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DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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Call Participants

EXECUTIVES

Lauren R. Hobart
President & Director

Lee J. Belitsky
Executive VP & CFO

ANALYSTS

Simeon Ari Gutman
Morgan Stanley, Research Division

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Presentation

Simeon Ari Gutman
Morgan Stanley, Research Division

Hi, everyone. This is Simeon Gutman from Morgan Stanley's hardline, broadline and food retail analyst, and it's my pleasure to welcome everyone to this global consumer retail conference. And we're hosted today by DICK'S Sporting Goods, represented by Lauren Hobart, currently President, soon-to-be CEO; and Lee Belitsky, Chief Financial Officer. I'm going to read a quick disclaimer, and then we're going to get into a fireside Q&A.

First, for the quick disclaimer. For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.
Lauren and Lee, thank you for being here virtually with us. Hopefully, we'll be back in person next year.

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Question and Answer

Simeon Ari Gutman
Morgan Stanley, Research Division

My first question, high level for you, Lauren. Can you provide a quick or not a quick, but a 2020 COVID overview? Sort of walk us through what the experience has been for DICK'S Sporting Goods in 2020 thus far.

Lauren R. Hobart
President & Director

Sure. Sure can, Simeon, and thanks, everybody, for participating. 2020, as everybody knows, was a really crazy, crazy year. I think it's important to note for anyone who's new to the company that prior to COVID hitting in March, we had 2 very strong quarters in Q3 and Q4, where our comps had been up by between 5% and 6% each quarter. And so we went into the pandemic really firing on all cylinders and feeling great about our attack categories, our priority categories.

When COVID happened, I believe it was March 18, we decided voluntarily to close the stores for 2 weeks and did do that. And that turned out to be 3 weeks. And then for many of our stores, it ended up being close to 2 months that we were closed, which obviously made us concerned. Retail wasn't born to be closed, but we had a tremendous win in that -- within 2 days of closing the stores, we were able to spin up curbside pickup, which was something we never have had before.

We have -- we were -- we had a technology investment over the past several years that enabled us to do that, but that particular capability didn't exist. And so within 2 days of closing the stores, we had spun up curbside, and that actually became an enormous boon for us.

First of all, the online business, we were up like 197% or something. And I think we're 5% in Q2, a lot of it coming through the stores and curbside. The stores started to deliver over 70% of our packages, either out the front door in curbside or in the back out ship-from-store, and they've become a huge hub of this omnichannel world. The customers are coming in and trying curbside and liking it very much. We strongly believe it's here to stay.

And just switching for a moment to the categories. I would say that at the beginning, obviously, team sports were really challenged. Baseball was very slow to start. But immediately, different categories started spiking that are not maybe our core categories. So things like golf -- golf is a core category for us, but it started spiking unbelievably with a ton of new people into the category.

Fitness started going crazy. If anyone's trying to get weight set or any sort of aerobic equipment, it was very challenging. And then athletic apparel, footwear, people running and walking, you saw it all over your neighborhoods, outdoor equipment including bikes, so all these other categories started surging.

And just to wrap up the year. So the -- for Q2 and Q3 of this year, we ended up having record-breaking comps, over 20% both quarters, a strong online business. More profitable online business, more profitable overall business because of a whole bunch of leverage, and we can get into that later but -- and reduce margin pressure.

So I'll wrap your first question just by saying, I was incredibly proud of the company. During this time, the teammates were amazing. The company led with values and safety every step of the way, providing health insurance when we had to furlough people, working like heck to get people off of furlough and back in. The entire team rallied around it. And I

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think we've come out of the pandemic, we're still in it, but come out of that immediate crisis a much stronger team with a much better focus on what matters in life from a value standpoint and from a customer service standpoint.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. The next one, it's somewhat connected. I think it's one of the key investor questions of many companies, of many retailers right now. And it's what's sustainable? What things will we see continue into 2021? What could become more permanent?

And so I want to talk about it more about habits, either new sports that customers are picking up, whether it's market share gains. How do you think about the sort of pockets of sustainability in different aspects of your business in either new customers that you picked up or new sports or new things that you're seeing?

Lauren R. Hobart
President & Director

Yes. I'll start and then, Lee, feel free to chime in. But a lot of our -- our core businesses prior -- pre-pandemic, and we're looking at everything at this point versus 2019 because the future is very hard to predict off of a year like 2020. But our core business is athletic apparel, athletic footwear, golf, team sports. I think 3 of them have permanent upside. We know the consumer has shifted, the work from home trend. Athleisure and also running and footwear and walking and footwear, those businesses, we actually think have legs well beyond a temporary boom and demand this past year.

Golf also is a category that has had tremendous new users, a lot of kids, a lot of women coming into the category. That should have tremendous runway. And then you look in team sports, team sports hopefully will come back. That was obviously a huge headwind for us this year. But if it does, it's going to come back with a vengeance in a good way because it's going to have -- kids' shoes have now -- they're 2 years too small and the bat is too small. And so we think we have tremendous upside in our core categories and new consumers in our core categories.

Some of the ones that are surging, fitness for example, where maybe it was a onetime purchase. First of all, we were inventory depleted for a good chunk of the year, so there's still some upside there. But those are not in bike -- those are not core categories for us. So we surged in ancillary categories. Golf is a core category that we also surged in. But our core businesses, which were flying very well before the pandemic, we have every reason to believe are going to continue strong. So we feel very optimistic as we look forward.

Simeon Ari Gutman
Morgan Stanley, Research Division

Can I maybe ask one follow-up on that. I don't know if this is a number that's been out there, but you said some of our core categories, they didn't -- they weren't surge categories. Can you just high level, what percentage of the business was the surge versus the core that maybe didn't?

Lauren R. Hobart
President & Director

Lee, you want to take that one? I mean team sports were the most notable. But Lee, go ahead.

Lee J. Belitsky
Executive VP & CFO

Sorry, it's -- the businesses that -- again, we had sales strength across almost all of the store. If you take out team

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sports, which was -- the sales have been poor in this year. And our license business, which is our New York Giants, Los Angeles Dodgers jersey business and things like that, those businesses have been poor for us. But the rest of the store, athletic apparel, athletic footwear, outdoor equipment, fishing equipment, golf have all been strong.

And when you look at some of the core businesses that make up the significant majority of the sales in our store in a typical year, which are athletic apparel, athletic footwear, golf and team sports, we expect all those businesses to be quite strong going into next year. And when I say it's quite strong, I'm going to say that versus 2019. We expect all of those to perform substantially better than 2019, and they make up a significant majority of the sales that we have in our store.

Lauren was talking about some of the other ancillary categories that have been really surging this year, like fitness equipment, kayaks, bikes, are much smaller part of the overall business in our stores, but they've performed extremely well this year. We feel very good about the fitness equipment business into the first half of the year next year.

And bikes and kayaks are small businesses for us. They've done really well this year, but they're smaller businesses. Once the kids get back to playing more team sports and things like that, I think some of those businesses may -- will probably slow down pretty meaningfully.

But again, the big businesses for us, particularly athletic apparel, athletic footwear, had been in a several year trend of strength and golf with so many new players coming into the space. The ability to buy range finders and shoes and upgrade your golf clubs and a lot more people playing, meaning you need more consumables, golf balls, golf clubs and so on. We expect to have significant strength in golf in 2021, certainly versus 2019, just based upon a number of players that are out there now.

Simeon Ari Gutman
Morgan Stanley, Research Division

What have you shared about new customers? Anything broad regarding trends or percentage of the business?

Lauren R. Hobart
President & Director

Yes. We have had multiple millions of new customers. I think we said the last 2 quarters, it was around 2 million new customers each. And they're coming in through originally, obviously, the online business and curbside. That was the only thing that was open, and we're also getting new customers in stores. That's a huge focus for us now is to how to keep those new customers returning. And we have a whole strategy against that between marketing and personalized invitations. And so we feel really, really good.

The new customers have skewed slightly different than our old -- than not our old customers, but our former customers in that they are slightly younger, slightly more female. We're usually pretty balanced male, female. These are slightly more female and slightly more urban, which we think actually does signal some of the leaving the city and perhaps engaging at a DICK's Sporting Goods location for the first time, either through curbside or online or in store, which we think bodes very well for the future as well.

Simeon Ari Gutman
Morgan Stanley, Research Division

So just to wrap up this sort of topic, the idea of sustainability. And I'll just paraphrase, and correct me if I'm wrong. So some product categories are going to get restocked. You have some product categories that just weren't selling in 2020. There are new customers. There's also continued usage of some of these trends that were present. And so look, I mean, no one -- anyone's guess is what the level of demand will be. But it does seem like there is a balance for you

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where it wasn't sort of all or nothing, but there should be a balance as we go into 2021.

Lauren R. Hobart
President & Director

We believe so. We do think our -- we have a portfolio that's pretty broad. We have some natural hedges in it. If people are inside versus outside or at the fields with their kids, they can't be playing golf. So there's puts and takes in the business, and we were really fortunate to have that breadth of assortment this past year. And we think it will only continue to be a good tailwind.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. Great. Next, I'm going to shift over to margins, broad topic, but we'll ask a few questions. The first one is, can you describe the underlying margin improvement that DICK'S was experiencing heading into COVID-19 and the margin opportunity you think is ahead?

Lee J. Belitsky
Executive VP & CFO

So the margin opportunities coming into 2019 really were around -- in the gross margin category as we were able to drive increased sales. We're able to start to leverage some of our fixed costs, primarily within gross -- in the cost of goods sold area. So we have like occupancy expenses in there. Fixed costs in there, fulfillment operation are in there. And as we start to get to positive 3% comps in Q2 last year, positive 6% in Q3, positive 5% in Q4, we began to be able to leverage some of these investments that we've made over time that might had been more challenged in the past.

As we've come into the pandemic now over the last couple of quarters and some of the changes that we've made, we've seen very significant improvements in merchandise margins and -- excuse me, gross margins in the 500% (sic) [500 basis points] range over the last couple of quarters. Again, as we look forward to 2021, we're building out 2021 versus 2019. And overall, we believe we can have significant improvements in sales versus 2019 and significant -- and I'd say, meaningful improvements in operating margins versus 2019, with the meaningful improvements really being concentrated, I'm going to say, on the gross margin side as opposed to the SG&A expense side.

Within gross margin, what we see as being kind of permanent changes or structural changes versus 2019, one is, we've got a lot more granular about how we run promotions, particularly in online, but in-store as well, doing more -- fewer site-wide and store-wide promotions. We understand our customers better, our athletes better. And we believe we've been very nonpromotional this year, but we believe going into next year, we can be a lot more targeted on the promotions, which will result in a lower promotional level versus 2019. Probably not as low as we are this year because there's been a lot of supply shortages and things like that. And the marketplace hasn't been particularly -- hasn't been particularly promotional this year, but we believe we'll be meaningfully better than 2019.

In addition to that, on the gross margin side, we also see a structural improvement due to the increased penetration of curbside pickup, which has really jumped meaningfully this year when we rolled out curbside in March, and we don't have to ship those packages to our athletes along the way. So we have those savings.

We also have increased sales, leveraging against some of the investments we've made in eCommerce fulfillment. We opened 2 eCommerce fulfillment centers in 2019. We're unable to leverage those costs in 2019. But as we have a full year and growth in our eCommerce business, where we should be leveraging those costs pretty well in 2021.

We've had significant improvement in our private brands as well. This year, they're performing about -- this -- the third quarter has been true throughout the year from performing better than national brands. In the third quarter, we're up to

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1,000 basis points higher rate of growth in sales in our private brands than in national brands. So on a 23% comp across the chain, we're well north of 30% comp for our private brands. Those carry -- generally carry a higher margin rate, 600 to 800 basis points higher.

Also getting out, continuing to reduce the hunting business. So that's favorable for us from a mix perspective in our gross margin rates. There's a lot of opportunity in gross margin that should drive higher overall operating margins for us in 2021.

The one call I'll have is on the SG&A side. We continue to be mindful of hourly wage rates, which we've seen -- we saw pretty significant increases in those in 2018 and 2019, notwithstanding the unemployment that's out there now. We have been paying the hero pay, a 15% premium. We have been paying that throughout the year this year. We haven't made our decisions on how we're going to handle that going into next year, but we do expect there to be pretty meaningful inflation in hourly wage rates that will go into the SG&A side. So we will have a pretty good sales lift. May or may not be able to offset the hourly wage rates, but we expect the hourly wage rates to be fairly meaningfully higher in 2021 than they were in 2019.

Simeon Ari Gutman
Morgan Stanley, Research Division

So may I probe on gross margin for a second? I couldn't help but get pretty bold up when you were making that answer. I looked at the model and in 2019, it looks like you ended gross margin 29.3%. And it's not as important about the number per se. And it looks like gross margin for DICK'S peaked it looks like in the low 30s, 31.5%. And I know there's not specificity that we're providing around 2021.

But given those factors, less promotion, fixed cost leverage, private brands, out of hunt, I don't know how to think about where gross margins can go to naturally. And then also in that 29.3% in 2019, is there anything in that that's overstated? Like that is the right base, and that's the comparison you're suggesting, use the 2019 level to think about '21.

Lee J. Belitsky
Executive VP & CFO

Right. I'd look to building off of the 2019 level. I think if you go back several years, the 30s, I think there was just a different mix of business. Our eCommerce business was much smaller back then. And eCommerce, the expenses for eCommerce are concentrated in the gross margin area or the cost of goods sold area. And the SG&A structure is a lot lighter in eCommerce. So over time, as we got up to 16% eCommerce penetration in 2019, we'll be -- as we get into 2021, we'll be well north of that, probably well north of 20% in 2021.

There are just different pressures on the gross margin line versus -- I'm not sure how many years back it was that we were at well north of 30% in the margin rate. But eComm was probably single-digits penetration back then. So I can't say if we'll get back there. There are some things that we are certainly doing better. Our eCommerce business is running much more efficiently than it did when we -- than we first started.

We feel really good about our merchandise mix. It's mixed more toward apparel and footwear over the last several years, which generally have better margins and less towards some of the outdoor categories in hunt, which have lower margins. So I don't want to opine yet on getting back to those old levels. I think it's within reach. It might not be within reach next year, but it's -- we'll probably hit it this year. But -- and we're bullish about the long-term outlook for our gross margins.

Simeon Ari Gutman
Morgan Stanley, Research Division

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Yes. And have you ever said where you think EBIT margins can go? And I'm guessing you probably want to see '21 settle out, too, with all the puts and the takes and where curbside, et cetera. But have you ever shared where that can go? And do you think in the future, you might give a target?

Lee J. Belitsky
Executive VP & CFO

So we haven't given the long-term guidance on that for several years. And we're going to -- we're going to wait for this year to shake out, get our plans finalized for next year. And hopefully, we'll have some more information to give, a little bit longer outlook as we get into the spring.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. And maybe one more -- well, a couple more on this. If you eliminate -- like the promotional environment feels temporarily or temporarily good. Hopefully, some of it stays. But if you remove the promotional environment as a favorable driver, are there other underlying margin trends that are accelerating, whether it's like private label, and I was going to talk about it in a second, eCommerce and curbside. But has anything accelerated and why?

Lee J. Belitsky
Executive VP & CFO

So there are a few things, absent the promotions. One, private label, as you mentioned, is growing faster than the national brands right now. Two, we've got a mix shift really kind of out of this hunting business primarily, which is 1,600 basis points lower in margin, and really more over time into athletic apparel and athletic footwear, which has better margins for us.

We've got the curbside pickup, which is a long-term trend for us as well. We're getting more allocated product from the key brands, which are less susceptible to promotions as well. And I think we're seeing some of the competitive -- some of the competitors out there that tend to lead in promotions are getting less of the product that competes with us. As Nike kind of narrows their wholesale partners and they pull players out like Belk and Dillard's, and Macy's closes stores along the way, and Stein Mart has disappeared. A lot of those guys that were kind of leaders in promotion and kind of all of our opening price point branded product, whether it be Nike or adidas, whoever it may be, but they're products that we sell a lot of in our stores.

We also have better assortments above that, but we sell a lot of the meat and potatoes, and that was always subject to a fair amount of promotion when inventory levels got high across the supply chain. We see probably less of that going forward as well. So I know that's on the promotion side, but I think the brick-and-mortar competition is thinning a bit in the key athletic apparel, athletic footwear space.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. So we're going to drill into eCommerce profitability. And we did get a question from the audience. So first of all, thank you for your participation. It's literally exactly what I was going to ask next: the difference in margin between store sales versus an eComm sale. And Lee, I don't know how you've discussed it. My question would have been in how do you look at the incremental margin? Or do you look at the EBIT margin of each channel? But I can keep it sort of broad discussion to wherever or how you discuss it.

Lee J. Belitsky
Executive VP & CFO

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Right. Lauren, do you want to take this one or shall I?

Lauren R. Hobart
President & Director

I'll start and you can build on it. But generally speaking, the eComm business has gotten significantly more profitable over the years. And that's repeating some of what we've already said, but the significantly stronger merch margin rates, and then the top line growth that has actually been able to leverage some of our fixed costs. So our fixed cost in fulfillment centers, our fixed costs in technology, the partnership we have with FedEx which has been positive in terms of cost per package to ship and then the curbside shift that reduces the need to pay for shipping.

So generally speaking, the stores are incredibly profitable. Obviously, an incremental sale in the store is the best profitability. But we -- curbside is essentially the same. In incremental, curbside sales, almost the same profitability. And the eCommerce business over time has become -- it always was profitable. It's become significantly more profitable.

So that we don't want to fight or force any athlete, we call our customers athletes, to have to pick a channel. Our hope is to be available to them in whatever channel is the right channel for them at that moment. The dual-channel athlete who shops both eComm and brick-and-mortar is, by far, the best athlete in terms of profitability. And so we're very pleased.

Simeon Ari Gutman
Morgan Stanley, Research Division

And then thinking about what could, I guess, shift back next year, is there a way you can continue to incentivize curbside? Are you seeing patterns that the customer is leaning towards curbside continually? What -- and maybe is curbside as big of an unlock as I'm even making it out to be at this point? But can you talk about some of the things that could reverse?

Lauren R. Hobart
President & Director

Yes. I think curbside -- we don't have a crystal ball. We don't know what's going to happen with the consumer and with the virus and all. But we do feel very certain that curbside is here to stay. It's become -- it was originally just a safety driver. It has become a convenience driver. Our OSAT or satisfaction from a curbside order is extremely high. People really value the service.

The picking is happening in typically less than 15 minutes. We promise an hour, but you're usually getting confirmation much quicker than that. And then getting the delivery into the store within -- when you get there into your car within minutes. So we're building -- we believe '21 is going to continue to be a year of growth in curbside.

And when our stores opened, candidly, we expected curbside to really wane, and it kept thriving. I mean it wasn't as big as it was when the stores were closed, obviously, but it kept thriving and growing significantly after the stores are open. So we feel we have tremendous runway still with curbside.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. Okay. I guess related to it, and it's another question that came in from the audience. I think it's a connected topic. If you look at the next 5 years and the continued growth in eCommerce penetration, how do you think about the store footprint, number of stores, size of stores? And why do you think you're well positioned in the long term?

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Lauren R. Hobart
President & Director

Yes. We love the stores right now. We always have loved the stores. But in an omnichannel world, we have over 800 forward points of distribution. They have proven to be incredibly adept at both serving athletes and picking and packing and shipping products. They love the challenge. They're incredibly energized by the amount of sales that are going through the store. And we find when we put inventory in the stores, we get 3 different opportunities to sell it so that we sell it to the in-store athlete. We sell it to the online athlete. We sell it to the curbside, online athlete. And so the inventory is closer to the athlete and typically within a day or 2 of being delivered from an eCommerce standpoint.

So generally speaking, we love the stores. I was asked on our Q3 call whether that means we're going to be exploding the number of stores. And I wouldn't say that, that's the case. We're continuing -- we have about 100 stores every year that come up for renewal, and we're often renegotiating and/or relocating, getting better real estate or reduced rents, and we have new concepts that we'll be growing. But I think store growth will continue, but it's not going to go back to the way it was a few years ago.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. This was partially covered. It was just something that's on my list, thinking about how much eCommerce fulfillment costs may have fallen. I don't know if you've quantified and the answer was somewhat wrapped up in the channel profitability. But is there any quantification or any sense of magnitude of how much eCommerce fulfillment costs have fallen as a result of some of the things that happened during the pandemic?

Lauren R. Hobart
President & Director

Lee, do you want to take that?

Lee J. Belitsky
Executive VP & CFO

Yes. We haven't disclosed that yet, but there are a couple of things that are driving it. One is, we are leveraging our fixed costs much better, particularly in our Conklin distribution center in New York, which we had a significant investment in robotics. We're really driving the much higher volume out of that building than we were in the fall of last year. So that's helping us.

We also changed our shipping providers, our package shipping providers from UPS to Federal Express, middle of the year last year, and we got some favorable costs from that change, which has helped us. And then we've provided our store associates with a lot of new technology, a lot of handheld devices along the way, which really facilitates a much more rapid picking and packing the products in stores. So we are -- we're getting significantly more efficient in our fulfillment operations, both in stores and in distribution centers and with our fulfillment partners.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. One more on the broad topic of eComm and then we'll switch out of eComm. I wanted to ask about the -- a marketplace model. I don't know if we've talked a lot about first party versus third party for you in your category, but curious what your thoughts are. Part of it, underlying premise, too, is there's a lot of advertising dollars that seems -- some of these marketplace models seem to unlock, too. So I was curious on multiple angles in terms of assortment, selection, margins and profit.

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Lee J. Belitsky
Executive VP & CFO

So we've discussed the marketplace pretty significantly. The issue for us is really kind of our technology road map, and we're trying to get our business really fine-tuned and drive the profitability of the core DICK'S business right now. We have the -- our technology resources really dedicated toward that, for at least for the short term. But we're continuing to have discussions about establishing a marketplace for sport. And it's a possibility that we'll get into that in the not-too-distant future, but I wouldn't expect it to be in 2021.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. Okay. We'll transition maybe now to product and brands, and someone who is asking in the audience is almost telepathic here in getting to the next topics. I'll ask this, and then I'll tie it in.

I was going to ask more about private brands. But the question from the audience is, from a brand perspective, how are you thinking about product launches and innovation? What's the rate of innovation and the cadence of that as you can see it versus prior years?

Lauren R. Hobart
President & Director

I'll take that one. Generally speaking, this was a strange year. There was a lot delayed. There is newness coming next year. We are participating in all of it with our partner brands. We're excited about key products, but -- and we have some footwear launches coming up even in the near term, like Yeezy launches and things that will drive some heat. So generally speaking, confident about next year, but we've nothing specific to share.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. My, I guess, follow-up maybe to that is you went through a consolidation of vendors and key partners. Has there been any vis-à-vis -- because of the pandemic and sort of access to consumers any introduction of new brands that weren't interested in selling in DICK'S that may come through? And you could see an expansion or you'll stay disciplined to the core group of brands and products that you sell.

Lauren R. Hobart
President & Director

I do think -- well, we did narrow, to your point, a few years ago to either strategic partners or transactional partners or people that we just didn't need to transact with anymore. And we have elevated our partnerships with top brands. But between that and our ability to really provide a premium experience in the stores in different areas, be it baseball, be it footwear, we are definitely getting access to new brands that we didn't have access to before.

In the running category, a brand like Brooks, obviously, we have had Brooks for some time, but it's just thriving. And then we're bringing in brands like HOKA, which was a brand that didn't -- we didn't used to have access to. And in every key category, we are talking to brands that we didn't have. I mean even if you look at Patagonia in terms of our store, I mean, we've had it for some time, but elevated -- as they get more comfortable, elevated assortments and breadth of distribution there. So that is a key strategy for us, and we'll continue to do it.

Simeon Ari Gutman
Morgan Stanley, Research Division

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Great. So sticking with brands, my question revolves around the private label brands, which I believe are called vertical brands.

Lauren R. Hobart
President & Director

Vertical brand.

Simeon Ari Gutman
Morgan Stanley, Research Division

Right. There's an increased focus from the business, which makes sense. Can you update us on the size of the vertical brand business? What's the goal in terms of size? What's the growth rate, the mix of national versus private, margin uplift? And then I'll save a few follow-ups on that same topic.

Lee J. Belitsky
Executive VP & CFO

Well, in 2019, our vertical brands represented about 14% of our business. And the merchandise margin rates on those runs generally 600 to 800 basis points higher than the national brands in that space. This year, our vertical brands have been significantly outperforming the national brands. And with the third quarter being the best where they performed about 1,000 basis points better from a sales perspective, so north of 30% comps. So they're continuing to gain market share.

Some of that was driven by the fact that we have more control of supply chain. And so we're able to flow some products, particularly in hardlines better than the national brands were. And some of it is the fact we've got some great products, particularly in softlines and golf right now that have been very strong for us this year. And we're excited going forward with some significant new introductions that are coming up for next year that we think will continue to drive that business for us next year and into the future.

Simeon Ari Gutman
Morgan Stanley, Research Division

And the relationship with the vendor, how does that pendulum swing? How is that balance as you continue to push into private brands or vertical brands? Sorry.

Lauren R. Hobart
President & Director

It's not a big point of contention, if that's what you mean. So our partners understand -- I mean they put their product in other retailers. We sell other people's products, including our own. Well, I think it just keeps everyone on their toes. Competition is always a good thing for everybody, for us all to perform in our best. And so it's not a major point of contention. It's -- I think they fully understand our strategy here.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. So look, we have about 10 minutes left. I want to really hone in on you, Lauren, for a few minutes, things strategically. First, I'll just say this. I was at the Analyst Day many years ago, I think, not long after you started when you were running marketing. And I wish you could hear the feedback, but I thought you would -- did a great job back then.

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The first question I wanted to ask is on the service initiative, which was very visible from social media. So thank you for making it a virtual service initiative to see the recognition and feedback mechanism. I think that's been instilled in stores, which in some ways might be even leading or cutting-edge in retail. And I've always -- I've asked you, I think, in 2019, how do you sort of comp the comp and lap that given the great momentum that it's building. So how do you build that sort of culture and continue that momentum at the store level going forward?

Lauren R. Hobart
President & Director

Yes. That's a lot in there, Simeon. Thank you for the -- for those kind words about 2012, I think. But I have been here about 10 years, and I started off in marketing. And Ed and I have been working closely, well, side-by-side for those entire 10 years as I became President several years ago. And the strategies that we put in place are the ones prior to the pandemic that were working for the business. So it was investment in technology and the omnichannel experience. It was a focus on what we call attack categories: so golf, baseball at the time, athletic apparel and footwear.

And then it was this -- the last few years, you're tapping into something that has been very important to us, which is a real focus on people as our biggest asset, and there's really 2 parts of the people. There's our teammates who -- we have 45,000 teammates out there. And what you're referring to on LinkedIn, the dynamic that's come about as we try to build a culture of recognition, a culture of accountability, actually, like really rewarding great behavior, but also holding people accountable for great results has just taken on incredible life in the stores and in the CS -- we call it the CSC, the support center here. But it's just -- it's changed the culture in a really positive way, and it's helped us prioritize what's important.

And the other part of that people is our athletes, the customers who come into our stores. And we have been focused on service for several years now. The more we focus on teammates, the more we focus on athletes. It's just -- there's no doing one without the other. And we've done several initiatives where -- you may see on LinkedIn, we call it going the extra 1% and trying to really engage and delight an athlete who comes into the store. Every single athlete who comes in now, whether they come curbside, whether they come to our sites or comes inside the store is on a mission, and we are here to help them. And so we've had that huge focus.

So as I look forward, I think all those same strategies still apply. I mean we still are going to be a leading omnichannel retailer. We've -- our technology team is contributing in ways that were more back end before and now very visible, both to the consumer and to our teammates in terms of the improvements that they give. So our omnichannel experience gets better. Our focus on people gets better, our -- both teammates and athletes. Our core categories that we're winning before, we believe will continue to win going forward.

So there's every reason for us to think -- and we were doing really well before the pandemic, and then we just did extraordinarily well during the pandemic due to the shifting lifestyle that consumers were trying to get outside. So we're super bullish as we look forward. I'm lucky enough Ed is going to stay as Chief Merchant, so he and I will continue to be a pair. And I'll have his expertise as I take on this new role, which I'm obviously super grateful for.

Simeon Ari Gutman
Morgan Stanley, Research Division

Yes. You kind of touched on it. Do you do anything different than you were doing before? Or this is seamless as a transition as it can be.

Lauren R. Hobart
President & Director

I think -- so Ed and I are very different people, but we've been working together, as I said, closely for 10 years. And the

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strategies that we've put in place have his marks and my marks all over them. So I don't see a shift. I think you've seen what the future is going to look like. It's going to be a focus on people. It's going to be a focus on key growth categories, a focus on premium product and vendor relationships, experiences in the store, omnichannel. Nothing is changing because we really have tapped into -- I think the secret sauce has been a combination of kind of what worked for the last several decades and then this real focus on people.

Simeon Ari Gutman
Morgan Stanley, Research Division

Got it. Okay. So in our last 5 minutes, I'll tee up what I wrote down as a final question, and we'll see how long it takes us. But so this business -- and you've gone through it, Lauren, as you mentioned, it's gone through a pretty sizable repositioning and the couple of choppy years, 3, 4 years ago, 5 years ago in the early stages of IT investments, eCommerce, supply chain and then more recently, some of the vendor consolidation, category changes, digital investments. So curious what the next 5 years look like. Are there bigger bets that you want to make as far as product categories, store fleet, et cetera. So what are -- I guess, I'll leave it open...

Lauren R. Hobart
President & Director

Yes, I'll start, and Lee can dive in. Absolutely. I mean everything I just said still holds true, so in the next 5 years, continuing the investment in technology. I would say going further than what I've said already, focus on data science and personalization. We do have the premier database in news sports. We have over 20 million active ScoreCard users and a much bigger database generally. So that powers a ton of our marketing and a ton of our personalization. I think there's even continued upside there.

Golf is -- we strongly believe that the tailwinds in golf are here to stay. And so we are going to be elevating our golf experience, both across DICK'S and Golf Galaxy meaningfully in the next short term, actually.

We're testing something called ecosystem of the future, which is only 2 locations that will launch. The first one will be in the spring of next year, which will be really experiential destinations. So things like -- we've already put batting cages and golf simulators in our DICK'S stores. This will have a climbing wall. It has a field outside where teams can come practice. It's -- that field will convert to an ice rink. It's in a cold weather location. Incredible -- we have a health and wellness section in the store.

So we continue to test and learn. We have an incredibly entrepreneurial culture, having been a founder-led company all these years. We are -- we still feel very much like a small company in our ability to be very nimble and to try things and be fine if they fail or they succeed. We always learn something. So I do think the EOF, ecosystem of the future, will tell us different things about what kinds of experiences people want in the stores. But it's going to be -- that will be a huge learning for us.

And then the last thing I would say, just from an unlocking of growth standpoint, it sort of came out in our last earnings call, but that we do have a new outdoor concept that we're building called Public Lands. We did say the name, I think. And that, we believe, we actually think that this category -- so this is more of a premium outdoor shop. We think it's very underserved right now, and there's significant opportunities to do -- to serve this athlete better, the outdoor explorer better. And we're talking to new and different brands. We're going to have a much more elevated assortment there, more technical product. But also be available to the urban explorer who -- for whom it's a lifestyle. It's more day trips and outdoor.

So there's so much on our plate right now in a very exciting way. The core will always be focused on the flywheel and getting the core moving. That's the engine that drives the train and all our core categories in there. But specific growth opportunities, we think there's several.

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Simeon Ari Gutman
Morgan Stanley, Research Division

Great. I think, look, you brought us basically within 1 minute, and I could see the clock right behind you too. So it's a good reminder. So I think with that, we will wrap up. Thank you very much, Lauren and Lee, for your time, for your candidness. Congratulations on what you've done in 2020 and all the best through the holiday and into 2021.

Lauren R. Hobart
President & Director

Thank you.

Lee J. Belitsky
Executive VP & CFO

Thank you, Simeon. Thanks for hosting us here today and putting together this great conference for us.

Lauren R. Hobart
President & Director

Appreciate it. Happy holidays, everybody.

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