

DICKS SPORTING GOODS INC

Form 10-Q

November 29, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended November 3, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File No. 001-31463

DICK'S SPORTING GOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware 16-1241537

(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

345 Court Street, Coraopolis, Pennsylvania 15108

(Address of Principal Executive Offices)

(724) 273-3400

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, outstanding as of November 23, 2018, was 73,761,783 and 24,541,123, respectively.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED  
(Amounts in thousands, except per share data)

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Net sales	\$1,857,273	\$1,944,187	\$5,944,480	\$5,926,350
Cost of goods sold, including occupancy and distribution costs	1,333,719	1,410,067	4,201,277	4,213,143
GROSS PROFIT	523,554	534,120	1,743,203	1,713,207
Selling, general and administrative expenses	468,691	475,899	1,434,344	1,385,506
Pre-opening expenses	1,997	8,220	6,135	28,441
INCOME FROM OPERATIONS	52,866	50,001	302,724	299,260
Interest expense	2,606	2,839	8,312	6,319
Other expense (income)	68	(10,768)	(1,233)	(28,117)
INCOME BEFORE INCOME TAXES	50,192	57,930	295,645	321,058
Provision for income taxes	12,365	21,017	78,336	113,564
NET INCOME	\$37,827	\$36,913	\$217,309	\$207,494
EARNINGS PER COMMON SHARE:				
Basic	\$0.39	\$0.35	\$2.20	\$1.92
Diluted	\$0.39	\$0.35	\$2.18	\$1.91
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	96,677	105,466	98,926	108,027
Diluted	97,890	105,814	99,878	108,633
Cash dividends declared per share	\$0.225	\$0.170	\$0.675	\$0.510

See accompanying notes to unaudited consolidated financial statements.

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DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED  
(Dollars in thousands)

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018		November 3, 2017	
	2018	2017	2018	2017
NET INCOME	\$37,827	\$ 36,913	\$217,309	\$ 207,494
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustment, net of tax	2	(7	) (40	) 47
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	2	(7	) (40	) 47
COMPREHENSIVE INCOME	\$37,829	\$ 36,906	\$217,269	\$ 207,541

See accompanying notes to unaudited consolidated financial statements.

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DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS - UNAUDITED  
(Dollars in thousands)

	November 3, 2018	February 3, 2018	October 28, 2017
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 92,103	\$ 101,253	\$ 111,815
Accounts receivable, net	57,559	60,107	88,979
Income taxes receivable	10,422	4,433	72,911
Inventories, net	2,196,777	1,711,103	2,178,495
Prepaid expenses and other current assets	138,468	129,189	129,876
Total current assets	2,495,329	2,006,085	2,582,076
Property and equipment, net	1,578,313	1,677,340	1,679,872
Intangible assets, net	131,763	136,587	144,896
Goodwill	250,476	250,476	245,126
Other assets:			
Deferred income taxes	11,886	13,639	10,425
Other	115,991	119,812	122,519
Total other assets	127,877	133,451	132,944
<b>TOTAL ASSETS</b>	<b>\$ 4,583,758</b>	<b>\$ 4,203,939</b>	<b>\$ 4,784,914</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 1,028,234	\$ 843,075	\$ 1,061,776
Accrued expenses	350,737	354,181	378,477
Deferred revenue and other liabilities	167,781	212,080	161,193
Income taxes payable	2,078	10,476	488
Current portion of other long-term debt and leasing obligations	5,251	5,202	5,175
Total current liabilities	1,554,081	1,425,014	1,607,109
<b>LONG-TERM LIABILITIES:</b>			
Revolving credit borrowings	382,300	—	454,700
Other long-term debt and leasing obligations	56,111	60,084	61,413
Deferred income taxes	14,951	10,232	23,710
Deferred rent and other liabilities	729,273	767,108	764,996
Total long-term liabilities	1,182,635	837,424	1,304,819
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>STOCKHOLDERS' EQUITY:</b>			
Common stock	703	783	797
Class B common stock	245	247	247
Additional paid-in capital	1,204,293	1,177,778	1,166,370
Retained earnings	2,374,336	2,205,651	2,106,086
Accumulated other comprehensive loss	(118)	(78)	(85)
Treasury stock, at cost	(1,732,417)	(1,442,880)	(1,400,429)
Total stockholders' equity	1,847,042	1,941,501	1,872,986
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 4,583,758</b>	<b>\$ 4,203,939</b>	<b>\$ 4,784,914</b>

See accompanying notes to unaudited consolidated financial statements.

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## DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - UNAUDITED

(Dollars in thousands)

	Common Stock Shares	Common Stock Dollars	Class B Common Stock Shares	Class B Common Stock Dollars	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
BALANCE, February 3, 2018	78,317,898	\$783	24,710,870	\$247	\$1,177,778	\$2,205,651	\$(78 )	\$(1,442,880)	\$1,941,501
Adjustment for cumulative effect from change in accounting principle (ASU 2014-09)	—	—	—	—	—	20,488	—	—	20,488
Exchange of Class B common stock for common stock	169,747	2	(169,747 )	(2 )	—	—	—	—	—
Restricted stock vested	532,251	5	—	—	(5 )	—	—	—	—
Minimum tax withholding requirements	(155,718 )	(1 )	—	—	(5,263 )	—	—	—	(5,264 )
Net income	—	—	—	—	—	217,309	—	—	217,309
Stock-based compensation	—	—	—	—	31,783	—	—	—	31,783
Foreign currency translation adjustment, net of taxes of \$13	—	—	—	—	—	—	(40 )	—	(40 )
Purchase of shares for treasury	(8,614,371 )	(86 )	—	—	—	—	—	(289,537 )	(289,623 )
Cash dividends declared	—	—	—	—	—	(69,112 )	—	—	(69,112 )
BALANCE, November 3, 2018	70,249,807	\$703	24,541,123	\$245	\$1,204,293	\$2,374,336	\$(118 )	\$(1,732,417)	\$1,847,042

See accompanying notes to unaudited consolidated financial statements.





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DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED  
(Dollars in thousands)

	39 Weeks Ended	
	November 30, 2018	October 28, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 217,309	\$ 207,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178,737	166,521
Deferred income taxes	(726)	59,145
Stock-based compensation	31,783	24,762
Other non-cash items	700	595
Changes in assets and liabilities:		
Accounts receivable	(7,218)	(18,145)
Inventories	(466,212)	(539,863)
Prepaid expenses and other assets	7,950	(20,847)
Accounts payable	234,859	316,602
Accrued expenses	11,152	23,404
Income taxes payable / receivable	(14,387)	(123,350)
Deferred construction allowances	23,440	78,482
Deferred revenue and other liabilities	(56,859)	(49,258)
Net cash provided by operating activities	160,528	125,542
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(135,288)	(386,600)
Acquisitions, net of cash acquired	—	(8,500)
Deposits and purchases of other assets	—	(2,344)
Net cash used in investing activities	(135,288)	(397,444)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Revolving credit borrowings	1,723,500	2,431,200
Revolving credit repayments	(1,341,200)	(1,976,500)
Proceeds from term loan	—	62,492
Payments on other long-term debt and leasing obligations	(3,924)	(1,229)
Construction allowance receipts	—	—
Proceeds from exercise of stock options	—	16,558
Minimum tax withholding requirements	(5,264)	(5,771)
Cash paid for treasury stock	(289,623)	(242,119)
Cash dividends paid to stockholders	(68,139)	(55,375)
Decrease in bank overdraft	(49,700)	(10,363)
Net cash (used in) provided by financing activities	(34,350)	218,893
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(40)	47
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(9,150)	(52,962)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	101,253	164,777
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$92,103	\$ 111,815
<b>Supplemental disclosure of cash flow information:</b>		
Accrued property and equipment	\$ 14,308	\$ 44,593
Cash paid for interest	\$ 7,185	\$ 5,002
Cash paid for income taxes	\$ 97,407	\$ 180,067

See accompanying notes to unaudited consolidated financial statements.

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DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Dick's Sporting Goods, Inc. (together with its subsidiaries, referred to as "the Company", "we", "us" and "our" unless specified otherwise) is a leading omni-channel sporting goods retailer offering an extensive assortment of authentic, high-quality sports equipment, apparel, footwear and accessories through a blend of dedicated associates, in-store services and unique specialty shop-in-shops. The Company also owns and operates Golf Galaxy and Field & Stream stores and Dick's Team Sports HQ, an all-in-one youth sports digital platform offering free league management services, mobile apps for scheduling, communication and live scorekeeping, custom uniforms and FanWear as well as access to donations and sponsorships. The Company offers its products through a content-rich eCommerce platform that is integrated with its store network and provides customers with the convenience and expertise of a 24-hour storefront. When used in this Quarterly Report on Form 10-Q, unless the context otherwise requires or otherwise specifies, any reference to "year" is to the Company's fiscal year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements for Quarterly Reports on Form 10-Q and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The interim consolidated financial statements are unaudited and have been prepared on the same basis as the annual audited consolidated financial statements. In the opinion of management, such unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim financial information. This unaudited interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 3, 2018 as filed with the Securities and Exchange Commission on March 30, 2018. Operating results for the 13 and 39 weeks ended November 3, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending February 2, 2019 or any other period.

Recently Adopted Accounting Pronouncements

Income Taxes

In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." This update provides guidance on income tax accounting implications under the Tax Cuts and Jobs Act (the "Tax Act"), which was enacted on December 22, 2017. Areas of clarification under the update are the measurement period time frame, changes in subsequent reporting periods, and reporting requirements as they relate to the Tax Act. The Company adopted ASU 2018-05 during the first quarter of fiscal 2018. The Company recorded provisional charges as a result of the Tax Act, as noted within Note 11 to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018. The Company is continuing to assess our estimates of cumulative temporary differences and further evaluate the provisional amounts recognized, for which the Company's reviews are substantially complete. The adoption of this guidance did not have, nor is it expected to have, a significant impact on the Company's Consolidated Financial Statements.

Stock Compensation

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." This update clarifies the changes to terms or conditions of a share-based payment award

that require an entity to apply modification accounting. ASU 2017-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted and prospective application is required. The Company adopted ASU 2017-09 during the first quarter of fiscal 2018. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

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(Continued)

Intangibles - Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment." This update modifies the concept of impairment and simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for interim or annual goodwill impairment tests during fiscal years beginning after December 15, 2019. Early application is permitted and prospective application is required. The Company elected to early adopt ASU 2017-04 during the first quarter of fiscal 2018. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This update requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those