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DICK'S Sporting Goods, Inc. NYSE:DKS

FQ1 2024 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Presentation

Operator

Good morning, everyone, and welcome to the Q1 2023 DICK'S Sporting Goods Earnings Conference Call. My name is Xannon, and I will be coordinating your call today. [Operator Instructions]

I will now hand you over to your host, Nate Gilch, Senior Director of Investor Relations. Nate, please go ahead.

Nathaniel A. Gilch
Senior Director of Investor Relations

Good morning, everyone, and thank you for joining us to discuss our first quarter 2023 results. On today's call will be 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 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 a reconciliation of our non-GAAP financial measures referenced in today's call.

And finally, for your future scheduling purposes, we are tentatively planning to publish our second quarter 2023 earnings results on August 22, 2023.

With that, I will now turn the call over to Lauren.

Lauren R. Hobart
President, CEO & Director

Thank you, Nate, and good morning, everyone. We are very pleased with our first quarter results which demonstrate the continued strength of our business resulting from our focused strategies and the strong execution of our long-term transformation. While consumers face macroeconomic uncertainties, our athletes have continued to prioritize sport and rely on DICK'S to meet their needs. In fact, compared to the same period last year, more athletes purchased from us. They purchased more frequently and they spent more each trip. Our strategies are working and resonating with our athletes.

We remain enthusiastic about our business and our long-term growth plan. As the largest U.S. sporting goods retailer, we have robust runway for growth and are well positioned to continue gaining share in a fragmented $140 billion industry. We will build on our 2022 results, which set a new bar for us in both sales and profitability and provide an excellent foundation for growth this year and in the years ahead.

Today, we are reaffirming our guidance for 2023. We continue to expect our comparable store sales to be in the range of flat to positive 2%. We also continue to expect our earnings per diluted share to be in the range of $12.90 to $13.80,

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up 11% at the midpoint versus 2022.

Now to our results. We achieved Q1 sales of $2.84 billion with total sales growth of 5.3% and comp growth of 3.4% as our compelling spring assortment allowed us to meet robust demand and deliver a fantastic athlete experience. We continue to gain market share and saw increases in both transactions and average ticket with strong transaction growth driving most of our comp gain.

Our gross margin represented a meaningful improvement from Q4 of 2022, and we delivered strong double-digit EBT margin of 11.6%. Our earnings per diluted share were $3.40, an increase of 19% over the prior year's quarter on a non-GAAP basis.

As we continue our transformational journey, our focus is centered around 4 key priorities: innovating within the athlete experience, curating a compelling and differentiated product assortment, providing a best-in-class teammate experience and driving deep engagement with the DICK'S brand.

Innovating within our omnichannel athlete experience is at the heart of our growth strategies, and we continue to enhance and refine our highly engaging in-store service model to consistently support and inspire our athletes. The very best expression of this is DICK'S House of Sport. House of Sport is redefining sports retail and over the long term will be a significant part of our growth story and the primary driver of our square footage growth. House of Sport is fostering very strong engagement with both our athletes and our brand partners, all while delivering much higher sales and profit.

This year, we're on track to open 9 House of Sport locations ahead of the back-to-school season and are beginning construction on more than 10 additional locations that will open throughout 2024. By the end of 2027, we continue to estimate that we will have between 75 to 100 House of Sport locations nationwide.

Furthermore, we're excited to provide a completely redesigned and reimagined experience for our athletes through our next-generation DICK'S store translated into our more traditional 50,000-square-foot format. This prototype is a great representation of key athlete insights that we've gained from House of Sport, including premium experiences, an elevated service model and enhanced visual expression. Our first location opened last week in South Bend, Indiana. We are really excited about this opportunity and look forward to continuing to develop and learn from this new store format.

In combination with our stores, our digital experience remains an integral part of our success, and we continue to invest in technology to strengthen our athletes' omnichannel experience. Recent enhancements are being well received by our athletes, including easier access to ScoreCard rewards, access to upcoming launches through a native sneaker release calendar and in-app reservation capabilities as well as in-store mode in the DICK'S app, which offers product scanning, access to ScoreCard offers and free shipping. Furthermore, our expansive database of our 150 million athletes is a tremendous asset that enables stronger, more personalized relationships with our athletes.

We're also expanding our leadership position in the sports technology market through GameChanger, the premier video streaming, scoring and statistics mobile platform for youth sports. During Q1, GameChanger saw continued robust revenue growth and massive engagement increases. Nearly 2 million games were played on the -- were covered by the platform, up 25% over the same period last year, with over 1/4 of these games streamed live, a year-over-year increase of over 100%. We'll continue innovating and investing in our GameChanger business as we strengthen our relationships with our athletes on and off the field.

We're also advancing new strategic concepts to connect with our athletes. Our value chain stores are enabling a great experience for our value-conscious athletes while also serving as a critical component of our inventory optimization strategy. They allow us to move clearance product out of the DICK'S stores, opening up space for more full-price selling. At the same time, they allow us to provide full size and color runs clearance product for our athletes. We've been really pleased with the athlete feedback as well as the margin recapture rates from these stores.

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Next, within merchandising, we're curating a compelling and differentiated product assortment. As discussed on prior calls, footwear is a key pillar of our merchandising strategy. During the quarter, we converted nearly 20 additional stores to include premium full-service footwear. And by the end of the year, we'll take this experience to more than 75% of DICK'S chain. Our premium footwear decks have enabled us to expand our access to a wider assortment of differentiated product from key brand partners as well as new and emerging brands. We're confident that our ability to provide an elevated footwear experience will continue to foster strong engagement with our athletes as well as drive sales growth and robust margins.

We remain committed to developing and investing in our vertical brands, which strongly resonate with our athletes. Our brands offer something for every athlete, including our DSG brand, which continues to play a pivotal role in our opening price point assortment.

We've also recently expanded our vertical brands into new product categories, including VRST and CALIA golf apparel as well as CALIA fitness accessories. The athlete response has been fantastic, and we're confident in our ability to continue growing our vertical brand portfolio.

Our third key priority is providing a best-in-class teammate experience. We strongly believe that highly engaged teammates are critical to a great athlete experience. Our culture is a key advantage, and we continue to be recognized by national media organizations and industry experts as a great place to work.

At the same time, we're making investments in foundational elements of our in-store experience to enable greater efficiency and productivity, including a new point-of-sale system with a more seamless checkout process. We also recently implemented a new HR management system across our organization, which will unlock further efficiencies in our workforce management. We're confident these investments will amplify our team's ability to provide an enhanced level of service to our athletes while supporting our strong culture.

Lastly, we're driving deep brand engagement. As we celebrate our company's 75th anniversary this year, we recently launched our Sports Change Lives campaign. Our objective with this work is to unequivocally communicate who we are and what we stand for. DICK'S believes in the positive impact that sports participation has on physical and mental health, academic achievement and more broadly the ability of sport to bring together and inspire communities and the next generation of athletes. The feedback has been very positive, and it's clear our message is resonating. We're excited to build on this energy as we launch the second iteration of this campaign early next month, focused on telling stories of how sports changed the lives of several well-known athletes.

In addition, as part of our 75for75 Sports Matter Grant Program, our foundation will fund 75 under-resourced youth sports organizations, each with a $75,000 grant to keep kids playing.

In closing, our strong Q1 performance is the direct result of our transformational journey. And we will continue to focus on athlete experience, differentiated product, teammate experience and brand engagement as the pillars of growth for our business. While the macroeconomic environment remains uncertain, we remain confident in our business and the strategies that will deliver sales and earnings growth this year and into the future.

Before concluding, I'd like to thank all of our teammates across our company for their outstanding efforts and continued commitment to our business.

I'll now turn the call over to Navdeep to review our financial results and outlook in more detail.

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Navdeep Gupta
Executive VP & CFO

Thank you, Lauren, and good morning, everyone. Let's begin with a brief review of our first quarter results.

We are very pleased to report a consolidated sales increase of 5.3% to $2.84 billion. Comp store sales increased 3.4%, driven by a 2.7% increase in transactions and a 0.7% increase in average ticket. Within our portfolio, our priority categories continued to perform very well, driven by our differentiated assortment across footwear, athletic apparel and team sports. The roughly 200 basis points of noncomp sales growth this quarter was driven by sales at our temporary Warehouse locations and from our newly acquired Moosejaw business.

Gross profit in the first quarter remained strong at $1.03 billion or 36.19% of net sales. This represented a modest 28 basis point year-over-year decline and represented a meaningful improvement versus fourth quarter results of 2022. As planned, this decline was driven by lower merchandise margin of 136 basis points due to the normalization of the pricing activity relative to Q1 of 2022 when our inventory was quite lean. This was nearly all offset by lower supply chain costs, which leveraged 108 basis points.

SG&A expenses were $693.9 million and deleveraged 162 basis points compared to last year. As expected, this deleverage was primarily driven by investments in our hourly wage rates, talent and technology to support our growth strategies. In addition, nearly 1/4 of this deleverage as a percentage of net sales was due to a net expense increase from the changes in the investment value of our deferred compensation plan, which is fully offset in other income.

Interest expense was $15 million, a decrease of $10.6 million compared to the same period last year. This decrease was primarily due to the inducement charges related to the exchange of our convertible senior notes we incurred in the prior year as well as interest expense savings this year from the retirement of these notes.

Other income totaled $17.7 million compared to the expense of $9 million in the same period last year. This $26.7 million increase in income was primarily driven by a $16.6 million increase in the interest income as a result of higher average interest rates on our cash and cash equivalents. Other income also included an expense reduction from changes in our deferred compensation plans, which fully offset the SG&A expense increase mentioned earlier.

Driven by our strong sales and gross margin, along with lower interest expense and higher other income, EBT was $328.3 million, 11.55% of net sales. This compares to an EBT of $331.9 million or 12.29% of net sales in 2022.

Our Q1 tax rate was 7.2%, which was meaningfully lower than our typical quarterly tax rate driven by the favorable rate impact of the vesting of employee equity awards and exercises during the quarter. This favorably impacted our first quarter earnings by approximately $0.50 compared to the same period last year.

In total, we delivered earnings per diluted share of $3.40. This compares to a non-GAAP earnings per diluted share of $2.85 last year, an increase of 19%.

Now looking to our balance sheet. We ended Q1 with approximately $1.6 billion of cash and cash equivalents and no borrowings on our $1.6 billion unsecured credit facility. Our quarter end inventory levels increased 7% compared to Q1 of last year. Our inventory is clean and well positioned.

Turning to our first quarter capital allocation. Net capital expenditures were $61 million, and we paid $105 million in quarterly dividends. We also repurchased 418,000 shares of our stock for $57.7 million at an average price of approximately $138. Furthermore, we retired the remaining $59 million of outstanding convertible senior notes and related bond hedges and warrants for 1.7 million shares of our common stock. As of April 18, these notes have been

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fully retired.

Now turning to our outlook for 2023. Assuming no material change in consumer spending behavior or in the macroeconomic environment, we are reaffirming our expectation for EPS and comp sales. We continue to expect earnings per diluted share to be in the range of $12.90 to $13.80, which includes approximately $0.20 coming from the 53rd week. At the midpoint, this represents 11% increase versus 2022 or up 9% on a 52-week comparable basis.

We are also maintaining our comparable store sales expectation between flat and plus 2% and continue to expect comps to be stronger in the first half due to the improved inventory availability compared to last year. At the midpoint, EBT margin is expected to be approximately 11.6%. We continue to expect improvement in gross margin, which will sequentially improve throughout the year. We also continue to expect SG&A expenses to deleverage, primarily due to the investment in our long-term growth strategies.

Our earnings guidance is based on approximately 88 million average diluted shares outstanding and an effective tax rate of approximately 21% compared to a prior expectation of approximately 22%. In addition, we are maintaining our expectations for net capital expenditure to be between $500 million (sic) [$550 million] to $600 million for the year.

Lastly, in March, we completed our acquisition of Moosejaw and are thrilled to welcome their passionate and dedicated team into DICK'S Sporting Goods family. Together, we are excited to serve the outdoor community through the collective strength of Public Lands and Moosejaw brands.

For just over 10 months in 2023, we expect Moosejaw will add approximately $100 million in net sales. However, it will not impact our comp expectations. We have incorporated the impact of Moosejaw into our full year EPS outlook.

In closing, we are very pleased with our Q1 results as we continue to implement our strategic initiatives to drive sales and profitable growth.

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

Nathaniel A. Gilch
Senior Director of Investor Relations

Operator, we're ready for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question today goes to Simeon Gutman of Morgan Stanley.

Simeon Ari Gutman
Morgan Stanley, Research Division

My first question is, I think, Navdeep, in your prepared remarks, you said if the macro or the consumer stays the same. Are you basing that on how the year started or how the current -- I guess, how the most recent trends look? Meaning has the consumer weakened at all and that's what you're basing? And then as part of this question, if sales are weaker, I wanted to talk about GM or gross margin and what's different in how you're managing it, how you're looking at markdowns and basically how GM behaves if sales are weaker.

Lauren R. Hobart
President, CEO & Director

Simeon, I'll start off the question and turn it to Navdeep. But in terms of the macro environment, we are coming off of a Q1 that we're very, very excited about. We had a 3.4% comp, 5.3% total sales. And I think it's important to look at the breakdown of where those sales came from. We had really strong transaction growth, 2.7 points of transaction growth in there. We had ticket growth. We have more athletes purchasing from us, purchasing more frequently and spending more per trip. And I think very importantly, you have to look at each of our income demographics. And we saw growth across every single income demographic, from a lower-income consumer to an upper-income consumer. We did not see trade down from best to better or better to good.

Overall, we really feel very good about how our consumer is holding up. So Navdeep's remarks just indicated, barring some major macroeconomic change or major change in consumer, we're reaffirming our guidance, feeling really good about it. And I will turn it to Navdeep now on the gross margin question.

Navdeep Gupta
Executive VP & CFO

Simeon, coming to the gross margin, I think we will first pivot to when you look at the diverse categories of the product that we carry in our stores and how well our assortment that we have in our stores is resonating with the athletes. We have reiterated our confidence that we believe that the merch margin will continue to improve as we go through the year. And we don't intend to lead with promotions, and we'll continue to watch the overall macro landscape very carefully. But we are confident in the outlook that we have provided for full year.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. My quick follow-up is on the sporting goods category broadly. Thinking of reversion, we've talked a lot about some of the big-ticket items, ones even that were COVID winners. Curious if there's any change in underlying unit consumption there or any other -- some of the COVID winning categories and how they're behaving.

Lauren R. Hobart
President, CEO & Director

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Yes, Simeon, I think the story for us is really about our core categories. So we saw strong growth in footwear, in team sports, in apparel throughout the quarter. Some of those COVID categories you talked about, maybe bikes or fitness, they are all -- while they have retrenched, they're well above where they were in 2019, golf included. And we think they have long-term growth. So we've been dealing with the pandemic quote/unquote -- pandemic surging categories for some time. Our core businesses are doing very well and driving our growth.

Navdeep Gupta
Executive VP & CFO

Simeon, I'll just add to what Lauren said. It is exactly in these categories that we are continuing to gain share. And so that's what gives us the confidence as we look at the long-term expectation of our business.

Operator

Our next question comes from Adrienne Yih.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Congratulations on a great start to the year. Lauren, my question is on the restocking cycle within wholesale and sort of new innovation, new brands coming to the forefront. Just wondering, obviously, inventory better in the first half. Is that suggestive that you've restocked kind of in categories that were under-inventoried and that perhaps the kind of outlook for the back half is a little bit more tempered?

And then my second question is just, Navdeep, can you help us with the shaping of the comp and gross margin over the quarters? I'm assuming still nicely positive comp Q2, maybe flattish to negative in the back half but with significant gross margin expansion.

Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Adrienne. You're right, if you go back a year in time, we were really out of stock. Whole industry was out of stock. Supply chain disruptions had created an issue for the whole category. And so what's wonderful now is the supply chain is mostly flowing. We're feeling like product is coming in. Our spring assortment looked terrific. Our summer assortment, which is set now, looks absolutely terrific. And so we are -- that is helping obviously drive some of our growth, our sales growth.

I'll turn it to Navdeep, but you will see as we start to comp what was then the counteracting of the delayed inventory, the apparel that came in so late last year, you will see gross margin start to increase over the course of the year, and you'll see comps slightly declining, all of that just dealing with the base of the cycles that happened last year. Navdeep, what would you add?

Navdeep Gupta
Executive VP & CFO

Adrienne, I'll build on what Lauren said. We expect the comps to be stronger in the first half of 2023. Like Lauren said, much better inventory availability and inventory position this year compared to last year. And if you don't mind, just to remind you all that the second half comp in last year for us was plus 6%. So we are up against really strong comps from the back half as we look to the 2023.

In terms of the merchandise margin, as we have reiterated, we expect merch margin to continue to improve and build as

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we go into the year, also driven by the freight expenses leverage that we are expecting that we capitalized from a balance sheet perspective.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Okay. And the stores do look great.

Lauren R. Hobart
President, CEO & Director

Thank you, Adrienne.

Navdeep Gupta
Executive VP & CFO

Thanks, Adrienne.

Operator

Our next question comes from Robbie Ohmes from Bank of America.

Robert Frederick Ohmes
BofA Securities, Research Division

Guys, a couple of things. I was hoping you could maybe talk about the comp trend through the quarter and if you guys feel like you saw some weather impact and if you'd be kind enough to give us any sort of thoughts on quarter-to-date trends.

Lauren R. Hobart
President, CEO & Director

I'll answer the first part of your question. Overall, the entire quarter was strong. We had growth in every single month. February was a very strong month. The weather was more in our favor. But across the board, we didn't see a major weather impact when you look at the whole quarter in total. We're not going to comment on quarter-to-date trends. Just too soon. Most of the quarter's ahead of us.

Robert Frederick Ohmes
BofA Securities, Research Division

Got it. I had to try, Lauren. But -- and then my follow-up question is on the transaction's strength, I think, stands out. Was that led by digital versus stores?

Lauren R. Hobart
President, CEO & Director

Actually, it's both, Robbie. We are seeing strong transaction growth in brick-and-mortar stores as well as online, something that we're very, very excited about.

Robert Frederick Ohmes
BofA Securities, Research Division

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That's great. And then the last one is a lot of people are talking about seeing this emerging resistance to big-ticket stuff. Is that something you didn't see? And I'm kind of asking in the context of you guys continue to elevate the assortment. Is there any -- is there not resistance to elevating the assortment? Or are you also augmenting with a lot of new introductions of lower price point?

Lauren R. Hobart
President, CEO & Director

Robbie, it's a great question. And consumers are opting to spend their money on whatever is important to them. So for example, we have brought in the upper echelon of soccer cleat and other equipment in our stores, and people are absolutely voting with those -- with their pocketbooks for those items.

At the same time, we've got opening price point. We always have entry-level product. So we do not see a major resistance to big-ticket items. We just see that people are opting to invest in the things that are important to them, and health and wellness and team sports and being outside are part of those categories that are important to them.

Operator

Our next question comes from Warren Cheng from Evercore ISI.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Just a follow-up on Simeon's question. I know your base case outlook that you just outlined is for merch margins to continue to improve throughout the year. But as we think about just the possible scenarios for how this year may play out, in a downside scenario where things get a lot more competitive, the environment gets a lot more competitive, more promotional over the summer or over the fall, how would you balance maintaining these merch margin gains you've achieved through COVID versus just keeping your foot on the gas and making sure that doesn't come at a cost of market share?

Navdeep Gupta
Executive VP & CFO

Yes. Warren, I would again reiterate what we have consistently said. First of all, it all goes back to having a very differentiated assortment, a differentiated assortment that is not only narrowly distributed but also is in really, really high demand when we look from the athletes. So it goes first and foremost to that.

The second thing I would again reiterate is that we will continue to have a balanced approach to what is right for the athlete as well as what is right for the company. We have always made the decisions that way, and we continue to believe that we will be able to act like that as we have guided today.

Lauren R. Hobart
President, CEO & Director

I would add one thing to your comments, Navdeep. Our value chain and Warehouse stores are a really great tool for us to clear out the product, be able to bring in fresh product to the DICK'S store but also make more product size runs, color runs available to the value-conscious consumer. So we have a tool now that helps us manage through this significantly.

Warren Cheng

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Evercore ISI Institutional Equities, Research Division

That's really helpful. And then as my follow-up, I just wanted to ask about the new store components of the algorithm over the next few years. So you've given us some parameters around House of Sport. But how should we think about Public Lands and some of the outdoor or clearance concepts that you've been working on?

Navdeep Gupta
Executive VP & CFO

Yes. So as Lauren indicated in our prepared comments, our long-term growth will continue to come out of the House of Sport model that we are building. We are really, really optimistic about the 3 stores that we have operating and our expectation to open about 20 stores in the next couple of years and 75 to 100 doors over the next 5 years.

Public Lands, I would say, it's still something that we are continuing to refine our learnings. And especially with the Moosejaw acquisition, we are looking back and saying how best do we serve that athlete. It's a $40 billion industry which is highly fragmented. So we see a long-term great growth opportunity there. We'll just continue to learn and test with the Public Lands concept.

Lauren R. Hobart
President, CEO & Director

And I would add one other thing, which is you didn't ask for -- about Golf Galaxy Performance Center, but we'll also be growing those concepts.

Operator

Our next question comes from Brian Nagel from Oppenheimer.

Brian William Nagel
Oppenheimer & Co. Inc., Research Division

Nice quarter. Congratulations.

Lauren R. Hobart
President, CEO & Director

Thank you.

Navdeep Gupta
Executive VP & CFO

Thank you.

Brian William Nagel
Oppenheimer & Co. Inc., Research Division

So my questions -- and I guess I'm going to ask a couple of questions basically, just kind of level set here with what you're seeing versus maybe some of the noise that we -- that's been taking place within your broader space. But -- so as you look at the sector now, how do you view inventories? And I know this is a follow-up to some of the prior questions, but these inventories, it seems like DICK'S is managing them well. I mean is there an inventory issue beyond DICK's, something you have to -- give you worry about or you think about?

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And then secondly, just with regard to sales. Obviously, your sales performed quite well here. But are you seeing any signals whatsoever of kind of a moderation, that more discretionary-type area?

Lauren R. Hobart
President, CEO & Director

Great questions, Brian. So starting with inventories, we are managing our inventory well. Our inventory is clean. It's well positioned. And I think what's very important for -- to realize is that our inventory and our products now are very narrowly distributed. So we have more of a moat against any industry-level promotion that might have affected us in a -- time ago when there was just wide distribution of similar products. So we are not expecting to have -- to go into a major promotional cycle here. We're very proud and happy with the inventory levels that we have, and the assortment is a real asset here.

In terms of discretionary spending, I really -- we talk a lot about this, and I just want to clarify how we're looking at it. Discretionary spending means different things to different people. And if you are a runner or you want to be outside or you want to play golf or you have a kid and they play team sports, it's not really discretionary to need to replace that equipment. I mean those are choices that feel more like a necessity, and they're choices that people invest in. And so we are very -- we are optimistic going forward, and we're not seeing any moderation of what we would say discretionary spending that's impacting our business in a meaningful way.

Operator

Our next question comes from Kate McShane from Goldman Sachs.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

We wanted to ask about the Going, Going, Gone! strategy for the fiscal year. Could you remind us how many you plan to have opened this year maybe versus last year? What component is pop-up versus maybe more permanent? And is there a way to quantify how this concept impacts your merch margins versus maybe being more promotional in the store?

Navdeep Gupta
Executive VP & CFO

Kate, let me take the second part of the question first. So as we have said, we are really happy with the Going, Going, Gone! and the Warehouse store strategy that we have had. We have perfected this work over the last 3 years now. What it has allowed us to do is to move more clearance inventory out of the DICK'S store into our Going, Going, Gone! channel. What it allows us to do is, one, get much better recovery rate on the clearance margin in the -- in this value chain store itself. In addition, you are able to replace that inventory that was in the DICK'S store with more regular-priced merchandise, which is bringing up the overall sales within the DICK'S store as well.

In terms of the store count itself, Going, Going, Gone!, we anticipate having -- end of quarter, we had 15 stores and Warehouse plus -- or the Warehouse stores were 40. And we are converting 10 of them, 10 of the Warehouse locations into Going, Going, Gone! as part of the confidence that we have in those locations as part of the plan that we have laid out for CapEx guidance for this year.

Lauren R. Hobart
President, CEO & Director

Yes, Kate, I think the pop-up versus permanent is an ongoing part of the strategy because we are doing what we're

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calling try before we buy in terms of putting permanent locations. But we find we're able to flex these pop-up stores quickly and then shut them down if it's either the wrong location or we don't have a need for it. So the pop-up is a long-term part of the strategy.

Operator

Our next question comes from Michael Lasser from UBS.

Isabel Bourette Thompson
UBS Investment Bank, Research Division

This is Isabel Thompson on for Michael Lasser. Maybe just to start, how much did the expansion of premium footwear along with attachments to those transactions contribute to the comp in the first quarter? And then when does this become less of a driver to the top line?

Lauren R. Hobart
President, CEO & Director

Isabel, I think I heard your last part of your question. But the premium footwear decks are a key part of our strategy. We will continue. And by the end of the year, we'll have 75% open. We don't get into specifically by category or transactions attributed to the category, but I will say footwear was a very solid -- very strong contributor to us over the course of the quarter.

We think footwear is the engine that drives the train. Footwear is a really important part of our entire assortment. And so we're not looking -- and looking at a time when footwear becomes less of a driver to top line sales, we just continue to try to elevate our assortment and our products for our athletes to come in.

Isabel Bourette Thompson
UBS Investment Bank, Research Division

Okay. And then maybe as a follow-up, we've heard from many other retailers about the weakness in discretionary category. Have you seen this in the business, especially into May? And what levers can DICK'S pull in order to address a more value-conscious consumer?

Lauren R. Hobart
President, CEO & Director

Yes. We won't be commenting on May quarter-to-date results. And as I mentioned, we haven't seen significant change, and we don't really consider many of our categories as discretionary as one might think because they are investments in living and health and wellness and active lifestyle.

But we do have a lot of levers. We have a very broad portfolio. We have opening price point products. We have everything up to the enthusiast product. And we also have opening rec level products. So a value-conscious consumer between our DICK'S stores and our value chain stores has a lot of options.

Operator

Our next question comes from Mike Baker from D.A. Davidson.

Michael Allen Baker
D.A. Davidson & Co., Research Division

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Okay. Guys, so a couple of margin-related questions real quick. One, the 10 basis points reduction in your EBT guidance, is that a function of Moosejaw, which I presume is lower margin than your core business, so sort of mixing that down?

And then related question. If EBT is 11.6%, can you help us with your expectation for interest expense and, as importantly, maybe more importantly, interest income and other such that we can understand what a reasonable, E-B-I-T, EBIT expectation is?

Navdeep Gupta
Executive VP & CFO

Mike, let me try and take all 3 of them. So yes, you are correct that the 10 basis points reduction in the EBT guidance for full year is because of the Moosejaw. It is slightly EBT-dilutive on a full year basis, and it will add about $100 million of top line sales in 2023.

In terms of the interest expense, we guided that the interest expense with the convert now out of our mix is going to be about $55 million on a full year basis.

And interest income, I think, to me, that's a function of the cash on the balance sheet that we have and the interest rate that we are getting. I don't expect that to vary a lot quarter by quarter. The only thing that I would call out is if you -- in our prepared comments, we shared that there was an income -- there was an offset that we had in this quarter from the deferred comp, and that would be the onetime thing that if you're modeling you may want to take that off.

Michael Allen Baker
D.A. Davidson & Co., Research Division

Right. And so that -- you implied that was about 40 basis points or about $11 million. So don't assume that going forward, but I guess we can do our own math on interest income rate versus your cash. And so that should get your EBIT is what you're saying?

Navdeep Gupta
Executive VP & CFO

Yes.

Operator

Our next question comes from John Kernan from TD Cowen.

John David Kernan
TD Cowen, Research Division

Wanted to go back to Nike and the relationship with Nike. The business scaled to $2.8 billion last year. I think it was up over 36% year-over-year. Can you talk to just the general level of allocations from Nike, inventory levels in the marketplace? I think there were some concerns that one of the footwear-focused peers is a bit over-inventoried at this point. So any comments on Nike and the relationship there and the integration of membership, how that's trending.

Lauren R. Hobart
President, CEO & Director

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Thanks, John. Our Nike partnership, our Nike relationship is at an all-time high. We are having significant discussions, sharing consumer insights, sharing insights on products, sharing co-branded marketing. We are working on all aspects of the business together. And as we continue to build premium full-service footwear decks, that does enhance our allocation and our ability to provide premium products across Nike and all the brands actually. So we do not feel we have an over-inventory situation with that product at all.

In the Nike membership, we have over 1 million members. Very -- again, as you think about sharing strategic insights and partners, it's been a fantastic way for us to get insights into the consumer, and we continue to grow and also elevate the benefits of membership between the DICK'S and the Nike consumers.

John David Kernan
TD Cowen, Research Division

Understood. Navdeep, maybe one quick follow-up on SG&A and how to think about SG&A rates and dollars going forward given the pivot back to square footage growth in some of the emerging concepts like House of Sport, Public Lands and the Warehouse. How do we think about the leverage point on SG&A and the investment in dollars year-over-year? It looked like SG&A was up in the teens on a dollar basis in Q1. Curious how we should think about that for the remainder of the year.

Navdeep Gupta
Executive VP & CFO

Yes. John, as we have given in our prepared comments, we expect SG&A investments to deleverage for the full year because of the investments we are making in the hourly wage rates, as Lauren called out, the talent and technology improvements we are making, whether it is in the GameChanger platform or the investments we are making in our new POS system. So those are all the investments that are within the SG&A component. In addition, we also have the SG&A increase on a year-over-year basis because of the Moosejaw business. And in Q1, we had the deferred compensation unfavorable impact within Q1 as well.

But we are -- I think the general question that you're asking is we are going to be very disciplined and very targeted with the investments that we are making on these SG&A because we believe these are the right investments we need to make to drive the long-term growth opportunity that we have ahead of us.

Operator

Our next question comes from Paul Lejuez from Citi.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Curious if you could talk a little bit more about the footwear business and how footwear performed across your different price spectrums and if you saw anything change on that front as you moved throughout the quarter.

And then second, just curious about your transaction versus ticket assumptions for the rest of the year that build up to your comp.

Lauren R. Hobart
President, CEO & Director

Thanks, Paul. We don't get into details about price points within a category, but across the board, footwear was a very strong performer for us. And we're very pleased with how that category is doing.

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Transactions and ticket were very strong, as you know, leading into our 3.4% comp and we think will continue according to our guidance plans to meet that 0 to 2% for the full year. But we don't break down specifically our guidance for transaction and ticket.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Got it. Can you just maybe talk about categories that underperformed during the quarter?

Lauren R. Hobart
President, CEO & Director

So we had strength in our -- 3 of our core categories. So footwear, team sports and apparel. Those are 3 of our biggest categories. I wouldn't say anything "underperformed" because we've really met our expectations. Golf is resetting somewhat but still significantly under -- significantly over, excuse me, 2019 levels. But that was exactly what we expected, and we have a lot of confidence long term in the golf business. So there wasn't anything that significant that underperformed.

Operator

Our next question comes from Steven Forbes from Guggenheim.

Anders Smestad Myhre
Guggenheim Securities, LLC, Research Division

This is Anders Myhre on for Steven Forbes. Can you expand on the key offerings within the next-generation store format and provide some high-level commentary on how you envision the ROIC of this format compared to the House of Sport concept?

Lauren R. Hobart
President, CEO & Director

Yes. The next-generation 50K is a DICK's format that's really inspired by our House of Sport experience. So it's got elevated visual presentation, elevated product assortment, elevated service, experiences, things like an all-sport batting cage, different fitting room experience. And we're very, very excited about it. I'll turn it to Navdeep. It's way too soon to start talking about the ROI of this, but we're very optimistic. Navdeep?

Navdeep Gupta
Executive VP & CFO

Yes, I could add. I agree with you, Lauren. It's -- we are just a few weeks into the grand opening of the store, so it's very early to talk about the ROIC. But I will just build upon what Lauren said. We couldn't be more excited to be able to take the key learnings from our House of Sport format and bring that into a 50K format. So we are very excited about the opportunity that is ahead of us, and we are continuing to monitor this investment closely.

Anders Smestad Myhre
Guggenheim Securities, LLC, Research Division

Understood. Look forward to seeing the new store format next week. And as a follow-up, now that the convertible notes have retired, how are you thinking about the optimal levels of gross debt and cash on hand moving forward?

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Navdeep Gupta
Executive VP & CFO

So we feel the debt level that we have, which is both long-term debt that we have on the balance sheet, is the optimal level of the debt. And the cash, we will continue to be conservative and have the right amount of cash and maintain also our investment-grade rating. And then beyond that, we'll continue to look to invest aggressively into the business between the growth opportunity we have with House of Sport, the new 50K format as well as other growth drivers that we have talked about.

Operator

Our next question comes from Chris Horvers from JPMorgan.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

One question on the merchandise margin side. Do you expect it to improve sequentially over the year? So you start to lapse through some pretty big declines in the back half. Is it your expectation that merchandise margin will still be up on a year-over-year basis in '23?

Navdeep Gupta
Executive VP & CFO

Yes, Chris, this is Navdeep. Yes, our expectation is that our merchandise margin will be up both by the factor that you talked about, about the pricing action that we took in the second half of last year. We don't anticipate lapping those actions this year. In addition, we continue to believe that the freight expenses will be favorable compared to last year, which are capitalized and get released through the merch margin as well.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

So then as a follow-up, sort of the 36.2% gross margin in the first quarter here, there's always some seasonal variation based on the quarter. But as you think about the structural gross margin, does that -- so 2 parts, does that reflect a normalization of promotion back to 2019 in your view? And then, I guess, how much [doesn't] it reflect the potential freight savings normalization?

Navdeep Gupta
Executive VP & CFO

So first of all, I think that we have moved past 2019. So we are looking much more on a year-over-year basis. And like you said, we did see, and as expected, normalization of the pricing relative to last year when the inventory was really lean. And that's the reason we saw this 136 basis points of merch margin decline.

And the freight expenses and the supply chain expenses did leverage compared to last year, and that is driven by both the domestic freight, the fuel expenses as well as the international freight being more favorable compared to last year. And we expect these trends to continue as we go through the balance of the year.

Lauren R. Hobart
President, CEO & Director

I would just add one point. We're not talking about 2019, but I don't want it to be lost that our gross margin has

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structurally improved from a pre-pandemic world. And so we're -- this is not about a normalization of promotion, not at all. We have a different gross margin structure than we did before.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

Right. So just to clarify on the freight side, I mean freight turns with the inventory generally, and so you have not experienced the full benefit of freight normalization inside 1Q. There should be more.

Navdeep Gupta
Executive VP & CFO

No. It will continue to build as we go through the balance of the year.

Operator

Our next question comes from Justin Kleber from Baird.

Justin E. Kleber
Robert W. Baird & Co. Incorporated, Research Division

Just on the second half revenue outlook, [I know the 10] locations are not included in comp, but how have you factored in the lap of the apparel clearance from last year into your guide? And just remind us if you experienced any traffic or sales benefit in the core DICK'S banner last year as you were addressing some of the apparel inventory overage.

Navdeep Gupta
Executive VP & CFO

So in terms of the guidance that we have provided, we are confident about the comp expectation that we have given here from 0 to 2%. That includes the -- kind of the anticipated benefit that you are calling about the clearance action that we undertook last year.

In terms of the -- we couldn't have been more pleased with the results that we have delivered here in Q1 with a plus 2.7% transaction growth and a 3.4% comp growth. Clearance was not a major factor in Q1. Our inventory was pretty clean at the end of 2022, and we continue to feel really optimistic about our inventory on hand at the end of Q1.

Justin E. Kleber
Robert W. Baird & Co. Incorporated, Research Division

Got it. If I just follow up quickly, Navdeep, on the delta between revenue growth and comp, do we expect that to remain somewhat similar throughout the balance of this year? Does it build as you start to add obviously new stores? How do we think about that, what looks like about a 1.9% gap in the first quarter excluding the extra week obviously in 4Q?

Navdeep Gupta
Executive VP & CFO

Yes. That's a good point, yes. So the 53rd week, so if you exclude the 53rd week, you would see that the Moosejaw benefit was only a partial quarter of the benefit we saw in Q1. So that will be, if you put it on a CAGR -- or sorry, total sales growth of $100 million, so that will sequentially build.

And then the other piece, which is the Warehouse locations, those will depend on the number of stores that we have in

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our base. Right now, we feel that the inventory is clean and well positioned. So we'll continue to monitor that expectation as we go through the balance of the year.

Lauren R. Hobart
President, CEO & Director

I would just add, Justin, that there is a spread. You've called it out, almost 200 basis points spread. And given the fact that we have Moosejaw now, that we have value chain concepts that are going to pop-up and not in the comp base, the fact that we're returning to square footage growth, the fact that we have GameChanger in there, like that spread is a meaningful amount, and it's something to note going forward.

Operator

Our next question comes from Chuck Grom from Gordon Haskett.

Charles P. Grom
Gordon Haskett Research Advisors

Nice results. I was wondering if there's any comment on regional performance throughout the quarter and if there was an impact from weather, particularly in businesses such as golf.

Lauren R. Hobart
President, CEO & Director

So we do not -- we cannot attribute a weather impact and we've tried onto our Q1 business. So overall, there was no impact -- meaningful impact on the business. That said, week by week, category by category, certainly there was some weather -- extreme weather in the quarter. But on the course of the quarter or over the course of the quarter, it balanced out. So nothing to report there.

Charles P. Grom
Gordon Haskett Research Advisors

Okay. And regional, is there any difference across the country?

Lauren R. Hobart
President, CEO & Director

Only as the weather moved across the country. I mean no, everybody was impacted by weather in Q1 at different times.

Navdeep Gupta
Executive VP & CFO

Nothing significant, Chuck, I would say. If it had been, we would have called it out.

Charles P. Grom
Gordon Haskett Research Advisors

Okay. Okay. Fair enough. And then just like bigger picture, you called out the 25 million ScoreCard members, which is a great number. But you also called out 150 million total athletes in the database. I guess how do you guys go about proactively trying to reach back to those former customers and get them back into the loop?

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Lauren R. Hobart
President, CEO & Director

That's a great question, Chuck. That is a major priority of our marketing group, is to get athletes who may have lapsed to come back into the fold. And we use personalization. We're very much focused on that particular area where we want to have people re-up. We also have kept our retention levels of the database high even as we brought on so many new athletes. I think we had 16 million new athletes in the last 2 years and 1 million this quarter. And our retention rates have stayed high. But we have an amazing database and an ability to go back and retarget and increasing personalization to be able to do that in a way that drives them to act.

Operator

Our next question comes from Seth Basham from Wedbush Securities.

Seth Mckain Basham
Wedbush Securities Inc., Research Division

I have a gross margin follow-up question just in terms of occupancy cost and the impact on gross margin this quarter. And how are you thinking about occupancy cost dollars growth through the balance of the year?

Navdeep Gupta
Executive VP & CFO

Seth, this is Navdeep. The occupancy cost leveraged modestly, but nothing major to call out. And we -- occupancy cost is relatively fixed, so we will see that as a function of the top line sales expectation.

Seth Mckain Basham
Wedbush Securities Inc., Research Division

And then to follow up on the supply chain costs, 108 basis points of leverage this quarter. Did I hear you right that you expect that to improve, meaning more leverage for the balance of the year?

Navdeep Gupta
Executive VP & CFO

Yes. We expect the overall freight and supply chain costs to continue to improve as we go through the year. And some of this cost gets capitalized into cost of goods sold. So it will be -- between the 2 lines, on a total gross profit basis, we expect our merch margin and our gross profit to continue to improve as we go through the year.

Operator

Final question comes from Daniel Imbro from Stephens.

Daniel Robert Imbro
Stephens Inc., Research Division

A lot of mine have been asked, but a couple of follow-ups on the top line. One, within the core DICK'S stores, Lauren, you mentioned success with the footwear decks. I'm curious if we exit this year with 75% of those done, I guess what is the next initiative or kind of what's the next growth driver you see within the store and place for investment to drive that next leg of comps in the core DICK'S store?

Lauren R. Hobart

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President, CEO & Director

Yes. I think the thing to point out here is just our focus on new concepts and real estate growth. So between our House of Sport, the 75 to 100, and the remodeling of our 50K and where we'll go with that, we constantly are prioritizing categories that are hot. And there's many across the entire chain. It's not just a footwear story at all. So yes, we're very excited about our growth going forward.

Daniel Robert Imbro
Stephens Inc., Research Division

Okay. And then we dovetail into the second one about unit growth. Navdeep, in the slides, you talked about an opportunity to grow into outdoors. I think it's a $40 billion market. It sounds like a lot of the growth is going to be House of Sport on the unit side. But should we think about as you've grown the outdoor that's going to be more of a new unit-driven growth algorithm? Or is it going to be more adding outdoor categories to your existing boxes that you have?

Navdeep Gupta
Executive VP & CFO

I think it will be a combination of both. We see opportunities both within the DICK'S Sporting Goods store itself to be able to continue to be relevant to the outdoor enthusiasts. But we feel between the Moosejaw, which is an omnichannel business, as well as our Public Lands, which is also an omnichannel business, we see opportunity there to resonate even better with the outdoor athlete. So both those opportunities are great as we think about the long-term prospects in that outdoor category.

Operator

That was the last question. I'll now hand back to Lauren Hobart, CEO and President, for any closing comments.

Lauren R. Hobart
President, CEO & Director

Thank you all for your interest in DICK'S Sporting Goods, and we will see you at the end of next quarter. Thanks.

Operator

This now concludes today's call. Thank you for joining. You may now disconnect your lines.

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