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DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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Call Participants

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Edward W. Stack
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Lauren R. Hobart
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Lee J. Belitsky
Executive VP & CFO

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Robert Frederick Ohmes
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Presentation

Robert Frederick Ohmes
BofA Securities, Research Division

Good morning, everyone. I'm Robby Ohmes from BofA Global Research. We are very pleased to have Ed Stack, the Chairman and Chief Merchandising Officer of DICK'S Sporting Goods here with us today; as well as President and CEO, Lauren Hobart; and EVP and CFO, Lee Belitsky.

DICK'S Sporting Goods executed incredibly well last year, as I think all of you know. They adjusted really rapidly to the increased demand for things like curbside pickup, but also some of the solitary leisure categories that we've talked about.
I want to remind everybody, we will be taking audience questions, so please put yourself in the queue if you have a question for the DICK'S Sporting Goods management team.

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Question and Answer

Robert Frederick Ohmes
BofA Securities, Research Division

And so I'm going to start off the Q&A fireside chat with Ed. Ed, a year ago, we hosted this conference and -- right in front of the pandemic, and DICK'S Sporting Goods had had great momentum. Your same-store sales in the back half of calendar 2019 were running up 5% to 6%.

Can you kind of remind us how you had built back into that kind of momentum before the pandemic? And then maybe talk a little bit about some of the dynamics that changed during the pandemic last year.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Yes. Sure, Robby. Thanks for having us, and good morning, everybody. Our business has gotten much stronger over the last number of years. We've made a lot of changes to our business from what we've done from an eCommerce standpoint and how aggressively we've done that.

And I think sometimes people forget that our first eCommerce sale was in 1999, and our eCommerce business this year was roughly $2.6 billion, somewhere around there, about 30% of our sales. And we've been at the eCommerce business for a long time, as I said, since 1999.

We've done a number of other things over the last several years that have made real investments in our business, whether that is the space optimization, where we really moved some space around, the hunt business got significantly reduced, that hunt business, and optimized the space into other categories that were much more profitable and growing.

We've continued to evolve our business from what we've done from a footwear standpoint, the investments we made in our premium full-service footwear area, which, with some investments we'll make this year, over 60% of our chain will have that premium full-service footwear in there, which has allowed us to have better allocation of product to serve the consumer better. That's been terrific for our business.

And as we saw what happened in 2020, we were really in a great lane based on -- and being able to make some real changes to our business based on COVID that people wanted to be outside. They wanted to play golf. They needed to work out. They wanted to run. They wanted to walk. And our team did a great job transitioning and chasing product and really managing the business in 2020, with our comps up 9.9% for the year.

And a year ago, right now, everybody in retail was pretty concerned about what would happen. And our team put together a plan and executed that we not only survive going through this pandemic, but actually really thrive and have done a -- just did a great job.

And during this time, we really made a real effort from a community standpoint and with our teammates to care for each other, to make sure that it was a safe environment for our teammates and the athletes we serve that come in and shop. And we invested in our frontline hourly store team and distribution team with hero pay and premium pay programs.

And we took a look at this, and we've always really been involved in -- with kids. And we wanted to -- with our Sports

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Matter program, and COVID really impacted these kids. And especially, kids that live in lower-income communities of color has been more severely impacted.

And so one of the things that we did this year, most of it in the fourth quarter, is we've donated $30 million to our Sports Matter program to make sure that these kids have a place to go and to get back into playing sports because we really think it's so important for these kids to have a place to go, a place where they feel that they belong, where they can be mentored and coached. And so we really think that, that's really important to do. And so we've donated $30 million to the foundation to be able to help these impacted communities.

So all in all, as we look back on 2020, it was a year that, a year ago, we were really very concerned about what was going to happen. Nobody knew the future, what was going to be liquidity. We really focused on the liquidity of our business, which is why we did the convert. And as we look back on, our team did a great job, and you can see that from the performance and the way that we've helped and impacted our communities.

Going to the fact that last week, we held a vaccination clinic in our -- in combination with Allegheny Health Network. We held a vaccination clinic for people in the community, and we had about 6,000 people vaccinated last week. And we're going to do that again, we think, later this week and into next week. And we're -- which was the largest vaccination site in the State of Pennsylvania to date, and we think we can play a real significant role in getting a number of people in our communities vaccinated. So if we can get 6,000 to 10,000 on a weekly basis, we think that makes a real impact.

So all in all, 2020 ended up to be a good year from a business standpoint, but we all know we still have a lot of work to do, not only from how '21 works from a business standpoint, but how to help our communities that have been really impacted by this virus.

Robert Frederick Ohmes
BofA Securities, Research Division

That is great. And I think what you guys said yesterday on your call was that you picked up, I think, 8.5 million new customers.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Right.

Robert Frederick Ohmes
BofA Securities, Research Division

Can you talk a little bit about maybe the demographics of those customers? And are those customers you retain? Why or why not would you retain them?

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

We think we can. I'll let Lauren answer that question, but we're pretty excited about those new customers.

Lauren R. Hobart
President, CEO & Director

Yes, yes. So you're right, Robby. We said yesterday, we got 8.5 million new customers and including 2.5 million in Q4.

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And I think one of the most interesting things about the customers that we acquired last year is that, in general, they skew a little bit more female. So typically, we're pretty balanced, 50-50 men -- male-female.

These -- the new customers skew a little bit more female, a little bit younger. So the under-30 population was increased, which is a very exciting just in terms of long-term growth. And if you look at our core team sports and maybe parents of athletes, that's a nice gap -- or that's a nice generational increase for us with the under-30 crowd.

And then they skew a little bit more urban. So -- and we think we attribute that to the fact that people left the cities and maybe experienced our brand in a new and different way over the course of the last year. So it's very much a long-term strategy of ours to take those new athletes and convert them into future athletes as well. We have an entire campaign on personalized marketing that goes out to them, encourage them to come back. And so we do think there -- we hope that a good chunk of them are here to stay.

Robert Frederick Ohmes
BofA Securities, Research Division

That's great. A question I get all the time is how to think about the strength that you guys saw in big ticket categories in 2020. And a lot of people say, is that a pull forward? And there's just a lot of shifts going on.

Team sports and licensed wasn't so great around the time period we're heading into. Footwear and apparel should be better. Can you help us -- how are you guys thinking about those?

Lauren R. Hobart
President, CEO & Director

Yes. That question is one of the ones that made this year very -- the future year, the year to come, challenging to predict, but we have a lot of hope and optimism that some of these big ticket categories, so fitness, golf, bikes, that really surged during the pandemic when people were trying to get outside that they -- there is momentum. And many of those categories have long-term additions, long-term athletes who have joined.

So you think about the game of golf, for example, which is at all-time highs in participation and rounds played, that doesn't just stop once team sports come back. At least I can speak to my own family and my friends. It's not stopping.

The team sports, we also feel are -- we know are coming back. It's a little bit delayed. Last year was a warmer spring earlier in the season, and so team sports were spiking earlier. I mentioned on the call yesterday that there's this little mini football season that's going on in parts of the country, where they're trying to squeeze in a little football season, which is pushing baseball back. So -- but baseball is coming.

So we're very optimistic that team sports will come back, and that we'll still have a trending golf business. And fitness has been constrained in inventory the entire year. So people have been building home gyms, and it's been hard-to-find inventory. We've all been chasing inventory.

And so I think there's a lot of significant amount of unmet demand in the fitness category as well. And bikes are taking off now. So anyway -- so yes, those are the challenges in trying to predict the year ahead of us because we're comping very unusual gains in most categories, but we have a lot of reason to be optimistic about the year.

Robert Frederick Ohmes
BofA Securities, Research Division

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That's great. And I just bought a set of golf clubs for my son, and they came really fast, and I was really impressed. And a bunch of shirts and shorts came. All -- it was great. So...

Lauren R. Hobart
President, CEO & Director

Thank you, Robby. Thank you for your business. That's awesome.

Robert Frederick Ohmes
BofA Securities, Research Division

We -- I want to shift to -- this is another question that I get all the time, the DICK'S Sporting Goods relationship with Nike and the strategic wholesale partnerships that they talk about and then also with what you guys talk about.

How is that a tailwind for you guys? Is that something that could reduce the normal promotional environment going forward versus what it maybe was historically? Like any color you guys can give on the advantages of that?

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Yes. I can tell you that our relationship with Nike has probably never been better. I think we've put together a business plan between our 2 brands that certainly helps us, and we'd like to think it helps and positions Nike in a great spot. It's only gotten better over the last several years.

And the investments that we've made in sport and the investments we've made from an apparel standpoint, you see, you walk into our stores and virtually every store, we've got a large Nike presence, men's on one side, women's on the other when you first walk into the store. So we have given them the best piece of real estate in our stores. They've responded with an allocation from a sportswear standpoint, both on apparel and footwear. That's been great for both of us and has really helped to drive our business.

And I think that -- we've talked that I think we're just scratching the surface. I think there's a lot more that we can do with Nike, and we think Nike wants to do more business with us and sees kind of what we can provide. And the relationship between us has really never been better.

Robert Frederick Ohmes
BofA Securities, Research Division

That's great. And maybe to continue on that, how does that -- does help with other vendor partners as well? And Ed, you mentioned the premium footwear decks towards the beginning of this session. How much does that help? And could you take full-service footwear decks to all of your stores?

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Well, so we'll have them in about 60%, and that definitely helps with other vendors also. So some of the other vendors that we've added in here, our Brooks business has been great and the allocation of Brooks product, and some New Balance running shoes and lifestyle shoes. And we've got HOKA in a number of shoes, which is just doing great right now.

So all of that -- the investments we've made in our business has really helped the relationships with all of our vendor

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partners, adidas, HOKA, a whole bunch of them. And it's really helped our overall business.

As we take a look at getting this to all of the stores, I think, down the road, we'll have it in many more. But right now, we've got it at 60%. And the reason we don't go longer is some leases are shorter term, so we don't want to make that investment in a store that we may relocate. So there's a number of decisions that need to be made about where we put these full-service footwear decks.

And it's not just should it be in that store, can it support it, but are we going to be in that particular store or are we going to move across the street. There's so much happening in real estate right now, and we think that we -- and we have, Lee and his team, have done a great job from a real estate standpoint of repositioning our stores into new stores, where we get a brand-new prototype store built the -- that the landlord provides all of that for us. And we get into a better location. And in many times, we'll get the same rent or even lower rent when we relocate.

So there's a lot of things going on from a real estate standpoint, which constraints why we would not go to more stores right now. If we've only got 2 years left on a lease or 3 years left on a lease, put that investment in, you got to write it back off or we're going to relocate. But these footwear decks have been really profitable. They've been great for our business. They've helped our online business. It's been great.

Robert Frederick Ohmes
BofA Securities, Research Division

That's great. I want to move over to, I guess, private -- well, vertical brands, I think, is what you guys refer to it. Where do you see vertical brands going longer term? And can you kind of give us even more detail on the VRST? Is that how I say it? The VRST launch and just the -- this move towards the more premium end with your vertical brand offerings.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Yes. And I think from a vertical brand standpoint, we couldn't be more excited about what we've done there, with what we've launched from a DSG standpoint, what we've built from a CALIA standpoint. And VRST is just the next generation on this.

And VRST is -- we don't really think VRST is going to compete with any of the brands that we have today. It's really meant to compete with the vertical brands that are out there that you would traditionally find in the mall and not in -- not going to be really set to compete with our -- with the brands that we do business with today.

But there is -- let's face it. There's some vertical retailers out there that have done some great -- have done a great job in the women's business and are moving into the men's business. And we feel that this is a great way to -- as Lauren said yesterday, there's white space there, and we think we can go after that white space, and we're pretty excited about it.

Robert Frederick Ohmes
BofA Securities, Research Division

And can you maybe remind us what the margin implications of doing more vertical? And any thoughts on what the ultimate penetration of vertical brands could be for you?

Lauren R. Hobart
President, CEO & Director

Yes. I can take that one. The general margin rates for our vertical brands tend to be about 600 to 800 basis points

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higher than our normal margin rates. And your point earlier about how they're doing generally, when we -- we've had tremendous success with our DSG brand. We're really thrilled with that. It was the #1 brand. CALIA is the #2 women's brand in our store behind Nike. And so vertical brands are a big part of our portfolio, and they do generate more margin rate.

Robert Frederick Ohmes
BofA Securities, Research Division

And maybe more broadly, while we're talking about brands in general, can you talk about how you segment the brands? I think that -- Ed, I think, on a different call that you talked about strategic partners, they're kind of you really support them gaining market share within the box every year. And can you talk about how that process works and how you segment driving growth of vertical brands and making sure your strategic partners are gaining share at the same time?

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

So. Yes, we did this a few years ago where we -- which was part of our -- part of the repositioning of the business, if you will, a few years ago, which are paying great dividends right now. We've divided our brands into 3 different buckets. And there were strategic partners that are -- who we kind of talked about, we were going to try to overtly move market share to those strategic partners. And we would only have 1 or 2 strategic partners in a particular category.

And then there would be a second group of vendors that we would be very transactional with. We would buy product from them. They would sell it to us, and kind of however it played out, it played out. But we do business with them, but they weren't strategic in any way. And jump balls would go to our strategic partners.

And then a third bucket was brands that we would no longer do business with, that we eliminated doing business with. And this has really been -- it's really helped us. I think it's one of the reasons why our Nike business is where it is today or our [TaylorMade] business is today, our North Face business.

When we move to these strategic partners, we didn't move to these strategic partners kind of in name only. We really put our muscle behind it to try to drive their business, whether it was with shops that we would do or marketing or training in our stores. And it's worked out great for us, and we continue this practice today. And the brands that are our strategic partners love it, and it's been really good for us.

Robert Frederick Ohmes
BofA Securities, Research Division

That's great. That makes a lot of sense.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

And good for those brands that were our strategic partners, too.

Robert Frederick Ohmes
BofA Securities, Research Division

Another question is I do get asked about the hunt business every once in a while. I think you guys were planning to exit 440 stores in 2020. I think you guys said 260 far.

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Maybe do you view any risk of getting out of that business? Or just maybe walk us -- remind us again how you guys are thinking about exiting hunt.

Lauren R. Hobart
President, CEO & Director

Yes. Robby, you're right. That was the -- that we started the year saying we were going to get out of hunt in 440 doors, and that got paused due to COVID concerns and just different priorities. But we did just complete that exit in 440 doors. So we are -- so we're back on our plan.

To your point of whether we think it's going to hurt us, I think not. It's a relatively low-margin business. We've already made some statements in -- over the years and advocated for some changes in policy that probably already hurt us. It was -- at the time, we lost $250 million in sales when we took our stance on common-sense gun reform.

And so I think, right now, it's just -- we have hunt in stores where there is a really active community, where it's a big part of how families interact. And now we're launching this new outdoor concept, Public Lands, which is for a different outdoors person. And that's where we're putting our efforts to grow.

Robert Frederick Ohmes
BofA Securities, Research Division

That makes sense. And maybe to continue on that. Can you walk us through Public Lands? And then I think you also have the House of Sport concept as well that you've talked about. What -- how are they different? Are the demographics different? What should we -- what are we going to see here?

Lauren R. Hobart
President, CEO & Director

Ed, do you want to take that? Yes.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Yes. Sure. So from a Public Lands standpoint, we are really excited about this, and then I'll get the House of Sport a little bit. But Public Lands, we're really excited about this. And this has been a project we've been working on for about 3 years, so long before COVID-19, and researching this, researching the market, understanding what the total accessible market might possibly be.

And we think there's a real opportunity out there for a different type of an outdoor store that is really focused on the environment and very focused on how we can help that and -- which is why we called it Public Lands. We think our Public Lands are really important.

We need to protect those Public Lands. And we've got 2 stores opening up this year. And the support we've got from the vendor community and the outdoor community, as they take a look at what we're trying to do and how we're going about this, they're pretty excited.

And this is really going to be -- it's going to be a 50,000 square foot concept. We've got one opening up here in Pittsburgh in what was a former Field & Stream store. We've got another one opening up in Columbus, Ohio that was -- will be in a former Field & Stream store. And these are 2 very different consumer groups. That outdoor camping up the mountain consumer versus the hunt shooting consumer are very different.

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So -- but we're really excited about this, and we think there's a real -- there's a void in the marketplace of what we can do here with a younger, more active consumer versus kind of an older consumer that some outdoor brands service today. So we're pretty excited about it. We think it's a pretty fragmented market. And we think we can do with Public Lands what we've been able to do with DICK'S Sporting Goods.

And if people remember, when you and I were a lot younger, Robby, and our hair was a different color, DICK'S Sporting Goods was the little guy on the block. And there was a lot bigger, more entrenched retailers out there. And there is in this community today. And we're really confident with the research we've done over the last 3 years, we think we can do with Public Lands something similar to what we've been able to do with DICK'S.

And if I can just -- you've mentioned House of Sport. The House of Sport is a new concept that we've put together, that has been probably 2.5 years in the making. And the -- I'm not sure I should say this on this call, but I will anyway.

The vision for this, when I first started talking about it and got our team together, and I said, "We need to build the concept store that would put DICK'S Sporting Goods out of business." So this would have to be a store that if it opened up across the street from a DICK'S Sporting Goods, we can't survive. And I think that's what we've done.

This is a very large store. It's 100,000 square feet, which sounds really big, and it is. But when you see the experiences we put in there and the product we put in there and adjacent to the store, we've got a 17,000 square foot field and running track that we will have different clinics on, instruction with it. This is -- I was up there yesterday and walked in, and it's just about ready to open. And I went up there and walked it yesterday with our team.

And I know this is a very -- it's kind of a crazy statement. It's the best store in the world. It is. If you go in and see this place, you'll be in there for a really long time. What we've been able to do with the Nike brand and our footwear department and our golf department and the baseball department and the climbing wall, and it's just -- it's really awesome, and it's historic.

If this store was ever put across the street from a DICK'S Sporting Goods, DICK'S Sporting Goods in its present state couldn't survive. And so the vision we had for it, the mission we had for it has been accomplished. And I'm looking forward to maybe you bringing a few people out to see that stores sometime in April or maybe May.

Robert Frederick Ohmes
BofA Securities, Research Division

That sounds great. I'm looking forward to seeing that store.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

We'd love to host you.

Robert Frederick Ohmes
BofA Securities, Research Division

That would be great. The -- I'm going to pause here because I actually got a question from the audience. So I'm going to -- I'm just -- I'm going to read the question.

Can -- can I -- can you ask them why the seemingly conservatism on the go-forward gross margin, given occupancy

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leverage, vertical brands increasing as a percent of sales, team sports normalizing, hunt becoming less of a mix, apparel normalizing and better eComm profitability given curbside, inventory remains tight? So I think this is -- I just wanted to read it.

Lee, you haven't spoken yet. This might be you, maybe not. But Lee, there are a lot of things going the right direction for your gross margin. And so why not higher guidance on the gross margin outlook?

Lauren R. Hobart
President, CEO & Director

This is a look I'm familiar with. Lee's -- got it, Lee?

Lee J. Belitsky
Executive VP & CFO

Yes. Lauren, I just had to unmute my mic there for a moment. So 2020 was a very unusual year in that for the -- from the second quarter through the fourth quarter, we were virtually promotion free. And due to supply chain constraints, there wasn't much product in the workplace or in the marketplace. So there really weren't many promotions that were being run.

So if you look at our merchandise margins that we ran this year, second, third and fourth quarter, kind of north of 300 basis points over LY. That had a huge impact on our gross margins and our operating margins through the last 3 quarters of the year.

It's difficult to say exactly what will happen in the last 3 quarters of this year. However, we're anticipating that some level of promotions are going to return to the marketplace. We don't have evidence of that yet. The inventories continue to be in good shape across the industry right now.

But when putting together our guidance and looking out there, we're saying that promotions are going to return not all the way back to the 2019 levels, but there will be more of a normalization as we go forward. And that has the single largest impact, and it kind of dwarfs the mix impacts and so on.

Similarly, even though a lot of the big-ticket items played a big role in the outsized comps for us this past year, those also tend to be the items that are most promotional, and we did not have to be promotional in 2020. So the margin rates were much higher in those categories than they typically are, so they really weren't that much of a drag on our overall margin rates.

So if we get later into the year this year, and those sales slow down and if we do have to start to get more promotional on some of those bigger-ticket items, it could have an impact on margin rates, which are contemplated within our guidance.

Robert Frederick Ohmes
BofA Securities, Research Division

That's -- that makes sense, and that's really, really helpful. Let me shift over to sort of an emerging theme. We actually hosted CommerceHub yesterday. It was a great discussion on digital supply chain and how that's changing.

I get a lot of questions on Nike's connected inventory program and how that works with the retailers like DICK's Sporting Goods. What logistically and what kind of impact does it have on a partner like DICK'S Sporting Goods profitability? Any

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color or thought on that would be great.

Lauren R. Hobart
President, CEO & Director

Yes. So we have a very large -- well, relatively large vendor, what we call a Vendor Direct Program, where when athletes come on to our site, we have extended aisle, and our vendor partners deliver direct to the door. It looks like a DICK'S order, and that actually does enable us to light up a lot more inventory online, which is fantastic.

So at this point, that is the extent of our connected inventory, so to speak, is this Vendor Direct Program, but we're always talking to different partners about different models, and we'll continue to do so. But that's the extent of it at this point.

Robert Frederick Ohmes
BofA Securities, Research Division

Got you. Another question was just the -- how do you keep that momentum you have in women's going? I know that's been called out this year, in particular. Maybe a little more detail on how you keep that going and how you elevate the assortment there.

Lauren R. Hobart
President, CEO & Director

Yes. It -- we were -- we've been focused on women, growing the women's business for some time as you said, and that's everything from making sure we have the product for all types of athletes.

We've got 2 female consumers that we think about. We've got the team, the female athlete. And then we've got what we call the athletic female, which maybe is her mom or maybe a bunch of us who work at DICK'S Sporting Goods. And so that's really where the CALIA brand was born, was to fill kind of -- to fill that white space.

But the other part of how we advocate for women -- and I'm sorry, I think you're getting a lot of background. I don't know what -- let me -- the other part is advocating for them to be in sports and to make sure that they have the right access to play sports, which we do through our Sports Matter program, and also that they have the right product for them, so that they have access to footwear and apparel and equipment that's actually meant for girls rather than just a smaller version of the men's shoe, for example.

So we just launched a campaign a couple of days ago that I'm very proud of that actually showcases what we call the women of DICK'S. We have an extensive number of women in our leadership team, and we showcased how we're all working on behalf of women and girls and just the passion that we have to make that better.

So some of it is a brand-building effort going forward. Some of it's product and making sure that we have the right product and availability for girls. And then some of it is access and our Sports Matter program using some of that donation that Ed mentioned, the $30 million.

Robert Frederick Ohmes
BofA Securities, Research Division

That sounds great. Another question that just in general that we're asking a lot of the companies is just maybe an update on inventory availability and port congestion. And the other kind of topic of the day is just the wage outlook and where you guys are and if -- where you see pressures on that.

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Lauren R. Hobart
President, CEO & Director

Yes.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Yes. So I guess I'll take that one. We feel like our inventories right now are in pretty good shape. We have a couple of small pockets of inventory at this point in our stores that are lower than we'd like them to be, but they've got progressively better as we worked our way through the pandemic.

Yes, there are delays at the port. We're not really a just-in-time inventory player, though, so we tend to carry a little bit more safety stock than some other players. So that's helped us get through this as well.

There are some delays in getting containers in China and getting products loaded in China. We're working through that. But the fact that we carry a little bit more inventory has served as a buffer for us.

The costs are a little bit higher, bringing products in as well. But again, we've been able to maintain pretty high retails right now and not had to be promotional, so we've been able to cover those costs by not being promotional at this point.

So overall, it's definitely an issue out there. We've got some more buffer on our inventory, so it hasn't impacted us significantly. There are areas where we would have liked, in the third and fourth quarter, particularly, to have been in a better inventory position, but it was more of an issue that the manufacturers just weren't making enough as opposed to we couldn't get it here once it was made. So that's on inventory.

Do you have a second question?

Robert Frederick Ohmes
BofA Securities, Research Division

Yes. Just wages..

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Wages, yes.

Robert Frederick Ohmes
BofA Securities, Research Division

Just remind us how you're thinking about the outlook there.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Yes. On wages, we've done quite a bit with wages over the last couple of years to increase our hourly wages. We're looking to be really competitive in the marketplace and get the right kind of people that can help our athletes when they

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come into the store. So we've increased our wages pretty significantly.

Last year, we were paying what we call the hero pay or premium pay at 15%. We have folded most of that into kind of permanent wage increases really as of the end of January going into February. So a good -- a significant part of that expense that we had last year is carrying into this year, but we feel like we're in a good place from a competitive wage rate perspective right now. And it can compete effectively with the better retailers that are out there for talent.

Robert Frederick Ohmes
BofA Securities, Research Division

That's great. And then another one is just a lot of questions a bit about how the outerwear season has played out this year. And it sounded like it started weak, but it since recovered. Any kind of thoughts on how outerwear has played out this year?

Lauren R. Hobart
President, CEO & Director

Yes. You're absolutely right. It did start off warm and weak, but throughout the course of Q4, it balanced out. And we're actually -- we were very pleased with our outerwear business. We're ending the year extremely clean from an inventory standpoint in outerwear. And you never know when it's going to get cold, but we did have a very cold January. So over the course of the quarter, it was a good business.

Robert Frederick Ohmes
BofA Securities, Research Division

And then I think this question might be -- we -- I think it was a great question from the audience on sort of just the gross margin outlook for kind of 2021. But maybe for Lee, can you talk about sort of the long-term margin opportunities for DICK'S Sporting Goods?

Is a high single-digit EBIT margin attainable in a normal year for DICK'S Sporting Goods? And what would it take to get back to that kind of level from a gross margin and expense leverage standpoint?

Lee J. Belitsky
Executive VP & CFO

Well, the midpoint of our guidance this year is around the 6% pretax margin, which is up above the 5% that we had back in 2019. If you get toward the high end of the guidance, we're meaningfully north of 6%, and our high point was a little over 9% a number of years ago. So we do have opportunities to improve pretty meaningfully off of the 6%.

As we look forward, I believe we can get a lot more granular on our marketing programs, as we focus on data science and one-to-one communications to kind of minimize promotions but make them more effective for those athletes that need the promotions. We think we can bring the long-term promotional levels down.

We are working with our clearance. There's some clearance concept we have right now to help us more cost effectively work through clearance inventory. It worked pretty well this past year. We're still working on that to help on the merchandise margin side.

We're continuing to get more leverage over our occupancy expenses, both in stores, and lever our eCommerce fulfillment occupancy as well so we can continue to drive that.

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We really haven't scratched the surface yet, I'd say, on SG&A expenses going forward. We've been in sort of a continuous investment cycle right now in technology and building our people and so on. I believe we're going to start to unlock some opportunities there as well, although we do see continued, at least in the short term, over the next couple of years, continued wage inflation pressures on that line. So I think it's meaningful room above the 6 or low 6s operating margin to get us into high single digits.

Robert Frederick Ohmes
BofA Securities, Research Division

That's great. Ed, I think you piqued the audience's interest on the House of Sports because we got a question. They want to know how you're thinking about the profitability of that box versus a typical DICK'S Sporting Goods store.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

So I think it will be at least as profitable. So understand that this is not -- we're testing this. We're actually testing 2 of them, one here and one in Knoxville, Tennessee, I think, in a previous Sears box. But this is not something that we're doing just for show. This is something that we think is going to be extremely profitable, and we're really excited about this.

And I wouldn't worry about the profitability here. Sales volume here is going to be -- we suspect it's going to be really quite high. The service component will be very high. But the product -- and one of the things we've been able to do with different brands that we're carrying now is we've really differentiated ourselves from others in the sporting goods business, which is why we call this House of Sport.

And so it's a slightly different name. There's different brands in here that we don't have in some of the other -- in the other stores. And we think the profitability is going to be really terrific here. So this is -- I wouldn't -- we're not worried about the profitability, and I don't think anybody else should.

Lee J. Belitsky
Executive VP & CFO

And one other thing, just to add to Ed's answer is there are many things that we're testing within the store as well. And there may be some items that we say, "Hey, this enlarged golf department with extra experiences within golf, maybe we can focus into more DICK'S stores that exist already or maybe some of the new product assortments we have are really going to keep going and take off, and we'll figure out how to fit them into DICK'S."

So there's a lot of test going on within the store that could be transferable into hundreds of DICK'S stores as well, in addition to just building out the House of Sports. So it gives us a lot of opportunity.

Robert Frederick Ohmes
BofA Securities, Research Division

This sounds great. I'm very excited to see this store. I think the last -- we're running out of time. We've got 40 seconds left.

But just capital allocation priorities. You guys have so much cash. I know people want to just be reminded what the priorities are now.

Lee J. Belitsky

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Executive VP & CFO

Sure. And we definitely have a lot of cash. And some of that was -- came from that $500 million that we raised in the convert. We also have some timing differences in there around working capital. We threw off about $450 million of cash from better year working capital utilization in inventory and accounts payable.

Some of that, we're going to give back this year. We're not going to turn as fast in the coming year as we did this past year, where we were just chasing inventory all year. So $1.7 billion is a lot of money, so -- but some has to be reinvested in working capital.

Beyond that, we're going to continue to invest in the business. We have some capital projects that we deferred from last year. Getting the last 240 stores done in the hunt departments are underway here in the first quarter. We're going to invest in TrackMan technology across the Golf Galaxy chain. We were planning to do that last year, but we delayed that. That's coming into this year. We've got another 100 footwear departments -- premium full-service footwear departments coming in.

So the CapEx is going to be in the $275 million to $300 million range, up $100 million year-over-year. And so we have some investing to do in the business. We've increased our dividend from $1.25 a share annualized to $1.45. We're investing there.

And we're going to go back into the market and buy back shares. We set a floor of $200 million, but we could go -- we say that's a floor, so we could go meaningfully higher than that.

We continue to scour the market for M&A opportunities, but we have been doing that for several years, and we haven't bought anybody meaningful in the last few years. But if the right opportunity comes along, we'd be open to it. But we are going to be very selective in that space.

Robert Frederick Ohmes
BofA Securities, Research Division

That's great. We are out of time. This has been fantastic. I really appreciate you guys joining our conference today.

Lauren R. Hobart
President, CEO & Director

Thank you, Robby.

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Thanks.

Lauren R. Hobart
President, CEO & Director

We appreciate it.

Lee J. Belitsky
Executive VP & CFO

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Thank you.

Lauren R. Hobart
*President, CEO & Director*Bye, everybody.

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