S&P Global
Market Intelligence

DICK'S Sporting Goods, Inc. NYSE:DKS
FQ2 2020 Earnings Call Transcripts
Thursday, August 22, 2019 2:00 PM GMT

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Presentation

Operator

Good morning and welcome to the DICK'S Sporting Goods Second Quarter Earnings Call and Webcast. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Nate Gilch, Director of Investor Relations. Please go ahead.

Nathaniel A. Gilch

Director of Investor Relations

Good morning, everyone, and thank you for joining us to discuss our second quarter 2019 results. On today's call will be Ed Stack, our Chairman and Chief Executive Officer; Lauren Hobart, our President; and Lee Belitsky, 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, including our 2019 outlook for sales and earnings, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC, including our last annual report on Form 10-K and cautionary statements made during this call. We assume no obligation to update any of these forward-looking statements or information. Please refer to our Investor Relations website to find a reconciliation of any non-GAAP financial measures referenced in today's call.

And finally, for your future scheduling purposes, we are tentatively planning to publish our third quarter 2019 earnings release before the market opens on November 26, 2019, with our subsequent earnings call at 10 a.m. Eastern Time.

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

Edward W. Stack

Chairman & CEO

Thanks, Nate. Good morning, everyone. As previously indicated, we expected to comp positively beginning in the second quarter, and as announced earlier this morning, we were pleased to deliver a 3.2% increase in consolidated same-store sales.

Our second quarter earnings per diluted share of $1.26 compares to earnings per diluted share of $1.20 last year. Our strong comp sales performance was supported by increases in both average ticket and transactions and represented our strongest quarterly comp since 2016. We saw growth across each of our 3 primary categories of hardlines, apparel and footwear, and our brick-and-mortar stores comped positively, and our eCommerce business remains strong, increasing 21% over last year.

Our key strategies and investments are working. Our major headwinds are behind us, and we've bent the sales curve. We remain very enthusiastic about our business and are raising our full year consolidated same-store sales guidance to low single-digit positive and are raising our full year earnings per diluted share guidance to a range of $3.30 to $3.45.

As we discussed on the last call, our prior year inventory levels were running too lean and therefore, by design, we've been making strategic inventory investments in key growth categories. This resulted in our inventory average increasing 19% at the end of the second quarter compared to the end of the same period last year. Looking at this on a 2-year basis, our total inventory per square feet increased just 8%. Through this investment, we have improved in-stock levels and are able to showcase key items in a very impactful way. Our athletes have responded positively to these changes, and we expect to continue to deliver positive comps throughout the second half of the year.

We continue to reallocate floor space to growing categories and adapt our product offerings to better align with the needs of each market. As you will recall, late in the third quarter last year, we removed the hunt category from 10 DICK'S stores who had underperformed and replaced it with a more compelling localized assortment. I'm pleased to announce that during the second quarter, these stores generated their third consecutive quarter of comp positive sales and outperformed the balance of the chain.

Building off this success, during the second quarter, we removed the hunt category from approximately 125 additional stores. Like the initial stores, we replaced it with categories and products that can drive growth. Though it's too early to discuss performance, we're optimistic these changes will better serve our athletes in these communities and generate positive results.

As I discussed on the last call, these space allocation decisions were initial steps taken in a broader strategic review of our hunt business, including Field & Stream. We are continuing this review and will provide additional updates when available.

Our relationships with our strategic partners, including Nike, adidas, Under Armour, The North Face and Callaway, remain very strong. These brands continue to invest in our business through in-store shops, marketing programs and improved access to premium and differentiated product. Working together, we have elevated our assortment and renewed our focus on the enthusiast athlete, allowing us to better serve all athletes.

Our private brands also remain a source of strength and provide exclusivity and differentiation within our assortment. During the second quarter, this business again continued to outperform the company average as we build out great brands as CALIA, Walter Hagen and Alpine Design.

Late in the quarter, we rounded out our athletic apparel assortment by launching DSG, our new high-quality, value-oriented performance brand across men's, women's and kids athletic apparel. The team has done a fantastic job with DSG, and it's off to a great start.

During the quarter, we expanded our HitTrax technology and batting cage experience to another 20 stores as part of our space reallocation efforts, bringing this enhanced experience to approximately 170 stores across the country.

Our new HitTrax experience, expanded and more compelling product assortment and improved integration of our game-changer apps are making DICK'S the destination for all baseball and softball athletes and collectively are driving meaningful comp sales in these important categories.

In addition, we continue to pursue other ideas to more experientially engage with our athletes. We recently partnered with EL1, an innovative youth sports training organization affiliated with the Los Angeles Dodgers that operate youth baseball and softball training facilities on the West Coast. Through this new partnership, we will pursue retail activations in locations where athletes play and compete. We're eager to learn from this initiative and are excited to gain new insight to better serve our athletes.

In closing, I am pleased with our second quarter results and are very enthusiastic about our future business. I'd like to thank all of our teammates for their hard work and commitment to DICK'S Sporting Goods, which made this performance possible.

I'd now like to turn the call over to Lauren.

Lauren R. Hobart

President & Director

Thank you, Ed, and good morning, everyone. I want to start by echoing Ed's enthusiasm about our business. We remain focused on building the best omnichannel experience in sporting goods, and our strategies and investments are working. This morning, I will review some of the great progress we've made due to key investments in our stores and our eCommerce site experience, and I will also provide an update on our ScoreCard loyalty program and on Sports Matter.

First, it's important to note that our teammates are our greatest asset. We have rolled out new service standards across our stores and dialed up the training we provide to our approximately 40,000 store teammates. These teammates have really championed this new service model, and their efforts are moving the needle and helping drive improved conversion rates and our return to positive brick-and-mortar comps during the second quarter.

Turning to eCommerce. We were pleased to deliver strong growth during the second quarter with online sales growing 21% over the prior year. We remain focused on continuously improving the online experience that we provide to our athletes. Later this year, we will launch new responsive websites across mobile, tablet and desktop. This will result in meaningful paid performance improvements and allow us to deliver quality features to our athletes more quickly.

Providing our athletes with faster and more reliable delivery remains a priority as we continuously look for ways to improve our eCommerce experience. We're working toward this by making significant investments in our fulfillment capabilities and developing innovative solutions within our supply chain.

Earlier this week, we opened our 2 new dedicated eCommerce fulfillment centers in New York and California. And recently, we formed a strategic delivery partnership with FedEx. We are beginning to see the positive results from these initiatives, which we expect to collectively reduce delivery time to our athletes by nearly 1 day in many cases and also create delivery efficiencies going forward.

In addition, during the quarter, we continued to deliver strong growth in the number of orders our athletes purchased online and picked up in store, BOPIS, significantly outpacing the 21% growth we saw in our overall eCommerce business. This growth was accomplished through improved site messaging, in-store execution and importantly, better inventory availability. As a reminder, nearly 90% of all BOPIS orders are filled and ready for athlete pickup within just 30 minutes, and our athletes are responding positively to the ability to get this same-day service.

Next, our ScoreCard loyalty program is a tremendous asset with more than 20 million active users who account for over 70% of our sales. This October, we will launch the ScoreCard gold program nationally, which is an enhanced tier that we have been testing to better reward and engage our most loyal members. Gold benefits at launch will include more opportunities to redeem points, early access to sales and product launches, various VIP events and more. Over time, we will continue to make improvements to provide our athletes with a more seamless omnichannel experience and deliver more engaging communications to drive program benefit and tier awareness.

Lastly, in partnership with the DICK'S Sporting Goods Foundation, we remain very committed to our Sports Matter program, which is focused on fighting today's youth sports funding crisis. Since the inception of Sports Matter in 2014, we have impacted more than 1 million young athletes across the country by giving them a chance to play. Last month, DICK'S and the DICK'S Foundation pledged to provide access to sports for 1 million additional young athletes nationwide by 2024. As part of this effort, we announced that DICK'S will match up to $1 million in donations made by our athletes to the foundation. And to further support our mission, the foundation created a new Sports Matter advisory board comprised of some of the most influential names in sports who are personally committed to addressing the major issues facing youth sports today.

In closing, as we continue to execute against our strategic priorities, we are enthusiastic about our business and remain optimistic that our investments will drive differentiation in the marketplace and strengthen our leadership position.

I will now turn the call over to Lee to review our financial results and outlook in more detail.

Lee J. Belitsky

Executive VP & CFO

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

Consolidated sales increased 3.8% to approximately $2.26 billion. Consolidated same-store sales increased 3.2% driven by a 2.1% increase in average ticket and a 1.1% increase in transactions. As Ed and Lauren mentioned, both our brick-and-mortar stores and our eCommerce business comped positively during the quarter, with eCommerce increasing 21%. As a percent of total net sales, our online business increased to 12% compared to 11% in the same period last year.

During the quarter, we delivered growth across each of our 3 primary categories of hardlines, apparel and footwear. As expected, our comp sales declines in hunt moderated, and as Ed mentioned, our strategic review of the hunt business is continuing.

Gross profit in the second quarter was $677.1 million or about 29.97% of net sales, a 31 basis point decline compared to the same period last year. Within this, merchandise margins decreased 65 basis points, and notwithstanding this decline, we were pleased with our merchandise margin performance. The decline in rate was influenced by clearance of hunt merchandise from 125 stores we reset with more locally relevant categories as well as clearance of Reebok athletic apparel that we replaced with our DSG brand late in the second quarter. Our inventory is in good shape, and we expect our year-over-year merchandise margin performance will sequentially improve in the second half of the year.

In addition, shipping and fulfillment costs increased as a result of our strong eCommerce growth. These factors were partially offset by leverage on occupancy costs. As a reminder, while the gross margin rate of our eCommerce business is lower than our stores, SG&A expenses are lower as well, and we continue to be very pleased with the overall profitability of this channel.

SG&A expenses were $521.1 million or 23.06% of sales, up 31 basis points from the same period last year and a little better than expected. Within SG&A, we made strategic growth investments in our business while also incurring meaningful inflationary headwinds from increasing hourly wages.

In addition, we remain on track to achieve our 2019 productivity objective of eliminating approximately $30 million of expenses. These savings helped offset a portion of our investments.

In total, we delivered second quarter earnings per diluted share of $1.26 compared to earnings per diluted share of $1.20 last year.

Now looking at our balance sheet. We ended the second quarter with approximately $117 million of cash and cash equivalents and $442 million outstanding on our revolving credit facility. This is compared to $108 million outstanding on our revolving credit facility last year.

Our inventory levels increased 19% in the quarter compared to the end of the same period last year. And as Ed discussed, our prior year inventory levels were running too lean, and therefore, we've been making strategic investments in support of key growth categories. Looking ahead, our inventory is clean and well positioned.

Also as previously disclosed, we recently amended and extended our revolving credit facility. We increased our limit by $350 million to $1.6 billion, and we've extended the maturity to June 2024 to support the continued growth of the business and provide additional financial flexibility.

Turning to our second quarter capital allocation. Net capital expenditures were $59 million, and we paid approximately $24 million in quarterly dividends. During the quarter, we also repurchased 4.49 million shares of our stock for $159.3 million at an average price of $35.52. During the trailing 4 quarters, we have returned over $502 million to shareholders through share repurchases and quarterly dividends. These activities were funded through cash from operations and borrowings under our revolving credit facility. We have approximately $1.2 billion remaining under our share repurchase programs.

Now let me move to our fiscal 2019 outlook for sales and earnings. First, as a result of our strong second quarter sales, we are now raising our full year consolidated same-store guidance to low single-digit positive from slightly positive to up 2% previously. Additionally, we are raising our full year earnings guidance per diluted share to a range of $3.30 to $3.45 from $3.20 to $3.40 previously. Our updated earnings guidance is based on an estimated 90 million average shares outstanding and includes the expected impact from all tariffs currently in effect as well as the new 10% tariff on substantially all remaining Chinese imports that is slated to go into effect on September 1 and December 15 this year.

Before concluding, I'm pleased to announce that today we completed the sale of 2 of our technology subsidiaries, Blue Sombrero and Affinity Sports, to Stack Sports for $45 million. Note that Stack Sports has no affiliation with Ed Stack. As part of the sale, we entered into a long-term strategic partnership where we will serve as the official retailer of Stack Sports. We expect the sale to result in a onetime gain, which will be determined later in the third quarter. And please note that our full year earnings guidance of $3.30 to $3.45 does not reflect the impact of this expected onetime gain, which we'll report to you separately within our third quarter results.

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

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Michael Lasser with UBS.

Michael Lasser

UBS Investment Bank, Research Division

On the tariff topic. What is your exposure to this final list in terms of your percentage of sales? And how have you assumed that you're going to be able to mitigate that in the fourth quarter of this year or for the rest of the year? And then isn't this really a 2020 event? And what could be the exposure for 2020?

Lee J. Belitsky

Executive VP & CFO

So Michael, thanks for the question. We're not going to get into 2020 right now, but for the balance of this year, the tariffs are 10%. It covers most of our products that come in from China, whether they are our own direct imports from private brands or the national brands as well. But we have purchase orders written out there right now for futures businesses across apparel and most of our hardlines categories for the rest of the year. Thus far, based on our discussions with our vendors, those purchase orders are going to stand for the balance of the year. So between the inventory ownership we have and the majority -- significant majority of our on-order right now, we believe that they will be tariff-free.

Also, with regard to the 10% tariffs, you also have to look at the exchange rates that have occurred. And since the beginning of February, there's been about a 5% devaluation in the yuan. So we're going back and renegotiating the pricing on our private brands going forward to bring some of those costs down. So with a 10% tariff, if we can take 5% out due to currency favorability, we've got kind of a 5% nut that we'll be dealing with for next year. And there are more avenues that we can pursue in terms of changing our sourcing strategies, pricing strategies, negotiations -- further negotiations with vendors. So we're not giving the outlook for 2020 yet, but we think we have a number of levers to pull to mitigate a large part of the tariff -- potential tariff exposure for next year.

Michael Lasser

UBS Investment Bank, Research Division

That's really helpful commentary, Lee. Could you give us what percentage of your COGS come from China so we could better understand how the exposure is?

Lee J. Belitsky

Executive VP & CFO

Michael, we haven't disclosed that at this point. We're still kind of working through all that information with a broad range of many of our vendors, 1,000-plus vendors right now. So and many of those vendors have opportunities to move production between factories. So it's a little bit of a moving target for us right now.

Edward W. Stack

Chairman & CEO

And Michael, we've been working with a number of vendors even going into the spring of next year and into the second quarter of next year. And I can tell you that we were pleasantly surprised at the lack of meaningful price increases. So I don't really think this is going to be a huge -- we're not seeing anything really significant so far.

Michael Lasser

UBS Investment Bank, Research Division

Understood. And my follow-up question is on your inventory position. You mentioned a few times that conversion helped and presumably that was in part because of the inventory buildup. So how much do you think the growth in your inventory contributed to your same-store sales growth this quarter? Is there a way to quantify that?

Edward W. Stack

Chairman & CEO

I don't think we can quantify it exactly. But it's been -- it was extremely helpful. Those inventories have gotten too lean. We've invested in the inventory. And on a 2-year stack basis, it's only up on a per square foot basis 8%. So we're very pleased with the inventory. We are in a much better in-stock position across apparel, footwear, the hardline side of the business. We've employed different strategies from a certain category. So our baseball business has done extremely well, far outpacing the company average. So the strategy and the tactics and the investments that we've made in our business are paying off. Inventory is clearly one of those investments that are paying off.

Operator

The next question comes from Robby Ohmes with Bank of America Merrill Lynch.

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

Nice quarter. Just a quick couple of follow-ups. Ed, you mentioned the strategic partnerships with the brands are strong as ever. Could we get a little more color on how the footwear and apparel comps were for this quarter and maybe some color on the outlook? You've probably seen a little bit of back-to-school. And then maybe the things you feel good about for the back half to keep this comp momentum going. And I'm assuming footwear and apparel is going to be a big part of that. Any color you could give would be great.

Edward W. Stack

Chairman & CEO

Yes. We were extremely pleased with our apparel and footwear business in the quarter, and we're very enthusiastic about that business going forward into the third and fourth quarter. As we take a look at the vendors, the vendors continue to invest in our business, as I said, investing in shops, investing through marketing initiatives that we do together and then investing in us with key and differentiated products across those key strategic vendors we've talked about, whether it be Nike, adidas, Under Armour, Callaway, North Face. The relationship with the brands is as strong as it's ever been, and we're working very well together, us providing our -- the key brands with the opportunities to move their markets and drive their business and them providing products to us that can differentiate us in the marketplace. And all in all, it's working very well.

I'd also like to say that with the DSG brand, which replaces the Reebok brand that we had in the past, we launched that in the end of last quarter. And so far, we are very pleased with what's going on with the DSG brand across both men's, women's and kids athletic apparel.

Robert Frederick Ohmes

BofA Merrill Lynch, Research Division

That's great. And just one other follow-up. Ed, can you talk about -- some others have talked about just the cadence of the quarter and starting slow and weather issues, a lot of rain in the northeast, things like that. Can you just give us any color on how that played out for you guys? Did momentum sort of build through the quarter?

Edward W. Stack

Chairman & CEO

Yes. We were pretty pleased with it month-by-month through the quarter.

Operator

The next question comes from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman

Morgan Stanley, Research Division

Ed, in the press release, and I think you said on the call, you've bent the curve on sales. I found that was an intriguing comment. We know you're passed some headwinds and some category exits. Can you just expand a little bit on the context of that? What's -- how broad-based is that comment? What are you seeing from the product pipeline? Anything else behind bending the curve?

Edward W. Stack

Chairman & CEO

Well, we talk about that we bent the curve from a sales standpoint. As you know, last year, based on what happened from a gun standpoint and some changes in brand distribution philosophies that our comps were negative, we weren't really pleased with them. And over the last 2 quarters, you can see that -- actually last 3 quarters, you can kind of see that, that curve has started to bend and sequentially improve, so we're pretty pleased about that. So those headwinds are behind us now. We feel that we're enthusiastic about the 3 main categories of our business: apparel, footwear and hardlines. And even with the continued deterioration in the hunt business and the firearms business, we've been able to make up for that in these other categories and we expect to be able to do that through the balance of the year.

Simeon Ari Gutman

Morgan Stanley, Research Division

And can you -- have you shared or can you share your line of sight or visibility into the operating income line and the dollars inflecting? And I realize it's a function of sales staying healthy and investments you're making, but with positive traffic in the store again, that should be a pretty good start to it.

Edward W. Stack

Chairman & CEO

We agree. I mean we can continue to get positive traffic into the store and increase the average ticket, which we've been able to do. It's -- as a retailer, that's a pretty positive place to be.

Simeon Ari Gutman

Morgan Stanley, Research Division

And I just want to sneak one more in for Lauren maybe, the service standards and it seems like it's changing the experience in store. Can you tell us where you are in the effort? And then how do you maintain that momentum now and going forward and then even as you lap it?

Lauren R. Hobart

President & Director

Yes. We had a company-wide rollout of our new service standards back in April, the end of April, and we worked with actually change champions throughout the organization, so from the ground up, to help define what our new service standards are going to be and how we're going to focus on the athlete and really bring the power of our opinion and our expertise to life for athletes. And that, combined with a real focus on recognition of great results and great performance, has just built a lot of momentum in the stores.

And if you watch it on LinkedIn, you'll see the stores posting how proud they are of their service model, of how they are engaging with the customer and the athlete and recognizing each other. And it's just -- so I think it's a self-fulfilling prophecy now that we've got the flywheel moving in the stores and momentum building there and the service model and the inventory in good shape, it's just a very virtuous circle.

Operator

The next question comes from Christopher Horvers with JP Morgan.

Christopher Michael Horvers

JP Morgan Chase & Co, Research Division

The traffic performance was very impressive, especially in light of the weather that most of retail cried about in May. So can you talk about traffic? Can you talk about traffic in the stores? Was it up? And if it wasn't, sort of what the degree of sequential improvement with that did you see? And then within ticket, was curious what you're seeing in terms of UPTs versus AURs and the level of full-priced selling versus building the basket.

Edward W. Stack

Chairman & CEO

That's a level of granularity that we're not going to get into, although I can tell you that by having increased transactions, it's some combination of what we've done from a traffic standpoint and what we've done from a conversion standpoint, which really lays into the fact that we are in a better in-stock position, the inventory investments that we've made, the service standards that we've put together, which have helped drive those transactions and have helped drive that average ticket.

Christopher Michael Horvers

JP Morgan Chase & Co, Research Division

Okay. Understood. And then golf is a pretty important category in the second quarter. So can you talk about the performance of golf? And you've mentioned apparel doing very well, footwear doing very well. Or any categories where you felt like you could've done better and you're working on that in the back half? Just any color on just broadly in terms of category performance.

Edward W. Stack

Chairman & CEO

Well, we're not going to get to category by category. As you would expect, the hunt business wasn't as good as we had -- was kind of what we had anticipated. It was less bad, but that's going to continue to be soft as the industry as a whole is soft right now. We're pleased with our golf business. We're pleased with our -- we're very pleased with our baseball business and other hardlines categories.

So overall, we're happy with all 3 categories. The investments that we've made around inventory, investments we've made in the service standards, the investments we've made from a marketing standpoint, you see some different marketing out there for us, all of these strategies and tactics and investments we've put in place are starting to pay off and we couldn't be happier.

Christopher Michael Horvers

JP Morgan Chase & Co, Research Division

Got it. And then last one. On -- Lee, on the merchandise margin, you talked about sequential improvement to the back half. Is that less down? And given that you're working very hard to differentiate assortment, focus on the core athlete and the downtrend in hunt, why couldn't merchandise margins be up in the back half?

Lee J. Belitsky

Executive VP & CFO

Well, again, in the back half, the eCommerce business continues to grow. Margins are a little tougher there. But we believe the merchandise margins are going to continue to improve sequentially, may get back to even, so we got an opportunity there. So we do believe it's going to get better in the back half of the year.

Operator

The next question comes from Paul Lejuez with Citigroup.

Paul Lawrence Lejuez

Citigroup Inc, Research Division

Couple of questions. I'm just curious if you can quantify how much the clearance of hunt in the 125 stores as well as the Reebok product clearance impacted sales in the second quarter. Then second, curious what the tariff hit was in the second half. Did you actually reduce your gross margin assumption because of the tariffs? Or are you saying that you were able to mitigate it all? And then last, I'm just curious about how we should think about the comp necessary to see EBIT margins inflect in the third, fourth quarter.

Lee J. Belitsky

Executive VP & CFO

Yes. The liquidations of hunt and Reebok really didn't have an impact on sales. We had a little bit of a lift to sales while we were doing it, but then we had to transition the department, so kind of offset that. So not really an impact on sales there. Tariffs, we've -- we think tariff exposure is pretty modest, but we've embedded it now within our gross -- within our merch margin forecast for the back half of the year.

Paul Lawrence Lejuez

Citigroup Inc, Research Division

And then comp leverage point for the second half?

Lee J. Belitsky

Executive VP & CFO

Comp leverage on total expenses? Or on...

Paul Lawrence Lejuez

Citigroup Inc, Research Division

Well, yes, I'm thinking just EBIT margin, to see an EBIT margin inflection or even to flatten out, what would you need to see on the top line from a comp perspective to achieve that?

Edward W. Stack

Chairman & CEO

Well, we're still going to be continuing to invest in our business. So there's -- we've got the 125 stores that we've taken hunt out of. We continue to evaluate the hunt business. So and we continue to make these investments that we think are going to pay longer dividends. So I guess we're not going to really get to a point where we're kind of guide what our comps would be to increase that operating leverage, at least not right now.

Paul Lawrence Lejuez

Citigroup Inc, Research Division

Got you. And then just one follow-up. On inventory, I think last year, on your second quarter call, I think your expressed that you're pretty happy with where inventories were, being down. Was it something that you saw in hindsight that you could really point to, that you missed sales? And if so, what categories did you feel like you were missing sales with inventories managed down the way that they were last year?

Edward W. Stack

Chairman & CEO

Yes, I mean in hindsight we looked at it, that it was probably a little bit too lean. The footwear category definitely was too lean. The baseball category was too lean. One of the categories that we've made the strategic investments in, we went back and looked and said we're not optimizing those businesses. But we feel comfortable with our inventory level now.

And as I said, I think people should not get too worried about our inventory level because on a 2-year per square foot basis, it's only up 8%. So it's really -- it was down too low last year, and we think it's in that right zone this year. And you can see that coming through from a sales standpoint.

Operator

The next question comes from Seth Sigman with Crédit Suisse.

Seth Ian Sigman

Crédit Suisse AG, Research Division

I wanted to follow up on the comp guidance for the year. So the update, the revision up, is that to reflect the year-to-date performance or also higher forecast for the second half of the year and sort of what you're seeing here early in the third quarter? And then I think last quarter, you had built in some conservatism for the second half of the year related to the consumer, the potential impact from tariffs. I guess has that view changed at all based on what you're seeing?

Lee J. Belitsky

Executive VP & CFO

So our comp sales were a little bit better than we had internally expected in the second quarter, and that's been baked into the numbers. And all along, we were expecting, at least internally, our comp sales to be up low single digits in the back half of the year, and that's largely consistent with the guidance that we've got right now. So I wouldn't say there's a change in outlook with regard to sales in the back half of the year.

With regard to margins and tariffs, we baked in a little bit of potential impact from tariffs into the margin line into the back half of the year, which is -- it's a relatively minor impact there. But we had considered the tariffs coming out of our second quarter -- first quarter guidance that we gave because we knew about the 25% tariffs that were going in, so we were conservative on the guidance at that point. And we're continuing to be a little bit conservative around the margin line related to all the tariffs. But again, we don't think the tariff is going to have a huge impact, but it's not going to be 0 for us either. So we've embedded it in the numbers. We've baked it into the numbers in Q1 call, and we'll continue to bake it into the number.

With regard to the consumer, consumer seems to be in good shape. It's anybody's bet what'll happen in the back half of the year, but we're still continuing to count on low single-digit comps going forward in our forecast.

Seth Ian Sigman

Crédit Suisse AG, Research Division

Okay. Got it. And then just a follow-up on SG&A. I think you had expected higher SG&A this quarter due to some of the planned investments. How do we think about SG&A growth in the second half of the year relative to this quarter? Do we think about Q2 being the peak of the investments? And then if you could just give us a sense of the time frame of some of the investments you're making this year, that would be helpful.

Lee J. Belitsky

Executive VP & CFO

The investments move a little bit out of the SG&A line and into the gross margin line here in the third quarter as we open up our 2 eCommerce distribution centers and we work through some startup costs there in the third quarter. So that won't affect our merch margin, but it could -- it will impact our overall gross margin a little bit for the third quarter this quarter.

Operator

The next question is from Tom Nikic with Wells Fargo.

Tom Nikic

Wells Fargo Securities, LLC, Research Division

I wanted to touch on, last year, when Under Armour was really struggling, you talked about how you were seeing better product flows for 2019 and you expressed optimism about that brand for this year. Can you just give us an update as to where that brand stands? Are you kind of seeing the customer response you thought? Or is it still kind of a work in progress?

Edward W. Stack

Chairman & CEO

So I'm not going to get into talking specifically about any particular brand. I can tell you that Under Armour is an important brand of ours, and we're pleased with their performance in the second quarter and we continue to look -- we suspect we'll be pleased through the balance of the year.

Operator

The next question is from Steve Forbes with Guggenheim Securities.

Steven Paul Forbes

Guggenheim Securities, LLC, Research Division

I wanted to focus on the hunt category. Can you remind us what percentage of sales this category represents, whether it's as of 2018 or at some point in time? And then provide additional color, right, regarding the interplay between the gross margin drag from the clearance activity and what I would think to be a future mix benefit, right, as we model out the back half year and think about 2020.

Edward W. Stack

Chairman & CEO

Yes. So we've never given a specific percent of sales of what the hunt business is for competitive reasons, and we're going to continue with that thought. But the hunt business continues to be soft, continues to be soft not just for us but for the category as a whole. As we reduce our dependency on the gun business, which we did in those 10 stores and another 125 stores, and we do have the hunt business under review, you would expect to think that there would be a margin rate improvement because that category is less -- at lower margin rates. But I wouldn't get too far ahead of yourself into the third and fourth quarter. We have this under review, and as soon as we decide exactly what we're going to do and how we're going to do it, we'll let you know.

Steven Paul Forbes

Guggenheim Securities, LLC, Research Division

And just a quick follow-up, Ed, if you can. You mentioned during the transcript here, right, other experience ideas. I don't know if you can discuss sort of as you look at the in-store experience and just the customer engagement levels, right, by category or so forth, I mean where do you sort of see the greatest opportunity in the box to drive engagement via service in -- or is it just sort of like broader community engagement opportunities? How do you think about those experiences?

Edward W. Stack

Chairman & CEO

Well, I think it's a combination of 2, both. It's a combination of community experiences and what we're going to do not only at DICK'S but through the Sports Matter Foundation. We're looking at other experiential aspects that we can bring into the store. One of the things -- we've got a store that will be opening up next year in Rochester, and we -- climbing and the outdoor category is really important, where we plan to have a climbing wall in there and be able to bring people in there to be able to climb in the store. So there's things like that, that we're looking at. And we think the experiences that we've put in the store so far, whether it be the HitTrax technology, we've upgraded our golf technology to a number of stores that have TrackMan now, and as we do this, we're finding that those investments are paying off.

Operator

The next question comes from Joe Feldman with Telsey Advisory Group.

Joseph Isaac Feldman

Telsey Advisory Group LLC

Good quarter. Wanted to ask about the selling of the tech business, those 2 businesses, Blue Sombrero and Affinity. Can you discuss why you chose to sell it? I guess because my thinking was that it was -- could have been a pretty integral part of growing younger sports consumers for you guys over time and really capturing that family and then building with that through their lifetime.

Lauren R. Hobart

President & Director

Yes. We absolutely agree and still do feel very committed that the tech support for the youth sport athlete and their family is very important. We are keeping the GameChanger business, which is the B2C aspect of the Team Sports HQ ecosystem. Blue Sombrero and Affinity were both support for more of a B2B for leagues and for governing bodies. And frankly, we realized over the last few years that we did not have to own and operate those businesses specifically to be able to extract the value from them. And so we've entered into a strategic partnership with Stack Sports, which we're very pleased with and excited about where we are going to be their exclusive retailer and we're going to integrate Blue Sombrero and Affinity into their platform as well as back into the GameChanger platform. So the ecosystem actually just gets bigger as a result of doing this, and there is a long-term partnership on data sharing as well. So we see this as a real win-win and ability to deliver that same strategy that we indicated a few years ago.

Joseph Isaac Feldman

Telsey Advisory Group LLC

Got it. Okay. And then actually maybe for you too, Lauren. Can you give a little more color on the ScoreCard, the new tests you're doing? And I know you said you're going to roll out gold in October. What exactly does a gold customer get? And what's different about it?

Lauren R. Hobart

President & Director

So a gold customer, first of all, qualifies, at this time anyway, by being a purchaser of over $500 annually and/or using our credit card. So they are our most valuable customers. And they will get more points. They will get access to product launches and events ahead of time, VIP access to the stores at certain times. It is going to evolve as we go. We've done a test for a year or so now that has proven really, really nice results by having a gold program and rewarding our best customers. And we're going to continuously learn what moves the needle as we roll the program out. But there will be benefits in multiple different ways for our best customers.

Operator

The next question comes from Brian Nagel with Oppenheimer.

Brian William Nagel

Oppenheimer & Co. Inc., Research Division

So I wanted to start off -- and I know we've discussed inventory a bit already, but if you don't mind, I want to touch on it again. Ed, the comments you make, it's clear that the increased inventories we've seen the last couple of quarters is strategic in nature. So my first question is, how should we think about inventory growth through the balance of this year? Will it remain as elevated as we've seen in Q1 and Q2? And then maybe a bit more help. You mentioned the footwear category, but just so we can understand better really the composition of these now higher inventories. And along those lines, again, I understand it's strategic in nature, but does it at all heighten your risk to potential markdowns late this year or even into next year?

Edward W. Stack

Chairman & CEO

Yes. Brian, I really don't think -- the markdown issue I don't think is a big issue. Where we've made these strategic investments is in key categories and key items, in footwear, apparel, baseball and golf. So the strategic categories that we talk about is where we've made the vast majority of these investments. And I -- we're not really -- we're not very worried about markdowns and inventory cleanup. The way we have to do it is embedded in the guidance we have, so we're very comfortable with the guidance that we've just provided.

As far as inventory levels through the balance of the year, you would expect to see them pretty close in the range that they are right now and then leveling off in -- going into next year. But we wouldn't we see the same kind of rise in inventory going into next year, maybe a little bit in the first quarter, but after that, they level off.

Brian William Nagel

Oppenheimer & Co. Inc., Research Division

Got it. And then my follow-up question, shifting gears a bit. Clearly, you had another very nice quarter with regard to eCommerce growth. I think, Lee, you had mentioned in response to another question, just the margin implications there. But my question on, from a bigger picture perspective, as eCommerce has continued to grow successfully for you, are you starting to see indications of scale in that business, points of leverage? And how should we think about, assuming eCommerce remains the primary growth driver of the business, the overall impact upon the P&L, particularly gross margins?

Lauren R. Hobart

President & Director

Yes. We are very pleased with the eCommerce business, even more so since we took the platform in-house a year or 2 ago, which actually enables us to benefit from scale in a much more meaningful way than we could before. And so we continue to plan to drive very strong profitability out of this channel. There are shifts in -- where the costs hit between margin and G&A., but overall, we're very pleased with the profitability of the channel and we do think we can continue to leverage the profitability as we go forward and grow.

Operator

The next question is from Scot Ciccarelli with RBC Capital Markets.

Gustavo Arturo Gonzalez

RBC Capital Markets, LLC, Research Division

This is actually Gustavo Gonzalez on for Scot. Just a follow-up on the prior question. With regard to the eCommerce business and profitability, you guys has mentioned that buy online pick up in store is sort of a key initiative to enhance profitability within that business. Can you give us sort of the buy online pick up in store penetration that you guys have right now?

Lauren R. Hobart

President & Director

I don't believe we've shared the buy online pick up in store penetration. However, it is -- it was -- the growth was meaningfully more than the 21% growth that we saw in our eCommerce business, and so it is growing in penetration and very well received.

Gustavo Arturo Gonzalez

RBC Capital Markets, LLC, Research Division

Got it. And then just a follow-up on -- sort of unrelated. Previously, you guys had said hunt headwinds had been 100 basis points in Q1, about 300 in 4Q. This quarter sort of -- can you give us what it was this quarter sort of ex that higher-growth category reallocation?

Edward W. Stack

Chairman & CEO

It was significantly less than it had been and not terribly meaningful. And we were able to off -- we were able to cover off those comp declines with other categories with the strategic investments and tactics that we put in place.

Operator

The next question is from Sam Poser with Susquehanna.

Frederick William Gaertner

Susquehanna Financial Group, LLLP, Research Division

This is Will on for Sam. So Lauren, I wanted to focus on service levels. Where are you guys on the continuum of improving levels? I mean how much more opportunity is there to improve? On the scale of 1 to 10, where do you think the service levels are in the stores?

Lauren R. Hobart

President & Director

We think we are in early innings on the -- reaching the max of what the service could be in our stores. We are extraordinarily focused right now on engaging and exciting athletes who come into our stores. But this is, to some degree, a new muscle for us. And we are going to be continuing our training and our focus on athletes and our focus on service. And we -- I think there's a lot of headroom here to keep pushing it.

Frederick William Gaertner

Susquehanna Financial Group, LLLP, Research Division

Great. And then switching gears here. Lee, this might be for you. So private label, what is your -- what's the private label penetration as of now or this quarter or first half of the year?

Lee J. Belitsky

Executive VP & CFO

Yes. It varies by -- we haven't disclosed it quarter-by-quarter, but it's -- last year, it was 14% and it continues to improve a little bit.

Frederick William Gaertner

Susquehanna Financial Group, LLLP, Research Division

And where is most of the private label sourced from? And are the tariffs going to have a material impact on that business?

Lee J. Belitsky

Executive VP & CFO

Yes. I mean it's sourced from various places. A lot of the hardlines come out of China, most of the softlines don't come out of China.

Frederick William Gaertner

Susquehanna Financial Group, LLLP, Research Division

Okay. Great. And just one last one. So you baked in $0.05, I believe, into your EPS guidance, I think you mentioned last quarter for List 3 tariffs. How much EPS impact are you baking in for the List 4 tariffs in FY '19 and FY '20?

Lee J. Belitsky

Executive VP & CFO

I don't know we explicitly -- we were a little conservative on taking up the guidance in the first quarter, maintaining some contingency to cover that. But we did -- we're not going to give you a specific amount because that number is still in flux, but we baked in what we believe is the risk we baked into our guidance going forward.

Operator

The next question is from Omar Saad with Evercore ISI.

Omar Regis Saad

Evercore ISI Institutional Equities, Research Division

I was wondering if you could maybe give us a little bit more detail, dive in around that eCommerce acceleration, pretty impressive going above 20%. Is buy online pick up in store a big component of it? How much the DC -- the new DC really unlocked that acceleration? And how do we think about that kind of digital trajectory going forward?

Lauren R. Hobart

President & Director

I think the eComm growth really can be attributed to some of what's also driving our brick-and-mortar growth, which is just a real focus on the basics. So the inventory positions that Ed has been referencing on the call significantly helped our availability of offering products online. It also enhanced the ability for us to offer buy online pick up in store because we were more sure we were going to have the product. The site speed has been improved. The technology group has been working really well at trying to get payloads faster and all these things that really do matter in terms of conversion. And then we've been working on delivery speed and moving up our estimated delivery. The 2 fulfillment centers have been up and running for less than 1 week. It's going quite well, but I would not say that it had anything to do with the Q2 growth.

Omar Regis Saad

Evercore ISI Institutional Equities, Research Division

Understood. And then can I ask a follow-up? Any update on the strategic review in the hunt business? I know it's come up a couple times on the call, but especially in light of the 125 stores, there seems to be some lift there. Is there potential to expand that?

Edward W. Stack

Chairman & CEO

We've got this whole category under review, and we really don't have any new information for you. But as soon as we do, we will get to you.

Operator

The next question is from Jim Duffy with Stifel.

James Vincent Duffy

Stifel, Nicolaus & Company, Incorporated, Research Division

To start, I just want to say great work with the Sports Matter program. That's a meaningful contribution back to the community and the marketplace. As it relates to the merchandise trends, you gave some helpful perspective. Are there any differences in trend between genders and between adults and the youth business?

Edward W. Stack

Chairman & CEO

No. I mean minor, but we're pleased with our business across men's, women's and kids in both apparel, footwear and even the team sports piece.

James Vincent Duffy

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. Great. And then with respect to the inventory positions, Ed, you seem to characterize it as if you're at appropriate levels. Is that accurate? Or is there more room for additional investment? And then perhaps related to that, I'm wondering if you can speak about your thoughts around developing a larger off-price component to the business in your test of off-price as a separate concept?

Edward W. Stack

Chairman & CEO

Yes. So from an inventory standpoint, let's put it this way, I don't think we need -- we don't need to invest in any more inventory. I think we're pleased with where inventory is right now. We think we're in stock and it's showing up in the -- in sales. And as far as the off-price, we've got a couple of these stores that we're just trying to test and understand in how to clear inventory to kind of mitigate some of the markdowns we have, and it's way too early in the cycle to have really any comments on it.

Operator

The next question is from Chris Svezia with Wedbush.

Christopher Svezia

Wedbush Securities Inc., Research Division

So I guess just first, on the comp, any reason as you think about the comp outlook that it would slow from the 3.2% into the second half? Just given the inventory position and better in-stock, the traffic trends in stores, the launch of the gold program and the 125 store resets, just for hunt, what's the -- I guess what's the headwind? Or what would cause you not to sustain that level or accelerate from that level of comp into the back half?

Edward W. Stack

Chairman & CEO

Sure. There's a couple things. And I think it's a really good question. We've got -- the 125 stores we've got hunt out of, we're going into the main hunt season. Q2 wasn't the main hunt season, we're going into the main hunt season. The hunt business across the industry continues to be challenged, so we're going to have that as we go forward. And a couple of other things. We had some cold weather last year in Q3 that helped drive the cold weather business and, in particular, the Under Armour ColdGear business. And we also had a great playoff season last year with Major League Baseball. And all those things, we can't control the weather, we can't control what teams are going to get into the playoffs. And so those are the things that could cause some of the issues that could cause it to decel from the 3.2%. Now we're pretty optimistic and enthusiastic about our business going forward, but there are some things in Q3 and Q4 that we cannot control.

Christopher Svezia

Wedbush Securities Inc., Research Division

Okay. That's very helpful. And I guess just to add on to that, are you making any assumption just due to the tariff situation that there's any sales headwind potentially on comp given how consumers might respond to pricing and things of that nature, or no?

Edward W. Stack

Chairman & CEO

We're not. We were concerned about that in the previous quarters, so we understood exactly what these tariffs were going to be. We don't see it in our business, as Lee said. We don't see them to be meaningful through the balance of the year. I'm relatively optimistic, although there's a long ways to go into next year. We're not seeing anything that scares us going into next year. So we think we're less concerned about tariffs impacting the consumer, at least our consumer, going into the back half of the year than we were before.

Christopher Svezia

Wedbush Securities Inc., Research Division

Okay. That's helpful. And Lee, just one for you here. Just on the gross margin, just so I'm clear about something. So on the second half of the year, you anticipate merchandise margin will flatten out in the second half. I think occupancy, you leveraged in the second quarter. It seems like there could be some opportunity on gross margin to inflect in the back half. Are the offsets just the mix of business on eCommerce and the new distribution centers, or is there anything else I'm missing?

Lee J. Belitsky

Executive VP & CFO

Yes, those are 2 major pieces, yes. EComm becomes a much bigger part of the business and starting up 2 distribution centers.

Christopher Svezia

Wedbush Securities Inc., Research Division

Okay. And if I can just -- quick one last final thing here. Just raising the bottom end by $0.10 and the top end by $0.05, it looks like most is related to the buyback. Just curious the thought process between the movement on those 2 numbers.

Lee J. Belitsky

Executive VP & CFO

I think on the higher end, we're just being a little bit more conservative. We're baking in -- on the lower end, we're baking in the share buybacks, we're baking in a little bit of better performance coming out of Q2 and we're just buying a little bit more conservatism on the high end going forward.

Edward W. Stack

Chairman & CEO

On the things that we can't control, we talked about on your first question.

Operator

The next question is from Peter Benedict with Baird.

Peter Sloan Benedict

Robert W. Baird & Co. Incorporated, Research Division

Pretty much all my -- have been answered. Lee, just a quick one on D&A. It looks like it kind of stepped down sequentially 2Q versus 1Q. Just curious if that's the run rate you're thinking for the balance of the year, if there's anything that we should think around D&A. That's it.

Lee J. Belitsky

Executive VP & CFO

Yes, Q2 is a better run rate. Q1 we had some impairments in there that elevated it.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ed Stack for any closing remarks.

Edward W. Stack

Chairman & CEO

I'd like to thank everyone for joining us today on our call, and we'll look forward to talking to everybody again in November. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.