

A

Adrienne Yih

Analyst, Barclays Capital, Inc.

Fantastic. Makes a 100% sense. Good luck.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thank you.

A

Operator: Your next question comes from the line of Michael Lasser with UBS. Please go ahead.

Michael Lasser

Analyst, UBS Securities LLC

Q

Good morning. Thank you so much for taking my question. The first one relatively straightforward, the expectation that Foot Locker will be accretive next year is based on the \$14.25 to \$14.55 for this year, is that correct? And how dependent is the accretion expectation on inflecting the sales that you would anticipate by back-to-school for next year?

Navdeep Gupta

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

A

Michael, thanks for that question. Yeah. Let me clarify and exactly like you said, yes, the basis is on the \$14.25 to \$14.55 on as the basis for 2025 results, and kind of the dependency, I think, still starts with what Ed said about the building blocks. It starts out with cleaning out the garage, positioning the inventory, and having that excitement assortment and the newness that is resonating so well at DICK'S Sporting Goods, with the gross margin expansion and the merch margin expansion that you're seeing is going to be the first and foremost order of priority as we look to the building blocks for how can this business be accretive.

And keep in mind, we talked about as part of the cleaning out of the garage that there are other unproductive assets. We are looking into the store portfolio where there are some unprofitable stores. But the opportunity we are looking at that is not only deciding if the store should be closed, but actually the opportunity is the reverse, to say, if those stores had access to the right product and the right innovation and the newness, can those stores be turned around and made profitable. So, we are looking into that. We are absolutely looking into some of the unproductive assets that won't be part of the core business going forward. But to your point, it starts with sales and margin. And in addition to that, we'll look into cleaning out the garage to position the business for a profitable growth into 2026, especially from the back-to-school season of next year.

Michael Lasser

Analyst, UBS Securities LLC

Q

Got you. And my follow-up question is one of the key debates on the combined enterprise story right now is how do you ring-fence the core DICK'S Business in order to ensure that the integration of Foot Locker does not become a distraction to slow the momentum of the core business? It does look like, in the fourth quarter, you are anticipating a significant slowdown, guiding to a flat to slightly positive comp for the core business. So, A, what is fostering that expectation? And B, given you have owned this business for a matter of months now, give us a sense of how you anticipate that they won't be – it won't become a distraction such that the core business can accelerate into next year and drive some growth on top of the accretion that you're anticipating for Foot Locker? Sorry, there was a lot of words in that question.

Lauren R. Hobart

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

A

Got it. Thank you, Michael. One of the absolute prerequisites for us to do this acquisition was exactly what you're saying. We needed to ring-fence the DICK'S team, and DICK'S needs to stay completely focused on driving our growth and our strategic priorities, and that is exactly what we are doing. I mean, 8, 10 weeks in now, I'm even more confident that that is how we're doing it. We've set up the team at Foot Locker. Ed is very much spending time over there. The DICK'S team is fully focused on the DICK'S priorities and we're going to continue to just keep the teams sharing learnings, but not remotely working – not distracting each other from what their core priorities are.

When we look at Q4, you mentioned the deceleration, I want to be really clear about this. We just came off of a 5.7% comp and we're up against a 6.4% comp last year. So, the fact that you see our comp slightly moderating in Q4, we actually just raised the comp and the high end of our previous guidance now is the low end of our

guidance. So, we are really bullish on the holiday. We are just balancing that with an appropriate level of caution as we always do. We don't ever guide to the best possible outcome, but we are pumped and ready to go on the DICK'S side for Q4.

Michael Lasser

Analyst, UBS Securities LLC

Thank you very much and good luck.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thank you.

A

Lauren R. Hobart

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

Thanks.

A

Operator: Your next question comes from the line of Mike Baker with D.A. Davidson. Please go ahead.

Michael Baker

Analyst, D.A. Davidson & Co.

Great. A couple to start on. First, a little bit more detail on that 11-store test. Maybe any initial results or pop in sales? And I mean, is it just simple as relaying a back wall or there's got to be more to what you're doing. So, if you could address that, please.

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Sure. So, we're not going to lay out kind of the results. As I said, they're early, but we're really very encouraged on them. And it's not just as simple as laying out the wall, as we've kind of taken some of the older product out of those stores, put in some newer, fresher product that we were able to get our hands on. And one of the things we've also done is we're bringing the apparel business back to Foot Locker. They had really kind of walked away from the apparel business. And if you walk into these stores, you can see the apparel in there, and the apparel is selling really quite well, too.

A

So, we think that there's an increase from a footwear standpoint, from an apparel standpoint going forward. And we'll more than likely give you a little bit more color on this test at the end of the fourth quarter as we give guidance going into 2026. But there is a lot of just basic Retail 101 that if Foot Locker gets back to that – or when, as Foot Locker gets back to it, we'll have a meaningful impact on their business.

Michael Baker

Analyst, D.A. Davidson & Co.

Great. Fair enough. One more follow-up, if I could. You're talking about a fresh start and get everything – getting everything cleared by the end of the fourth quarter, but back-to-school is the inflection point. Not to put too much pressure on you or try to accelerate it, but why not spring, as an example, as the inflection point? Why should the first – presumably the first half not be as strong?

Q

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

I think that's a really good question, and the main reason for that is, is our merchandising philosophy and how we're buying the product, we didn't buy that. It was bought by the previous management team, and we think that there's some – and we're going to talk to the brands about trying to plug some holes. But the third quarter or the back-to-school timeframe is the first time we will have had complete control over the assortment going forward.

Michael Baker

Analyst, D.A. Davidson & Co.

Q

Makes perfect sense. Thank you for that answer.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Sure.

Operator: Your next question comes from the line of Christopher Horvers with JPMorgan. Please go ahead.

Jolie Wasserman

Analyst, JPMorgan Securities LLC

Q

Hi. This is Jolie Wasserman on for Chris. Just following up with DICK'S ability to affect inventory orders for Foot Locker. So, just confirming that you're saying that you won't be able to fully affect it until the start of the third quarter. But are you able to have any sort of impacts, even if it's slighter in the first half? And just specifically on the percent of spring ordered, since the acquisition, how much of that have you been able to order thus far, and how do you see that flowing Kick It Club?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

We can have some impact on Q1 and Q2 probably, hopefully, a little bit more on Q2 than Q1, but we're working through that and working with the brands, and they are being as helpful as they can to try to get product to us that we need. But it's really going to be in that third quarter that you'll see the big difference that our team will have fully bought that product and merchandised that product.

Jolie Wasserman

Analyst, JPMorgan Securities LLC

Q

That makes sense. And our follow-up question was just on gross margin with the third quarter. Just more broadly, if you could speak to what's going on there in terms of promotional environment for – this is all for core DICK'S promotional environment – tariff costs and the other inputs we discussed last quarter, like the GameChanger business?

Navdeep Gupta

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

A

Yeah. So we reported today 27 basis points expansion in our gross margin. Keep in mind that that 27 basis points of gross margin expansion is on top of a 70 basis points of expansion that we saw. In terms of the promotionality within the quarter, the promotionality, as you can imagine, the overall marketplace continues to remain dynamic. We participated in select promotions, which we always do during the important back-to-school season.

The tariff impact was within that quarter, our results as well within the merchandising margin. But keep in mind, we still delivered a merchandising margin expansion of 5 basis points on top of almost about a 60 basis points of positive impact last year. And there was a slight unfavorable impact from the mix. Like Lauren talked about, the license business performed really well, which is a fantastic growth opportunity, but has a slightly lower margin. So we had a little bit of an unfavorable impact from the mix as well.

And just to kind of round out that answer, I would say that if you look at it, we have guided that we expect our gross margin to expand on a full year basis. We expect gross margin to expand on the back half as well as within the fourth quarter. So overall, we feel great about the merchandising capability. The work that the GameChanger team is doing and the DICK'S Media Network, those ingredients continue to remain in place that drive our confidence in the gross margin expansion for this year and into the future.

Jolie Wasserman

Analyst, JPMorgan Securities LLC

Thank you.

Operator: Your next question comes from the line of Paul Lejuez with Citi. Please go ahead.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Hey, guys. Can you talk about the \$500 million to \$750 million in charges that might be coming? How much of that is cash versus just write-offs? And how many stores are actually being reviewed when you think about that range of \$500 million to \$750 million, and any split that you can share from US, international or by banner?

Navdeep Gupta

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

Yeah. Paul, we'll share much more of the detailed assumptions. As you can imagine, we are 10 weeks into this acquisition. And like I said before, we are balancing the evaluation that we are doing with the opportunity that we see in terms of driving growth and profitability expansion on a store basis. So on stores, we'll share much more of the detailed plans during our Q4 call.

In terms of the makeup of this \$500 million to \$750 million, I would say there are three main buckets. The first and foremost, as Ed talked about, is the unproductive inventory, which makes up quite a decent chunk of that, that we will be addressing – vast majority of that will be addressed here in Q4. That does include some of the store portfolio valuation. And then, we are looking deeper into the assets that we have in place, some of the technology assets, some of the legacy contracts that we will evaluate as part of the fourth quarter and clean that also up to position the business and the profitability of the business for 2026.

In terms of the cash versus noncash, I would say, it will be a combination of both things. Inventory definitely would be cash, but if there are some existing assets on the balance sheet that we'll be cleaning up, those will, obviously, be noncash. So we'll share more detailed assumptions behind all of this during our fourth quarter call.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Okay. Thanks. And then, just on the synergy number, the \$100 million to \$125 million. How much of that are you assuming you can capture in F 2026 to get to those accretion numbers? And curious if you're thinking that you might be actually playing for a bigger number than that \$100 million to \$125 million longer term.

Navdeep Gupta

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

A

Yeah. Well, the \$100 million to \$125 million, I would say, we have a – there's a lot of work that has already been done. What we are working through, as you can imagine, is just conversations with the brands, conversations with the non-merchandising vendors, and those conversations are happening right now. So we'll have a better line of sight, call it, 12 weeks from now as part of the fourth quarter.

And in terms of looking for additional opportunity, you know us, we'll continue to focus on driving the top line and the bottom line results for the collective business now. So absolutely, that's a focus within the organization.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Good luck.

Operator: Your next question comes from the line of Cristina Fernández with Telsey Advisory Group. Please go ahead.

Cristina Fernández

Analyst, Telsey Advisory Group LLC

Q

Good morning. I wanted to ask a question on the vision for the merchandising and Foot Locker. That business historically was heavy on basketball, sneaker culture, and kids. So as you look at where there can be improvement, do you see that mix materially changing on the apparel side? Are you looking to lean more into private label, or do you also see national brands playing a big role in their apparel expansion?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah. Foot Locker has always been steeped in basketball culture, and basketball will still be a very important part of that. The basketball construct that we see in the product coming forward from a basketball standpoint, we are really enthusiastic about across a couple of brands. And the apparel business, we do see the apparel business. The national brands is where they had kind of stepped away from and leaned into the private brands, which we think the private brands certainly have a place there, but we feel that the national brands will have a meaningful increase in the apparel business in Foot Locker, which will help drive the AURs, and we think it will be very profitable.

Cristina Fernández

Analyst, Telsey Advisory Group LLC

Q

And then, my second question is on Foot Locker also, have been on a pretty significant remodel and refresh program. Have you continued with those Foot Locker reimagined stores or have you paused that program and looking to make changes in that real estate strategy that they have been on?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

I think the Foot Locker reimagined stores has been an interesting test. As we've kind of gone through there, there's parts of the reimagined store that are very good and other parts that need to be rethought, and we're in the process of rethinking those right now. So as an example, what they characterize as the Kick It Club and the drop zone, when you first walk into a Foot Locker store in the middle of the store, we're going to take that out, reimagine that, give better sightlines to the balance of the store, and repurpose some of that place which – that area of the store, which was not very productive at all, it was more of a social place, and turn that into giving the apparel presentation more space and really focusing from an apparel standpoint, which we think will drive the sales even better than they are.

Operator: We have time for one more question, and that question comes from the line of Steve Forbes with Guggenheim. Please go ahead.

Steven Forbes

Analyst, Guggenheim Securities LLC

Good morning, Ed, Lauren, Navdeep. Ed, I was curious maybe to just explore like any demographic differences we should be aware of as we think about the performance spread between the two businesses. Yeah, I think one of the thoughts out there is maybe more exposure to lower income, but I'd be curious to maybe just hear you summarize how we should think about the demographic exposure and how that sort of impacts your merchandising plans on a go-forward basis here.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

We'll merchandise Foot Locker for Foot Locker, which is going to be a bit more basketball inspired, a bit more trend inspired, definitely more urban than the DICK'S Business. The DICK'S Business will be more sport-led along with the lifestyle product. We think DICK'S is really kind of at the center of sport and culture, and it's a more suburban concept.

With that being said, all categories of consumer, if you will, are looking for product that is new, innovative, and different than what's out there in the marketplace right now. And Foot Locker didn't have that new and innovative product. As we get into the 2026, we'll start to have more of that product, and by the third quarter, we think we'll be fully invested in that newer innovative product that the consumer across all income levels is looking for.

Steven Forbes

Analyst, Guggenheim Securities LLC

And then, just a quick follow-up for Navdeep, maybe just so we're on the same page here. There's a slightly negative adjusted EBIT for Foot Locker on a pro forma basis. That compares to the \$118 million last year, just I guess confirm that. And then, is there any way to sort of think through how you sort of view like a normalized 4Q or how you would speak to just where that LTM adjusted EBITDA profile is for the business relative to the [ph] 395 (01:07:35) that's in the presentation?

Navdeep Gupta

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

Yeah. So, the comparison – you're right, it's comparing to a normalized on a non-GAAP basis the results that the Foot Locker posted in fourth quarter of last year. And keep in mind, the connection point between the 1,000 or the 1,500 basis points of the margin decline versus the slightly negative operating income expectation for Foot Locker is the part of the cleanup of the garage inventory and that's the piece that we have threaded between the two, the numbers and the estimates that we gave out for the Foot Locker Business.

Steven Forbes

Analyst, Guggenheim Securities LLC

Thank you.



Operator: And that concludes the question-and-answer session. I will now turn the conference back over to Lauren Hobart, President and Chief Executive Officer, for closing comments.

Lauren R. Hobart

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

Okay. Thank you all for your interest in the DICK'S story. We will see you next quarter. Have a wonderful Thanksgiving and a huge thank you to our entire teams of over 100,000 people around the globe. Thank you.

Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation and you may now disconnect.

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