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DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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Call Participants

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President, CEO & Director

Navdeep Gupta
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Simeon Ari Gutman
Morgan Stanley, Research Division

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Presentation

Simeon Ari Gutman
Morgan Stanley, Research Division

Good morning, everyone. I hope you're doing well. My name is Simeon Gutman, Morgan Stanley's hardline, broadline and food retail analyst. It's a pleasure to kick off this conference, our Morgan Stanley Global Consumer Retail Conference. Pleasure to be joined with DICK'S Sporting Goods management, represented by President and CEO, Lauren Hobart; and Chief Financial Officer, Navdeep Gupta.

I want to read a quick disclosure, and then we'll get right into the discussion. 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.

Quick intro on DICK'S, and we'll get into the questions. This has become a now a battle ground stock, which is maybe expected, maybe not. This has been one of the biggest winners during the COVID period. And yet the multiple of this business really hasn't changed, which tells us that the market is still worried about retention and potential reversion in '22 and beyond.
So it's a good timely discussion. This business has been transformed. Lauren has been at the helm of this transformation for a number of years. And I think we'll get into the discussion of why this business is different and change post-COVID.

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Question and Answer

Simeon Ari Gutman
Morgan Stanley, Research Division

Lauren, I'll start by asking you as a segue into this conversation, why is DICK's a better company post-COVID?

Lauren R. Hobart
President, CEO & Director

Thanks, Simeon. And my lawyers are telling me I have to share that we have our safe harbor statement on your webcast, so you can all look at that at any time. But thank you for having us. We are -- we're really pleased to be here. We're very, very proud of our recent results. And I want to -- I do want to put them in some context.

So last week, we announced a 12.2% comp on top of a 23.2% comp the year prior, and a 6% comp the year prior to that. And from a profitability standpoint, we were up $3.19 -- EPS was $3.19, which was up 59% to last year and 513% to 2 years ago. So I say that just to say just how meaningfully different our business is, just if you look at the numbers.

But if you look at every aspect of our business, I'll be honest with you, I think we are a completely different company than we were back in 2017 when we started on this transformational journey. And that's everything from the merchandise that we carry is highly differentiated now. We've been working on that partnership with our strategic vendors, so that we are carrying sort of higher heat product and product that is more differentiated.

We've completely focused on service in the stores as well as experience in the store. So even back in 2017, we were bringing in HitTrax batting cages, and we had our golf simulators. We've been focusing on technology, and that -- bringing that all in-house enabled us to spin up curbside during the pandemic so that we could seize all that momentum.

And then also, we've been focusing on people and culture and putting what we call the athlete as the customer, I'm putting the athlete in the teammate, who's our employee, at the center of everything we do.

So if you look at it now, we did have some tailwinds during COVID. Very happy to say that we had some luck with people wanting to be outside. It didn't start off great, but it ended up with a lot of surging categories such as golf and outdoor and bikes and running. But we now believe we have meaningfully -- we know we have meaningfully rebaselined every single one of our key categories well above pre-pandemic levels.

And then at the same time, we've improved our margin and our profitability significantly both because of significant increase in merch margin as well as the improvement in our eCommerce profitability and the flow-through from all of that higher sales to operating leverage and a whole bunch of other things. So that was a very long-winded answer, but I just wanted to -- I'll sum up by saying we are a completely different company than we were back in 2017, and the pandemic has only helped us accelerate that transformation.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. Thanks. I think -- so this is a good segue. I respect that we're not going to talk about '22 guidance specific. And so my questions will be to try to look at some of the drivers and tailwinds that have occurred through COVID, sales and margin, so that we can try to understand some clues to how to predict how some of these things will evolve next year.

So I'll start on the demand side. During COVID, there was robust demand, and I use these pretty often, bicycles, fitness equipment, treadmills and kayaks. Maybe those are the poster children of tailwinds.

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Lauren R. Hobart
President, CEO & Director

I guess.

Simeon Ari Gutman
Morgan Stanley, Research Division

Fair enough. So what's happening in those categories? And the perception is that those -- that business -- those categories were up thousands of percent. And even though they may not be a big piece of the business, they're going to be down thousands of percent going forward. So how does that normalize as we think about the reversion of the retention?

Lauren R. Hobart
President, CEO & Director

Yes. I think it's such a pivotal question, and I appreciate you asking it because I do think the way to look at these surging categories is at a time when team sports and athletic apparel and footwear and people weren't leaving the house and all of these things were challenged. I mean, team sports basically stopped in the middle of pandemic. And that's a huge part of our business at that time.

These surging categories that you mentioned, and I would add fishing to the list, and even people were running and walking and all that. People started to want to be outside. And certainly, the surge helped us offset the decline in team sports.

But what's happened now is that people are retaining that active lifestyle. So you look at the golf business in particular, sure. It may be up or down depending on any given week versus where it was last year. But it is so meaningfully bigger than it was in 2019, and that's true of many of these key categories.

At the same time, team sports has come back huge -- I mean, like huge than ever before. We had a huge initiative on baseball. We had a big initiative behind soccer. Even football is coming back somehow. So really great momentum in our core businesses.

Athletic apparel and footwear, we've completely changed the trajectory of our business because of our partnerships with our major partners and the fact that we have this differentiated product and our own vertical brands, be it VRST or CALIA. So I know we're not going to guide to '22, but I think you can hopefully tell, we feel really, really bullish about the business at a whole compared to where it was pre-pandemic. It is meaningfully higher.

And a lot of those categories that are having maybe some ups and downs are smaller categories for us. So it's more important to us that we're gaining share in footwear, apparel, team sports and golf.

Simeon Ari Gutman
Morgan Stanley, Research Division

So maybe to close the door on those poster children of COVID, and you mentioned you added fishing to it. Have you been surprised at the durability or the continuation of the strength in those categories? Or look, those are going to revert, but you're saying we're not worried because they're reverting at a reasonable pace, and we see so much other good happening that it's not a concern.

Lauren R. Hobart
President, CEO & Director

Yes. I think some of them will revert, and even those will be rebaselined higher than the 2019 levels, and you might see that. And people don't buy bikes 100 times if they bought them last year, there might be -- those kinds of categories. But fundamentally, the golf business remains really strong, and that's a key business for us. And the other categories that are rebaselining and coming back down slightly are just small categories for us and just -- and aren't driving the business. The thing that's driving the business now is the return of team sports, footwear, athletic apparel and all of the progress we've made in those categories.

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Navdeep Gupta
Executive VP & CFO

Simeon, if I may, I think the other thing that gives us a lot of enthusiasm and encouragement is the fact that while these categories were surging in COVID time frame, we acquired a lot of new athletes. That found us, that when they were looking for these like fitness equipment, they're looking for bikes and nothing was available, they came to our stores. They came to our website and found us.

So we acquired 8.5 million athletes last year, and we have consistently acquired 2 million new athletes this year. So for us, the opportunity -- yes, those categories will baseline, but they will continue to be probably baselining higher than where they were in 2019. The big win for us also is the fact that we acquired all of these new athletes that are more young. They're younger, they're female, they are oriented as well as they are more suburban and urban customers that we have realized that we now have an opportunity to go and kind of address their needs in a much more holistic way than just the narrower category that they began their interaction with.

Simeon Ari Gutman
Morgan Stanley, Research Division

Can I -- I want to ask about the word baselining because I think both of you have used it a couple of times, and it definitely resonates. But when I hear baselining, right, the water level has been lifted up. But you mentioned, Lauren, some of these durable categories, you're not going to buy a bike 5 times. So what is the relevance, I guess, of baselining in that? Or are you saying the baseline of people who are just being more active has gone up and then that should continue?

Navdeep Gupta
Executive VP & CFO

Yes, I think it's the latter, that the overall size of the pie has grown as you size the industry. How the number of people that are remaining active, the number of people that are -- that the lifestyle itself has changed, right, compared to where 2019 was. And I think about the casualization of the workforce, right, how the hybrid environment of the going to office has worked or remote working.

I think those are the other areas where the behaviors are -- have changed since 2019. And those behaviors are continuing to stack. We thought golf would be one area that if then the kids go back to school, we see a reversion in that. We didn't see a reversion. We were actually enthusiastic about the golf trend that we have seen all throughout this year. Those are the kind of the nuggets of information that we look for, and we continue to remain very optimistic.

Simeon Ari Gutman
Morgan Stanley, Research Division

I want to go back to team sports, apparel footwear in a second. But Navdeep, you mentioned 8.5 million new athletes. The run rate was 2 million. Can you talk about the overall base? How that compares to what's the overall base of loyal athletes?

Lauren R. Hobart
President, CEO & Director

Yes.

Navdeep Gupta
Executive VP & CFO

Yes. No, no, go ahead.

Lauren R. Hobart
President, CEO & Director

Oh, all right. Well, so from a ScoreCard member standpoint, we've got well over 20 million active ScoreCard members in our database, but we also have well over 30 million identifiable athletes that we

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can communicate to, even if they're not in the ScoreCard program. And our entire database, including anyone who's ever transacted at DICK'S, is over 140 million people. So it's massive. And as we've gained these new customers, so it's been -- the run rate has been about 2 million a quarter this year. So far, we've been just under 6 million new athletes and last year, 8.5 million. We are working on retaining them, obviously, and creating even more engagement through the membership cycle, so that we get that active ScoreCard member up even more.

Simeon Ari Gutman
Morgan Stanley, Research Division

And sorry, the active ScoreCard member is around 20 million total. Is that right?

Lauren R. Hobart
President, CEO & Director

Significantly more than 20 million.

Simeon Ari Gutman
Morgan Stanley, Research Division

Right. And in theory, if you've added, I had 8.5 million and you said 6.5 million, you've added almost 50% to that number over COVID or am I exaggerating?

Lauren R. Hobart
President, CEO & Director

There's always some -- that number has grown significantly but there's always some trade-off. And because the way we're very conservative with how we consider an active athlete. So they have to have purchased in the last 12 months. That's why that bigger database is 140 million. It's like those are legitimately customers that could be reactivated. So ScoreCard database is at an all-time high as is our active athlete database. But it's not -- but those numbers just go in. There's always some churn going on in terms of people not having purchased in the last year.

Simeon Ari Gutman
Morgan Stanley, Research Division

And how confident or how excited are you about having this bigger database? Are you able to activate or I don't want to say, activate the active customers. But are you able to have better visibility and have your fingers on the controls having this information now?

Lauren R. Hobart
President, CEO & Director

Yes, totally. And I would say I think our database is honestly the best -- I don't -- I'd say this because our partners say. But it is the best database in youth sports. We absolutely have a muscle to activate it, to personalize it, to promote. When we communicate with people, it's different based on what their category purchases and preferences are. So it's a huge asset. It's actually the driver of our entire marketing engine is our database. That's how we find customers, it's how we find localized customers, and it's a tremendous asset.

Simeon Ari Gutman
Morgan Stanley, Research Division

And going back now to team sports, apparel and footwear. Respectful that I don't think you quantify all these categories. We have some disclosure. Can you give us a sense, I don't know, directionally putting all those together so we could be imprecise. How big or how meaningful they are? And the onus will be on these categories, it appears to be because to your point, some of those heavy durables probably don't repeat at the same rate. So anything more you can share around team sports and then as well as apparel footwear. And then I'll kind of wrap up the top line with one more question.

Lauren R. Hobart

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President, CEO & Director

I want to clarify one thing because you've mentioned the comment I made about bikes and not buying every year. Even that category, because of what Navdeep said, that people are just more active and have developed new habits, if you look versus pre-pandemic is meaningfully rebaselined. If you look at team sports, and I won't give you specifics, but baseball is, I believe -- we've said baseball is our biggest team sport by far, just due to the fact that there's so much equipment and gear that people have to buy. And that is not a category that suffers in any way from what you just said, which is if you bought it last year, you don't need it again.

I mean we're seeing prepandemic, we were seeing incredible gains in that category, post pandemic. And without a bat change that we thought 2 years ago, there was a bat change rule that everybody had to buy a new bat, and that drove some business. The baseball business is incredibly strong.

And the next one that we're really excited about is the soccer business where we've totally elevated our assortment, and we're selling cleats, $279 cleats that we used to think were -- was really rarified air that would be something very few people would buy. It's actually become a very attractive item for us, and we keep growing our soccer shops as well. So anything you would add about that, Navdeep?

Navdeep Gupta
Executive VP & CFO

No, no. I think that, Lauren, you hit on most of the points that I was thinking. So I think to zoom in, I would say that we don't break it out a little bit of purpose as well, that we want to make sure that we keep this information a little bit protected. What we are really enthusiastic about, as Lauren called out, is the portfolio.

So we look at it as a portfolio. We look at it as these different businesses and different segments, but to what has become really apparent to us is we have a very strong portfolio of products. That if some of them do -- are impacted one way or the other, like license business last year was impacted, but we saw huge gains coming out of the license business.

Last year, team sports was unfairly impacted. We are seeing a huge resurgence of the team [floor]. And that's the approach that we'd really like, that we have a good portfolio of products that -- and we are leaders in all of these portfolios. So golf, we are the leader in golf. Like team sports like Lauren called it, there's nobody else that provides that level of service, the access as well as kind of the experience that you can experience in a store like us. So that's the other aspect that we really pay attention to. Not only do we want to be a leader in that sport, we want to do it really well.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. So to maybe put a bow on the top line, I'll make last question, it will have 2 parts. What, on a normal year, do you expect the category to which you play in, should it grow at? If you put all the categories that are relevant to you, what is that growth rate?

And then the $60,000-question is digestion or do we keep compounding based on the baseline we have? Just broadly speaking. I know it's a little bit projecting into '22, but how do you kind of put those 2 questions together? Because if the industry grows, for example, 4%. Is that what we should expect if we rebaselined or should we have some reversion given what's happened?

Navdeep Gupta
Executive VP & CFO

Yes. Simeon, I'll take this, and Lauren, feel free to chime in. So I don't know. So the way I'm looking at it is like the historical trend, the 4% number that you use is exactly where my head was at. That the industry used to grow somewhere in the 3% to 5% range very predictably. Now in 2019 to 2021, that definitely the industry has grown at a much faster clip than that. So the first part of the reversion is going to be okay, are we going to see leveling back to that 3% to 5%? That's one question.

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The other question, which I think is very reasonable to say that the industry cannot continue to grow at 6% or 7%, that we think it has grown in the last 2 years. That will revert back to that 3% to 5% growth. The bigger question is what happens in the near term, the share of wallet? Something that you and your firm have written so much about. And to me, that's the big question that we all are trying to make sure that we understand. What does inflation mean to the athlete? What does share of wallet shift mean to the athlete?

Having said all of that, I think so what is different to us is the fact that the access that we have gotten on some of the high heat product, whether it is footwear, the apparel launches that we have done with our own vertical brands. We feel that we will be able to withstand some of these things much better because of the access, because of the size of our category. Our size of our business and the categories that we play in as well as the permanency of some of these behavior changes will not go back to where things used to in 2019. I don't know, Lauren, if you will add.

Lauren R. Hobart
President, CEO & Director

I'll leave it at that.

Simeon Ari Gutman
Morgan Stanley, Research Division

Maybe one follow-up and then completely done. Navdeep, you mentioned wallet share, which we've spent a lot of time thinking about. The other side is market share. And I think all the points that you've made is that you're a stronger company, you have better brand alliances. You've won the receptivity of your customer because of curbside, better service, and you were there for them during the pandemic. How -- why shouldn't your market share, relative to industry growth, be permanently higher going forward? Why shouldn't it be? And should that spread even widen?

Navdeep Gupta
Executive VP & CFO

Well, we internally believe that the market share gains that we have made are differentiated market share gains, right? The industry is doing well, but we have done definitely much better than the industry. Whether it is athletic apparel, whether it is footwear, whether it's golf, team sports, we have gained share consistently. And to answer your question, yes, we internally believe we can continue to not only keep these shares, but actually continue to build on them -- on these shares even going into the future.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. That's great. So we're going to move on to margin. I used for sales, I called it the $60,000-question, the reversion or compounding. I'll call this the mid-teens multiple questions, and we'll talk about gross margin because your gross margin has rerated, almost as profoundly as any company in our coverage, among the highest. And I think this is what the seesaw is sitting on of the market, the decision of how to revalue or not DICK'S Sporting Goods. So we -- the margin's up, call it, 600 to 1,000 basis points, 600 to 1,000 depending on the quarter. How do we think about it? What do we retain versus not? I'll just leave it open ended.

Lauren R. Hobart
President, CEO & Director

I think this is the -- in some ways, the easiest one to explain and understand because some of it's just math. So -- but where it's more science. So the -- or I should say, the product that we have that we've been talking about that is more differentiated is not product that typically gets caught up in a promotional cycle. So certainly, we believe that our margin is permanently improved, and the majority of that margin gain will continue. At the same time, we have moved to totally digital advertising where we used to have 16 pages of newspaper circulars. So we can be much more, much more focused on real-time data science-driven promotion and pricing.

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We have -- what am I forgetting? What's our third one? Oh yes, sorry, I forgot, of course, eCommerce profitability. And then also the reason I was saying it was all math is that the operating leverage that we have from those higher sales that we just talked about, the rebaselining of the sales, have made the eCommerce business incredibly profitable and all the operating leverage that we get out of the rent expense. So overall, I agree with you. I mean, I think we are -- it's clear to see that the operating margin is higher than it was pre-pandemic, and there are structural reasons for that.

Simeon Ari Gutman
Morgan Stanley, Research Division

So let me -- I just try to put some more math on to it. And I'll just use this for simplicity's sake. Let's just say the gross margin is rebased by 10 points or 1,000 basis points. I do remember post-2019, the exit of the hunting and some of the low margin, we were thinking that was probably worth 100 basis points by itself. We've talked a little bit about -- and I'm making those up, but you can correct me in whatever framework. Use of promotions and the circular, and we've talked about that. I don't know, couldn't put a number to it, but it sounds like it's pretty material.

Occupancy leverage in the gross margin line, that's been worth 200 to 300 basis points. Those items that I mentioned there may be worth, call it, 2/3 of that big 10% improvement right there. And I believe the rest of it is the lack of markdowns and promotions. I don't know if you would be comfortable putting some more numbers to it.

But we're trying to gauge like what is -- there's going to be some flexibility in there, some vulnerability and what that -- it may not be 500 basis points, which the market may be thinking. It may be 100 or 200 basis points, and I think that could be the misperception. So anything that you could share around that would be helpful.

Navdeep Gupta
Executive VP & CFO

Yes. And that's, Simeon, I think that's a fantastic question, a little bit leads into kind of like the '22, right? How do we think about '22? Because the biggest piece that we are watching for is the normalization of the promotional environment. The lack of promotion has been something that has aided this improvement in the margins as well. To us, when that happens and how much that would be is a little bit out of our control as well.

So the 2 reasons I say they're out of control is, one, the supply chain has not normalized. The inventory availability in the marketplace today is still constrained. And the function of the lack of promotion is also a little bit driven by that. There is lack of availability in the marketplace. We feel really strong about our availability, but the general marketplace is constrained. So that's one unknown.

The other unknown is, if you look at the brands have started to segment their product even further. And so they are moving away from some of these undifferentiated retailers that used to lead the promotions. So I think so there's a kind of an industry-wide phenomenon that will be -- that we are watching for to say that, okay, what does that mean that if the product is not available in the channels in the mass merchants that used to kind of lead promotions, what does that mean? And quite frankly, the brands have seen that level of benefit themselves in the last couple of years based on this kind of the narrowing of the distribution. And so that will also kind of help as we think about the story into '22.

Simeon Ari Gutman
Morgan Stanley, Research Division

But do you see that coming? Meaning we're going to get back to what it feels like a normal inventory cycle. Demand will probably subside a little. It won't be voracious the way you described it. It will be normalized. And then we'll see that creep back in. The question is whether or not the 500 basis point swing is inherent in your gross margin or you're saying, "No, we don't think we're going to see those types of swings anymore."

Navdeep Gupta

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Executive VP & CFO

I -- we feel like 500 is going to be -- I don't know, I'm putting a number to it, but I believe that it won't be as promotional as it used to be back in 2019. Just the industry dynamics have changed significantly than where the business used to be in 2019. And that is not just how we think about the business. As I think about the industry overall, the promotional intensity in our industry is going to come down with just the narrowing of the brand distribution as well as the elevated supply chain expenses that I don't believe that the promotion is going to come back in the same way that it was in 2019.

Simeon Ari Gutman
Morgan Stanley, Research Division

And do you have any expectation of when in -- when promotions will come back? Or is there any changes? We're starting to hear some enter in some of the categories in which we cover.

Navdeep Gupta
Executive VP & CFO

Yes. I would say it probably will come back in some of the categories like fitness and other where the inventory has built up, and you are starting to see some of those messaging come up. But as I think about the broader industry, like in terms of footwear and apparel, I think so we are going to be in a little bit constrained environment all the way up until middle of next year when the supply chain will start to normalize. So probably the back half of next year is kind of the earliest expectation. But like you know, right, there's no crystal ball to these type of things.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. Okay. So we have about 6 minutes. There is a webcast that has Q&A. I haven't seen any come in. I'm probably going to use the rest of the time. Just to set it up, I want to talk about cost, SG&A, and then we'll maybe talk about initiatives around continued transformation and then lastly, capital allocation.

So back to SG&A, you -- given the success you've been front-footed as far as investing back into people. You've had a service initiative that dates back to pre-COVID, which was quite timely. So where do you stand in the SG&A picture? Do you feel like you're competitive enough? Given how dynamic this environment is, everyone now seems to be raising wages, and it's up the ante even more. So just around that topic and how controlled SG&A can be. I don't want to talk about supply chain within the SG&A, but anything else within that framework.

Navdeep Gupta
Executive VP & CFO

No. I think before I talk about cost of an hour or wage rate, I think so the work that Lauren has led and what you alluded to, the way we took care of our people, through COVID and even leading -- like before COVID, I think has created a very strong culture and a morale within the organization. We have become an employer of the choice. I know this was a big question that everybody, retailer and quick -- QSRs are talking about, right? Can you find the worker? What we are finding is we have not only been able to find good worker, our retention is really good, and as well as our engagement within the store is really high.

So that is something that we are really, really proud. Yes, as I think about -- from an SG&A and the trend perspective, labor costs will continue to go higher, and we'll have to continue to play in that. Not because that -- could we find a talent differently? Yes, we can. But the experience that we want to create within our store, we want it to be differentiated. So we'll continue to pay what is the right level of wages within our store to be able to attract that talent and provide the right level of service to the athletes.

In terms of managing our overall SG&A. First of all, we have managed the SG&A really well for the last couple of years. And like we launched this productivity initiative internally. We call that as fund our future. That has been existence for almost about 3-plus years now.

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And we have gone detailed into not just what the area of optimization of the demand trends could be, but where we could optimize our cost structure. And that's a continuous improvement work that we will continue to do into. What that is allowing us to do is to create a more flexible structure. The technology investment that Lauren talked about, we look very deeply into technology, not just for the athlete-facing capabilities. We look at technology from a people-facing as well as team member-facing capabilities as well. And there's a good cadence of making those investments, understanding what returns we should be getting and then coming back and saying, "Are we really seeing those returns within the cost structure of the company?"

So we feel we have a really good muscle in managing the SG&A really well. And with the sales baselining significantly higher, the ability to us to leverage those fixed expenses is really great.

Simeon Ari Gutman
Morgan Stanley, Research Division

So in speed-dating style, around transformation that's left for DICK'S, and I'd be remiss not to mention the, I guess, historic partnership with Nike that was just announced. I was -- the bigger question is sort of what's left for you to do? What are the big strategic initiatives to -- you'll never be complete in this environment of changing. But what's left? And how does the Nike piece fit in? And then hopefully, we have time for capital allocation.

Lauren R. Hobart
President, CEO & Director

Yes. I mean in terms of what's next, we're going to continue to invest in the business to really accelerate all of the strategies that we've talked about. So that's going to be continuing to develop omnichannel capabilities to make things even easier when people do curbside pickup or buy online, pick up in store. We're investing in our stores meaningfully, and we're going to continue to invest in some of our new concepts. So House of Sport, which is this 100,000-square foot experiential amazing experience in Knoxville or Rochester. If anyone's nearby, go check it out, or Public Lands, our new outdoor concept.

So I don't think there's going to be a moment where we just say, "Okay, we're done, and we're not investing anymore at all," because we're going to always -- the puck keeps moving, and we got to keep optimizing and improving. Separately, the Nike partnership, we are very, very excited about it. And just for anyone's benefit who doesn't know what it is, we now have connected the DICK'S ScoreCard membership and the Nike membership through the DICK'S app. So if you're in the DICK's app and you connect your membership to Nike, it unlocks all kinds of exclusive product that we didn't use to have access to as well as content and even experiences. We've had athletes come and visit those combined members.

So that is going to be a big part of our growth story with Nike. The 2 of us are partnering in ways that are meaningfully different, better for the consumer and also opens up a ton of new product for our consumer that we -- even when we had better and better assortment, these are like high heat, really desirable products.

Simeon Ari Gutman
Morgan Stanley, Research Division

And then in the last 30 seconds, you paid a dividend. You could have done more [all] buyback. What are we going to see going forward with this cash heap and continual massive generation of cash being generated?

Navdeep Gupta
Executive VP & CFO

Well, I appreciate the cash heap as well as the cash flow generation comment. Simeon, I think we'll continue to do what we have done. We will continue to look to return the excess cash appropriately to the shareholders, but that is through the normal dividend policy that we have pursued for since we went public, and we'll continue to buy back shares.

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I feel the immediate areas where we'll be deploying cash, in addition to like the capital investment Lauren talked about, is the working capital. We feel like the -- while the flow of the product has been great, our inventory levels within the stores are -- have some opportunities.

So we'll continue to look into working capital investment, and we'll maintain an appropriate level of cash on the balance sheet. As you know, the COVID is not behind us. So we'll continue to pursue the conservative kind of the balance sheet that we always pursued.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. Well, I think a lot of people are hoping you'd buy back a lot now so you'd set up the cushion. But with that, thank you very much for your time. Congratulations on the success you've had. Happy holidays. Good luck with the fourth quarter, and look forward to your guidance when we get into the early part of next year. Thank you for being here.

Lauren R. Hobart
President, CEO & Director

Thank you very much. We appreciate the time.

Navdeep Gupta
Executive VP & CFO
Thanks, Simeon. Really appreciate the support.

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