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Dick's Sporting Goods, Inc. (DKS)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us, and welcome to the DICK'S Sporting Goods, Incorporated Second Quarter 2026 Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I'll now hand the conference over to Nate Gilch, Vice President of Investor Relations. 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 second quarter 2026 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 on 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, 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. I also want to note a couple of admin items. First, a quick reminder on our comparable sales reporting. Foot Locker will be included in our quarterly comp calculations beginning in Q4 of 2026, which will mark the start of their 14th full month of operations post-acquisition. And finally, for future scheduling purposes, we are tentatively planning to publish our third quarter 2026 earnings results on November 24, 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. From a sales perspective, the second quarter was strong, particularly for the DICK'S Business, which delivered nearly a 5% comp sales gain. We continued to gain market share and saw many areas of strength across our portfolio. We're also encouraged by the response to our World Cup investments, which we believe positions us to benefit from increasing soccer participation over the long term. While the DICK'S Business delivered the sales and profitability we expected, as the quarter progressed, it became clear that inventory levels were building up across parts of the industry, leading to a much more promotional environment. This pressured our overall company earnings. Consumer preferences are evolving, with athletes increasingly responding to newness, innovation and a broader set of brands.

As demand continued to shift during the quarter, inventory built up in parts of the industry, particularly within certain legacy footwear silhouettes and apparel franchises that simply aren't resonating the way they once did. The inventory built up across the industry supply chains and across the retail marketplace, which led to an increasingly aggressive promotional environment. In response to these changes in the market, we felt it was important to remain competitively priced to protect our leadership position. We have always managed our business for the long term. We believe protecting our leadership position will create long-term value, and we view the pricing investments we're making today as an investment in the future strength of our business. These challenges affected both DICK'S and Foot Locker, but to different degrees. At DICK'S, our diversified business model, broad category mix and balanced brand portfolio helped us navigate much of this pressure.

Many areas of the DICK'S Business such as team sports and license were particularly strong. New emerging apparel brands generated strong athlete engagements and footwear categories such as running, cleats and the outdoor category remained healthy. While the promotional environment created pressures on margins, we continued to gain share and deliver strong sales growth. As you would expect, given its greater exposure to many of the legacy footwear silhouettes, the impact was more significant at Foot Locker. In addition, Foot Locker is more dependent on launch and retro product, not only were there fewer launches in the second quarter, but launches we did see performed below industry and our expectations. This had a meaningful impact on the results across the Foot Locker Business.

We're taking action to shift the mix toward in-demand brands. And while we expect the launch calendar to be more favorable in the back half of the year, the quality of those launches will be critical. We expect the broader promotional environment, particularly around legacy silhouettes, to remain challenging at least through the fourth quarter. In addition, the Foot Locker Business in EMEA has been more challenging than expected. While our turnaround efforts are underway, we always anticipated EMEA to have a longer path to recovery than North America. The promotional environment remains very aggressive in EMEA, the industry is carrying too much inventory, and the consumer has been even more cautious than expected due to the geopolitical environment. The combination of the softness in EMEA and these marketplace dynamics has delayed the pace of improvement that we expected to see in the Foot Locker Business.

Across the company overall, macroeconomic and geopolitical concerns also weighed on profitability during the quarter and impacted fuel, supply chain, healthcare and other costs. Along with the marketplace pressures we've discussed, this led us to revise our expectations for the balance of the year. Navdeep will provide more detail on our updated 2026 outlook in his remarks. But let me be clear: we believe the DICK'S Business remains strong and none of this changes our confidence in the long-term opportunity at Foot Locker. We're still early in the Foot Locker turnaround. We continue to invest to strengthen the business for the long-term. That includes investing in the Foot Locker brand through its first major brand campaign in more than a decade, which is being incredibly well-received, as well as investing in our Stripers who remain central to the consumer experience and a key differentiator for the brand.

We're also continuing to make progress with Fast Break. We surpassed our back-to-school goal of approximately 250 Fast Break stores globally and will continue to expand to more locations ahead of the holiday season. We remain very confident in the opportunity with Fast Break. Our brand partners continue to be highly supportive of both the DICK'S and Foot Locker Businesses, and we believe they see us as the most important player in the global athletic ecosystem. The connection between sport and culture has never been stronger. We see it every day across our business, from House of Sport, to more little league games being streamed on GameChanger, to moments like the World Cup bringing millions together. No one is better-positioned to capitalize on these opportunities than our combination of DICK'S, Foot Locker, and GameChanger.

While at the present time the marketplace has become more challenging, our leadership remains clear. We will continue to invest in the growth opportunities we believe will drive long-term value, including House of Sport, Field House, GameChanger, and the turnaround of Foot Locker. We are also making deliberate investments in price to protect and grow our leadership position. We've navigated environments like this before and we remain confident in our strategy, our competitive position, and long-term opportunities ahead for both DICK'S, Foot Locker, and

GameChanger. Before I turn it over to Lauren, I'd like to thank our more than 100,000 teammates across the globe for the commitment and their execution every day.

With that, I'll turn it over to Lauren to share more on DICK'S.

Lauren R. Hobart

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

Thank you, Ed, and good morning, everyone. As Ed mentioned, the breadth and diversity of the DICK'S Business allowed us to deliver another strong quarter. Once again, we demonstrated the power of our strategy and execution. Our team continues its commitment to bring our four strategic pillars to life: a compelling omnichannel athlete experience; a differentiated, on-trend product assortment; deep engagement with the DICK'S brand; and the strength of our teammates and culture. In Q2 we delivered total sales growth of 5.6% and comp sales growth of 4.9% for the DICK'S Business. Importantly, our growth outpaced the broader industry by nearly 200 basis points, reinforcing our ability to strengthen our leadership position and gain market share. Our comps were driven by growth in average ticket and transactions, and we saw broad-based growth across footwear, apparel, and hardlines. The DICK'S Business also delivered gross margin expansion during the quarter.

Growth businesses like DICK'S Media Network and GameChanger continue to generate strong returns and further diversify our earnings stream. Together, the contributions from these businesses plus tariff refunds recognized during the quarter helped offset the promotional pressure we saw across parts of the athletic footwear and apparel marketplace. As Ed discussed, we made the deliberate decision to invest in price to protect and grow our leadership position. The World Cup was another great example of how we're leading sports retail in the US. We invested significantly in marketing around the event, primarily through our adidas partnership, and our team delivered outstanding results. I'm incredibly proud of how our teammates brought our vision to life for athletes across the country. We believe the World Cup will be a catalyst for long-term growth in soccer participation, fan engagement, and consumer demand across the US.

We believe that we're extremely well-positioned to benefit from that growth through our strong brand partnerships, national footprint, connections with athletes and families, and leadership position in youth sports. That same commitment to driving long-term growth is reflected in our continued expansion of House of Sport and Field House, which both continue to perform extremely well. During Q2, we opened five House of Sport locations and eight Field House locations. For the year, we expect to open approximately 14 total House of Sport locations and 20 total Field House locations. Within House of Sport, compelling new experiences including Collectors Clubhouse and our Lids partnership are driving athlete engagement and fueling sales growth. These stores are giving us access to some of the best real estate in the country, including Cerritos, Tysons Corner and Palm Beach Gardens, and we believe they represent the future of sports retail.

These concepts are not only creating differentiated experiences, they're also helping us deliver the most relevant products and brands to athletes. More broadly, our athletes continue to respond to innovation, differentiated product and emerging trends across the marketplace. The House of Sport and Field House experience allows us to bring those trends to life in a differentiated way. These concepts have strengthened our partnerships with established industry leaders and with newer brands, enabling us to deliver a unique assortment that sets DICK'S apart in the marketplace and we believe represents a meaningful competitive advantage. Our ability to identify and respond to trends is supported by another important competitive advantage, our relationship with athletes. Our ScoreCard loyalty program is one of the most powerful assets in the DICK'S Business, connecting us with approximately 30 million active athletes.

It gives us the ability to better understand our athletes, engage with them more personally, and deliver more relevant products, services and experiences. During the quarter, we relaunched ScoreCard to provide greater value, increased flexibility and more meaningful member benefits. As part of that relaunch, we introduced ScoreCard+, a paid-tier designed for our most engaged athletes, who will pay $99 per year for membership and enhanced loyalty offerings. Over time, we believe these enhancements will increase engagement, drive higher purchase frequency, strengthen loyalty and further reinforce our competitive position. We're also continuing to leverage technology to build on this understanding of our athletes and improve their digital and in-store experiences. Earlier, I mentioned that GameChanger has become an increasingly important asset for us, contributing strong financial performance and providing meaningful data and athlete engagement.

GameChanger continues to deliver exceptional results, and with it, we have one of the most comprehensive youth sports ecosystems in the country. This gives us a powerful advantage as we continue to deepen our connection with athletes, families, coaches and teams. It also helps drive our broader business including our DICK'S Media Network, by allowing us to better understand and serve the youth sports community. As I discussed, while we drove positive footwear and apparel comps in Q2, parts of the industry became more challenging as the quarter progressed, and we've adjusted our expectations to include our assumption about these ongoing dynamics for the balance of the year. That said, nothing we've seen changes our strategy or our confidence in the DICK'S Business, and our sales expectations remain unchanged. We are encouraged by the strength of the DICK'S Business, the momentum we're seeing across many areas of our company, and the opportunities ahead.

We've been through marketplace transitions before, and each time, we've strengthened our competitive position. We believe our differentiated athlete experiences, strong brand partnerships, disciplined execution and long-term investments will allow us to do that again.

With that, I'll turn it over to Navdeep to share more detail on our financial results and 2026 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. Let's begin with a review of our second quarter results. Consolidated net sales increased 53.2% to $5.59 billion, driven by a $1.74 billion contribution from the Foot Locker Business and a 4.9% comp increase for the DICK'S Business. The DICK'S Business comp reflects a 3.6% increase in average ticket and a 1.3% increase in transactions, with a broad-based growth across footwear, apparel and hardlines, including strong results from the World Cup. On a two-year and a three-year basis, comps for DICK'S Business increased 9.9% and 14.4%, respectively. Pro forma comps for Foot Locker Business declined 3.6% for the quarter, reflecting declines in both North America and the international business. Results were impacted by challenging conditions in athletic footwear marketplace, as well as fewer launches and weaker consumer response to key launches during the quarter.

From a margin perspective, consolidated non-GAAP gross profit was $1.9 billion or 34.06% of net sales, down 300 basis points from last year. The year-over-year decline was driven by the mix impact from the Foot Locker Business. Within the DICK'S Business, gross margin expanded 79 basis points versus last year. The improvement was driven by strong growth in DICK'S Media Network and GameChanger, as well as the benefit from tariff refunds recognized during the quarter. These benefits helped offset increased investment in pricing due to promotional marketplace, particularly in athletic footwear and apparel, product mix, and higher fuel and supply chain costs. During the second quarter, we received approximately $59 million of tariff refunds, including $57 million related to DICK'S Business and $2 million related to the Foot Locker Business.

Of the total amount, a benefit of approximately $21 million was included in our non-GAAP results for Q2, and $38 million was excluded as one-time benefit as it related to the tariff expense recognized in the prior year. The $21 million included in our non-GAAP results consisted of a $19 million benefit to the DICK'S Business merchandise margin and a $2 million benefit to the Foot Locker Business merchandise margin. We have reinvested these benefits into the business to remain competitively priced and help offset ongoing fuel, supply chain, and other inflationary cost pressures. Turning to expenses, on a non-GAAP basis, consolidated SG&A expenses increased 65% or $562 million to $1.43 billion and deleveraged 183 basis points compared to last year's non-GAAP results. Approximately $477 million of the SG&A increase was attributable to the addition of the Foot Locker Business.

As expected for the DICK'S Business, SG&A deleveraged 96 basis points, driven by our strong investments in World Cup marketing, as well as continued investments in our digital and in-store experiences. In addition, we are experiencing higher teammate healthcare costs. As expected, due to the timing of our new store openings, pre-opening expenses were $23.5 million, an increase of $11.2 million compared to the prior year. As Lauren mentioned, this supported the opening of five new House of Sport and eight Field House locations in Q2. Consolidated non-GAAP operating income was $453.3 million or 8.11% of net sales, compared to $475 million or 13.02% of net sales last year. This includes operating income of $485.2 million or 12.6% of net sales for DICK'S Business, and an operating loss of $31.9 million for the Foot Locker Business.

The Foot Locker results reflect both the challenging promotional environment we have discussed earlier and our decision to continue investing in the business, including brand marketing initiatives designed to support the long-term turnaround. Moving down the P&L, consolidated non-GAAP income tax expense was $124.3 million or a rate of 28.1%. Our effective tax rate for the quarter was shaped by the mix of our earnings in foreign jurisdictions. In total, we delivered consolidated non-GAAP earnings per diluted share of $3.53 for the quarter, which includes the dilutive impact of the 9.6 million shares issued in connection with the Foot Locker acquisition. This compares to non-GAAP earnings per diluted share of $4.38 last year. On a GAAP basis, our earnings per diluted share were $3.50. This includes approximately $40 million of pre-tax income related to the tariff refunds and approximately $29 million of pre-tax Foot Locker acquisition-related costs.

It also includes approximately $15 million of costs associated with redesigning the store labor model for the DICK'S Business. For additional details, you can refer to the non-GAAP reconciliation tables of our press release that we issued this morning. Now looking to our balance sheet, we ended the quarter with approximately $914 million of cash and cash equivalents and no borrowings on our $2 billion unsecured credit facility. Inventory was $5.57 billion, reflecting the addition of the Foot Locker Business. Inventory for the DICK'S Business was up 6%, in line with our total sales growth. Turning to capital allocation for the quarter, net capital expenditures were $325 million, and we paid $111 million in dividends. Before I move to outlook, I would like to provide a brief update on the expectations surrounding the Foot Locker acquisition. First, as part of our clean out of the garage actions and broader merger and integration work, we expect total pre-tax charges of up to $750 million.

To-date, we have recognized $516 million of these charges. The remaining pre-tax charges will be incurred through 2026 and over the medium term as we complete this work. We continue to expect approximately $200 million of acquisition-related charges in 2026, which have been excluded from today's non-GAAP EPS outlook. Second, we remain confident in achieving our previously announced $100 million to $125 million of cost synergies over the medium- term, primarily from procurement and direct sourcing efficiencies. A portion of these synergy benefits are expected in 2026 and are reflected in our outlook. Now moving to our outlook for 2026. I'll start with DICK'S Business. While second quarter results met our expectations and we believe that underlying trends remain healthy, we are taking a more cautious view of the second half of this year, given the marketplace conditions we saw in Q2.

While we continue to expect full year comp sales growth in the range of 2.5% to 4%, we now expect operating margins in the range of 10.6% to 10.9%, compared to our prior expectation of 11% to 11.4%. For full year, we now expect gross margin to decline slightly. This reflects our expectation for a more promotional marketplace through the balance of the year, as well as higher expected fuel prices and supply chain expenses. In terms of cadence, we expect gross margin pressure to be most pronounced in Q3. We also expect SG&A expenses to deleverage for the full year, including, at the midpoint, nearly 50 basis points of deleverage in Q3, primarily reflecting the investments and cost pressures we have discussed. Now turning to the Foot Locker Business, we are reducing our full year outlook to reflect the same footwear marketplace pressures which are having a more significant impact on Foot Locker, as well as continued challenges in EMEA.

We now expect full year pro forma comp sales to be in the range of negative 2% to flat compared to our prior expectation of 1.5% to 3% growth. We now expect an operating loss for the Foot Locker Business in the range of $80 million to $40 million compared to our prior expectations of $110 million to $150 million in profit. At the consolidated company level, we now expect full year non-GAAP earnings per diluted share in the range of $11 to $12 compared to our prior range of $13.50 to $14.50. Our earnings guidance is based on approximately 90 million average diluted shares outstanding, which includes the dilutive impact of 9.6 million shares issued in connection with the Foot Locker acquisition. We now anticipate a consolidated company effective tax rate of approximately 29% for the full year. This is approximately 200 basis points higher than our prior expectations as the current marketplace conditions, particularly in EMEA, are expected to persist through the end of this year.

This increase in tax rate unfavorably impacts our non-GAAP EPS guidance by approximately $0.35 for the full year and is included in our updated outlook. Finally, from a capital allocation standpoint, we continue to invest in our business to strengthen our leadership position, drive profitable organic growth across the DICK'S Business, and support the turnaround at Foot Locker. And we continue to expect net capital expenditures of approximately $1.4 billion for the year, split roughly 70/30 between DICK'S and Foot Locker Business. For the DICK'S Business, our investment remain focused on store growth, store relocations, improvements in our existing stores, as well as ongoing enhancements to our technology and supply chain capabilities. For the Foot Locker Business, our investments are focused on re-energizing our store fleet, including our Fast Break initiative, and supporting the long-term turnaround of the business.

In closing, our updated outlook reflects the pressures we are seeing today and a more promotional environment we expect through the balance of the year. While those dynamics are creating near-term challenges, our confidence in the DICK'S Business and the long-term opportunity at Foot Locker remains unchanged.

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] Your first question comes from the line of Simeon Gutman from Morgan Stanley. Your line is opening up, one moment. Please go ahead.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay, good morning. I guess the first question simply is what's changed since we were sitting here 90 days ago and you were raising guidance and speaking very optimistically about both DICK'S and Foot Locker?

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

A

Thanks for the call, Simeon, and thanks for being so direct. First of all, we continue to be very excited about our business, and I think everybody should know that. The DICK'S stores comped 4.9% and we did not take our sales expectations down on the DICK'S side. We are expecting margin pressure as the market has become much more promotional, primarily in the athletic footwear space, but the DICK'S Business continues to perform extremely well. What changed is a number of brands got very promotional on their sites, and those promotions spilled into the broader marketplace; and we expect that to, unfortunately, continue through the balance of the year. But on the DICK'S side, we've got a very broad category portfolio, and DICK'S is not nearly as reliant on the footwear business as Foot Locker is.

We've taken the EPS down in DICK'S a little bit because of the margin pressure, the macro – geopolitical environment. But overall, the DICK'S Business has been very good. Comps at 4.9% in the quarter and we did not reduce our expectations from a sales standpoint. We did participate and expect to participate in the promotional environment. And we really believe that that's one of the best investments we can make in this business, is to keep that leadership position and not give that market share because this is going to subside at some point, and we'll keep that market share when things start to get better. But we think the promotional environment out there, we need to participate in that and it's one of the best investments we can make in our business. From a Foot Locker standpoint, we still continue to be really excited about the long-term opportunities for Foot Locker. As several of these brands became more promotional to clear inventory, the margin pressure on Foot Locker is much greater than DICK'S.

As we all know, footwear is the vast majority of the Foot Locker Business. And Foot Locker is much more reliant on those legacy silhouettes that have slowed down. They're much more reliant on launch product, and the launch product in Q2 was – it was disappointing in the marketplace, not just for us but for the entire marketplace. And another thing from a Foot Locker standpoint that we didn't realize would continue to be as difficult as it is is EMEA. The impact on EMEA is much greater than what's going on in the US. It's a more competitive market, it's a much more promotional market than the US right now. Based on fuel costs, the consumer is much more cautious in EMEA. The excess inventory that's out there really contributed to this real margin pressure. And you've seen that from some other retailers in Europe that have talked about how promotional the market is and how difficult the consumer is.

But overall, from a Foot Locker standpoint, I hope everybody can understand the partnerships that we are building and have built with the brands that we do business with who are looking for a global partner, a partner with across the entire globe from a launch standpoint, silhouette standpoint. The partnerships we've been able to develop here are going to pay huge dividends in the future, and it may be a little bit difficult right now. This industry is going through a bit of a transition. But what we did with Foot Locker is absolutely the long-term right decision, although, right now, I'm sure some of you are kind of scratching your head, but we absolutely believe long-term, it was the right thing to do.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

So, as a follow-up, Ed and Lauren and team, if you look at these two categories, footwear and apparel, it sounds like that's where the marketplace challenges are centered. Can you talk about your opinion on footwear, if this is footwear fatigue, the market's been strong, people have multiple sets and they're slowing their consumption, or is this a supplier or two having to clear out older inventory that's creating a temporary cloud? And the same logic question applying to apparel where there's a lot of athleisure apparel in the market and now the market is needing to clear it, or is it a supplier or two creating the pressure? Thanks.

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

A

Well, I think there's some suppliers out there – there's several suppliers that have got some inventory that have been – they've promoted on their sites and it's spilled over into the marketplace. I don't think this is a demand issue going forward from a footwear standpoint. I'll talk about footwear and then I'll talk about apparel a little bit. I don't think this is a demand issue. The consumer is looking for products that are new, innovative, different in the marketplace and some of these older legacy silhouettes and franchises that have done so well have slowed and slowed relatively quickly. But as we go through this, I think it's going to be fine. There's some things out there in the marketplace that are working extremely well, whether it's from the Nike Mind shoe, the Nike running construct is great. The adidas women's product in print and pattern has done extremely well, but I think this is temporary.

We've got to get through this, the pain that we're going to endure here from a promotional standpoint. But we'll come out the other side in very good shape. From an apparel standpoint, it's some of the same things from an apparel standpoint. Some of those legacy silhouettes have just slowed. They've been more broadly distributed, and those products have slowed. The new product that's out there from some of the traditional brands, the Nike Solo Fleece and [audio gap] (00:33:46) – is doing extremely well. You take a look at Gymshark we have in the store right now doing extremely well. Free People Movement's doing extremely well. So there are pockets that are doing extremely well, which is why we haven't taken down the sales number on the DICK'S side. But I think this is – it's temporary, we're going to go through a little bit of pain, but when we come out the other side, I think we're going to be – I think the industry is going to be fine and DICK'S is going to be very well-positioned.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you. Good luck.

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

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks very much. I also did want to follow up on the footwear cycle. I guess, can you talk about casual and fashion relative to running? And as you think about the last four years where you had the emergence of two huge brands, pretty different silhouettes relative to what existed in the market, do you think that there could be some sort of hangover around the footwear cycle as the, maybe the level of innovation slows and we start to not have as much newness out into the market, and that has some sort of impact in terms of the traffic that comes to the core DICK'S store?

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

Yeah. Chris, thanks for the question. And I think we have the hangover right now. We're going through that with these legacy silhouettes. The new styles of shoes that are coming out from brands across the board, whether it be Nike, whether it be addy, whether it be On, HOKA, we're going through that reset right now. And like I said, some of the products that are doing extremely well from a Nike standpoint, the Mind shoe is great. The running silhouette – and Nike changed the running silhouette. They really redefined this whole category of business. They've done extremely well with the Vomero and Peg, and those two in particular have done extremely well. What we see coming from our friends from Nike in basketball, we are extremely excited about between what they're doing with Ja, Caitlin, A'ja, that whole basketball category, we're really excited about going forward.

And I think how exciting the NBA playoffs were last year with what went on with the Knicks is going to give basketball a bit of a pop, too, and Nike is best positioned to take advantage of that. The other brands that we talk about, whether it be On and adidas and HOKA, there's some innovation coming down that we're pretty excited about. This is why I think we're experiencing the hangover right now, and some of these new silhouettes that are coming to the market are doing well. And on the more casual side, take a look at what's going on with UGG and Birkenstock. We couldn't be happier with what's going on with those styles of shoes, and we've gotten greater access to those and a greater allocation. We've developed a terrific partnership. They're great to work with and we're pretty excited about this. So we're going to experience some pain for the – at least through the end of this year, but we remain pretty enthusiastic going forward.

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

If I could just build, I think, of course, your question about the hangover with two large brands, I do think, as Ed said, that is not the issue because the running category in itself and all performance is doing really well. So I really do believe this is focused on the lifestyle legacy silhouettes that aren't doing well. The performance aspects of the category and then some of the newness that I had mentioned continue to do really well.

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

And if I can add one more thing on these legacy silhouettes, some of these legacy silhouettes that are out there that the brands have started to innovate inside those silhouettes with different materials and patterns have shown some life with those silhouettes. But the basic silhouette has been more difficult. But the modifications they've made to those silhouettes, like I say, with print pattern, color have definitely helped those. There's just not enough of them in the marketplace to offset the traditional ones, not yet anyway.

Christopher Horvers
Analyst, JPMorgan Securities LLC
Q

Understood. And then can you talk about the cadence of how you're thinking about the back half of Foot Locker's top line and margins? You mentioned promotions through the end of the year, but you also concentrated it in the third quarter. So how are you thinking about, like, I guess, how deep the third quarter is on the margin pressure front relative to the fourth quarter, and similarly on Foot Locker's top line?

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

We think Q3 is going to be a bit more difficult than Q4, but we're not going to get into what we're thinking for Q4. I think the market is going to continue to be promotional through the balance of the year. I was talking with the – one of the brands and his comment was, I've never seen the specialty channel of distribution so promotional in my career. And that specialty channel is extremely promotional. You saw that with one of our competitors and how they talked about it. But again, I do think that once this inventory gets cleaned up, it's going to be – it'll be back to something more normal. We continue to be extremely enthusiastic about the footwear business. We really do believe that footwear is the engine that pulls the train.

We take a look at what kids need from a footwear standpoint, and we really look at this as you need roughly five pairs of shoes, need a pair of shoes that you're going to play the sport in, whether it's going to be football, basketball, baseball, soccer, whatever it is, you need a pair of shoes there. From a training standpoint, you need a running pair of shoes. Today, you've gotten some really specialized from a weightlifting standpoint. You need a recovery shoe, and then you need that lifestyle shoe that you're going to wear that kind of says, hey, I'm a soccer player, I'm a basketball player, I'm whatever sport you are most interested in, or from a lifestyle standpoint. So the footwear business is not going away. The footwear business is going to continue to be extremely important to this industry and to DICK'S Sporting Goods and to Foot Locker. We're going to go through some pain, and every once in a while, an industry has to go through a little bit of pain to reset.

And we're going through that right now, but we're going to come out this the other side, the industry and the DICK'S, Inc. stronger than we've gone into it.

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

Chris, I also want to add on the DICK'S side, you asked about Foot Locker, but it is important to listen to Navdeep's prepared remarks about Q3 versus Q4 and just the investment in margin and SG&A on the DICK'S side also will be more aggressive in Q3 rather than Q4.

Christopher Horvers
Analyst, JPMorgan Securities LLC
Q

Understood. Thanks so much.

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

Yeah.

Operator: Your next question comes from the line of Kate McShane from Goldman Sachs. Kate, your line is opening up. One moment. Please go ahead.

Kate McShane
Analyst, Goldman Sachs & Co. LLC
Q

Thank you. Good morning. We wanted to ask about the difference in performance between the Fast Break stores and the legacy Foot Locker stores. How also have you seen the assortment changes play out in the stores, which I think started to hit in August, and what the consumer response has been? And then, can you give us a final number of where you think the number of Fast Break stores will be by the end of the year?

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

Sure. So, the Fast Break stores have definitely outperformed the traditional legacy stores. And we think that will continue based on the product that we've gotten in there. The legacy stores also have got that – and the Fast Break stores still have some of that legacy silhouettes that have been brought in. And so, they're not perfect yet. They need that new assortment of product and we'll be getting that there. But the Fast Break stores definitely outperform the legacy stores. We'll continue to invest in Fast Break going forward. And the number of stores, we're not going to kind of give you, but it'll be somewhere in the north of 300, 350 doors by the end of the year globally.

Kate McShane
Analyst, Goldman Sachs & Co. LLC
Q

Thank you. And is there any way to quantify how much of the margin impact or the cut today is being driven by EMEA versus what's happening in the US?

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

So we're not going to talk about this specifically, but EMEA is much more impactful than in the US. It's much more promotional over there. It's a more competitive environment and much more promotional.

Kate McShane
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

Operator: Your next question comes from the line of Adrienne Yih from Barclays. One moment.

Adrienne Yih
Analyst, Barclays Capital, Inc.
Q

Good morning.

Operator: Your line is open.

Adrienne Yih
Analyst, Barclays Capital, Inc.
Q

Great. Good morning. Thanks for taking my question. Ed, thanks for the color kind of at the higher level. Still trying to understand what Lauren was saying, which is that athletic performance continues to do well. This sounds like it's much more of a lifestyle athletic issue. Can you talk a little bit about the fact that possibly the incremental shift is to non-athletic trends like you were saying, UGG, Birkenstock, et cetera? And do you see that happening? If so, how can you participate in that on a larger scale while we wait for athletic to sort of come back? And then just wrapping that all up, you talked about this as sort of a through-the-end-of-the-year. But when we hear from the brands, they talk about innovation, newness, the new cycle coming to back-to-school next year. So as you think about the back half of the year, are you canceling orders? What are you doing for your spring buys? Just some color on that. Thank you very much.

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

Thanks, Adrienne. I'll try to answer all of those questions. From a...

Adrienne Yih
Analyst, Barclays Capital, Inc. Q

Kind of one.

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

...yeah, it's okay. The athletic performance is – we feel the athletic performance shoes are continuing to do very well. The lifestyle has been a bit more of an issue. But as I said, the brands are starting to bring in more lifestyle shoes like the Nike Mind shoe as I indicated. They're taking print and pattern into some of those more legacy lifestyle shoes. You can see that with what Nike has done with patent leather, what adidas has done with the print and pattern. So we think that that is going to be – it's going to be fine. It's just going to take a little bit of time. I do think there is a shift toward this brown shoe piece of this, whether it's UGG and Birkenstock, and we continue to participate in those. Those businesses for us are really on fire. They're up significantly. We've got a couple of other brands that we're looking at to bring in also. And so they will help offset this as the athletic business goes through this transition period.

So especially on the DICK'S side, we think the footwear business is going to comp positively in the back half of the year on the DICK'S side, although there will be some margin pressure. And again, I feel that it's the right thing for us to do to participate in this margin pressure to make sure that we maintain our market share. We think it's a great investment for our business. And we talk all the time that we don't make investments for a quarter or two in our business. We really look to make investments for a lifetime, and we think this is a really important investment to make from a price standpoint to keep that market share.

Adrienne Yih
Analyst, Barclays Capital, Inc. Q

And then [indiscernible] (00:46:36)...

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

The other question about the new cycle for next year, we're modifying some orders here and there but nothing really out of the ordinary of what we would normally do as we take a look at styles that are selling or not selling or colors or things that are going to be – changes in the marketplace. So we're not doing anything meaningfully different than we would normally do. Some of the brands are talking about innovation through back-to-school. We see some of that innovation happening now and going into next year, and I won't repeat myself with some of the things we talked about.

Adrienne Yih
Analyst, Barclays Capital, Inc. Q

Okay, great. Thank you very much. Appreciate it. Best of luck.

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

Sure. Thank you.

Operator: Your next question comes from the line of Lorraine Hutchinson from Bank of America. Please go ahead.

Lorraine Hutchinson
Analyst, BofA Securities, Inc.
Q

Thank you. Good morning. I wanted to ask about the Foot Locker margins and if there's any self-help that can be executed to stabilize the margins while the comps remain weak in the back half?

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

I'm not sure. From a self-help standpoint, we're doing our best to help ourselves. But in the marketplace, if a shoe is at a certain price in the marketplace, then we feel we need to be competitively priced. So we're not leading this margin erosion. We are participating in it where we have to make sure that we keep our market share, but we are in no way leading the price issues here.

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

Yeah. And I would also add that apparel, bringing apparel into the Foot Locker stores will help that as well as allocations of some of the new product that you mentioned that we're so excited about in the back half.

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

Correct. Yeah, some of the brands have provided us additional product that – higher heat product that we can sell at full price to help offset some of the margin, but we're working the margin as well as we can.

Lorraine Hutchinson
Analyst, BofA Securities, Inc.
Q

Thank you.

Operator: Your next question comes from the line of Ike Boruchow from Wells Fargo. Please go ahead.

Ike Boruchow
Analyst, Wells Fargo Securities LLC
Q

Hey. Good morning, everyone. I was wondering if you could comment on your early signals on back-to-school specifically at Foot Locker but also core DICK'S. And then on the Foot Locker guide-down on the profit, it's surprising; a $200 million revenue cut driving a $200 million profit cut. So maybe just some more clarity on the merchandise margin or gross margin expectations in the back half for Q3 for Foot Locker as well would be helpful. Thanks, guys.

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

Sure. The margin, I mean, you've got the sales cut based on what's going on in the marketplace, and then you've got the margin – the change in margin is what's driving – are two of the things that are driving this, but then also what we're doing from a marketing standpoint with Foot Locker. So we're making investments again in the long-term view of what we're going to do with Foot Locker. Foot Locker hasn't had an out-of-home marketing plan since roughly 2013, give or take roughly 2013. The previous management team did nothing to market the business from a top-of-funnel standpoint to really build the brand, and we're in the middle of fixing that to increase consideration of Foot Locker and build that brand back. The new marketing campaign that we put out recently called Colors which kind of takes a journey of sneaker culture from the beginning to where it is today has gotten great response.

I think it's going to help from a business standpoint sales going forward, but we're putting a sizable amount of money into marketing. We've also added payroll to our Stripers. We've increased the payroll of our Stripers which is all part of this, again, looking to make long-term investments in our business. So that's where the profitability cut's coming from. But we still remain excited about Foot Locker, and I think it's the right thing to do for our business long term.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

And then back-to-school?

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

A

We're not going to give – we don't give any guidance in – inter-quarter guidance of how back-to-school is doing. But we've – the back-to-school guidance is embedded in our full year guidance, but from a – we're not going to comment on back-to-school right now, which has always been our process.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

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

Michael Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thank you so much for taking my question. How should we be looking at the economics, the arc of the economics of the business as we move into 2027 especially as the core DICK'S Business is going to now have to lap the World Cup, the Knicks win, some tariff-related benefits? And if these challenging conditions persist well into next year, what does the economics of the enterprise look like especially considering that the market probably is just going to extrapolate the core DICK'S outlook for the back half into next year?

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

A

Hi. Michael, thanks for the question. One thing I think it's important to point out is the 4.9% comp that the DICK'S Business had in Q2 does include World Cup. But even if you exclude the World Cup, we did have growth across the portfolio, and we saw growth across hardlines, as well as apparel, and footwear despite all the challenges, and despite even the challenging market environment that we were navigating. So, as we look to 2027, obviously, we're not going to give any guidance, but we do feel from a top line standpoint, we have a lot of exciting things going on, and we continue to invest in the long-term health of the business.

I'll turn it to Navdeep to talk about other aspects.

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

A

Yeah, Michael. And to build on what Lauren said, as you can imagine, we're not going to give a guidance for 2027. But if you look deeper into our drivers of profitability in Q2, you will see that some of the topics that we have talked about for last several years, like DICK'S Media Network and GameChanger, that they will start to become a bigger driver of the merch margin expansion as well, and that is what you saw here in Q3. Our merch margin expanded almost about 150 basis points. That included the benefits of the tariff, but if you're going to be quantified what the benefit of tariff was, but even if you back that out, we were very happy that we were able to not only drive the margin expansion from these new capabilities, but offset the promotional pressures that we saw not only from the footwear and the apparel marketplace, but also the higher fuel cost.

So we feel like the rubric that we have talked about of being able to continue to drive gross margin expansion and making appropriate level of investments is the right framework, and we will continue to leverage that as we go into 2027.

Michael Lasser
Analyst, UBS Securities LLC

Q

Okay. Thank you very much for that. My follow-up question is, is there an opportunity to engineer a greater profitability of the enterprise from the Foot Locker Business either by optimizing the store fleet or monetizing some of the assets within that broader Foot Locker umbrella? And under what conditions for the market would you need to see in order to move from improving – trying to improve the performance of the business to rightsizing that organization? Thank you.

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

A

So, Michael, we're not going to kind of lay out specifics, but the answer to your question is simply yes.

Michael Lasser
Analyst, UBS Securities LLC

Q

Yeah.

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

A

Michael, I'll build on what Ed said that we reiterated our confidence in terms of the synergies of $100 million to $125 million, and that's the bigger part of the rubric as well that we all feel confident about.

Michael Lasser
Analyst, UBS Securities LLC

Q

Thank you very much and good luck.

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

A

Thank you.

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

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks, guys. I'm curious, how are you going to manage SG&A during this period where you're operating in a more challenging athletic market? And specifically, how are you thinking about SG&A growth in the second half? And then the second part is I'm curious about the investment specifically on the Foot Locker side. Sounds like you've got a big marketing campaign coming, but curious about the thought process of making that investment at a time when maybe the stores and the assortment are not where you want them to be.

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

A

I'll talk about the marketing investments and I'll let Lauren talk about the SG&A piece. But from a marketing standpoint, I don't think there's a better time to do this right now when the market is in a bit of a turmoil from a marketing standpoint to gain more market share and when things come out the other side, we'll have that market share as part of our portfolio that we can grow the business in. So, I think, as others might scale back, this I think is a great time for us to invest from a marketing standpoint, especially since marketing – Foot Locker did virtually no marketing other than digital marketing for so many years, and just let the kind of the view of the brand atrophy, and we feel it's really important that we make these investments. And I think this is a perfect time to do that.

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

A

Yeah. Building on what Ed said, we always look at the long term. That is a consistent thesis that we have across both Foot Locker, and the DICK'S Business, and some of the investments that we've been making on the DICK'S side in SG&A over the past few years to drive the tech, to drive GameChanger, to drive the DICK'S Media Network, are really some of the – in addition to the House of Sport and Field House, the capital investments we've made there. These are some of the core things that are driving our growth, our profitability, and as Navdeep said, specifically gross margin. So, it actually helps offset some of the pressures that we have in the marketplace. We are building an entire ecosystem here, and they are important parts of it, so absolutely not considering slowing down.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

So what is that SG&A growth that we should be thinking about for second half and then into next year?

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

A

So on DICK'S side, we expect the SG&A to deleverage for the full year with the highest pressure in the third quarter, and I called it out in my prepared comments that the pressure in the second half will be to the tune of about 50 basis points. And then as we start to lap the investments that we made in fourth quarter, we expect SG&A to leverage.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Good luck.

Operator: Your final question comes from the line of Bob Drbul from BTIG. Please go ahead.

Robert Scott Drbul
Analyst, BTIG LLC

Q

Hi, and good morning. I was just wondering if you could comment a bit more on the trading card business and how that's performing and trending within the core DICK'S Business. Thanks.

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

A

Thanks, Bob. The trading card business and the collectible business has been great. We're very enthusiastic about that. We're building the Collectors Clubhouse in all House of Sport stores going forward. We're moving that into a number of the Field House locations. This is a very big growth opportunity for us. The partnership we've put together with Michael Rubin and his company, and trading cards and collectibles, I think is really great for both of us, and there's a lot of growth opportunity here in the trading card business. You'll start to see us marketing the trading card business more aggressively than we have in the past, and we do really believe we can be one of the main – the main distribution points for these cards that have gotten to be so in vogue right now and exciting. I mean, if you're a collector, it's pretty exciting to rip through those cards, and see what you get.

It's gotten to become a family activity with the fathers and sons, mothers, daughters, sons, mother, I mean, it's just gotten to be – it's just a great family activity that is pretty exciting for us and for Fanatics business and the DICK'S Business.

Robert Scott Drbul
Analyst, BTIG LLC

Q

Great. Thank you very much.

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

A

Sure.

Operator: This concludes our Q&A session. I will now turn the call back to Lauren Hobart, President and CEO, for closing remarks.

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

Thank you everybody for your interest in DICK'S, and thanks to our 100,000 teammates, and we will see you next quarter.

Operator: This concludes today's call. Thank you all for attending. You may now disconnect.