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DICK'S Sporting Goods, Inc. NYSE:DKS

FQ3 2021 Earnings Call Transcripts

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Presentation

Operator

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

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

Nathaniel A. Gilch
Senior Director of Investor Relations

Good morning, everyone, and thank you for joining us to discuss our third quarter 2020 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 in our Investor Relations website located at investors.dicks.com for approximately 12 months.

As a reminder, we will be making forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC, including our last annual report on Form 10-K 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, a couple of admin items. First, a note on our same-store sales reporting practices. Our consolidated same-store sales calculation include stores that were temporarily closed as a result of COVID-19. The method of calculating comp sales varies across the retail industry, including the treatment of temporary store closures as a result of COVID-19. Accordingly, our method of calculation may not be the same as other retailers.

And second, for your future scheduling purposes, we are tentatively planning to publish our fourth quarter and full year 2020 earnings release before the market opens on March 9, 2021, with our subsequent earnings call at 10:00 a.m. Eastern Time.

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

Edward W. Stack
Chairman & CEO

Thanks, Nate. Good morning, everyone. Before we begin, I'd like to discuss the executive transition we announced this morning.

As of February 1, 2021, I will assume the role of Executive Chairman while continuing my responsibilities as Chief Merchant. I'll also oversee the strategic growth initiatives for the company. As I make this transition, I want everyone to know, as the largest and controlling shareholder of DICK'S Sporting Goods, I remain as committed and as excited about this business as I have ever been.

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The Board unanimously elected Lauren as President and CEO of DICK'S, also effective February 1. Lauren brings more than 25 years of finance, consumer and retail experience, having spent 5 years in banking and 14 years at PepsiCo in various leadership roles before joining us nearly a decade ago as our Chief Marketing Officer. She was appointed President in 2017 and joined the Board the following year. Since joining the company, Lauren has been instrumental to our growth and success, revamping our marketing efforts, helping drive our robust omni-channel offering and elevating our athletes' experience. Lauren's appointment is an important step in the Succession Planning Committee's process to put the right leadership in place. Our business is thriving. We have the best management team in the company's history, making this the perfect time for the transition.

I'd now like to turn it over to Lauren for a few words.

Lauren R. Hobart
President & Director

Thanks, Ed, and good morning, everyone. I want to start by extending a heartfelt thank you to Ed. He built this company from the ground up, and it is because of his ability to look around corners, innovate, take risks, and develop and nurture talent, all while never losing sight of our values and making sure that we're a good member of our communities, that DICK'S is what it is today. It is truly an honor working alongside him.

I also want to thank our Board and our teammates. I look forward to continuing to work with them, the rest of the extended DICK'S family and all of you in the coming months and years ahead. Under Ed's leadership, we've accomplished so much, fostering a stronger and more inclusive culture and developing a powerful omni-channel experience for our athletes. We're in great shape from both a financial and managerial standpoint, and I look forward to continuing to work with Ed to lead DICK'S into the next phase of its growth.

Now I'll turn the call back over to Ed to discuss the third quarter results.

Edward W. Stack
Chairman & CEO

Thanks, Lauren. As announced earlier this morning, we delivered another exceptionally strong quarter from both a sales and profitability perspective. The strength of our diverse category portfolio once again helped us capitalize on the favorable shifts in consumer demand as the trends across golf, outdoor activities, home fitness and active lifestyle continued throughout the third quarter.

Our Q3 consolidated same-store sales increased a record-setting 23.2% and was on top of our 6% comp increase in the same period last year. Our stores were the key to this unprecedented growth and serve as the hub of our industry-leading omni-channel experience. Brick-and-mortar stores comps grew double digits, and our stores fulfilled 70% of our online sales, which increased nearly 100% for the quarter. In fact, our stores drove 90% of our total Q3 sales growth, whether an athlete purchased at the register, picked up curbside or had their order delivered to their home through ship-from-store. We saw increases in both average ticket and transactions as well as significant growth across each of our 3 primary categories of hardlines, apparel and footwear.

Lastly, our private brands continue to be a significant source of strength with comps outperforming the company average by over 1,000 basis points. I'll talk a little more about private brands later.

During Q3, we remained very disciplined in our promotional strategy and cadence, and certain categories in the marketplace remained supply-constrained. As a result, we expanded our merchandise margin rate by 277 basis points. This merchandise margin expansion contributed to a significant improvement in gross margin, which increased 532 basis points. In total, our third quarter non-GAAP earnings per diluted share of $2.01 represented a 287% increase over last year.

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Now let me touch on the fourth quarter performance to date. Overall, the favorable trends in our business have continued into Q4. These strong results have been partially offset by warmer weather that has negatively impacted sales in the important cold-weather categories. Taken together, through this past weekend, our comp sales have increased in the high teens.

As I look at our business, we have a lot to be excited about. One of the strategies I'm most enthusiastic about is our private brand strategy, which we now refer to as our vertical brands. There can be a perception that private brand or private label means opening price point. In contrast, our vertical brands are high-quality on-trend brands with compelling technical and performance attributes. These vertical brands have clear DNA and specific consumer targets for which we control everything, including design, supply chain and marketing.

We've already done some great things to date. In just 5 years CALIA, which services the trend-right athletic female at premium price points, has become the second-largest women's brand in our company. Our DSG brand, which spans men's, women's and youth athletic apparel, as well as hardlines categories, has also been extremely successful and has grown to become our largest vertical brand just 1 year following its launch. Collectively, our vertical golf equipment and apparel brands represent our #1 brand in golf, while Fitness Gear is our single largest fitness brand.

Looking ahead, we will invest in making our vertical brands even stronger. This includes improved space in store, increased marketing and expanding into additional product categories. At the same time, we will also continue to invest in our strategic partnerships with key national brands such as Nike, Callaway and The North Face. We recognize that these important brands are real differentiating factors that create authenticity and credibility with our athletes.

As I discussed on the last quarter's call, we're really in a great lane right now. We deliver a premium, multi-branded assortment that is well tailored to the consumer trends. We have an industry-leading omni-channel experience with rapidly growing and a highly profitable eCommerce business. And importantly, we are in a strong financial position with nearly $1.1 billion in cash.

Before concluding, I want to address something incredibly important to our country, our company, and to me personally. The recent racial injustices across our nation led us and many companies to take an honest and critical look inside our organization. We realized we had work to do and committed to make DICK'S be a more inclusive and diverse company. This change started at the top. And over the past several months, we brought a much-needed diverse perspective to our Board of Directors.

Furthermore, our Inclusion and Diversity Council, which was launched last year and is comprised of a group of teammates who represent a wide range of backgrounds, roles and communities, established nearly 20 impact teams to accelerate our efforts. We have already delivered meaningful progress in several areas, including adopting a new recruitment and talent development process to build a more diverse workforce and expanding inclusivity training across our entire organization. Earlier this month, we published this year's Purpose Playbook, where you can read more about our efforts to drive positive change in our communities and our world. Separately, we announced our investment in the Black Economic Development Fund, which supports black-owned banks and financing for minority businesses, charter schools, affordable housing and athletic facilities.

Today, as we talk about another strong quarter as a team, I cannot be more pleased with what we've been able to accomplish. And I want to thank all of our 45,000 teammates, especially our frontline workers in our stores and distribution centers, for their hard work and unwavering dedication to safely serving our athletes. As the retail industry continues to evolve, DICK'S will continue to lead the way, and I look forward to working with Lauren and the entire team to build our success and deliver sustained value to our shareholders.

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

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Lauren R. Hobart
President & Director

Thanks, Ed. I want to start also by thanking our teammates. They continue to serve our athletes and our communities safely, and their efforts helped us execute a seamless omni-channel experience and deliver a record-setting comp sales increase for Q3. I am so grateful to work alongside and support each of them.

Our third quarter performance reflected a strong, well-balanced omni-channel offering with both our stores and eCommerce delivering exceptional results. In fact, our brick-and-mortar store comps increased double digits, the best quarterly store comp performance in our history as a public company. Our online sales increased 95%, representing 21% of our total business compared to 13% in the third quarter of last year.

Year-to-date, our eCommerce sales of over $1.8 billion have already surpassed our full year eCommerce sales in 2019, even with the holiday shopping season still ahead of us. Within eCommerce in the third quarter, mobile sales penetration was over 50%, and we saw a significant increase in mobile app downloads. Importantly, this incredible strength in our eCommerce business happened with all of our stores fully open throughout the quarter.

Our stores are the hub of our omni-channel experience. They serve our in-store athletes while also providing over 800 forward points of distribution for digital fulfillment. In the third quarter, even while facing exceptionally high levels of omni-channel demand, our stores fulfilled approximately 70% of our online sales. This includes curbside and in-store pickup, which increased over 300% when compared to BOPIS sales last year. With curbside available at all of our stores, the service is widely accessible, and our athletes are responding well to the same-day convenience that it offers. In fact, in the third quarter, our curbside athletes shopped more frequently, transacting 20% more often than our non-curbside eCommerce athletes. We continue to make enhancements to the service, including the ability to do curbside returns, and we've got dedicated parking spaces at nearly all of our stores, along with improved way-finding and signage. While we initially launched curbside as a stopgap to provide a safe and contactless solution to our athletes as a result of COVID-19, it's become quite clear that it is a highly convenient way to shop that is here to stay.

Importantly, while our eCommerce business continues to be highly successful and penetration continues to increase, we also continue to improve the profitability of the channel, especially as stores play a larger role in fulfillment. In the third quarter, we saw significant improvement in eCommerce gross margins driven by higher penetration of curbside and BOPIS sales as well as fewer promotions and leverage of fixed costs.

Furthermore, we continue to make technology enhancements to provide an increasingly seamless omni-channel experience. In fact, as part of this year's holiday campaign, we're highlighting the technology and logistics systems in our supply chain in a unique and an engaging way. From a store perspective, we recently rolled out a contactless, self-checkout app called Scan, Pay, & Play to over 300 stores, which enables an efficient checkout solution for our athletes while also giving them the ability to quickly look up pricing information and product descriptions as they shop in our stores. We will continue to refine this technology and roll it out to additional stores in the near future.

We also recently launched HOME PLATE, a mobile communications app that provides our store teammates with real-time metrics and important communications all while on the sales floor, giving them more time to focus on providing great service to athletes.

Another key to our omni-channel offering is our ScoreCard loyalty program, which provides robust data that we can leverage to increase engagement and drive traffic. With over 20 million active members, our ScoreCard loyalty program drives over 70% of total sales through more meaningful and effective personalized offers and communications. We value our ScoreCard loyalty members deeply. And with members spending approximately 30% more per transaction than nonmembers, retaining existing members and bringing new customers into the program is extremely important to

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us.

Speaking of new customers, in the third quarter, nearly 2 million new customers joined the DICK'S Sporting Goods ecosystem, with sales from new customers increasing over 70% compared to last year. Relative to our existing customers, our new customers skew female and younger, representing a great opportunity for future growth.

In closing, as we continue to refine and enhance our industry-leading omni-channel experience, data science and technology have never been more important. They're the keys to creating a personalized one-to-one relationship with our athletes and serving them in the most convenient way possible. Looking to the fourth quarter, we're very enthusiastic about our business, and we look forward to serving athletes this holiday season.

I'll now turn the call over to Lee to review our financial results 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 third quarter results.

Consolidated sales increased 22.9% to approximately $2.41 billion. Consolidated same-store sales increased 23.2% driven by a 19.6% increase in average ticket and a 3.6% increase in transactions. Brick-and-mortar comps grew double digits. Our eCommerce sales increased 95%. And as a percent of total net sales, our online business increased to 21% compared to 13% last year. And lastly, we delivered significant growth across each of our 3 primary categories of hardlines, apparel and footwear.

Gross profit in the third quarter was $842.2 million or 34.91% of net sales, a 532 basis point improvement compared to last year. This improvement was driven primarily by merchandise margin rate expansion of 277 basis points and leverage on fixed occupancy costs of 259 basis points. The merchandise margin rate expansion was primarily driven by fewer promotions. Gross profit also included about $4 million of incremental COVID-related compensation and safety costs.

SG&A expenses were $591.1 million or 24.51% of net sales and on a non-GAAP basis leveraged 174 basis points from last year. This leverage was primarily driven by our significant sales increase as well as strong expense control efforts. As expected, this was partially offset by $44 million of incremental COVID-related compensation and safety costs.

Driven by our strong sales and merchandise margin rate expansion, along with our disciplined expense management, non-GAAP EBT was $243.8 million or 10.11% of net sales and on a non-GAAP basis increased $183.8 million or 706 basis points from the same period last year. In total, we delivered non-GAAP earnings per diluted share of $2.01 compared to non-GAAP earnings per diluted share of $0.52 last year, a 287% year-over-year increase.

On a GAAP basis, our earnings per diluted share were $1.84. This included $6.7 million of noncash interest expense as well as 6 million additional shares that will be offset by our bond hedge at settlement but required in the GAAP diluted share calculation, both related to the convertible notes that were issued in Q1. For additional details on this, you can refer to the non-GAAP reconciliation tables of our press release that we issued this morning.

Now I'll briefly review our 2020 year-to-date results. Despite temporary store closures during March, April and May, consolidated same-store sales have increased 5.8%, and that was on top of our 3.1% comp increase in the first 39 weeks last year. Within this, our eCommerce sales have increased 135%. And as a percent of net sales, our online business increased to 28% compared to 13% last year. Non-GAAP earnings per diluted share were $3.65. This included $124 million or $1.01 per diluted share of incremental COVID-related compensation and safety costs, and it compares to

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non-GAAP earnings per diluted share of $2.39 for the first 39 weeks last year, a 53% year-over-year increase.

Now moving to our balance sheet. As Ed stated, we are in a strong financial position, ending Q3 with nearly $1.1 billion of cash and cash equivalents and no outstanding borrowings on our $1.855 billion revolving credit facility.

Our quarter end inventory levels decreased 9.8% compared to the same period last year. Looking ahead, our inventory is clean, and we will continue to chase product to improve our in-stock positions in the most in-demand categories.

Touching on our third quarter capital allocation. Net capital expenditures were $51 million, and we paid $26 million in quarterly dividends.

With respect to our full year outlook, there's still high degree of uncertainty surrounding the scale and duration of key external factors. Given this uncertainty, we will not be providing a 2020 outlook for sales and earnings at this time. We will continue to reassess the practicality of resuming guidance in future quarters. While mindful of the uncertainty in the current environment, we are extremely pleased with our significant Q3 results as well as our Q4 sales trends. We remain very enthusiastic about the future of DICK'S Sporting Goods.
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.

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Question and Answer

Operator

[Operator Instructions] And the first question will be from Kate McShane with Goldman Sachs.

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

Ed, congratulations, and Lauren, congratulations, too.

Lauren R. Hobart
President & Director

Thanks.

Edward W. Stack
Chairman & CEO

Thank you.

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

My question, first, was just around back-to-school. I know you mentioned last quarter, it started off a little bit slower, as it did for most retailers. And with your Team Sports exposure, I know it must have been a little bit of a drag. But just was wondering if you did see any pickup in back-to-school as the quarter went on and schools opened a little later. And with certain sports staying outside longer, did Team Sports improve at all?

Lauren R. Hobart
President & Director

Yes. I think when we last had our quarterly announcement, I think we were up 11% in the quarter, and we had been through a back-to-school that was a little delayed and Team Sports were slow. That did improve as the quarter went on. There was some delay in Team Sports and a delay, frankly, in some of the back-to-school categories that helped contribute to the strong growth.

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

Okay. Great. And then my follow-up question is just about your omni-channel efforts. I know a lot of investment has been accelerated and pulled forward, but are there any major capabilities that you need to invest in at this point? Or are you pretty happy with how you're positioned now once we kind of exit the pandemic?

Lauren R. Hobart
President & Director

No. I think our platforms are very capable and have enabled us to innovate as much as we have, including spinning up the curbside so quickly and now the Scan, Pay, & Play app. We've improved our teammate efficiency with technology.

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We feel we're in a very good place from a technology platform and foundation standpoint.

Operator

And the next question will be from Adrienne Yih with Barclays.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Yes. Ed, thanks for all the work driving the strategy. And Lauren, congratulations. Lauren, my question is on -- inventory position at the end of the fourth quarter and frankly coming into this quarter was very clean. It does not seem to be comping the sales demand or your ability to fulfill the demand. Is that because you are majority branded and have access to replenishment fairly quickly? And then as you look at spring and see the demand from stores opening, how are you envisioning building inventory into that demand?

And then, Lee, my second question for you. A lot of retailers who have put up these huge margin growth year-on-year, they've discussed which portion of the margin expansion are permanent and which are more onetime in nature and that we should be cautious about modeling going forward. If you could help us with that, that would be great.

Lauren R. Hobart
President & Director

Great. Adrienne, I'll start off. So in terms of our inventory position at the end of Q3 coming into Q4, you're right, our inventory is clean, it's good. We are still chasing in several key categories. And if you were to ask whether we have left some sales on the table, it's likely that we have. But I do agree with you that our preferred-partner, strategic-partner status with some of our key vendors has enabled us to keep a steady supply chain coming through and is helping us with the tailwinds that we have already.

As we go into spring, we're making all the reasonable bets that one would make, expecting certain key trends to continue, and in fact, some of the ones that started this year that we believe will continue on, things like golf, as well as some other fitness activities and then of course hoping for a strong return to school and Team Sports in the spring as well. Lee?

Lee J. Belitsky
Executive VP & CFO

With regard to margin, we've seen some great improvement in our gross margin rates over the last couple of quarters. And as we look forward, reflecting on it a bit, I think that some of the items that will tend to be permanent will be leverage over some of our fixed fulfillment costs. We've built a couple of distribution centers for eComm fulfillment last year, and we've been able to leverage those costs, plus we didn't have -- we're past the start-up costs of those. Curbside pickup represents a big leverage point for us because we don't incur shipping expenses to ship products to customers. And to the extent that we've had significant adoption there, and that continues, which we believe it will, that represents permanent gross margin improvement. I believe that the growth of our private brands that we can continue to invest in have a higher gross margin profile than the national brand, so we're excited about that.

And we've also been able to pull back pretty meaningfully on site-wide promotions on our eCommerce site. We believe that some of that will be permanent going forward. It remains to be determined really as we get into next year and everybody gets back in stock, but it's our intention to really be much more cautious with site-wide promotions going forward.

Some of the things are also temporary, it's hard to say. A lot of it's going to be around the promotional environment

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going forward. We have been able to be less promotional because there's been a lot of product shortages out there, and we haven't had to put product on sale. And frankly, we haven't owned enough product in a lot of categories to put it on sale and provide a great customer experience there. So that one, which is a big lever for us, is -- remains to be seen. We'll probably give some of that back as inventory levels normalize.

Some of the leverage that we're getting over are fixed rent expenses. We continue to be able to bring down -- modestly bring down our rent expense each year through better leverage and negotiating our rent deals and rent renewals, and we expect that to be permanent as well. Some of that -- a lot of that leverage is driven by higher sales. So to the extent we can drive -- continue to drive higher sales going forward will create leverage over all of our fixed costs, both rent and our fixed distribution costs as well.

Operator

And the next question will be from Robby Ohmes with Bank of America.

Robert Frederick Ohmes
BofA Merrill Lynch, Research Division

First, Lauren, congrats on your new expanded role. And then my -- it's really a follow-up question on the last question, probably for Ed as the Chief Merchant. Obviously, some tough comparisons next year. We get a lot of questions about how much is pent-up demand that you're seeing right now from earlier this year, how much is pull-forward. Can you just give us some color, as a merchant, how you think about next year and things that we should think about?

Another question would be on Team Sports. How big is that as a percent of your business? And is Team Sports, is that down this year? Or how is that overall looking? And is that an opportunity for next year? Maybe some of the puts and takes that we should be thinking about as we make our guesses about how next year can play out for you guys from a sales standpoint.

Edward W. Stack
Chairman & CEO

Sure. Thanks, Robby. I don't think it's pent-up demand any longer. I think in the second quarter there was probably some pent-up demand. But now I just think it's a transformation of what people are doing and what they want to do to not only be safe, be in better physical condition, from what's happening in our running business, our athletic apparel business, the fitness business, but also the fact that they want to get outdoors and do things and they want to feel safe. And being outdoors is talked about one of the safest places to be. So people are playing golf. They're running. They're kayaking. They're doing all of those things.

And I do think that going into next year, we remain pretty optimistic because as some people have come back into some of these activities or have taken them up for the first time, they've realized they really enjoy this. They may have done it because they had nothing else to do, but they've gotten to the point where they've really realized that they like golf or they like golf again or they like to be out hiking with their families. So we think this is sustainable.

And as we take a look at next year, our Team Sports business is not good right now. Certain categories are a little bit better than others. Baseball is pretty good, but other ones have been difficult. And we do think that the Team Sports business, there will be quite a bit of pent-up demand next year that will help us offset some of the tough comps that we're going to have this year.

We're not providing guidance into next year, I think it's really too early to tell, but we think we're in a very good lane. I think that how people view their lifestyle is not going to meaningfully change next year. They're still going to want to be outside. They're still going to want to be active. They're still going to want to play golf. I think the work-from-home

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change is good for our business from the fact of the clothes that people are buying. And I don't believe next year we're going to be fully back to being in an office from 9 to 5, 5 days a week. I don't know if we're ever going to go and do that. I know in our company we're talking about what we think the office environment will look like going forward. And quite frankly, we don't see it 5 days a week going forward.

So we're in a pretty good lane. We're pretty enthusiastic. The changes that we've made in our business from an online standpoint, the technology investments that we've made over the last several years have really started to pay off. We got a little bit lucky with the timing. We said that they were starting to pay off and we're starting to see those, and then COVID hit. And that online component, that digital component of our business was so very important, and we are so pleased that we made those investments a few years ago. So Robby, we're as optimistic as we can be about not only our business going forward the balance of this year but into next year also.

Operator

And the next question will be from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman
Morgan Stanley, Research Division

Ed and Lauren, congratulations. My first question on the margins, and related more to gross margin. One of the frameworks we were thinking about for 2021 is anchoring it to 2019. And I want to ask about gross margin in particular. So promotions will likely normalize; Lee, you mentioned that. But we were thinking that gross margins can still be higher than they were pre-COVID because of the other things you mentioned: private brands, lower fulfillment costs, et cetera. Is that a fair way to think about it?

Lee J. Belitsky
Executive VP & CFO

I think for the most part, yes. With regard to promotions, I don't know that they'll go back to 2019 levels. I don't think we really know for certain. It will be our intention going into next year that we wouldn't return to 2019 levels, that we'd certainly start out the year being less promotional. And then we'll see how the year evolves from there. But it's -- we're not just going to pull out the 2019 promotional cadence and go back to that as we go into next year.

Edward W. Stack
Chairman & CEO

Yes, Simeon. I think it will be higher for a couple of reasons. As Lee said, I don't think we're going to get really that promotional as we were in '19. I think there's also a couple of other things that are working in our favor, which is mix. So the firearms business and the hunt business will be meaningfully less for us in 2021 than it was in 2020 -- or in 2019, and that mix will help our margins. The private brands will help our margins. The way that we've differentiated product that we buy in the marketplace from our key brands will help that mix. So we are anticipating that the merchandise gross margin level will be better in '21 than it was in '19.

Simeon Ari Gutman
Morgan Stanley, Research Division

Yes. That's helpful. And then my follow-up is, I don't think you mentioned lower fulfillment costs year-over-year in the gross margin bridge. Can you mention how that's having an impact? And realizing that you may not have the same level of comp growth at the store level but if you're going to mix back to eComm in some way and shipping, how the fulfillment costs -- or curbside even, how the fulfillment costs benefit could help the gross margin line as well?

Lauren R. Hobart

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President & Director

Yes. Simeon, the more curbside certainly helps the gross margin line, and we saw that this quarter. The whole profitability of the channel, the eCommerce channel, has improved, and a lot of that's due to things like that as well as just leverage of some of our investments from the past. So we didn't mention it because it didn't have a material impact on the quarter due to some leverage that we had in the gross margin line. There were increased shipping expenses, obviously, due to the fact that eComm was up 95%. But net-net, it didn't have a material impact on the margin for the quarter.

Edward W. Stack
Chairman & CEO

I think that it's definitely going to be -- as a percent, I think we can make some positive changes there. Because as Lauren said, the curbside pickup, what -- we've started to see that what started out as a service from a public health standpoint has now migrated to be a convenience standpoint for the athletes that we serve. And we've gotten so many really positive comments about how Lauren and the team and Don and his team in the stores have executed this. We think that's going to continue to be a bigger part of our business, which will help leverage the costs from an eCommerce standpoint, a digital standpoint.

Operator

And the next question will come from Seth Sigman with Crédit Suisse.

Seth Ian Sigman
Crédit Suisse AG, Research Division

Congrats, everybody. I wanted to follow up on the gross margin and specifically how you're planning the fourth quarter. Just what is your sense of promotions so far in the fourth quarter? And how are you planning for that?

And then I guess related, inventory levels in cold-weather categories, is there any sort of risk if the weather doesn't turn? How are you thinking about that?

Lauren R. Hobart
President & Director

So for gross margin, we're not going to get into how we're planning Q4 other than to say we'll know a lot more in a week or 2 how Q4 is going to look. But we are quite confident and optimistic and happy with our quarter-to-date results that we shared on the call.

Cold weather is obviously important to us in the fall, in the winter. We often have said, I'll quote Ed on this one, that if we're playing golf in December, it's not great for the outerwear business. It is good for the golf business, however, which is great. But we have a good inventory position. We've got the product. We think people are going to want to be outside even more and need to be outside. So we don't perceive that we have a significant inventory risk there.

Seth Ian Sigman
Crédit Suisse AG, Research Division

Okay. That's helpful. And then from an investment perspective, Lee, I may have missed this, but I think CapEx has been running below your original expectations year-to-date. Are you still expecting some level of catch-up in '21? If you could just give us some context on that. And then also, does that have any implications from an SG&A perspective? Where do we stand relative to prior years where you did have higher SG&A growth? Are we at a more stable run rate as we think about that over the next couple of years?

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Lee J. Belitsky
Executive VP & CFO

Well, with regards to capital expenditures, we did defer a couple of initiatives into next year. One that we had planned on for this year was kind of the completion of space reallocation of 440 stores out of hunt and into other more productive categories. We completed 200 of those stores. We have about 240 to go that we've deferred into next year. So we'll get going on those as we get into the first quarter of next year. There are certain other in-store programs that we deferred to next year, some around technology in the golf space, around making some improvement in our premium full-service footwear decks and expanding those as well. So certain of those CapEx have been deferred into next year.

I really don't want to comment right now on what our SG&A expense run rates are for next year as we're kind of still working through our budgeting process for next year, and we'll give you some more details on that as we get into the annual, the year-end call in March.

Operator

The next question is from Michael Lasser with UBS.

Michael Lasser
UBS Investment Bank, Research Division

Ed and Lauren, congratulations. So DICK'S is going to be on pace to have, call it, a 7.5% operating margin this year. It's still below where DICK'S peaked out a few years ago at 9%. Obviously, the eCommerce penetration of the business is much higher today than where it was 5 months ago when DICK'S had a 9% operating margin. But is it reasonable to expect with all the changes that the company is making that you can get back there or even see growth off of this level where you're going to be today?

Lee J. Belitsky
Executive VP & CFO

Well, Michael, one of the things you have to think about is we have about I think it's $170 million of COVID expenses in there, which is impacting our operating margins nearly 200 basis points this year, and we didn't have that back then. So we still think that we can make some meaningful improvements in our operating margins going forward, and we're optimistic about having that opportunity, both in gross margin rates. As we continue to address our occupancy expenses and the changes that we've made in our merchandise assortments around hunting and private brands and working with our key vendors as they continue to narrow their distribution, it could reduce the pressure on promotions going forward. So we believe there is a lot of opportunity to increase our operating margins going forward.

Michael Lasser
UBS Investment Bank, Research Division

And Lee, just to clarify, is your point around COVID costs an indication that those are going to be permanent or you expect them to roll off as we move into the next phase of this situation?

Lee J. Belitsky
Executive VP & CFO

We're still working through that on how much it's going to carry into next year as COVID goes forward. Probably, there continues to be some pressure on wage rates in the stores. But -- and certain things that we've got like ambassadors, people standing at the front of the store, handing out masks and doing customer counts in and out of stores and cleaning expenses and things like that will go away. And some of the wage rate pressure that we've got this year around

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paying hero pay will go away. But wage rates continue to be under pressure going forward, and we still have to assess how that will be -- what impact that will have for next year.

Michael Lasser
UBS Investment Bank, Research Division

That's helpful. And if I could add a follow-up question. I'm curious about your perspective on some of the demand that's being pulled forward. There were categories like bicycles and free weights that were very strong earlier this year. Are you seeing a continuation of those categories that were in heavy demand? Or is it just -- has the business transitioned from strength in those areas into strength in others? And what does that say about as we get into next year about some of this?

Edward W. Stack
Chairman & CEO

They have continued, and we expect them to continue. As I said before, I think people realize that the best way to stay healthy is to be in better shape. And riding a bike, working on a treadmill or dumbbells I think is something that's here to stay for some time into the future because people do realize that to get through this pandemic and whether -- other health crisis they may have personally or we may have in the world, that we just need to be in better shape. And I think people have -- that lifestyle, if you will, is not going to change anytime soon.

Operator

And the next question will come from Paul Lejuez with Citigroup.

Paul Lawrence Lejuez
Citigroup Inc. Exchange Research

I think you guys mentioned adding 2 million new customers this quarter, highly concentrated younger or skewed younger and female. Just curious what they're buying as they kind of get introduced to the concept. What are they spending money on initially?

And also, separate, can you talk a little bit about your footwear business and what price strata has been the strongest for you guys, how AURs are trending in that category?

Lauren R. Hobart
President & Director

With regard to the 2 million new customers, they do skew younger. They skew slightly more female. That's relative to our norm and just in those new customers. They also skew slightly more urban, which we think might have something to do with the urban -- people start leaving the urban centers and going out into the suburbs.

In terms of what are they buying, they're buying everything that has driven our comps this quarter. So it's exactly what we've been saying in terms of the surging categories, but they're buying fitness, they're buying golf, they're buying every category: athletic apparel, footwear.

Regarding footwear, do you want to take that one, Ed?

Edward W. Stack
Chairman & CEO

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It doesn't matter. I mean, from a footwear standpoint, we're really pleased with what's going on in footwear. We are not going to talk too much in a granular level from a competitive standpoint, but the AURs in footwear have definitely gone up. That's a combination of some allocation of shoes that we have as we've transitioned our footwear department to a premium full-serve department to what's happening from a running standpoint in running shoes at higher price points and, again, from people wanting to be in better shape. And that doesn't mean that they have to run a marathon or a 10K, but just people getting out to run a couple miles a day or get out and walk, the running shoe silhouette is the shoe of choice. And majority of those are well above $100 that we're selling, and it's helped increase the AUR, and we think that will continue.

Operator

The next question is from John Kernan with Cowen.

John David Kernan
Cowen and Company, LLC, Research Division

Excellent. Lauren, congrats on the promotion. And Ed, congrats on a great run.

Edward W. Stack
Chairman & CEO

Thank you.

John David Kernan
Cowen and Company, LLC, Research Division

Real quickly on eCommerce. On reasonable assumptions, the business is going to be pushing $2.8 billion to maybe $3 billion on an annual run rate by the end of the year. Just could you walk us through the margin improvement you're now seeing in digital. Obviously, curbside is playing a role in that. I think historically eCommerce had been a negative mix shift on the overall margin structure. It sounds like given the leverage it's producing now, it's a real driver of margin. So any commentary you can give us on how we should think about the digital mix shift on the margin profile of the business would be helpful.

Lauren R. Hobart
President & Director

Yes. The margins in eCommerce channel is improving significantly when you look at it versus LY. Some of that is gross margin improvements, as we said, just the reduction in needing to be promotional. Some of it is the shift to the curbside channel, which has been -- which is permanent and great shift in terms of consumer benefit and then also cost structure. And some of it is just leverage of the investments that we've made over the years that were -- frankly, some of the reason we took the eCommerce platform in-house was so that we could scale more profitably, and so we're seeing the benefits of that as well.

In-store versus eComm, there'll always be a slightly different profitability. You've got fixed costs in one and it's a variable cost in the other. But net-net, we're really pleased with the profitability of the eComm channel. We have been for some time, and this year has been standout.

John David Kernan
Cowen and Company, LLC, Research Division

Excellent. That's helpful. Maybe a bit of a follow-up question to Paul's question, just the relationship with Nike. Clearly, we can see improved allocations, both in apparel and footwear, that really began last year and have continued into this

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year. You called out private brands and the success you're having there. But can you maybe just add a few comments on your relationship with Nike and where that can go going forward as they reduce their undifferentiated retail exposure?

Edward W. Stack
Chairman & CEO

I think our relations with Nike is great. It's been great. We've done business with Nike since the early '70s. The relationship continues to get better. I think that we find common ground where we can provide a platform for Nike to showcase their entire brand, which there's not a lot of retailers that are able to do that. They've got the hottest brand in the marketplace right now. We've gotten -- we're pleased with the allocations that we've been getting from them. And I think if you talk to Nike and you talk to us, the relationship has probably never been in a better position.

Operator

The next question will come from Chris Horvers with JPMorgan.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

Congratulations to the both of you. My first question is on the gross margin as well. Typically, the private label, what sort of margin rate is that relative to the corporate average? And I would have thought, given the strength in some of these hardgoods categories, that maybe mix would have been a headwind to your business overall. And was it just that the private label actually at least offset that? It seems like perhaps it more than offset the hardgoods mix headwind.

Edward W. Stack
Chairman & CEO

The difference in margin rate in private brand is we try to keep at least 600 to 800 basis points. In some cases, it's even higher than that. So that certainly has helped the mix.

And I think the one thing The Street doesn't understand about our business, every once in a while when we're in a conference when we can actually be face to face, which seems like 100 years ago that we were able to do that, one of the things that I get asked every once in a while, what does The Street not understand about your business? And one of the things I don't think that they understand is that the hardline side of our business is really quite profitable. The margin rates in golf have moved up quite a bit. Team Sports is good. The fitness business is good. The hunt business was not, and we're exiting that. And I just don't think that The Street really understands how profitable the hardline side of our business is. So in some cases, as the hardline business has escalated, it's actually helped our margin rates in some categories. So we're very pleased with our hardlines business. And so I'd like to go on record to let everybody know that our hardlines is really pretty profitable.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

Right. And then you add the private label, which you get that advantage. So the mix overall is probably -- was the good guy in there.

Edward W. Stack
Chairman & CEO

It is. Yes.

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Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

Got it. And then I guess you talked about being very strong quarter-to-date, some weather headwinds. I guess to what extent do you think starting Black Friday earlier maybe mitigated some of that headwind. And as you think about 4Q, what's your latest thought process around as you get into these like, later in December I would love to be playing golf in New York late in December, probably not going to happen. As some of those outdoor categories get mitigated in parts of the country, would you expect your overall comp to decelerate from the past 2-quarter level?

Edward W. Stack
Chairman & CEO

So we're not going to get into providing any of that guidance. But first of all, I'd like to say I hope you're not playing golf in New York in December. I hope you're skiing instead. But as we take a look at this, I think every retailer tried to pull sales forward in October and November, so even before this quarter started, because of what was the uncertainty around that Black Friday weekend. So many retailers have made the decision not to open on Thanksgiving, which I think is great. And my hope would be that retail -- all retailers decide, you know what, we actually got through this year. We don't need to open on Thanksgiving. We can allow our -- all of our teammates to spend Thanksgiving at home with their families, and we can open up early on Friday morning and kind of get back to it. But hopefully we can keep Thanksgiving as a family holiday.

But what's going to happen after this? We really don't know, and I don't think any retailer does. We have a nice cushion. As we said, we're -- through this last weekend, we're in the high teens from a comp standpoint. So we've got some cushion for what's going to happen this weekend, but we clearly don't know.

We're pretty optimistic once we get past this weekend of where we are. We've gotten in more exercise equipment. We're pleased with where we are from an apparel standpoint. The golf business continues to do well. Even if you're not playing golf in December, I think golf is going to be a great gift item for this holiday season.

So all in all, we remain as optimistic as one should be in such an uncertain environment.

Operator

The next question comes from Joe Feldman with Telsey Advisory.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Again, congratulations, Ed and Lauren, on the new roles. Wanted to ask, you did talk a little bit about data science earlier in the call, and I was just wondering kind of where things stand with that, like in terms of how big a team you have or what kind of team you have. Do you have any needs or areas you want to grow in that area? And how you're starting to leverage the data better to communicate with customers and what kind of opportunity that is for the future.

Lauren R. Hobart
President & Director

Yes. We do believe that data science is a huge unlock. It's a huge unlock for every retailer, but we have such large data in our data set between having 22 million ScoreCard members and 70% of our sales going through our ScoreCard database. So -- and we also have our GameChanger system, which has a ton of Team Sports information, which is now merged in the back-end so that we can look at the athlete holistically. We have a ton of insights that we get out of it. It is a driver of our entire marketing engine, our personalized marketing engine. It drives our digital buys. It drives how we find lookalike customers. And we have a small but mighty data science team. If you know of any people, you can throw

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them our way, we'd be happy to keep building the data science team, but this is an enormous strategic initiative for us.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Got it. That's helpful. And then I have another question. Given the way digital has really been ramping, just broadly across retail, has that changed how you guys are thinking about the store? I know you have the store-of-the-future format kind of in place. But are you rethinking what the right size of the store might be, the format of it? Do you even need as many stores in some markets given the way eCommerce is playing out?

Lauren R. Hobart
President & Director

Yes. I'll take that one. We do -- so I think, if anything, the digital explosion has shown us, especially over the past year, is that our stores are an enormous asset, a huge, huge strength. I mean we've got 70% of our eComm sales flowing through the store. It enables us to open up inventory to the athlete in a 1- to 2-day perimeter around their house. It enables them to pick up curbside. We're probably one of the few retailers out there that -- we feel constrained by the size of our box. We are -- the hunt redeployment has opened up opportunities where we think we have growth areas that we've been underserving, that we have opportunities to grow. So, sure we have real estate opportunities. And, sure we're going to continue to optimize, and we will continue to get reductions in the marketplace when leases come up and rethink our real estate strategy. But overall, the stores have become a bigger and bigger piece of our omni-channel pie this year more than ever.

Operator

The next question is from Mike Baker with D.A. Davidson.

Michael Allen Baker
D.A. Davidson & Co., Research Division

I wonder -- I suspect not but I wonder if you can quantify the drag from Team Sports, understanding that it has been a net negative this year. Any color on how big Team Sports usually is versus how big it is this year. Just trying to get a sense of how big of an opportunity that could be next year.

Edward W. Stack
Chairman & CEO

Well, we're not going to get to that granular level, but it's been a drag. But the one thing about our business that we're really proud of that we've built is we've got this portfolio of categories that we can weather these ups and downs, and I think we've shown that pretty well here. And I think next year we'll have some categories that won't perform quite as well as they have this year, and we think Team Sports will be one of those areas that should be able to help offset that. Not only Team Sports, just from a hardgoods standpoint, but also on the footwear side of that, from a soccer cleat, football cleat, lacrosse, wrestling, all of that. As Team Sports or sports in general kind of come back to the junior high school, high school and municipal level, we think that there's a -- we've got some pent-up demand there that we think will help us next year.

Michael Allen Baker
D.A. Davidson & Co., Research Division

Yes. Agreed. Definitely, pent-up demand in this family. One more question, if I could. Are you seeing anything different in your business in areas where COVID is sort of re-spiking? Any discernible trends in areas where we're seeing bigger COVID costs or just in general throughout the country, anything? As COVID comes back, are you seeing people stay

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home even more than they were and participate in outdoor sports?

Lauren R. Hobart
President & Director

I think in the recent couple of weeks, the whole country is spiking and surging, so it's no longer productive to kind of look at those trends. Everybody is reacting to the current environment, and we haven't noticed a significant regional difference or geographic difference.

Operator

The next question comes from Sam Poser with Susquehanna.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

Congratulations, Lauren and Ed, as well. Just real quick. Lauren, you talked about a lot of the new customer acquisitions that you've had. How -- what are you doing to make sure that they stick next year? And how many customers, new ones, have you seen repeat purchase already? Like what percentage are you seeing them come back once they've engaged DICK'S Sporting Goods?

Lauren R. Hobart
President & Director

Yes. We have an absolute dedicated strategy on trying to get reengagement, and we do see -- I'm not going to give the specifics, but we do see people reengaging. New customers are reengaging. We see that even more so with the curbside athletes, the people who are new to the system there. So we are very, very pleased with how the new customers are doing, and we'll be very focused on bringing them and keeping them into the ecosystem.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

And then secondly given the outdoor, the way people are moving outdoors for a lot of things, we've heard that you may have a new concept coming in the middle of next year, a real outdoor concept. Can you give us any color there as to what might be going on?

Edward W. Stack
Chairman & CEO

Yes. Sure, Sam. We've been working on this for a couple of years. And as we look to exit out of the Field & Stream business and the firearm business, one of the places where we think there's a great opportunity is the outdoors. And we've been working on this even prior to COVID. And now with what's happened with the virus, I think it's even more timely, if you will.

We're going to have a couple of stores. As you know, we always test new things. We think this is really a big concept, an outdoor concept called Public Lands that we will be opening 2 stores in this next year, one in probably August, another in October. One of them here in Pittsburgh that will take over a Field & Stream store. Another one in Columbus, Ohio, that will take over another Field & Stream store. And we think this is going to be a terrific concept.

It's going to be very -- as we normally do in all of our business, it's going to be very cause-based. In the DICK'S business, we've been very cause-based around our Sports Matter Foundation and how important we think it is that kids

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have an opportunity to get out and play. And the character development for kids from sports and the investment we've made in Sports Matter over the years is -- we think it's -- we've touched over 1 million kids and have given them the opportunity to continue to play sports. We hope that we're going to be able to impact another 1 million over the next several years.

And in Public Lands, we're going to focus on exactly what the name of the concept is, which is Public Lands. We think it's important to protect our public lands, to protect the environment, and this concept will really be focused on that. We think there's a real opportunity for people getting outdoors, camp, hike, bike, kayaking, fishing. It will be different than what you would see with REI and carve out a different niche, but we're really excited about this. The research we've done about this, we think there's a real opportunity in the marketplace.

And it will -- this will help us, from real estate that we already own that has the Field & Stream concept in it, and we'll be able to very seamlessly change this by taking out the hunt department and modifying a couple of other departments, but it's real estate that we own. The architecture of -- that we have from a Field & Stream standpoint works very well with this outdoor concept. And we couldn't be more excited about it, and we'll be happy to provide some more detail when we get it opened early next fall, the 2 stores. But we think that there's a real opportunity here for a real growth vehicle.

Samuel Marc Poser
Susquehanna Financial Group, LLLP, Research Division

And just a real quick follow-up. Is that going to be -- I mean from what I've heard, this is maybe a little more elevated in the outdoor categories or at least portions of the outdoor categories than the outdoor categories within DICK'S Sporting Goods. Is that inaccurate?

Edward W. Stack
Chairman & CEO

Very much so, Sam. It will be very different than what we do with DICK'S today. So DICK'S from an outdoor category, our camping category, is we're really a bit more backyard camping, if you will, kind of day camping. This will be much more elevated. We think that the overlap between the products that we carry in this new concept and the products we carry in DICK'S will be somewhere around 20%, maybe a little bit less. But this will be more elevated equipment, apparel, footwear, at elevated price points with elevated brands, elevated service. We think this -- we're pretty excited about this. And this is one of the things that I'm going to be focusing the majority of my time in the new role is to help spearhead and lead this concept and really grow this into a real growth vehicle.

Operator

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

Robert Scot Ciccarelli
RBC Capital Markets, Research Division

Scot Ciccarelli, guys. I guess I had another follow-up on the private brands. Is the outperformance you're seeing coming more at the store level? Or is it more from the eCommerce channel or similar to both -- at both?

And related to that, has the improvement coincided with greater marketing efforts on your part? Or has it been more of a function of pull from the customer?

Lauren R. Hobart
President & Director

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Yes. Both in-store and online are doing really well with private brands. And I think it's certainly dedicated marketing, but it's also the product's really surprising and delighting. So in the case of our DSG brand, people have found it sometimes in the store. It was a white space opportunity. It was for an opening price point, high-value, high-fashion product. And so that one is really driven more by trial and just people -- and the product being so excellent. So it's a combination of all, but we are very, very dedicated to keeping -- keep driving the private -- I'm sorry, vertical brands. We've been bad at using that new term, vertical brand business.

Robert Scot Ciccarelli
RBC Capital Markets, Research Division

But Lauren, has anything been deemphasized as you try and put a greater emphasis on the vertical brands?

Lauren R. Hobart
President & Director

Well -- I may have misunderstood your question, but I was thinking that Field & Stream vertical brand, within the vertical brands, has been deemphasized. But no, we view the -- this is not a trade-off. This is 1 plus 1 equals 3.

Operator

The next question is from Tom Nikic with Wells Fargo.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

Let me add to the congratulations for Lauren and Ed. I want to follow up on some of the questions earlier about real estate and your stores. I think it kind of seems like one of the big messages that you're putting forth today is the importance of your stores and how important it is for -- even for fulfilling digital demand. I would imagine that maybe there landlords would be looking for strong concept, strong brand, strong retailers to potentially take up some space. So would you kind of view that as an opportunity to maybe reaccelerate store growth after you had sort of pumped the brakes a little bit pre-COVID?

Lee J. Belitsky
Executive VP & CFO

So we're certainly looking at those opportunities that are out in the marketplace right now, but I wouldn't expect there to be a rapid acceleration in our store growth. It gives us a lot of opportunity to reposition stores, to achieve lower rents. And there are certain markets out there right now and trade areas that are important that -- where we don't have a presence right now that I think it is important to us to get into those markets, but I wouldn't expect a meaningful acceleration in store growth.

Tom Nikic
Wells Fargo Securities, LLC, Research Division

Understood. And one quick follow-up. Obviously, you have a very clean balance sheet, lot of cash, good free cash flow. At what point do we think about share buyback coming back into the equation?

Edward W. Stack
Chairman & CEO

That's something we talk about from time to time obviously. And we bought back an awful lot of shares over the last several years. But to be honest with you, Tom, right now, we think that with such an uncertain environment and who

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knows what's going to happen from a COVID standpoint and whether there's going to be additional lockdown, so right now we think that cash is really important. And we're -- I wouldn't expect to see much from a share buyback standpoint right now. I think it's just too uncertain of an environment. But as we -- we always keep the idea open and if we think we can be opportunistic, we'll do that. But I think right now to be a little bit more conservative is the appropriate play.

Operator

And the last question will be from Chris Svezia with Wedbush.

Christopher Svezia
Wedbush Securities Inc., Research Division

Congratulations to you both as well. I guess, first, just on the -- I just want to go back to the outdoor, cold-weather categories, just a point of clarification. Have they -- are they still comping positive or they actually turn negative? In other words, they just underperform the overall company average or they actually turn negative, reference to your comments about the weather and cold-weather category?

Edward W. Stack
Chairman & CEO

Well, we're not going to get to that granular -- to that level of granularity right now. And the quarter is only 3 weeks and 2 days old. So we're just saying that in the beginning it was a bit of a headwind. The weather has gotten better -- gotten colder. So the trajectory has changed. But there's just so much time left in this quarter going into the holiday season, and we hope it gets cold. But if it doesn't, we've got our inventory planned in such a way that we're really not concerned about big markdowns or inventory issues if it doesn't get cold.

And again, from our portfolio standpoint, if it doesn't get cold, then, as we said earlier, if they're playing golf in New York in December, our golf business will be really good. And how good the golf business is right now will offset a lot of the cold-weather merchandise. And if it gets cold, the cold-weather merchandise, we suspect, will be really very good. And golf, we think, will be a very good holiday gift item this year, more so than in the past.

Overall, as I said before, we are as optimistic about our business as we think one should be in this somewhat uncertain environment. But looking forward into next year and the year after, we are very, very excited about our business and -- which is one of the reasons why that I think this was the perfect time to make this transition from me as the CEO to Lauren as the CEO. It's always good to do these things when you've got positive momentum. And we've got positive momentum, and we see that momentum into the future also.

Christopher Svezia
Wedbush Securities Inc., Research Division

Got it. I wanted to just ask, for Lee, for you, on the merchandise margin. Past 2 quarters have been quite impressive. Maybe if you can break out between what's partially driven by supply constraints leading to somewhat less promotional activity, the curbside pickup that's enhanced eComm and just mix, the private brand growth. Is there any way just to separate if you're -- if you can just rank them in terms of what's been the biggest driver on that front?

Edward W. Stack
Chairman & CEO

There's really not a silver bullet. There's -- it's a combination of -- as you said, it's a combination of mix. It's a combination of fewer promotions. It's a combination of our private brand. It's a combination of digital moving to curbside or stores moving to curbside. There's a lot of puts and takes in this. And as I said, we really -- we think we're in a great lane right now. We think that we've got upside from a margin rate, as Lee said earlier. And overall, we are pretty

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optimistic about our business.

Christopher Svezia
Wedbush Securities Inc., Research Division

Okay. And just a final thing. What do you think from a planning perspective for 2021? I mean -- and just given what you saw in 2020, looking at both sales and just the operating expense and just merchants and inventory, it looks like you're looking at possibly a hybrid from a planning process because you get some obviously favorable comparisons, Q1 because of COVID, and then obviously you have the more tougher comparisons from thereafter. So I guess I'm just trying to understand as we all try to think about 2021, is it fair to say there isn't one single way to look at this? We should be looking at both planning from 2019 and 2020. Or maybe any color about how you would think about it internally, how your teams are thinking about first half, second half from a planning perspective. And what's the baseline?

Lee J. Belitsky
Executive VP & CFO

So we're building off of 2019 because 2020 has been so volatile with very, very tough first quarter, when we were closed, and then we had surges of business in Q2 and Q3. So we're building it off of 2019. We're optimistic that we can make some meaningful improvements in the business versus 2019, both on the sales margin -- sales and margin side, but we're not ready to give guidance on 2021 at this point.

Operator

Ladies and gentlemen, 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 on our quarterly call and look forward to -- Lauren and Lee will look forward to speaking with everybody on the next quarterly call. And I can promise you you're all in good hands with Lauren at the helm. So thank you very much. Everybody have a great holiday.

Lauren R. Hobart
President & Director

Thank you.

Operator

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

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