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Dick's Sporting Goods, Inc. (DKS)

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CORPORATE PARTICIPANTS

Navdeep Gupta

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

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Executive Chairman, Dick's Sporting Goods, Inc.

OTHER PARTICIPANTS

Kate McShane

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay. Good morning, everyone. It's my pleasure to introduce DICK'S Sporting Goods, and to moderate our fireside chat. Today, we have with us Ed Stack, Executive Chairman of DICK'S Sporting Goods. Ed served as the company's Chairman and CEO from 1984 through January 2021. We also have with us Lauren Hobart, President and Chief Executive Officer of DICK'S Sporting Goods.

Lauren joined DICK'S in 2011 as Senior Vice President and Chief Marketing Officer, and she became President in 2017 and CEO in 2021. We also have with us Navdeep Gupta, Chief Financial Officer of DICK'S Sporting Goods. Navdeep joined DICK'S in 2017 as Senior Vice President, Finance and Chief Accounting Officer, and he became CFO in 2021. Navdeep, I'll turn it over to you.

Navdeep Gupta

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

Well, fantastic. Good morning, everyone, and thanks for joining us. I wanted to read the disclaimer, but I'm guessing nobody's interested in reading it. So, our non-disclosure agreement, this is actually filed on the website. And Nate, wherever you are, thank you for doing the reminder for me for that.

QUESTION AND ANSWER SECTION

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Great. Okay. So, we'll get started. I guess, right out of the gate, well, we'll just talk about the state of the athletic category, if that's okay. I think there is a good amount of concern out there about what is going on in footwear and apparel. So, if I have this right, since COVID, we've been seeing a strong casual athletic trend, which has been underpinned by increasing health and wellness focus. But more recently, I think, we've seen more cautious commentary out of the brands and more challenged results out of other athletic retailers. So, could you maybe level-set where you think we are in the athletic cycle for both footwear and apparel?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah, I think that the – so thanks for the question and thanks for inviting us. I think, the idea that the athletic cycle is over, is overdone, okay? But when you take a look at what our footwear business is on the DICK'S side, our business on the DICK'S side is really very good. The specialty channel has been – is a bit more challenged. But on the DICK'S side, it's very good. And a couple of things, and it's more of the specialty channel.

So, Foot Locker on launch shoes was much more dependent on kind of the high-launch retro shoes than we are at DICK'S. The same with some of the specialty players. But that business has slowed and there's the ability to pivot to other areas of the business which is, I think, what we've done at DICK'S extremely well, whether it's new brands that I would say we are not emerging anymore, but have emerged, such as On and Hoka have been great. And on the DICK'S side, we transitioned to those pretty quickly. Foot Locker was not able to or didn't do that and wasn't able to do that.

You see other brands now coming up with that, Saucony, Salomon, ASICS is coming back, and what's going on with Timberland, with UGGs, Birkenstock. So, this business has just broadened out which is really, we think, very good for us, the fact that there is more alternatives for us to go to and to build our business as opposed to having a small handful of brands that really dominated the industry.

With that being said, I think that some of the brands that have been viewed as having a difficult time, there's some of these legacy silhouettes that have been an issue, but they've got some really interesting and great product in the pipeline. And you started to see that with – from a Nike standpoint, the Mind shoe has been terrific. If we could get more in the marketplace and as they worked through the manufacturing process and get more there, there's a big opportunity from that from a basketball standpoint around Ja and around Caitlin Clark, these shoes coming out.

So, I think this is a moment in time where there's a bit of a dip in the industry, but it's far from a real long-term problem. And when you take a look at On and Hoka and some of these other brands that are out there, they're doing extremely well. And so, I think it's way over done.

The margin pressure is real, which is really what's driven the performance for ourselves and some other retailers. The margin pressure is real as these legacy silhouettes have slowed down, and then some of the brands started discounting, and the discounting got pretty aggressive. And we felt it was really important for us to stay with the market from a price standpoint.

For some of you that we've talked to, felt very difficult to have a young man or young woman who is working in the DICK'S store or a Foot Locker store to talk to the consumer, or an athlete as we refer to them, and they say: We can buy this shoe for \$25 less expensive on such and such a site. We didn't want them to go someplace else to buy that product. We felt that we really wanted to retain that consumer, and we felt that that was the right investment to make in our business.

And we talked on our call, I use the word investment very purposely that we do feel it was an investment in our business to make sure that we keep that consumer. We wanted that consumer to come back and shop with us at Christmas. We want that consumer to shop with us in the spring for his or her baseball cleats, softball cleats, soccer cleats, other product. And we didn't want to be viewed as high price in the marketplace, and they get that mindset and don't come back and shop with us.

So, it was an investment in our business. We talk all the time that we make investments in our business not for a quarter or two, but for a lifetime. And we look at it that this was really a lifetime investment that we're making in our business. And we do think it's going to continue through the fourth quarter. But if we had to – we had a mulligan to do it all over again, what we did in the second quarter, we'd do it all over again exactly the same way because we look at this in a very long-term way.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you. If we could maybe just go back to the legacy silhouettes comment, it's been a category or subcategory, I think, that's been under pressure for a while. But Foot Locker US was able to comp about 6% in the first quarter, in spite of, I think, it still being somewhat challenging. So, why do you think some of the slower growth in these styles maybe caught up to Foot Locker in the second quarter? Did something meaningfully change? And when you think about the inventory situation, how many quarters do you think the industry needs to work through this inventory?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

I think that there's a couple things. So, those legacy silhouettes, Foot Locker did really very well in the first quarter, and a lot of it was really helped by the launch product, the Jordan Retro product. The second quarter was a disappointment in that product across the DICK'S Business, the Foot Locker Business, the other direct competitors' businesses and the brand's. So, we think that that was a big issue there.

These legacy silhouettes, just, they had been kind of trending down. But somewhere in the second quarter, they really slowed. And – but when couple of these brands, and Nike in particular, brought out different materials and different embellishments on some of those legacy silhouettes, Air Force One or Dunks, so to speak, you couldn't keep them in stock. So, if you take an Air Force One silhouette in a traditional triple white, triple black, or a traditional white shoe with like the varsity colors – red, blue black – those have slowed significantly. But a triple white Air Force One in patent leather, a triple white Air Force One in black, you can't keep those in stock today.

So, it's trying to get enough of those in the marketplace. Now, how long that has to run? I don't know. But right now, there's the ability, if we had more of those product, it would be a very different scenario. And the discounting got pretty aggressive in the second quarter. And like I said, we expect that to continue through the balance of the year.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

So, maybe if we could go back to the guidance cut, obviously the market was surprised by the cut, both on the DICK'S core margins and on the Foot Locker comp and margins. And you talked a little bit before how promotions are important and you're using it as an investment. But if maybe we could just focus on DICK'S first, do you think there's a degree of conservatism in your guidance, just given the strength of what you've seen so far in demand at the store? Footwear grew in the second quarter. So, how much discounting do you think there really needs to happen? And is there any kind of broader discounting here beyond the footwear that we should be aware of?

Lauren R. Hobart

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

A

Okay, I'll start with – so DICK'S, we're really pleased with how the business is doing at DICK'S. And in fact, so we kept our comp guidance the same. We did reflect some of the promotionalities from the legacy footwear, which affects the DICK'S Business as well. And we also reflected some conservatism toward fuel costs and health care costs, which we have been experiencing all year.

But overall, we are still bullish on – well, we're bullish on the entire business, but the DICK'S Business is very strong. We'll continue to manage through some of the impact of the margin and some of those other existential or exogenous impacts from fuel and health care. But overall, we never guide to the best, first possible outcome, but we feel really good about our guidance.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

I think there's a concern out there that the contagion that is in Foot Locker will spread to DICK'S, and we don't see that. If you took a look at our footwear business, but we don't guide or disclose category-by-category what those comps are. But if you were to take a look at our comps in footwear, they're really quite good, you'd be pretty pleased. And part of this is this transition that the DICK'S team, we've been ahead of that, from a legacy silhouette standpoint, but we still had to be competitive in the marketplace on those. But when you take a look at what's happening from a transition out of some sneakers, so to speak, into some other categories, whether it's Birkenstock, Uggs, Timberland, that's all part of the footwear business.

And we really believe that an athlete, kid playing in high school sports, male, female, they really need five different shoes. There's five shoes on their shopping list. One is the shoe that they're going to wear in their sport, whether it's baseball cleats, basketball shoes, whatever it might possibly be. Then, it's also going to be the – a running shoe, because everybody's got to train from a running standpoint.

And then, training today, those of you who watched it from what's going on from a fitness standpoint, whether it's HYROX, whatever it might possibly be, there's training – there's a very different pair of shoes that you're wearing to train and it's not a traditional running shoe. So, you need that training shoe. And then, the recovery piece of this has gotten really extremely hot, the Mind shoe.

So, the whole recovery aspect is really important. And then, you still have the shoe that the young man or young woman is going to wear to be kind of, say, who they are, what they're wearing to school, what they're wearing out with their buddies on a Friday night. So, there's five shoes that they really have under consideration. And between DICK'S and Foot Locker, we are the retailers best positioned to service that need.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Then maybe if we can go to the Foot Locker guidance cut, we'll start with the comp first. I guess, we're curious why you think same store sales will take such a meaningful step back from what you originally predicted outside of the lifestyle silhouette issue that we just went through?

Because just thinking about it another way, you have a new assortment coming through all the Foot Locker stores, you had an ad campaign that only started to make its way to the consumer maybe five or six weeks ago, and you've only remodeled 250 stores to Fast Break, getting them to, I think, 350 by the end of the year. So, just given the amount of change and the time it might take to work through the system, do you think you might be underestimating what the comp response could be?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

So, our general counsel would say, that's a very dangerous question.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Okay, sorry.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

But underestimating – I think, we're giving the guidance that we think is best – kind of looks at where the business is today, and there are some things that are happening. So, what has surprised us and surprised the industry as a whole is the launch in retro product has been very difficult, and that's well chronicled. When we originally looked at it, giving our guidance for the year, we didn't anticipate that. And Q1 was pretty good, Q2 was pretty difficult.

Couple of other things of what we did from a Foot Locker standpoint, taking this down, EMEA has been very difficult. And when we originally gave our guidance for the year of what we thought we were going to do from a Foot Locker standpoint, there was not a war going on in the Middle East, and that has had a really meaningful impact on Europe. And you can see that from other retailers in Europe, of what they've talked about.

And then the legacy silhouettes, it's taking longer than we thought to pivot some of these products and get more of these products in the store as the industry is – industry's got a really interesting problem that is short term, but they've got a capacity – an overcapacity issue in some of the legacy silhouettes, and there's an under-capacity issue on some of these new shoes that have come out that are really resonating with the consumer. So, there's an imbalance going on right now. And we're not able to get more of these shoes in, based on manufacturing constraints, as we would like.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

And so, it sounds to me like this is more of a supply issue than a real demand issue?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Don't see this as a demand issue whatsoever. If you've got something that's new and innovative that consumers step into the plate to buy that product, whether you can see that from a On Cloudtilt shoe that's really hot right now or what's going on with the Nike Mind shoe, the Nike running construct from the nine block (sic) [9box] between Pegasus, Structure, and Vomero has been great. If there's something new and different out there that the consumer views as different and innovative, it's doing very well. That's mostly on the footwear side.

And then, on the other side is, which is why we don't think there's a contagion from a DICK'S standpoint, whether it's baseball bat launches, what's going on from a – some other brands that we've brought into the store such as Vuori, we've got a number of stores, Gymshark, Free People Movement, there's a transition going on right now and we're right at the center of it. And I think, we are extremely well-positioned.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Great. When it comes to discounting and moving some of the inventory, I would imagine it has to be a little bit delicate to have product discounted in the stores while trying to showcase new assortment and sell that through at full price. So, how do you balance that and how big of a role could Going Going Gone! have as you manage through this?

Lauren R. Hobart

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

A

Yeah.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

It's not that difficult. The consumer knows what's new and what's hot and what's not.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

And so, the consumer is very, very intelligent out there. They know what's going on and if you've got a Mind shoe or you've got the running – Nike Running Construct or you've got the Cloudtilt or you've got an adidas running shoe and it's new and innovative, the consumer wants it. They'll know they'll come in and get that. And then, the product that needs to be discounted is those legacy silhouettes and, right now, those are out of favor right now.

Lauren R. Hobart

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

A

This is, I think, one of the benefits of the – bringing these two companies together is Foot Locker often will experience a trend a little bit ahead of where DICK'S would experience a trend. And so, on the DICK'S side, we can see, okay, this franchise is slowing or – and there's several examples, I don't want to be specific.

But we can taper our buy at DICK'S accordingly, knowing that there's some softness that may come. And then, at the same time, we are using Going Going Gone!, and our teams are working really well together to just help each other out when there is a clearance opportunity and just get through it.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

There's also the – DICK'S has a longer tail with these franchises than Foot Locker does. The Foot Locker customer is a more fashion-conscious, faster customer than the DICK'S consumer, and we can see what's happened at Foot Locker, and then we can build to that. An example is, New Balance is a bit more difficult at Foot Locker. It's rocking in DICK'S. So, we can kind of see – we have the ability on the entire – with our acquisition of Foot Locker, we have visibility to the entire ecosystem of athletic footwear now.

So, with Foot Locker, we own a company in Tokyo called atmos which is a Tier 0 retailer, very similar to Kith here in the US, which gets all of the new product that a brand is trying to seed in there. There was an example, I was walking through the brand rooms in Germany with Bjørn, and there was a shoe that I looked at and I picked it up and I said, that is a very cool shoe. And Bjørn said, you don't get that shoe.

And I looked at him and I won't tell you exactly what I said, but I said, what do you mean, we don't get that shoe? He said, you don't get that shoe. He said, Foot Locker won't get that shoe right now; atmos, they'll get that shoe, we're going to seed it there. So, we've got atmos that we can see what's coming with the shoes that are being seeded. And then, as they talk about igniting a franchise, we can see that and do that with Foot Locker in those street kind of fashion doors that Foot Locker has and DICK'S House of Sport.

And then, when it scales, we've got that in the DICK'S stores and the traditional Foot Locker stores. And then, also the end-of-life product in our value chain of Going Going Gone! So, we've got visibility to the entire ecosystem of athletic footwear and, to be honest, nobody else has got that kind of visibility that we have. So, we've built this ecosystem across the entire platform that nobody else has and will really positively impact our business.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Great. If I can maybe drill down on what's happening with Foot Locker, I think, one of the critiques or concerns is that Foot Locker is an asset that would require quite a bit of CapEx, and maybe take valuable attention and dollars away from a very healthy core DICK'S Sporting Goods. How are you feeling about the asset today? And is there anything in your guidance acknowledging that there might be a bigger issue with Foot Locker other than the sluggishness in the footwear category?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Yeah, I think, that – so we're not taking assets away from DICK'S to be able to do that. We've got a significant amount of capital available to us. We've got \$1 billion on the balance sheet right now. We've kind of started the – and are well on our way on the Fast Break process. And this is a pretty low capital-intensive change in the business. So, we don't see that Foot Locker is going to take a significant amount of capital to get this thing kind of where it needs to be.

This is really, how do we pivot away from some brands that aren't doing as well right now and into new brands? I was with the a very important brand in the industry that we do a lot of business with that Foot Locker didn't. And when I sat and talked with the CEO, he said, in the past, we didn't really trust Foot Locker. We didn't really want our brand in Foot Locker, we really weren't sure where Foot Locker was going to go. So, Foot Locker couldn't transition to this brand because the brand wasn't going to be supportive to them.

As we sat and talked and he said, now that you guys own it, he said, we are fully invested and supportive of Foot Locker. So, we've got that with a couple of different brands. So, Foot Locker – believe me, this is not easy with Foot Locker, but there's some things here that we've got to transition into some other brands and change some allocation of inventory, and we're in the process of doing this. It's just taking longer than we anticipated and we thought it would be quicker. We thought some other brands would be able to be more supportive quicker than they have been, more legacy brands, and that hasn't happened.

But with that being said, though, we are looking at – have had a number of people say, kind of, how are you looking at this? We are – and I think, kind of what you're getting to a little bit, is we are creating a menu that all of you would expect us to create based on the environment we're in today and what we're seeing. So, we've got no preconceived ideas of what has to be done. We're not going after this like, damn the torpedoes, we're going to make this thing work.

We're going to – we've owned it for a year and a week now. And now, through this year, we've taken our time to really understand the business, what's working, what's not working, what's not working that could work in – work, and what's not working that's not going to work. And we're creating this menu that you would expect us to create. And as we go forward, we'll give you more details as we kind of make some final decisions.

Lauren R. Hobart

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

A

I would add one other thing. You mentioned or you asked, the first question was sort of, is Foot Locker a distraction for DICK'S? I would say absolutely not. But on top of that, I think actually, it's helpful to the DICK'S Business. So, we're going to our core brand partners together, getting access to product, knowledge that we have, allocation. So, I think it's actually been – it's been a positive for the DICK'S Business.

Navdeep Gupta

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

A

And maybe, Kate, I'll build on that. If you think even from a P&L intensity perspective, we have talked about \$100 million to \$125 million of synergy, and that's a collective company synergy. Similar to what Lauren was saying, you're now able to go and negotiate as a DICK'S Inc. And so, the benefit of that is not only on the DICK'S side but also on the Foot Locker side. So, that's where the 1-plus-1 definitely is accretive. Like I'd said, it's going to take a little bit of time and we are working through those scenarios.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Great. Navdeep, maybe I can keep it with you for a minute just on the DICK'S core and SG&A. I do think that the flow through has not been awesome, great just because...

Navdeep Gupta

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

A

Well, thank you for putting it that way.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Sorry.

Navdeep Gupta

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

You can say it so.

A

Kate McShane

Analyst, Goldman Sachs & Co. LLC

I should have scripted it better.

Q

Navdeep Gupta

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

Hasn't been awesome.

A

Kate McShane

Analyst, Goldman Sachs & Co. LLC

There's not been a lot of flow through.

Q

Navdeep Gupta

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

That's fair.

A

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Yeah.

A

Kate McShane

Analyst, Goldman Sachs & Co. LLC

And so, we wondered if you could maybe talk to us about some of the building blocks within SG&A that has resulted in that, and then how you think about the flow through the rest of the year when it comes to that?

Q

Navdeep Gupta

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

Yeah. So, it's a great question. I think that maybe the way to contextualize this is, and I've said this to a lot of investors, that you can't look at SG&A in isolation. Because in our case, for example, DICK'S Media Network, GameChanger. If you look at the 80 basis points of gross margin expansion that was driven here in second quarter, was driven by DICK'S Media Network and GameChanger.

A

And those are the capabilities that we are – the investments for those shows up in SG&A. So, it's a little bit of a geography shift that when you invest in GameChanger, the intensity shows up in SG&A where benefit sits in margin and comp sales, as well as in the gross margin. So, that's one aspect of it.

The second aspect of that is there are – and we talk to certain investors earlier in the day and we talked about it's about prioritization. When you think about the opportunities that we have, whether it is building these assets that we talked about or some of the investments that we are making in technology, platform enhancements, so it's about prioritization of those investments.

Having said that, that point that you made that it's been running hard for some time now, it's not lost on us and we are consciously focused on that. And this is where I – the last point that I made in the prior question, the SG&A intensity will also get benefited from the negotiations that we are having from a synergy perspective.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Great. And then, I wanted to just ask about the different units. So if we stick with core DICK'S, just House of Sports, if you could maybe just talk again to where you are in the rollout of that? Meaning, not so much like number of doors here, but how happy you are with that. Is it still providing the vendor relationships, the comp lift that you've been seeing? And how do we think about that versus the traditional DICK'S locations?

Lauren R. Hobart

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

A

Yes. So, if anyone hasn't been to a House of Sport store, it is usually about 100,000 to 125,000 square foot experiential. It's got a climbing wall, field, and it's just unbelievable experience, both the retail experience and just athlete experience. And we have been thrilled with the performance of House of Sport. We're now in a few stores, we're now in our fourth year. And what we've been able to share is that the margins here, our ROI is quite good, as is the comp. So even in year two, year three, year four, we're comping the comp, and that's really important.

But the other benefit to House of Sport, so it's also the inspiration for our new 50,000 square foot model, which is our real core, what we call the Field House internally, but it's showing – it's leading the way in terms of how we want to have products come to life and experience and service and all of that. And it's brought in a number of different brand partners, so House of Sport is a really safe way for new brand partners. And you look at Hoka came in through House of Sport. On came in originally through Public Lands and House of Sport. FP Movement came in. We have Gymshark just coming in through House of Sport. Vuori just coming in.

It's a way that, in a very controlled environment, we can bring a brand to life like nobody else. I mean, head to toe, these little collab spaces that we have are absolutely amazing and it's been a way for us to – that infiltrates through the entire DICK'S banner eventually once people get comfortable. So, it's just been a win-win.

Navdeep Gupta

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

A

Yeah. And Kate, maybe I'll – go ahead.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

No, go ahead

Navdeep Gupta

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

A

The other thing I'll build on is two things on the Field House. The Field House are doing fantastic as well. We talked about the economic returns on the Field Houses is great. The way DICK'S Sporting Goods will continue to come to fruition from the way how you see that experience, will be either through a House of Sport or a Field House. The other aspect of House of Sport that is really great is, we are able to test and learn the new concepts.

So, think of DICK'S Media Network. We tested that out in House of Sport, and now we are rolling that. The Collectors Clubhouse is another, like the trading cards destination that we have created, we started out in House

of Sport. So, we are able to go and test these capabilities in House of Sport, how well they do. Then you are able to quickly move into the Field House concept, and that's a great testing ground for us to test and then evolve that into a Field House concept.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

The last thing I'd say about House of Sport, too, is, House of Sport is really one of the most unique retail experiences out there, and I think a lot of people would agree with that. Mall developers love House of Sport. They want a House of Sport in their mall, whether it's taking the place of replacing a vacant Sears department store, Penney's department store, some other department stores that have kind of exited the place. The traffic that's brought in there, the different consumer that comes in there has been phenomenal, what House of Sport's done for the mall to increase the sales and the GLA of the mall.

And that's why, now, we have access to real estate that five years ago we would have never had access to. Whether it's building a House of Sport in Palm Beach Gardens Mall in Florida or Barton Creek in Austin or Cerritos in LA, Tysons in Washington, D.C. It's access to stores – real estate that we would have never had access to before. And when we've gotten into these better malls and what – the traffic that the mall – we build off the mall in these A malls, the sales have been phenomenal. So, House of Sport is just doing great. We're going to continue and invest in this and that's the big opportunity.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you for that. I just wanted to ask – be sure to ask about the Fast Break stores, too, which is on the Foot Locker side of the house. So, are the Fast Break stores that we would see today considered the final prototype of what you think Foot Locker should look like longer term?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Well, in retail and the way we've done things at DICK'S, we're never in the final stage.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Yeah, I know.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

No, we're constantly trying to innovate and move things forward, but it's a pretty good representation right now. I think one of the things we talked about is that we thought we could take 30% of the SKUs out. And what Foot Locker always was, we'd kind of characterize as it was merely a run-on sentence of shoes and we wanted to scale that down and edit that.

What we have determined is that there's more editing to be done. So, there's still too many – if we take a look at, and I'm not saying this is the exact number, but just directionally, the 80/20 rule that's out there that 80% of your business come from 20% of the SKUs, et cetera, et cetera. When you take a look at the 20% of the sales, there's still too many SKUs in that 20%, it's too broad. We can take those dollars, reinvest those in colors or franchises that are working or deeper in sizes, so that we're in-stock better. So, there's still some more editing to be done.

So, what you see from a Foot Locker standpoint right now, from Fast Break is pretty close, but we're still editing that a little bit further. I think that there's a bit more apparel that we can put in there from – we're trying some additional fixtures and some additional apparel, which is what – we get that right, will help drive the margin rate.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Okay, great. Just in these last couple minutes, we do have four questions we're asking everyone today. So, first, you do have a slightly higher income consumer that shops at DICK'S, but maybe not as high an end of consumer that shops at Foot Locker. Could you maybe talk about the different income cohorts and what your expectation is for the environment in the second half of 2026 versus what you saw in the first half?

Lauren R. Hobart

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

Yeah, I'll start and then pass it to Navdeep. But – so, the consumer is, clearly across the country, is under pressure and we've heard the same in EMEA. But the DICK'S consumer is holding up very, very well, and that's been for some time, and that's due to the prioritization of sport and outside, health and wellness. I mean, everything – the trends are just sport and culture have come together like unbelievably never before. And you saw it in World Cup, and we will continue to see it as the years go on.

So, DICK'S consumer is doing well. We saw that. We did not see trade down from best to better or better to good. We saw growth across all income demographics. I think the Foot Locker consumer may be a little bit more under pressure. However, when there is newness and innovation that's resonating across the DICK'S consumer or the Foot Locker consumer, they absolutely are prioritizing, and it's resonating.

Navdeep Gupta

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

Yeah. And maybe the one – the only thing that I'll add to that is EMEA has a different cadence to that, and the pressure is definitely much more in the EMEA segment compared to the US. So, that's been contemplated into our guidance as we gave for the full year.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Great. And then, pricing, do you expect your prices to be higher, lower, the same in the second half of this year versus the first half of this year?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

I think it'll be similar to the second quarter.

Lauren R. Hobart

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

Yeah.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

I wouldn't look at it half to half. I would look at it quarter-to-quarter. So, I think the balance of the year will be similar to the second quarter.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

And then, our third question is on margins. Do you see more margin headwinds or tailwinds in 2027 versus 2026?

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

So...

Navdeep Gupta

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

A

Go ahead.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

A

Go ahead.

Navdeep Gupta

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

A

No, we haven't provided the guidance for 2027, but I would say, couple of things there to keep in mind. The balance would be making the right long-term investment because that is really important to us. I talked about the House of Sport, so we'll be very conscious about the key areas of investment that are performing well. Continue to lean into it. The second is there is, clear focus and collective work that is being done across the organization on productivity. And then, we'll monitor the promotional and the pricing environment for next year.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Great. And then, our last question is on AI. Do you expect a significant increase in efficiency as a result of AI in 2027 versus 2026? And what part of your business would change the most?

Lauren R. Hobart

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

A

I'll start. So, we are leaning into AI in a number of different ways. I would say the way to think about it is there's efficiencies for our teammates, so we're taking work that has been formerly full of friction away from them. For our athletes, we view it as tremendous opportunity. And we're really leaning into our core differentiation.

So, when we think about what makes DICK'S special, I'm speaking mostly on the DICK'S side now, but we think about what we call the power of our opinion, and that's all the first party consumer data we have through our ScoreCard program, it's the knowledge that our teammates have on all aspects of sport, what products are coming out, what the launches – all of that, we are now starting to bring to life through a consumer-facing app called Coach by DICK'S, which is now embedded into the DICK'S mobile app. And I think, that is where we're going to see the biggest input for next year.

So, removing friction, trying to delight athletes and really bring our experience to life. And at this point, AI is still requiring investment, and we will continue to monitor. But we are not doing for tech for tech's sake. We are doing where we think we can really amplify the strategies.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Great. All right. And with that, thank you for joining us.

Lauren R. Hobart

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

Okay. Thank you very much.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thank you.

Edward W. Stack

Executive Chairman, Dick's Sporting Goods, Inc.

Thank you, everybody. Thank you.

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