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Dick’s Sporting Goods, Inc. (DKS)

Morgan Stanley Global Consumer & Retail Conference

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CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Hi, everyone. I'm Simeon Gutman, Morgan Stanley's hardline, broadline and food retail analyst. And we are pleased to welcome DICK'S Sporting Goods probably for the ninth year in a row at this conference, represented by Lauren Hobart, President and CEO; Navdeep Gupta, EVP and CFO.

Just going to read a quick disclosure. We'll do fireside. Management is open for questions at the end, and then I will ask the first question for me and I'll sit down. For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

A quick preamble is that this company is one of the few remnants of retaining almost all of their COVID gains, and has transformed into a different business. And that's the raging debate on the stock that continues. The sporting goods category has always had a lot of utility. Now, it has a lot more participation in and a clear leader of a company that not only is embracing the industry's momentum, but is taking strategy and continuing to drive sales. And I think that's a piece of this that this company has engineered.

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QUESTION AND ANSWER SECTION

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

So, with that, I'll stop my introduction. I want to talk about the macro backdrop. I think the better that you do, the more anxiety the market seems to have about it. So, the last few quarters, the backdrop has been even more shaky, but the company continues to comp. How would you characterize the health of the consumer and do you expect any consumer spending improvement in 2025?

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

A

All right. Thank you, Simeon. Thanks to all of you for being here. I have to go back to your introduction and just correct one thing you said, which is what did you say marginally – so, if you look versus 2019 before COVID, our sales are over 50% over what they were prior and our profits, I think, 4x what it was. So, I do think for us anyway, we're well past looking backwards at COVID, and just looking at our future and how we're going to continue to grow.

Our consumer has been holding up very well, and that's been the case for multiple quarters now. They're still prioritizing a healthy, active lifestyle. They're prioritizing team sports and being outdoors. But increasingly, they're choosing DICK'S Sporting Goods as a place to get their gear and to meet all of their lifestyle needs. And that's really because of the focus that we've had on completely reinventing all aspects of our business.

So, starting with – I mean, I'm going back way now multiple years, we've invested in bringing our technology in-house, so that we could scale profitably from a digital standpoint. We've been focused on four core strategic pillars and that was our athlete experience, so leaning into how we serve athletes, making sure that we give, we say, confidence and excitement to every athlete, so that they can perform at their best, they can achieve their dreams. We focus on reinvention of our portfolio, of our stores. So, we have a House of Sport concept, which, if you haven't been to, I strongly suggest people go to, because it's hard to put in words just the awesomeness of House of Sport. But we're finding there is that that is the very best expression of DICK'S Sporting Goods in every way. And then, that's translating down to our Field House concept, which is our new 50,000 square foot in all aspects of our business. So, it's sort of like the start of the repositioning of the chain and it continues on.

Second thing we've been super focused on is product, differentiated product, and that's been started many, many years ago with the investments we made in premium full-service footwear decks, where we could finally have access to some of the hot lifestyle product that brands require a certain fit environment. And so, that opened up a whole different level of partnership with our strategic partnerships and that access continues. And you've been seeing that drive our comps as well.

So, our consumer is doing very well. We had a 4.2% comp last quarter, three quarters of 4% comp. But we do think it's both a mixture of the fact that consumers are doing well, but they're also choosing increasingly to come to DICK'S.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Any comment on the 2025 consumer?

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

A

I think it's still too early to be able to say that. There's just so much of uncertainty. If you look at like predicting even Q4 is not that easy. So, we said we will continue to look at the macroeconomic landscape. We'll continue to look at what is happening from a geopolitical situation perspective. What Lauren said is a very important thing, which is that our consumer is holding up really well.

Even if you look what we have delivered in terms of the year-to-date performance, we acquired 1.5 million new athletes in Q3, and on a year-to-date basis, we have acquired almost 7 million new athletes. So, this is where the flywheel in terms of providing the right experience, having the right product, and then being able to really differentiate from a brand experience perspective is what is allowing us to drive this differentiated results.

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

A

I will give you something on 2025, but I believe – we believe strongly that sport is having an outsized influence on culture and culture is having an outsized influence on sport. And the combination of those two things have made, like, the lifestyle sport so appealing to people and you see it in the workplace, you see it on kids in high school. And so, we are excited about the fact – if you look at what's going on with women's basketball right now, coming off of the Paris Olympics or going into a 2026 US-based World Cup, and then the 2028 LA Olympics, we see that trend continuing on. So, in our industry, we're very excited about how the consumer will be continuing to prioritize it.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks to both. Talking about market share, there – the sporting goods category, we're not sure if it's growing or not growing. It looks like it's not growing, but DICK'S is growing. And there's maybe five companies in my entire coverage and most of them sell food that are comping positive. So, you seem to be gaining share. Is that the case? In which categories? What are the bright spots and what are the not bright spots?

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

A

Yeah, so we are consistently gaining share. And the good thing not only is that we are gaining share, but it is the share gains are coming from the core four categories that we are really focused on. So, we talk a lot about footwear, apparel, team sports and golf, and those are the four exact categories where we are consistently gaining share. And that goes back to how differentiated our assortment is, whether it is in footwear or apparel. In golf, the golf category still continues to be really exciting, right? There is still a number of rounds played that are going up. So, the golf industry continues to be healthy, and that's what is giving us excitement about not only what we do in golf within the DICK'S Sporting Goods itself, but also the work that we have done on our Golf Galaxy portfolio as well. And then, the team sports is definitely an interesting area for us. We feel like there is still more opportunity between team sports as well as on the license side.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Which of these areas, footwear, apparel, team sports, golf, where do you think you're taking the most market share?

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

I would say it's definitely in footwear and apparel.

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

We already have a very dominant market share in team sports.

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

And back to – let's say COVID one more time, demand pull forward. If you think about categories where there was overconsumption that have reverted back, are you seeing the bottoming out in some of those durable goods categories, are some of them already returning? Are there categories where there's a replacement cycle that's beginning to emerge?

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

Yeah. So, just to – Navdeep mentioned our four primary categories of footwear, team sports, apparel and golf. Of those, golf was the one that was "pandemic winner". But what we're seeing in that category is that rounds played continue to grow, participation, sport is growing. And the sport itself, the sales from the sport is still higher than 2019. So, if you look at some of the big ticket items, so may be foot fitness and other categories that were "pandemic winner" are small piece of our business. And I'm sure there's some kind of a cycle there, where people will get into again. But it's not what we're focused on from driving top line and all of it is bigger than it was in 2019.

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

Shifting to brands, and I will start with ON and HOKA, they've been monsters. They continue to grow. Their results are great. Your results are great. Can we talk about the strength that's come from them, and then at the same time the proliferation of this product throughout other channels and how that makes you feel and how do you set up strategically for that?

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

Yeah, so footwear is a hugely important category for us, and we've demonstrated that with the investment in the premium full-service decks. Our House of Sport locations are bigger than some of our mall competitors in terms of the footwear deck that we have there. And we are focused on both performance and lifestyle footwear, the lifestyle, sport, so on. ON and HOKA have done an amazing job, driving – running business and really leaning into performance run and reinventing the category.

But we've got strong growth across many aspects of the business with – we're very excited about some of the trends in adidas in the tourist collections for Samba, Campus and Gazelle. We've got – we're very excited about what we're seeing coming down the pike with Nike, and they're running construct. So, we've got pockets of growth – New Balance also great. So it's not just a two brand story, and it's just a continued evolution. I think footwear being such an important part, innovation is always going to be driving excitement on that deck, and it could rotate where – but we feel like it's got tremendous long term potential.

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Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

You mentioned Nike, I think it's still a shockingly big piece of your cost of goods. We have to go back to okay every year and remind ourselves it's in the 20...

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

A

24%

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

24% is a big number. And I think the exposure grew year-over-year with [ph] Nike (00:10:08). So, how important is their success to your success? And then if they have a revival, why does that not cannibalize into some of the ON and HOKA trends? Can they all coexist?

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

A

Yeah, Nike, it's a big part of our portfolio. They are our number one strategic partners, but only 24% of the business. So, we do have – we really lean into having a diverse portfolio of brands. 80% of our shoppers are multi-brand shoppers. The Nike business has – we've had a lot of growth out of Nike. And that's partly because of the new access as we've been building this strategic partnership. As you know, we were a preferred partner of theirs, even when Nike was returning to focus a little bit more on DTC, DICK'S was our number one strategic partner. We've been investing in the footwear decks. We've been getting access to it.

So, we've benefited from increased access and then as we look ahead, we are very excited about the running construct that's coming and a bunch of other technology, air technology and things. So, we think we can keep driving really strong footwear comps with all of our partners. We still have decks. We have – 90% of our stores have premium full service decks. There's more opportunity there. The decks are getting bigger and more impactful. So, we're excited. We're not looking at it as cannibalistic.

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

A

Yeah. And, Simeon, what I would add is the work that we have done over the last few years have allowed that flexibility. We no longer have rooted our brand into one particular brand, even in footwear decks. We're not anchoring a brand to a specific [indiscernible] (00:11:38) location. So, what we have is kind of letting the athlete tell us what is important to them and how do we showcase that product appropriately within the footwear deck or even in the apparel pads.

So, the work that we have done on the vertical brand side from the apparel perspective allows us the flexibility to showcase the appropriate level of innovation, the brand heat, as well as what is what is really interesting from a brand selection perspective to the athlete, and let the athlete tell us what is relevant to them and have that flexibility help us get to that outcome.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

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Yeah. I think we get anchored to these brands and these trends, partly because – the old history, there was some inconsistency in comp. Now, it's been phenomenal and we're focused on what's the next thing. And I think you keep bringing together different trends, partly strategy, and then you're finding the innovation and bringing it to the athletes.

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

Yeah, well said.

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

House of Sport, which didn't exist pre-COVID. So, sorry to make this back and forth, but it's in 19 locations.

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

Yes.

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

To give us an update on where you are on this path to 75 to 100. I'll start there, and then we'll talk about learnings.

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

Yeah, well, we are on the way to 75 to 100. We're still on the path there. How many – do you want to mention about...

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

Yeah. So, we'll finish at 19. Our plan, what we have indicated is an additional 15 doors being opened next year. So call it about 35 doors by the end of 2025 on the pathway to 75 to 100. Maybe I'll let you build on the...

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

Strategy [indiscernible] (00:13:16)

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

Yeah.

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

Do you have any specific – I can...

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Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Well, I was going to eventually get into the return on investment and the comp growth and the market development and sort of densification because these are the things – part one is the initial success and part two is the durability and the return on investment.

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

A

Yeah. All right. Well, let me just start with an overview of why we're so excited about House of Sport, and then, [indiscernible] (00:13:39) some of those other questions. But if you haven't been to a House of Sport, I really do suggest you get up there. It's 100,000 plus square feet. It's got incredible experiences, things like rock climbing walls, track and field, incredible levels of product experience, product and service.

We have Co Lab, what we call Co Lab space, which is a collaborative space where a brand can partner with us and we change it out every few weeks and bring an entire brand story to life that drives just a lot of excitement. So when you come in, there's always something new. We have a seasonal fashion show that talks about what's the hot product for the season. What we're finding with a House of Sport is that athletes are very much resonating with it. They're driving longer to come to a House of Sport. Their travel time is more. They're spending more time in a House of Sport. We're also finding our brand partners are really excited about our – new and emerging.

So, we've been able to bring in – the ON came in through Public Lands in a House of Sport, and FP Movement came in through a House of Sport, because these Co Lab spaces and the fact that we can really make them comfortable with how we're going to bring the brand to life is a great entry point for us, and then we can continue to expand throughout the chain.

So, we're getting increased access from our core partners and emerging partners, but also the landlord community. So, when we put a House of Sport in a mall, we see that the traffic of the mall goes up significantly. So, we are now – because of that, it's become part well known. We are getting access to much more premium and interesting space than we might have had before where we really are a destination. And so, it's just been a win-win-win. It's been – it is at the center point of how we will reposition our entire portfolio. It's the best expression, but you'll see its close cousin is the 50,000 Field House location, and it's translating through the entire portfolio.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

75 to 100 and a lot of focus in retail in the top 50 MSAs. Does that mean you'll have two per major MSA? I joke Jonathan City probably doesn't – yeah...

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

A

Victor, New York?

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Victor, New York.

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

...but we're finding that we do great – we do great in every market, but some of the smaller markets are, I think, doing even better than you might expect.

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

Yeah, like, you wouldn't have imagined that the first store would go into Victor, New York or Rochester, New York, the second store going into Knoxville. And what we are learning through this is that even some of the smaller markets, there is enough amount of demand that can be satisfied in a very differentiated way. Then, we are able to do within 50,000 or any 80,000.

Having said that, we will continue to prioritize some of the core markets like going into Boston or Prudential Center, going into – and our own backyards in Ross Park Store in Pittsburgh are some of the existing boxes where we see a significant amount of outperformance on the existing footprint and that we are able to lean into even more differentiated offering to our athletes through a House of Sport location.

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

What's the community involvement participation? What's it been since opening? Are you tracking NPS scores on these concepts? What are you looking at to measure their success?

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

Multiple things, right?

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

Yeah.

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

As you can imagine, it's not just about financial. It starts with, first of all, from the brand and the portfolio that how well is it resonating with our brands? And not only the established national brands, but with the emerging brands are like how many brand partners are visiting and excited about this opportunity, how many inbound interest we are getting? So, that's the first. What Lauren said, we have we have a tremendous amount of flexibility in our real estate portfolio with 100 locations coming up for lease renewal each year. And the , excitement that this is able to create with the landlord community allows us to have the flexibility on our real estate portfolio, not just in the House of Sport location, but even in a Field House concept, to be able to bring that level of excitement to a 50,000 box. So, that has been a kind of a big home run.

Then, the third is, which quite frankly, we are learning and the communities are learning, is how well to engage with the House of Sport concept itself. So, for example, we have we have partnership with now some of the local sports teams at these locations, where not only can we bring those teams onto our stores – in our stores, experience in a very differentiated way. But we are having a very differentiated level of conversations with some of the local college teams that exist in these towns. So, quite frankly, we are learning through our own

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partnerships in this way, and the communities are learning on how better to engage with the with the House of Sport solution.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Can you give us a sense of the contribution of comp in their second year? You have a few of these. And then back to returns, thinking I don't know if it's – we should talk about gross margin or keeping expenses controlled to make sure you're getting that return on capital. And I think the payoff is three years for a House of Sport, and two years for a Field House?

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

A

Yeah. So, I think, so there were two parts of the question and let me address both of them. Let me start with the financial returns. So, the financial returns we have posted about, you can see that on our Investor Relations website, and those are just the returns that we see in year one. The first part of your question is we are excited about the performance that we continue to see from these stores in year two. At the beginning of this year, we had only two stores that had comped fully in the second year. Now, we have more stores and that is giving us more confidence as we look beyond year one.

And to come back to your first second part of your question, we are very happy with the returns that we are seeing out of these locations, not just on a capital return on investment basis, but also what it is driving from a top line comp perspective as well as the bottom line contribution impact of the company.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. We'll come back to that later. I'll talk about the backdrops. It feels that it's getting a little more promotional broadly in retail. This could just be a second half of 2024 and into the holiday. We're sitting in December. How would you characterize the emotionality of the industry versus 2019 and segue into holiday, generically, are you seeing signs consumers are responding to the level of promotions that are in the market?

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

A

I'll start with it just we did say last Q4 that that the environment was a little more promotional than it had been the prior year. And this year, where we said, again, there's a little bit – some of our partners have indicated – some of the other retailers have indicated they have a little bit too much inventory. So, there's some increased promotionality that has been planned. We counted for that in our guidance, and still have a merch margin gain expected in Q4. But we're also very surgical because we do have a differentiated assortment.

So, we don't just default to whatever is happening in the marketplace. We often can actually not – we don't have to get distracted by a level of a frenzy of promotional activity because we have product that doesn't need to be discounted. And we also can be surgical in terms of when, where, how deep we would participate, and we just judge based on what's right for our athlete sales margin and all that. But we are navigating – we will navigate through very well.

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

A

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Yeah. And, Simeon, maybe just to build on that, this is also a short holiday season. We have five less days compared to last year, so there's a little bit of that. That is also driving some of this – driving that sense of urgency in the marketplace through some of the promotions, not just in our industry – in our category, but if you look across the retail, you are starting to see a little bit more of that.

The other thing what I will – that will emphasize is the work that our collective team has done in terms of having the right level of service and offering that experience and expertise within our stores. We are excited not just about the product, the capability, but also the service that is within our stores, the engagement in our team, the excitement that exists within our stores. We couldn't be more happy about how well we are prepared for the holiday season.

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

Inventory has been building. We talked about that in the second quarter, where it looked a shade high and it got a couple of shades higher. And you're in a promotional category, soft goods. So, can you talk about the inventory risks that now present or lack thereof? And then which categories are you making bets in?

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

Yeah. So, our inventory, we just finished – our Q3 was up 13%. We are very, very excited about the inventory that we have brought in. We invested in specific categories, so it's not like it's peanut butter spread across the portfolio. We have very specific areas we wanted to invest. And some of that had to do with bringing in our spring receipts earlier. So, we have warm weathers in the southern markets. We've got warm weather stores that typically have held on post-holiday too much – we have held on to too much winter type products. We need to get them set for spring immediately. So, that's part of it.

We also felt like leading into the days right before Christmas, those are huge days where it's really an in-store moment, and we would be broken on some key items, the Nike fleece, for example, really, key styles, key colors, sizes. And so, that was just – there was no reason to be leaving those sales on the table. So, we brought that in, with the College Football Playoff going to 12 teams, we have an opportunity and license that we've leaned into, but the inventory that we've been investing in is – I would think it's – I would think of it as a strategic weapon and asset that we have. Like we've been gaining access to product footwear especially in all of the categories I just mentioned. And we are so confident we will drive sales with it. It'll be good product into 2025. And then, we have an amazing ability to liquidate and pull things into our value chain, if we want to move some product along.

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

So, by first quarter of 2025, I guess, I think it's – are you permanently or temporarily going to keep the inventory elevated to keep making these bets or we should see it subside in the early part of next year?

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

I would say that we will definitely learn from what we are doing here in third quarter or actually back to your point, in 2Q, we saw that inventory be a little bit higher than sales in 2Q, but that was part of the conscious investment. And we saw how strong our back to school season came out to be like third quarter straight in a row where we posted more than 4% comp, allows us to kind of build the confidence and the inventory investment strategy that we have built.

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The two things that I would build on what Lauren said, even with this investment that we are making in inventory, that is actually allowing us to raise the guidance that we did here, again third quarter in a row. There we raised our comp level expectations, not just driven by what we saw here in Q3, but also the confidence that we have in our Q4 expectations. And we also raised our merch margin – our gross profit expectations for full year. Again, goes back to feeling that this was a very conscious investment.

The flexibility that we have in pricing, promotion, the work that we have done over the last five years going back to 2019, we didn't have the value chain strategy. Now, we have 50 stores that can actually handle all of – if there is a mistake – as a retailer, we always make some mistakes. As long as you have a good avenue to be able to liquidate those mistakes and through the value chain strategy, we actually have a very clear way of being able to drive that better monetization of the clearances, better value conscious athlete being brought to our overall ecosystem.

So, those are good and effective ways of managing some of the clearance challenges that sometimes we have run into in the past. We are really excited about the fourth quarter and into 2025. So, in terms of the expectations for 2025, we'll share that as part of the next guidance expectation. But we are really, really confident about our Q4 business and into 2025.

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

That's helpful. Yeah. So, calculated risk and excited keeping the comp momentum going. Vertical brands. DICK'S has developed some great brands. They've gotten good, great notoriety between CALIA, VRST, even in golf, Maxfli...

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

Walter Hagen.

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

Yeah, in Hagen...

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

Yeah, in Hagen, [indiscernible] (00:25:34) so, vertical brands strategy, incremental growth and how it coexist with the national brand strategy?

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

Yeah. Vertical brands has been a big strategic initiative for us because for several reasons. One, we do get 600 basis points to 800 basis points higher margin rate on the vertical brands. So, it's obviously – it's a healthy thing to be driving. But we also had opportunities, whitespace opportunities. So, collectively, our vertical brands are our number two vendor only behind Nike. And to your point, we are the number one vendor in areas like golf and fitness and team sports. We actually are our number one vendor in those hard line categories.

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But we had a big opportunity with CALIA and DSG, VRST. And DSG meets an opening price point consumer who wants incredible quality and function and fashion, but isn't going to invest at some of the level of our other products that we carry in the store. The DSG has gone – has just been an incredible all family solution for people. And CALIA and VRST are filling whitespace sort of two from lifestyle or sport as opposed to hardcore on the court on the field. So, all of that has been really good. It enables us to just continue to balance the mix of the margin sales and also resonate with a bunch of different types of athletes.

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

Do you have to set a new goal in terms of penetration? Meaning...

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

We have $2 billion is the goal that we have set and we are well on our way to achieving that.

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

Okay.

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

Yeah.

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

I'm going to skip over loyalty to talk about GameChanger for a second.

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

Okay.

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

And we've got10 minutes or so, so in maybe another five, we can see if the audience has questions. GameChanger, some people are familiar, some are not. It's an app that athletes and coaches are using and it has amazing NPS scores. There's a lot of connectivity back to your business...

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

Yeah.

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

...but scratching the surface in terms of what – how it can be used, how it can be monetized and the value it brings to the brand. So, with that can you talk about what the vision with GameChanger, and how it can link back to the business and create shareholder value?

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

A

Yeah, I'll start and you can take it from there. I think the most exciting thing about GameChanger is at DICK'S, we want to become the best sports company in the world. That is our vision and the best sports company in the world would own the best sports tech platform in the world, and GameChanger is that. For anyone who has a GameChanger kit or we were talking in one of the small meetings about the Thanksgiving discussion about GameChanger, it is literally – it becomes your – oh, there you are, GameChanger. It's synonymous with youth sports and you're looking to it every time your kid has a baseball game or softball game that, checking the scores and the stats. You can watch live video and people are doing that. If you can't be – if you're the parent who's away from home, that's just an incredible gift and then you can watch highlight reels and a lot of it's driven by AI. So we are so excited about GameChanger. And the data that we get from GameChanger is also of use to us. Now, we know it's a 12 year old kid who just signed up for this team. They play this position. I mean, there's so much data in there. We are just scratching the surface in terms of bringing all of that together and really creating a retail media network that both we and our partners can leverage.

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

A

Yeah, so, Simeon, I'll build on a couple of things what Lauren said, if you think about just the GameChanger business per se, it operates in an industry that is somewhere in the neighborhood of $30 billion to $40 billion in size. And GameChanger today has a very, very, very small portion of it. Our revenue is $100 million by the end of this year, but it's a very fast growing business. Since the time we have acquired it, it's grown at a pace of around 30% to 40% each year, and we continue to believe that that type of growth opportunity exists even into the future. And it's a very profitable platform. So, its size – from a size perspective, it's at the right level where we feel this is a significant and a meaningful contributor to the overall company. It's very profitable.

And what Lauren said, we feel like there's a whole different level of opportunity, when you look within the app itself. Today, that most dominant sport in the GameChanger app is the baseball, softball sport. But we have built over the last, call it, a year plus capabilities into basketball, which we just launched here with an AI tool capability that you don't have to see did you make the basket or not? The tool actually can tell you that did you score or not. And now not only can you telecast the game, the coaches can quickly see the whole game, which could be lasting several hours, and really go and hone into the – or zone into those specific hours or specific minutes for coaching opportunities. And all of that can be done with leveraging the tool that the team has built.

We have a similar tool for volleyball now. So, we are expanding within the platform, going well beyond the Diamond Sports. The opportunity, like Lauren said, is a retail media network, right? We don't advertise today on that platform, so that's a very different way of monetizing that platform. The most significant opportunity is how do we think of this overall $30 billion to $40 billion opportunity and what could we be doing? So, we are still evaluating our options, but on the core platform itself, we couldn't be more excited about how well that platform is, and how well that team is building the new capabilities.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

In 2025, you're getting subscriptions already today from GameChanger.

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

A

Yes.

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Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Do you think you're going to collect advertising revenue in 2025 from the business? And do you think you're going to be mining data or personalizing based on what you're seeing in the GameChanger app versus what you're seeing in the DICK'S Sporting Goods app?

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

A

Yes and yes.

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

A

Yes.

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

A

Two yes. The second yes is more of a – we'll continue to learn and make sure that we are doing in a balanced way, because we want to make sure that that engagement level, that NPS score that you talked about, we don't impact that in an unfavorable way. So, we want to make sure we protect the athlete experience, but also provide value added capabilities to our athletes collectively across the platform.

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

A

Yeah, I would say yes and yes for 2025, but it's the start of a long term journey. So, it's not going to be remotely done in 2025. It will be early innings and just continue to evolve from there.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Okay. I'm going to transition to margins. If anyone in the audience has a question, just flag your hand and we'll get over to you. So, debate on margin, that was the post-COVID debate and it was more of a compliment in the introduction, not...

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

A

Yeah. No, I didn't mean to be. I just wanted to make sure the audience knew.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. So, we're in the low teens and the gross margin had come in from peak levels, because of some higher levels of promotion or discounting. But the business in a structurally better place. You're spending on House of Sport, you're investing and you're comping at a pretty reasonable level. What holds margin from going – or what's the hold back from margins going higher from here?

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

A

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I think so the – I don't know – first of all, I don't know if there is something holding it back. We still see that there are unique opportunities for us to continue to invest in the business, whether it is GameChanger platform, whether it is – one of the things not many people understand is we have the best data set in our sporting goods industry, whether it is for retail media network, whether it is for personalization, whether it is building a loyalty infrastructure, we feel there's an opportunity to redefine the loyalty infrastructure within our own industry as well. So, there are these unique opportunities for us to invest into the business in addition to the House of Sport strategy.

What that – now, the balance that we strike is we want to make sure that we are doing this in a profitable way. So, where we will – what you are seeing us do this year is the kind of the playbook that you will see us continue to play into next year as well and into the future, where we are driving topline momentum, we are driving gross margin expansion and investing into the SG&A, while driving the bottom line improvement as well. And that's kind of the framework that we will use even into the future. Our intent is to drive long-term sales and profitability of the business, balancing what is the right thing to do, and positioning the business for the long term.

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

Okay. I'll ask about the balance sheet. You have a lot of cash. Would you consider levering up to buy more stock back? Why do you have that much cash?

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

Well, we are a conservative company.

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

We like to have...

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

We have always been conservative company. Even to your point, going before 2019, we were always a conservative company. We would try and finish at the end of the year with no debt on the balance sheet. So, that's kind of the approach that we have always taken, that we'll be a conservative company. We are an investment grade now. So, that investment grade status is an important one, especially when you think about the investments we are making from a real estate perspective. In terms of the levering the balance sheet to buy back stock, Lauren and I talked and Lauren had a perfect comment that we have plenty of flexibility on our current – between the cash on hand as well as the flexibility there. But if there is a dislocation in the marketplace, we will definitely lean in and support the valuation of the company.

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

Full circle back to the introduction. Versus 2019 the company is very different in many areas. I'd like to ask you, Lauren, what are those – I can name a couple, but I don't want to preempt. But what are the key – the biggest areas of difference that have changed this company from pre-COVID.

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

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Thanks. It's a – I feel like the pre-COVID actually started back in 2016 or 2017 when we started to – A, we took our e-commerce business in-house, so that we could drive the profitability of the digital environment. We started to invest in premium full-service footwear decks, which enabled us to have totally different partnerships with our strategic partners. And we were completely driving – pre-COVID, we were driving significant growth. Like in the quarters leading up to COVID, we were 5% or 6% comp. And right in the weeks before COVID, we were up 6% or 7% comp, but we had so much momentum. And then, COVID happened. There was obviously a dip. We spun up curbside. I think we navigated through COVID incredibly well, but obviously we're dealing with a shifting consumer, but coming out of it, you're right, and I don't mean to be – but there's been this overhang of like, can you possibly comp the comp and can you keep the margin expansion that we have. And it's now been so many years. And we have been able to comp the comp we had this momentum going in. Everything about our business is different now, the focus on the athlete experience and the reinvention of our chain, the focus on differentiated product.

I would talk about the power of our team and our teammates. So we have 50,000 unbelievable teammates and the momentum and the energy. We have the most inspirational leadership over in our stores organization. And that's an intangible that just continues to drive that flywheel and on that momentum is really palpable. So we don't look back anymore. But really we are a completely different company and continue to prove people that we are going to be expanding.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

To the last point I think you were modest is teamwork, employee feedback and recognition was something I think that you pioneered and champion. That feels like a profound change. And I've asked you for years, how do you comp that comp, meaning how do you keep that momentum staying...

Lauren R. Hobart

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

A

Oh. Yeah. What Simeon is talking about is just like we have really moved to a culture of recognition. We spend a ton of time out in the stores. We celebrate – like for instance, tomorrow we're going to Texas and we have our regional presidents, our district – every region has a district winner and a regional president award winner. So we're going to go celebrate. We're going to serve them food. We're going to – you'll see pictures of it on LinkedIn. But the way – that just is a wonderful positive feedback loop. So it's not like comp. We just keep we just keep treating people really well and energizing them and hiring fantastic people. I mentioned, like the energy of our head of our stores is so dynamic and wonderful. So, we're having fun and we just – that's part of the secret sauce that's is going on.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay. Well, with that, we're out of time. Congratulations on your success. Good luck through the holiday and in 2025. Thank you.

Lauren R. Hobart

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

Thanks, Simeon.

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Navdeep Gupta

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

Thanks, Simeon.

Lauren R. Hobart

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

Thank you.

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