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DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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Presentation

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

It's my pleasure to introduce the members of the management team of DICK'S Sporting Goods to our fireside chat. DICK'S Sporting Goods is a leading omnichannel sporting goods retailer, offering extensive assortment of authentic, high-quality sports equipment, apparel, footwear and accessories. DICK'S also owns and operates Golf Galaxy as well as DICK'S Team Sports HQ.

DICK'S reported Q2 results a few weeks ago with comps up almost 21%. Demand trends remained strong into August, with quarter-to-date comps running plus 11% despite a softer back-to-school season and a drag from Team Sports. Athletic apparel, footwear, fitness, outdoor and golf continue to perform very well and further progress on replenishing high demand inventory should help support top line growth in the back half of the year.

Today, we have with us, CEO, Ed Stack; President, Lauren Hobart; and CFO, Lee Belitsky.

I do have to read some disclaimers quickly since this is the first presentation of this track. So bear with me just for a few minutes, and then we'll get started.

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And with that out of the way, we can get started. Again, thank you for joining us today.

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Question and Answer

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

When we were last sitting here and that was together, not virtually, when we were sitting together last year, you had reported an acceleration in comp growth after a few tough years in the athletic industry, and that momentum continued to build throughout 2019 into 2020.

So there were a lot of positives about your business pre pandemic. But now the pandemic has happened and families are stuck at home and want to be comfortable in their own homes and outside of their homes, and demand has taken off even more. So I wondered if you could spend a couple of minutes on, what was working up until the pandemic? What had kind of flipped the switch? What's working now? And how has the demand changed or evolved over the most recent months?

Edward W. Stack
Chairman & CEO

So before the pandemic, our business, as you said, had been really good last year. And what was working? The team sports business was working. We had reengineered aspects of our team sports business, primarily in the baseball area. We had redone our athletic footwear area. We reengineered how we were coming to market from a presentation standpoint with our athletic apparel business. And all of that business was really very good.

Since the pandemic, things have changed a little bit. As you would expect, the team sports business has slowed, and there's been a drag because of kids just aren't -- so many schools have postponed or canceled sports. And so that's been a bit of a drag now. But we've got this portfolio of businesses, and we're fortunate we're in a great lane for what's going on right now.

People wanting to be outside, social distancing. Golf is really very good. The boat business from a kayaking standpoint, canoe standpoint, camping, people also understand that in order to fight off the pandemic and to -- and what may come next, if anything does come next is they need to be in better physical conditions.

It was really -- it was very well chronicled that if you had underlying conditions, you were more at risk for a real difficult time with the virus. So people from a fitness standpoint are riding bikes, treadmills, dumbbells, lifting weights. So our overall business has been really very good with the exception of the team sports category.

Footwear has been a little bit difficult through the back-to-school season, but the footwear business prior to that was really very good as people are getting out to run, walk. And we think as we get past the back-to-school season, that footwear business will come back and be really, very good also.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

That's great. If we could maybe stick on the topic of categories, we wondered if you could spend a minute or two on the hunt and outdoor changes you've made in your business over the past year or two. And while you've deemphasized the hunt piece, it was really outdoor with camping, hiking, climbing that you replaced that space with in some of your stores.

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So it seems like you're pretty well positioned, but just based on what we've seen during the pandemic. Would you say that's fair in terms of what changes you had made? And what further assortment do you think -- assortment changes do you think you could make in your store?

Edward W. Stack
Chairman & CEO

Well, we took each store and looked at -- as we removed hunt from the stores, we took a look at each store based on what was happening regionally and in that area of what we would replace the space with. So we replaced the space. In some areas, we replaced it with the camp business, the outdoor business. In some places, we took space and added team sports. Other places, it was from an apparel standpoint.

So we took what was going on in that region and what happened in that particular store and did each store one-by-one. And I think that's one of the things that's really helped our business. All of those stores that we've removed hunt from, we replaced it with in kind of leaned into what was doing very well in that area of the country or that area of the state.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

And speaking of leaning in, do you see any further opportunities to augment the fitness side of your business? Or are there any other things that the pandemic or the demand during the pandemic had pointed out to you in terms of where you can lean in a little bit more to take advantage of current and longer term trends?

Edward W. Stack
Chairman & CEO

Yes, definitely. We're definitely leaning into the fitness business, and we're in the process of testing, helping people build their home gym because we don't think people are going to go back to the gym anytime soon. We're seeing our fitness business very strong. People are wanting to work out at home. They're concerned about going to the gym. So we are testing a few stores right now of helping people put together their own home gym. A treadmill or a bike, a weight set, benches, stretching apparatus. So -- and we've tested this in one store so far. We've got the second one that's just come on. And the results are pretty good. So we're going to probably roll this out to 100 stores very shortly.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Great. And then if I could move on to inventories. Most of the bigger retailers are still working on their in-stock levels. Just given the demand that we're seeing, I think there is still a little bit of disruption or delays in the supply chain. So can you talk about the areas of your assortment that still need the most work in terms of building up that inventory? How long will it take? And how much do you think could be left on the table if it's harder to get that inventory in by the end of the year?

Edward W. Stack
Chairman & CEO

Yes. The inventory is still constrained in the categories that you would expect that are driving the most business, so the fitness business, the bike business, the outdoor business. The golf business is probably in the best shape. So we feel really good about our golf inventory right now.

The other areas that are a bit constrained from an inventory standpoint, we've got flow of inventory coming in, and it goes out as fast as it goes in. It's driving significant comps. But I think it will be probably the end of October, beginning of November before we're feeling that the presentation in the store is what we would like it to be. But the sales are still

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going to be there because it's just going to go out as fast as it comes in.

We've been pretty aggressive in our orders in those categories coming into the balance of the third quarter, into the fourth quarter and into the first quarter of next year.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. And speaking of apparel and footwear, there were questions -- or there have been questions for years about whether peak athleisure had happened. And now, again, we've had the pandemic, where I think you've had a big return back to athletic wear. Just in terms of how you think the implications are, what the implications are for longer-term trends with athleisure, could you maybe comment on that?

Lauren R. Hobart
President & Director

Yes. I'll take that one. Yes. We absolutely have been feeling the growth in athleisure for some time. And during the pandemic, obviously, again, we were in a great lane to capitalize on those trends. And we don't see it stopping anytime soon. We have real confidence in the trends that are driving it and also in our private brands, where we've had tremendous success with brands like CALIA and DSG. The lifestyle that people are adopting today is just -- is a really natural fit with the product that we sell.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Great. Maybe if I could shift gears a little bit to market share. We know that you've definitely benefited from sporting good closure, door closures in the past. And now we're seeing some more door closures, whether it be regional, sporting goods or on the department store side. How do you feel about the potential to take market share today compared to the past? And just could you comment at all about the competitive landscape more broadly?

Lee J. Belitsky
Executive VP & CFO

Well, from a market share perspective, there are some smaller bites coming up because the department stores have an assortment of athletic apparel, have a much smaller assortment of athletic footwear. So there are little pieces we can pick up along the way from the department stores as they close.

There are a couple of regional players, like Modell's is out there and they're closing. So we stand to pick up a relatively small amount of business from them as well. But I think some of the big chunks that we got in the past, like, say, when Sports Authority closed, those are going to be harder to come by because the remaining sporting goods players, right now, I think, are being favorably affected by the pandemic as difficult as it is to say that, as we are. The others are doing pretty well as well. So I wouldn't expect those players to really have financial difficulties in the next year or two based upon how the trends are going.

But there are certainly pieces of the business that we can pick up from the department stores, from some of the in-mall stores that shoppers might not be comfortable yet shopping in the malls. Traffic might be down there. We stand to pick up some more business being outside the malls and power centers along the way. So it's going to be small bits, but quite a few small bits that we can pick up as we go.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

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Okay. Ed, you mentioned team sports being a little bit of a headwind and for obvious reasons. Is there a way to quantify the drag from team sports and back-to-school right now? And assuming life gets back to normal, what is the potential upside for team sports?

Edward W. Stack
Chairman & CEO

Well, I said kind of tongue-in-cheek on the earnings call, we feel like we're banking comps for team sports into next year right now based on the fact that kids aren't playing right now. When they do start to play, they'll have gone well over a year, maybe 1.5 years, some cases two years, they will definitely need new cleats, new basketball shoes, baseball bat clubs. So we think that there's a big opportunity in the back half of next year.

The drag on -- from team sports on the back-to-school business right now, it's hard to tell because it kind of goes up and down right now, depending on schools that then decided to play sports. There were so many -- there was so much uncertainty if a certain school district was going to play sports or wasn't. People were delaying those purchases. Then when a school system does decide that they are going to play sports, you see a big spike in that area.

Some of the sports have been postponed or delayed. So we're still not sure yet what will happen. But we still think it will be a drag on this quarter, but we don't think -- we're confident in the sales that we indicated that we were running at in our earnings call. So it's not going to drag it down to be negative from what we talked about in our earnings call.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. And just from an offset point of view, I know you talked a little bit about baseball being a little bit of an offset because it's an activity that can be more socially distanced. Are you seeing any evidence of more club sports or intramurals, non -- sports not associated with the schools making up any part of that demand.

Edward W. Stack
Chairman & CEO

They're trying to -- some places, they're trying to a little bit, but it's not enough to really move the needle. But the offset to that, what we're seeing is in the golf business, there's -- the golf business has been great right now. And we expect that to really offset the team sports business through the balance of this quarter with what's going on in Golf.

The Tour championship they just had, the US Open is coming up. The Masters is coming up. And there are so many people now who've taken up the game of golf, so many kids who have taken up the game of golf, who want to go out and do something sports-related or competitive. And the golf business has just been -- has been out of this world right now.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Great. If I could focus maybe on a few more strategic, longer-term questions, starting with your relationship with the vendors and premium product, you've had a lot of nice premium product introduction from some bigger brands like Patagonia and YETI. And I just was wondering how you were feeling about the level of innovation from the brands? In the context of the pandemic, has innovation been delayed? And just in general, how do you feel about the access of exclusives and innovation going forward?

Edward W. Stack

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Chairman & CEO

I think the -- we've seen still continued innovation from the partners that we do business with, whether it's YETI introducing new product, whether it's Nike introducing new product. Callaway just came out with the new Big Bertha Woods in iron. So that innovation pipeline is continuing. And we're pretty enthusiastic about it.

The product that we've looked at for next spring, as we go into '21, we're really very excited about across the majority of categories that we do business with. So although I would suggest that not think that because the supply chain has been somewhat constrained, that the innovation pipeline is constrained. And there might be a delay of a couple of months maybe, but that innovation pipeline with the people we do business with is still alive and well.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. And planning for next year, it does seem like it's a tough exercise. And you mentioned on your 2Q call that 2019 serves as a decent starting point on how to look at it. But what about from a category standpoint? Do you think some of these category trends we're seeing right now, specifically outdoor, I guess, because you have talked a little bit more about fitness and golf and the longer-term trends there. Do you see a longer tail there to continue into '21? And how much pull forward risk do you think there is, whether it be the second half of the year or 2021?

Edward W. Stack
Chairman & CEO

I think the outdoor is going to continue to be very robust. I mean people are going to want to be outside. I think they've gone out and discovered the outside, the outdoors and said, "I actually like being out here. It's terrific." I do think there is some pull forward from what we did in this past -- in the second quarter. I think there's some pull forward, but I do think we're -- the outdoor category is going to continue to be really robust going forward.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. If I could switch to e-commerce, Lauren, you recently opened a couple of new fulfillment centers and you rolled out the curbside pickup, which helped support the 30% digital penetration in Q2, which was an all-time high. Could you talk a little bit about the consumer response to curbside pickup? What types of the assortment is it being used for? And are there still enhancements that can be made to the process?

Lauren R. Hobart
President & Director

Yes. First, I'll just say, I'm incredibly proud of the team for how quickly we were able to stand up curbside. All of the investment in our fulfillment capabilities as well as our digital experience online, really came to fruition when we needed to turn to curbside immediately. So that was spun up in about two days. And the consumer reacted unbelievably well to that.

I think Ed mentioned on the call at first, it was about just safety and being able to get product and needing to get product to be outdoors with your family and with that active lifestyle, but it became about convenience, such that when we reopened all of our stores, we actually found that the curbside business stayed strong. So it was one plus one, and you saw it in the comps last quarter, one plus one equaled more than two.

So it's really a -- and we think it's here to stay. It's a fantastic new benefit of having an omnichannel retail environment. And we expect for holiday, we are continuing to make improvements. We've been making iterative improvements the whole time. We're working on how to make the -- we expect it to be quite busy during holiday. And so we're working on

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how to deal with that flow and parking and other enhancements online to drive attachments and a whole bunch of things, but we're very, very excited, that one is here to stay.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

That's great. And I guess from just an overall digital fulfillment standpoint, are there any other investments that need to be made over the next couple of years? Or from a fulfillment standpoint, are you in a pretty good spot now?

Lauren R. Hobart
President & Director

We're in a good spot, luckily. I mean there's nothing major on the horizon to -- that we're planning.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Lee, maybe I can throw some questions your way. With regards to merchandise margin, you saw some really nice merchandise margin expansion in the second quarter. And it sounds like you haven't had to promote very much, which makes a lot of sense. Just wondering how you're expecting that to change, if at all, throughout the second half of the year? And if you could maybe talk through to just holiday, whether it's going to start early and how you expect that to look?

Lee J. Belitsky
Executive VP & CFO

Sure. So you're correct, the merchandise margin expansion in the second quarter, a lot of it was driven by the fact that we really didn't have to promote much at all. And most of the products were in relatively short supply. The brands did a nice job being correct on their fashion choices as well as we did in our private brands. And because of that, we were able to sell at basically full retail for a good part of the quarter.

As we mentioned on the earnings call a couple of weeks ago that, that trend had continued really for the first month of August. We haven't guided beyond that as to how the margin rates are looking to unfold for the balance of the year. I will say that we are not planning to lead any kind of promotional environment out there.

We feel like our inventories are in really good shape. They're pretty tight right now. So as we sit here today, there's no reason why we would have to be promotional going forward. And actually, as we get closer to Christmas, we're going to have to read the marketplace and see what's happening in the marketplace. But as we sit here today, we're certainly not planning to lead that.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. And then if we can move to the SG&A line and talk about managing wages and labor. You were proactive in raising wages up 15% through the end of the year. Can you just talk about your ability to flex when it comes to this, if we saw a much weaker demand trends over the longer term? Is there a lot of flexibility around labor hours? And how do you think about employee turnover if you have to pull back?

Lee J. Belitsky
Executive VP & CFO

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Right. Well, we have a lot of flexibility in setting our hours. Most of our associates in the stores are part-time workers who are there full time hourly. So we have quite a bit of flexibility. The one thing we really don't have flexibility right now is with the wage rates because we've committed through the end of the year to pay the 15% premium. So we are certainly going to be sticking with that, our management staffs, our salary.

But based upon what we've seen in the business so far, at least through the month of August, the business continued to be strong. We're working hard to get the appropriate staffing in place, to get the hiring in place, both in our stores and our distribution centers to make sure we're ready for the Christmas season. So we're a little bit more concerned on the other side, frankly, getting enough of the right people in the stores and DCs to support the business than we are being able to pull back on hours right now.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Other questions I wanted to focus on, private label has been a big focus. You launched DSG about a year ago. And when it first hit stores, we saw it as -- we saw it in the stores as entry-level apparel, but it seems like it's expanded to every single category when you walk through your store. So can you talk a little bit about the success of the brand? Why DSG is working so well compared to maybe other initiatives that you've had in the past? And where is there still some opportunity for the brand?

Lauren R. Hobart
President & Director

Yes. DSG has been an incredible success for us. It came out of the gates focused as an opening price point, but also with a high-value, great design, great functionality. The whole -- the product is an amazing product, and people have been really, really adopting it. And so it's become our #1 private brand, which is terrific. And even in the women's apparel area, it's our number third private brand behind -- or it's our number third brand rather, behind Nike and CALIA. So really taking some meaningful market share.

And we think that it's just the beginning for this brand. We're going to be very focused on it, continuing to drive it. It's serving a need for an athlete that perhaps was shopping elsewhere. When you got to your question about market share earlier, there were a few occasions where an opening price point, high value, great brand was desirable, and we saw that need in our stores now. So it's been terrific.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

That's great. And is there any way to break down how much of DSG is apparel versus hardlines at this point? Is it still primarily apparel or heavier apparel?

Lauren R. Hobart
President & Director

It's mostly apparel.

Edward W. Stack
Chairman & CEO

Mostly apparel right now.

Katharine Amanda McShane

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Goldman Sachs Group, Inc., Research Division

Okay. And then in terms of store experience, I was curious, last year, at this time, you talked a lot about HitTrax and some of the things you were doing to bring people into the store. Again, things have changed and traffic trends have changed. Just wondering if -- how you're thinking about those initiatives. If there's further rollout plans? And how you think about traffic drivers like that going forward?

Edward W. Stack
Chairman & CEO

I think there's a number of things that we're still doing to enhance the experience when they come into the stores. One example is that in our golf business and the DICK'S side, and especially in the Golf Galaxy side, we're going to reengineer the entire business to -- from a fitting standpoint and instruction standpoint, new technology with TrackMan in the hitting base to fit.

We've put together a contactless, very safe way to fit golf clubs to make sure that you've got the right club for what you need, and our custom fitted golf business has been really great. So we're going to continue to make those enhancements and reengineer the golf business.

HitTrax is -- we're not doing as much of HitTrax right now because of what's going on with team sports, but we think that will come back and be a roaring success again next year. But we're going to continue to invest in those experiences in the store that really matter to the athletes we serve.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. And in terms of just general areas of investment, you're already coming off a multiyear investment plan and you're starting to see some productivity and cost savings benefits. Just curious, again, how does the current demand in the industry impact your cost-saving strategy? And if there -- if comps do remain elevated for a while, could we see you invest a bit more? In what areas -- excuse me, in what areas would those be?

Edward W. Stack
Chairman & CEO

So I'll take that, and then you guys can jump in. But if we were to invest in, the area that we would invest the most then would be our private brands. From a design standpoint, space standpoint, marketing standpoint, it would be our private brands that have been really very successful such as DSG, CALIA, Fitness Gear, Walter Hagen Golf Apparel. We would invest in the private brands.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Great. There are four questions that we're asking every company today and tomorrow at our conference. It's a little tricky, and you have to navigate it a little bit because it is a little forward-looking, and I know you guys aren't giving guidance. But to the extent that you could comment on these questions we are asking all the companies. So our first question is, if taxes were to go up next year, how would you view your level of investments?

Lee J. Belitsky
Executive VP & CFO

Take that, Lauren.

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Lauren R. Hobart
President & Director

Lee, take that one.

Lee J. Belitsky
Executive VP & CFO

I will say if taxes go up it will not have a material effect on the level of investment we make in the business. We're investing for the long-term to be a winning retail company, and there are certain investments we're going to make to continue our leadership position. And I would say it would not have a material effect on our investment position going forward.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. The second question is, do you expect margin...

Lee J. Belitsky
Executive VP & CFO

I hope Ed agrees with me, by the way.

Edward W. Stack
Chairman & CEO

That was a tough question because we haven't talked about it. So anyway, let's move on to the next question.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

The next question is, do you expect margins to be higher or lower in calendar '21? Again, difficult because you're not giving guidance, but in general, do you, again, think there's flexibility there for margins next year?

Edward W. Stack
Chairman & CEO

I think it's really hard to say, Kate. We don't know what environment we're going to be in. Is -- are things going to be opened up? Or depending on what happens with the virus, are they going to shut down more? So there's really too many variables for us to really -- to give you a sense, one way or another. We're confident through the balance of this year what we can do. And going into next year, I have no idea what's going to come out of Washington and what environment we're going to be operating under.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. The third question is, do you expect pricing power to be stronger or weaker in the future versus the past?

Edward W. Stack
Chairman & CEO

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I think pricing power -- are you talking about for us, the brands, what's the direction of the question?

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Yes, I think sporting goods, in general, the industry.

Edward W. Stack
Chairman & CEO

Yes. I think it's going to be relatively the same. I don't think it's going to be any worse. I don't think it's going to be meaningfully better. But I think it will be about the same that it is right now. I think there's going to be some -- continue to be consolidation in the industry. And I think the pricing power is not going to change a whole lot. And again, it depends on what kind of environment we're operating in, in '21, which none of us really know yet.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Right. Understand. That's right. And then the fourth question, and then I have a couple of questions off of this fourth question, then we can turn it over to the audience for questions. Do you expect to have more or less stores in calendar '21 versus 2019?

Edward W. Stack
Chairman & CEO

Probably a couple more.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

And just with regards to the real estate environment, that's one thing that we continue to hear just with the disruption that there is a little bit more flexibility, maybe with regards to rents, maybe there's more opportunities to move into different centers because of the disruption.

I was just wondering how DICK'S Sporting Goods is thinking about that potential opportunity? And when it comes to current leases, is there an opportunity to maybe let those expire and look for other opportunities in the next year or two?

Lee J. Belitsky
Executive VP & CFO

We've got over 100 leases per year that are coming up at an option period where we have the option going forward. And as other retailers go out of business and more retail space opens up, it gives us a lot of flexibility and opportunities to relocate and get a good -- get a new store or to drive a lower rent in our existing store. And of course, we always look at the individual trade areas to see if we're overstored in a particular market, perhaps closing a store and moving the business to other nearby stores. That's all part of the calculus.

The one thing that we're starting to watch right now that's a little bit different is some of the REITs that are out there are becoming more cash constrained. So whereas in the past, we had expected the REITs to build stores for us, we still expect that going forward, but there might not be quite as much funding available for that, and we'll have to assess that as we go forward. So...

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Edward W. Stack
Chairman & CEO

Can I come back to the pricing power conversation for -- question for a second?

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Yes.

Edward W. Stack
Chairman & CEO

I think, as I said, I don't think it's going to be meaningfully different in the marketplace. I think our pricing power in our business is going to be not affected, maybe even a little bit better because our team has done such a great job of differentiating our assortment from others in our industry. If you take a look at the products that we're carrying or we're selling, what we've done with our private brands and the success we've had with our private brands, where we control the entire supply chain, the design, the pricing, we don't really think there's going to be any diminished pricing power for us, and maybe it will be even a little bit better going forward.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Thank you for that. The last question I have, and just for those who are following along on [Audio Gap], you can type in a question if you have one, and I will ask it.

The last question I had was just with regards to outlet stores. It's something that's been mentioned on the conference calls a couple of times but not in a lot of detail. I was just curious what the overall strategy is there and how we should think about that opportunity for DICK'S Sporting Goods?

Edward W. Stack
Chairman & CEO

We're taking -- the genesis of these stores was to say how can we realize a greater margin from clearance merchandise that we have. So every retailer is going to make mistakes in what they buy. They buy too much that didn't work. And we found -- we wanted to test this and see if we could realize a higher value for this clearance product. And we tested a few of these stores and it was very successful. We're very pleased with the business that we got.

We realized a much higher value liquidating that inventory in those stores than in the traditional DICK'S stores. A couple of reasons, we had a little more time to do that. And what it also did is it cleared the floor for us to bring in new fresh merchandise. That is another thing that's helped our margin rates that you saw in last year -- or into the end of the first quarter and into the second quarter.

So we're not really sure what we're going to be doing and how big this will be going forward. But we think there's a great way for us to clear out inventory, realize a higher value and make room for new fresh merchandise in the traditional stores.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Great. Thank you. I'm going to just look at my screen to my right because that's where the questions are coming in from

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the audience. The first question is what are the reactions of your key partner brands when you accelerate investments for your own private brands?

Edward W. Stack
Chairman & CEO

Kind of the same reaction that they get from us when they continue to accelerate their direct to the consumer business. So I think we all know there's a quid pro quo out there that they're going to accelerate direct to the consumer. We're going to have to push our private brands. And there's not a tremendous amount of pushback. I think we all know what the rules of the games are.

And with our key brands, the DSG brand is not competing with our traditional athletic brands. It's at a lower price, great value. But it's really targeting a different consumer in a different competitive set than our key athletic brands that we do business with. Other categories, there's not a clear leader in there. So we've taken that leadership position.

If you take our Fitness Gear business and our ETHOS business on the fitness side, the exercise side, we're the #1 vendor in that category for us, and we control the design, the supply chain, the pricing, the marketing, everything. So -- and in that case, it doesn't have any effect whatsoever at anybody that we do business with. So we're in pretty good shape from a private brand standpoint, and we will continue to accelerate that going forward.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. Great. And I think we have time for me to ask one more question from the audience. The question is about surcharge pressures in the second half and how you're thinking about that and how you can manage it?

Lee J. Belitsky
Executive VP & CFO

Surcharge, meaning what? COVID expenses?

Edward W. Stack
Chairman & CEO

Surcharge for what?

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Sorry, shipping -- for shipping.

Lee J. Belitsky
Executive VP & CFO

Shipping. So we are seeing a little bit of a tightening of the freight markets for inbound freight. Rates are going up a little bit there. On the outbound side to our stores, we have long-term contracts there. Those are not being affected. And the parcel shipment to customers from our e-commerce business, we're kind of in the early stages of negotiation on that with Federal Express right now is our main carrier.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

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Okay. Actually, we have three more minutes. So I think I can squeeze in maybe one or two more from the audience [Audio Gap] with you here now. You mentioned the resilience of the power center locations. Can you compare comp store sales at those locations versus the mall-based stores? And do you have a percentage of where your stores [Audio Gap]?

Edward W. Stack
Chairman & CEO

So there's not much difference between the mall-based stores and the strip center stores because in all the malls that we're in, we have an outside entrance where the athlete that we serve can drive up to the store, walk right into the store from the parking field and turn around and walk back out. So there's not much difference at all.

Lee J. Belitsky
Executive VP & CFO

And we have the ability to execute curbside at our mall stores as well. Customer can drive up to the door and pick up a curbside order there as well, similar to a power center or freestanding store.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay. And the last question is, and I think I understand what this question is getting at. It's -- as back-to-school becomes less of a percentage of your overall sales, which I would imagine is maybe coming up around now as people are more back in school, is there any reason why comps wouldn't be better than the 11% quarter-to-date that you've reported so far?

Edward W. Stack
Chairman & CEO

We're not going to give guidance there, but that would be a valid assumption.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Okay, great. Well, thank you so much, Ed, Lauren and Lee for joining us today at our very first ever virtual retail conference. I think this went okay. You guys were the guinea pigs, and it went okay.

Edward W. Stack
Chairman & CEO

Great. Thanks, Kate. Enjoy the rest of the conference.

Katharine Amanda McShane
Goldman Sachs Group, Inc., Research Division

Everyone, have a good day.

Edward W. Stack
Chairman & CEO

You too.

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Lauren R. Hobart
President & Director

You too.

Edward W. Stack
Chairman & CEO

Bye.

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