26-Nov-2024

Dick's Sporting Goods, Inc. (DKS)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to DICK's Sporting Goods Incorporated Third Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise, and after the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

And I would now like to turn the conference over to Nate Gilch, Senior Director of Investor Relations. Nate, you may begin.

Nathaniel A. Gilch

Senior Director-Investor Relations, Dick's Sporting Goods, Inc.

Good morning, everyone, and thank you for joining us to discuss our third quarter 2024 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 on our Investor Relations website located at investors.dicks.com for approximately 12 months. As a reminder, we will be making forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC, including our last Annual Report on Form 10-K, as well as cautionary statements made during this call. We assume no obligation to update any of these forward-looking statements or information.

Please refer to our Investor Relations website to find the reconciliation of our non-GAAP financial measures referenced in today's call. And finally, for your future scheduling purposes, we are tentatively planning to publish our fourth quarter 2024 earnings results on March 11, 2025.

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

Lauren R. Hobart

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

Thank you, Nate, and good morning, everyone. As we announced earlier this morning, we delivered another strong quarter. We're very proud of our Q3 results and our performance year-to-date. These results show how well our long-term strategies are working and the great execution from our team. Our Q3 comps increased 4.2%, driven by our four strategic pillars of omnichannel athlete experience, differentiated product assortment, deep engagement with the DICK's brand, and our knowledgeable and passionate teammates who are integral to our success. We had an excellent back-to-school season and continue to gain market share. Our third quarter gross margin expanded 67 basis points from last year's non-GAAP results, driven by higher merchandise margin, and we delivered EPS of $2.75. As a result of our strong performance in the quarter and the continued confidence we have in our business, we are again raising our full year outlook.

We now expect comp sales growth for the full year to be in the range of 3.6% to 4.2%, and EPS to be in the range of $13.65 to $13.95. At the heart of our long-term strategies is the omnichannel athlete experience. We're continuing to invest across our digital and store experiences, with a focus on elevating training, service and product knowledge to drive enhanced engagement with our athletes. We feel great about the strong performance of House of Sport. We are redefining sports retail and creating strong engagement with our athletes, brand partners, and communities. We continue to see sports having a strong influence on culture and culture on sport, and our House of Sport concept is uniquely positioned to meet the needs of all athletes, across both performance and lifestyle. In Q3, we opened three House of Sport locations, followed by two more earlier this month, bringing us to 19 now open ahead of the holiday season.

In 2025, we expect to open approximately 15 House of Sport locations and we remain on track to have 75 to 100 locations opened by 2027. Inspired by House of Sport, we continue to revolutionize our 50,000 square foot DICK's stores with a next generation format, which we refer to internally as our Field House concept. These stores continue to do very well in both sales and profitability. In Q3, we opened five Field House locations, followed by another four earlier this month, bringing us to 26 now open. In 2025, we expect to open approximately 20 Field House locations. The Texas market is an exciting growth opportunity for us, and one of the areas where we are investing in new House of Sport locations, in marketing and in our infrastructure to enhance the omnichannel experience for our athletes and capture this potential. This quarter, we broke ground on the new distribution center we've been planning in Fort Worth, Texas, which is expected to open in early 2026.

Our digital capabilities are central to our omnichannel athlete experience. We continue to improve the shopping experience for our athletes, including on dicks.com and our DICK's mobile app. Our elevated and diverse assortment uniquely positions us as the destination for new products, and this past quarter, we expanded our product launch reservations in our DICK's app, Beyond Footwear and Golf to include product drops across other key categories. We're also giving our teammates new and improved technology tools to help them find the right products quicker, including expanding our use of RFID technology. As we discussed, GameChanger continues to be a key part of our digital strategy and is strengthening our leadership in the multibillion dollar youth sports tech ecosystem. Over 5.5 million unique users were active on GameChanger in the third quarter, a 21% increase from last year, and we had approximately 2 million average daily active users in the GameChanger app during the quarter.

Providing differentiated on-trend product helps make DICK's the go-to-destination for sport in the US. Our House of Sport and Field House concepts have opened doors to new brand partnerships and strengthens existing relationships as they enable us to showcase our brand partners and vertical brands in a way no one else can. Our priority categories continue to perform very well, led by important national brands and our flagship vertical brands, and we've deliberately taken steps to be fully stocked across key products and categories for holiday shopping. Looking ahead, we are optimistic about the product pipeline into next year. In closing, we're very pleased with our strong third quarter results and are highly confident in our long-term strategy to drive sustained sales and profit growth. We believe our differentiated product, quality service and powerful omnichannel experience will resonate well with our athletes this holiday season.

Along with this year's really fun holiday campaign featuring NFL legend J.J. Watt and his family, which is driving so much buzz, I'd like to thank all of our teammates for their hard work and commitment to DICK's Sporting Goods, and for their focus on delivering great experiences for our athletes this holiday season.

With that, I'll turn the call over to Navdeep to share our financial results in more detail.

Navdeep Gupta

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

Thank you, Lauren, and good morning, everyone. Let's begin with some highlights of our strong year-to-date performance through the third quarter. Consolidated net sales increased 4.8% to $9.55 billion. Adjusting for the calendar shift, our comps increased 4.7%, driven by a 3.7% increase in average ticket and a 1% increase in transactions. EBT was $1.12 billion or 11.75% of net sales. This is up from non-GAAP EBT of $975.3 million, or

10.71% of net sales, in the same 39-week period last year. In total, we delivered earnings per diluted share of $10.43. This compares to non-GAAP earnings per diluted share of $9.08 last year, an increase of 15% for the 39-week period. Now moving to our Q3 results, adjusting for the calendar shift, which we believe provides the clearest view of the business, our Q3 comps increased 4.2% as we continue to gain market share. Our strong comps were driven by a 4.8% increase in average ticket, and partially offset by a modest 0.6% decline in transaction.

Our back-to-school categories did very well. The strength across footwear, athletic apparel, and team sports. Consolidated net sales increased 0.5% to $3.06 billion. As we previewed during the last quarter's call, this included the unfavorable impact of the calendar shift from the 53rd week last year. As expected, this shifted a key back-to-school week out of Q3 and into Q2, unfavorably impacting the third quarter sales by approximately $105 million and $0.35 in earnings per diluted share. Gross profit for the third quarter remained strong at $1.09 billion, or 35.77% of net sales, and increased 67 basis points from last year's non-GAAP results. This increase was driven by higher merchandise margin of 84 basis points, due to favorable sales mix and the quality of our assortment. This was partially offset by expected deleverage on occupancy costs, driven by unfavorable impact to our total sales from the calendar shift.

On a non-GAAP basis SG&A expenses increased 7.2% to $787.1 million and deleveraged 162 basis points compared to last year's non-GAAP results. This year-over-year deleverage was expected with approximately 65 basis points of this increase due to unfavorable impact to our reported total sales from the calendar shift. The remaining increase was driven by strategic investments primarily across marketing, technology and talent based on the strength of our business, as well as higher incentive compensation. Pre-opening expenses were $16.8 million, a decrease of $3.6 million compared to the prior year, and favorable versus our expectations due to difference in timing of new store openings. EBT was $297.1 million, or 9.7% of net sales. This compares to a non-GAAP EBT of $321.1 million, or 10.6% of net sales in Q3 of 2023. This included an unfavorable impact from the calendar shift of approximately 95 basis points.

In total, we delivered earnings per diluted share of $2.75. This compares to a non-GAAP earnings per diluted share of $2.85 last year. As I mentioned earlier, the current year included an unfavorable impact from the calendar shift of $0.35 in earnings per diluted share. Now, looking to our balance sheet, we ended Q3 with approximately $1.5 billion of cash and cash equivalents and no borrowings on our $1.6 billion unsecured credit facility. Our quarter-end inventory levels increased 13% compared to Q3 of last year. As we have talked about previously, to maximize the benefit of our differentiated assortment, we have made a conscious decision to lean into key items and categories which we expect to drive our growth in Q4 as well as into early 2025. Our investment is in some of our strongest product offerings, and we believe our inventory is clean and well-positioned as we enter the fourth quarter. In fact, our clearance inventory is down meaningfully year-over-year.

Turning to our third quarter capital allocation, net capital expenditures were approximately $185 million, and we paid $90 million in quarterly dividend. We also repurchased approximately 35,000 shares of our stock for $6.7 million at an average price of $194.22. Thus far this year, we have repurchased a total of $170.3 million of our stock. For the full year, we continue to expect share repurchases of approximately $300 million. Now moving to our outlook for 2024. As Lauren said, we are again raising our full year outlook. This reflects our strong Q3 performance and our confidence in our strategic initiatives and operational strength balanced against the dynamic macroeconomic environment and shorter traditional holiday shopping season. We now expect consolidated net sales in the range of $13.2 billion to $13.3 billion compared to our prior expectation of $13.1 billion to $13.2 billion. We now expect full year comp sales growth in the range of 3.6% to 4.2% compared to our prior expectation of 2.5% to 3.5% growth.

Driven by the quality of assortment, we continue to expect gross margin to expand year-over-year and now anticipate it will slightly exceed our prior expectations. Based on the strength of our business, we are making strategic investments to better position ourselves for 2025 and over the long-term and continue to expect SG&A to deleverage year-over-year. We continue to expect EBT margins to be at 11.2% of sales at the midpoint. In total, we now anticipate earnings per diluted share to be in the range of $13.65 to $13.95 compared to our prior expectation of $13.55 to $13.90. Our earnings guidance is based on approximately 83 million average diluted shares outstanding and an effective tax rate of 23%. We continue to expect net capital expenditures of approximately $800 million for the year. Lastly, keep in mind due to the impact of the shifted calendar, our reported total sales and EPS benefited by approximately $35 million or approximately $0.10 per diluted share through the first three quarters of the year.

We expect a modestly unfavorable impact in the fourth quarter of approximately $30 million or $0.10 per diluted share. On a full year basis, this shift will not impact our results. Furthermore, recall that last year's 53rd week added $170 million or $0.19 per diluted share in Q4 2023. In total, Q4 compares versus last year will be unfavorably impacted by approximately $200 million in sales and approximately $0.29 in earnings per diluted share. This all has been contemplated within our updated guidance. In closing, we are very pleased with our third quarter performance and the success of our long-term strategies. We remain very enthusiastic about the future of our business.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Adrienne Yih with Barclays. Please go ahead.

Adrienne Yih
Analyst, Barclays Capital, Inc.

Q

Good morning and let me just say congratulations. My first question is actually going to be on your ability to succeed in the current environment. So, what we've seen so far during retail earnings season is most of the winners are those who are kind of more value-oriented and they're giving back price. The composition of your comp is kind of the opposite, it's stronger full-price selling, AUR probably up on that ATV. So, Lauren, can you talk about why DICK'S position, why you're taking so much market share with non-promotional sales in an era of very promotional holiday and the kind of shift of the power of your multi-brand retail strategy given that you're one of the biggest national sporting goods retailer? Thank you.

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

A

Thanks, Adrienne. Yeah, we are really pleased with the comp that we just put up. And to your point, we have had three quarters in a row now of over a 4% comp and I think it really is a testament to the fact that our long-term strategies are working. And I would point to the access that we've had continued to gain to differentiated product. Our merchant team has done an absolutely amazing job. And to your point, multi-brand retail strategy between our national partners and our vertical brands, and at the same time, our team throughout the entire organization is executing at such an incredibly high level. So, we're really able to serve athletes with the products that they need and do it in a way that is increasingly engaging and a really fun experience. It's important, I think to look at our athlete and how athletes are doing and they have been for some time prioritizing healthy and active lifestyle. They're prioritizing team sports.

We saw tremendous gain in the back-to-school categories this past quarter. So, footwear apparel team sports, they're also prioritizing just outdoor living golf, really all of the athletic categories and just being outside. We saw 1.5 million more athletes enter our ecosystem over the past quarter. And we saw growth across all income demographics. So again, to your point, we are sort of seeing different trends perhaps in the industry would be saying. I would point to the fact that we're in such an exciting time in sports and an exciting time in the industry. The country is really having what we're calling a smart moment. And if you think about it, between women's basketball, which is just on fire, and the expanded NCAA playoffs for football this year, and then the fact that the World Cup is going to be mostly in the US in 2026 and the Olympics in LA in 2028, we really expect that sport is going to continue to have an outsized influence on culture and culture on sport.

And I really think DICK'S is in such a great lane to just ride those trends in that we are rooted in sport. We are all the performance, merchandise and gear you could ever want, but we increasingly also have product that is the lifestyle of sport. And so, that's why we have such confidence in our athlete and our growth going forward.

Adrienne Yih Q
Analyst, Barclays Capital, Inc.

Fantastic. And my follow-up, Navdeep. I guess officially the Tariff Man has come up. So, we had an update yesterday evening, 25% Canada, Mexico and obviously the 10% in China. Historically, you've already told us that you don't have much exposure. But for the private label, so can you just update us? I'm assuming that this doesn't change the answer that you've given us before, but just remind us now that we have some quazi-official numbers. How are you thinking about that? Thank you.

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

Yeah, Adrienne, thanks for that question. First of all, thank you for your comments on the Q3 results as well. We couldn't be more excited about the results that we have delivered here in Q3. In terms of tariffs, I think so I would say does that a slightly more information is known. We still don't know about the timing and likely – the categories that would be impacted. So, still a lot to be learned more, but like you said, we have navigated the situation back in 2018, 2019 effectively as well. Vertical brands perspective, we have a very small or actually very, very negligible amount of exposure because we have diversified our supply chain, both from China as well as there's not much of an exposure, even if you look into Mexico or Canada.

So, we feel we are well positioned for that. And then, like Lauren indicated, we have very strong partnership with our national brand vendor. So as more is learned, we'll continue to navigate that in close partnership with our national brand vendors as well. Overall, if you look back to how we navigated this in 2018, 2019, that'll be kind of the playbook that we'll follow here again as more is learned.

Adrienne Yih Q
Analyst, Barclays Capital, Inc.

Fantastic. Happy Thanksgiving, Happy Black Friday.

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

Thanks, [ph] Adrienne (00:22:05)

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

Thank you.

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

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

Good morning everyone. My first question is on inventory and then a follow-up on the P&L. You gave the color around the inventory spread and you mentioned similar factors in the prior quarter, so we know what to expect. My question is, are you tracking where you'd expect to be by the end of the fourth quarter and does any of the slower start to cold temperatures affect how you'll end the year versus where you expect to be in the early part of next year?

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

Thanks, Simeon. Yes, I'm glad you asked. I want to discuss the inventory, the investment that we've made in inventory. We have made a conscious decision over the course of several quarters now to invest in our highly-differentiated assortment. And this quarter, the inventory that we ended the quarter with is complete with things like key items, key brands, things like fleece, things like footwear, the licensed opportunity that I just mentioned with the NCAA playoff expansion. And so, we don't peanut butter spread the inventory across the categories. We're very surgical and strategic about it. We have two exciting opportunities that some of this inventory is meant to address going into Q4. One of which is that around the holiday season leading into like the last days of Christmas or right before Christmas, we sometimes we're broken on size and color for some of our key items, like Nike fleece and things like that.

So, we will be addressing that with the inventory, and we also feel like we have an opportunity in our warmer weather climates to transition out of holiday and into our spring merchandise even earlier. So, we've accelerated some of that. So, these many of these products will have life into 2025. And we should see the results in the back half of the quarter and into 2025. So, we are very confident. And you saw that we just increased our guidance. Our comp guidance implied in Q4 has increased as well. So, we're very pleased.

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

And so let me just build on what Lauren said. The inventory is right in line with our expectation and you called out a little bit on the cold weather impact. I would say, the weather is still very early part of Q4. The vast majority of the holiday selling season is ahead of us. So, we feel really good about the quality of the inventory. We also called out that the clearance levels continue to be really well managed is actually down significantly. So overall, really excited about the composition of the inventory, how well that inventory is positioned in the key categories, and based on that confidence, we raised our Q4 expectation and our full year comp expectations as well.

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

Okay, thanks for that. The follow up is on the P&L. I don't think we've gotten into a discussion on margin versus EBITDA growth. I know we've talked about it individual years. My question is whether it's fourth quarter or beyond thinking about SG&A dollar growth, because there's a higher level of expenses now with House of Sport and other costs. Should we expect you to lever SG&A or should we – meaning if – should margins go up or should margins – gross margin offset what's happening in SG&A? How do we expect the movement of the P&L going forward?

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

A

Yeah, Simeon, maybe I'll start with the full-year guidance that we have issued. And in another quarter, we will be providing a little bit of a further outlook for 2025. So, let's start with the results that we have posted as well as the guidance that we have issued. So, first of all, we couldn't be more excited about the 4.7% comp that we have posted year-to-date and the guidance that we have issued, and at the midpoint of our guidance, our comp will be approximately 4%, and which is on top of a 2.6% comp growth last year. And like you indicated, our expectation is that the merch (sic) [EBT] margin at the midpoint will expand on a 40 basis points on a year-over-year basis as well. So said, in effect that the way we are thinking about our focus in driving the business is to continue to drive the strong top-line and strong bottom-line improvement.

There will be puts and takes between the margin (sic) [gross margin] and SG&A as you are seeing it at this year play out, we are driving really strong top-line momentum and driving strong gross margin expansion. And we are leveraging that to make strategic investments in SG&A to position ourselves better even for 2025 and beyond. Lauren indicated one of the technologies that we have implemented, RFID in our stores, which is allowing our store team members to quickly find the product and serve that athlete. As you can imagine, in apparel and footwear, it's really important to be able to quickly locate the product and service that athlete. And those are the examples of the investments that we are making, which we believe will drive long-term returns as we look to 2025 and beyond. So, in a summary, what I would say is look to us to continue to drive strong top-line and strong profitability improvement with little bit of an interplay between the margin and SG&A.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thanks. Good quarter and good luck on holidays.

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

A

Thank you.

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

A

Thank you.

Operator: Your next question comes from the line of Brian Nagel with Oppenheimer. Please go ahead.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning. Congrats again, another great quarter.

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

A

Thank you.

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

A

Thank you.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

So, my first question, we talked – even the prepared comments, you talked about the ongoing success of the new concepts, including House of Sport. So, I guess the question is this, maybe you can remind us the rollout plan through the balance of 2024, but probably more importantly into 2025. And then how is this rollout now impacting comp store sales growth at DICK'S? You're recognizing there's been some noise around sales growth with the calendar shift.

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

A

Thanks, Brian. I'll start just with an update on the House of Sport concept in general. And Navdeep will answer some of your more detailed questions. But House of Sport continues to be an incredibly impactful part of our long-term strategy. We just opened four more in the past couple of weeks, we had the opportunity to go visit many of them, and the impact they have in the community when they open is terrific. The experience is delighting athletes. We're seeing athletes drive longer distances. They're spending more time when they come. The community is just absolutely embracing the House of Sport. Importantly, we're also seeing our vendor partners get very excited about the fact that they can bring their whole brand to life in House of Sport, and in particular in the co-lab spaces where we can tell this incredible brand story.

Last thing I would just say is that landlords and mall operators are noticing that when we put House of Sport into a mall, we get incredible, there's incredible traffic increases to the mall, which is obviously a win-win for everybody, but it's also allowing us to get access to even better long-term real estate opportunities. So, we are really excited. I'll turn it to Navdeep to answer some of your more specific questions.

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

A

Yeah, Brian, just to give some of the count information. So, we finished last year with 12 House of Sport location and we expect to finish this year with approximately 20 House of Sport location. What we have indicated is we plan to open another 15 locations in 2025, with the long-term expectations of 75 to 100 House of Sport locations by 2027. In terms of the comp definition, the vast majority of these House of Sport openings will be relocation or remodels of the existing locations, and they will continue to remain in our comp as have been and so that's the reason you're not seeing that much of a difference come through between the comp and the total sales growth. We do selectively open new locations as well. For example, Prudential Center this year, House of Sport location was a brand new location, but those will be far and few between. So vast majority of these House of Sport locations will be within our composition as we look to the future as well.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Yeah, That's very helpful. I appreciate all that. Then my follow up question, I guess just with regard to guidance and I know it's a follow up, so I'll make it two parts anyway. So sorry about that. So look, see, you beat Street in Q3. You lifted guidance for the full year. Are you – the first part of that question, are you taking up guidance for – from your internal projections for the fourth quarter? And then with regard to and I know you mentioned and others – and a lot of others have talked about the impact of this shortened holiday season, how are you thinking about that? I mean, I was in one of your stores last weekend. I saw a lot of holiday signage already, so it seems like you're doing what you can of kind of pull forward. But how are you thinking just about what – how the impacts could play out here from this fewer days between Thanksgiving and Christmas?

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

A

Thanks, Brian. So to your point, we beat our Q3 estimates and did lift our guidance, and that is reflecting both the confidence that we have in the momentum in the business and all of the long-term strategies that I mentioned. We're super excited about holiday. By the way, I would just point out that our stores, to your point, are looking amazing. Our online store looks amazing. Our marketing kicked off a few weeks ago with J.J. Watt as I mentioned in the prepared remarks. This is driving an incredible buzz and our team is like extremely pumped, so we're excited about Q4. We did want to be appropriately cautious given the two factors, one being just the uncertain macroeconomic environment and then also the fewer holiday days. There's five fewer – people are waking up and talking to it. I'm hearing even people in my life talk about how oh my gosh, Christmas is coming; they have to quickly accelerate the gift buying.

But we've been prepared for this. Black Friday and holiday has expanded into the early weeks of November for many years now, and we've started – our stores are ready, our online store is ready. So, we are excited about it, just being appropriately cautious. Navdeep, what would you add?

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

A

Yeah. Just to build, Brian, on what Lauren said. So, as we indicated today, we have raised both our comp and the EPS expectations for full year. In Q3, we delivered really strong results, so we definitely look to that opportunity to translate that beat in terms of our full year expectations. In terms of Q4, what we have indicated is we have raised our top line expectations for Q4 driven by the fact that how strongly we feel our inventory position is, how well – ready our stores and our website are for the holiday selling season. But we have – as you can imagine, we are balancing that against the macroeconomic uncertainties as well as the short holiday calendar that Lauren talked about. In terms of the full year EPS expectations, we have raised that as well. And within that, you have the composition of the margins being raised a little bit versus our prior expectations offset by the SG&A investment opportunities that we see to continue to take advantage of the opportunities we see to position the business better for 2025.

So overall, really excited about the results we posted as well as the confidence we have for Q4 and beyond.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Great. Well, I appreciate all the color. Congrats again. Best of luck for the holiday.

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

A

Thanks, Brian.

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

Kate McShane
Analyst, Goldman Sachs & Co. LLC
Q

Hi. Good morning. Thanks for taking our question. Because it's come up a couple of times with the commentary around differentiation, and I know that's been a big driver of growth for you, how much would you say your product overlaps with retailers today and how has that changed?

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

Kate, thanks for the question. We have really been leaning into differentiation across the board. And if you look at our footwear, we have highly differentiated product. If you look at even some of the exclusives we have across our hard line businesses, there's exclusives even in team sports and things like that, so we are – we have a highly differentiated product. It does allow us to be much more surgical when, where, and how we participate in any sort of promotional activity. We're just less vulnerable to the entire market going up and down and it continues to be a core strategy of us. We don't release the exact amount that our products overlap. But, Navdeep, would you...?

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

Yeah. Kate, and just to build on what Lauren said, the other portfolio that we have in our assortment and that we are really excited about is our vertical brands. So, our vertical brands, especially when you think of the flagship vertical brand CALIA [ph] versus (00:34:55) DSG, those brands are resonating so well with our athletes, and we continue to see that as an opportunity to not only differentiate our assortment but our overall basket-building opportunity that we provide to these athletes. So, yeah, no, our key driver of both the top line momentum as well as the margin gains that we have been driving is driven by the work that our merchandising team is doing in creating these curated assortment and having in-depth presentation of these products available in stores and online.

Kate McShane
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And then, our follow up question – thank you – was on the drivers of ticket during the quarter. It seems like ticket increased a little bit more than what we've seen. How much of that is just same SKU inflation versus mix of what you sold in Q3?

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

Yeah. Kate, I would say it's pretty consistent with what we have been talking about the drivers of the ticket. It goes back to your prior question. It is driven by the differentiated product that we have access to and what Lauren called out in in her remarks, that this curated and differentiated product is not exposed to kind of the promotional pressures that may be out there. So, we are able to get a better recovery on the margin as well, and that also helps us drive a higher ticket. So, it's again, mix, the differentiated product, and the pricing opportunity that we see.

Kate McShane
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

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

A

Thank you.

Operator: Your next question comes from the line of Robby Ohmes with Bank of America. Please go ahead.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Oh, hey. Congrats, guys. Thanks for taking my question. Actually, just two quicker questions. One, can you guys talk a little more about GameChanger? Remind us the flow-through and remind us the long-term opportunity there. And then, the second one is can you give a little more color on some of the key new brand partnerships that you see coming down the pike for House of Sport?

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

A

Thanks, Robby. We're so excited about GameChanger. The GameChanger business continues to do really well. And for those of you who I know engage with it for your kids, you'll love it. But we are now forecasting for this year $100 million in GameChanger revenue, and it's a highly profitable software-as-a-subscription model and just continues to grow and dominate in the youth sport tech space. This past quarter for GameChanger, we had 5.5 million unique active users which was a 21% increase over last year, and they're averaging up approximately 2 million active users in the app every single day. The GameChanger business is moving into more and more video streaming opportunities which is enabling us to open basketball and some other sports, and those video games that were streamed increased 50%. So, just from a strategic standpoint, we feel like GameChanger and DICK'S are so well-aligned.

We actually co-presented what we called a Bat Lab this past weekend in Florida where athletes from across the country were able to come in and demo all of the bats and give ratings. And it's just so exciting to see that brand become an even bigger part of our ecosystem.

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

A

Robby, thanks for your comments, and let me build a little bit on what Lauren said in terms of the GameChanger platform and the excitement that we have, not just about the platform, but the combined capability on what it can mean for the athletes at DICK'S holistically. So, like Lauren indicated, the size of the business that we have indicated, we expect this business to be about $100 million of sales in 2024, and it's growing at 30% to 40% CAGR each year and that has been the CAGR of this business for the last several years. So couldn't be more excited about the size of the business, the topline momentum that the team is able to drive, as well as the profitability of the business. As you can imagine, a SaaS business is extremely profitable. So it's a great complement to our capabilities.

In terms of the long-term opportunity, we believe that the youth's tech landscape or youth sports tech landscape is multi-billion dollars and as you can imagine, with $100 million and probably the best tool that is out there in the marketplace, we feel there is, this opportunity is really ripe for continued growth into the future. Lauren, you want to address...

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Thank you.

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

A

...the brand opportunities.

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

A

Oh, yes. Thank you. Your second question, so House of Sport has been fantastic for us because of the key brand partnerships that we have been able to expand and also build. So we – even our national brands have just loved being able to bring their brand to life in our Co Lab spaces. But we've also had exciting partnerships with new and emerging brands things like GOAT, the Lacrosse brand that we're very excited about, right now there's an incredible holiday presentation. Our vertical brands are being demoed in the Co Lab space. We continue to have Free People movement came in through a Co Lab space. So there's a lot of brands that have come in through House of Sport that have translated into big brand partners for us and that are transferring through the entire chain.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Terrific. I look forward to being in one of your HOS stores on Black Friday.

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

Thanks Robby.

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

A

Thank you.

Operator: Thank you. Your next question comes from the line of John Kernan with TD Cowen. Please go ahead.

John Kernan
Analyst, TD Cowen

Q

Good morning. Thanks for taking my question and congrats on another good quarter.

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

A

Thank you.

John Kernan
Analyst, TD Cowen

Q

On slide 11 you've had this slide in the deck for several earnings calls. Now, the $35 million in omnichannel House of Sports sales and then the $14 million in DICK'S Field House omnichannel sales in year one with the 20% four-wall omni EBITDA margin, how does this trend how do you model this or expect this to trend into year two and three as these stores mature? I would imagine the House of Sport open to very high levels of productivity. How do these contribute to the comps, the store productivity and EBIT margin in year two and three? Thank you.

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

A

Yeah, John, great question. And we have talked about this in the prior calls as well. We could not be more excited about not only how strongly these stores are opening in year one, both the House of Sport well as Field House but the comp trajectory that we are seeing in the select group of stores that have actually come one full year and in their second and some stores actually in their third year. On the trajectory that we are seeing in year two, where these stores comp positively in the second year as well, because the excitement continues to build. Two, we are able to engage with the athletes in a slightly different way because the – our team members learn, the community learns on what and how to engage with the – with kind of the experiences that are within the store, whether it is the field that is within the store, the climbing wall, or the community center that is within the store. All of those become a little bit of a deeper point of engagement within the local market.

So, we are excited about the trajectory that we see in year two. So we'll continue to provide more color as we learn more. But right now, based on the trends that we have seen, we're excited about the overall opportunity as well as the results that we see in year two.

John Kernan
Analyst, TD Cowen

Q

That's helpful. Thank you. I guess my follow up is just on the soft lines piece of the business. I think it's been a big driver of comps for several quarters now dating back to last year. Can you talk about the outlook for the footwear, business footwear decks, and how many more footwear DICK'S you can put in place? How many doors are on in HOKA, can they be in additionally to what they're already in now? And, the outlook for that key part of the business in Q4.

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

A

Yeah. First of all, maybe I'll start back more at the core category. So we have said there are four core categories where we are focused on driving our business and those are athletic apparel, athletic footwear, team sports and golf. So when you look at it and when you look at not just those, the performance in those categories, as well as our results that we have delivered over the last several quarters, our growth continues to come from our core categories, and these are the exact categories we are continuing to gain strong share in the marketplace as well. When it comes to the footwear, we call it footwear is the engine that drives the train. The amount of focus and attention that our merchandising team provides on that or puts on that. The supply chain team works closely with the store organization.

The work that we have done, not just in premium full service footwear deck, but on House of Cleats capability that we have in our stores, is allowing us to really differentiate the assortment that we have in our store. The service levels that we have in our stores, and most importantly, how well both the athletic footwear as well as the lifestyle footwear assortment that is available in our store. So we continue to be really excited about the opportunity in both in footwear and in apparel. Just to add a little bit on the brand result itself, we have ON, HOKA, Nike, New Balance. And so we are excited about the brand assortment that we have available in these stores as well, 90% of our stores today have premium full service footwear deck. And we see opportunities to continue to expand ON, HOKA further deeper into our chain?

John Kernan
Analyst, TD Cowen

Q

That's great. Thank you.

Operator: Thank you. Your next question comes from the line of Christopher Horvers with Morgan Stanley (sic) [JPMorgan] (00:44:48). Please go ahead.

Jolie Wasserman
Analyst, JPMorgan Securities LLC

Q

Hi. This is Jolie Wasserman on for Christopher Horvers. Thank you for taking our questions. Our first question is on your updated view for merch margin in 4Q, I know you spoke a little bit about the full year and right now, is it any different from what you were thinking in September, how 3Q played out relative to your expectations? And also since shrink came in better than expected, what if that was normalized to 2019 levels?

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

A

So let me start with Q3 results and then I'll talk to Q4. So Q4, sorry, on Q3, like we said, our gross profit increased 67 basis points and the merch margin increased 83 basis points. The merch margin increased on a year-over-year basis in Q3 was primarily driven by the mix and the quality of the product, and the assortment that we had available. So as we look to Q4, what we have guided, is the expectation that our merch margin, we'll see how it plays out with all of the promotional landscape in fourth quarter. But right now, our expectation is that our merch margin will increase again in fourth quarter. In terms of the shrink, the shrink results came in slightly better to in line with our expectations in Q3 and right now, our expectation for shrink for Q4 is to be relatively flat on a year-over-year basis in Q4.

Jolie Wasserman
Analyst, JPMorgan Securities LLC

Q

Got it. And our follow-up question, I know you spoke a little bit to weather earlier in the call with fleece, but we were wondering if you could speak more to the cadence with the election, hurricanes, warm weather throughout the quarter.

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

A

Yeah. So we said we had a really strong back-to-school season. So that was obviously early in the quarter. We had great growth in footwear, apparel, team sports. It was warmer than we might have liked in the last part of the quarter, but it didn't have a material impact on our comps. And we're very excited about Q4

Jolie Wasserman
Analyst, JPMorgan Securities LLC

Q

And election pullback...?

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

A

We, yeah, we didn't see anything meaningful. It's good. I think it's good for the country that there's some certainty and we're seeing people and nothing was material in the quarter. We're seeing the consumer just fine after that.

Jolie Wasserman
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

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

A

Thank you.

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

Michael Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thank you so much for taking my question. As you look to 2025, would you expect that your merchandise margin will continue to expand? And what opportunities outside of private label and inventory management might you have to drive further merch margin expansion into next year, especially because you'll be coming off of a pretty strong merch margin year this year.

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

A

Michael, thanks for the question. And we'll give more specific 2025 guidance in the next quarter. The way to think about merch margin and quite frankly, the opportunity that we have said pretty consistently in the last few years is, again, going back to the three big plays that we see in our opportunity to grow our merch margin. First and foremost is the quality of the assortment, the differentiated assortment, the access that we have and being able to control the full price selling opportunity that continues to be a big driver, not just of the results that we have posted in the recent years, and as well as we look to the future. The second, the work that our pricing and our – and pricing team have done in terms of the models that they have developed, allows us to be really surgical and one-on-one basis to be able to offer the right level of promotion and pricing offerings to our athletes. And that's an-that's a capability that we'll continue to leverage to continue to optimize our price and the promotions.

And the last thing that you called out is the opportunity we see with the vertical brands. Vertical brands carry 600 basis points to 800 basis points of higher margins compared to the national brands. So the more we are able to drive the penetration there, as we have been able to do with CALIA, VRST and DSG, especially our flagship apparel brands. We see that opportunity to be even better as we go into the future. The biggest unknown right now, which we talked earlier in the call, is around tariffs. So we'll provide appropriate level of details at the next earnings call for 2025 merch margin.

Michael Lasser
Analyst, UBS Securities LLC

Q

Okay. My follow-up question is your inventory is running up just under about $0.5 billion year-over-year. There may be some timing given the calendar and impact on that. In the past, the market might have been concerned that would have created more merchandise margin headwind. Now it seems like DICK'S has a better engine to be able to clear that out through the Going Going Gone! chain. So, A, is there less risk that you will be stuck in an heavy inventory position that could create some merchandise margin risk in the fourth quarter? And I know you said you expect merch margins to be up in the fourth quarter, but it's – I believe your guidance is up only 40 basis points for the year. So far, on average, each quarter you've been up about 70 basis points. So, A, how does that math work? And, B, what's going to drive the merch margin expansion in the fourth quarter, especially in light of the inventory position? Thank you very much.

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

A

Yeah. Thanks, Michael. I think your question is well-taken, and I want to be really clear about the fact that we are really strategic and surgical in how we have invested in inventory in key items, key categories, and things that we don't think are going to become toxic and we're not concerned are going to create a heavy markdown risk as you mentioned. We have guided, as you said, to a Q4 margin increase. And we are really confident this inventory is a key part of our strategy to really lean into having the right stuff for our athletes when they come into our store and online.

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

A

Yeah. Michael, I'll build on what Lauren said. So, you called out that the 40 basis points is the EBT expansion that we have at the midpoint. So, a couple of things to keep in mind as you're thinking about fourth quarter, and this was included in my prepared comments that we'll have an unfavorable impact to our sales to the tune of $200 million. And that is driven by the 53rd week last year as well as the calendar shift that we have talked about. The other is our pre-opening expenses in Q4 are going to be slightly higher than last year. And hopefully, you saw that our pre-opening expenses in Q3 came in under our expectations that we have shared as well, and that is primarily driven by the shift of some timing of the new store openings as Lauren called out, that we opened three new House of Sport locations right at the beginning of Q4.

So, there's a little bit of an impact in the profitability improvement on a Q4 basis when you consider the impact of pre-opening shift as well as the $200 million of unfavorable impact. And then, the last thing I would call out is, as expected, you can expect there's some level of caution that we have included in our guidance, considering the macro and the shorter holiday calendar. So, it's combination of those three or four things that you are seeing the profitability impact in fourth quarter.

Michael Lasser
Analyst, UBS Securities LLC

Q

Thank you very much and good luck.

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

A

Thanks, Michael.

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

A

Thank you.

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

Kelly Crago
Analyst, Citigroup Global Markets, Inc.

Q

Hi. This is Kelly on for Paul. Thanks for taking our question. Could you just elaborate more on your philosophy around SG&A? If you see sales and gross margin materialize ahead of plan, should we expect you to continue to invest some of the upside in key initiatives? Any chance you can quantify the impact of higher incentive comp on SG&A this year? And could you give us an idea of what sort of comp you need to leverage fixed costs within gross margin and SG&A as we look to FY 2025 and beyond?

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

A

Yeah. Kelly, I think there were a couple of questions there in that. So, I think – so maybe we'll start with the philosophy. Like I said before, our philosophy is to drive top line and bottom line growth for the company and continue to position the company for the long-term growth. Whether it is House of Sport, the opportunity we see in investment or technology capabilities that we see an investment opportunity in, we will make appropriate decisions on where the investments need to be made. Sometimes, the investments need to be made on the margin side; for example, opening of the distribution center that we have talked about in the near future. So, that will be an investment in the margin side or the technology investments which predominantly sit within the SG&A.

In terms of the expectations for – or the outlook for the SG&A for future year, I would say we'll provide our 2025 guidance in the next quarter but you can continue to look to us to drive the top line and the bottom line improvement. In terms of the comp needed to leverage the SG&A, it'll all depend on where and what levels of investments we see. So, I don't know if I want to give a specific number associated with that, but I would say the focus for us is continuing to drive the top line and the bottom line improvement.

Kelly Crago
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. And just to follow-up, I think you said you plan to open another 15 House of Sport locations in 2025. Is that the total sort of new store openings we should expect in FY 2025? Meaning, does that include the Field House concepts? And just could you give us more color on the relocations versus remodels of existing locations? Specifically, what sort of – what level of remodels do you expect to do in 2025? And any color on the productivity lift you see after you do remodel? Thanks.

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

A

Okay. Kelly, there were a number of questions there and I'll see if I can if I can address all of them. So first of all, in terms of the store count, the 15 House of Sport openings are just House of Sport openings. On top of that, we expect to open an additional 20 Field House locations. There will be some Golf Galaxy openings as well, and we'll provide the store count and the new store opening expectations in 2025. However, I want to reiterate again something that I said before, that vast majority of the Field House locations as well as House of Sport locations, especially the House of Sport locations, will be relocation or remodel so you won't see a lot of new store count happening as we look to 2025 as well. If you look at the results or the store count that we have provided for 2024, we are seeing only a 2% increase in square footage on a year-over-year basis driven by the new store openings.

So, we'll provide more details as we show – as we share our 2025 outlook for the new store count openings.

Kelly Crago
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. Best of luck.

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

A

Thank you.

Operator: Your final question will come from Justin Kleber with Baird. Please go ahead.

Justin E. Kleber
Analyst, Robert W. Baird & Co., Inc.

Q

Hey, good morning, everyone. Thanks for taking the question. Lauren, you mentioned in your response to a prior question the tail end of the quarter being softer. I guess that's not surprising given how warm October was, but did that softer exit rate play a role in the transaction decline that you experienced in the third quarter?

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

A

No, and thank you for asking the question because I want to clear that up. We had a great quarter. We had – every month was a great quarter, and so all I was mentioning is that weather did not play a material impact in the quarter overall and maybe we saw a little bit of it in the back half. So I just don't want you to take away that, that we had a dip in the tail end of the quarter.

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

A

Yeah. Just to add to what Lauren said, you see the puts and takes with the weather within our portfolio of categories that we have. So if you see a softer performance in the cold weather categories, what you also saw or you also see is some of the favorable trends in the categories that do well in kind of the moderate temperatures. So for example, the Golf business actually exceeded our expectations in the back half. So you know, this is the reason we really like the portfolio of products that we have that the interplay between these categories doesn't insulate us from the weather impact, but it allows us to navigate the month over month transitions as – much better than we have been able to do in the past.

Justin E. Kleber
Analyst, Robert W. Baird & Co., Inc.

Q

Okay, that makes sense. Thanks, Navdeep. And then my follow up is just given the continued strength in House of Sport, I wanted to ask about what elements of House of Sport are you finding most impactful within the Field House stores?

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

A

Yes. Thanks. A great question. As you're pointing out that House of Sport is doing so well for all the reasons we talked about, and it's such an exciting concept, but it is a cornerstone of our strategy to just reposition our entire portfolio. And what we mean by that is, the things that are doing so great and are such a big part of House of Sport are things like improved service, better assortment and access to product, experiences. All of those things are translating into our Field House concept, which is honestly from a visual presentation standpoint, looks just like a House of Sport, a smaller version of a House of Sport has all of those elevated aspects to the degree that we can fit them into a 50,000 square foot box. But it's also translating through our entire organization. So things like the elevated service, elevating product, you're going to see that as we reposition our entire portfolio, House of Sport has a longer impact than you might think just looking at the House of Sport stores.

Operator: I will now turn the conference back over to Lauren Hobart, Chief Executive Officer for closing comments.

Lauren R. Hobart

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

Okay. Well, thank you all for your interest in DICK'S Sporting Goods. I hope everyone has a happy holiday. And to our team, I'm excited to see you out in the stores this week. Have a great holiday weekend. Thanks.

Operator: And this concludes today's conference call. Thank you for your participation and you may now disconnect.