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DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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Call Participants

EXECUTIVES

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Lauren R. Hobart
President, CEO & Director

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Presentation

Robert Frederick Ohmes
BofA Securities, Research Division

Okay. Hi, everybody. This is Robby Ohmes from BofA Global Research. I am just -- Alex and I are just really pleased to have Ed Stack, the Executive Chairman of DICK'S Sporting Goods, here with us today; as well as the President and CEO, Lauren Hobart; and EVP and CFO, Navdeep Gupta. DICK'S Nate Gilch from IR is here in the audience as well. There he is.
DICK'S Sporting Goods has obviously executed just incredibly well before the pandemic and then through the pandemic, adjusting rapidly to increased demand for both curbside and pickup. They mastered the whole solitary leisure theme during the pandemic.

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Question and Answer

Robert Frederick Ohmes
BofA Securities, Research Division

I'm going to just kick it off maybe for -- a question probably for Ed, which is just maybe you could just talk to us about how the business has evolved over the last 2 years just to get us started here. The revenue base is so much higher. The profitability is so much higher. What categories do you think are going to remain sticky and just maybe we just start there.

Edward W. Stack
Executive Chairman

Sure. I'd be happy to. But before we do, we -- our lawyers, who were always a lot of fun to talk to, right, have indicated that we've got to look at our website for our forward-looking statements and all that. So we got that piece of housekeeping done.

But if we go back to 2 years, I think we really have to go back further than 2 years. So we really started this, what we talked internally about this transformational journey back in about 2016. And there was a time that it was in 2016, I walked into our management meeting on a Monday morning, and I announced that we were going to break up with Wall Street. And some of you that were around back then remember me saying that, that we were going to break up with Wall Street.

Because at the time, when we would make an investment from a digital standpoint, our stock would go down, our earnings would go down, our stock would go down. And it was viewed that, "Hey, traditional retailers can't catch up to what's going on." The digitally native retailer would make investments in their business. Their earnings might not be what they had anticipated, but the Street would say, well, they're investing in the future and their stock would go up. So I said we have to break up with Wall Street because we had to make a series of investments in our business in order to really make sure for the next 10 and 15 years. And if we don't do that, then we're going to be like a lot of traditional retailers that really never could catch up.

So we started this transformational journey. We -- about that time, we broadened Lauren's scope of responsibility to include our e-commerce business. And we made investments in our digital business. We made investments in what we did from a store standpoint, redoing our entire footwear platform, that now gives us access to the product that we hadn't had before. And we talked that there's virtually nothing we do the same today that we did in 2016.

The content of the product that we carry is very different today than it was then. The way that the service model that we have in the store is very different. The marketing aspect of our business is very different. Back then, we would do 40 circulars in the newspaper a year and put those in place 6 weeks in advance with pricing. And it was just -- it was very difficult to control your margins because you're making pricing decisions 6 to 8 weeks ahead of when the sale or the promotion will actually start.

So we don't do any newspaper inserts any longer. We can do regional pricing. We can be much closer to market. The content and mix of our business is very different today than it was back then. And there's just nothing that we've done differently. And a lot of people think that the -- we've added over $3 billion in sales since 2019 and meaningful profitability, I think, 800, 900 basis points in profitability. And a lot of people think that if we just were a COVID beneficiary. COVID certainly, in an odd kind of way, helped. I mean we were in a good lane because people want to play golf. They wanted to work out. They were working from home. But it really based -- rebaselined all of our businesses

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much higher than 2019. But if you look back to 2019, our business had already started to change. Our comps were up. I'm going to get this wrong a little bit, but directionally, our comps were up 3% in Q2, 3% in Q3, 6% or...

Lauren R. Hobart
President, CEO & Director

6% and 8% or 5.5%.

Edward W. Stack
Executive Chairman

6% in [Q2]. And then when we closed the stores in -- for COVID, that first quarter, our comps were running up over 7%. So this journey had already started. COVID certainly kind of accelerated it, but we're really confident that we've rebaselined, and it's a very different business today than it was in 2016.

Robert Frederick Ohmes
BofA Securities, Research Division

I remember that because you were coming to -- that was our live conference and everything was accelerating for you guys.

Edward W. Stack
Executive Chairman

Yes.

Robert Frederick Ohmes
BofA Securities, Research Division

And then we had to cancel the live version of the conference because of COVID, 2 years ago. But you mentioned some of these categories that did well, and you get -- we get this question all the time, but I think it would be great to hear sort of your view on what is sticky or what isn't sticky. I mean some of these things like bikes have exploded. I mean how many more people can get a bike and -- go ahead.

Lauren R. Hobart
President, CEO & Director

Yes, I'm happy to take it. The thing about the consumer is that during the pandemic, they shifted toward outdoor activities, health and wellness activities and more active and fit lifestyle. And while there's going to be -- there was a huge surge in some of those categories. You mentioned some of them. I mean, bikes, boats, even running, all people were really doing every -- golf, everything they could to be outside. While that has -- is going to decline slightly because it was just such a surge, the behavior is such that it's well higher than it was in the pre-pandemic level.

So we feel very strong as we look forward about the "pandemic categories." But what's also happening, which is fantastic is that really core businesses like team sports, athletic apparel, footwear, have come back with a vengeance. And team sports was one that just ground to a halt during the pandemic. Obviously, kids weren't playing.

And we kind of found that we have almost a natural hedge in our business. So when kids are playing team sports, maybe the parents are less on the golf course or less boating, but it's all part of an outdoor lifestyle, and everything is going to be increasing as we go forward.

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Robert Frederick Ohmes
BofA Securities, Research Division

And you've gained so many customers.

Lauren R. Hobart
President, CEO & Director

Yes.

Robert Frederick Ohmes
BofA Securities, Research Division

Do you -- does it change the way you try and keep them? Or is it -- because you guys, back in 2016, figured out omnichannel, even though the market didn't understand it then. I mean, or is it a variety of different things that's helping you keep maybe better than other retailers?

Lauren R. Hobart
President, CEO & Director

Yes. We did gain, this past year, 8 million new athletes, and the year prior to that, 8.5 million, just massive increases, influx in new customers we call customers, athletes. Fortunately, our retention capabilities are a pretty well-honed muscle at this point because we've had an active ScoreCard program for many, many years. We have a whole program to make sure that we are bringing people back, engaging them in a way that's personalized to them, making sure that they have future experiences with DICK'S, and that's going really well.

In fact, our retention rates have not dipped even though the funnel has gotten so much bigger with the athletes coming in. We're retaining them at the same rate, which is great. The other thing I'm very, very excited about, as we look at this past year, is the scorecard database. The spend within the ScoreCard database is migrating up. So we're at an all-time high for what we call ScoreCard Gold customers. Those are customers who spend over $500. So our active ScoreCard members are performing incredibly well.

Robert Frederick Ohmes
BofA Securities, Research Division

And how are the demographics changed? Maybe also -- especially maybe on the -- what is your women's business since 2016 would be a big part of that, I think?

Lauren R. Hobart
President, CEO & Director

Yes. Yes. So we've always been somewhat balanced in terms of the number of shoppers in the store, male and female. We have gained more female shoppers over the last 2 years than men. And I do think that's partly because of the strategies that we've put in place to -- we launched the CALIA brand 5 or 6 years ago, but really speak to who we call the athletic female, different than the team, the female athlete, who's a team sport player. And we've done a ton to really advocate on behalf of girls and women. So we saw a lot of women come into the business in the last 2 years, a younger consumer, which is also probably reflective of our allocation and some of the core and hot product that we're carrying and also a little bit more of an urban customer, which we think may have something to do with the deurbanization of some of the cities during the pandemic. But that's fantastic for us because then now we have that customer and can be in touch with them from an omnichannel standpoint.

Robert Frederick Ohmes

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BofA Securities, Research Division

In terms of driving forward demographically, what would you tell us that may...

Lauren R. Hobart
President, CEO & Director

We want everybody. No, honestly, we meet everybody's needs. I mean we go all the way up to the enthusiasts in every category. We have something for the rec player in every category. And we really -- wherever we have a white space, we've tried to fill the need with a vertical brand.

So I've referenced the DSG brand, for example. We felt we had a white space at an opening price point athletic apparel with super high quality. So we launched the DSG brand. VRST is our new brand for athletic -- the athletic male, similar to CALIA on the female side. Again, a customer that wasn't exactly being served in the right way. So we want every customer to find every aspect of their sport life and everyday life in our store.

Robert Frederick Ohmes
BofA Securities, Research Division

Okay. Ed, I'm going to ask you a question. I think -- I'm pretty sure you covered this on the call. I apologize if I missed it because I was hosting some things yesterday, but I got to ask it.

Edward W. Stack
Executive Chairman

It was very exciting.

Lauren R. Hobart
President, CEO & Director

It was.

Robert Frederick Ohmes
BofA Securities, Research Division

You know this, Nike DTC versus DICK'S Sporting Goods. And why should we not be scared that you would -- something bad could happen to your Nike business?

Edward W. Stack
Executive Chairman

Yes. And I think on the surface, you look at that, it's -- you could see why you could be scared about that. But I don't think you should be. We're not. And when you take a look at what they've talked about of -- from undifferentiated retail, so you can define that however you want to define it. But we have a different model. We bring something different to the consumer that some other retailers don't.

So based on the size of our stores and kind of the breadth of product that we carry, we have the ability to showcase a brand's complete product offering. So whether it's -- we can showcase their apparel, their footwear, their hardlines. So in the case of Nike, their women's apparel line, their men's apparel range, their kids, boys, girls, down to toddler; footwear, men's, women's, kids', running, basketball, lifestyle, training; baseball cleats, football cleats; the same in the hardlines aspect of the basketball's, batting gloves, everything that they carry, we're able to showcase.

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So in the size of the store that we have, and we've worked with Nike. We've made investments in the Nike brand. Nike's made investments in our brand. So you walk in and see those -- the Nike shops in the front of the store, we both continue to invest in each other. And I think Nike -- so Nike and other brands are going to -- their DTC business is going to grow, but they do know that they need partners outside their own DTC brand to showcase their brand on a day-in, day-out basis for people to come in, touchfeel, try on those brands. And our Nike business has been great.

The same with our adidas business. We're really comfortable where we are with these brands, and our relationships with them have never been better. I think you can see that with the relationship in the partnership that Nike and DICK'S made around the connected inventory in the digital business. So we're really joined at the hip, and we've got great respect for them. I think they've got great respect for us, and we see how we can truly partner and help each other. And that's the path we're on. So we're not -- we would not be -- we're not concerned about Nike making a major change in the distribution of their product to us.

Robert Frederick Ohmes
BofA Securities, Research Division

And then maybe just as a sidebar, just the Vietnam shutdowns and the pressure that's put on the athletic footwear brands' deliveries for this kind of period we're going into, can you maybe remind us how you guys think that could affect your business in the next 6 months?

Edward W. Stack
Executive Chairman

Yes. I think it -- I don't think it's the next 6 months. I think it's the next few months. But we're pretty confident with the flow that we've seen. Our team has worked really hard from a supply chain standpoint. And we don't see it having a meaningful effect on our footwear business. We're relatively confident of what's coming in and the visibility we have from all of the brands to provide us product. And there will be some things here and there that we might wish we had a particular style of shoe, more of a particular style. But overall, in the grand scheme of things, we don't see a really big issue here.

Robert Frederick Ohmes
BofA Securities, Research Division

Okay. And does -- Lauren doesn't have to answer this. But Lauren, I think you said something like maybe people are playing less golf because they're going to team sports in one of the answers to your questions, so now I'm going to make you regret saying that.

Lauren R. Hobart
President, CEO & Director

Yes.

Robert Frederick Ohmes
BofA Securities, Research Division

So I have to ask about the golf business now. Like so what do we -- what should we be thinking about tough comparisons there and...

Lauren R. Hobart
President, CEO & Director

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I'm going to let our scratch golfer answer that question.

Edward W. Stack
Executive Chairman

I didn't get us into this pickle. I do think people are probably -- so there were people out there playing golf, and I experienced it myself. And somebody say, "Hey, I'm playing because I don't have a softball game to go to. I don't have a baseball game to go to." So I think there's going to be some of that. But the golf business is rebaselined. It's such a different level than it was in 2019. And that we really are very confident on the -- on what we're going to do from a golf standpoint going forward.

And as 2022, where it ends up, I'm not sure yet. But we're very confident about the golf business. We continue to invest in the golf business. we redid our -- we've reengineered our Golf Galaxy business to -- that will be called the Golf Galaxy Performance Center with fitting lessons, just a different level of interactivity in there. The golf business isn't going anywhere. We're very excited about the golf business.

And there's a couple of things from a supply chain standpoint there that are a little bit of a concern. But overall, we're really excited on the long-term growth of golf. Because there were people who came back into the game who played it before. There's a lot of women who came into the game or -- for the first time or reentered the game. A number of kids came into the game because they didn't have Little League to play or soccer games to play. And a lot of that is going to be sticky for these people going forward. So long term, we're excited about the golf business.

Robert Frederick Ohmes
BofA Securities, Research Division

And then how do you see the kind of store footprint evolving from here? We took a group up to the store in Rochester, which was amazing.

Edward W. Stack
Executive Chairman

Yes.

Robert Frederick Ohmes
BofA Securities, Research Division

I think you have 2 of those. But maybe remind us how you think about store growth now.

Navdeep Gupta
Executive VP & CFO

Yes. I think, so Robby, first of all, we appreciate that you're making that trip. It was really good to see everybody over there. I think -- so the 2 things I would say. First of all, we called out yesterday that we are a growth company. The most important thing that we look for is the ability to be able to grow our footprint as well as continue to drive comp sales performance from our stores.

So in terms of the new stores opening, we'll continue to open new stores on a moderated pace into the next few years especially as we start to finesse out our House of Sport concept, and you've got a chance to see -- hopefully, you all will get a chance to see our Public Lands concept. So there are 2 stores that we have opened. There's a website that we have. And so we are very enthusiastic about the 3 concepts, the House of Sport concept, the Public Lands as well as what Ed called out the Golf Galaxy Performance Center. So we'll continue to open more and more stores. We will

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continue to retrofit and remodel some of our existing -- like Field & Stream boxes that are being -- getting retrofitted into our Public Lands location. So we will continue to open new stores but we will show up in the marketplace differently than what we have shown in the past. But very excited about the real estate opportunities that we have ahead of us.

Robert Frederick Ohmes
BofA Securities, Research Division

Now I'm going to shift to sort of a broader question. This might -- all 3 of you might have different perspectives on this, not just within your industry, but we published a Nielsen data note, like the lack of promotional activity, like promotions are nose diving in the grocery industry again right now and I guess in this inflationary environment. How do we -- how do you think of the lack of promotions? And is that sustainable? Do they just not come back until inflation goes away or until supply chain is totally back to normal? And if so, what does that mean for sustaining your gross margins at high levels? And anything you can give insight into both for yourselves or even across the U.S. right now?

Edward W. Stack
Executive Chairman

We can't talk about other -- what other people are going to do. But we think the majority of our gross margin is here to stay, for a couple of reasons. There's part of it is the lack of promotion, and that's been helpful. But also what people don't understand is the content of product that we carry today versus what we carried in 2016, 2017 is very different. And it's higher-heat product. It's more narrowly distributed product than you would find in the market as a whole. And therefore, it's not as susceptible to promotion as some of the products that we had back in '16, '17, '18. So we really are pretty confident that the majority of the margin rate we have is going to stay. Even if things get promotional in other areas of the business or other categories, we've just differentiated our -- what we carry in the marketplace, meaningfully different than what our direct competitors would have.

Lauren R. Hobart
President, CEO & Director

I would add to that, that the tools we have to surgically adjust pricing are so much more sophisticated than they were several years ago. So we used to have blunt instruments in the newspaper, where pricing had to go down for 8 pages of items and whatever it was, and you had to release that 6 weeks before you had no idea what the market is going to bear or what inventory levels would be. We are now literally making day-to-day decisions. So I don't think -- I know we won't be running back toward a whole -- a blunt instrument of promotional activity. It's going to be much more targeted where maybe we have lumps or the consumer is going in a different direction.

Navdeep Gupta
Executive VP & CFO

Robby, in the guidance that we gave yesterday, we called out that in our guidance expectations for '22, we are expecting some level of promotion starting to come back in the second half of '22. But again, like we said, we will continue to watch and react to that. But we anticipate that the benign-ness that has been there in the overall promotional landscape is not going to continue to remain like that.

Robert Frederick Ohmes
BofA Securities, Research Division

Okay. I'm going to take a pause here. Are there any questions in the audience?

Unknown Analyst

Yesterday, Best Buy talked about the digital aspect of exercise and particularly at home. I don't know if that's something

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that you're focused on more -- I think in the past, you've been more analog but there's digital in some aspects. What are you doing in this area? Or are you doing much in this area?

Lauren R. Hobart
President, CEO & Director

Yes. We have many connected devices in our fitness department, a lot of NordicTrack and iFit products where you can do whatever work out you want. You can customize them. And I do agree with them that the connected aspect of exercise has totally changed the game. And we think it just lifts the whole category.

Robert Frederick Ohmes
BofA Securities, Research Division

Okay. I think Alex has some questions, if there's none right now in the audience.

Alexander Thomas Perry
BofA Securities, Research Division

Yes. Just going back to sort of the gross margin outlook a little bit, it seems like it's rebased at a much higher level here. I think you called out a structurally higher profitability for the business. Your -- the way the clearance activity seems like it's maybe changed a bit. You have some Going, Going, Gone! concepts. Can you talk about maybe some company-specific initiatives around how you're moving through product versus maybe that didn't exist pre-pandemic?

Lauren R. Hobart
President, CEO & Director

You want to take it?

Navdeep Gupta
Executive VP & CFO

I'll take it. So Alex, I think that's a good observation of -- maybe I'll begin a little bit macro and then come back into the clearance topic. So like you said, we are managing our margins significantly better than where we used to be pre-pandemic, right? Every aspect of the business, whether it is promotional cadence, whether it is markdown cadence, even before the product enters into the clearance bucket, as we call it, right, we are doing a very detailed work around data analytics and optimization to say how best -- where should this product be moved before we need to put it into a clearance channel to be able to -- a markdown in a more predictable way.

The benefit that we have seen around clearance optimization probably are 3 big things with the Going, Going, Gone! chain. The biggest aspect has been being able to consolidate all of that clearance inventory into certain locations allows you to, one, find that product. Because if you can imagine 50,000-square-foot location, you have a clearance. You have a couple of rounders here or there, it's so difficult to find. Even for the athlete, even for our team members, just being allowing the product to be collected together, moved into a Going, Going, Gone! location allows us to find that product very meaningfully. And so you are able to be a little bit more surgical about when should something go into a markdown cadence versus how are you optimizing on a daily basis.

The more important -- the benefit that we have seen is we can line (sic) [light] that product online. Because it's easier to find, it is concentrated. And these locations, they have a very good backroom setup that we have done that they can actually quickly pick, pack, ship the product very quickly out. So we have seen the benefit in terms of our markdown optimization, concentrating of that inventory within the store. And then you are able to provide good value to the athletes as well that are able to come into these stores and find a product.

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It's not -- it's more of like a treasure hunt, that you're not getting every size and color runs that you expect in a DICK'S store. Whereas when you go into a Going, Going, Gone! store, you will find some of the really, really good value for the athlete. So it's been great for us. And it's still test and learn. We are learning into it. We'll continue to evolve and learn from this, but we are very pleased with the performance that we have seen.

Alexander Thomas Perry
BofA Securities, Research Division

Perfect. And then I just wanted to ask about pricing a bit here. Sort of as you look across the assortment, is there -- are you seeing a lot of price increases that are being taken by the vendor partners that you're passing through to the consumer? And how do you think sort of the elasticity of demand as the price increases are implemented?

Lauren R. Hobart
President, CEO & Director

Yes. So looking at our Q4, which just closed, we did selectively pass on some pricing increases, especially in some hardline categories, but the vast majority of our comp, our 5.9% comp, came from ticket. And that was actually the lack of promotions that we already talked about. As we look to the coming year, we're going to be incredibly fluid and flexible about pricing based on what's happening to input costs and then also what the consumer will bear and what the marketplace is. We're going to remain competitive. And so it's hard to know exactly to look with a crystal ball kind of what's going to happen with pricing, but we do have very flexible digital and personalized tools to be able to optimize pricing on a day-to-day basis. And we will always be sensitive to what the consumer can bear.

Alexander Thomas Perry
BofA Securities, Research Division

Yes. And then if we take like a couple of steps back, sort of higher level, how are you viewing the overall health of DICK'S Sporting Goods consumer right now? Are you seeing sort of strong wage growth offset some inflationary pressures?

Lauren R. Hobart
President, CEO & Director

Yes. So the consumer is living in a world that's been a very challenging world. So our -- this consumer is the same as the consumer in America. In many ways, they're dealing with increasing gas prices, inflation, war. It's obviously a challenging time. That said, the DICK'S consumer, if you look at what we sell, I would say that the categories that we sell are somewhat counter to the trends that I just talked about, in that they actually enable people to be outside and to live a healthy lifestyle and actually manage some of the stress and the strain.

So I think our consumer, we feel, is very strong. I mean the other thing that you have with our specific consumer is, if you have a kid who was wearing a size 5 last year and their feet grew, they need new cleats, and that's just a fact. And so some of it is just necessity-based. It's not even subjective. So we feel the consumer is as healthy as a consumer can be given all of the political and geo-pandemic things going on.

Alexander Thomas Perry
BofA Securities, Research Division

Yes. If I just sort of take that into sort of your guidance and how you think that's going to play out through the year, I think you sort of guided for a gradual same-store sales improvement as we move through the year. Obviously, in the first quarter, there's some very tough comps with some stimulus dollars in the market last year. I guess maybe just talk through sort of the cadence of the comp trajectory through the year.

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Navdeep Gupta
Executive VP & CFO

Alex, I'll take that. So like we called out yesterday, we -- first of all, we are very confident in the guidance that we gave yesterday, even the 2 -- even if you look at the comp performance that we have delivered over the last 2 years, and as Ed talked about the transformational journey that we have -- we are on, we are confident about the core aspects of the business. Whether it is the athlete as Lauren talked about, the macroeconomic factors and the change in the health and the wellness that the athlete is adopting as well as some of the core categories that we have within our own business, the access. So all of that, we factored in as we gave our guidance.

What additional clarity we tried to provide in that was that we believe that the comps will sequentially improve. Two big drivers of that as we -- and you called out one of them, which is kind of the stimulus, which started to give in -- was given out starting March of last year. So that's been contemplated.

The other is the inventory position. We, like Ed called out, right, there will be some weeks and months here in the very near future that where the inventory position will continue to build and it will become healthier. And so both of those factors, we factored -- we considered as we were coming up with our cadence of the comps by quarter.

The other -- the additional factor that I called out, right, we expect to be reaching some level of promotional activity in the second half. Not back to where it was in 2019, definitely not as promotional as that, though that was another factor as we thought about the first half versus the second half.

Alexander Thomas Perry
BofA Securities, Research Division

Okay. And then maybe, Lauren, the private label business has continued to do very well. Penetration continues to uptick in that. Can you talk to us maybe about where ultimately private-label penetration could go? Maybe talk through some of the read-throughs from your new launch of VRST and any other areas where there's an obvious sort of private-label solution that DICK'S Sporting Goods doesn't currently have?

Lauren R. Hobart
President, CEO & Director

Yes. First, I have to say we don't refer to that category as private label anymore, which -- and I'm not doing it to correct you. I'm just saying because it's a meaningful change and it was a very deliberate change that we referred to them as vertical brands, because we are building brands that are coveted and not just slapping a label on a product. So I think that's important because it really does reflect our strategy.

We have had -- we originally put out a goal of $2 billion in vertical brand sales in the next few years. A few years ago, we're at $1.7 billion. We will continue to drive that business. It's obviously a fantastic margin at 600 to 800 basis points higher margin than the partner brands are. And we think we're filling white space. So we'll continue to grow. We haven't established a future-looking target, other than to say we're going to get to the $2 billion, which will probably be sooner than we thought we were going to get there.

And the VRST business, the one that you mentioned just -- that just launched, which is the men's athletic apparel business, is off to an amazing start, and we're expanding it into all of our doors. We started off with just a few hundred. And the CALIA brand is doing incredible. And the DSG brand is our #1 vertical brand, really, really solving a need for customers.

Alexander Thomas Perry

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BofA Securities, Research Division

And then if I could ask another merchandising question here. Maybe more broadly on the footwear category, it seems like your access to product across brands has really improved. adidas also, I've been seeing a lot of YEEZY drops coming out of DICK'S Sporting Goods. It seems like a part of that is the rollout of the full-service footwear stores. Maybe can you just talk more broadly about how the footwear business has evolved. Where you are in terms of the rollout of full service footwear stores and where that could ultimately go?

Edward W. Stack
Executive Chairman

Yes. It's -- the rollout of the premium full-service footwear concepts have really changed the game for us from a footwear standpoint. And it's allowed us to provide better service to the athletes who come in to shop. We've got broader access to that. We've got a little more 350 approximately of those shops right now. We're going to add quite a few more over this next year and into next year, the year after that. And we're -- it's really made a big difference in the access to product, whether it's adidas Ultraboost, whether it's Air Force 1. We've got HOKA in 140 stores right now, and that's going to be broadened out going forward. So we have changed completely our footwear assortment, and we've got pictures from different seasons that we keep.

When you take a look at the picture of what it looked like in 2017 or 2018 and what our assortment looks like now and our floor looks like now, it's not even close. I think we have right now in these premium full-service floor areas in the House of Sport, which you were up to see, I think we have -- and the brands have talked about this. We have the best footwear assortment and best footwear experience of any retailer in the country. And we expect to expand that out as we go forward.

Alexander Thomas Perry
BofA Securities, Research Division

Yes, the assortment at the House of Sport store is very impressive.

Edward W. Stack
Executive Chairman

Did you buy any stuff?

Lauren R. Hobart
President, CEO & Director

[Gives us the set].

Alexander Thomas Perry
BofA Securities, Research Division

I was very tempted. I will be back though.

Edward W. Stack
Executive Chairman

That was the wrong answer.

Alexander Thomas Perry

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BofA Securities, Research Division

To be fair, that is the store that I used to go to going up, that mall actually.

Edward W. Stack
Executive Chairman

Oh, did you really? Okay.

Alexander Thomas Perry
BofA Securities, Research Division

Yes. Eastview Mall. So yes. Yes.

Lauren R. Hobart
President, CEO & Director

Wow.

Alexander Thomas Perry
BofA Securities, Research Division

So just shifting gears a bit, I wanted to talk about the sort of profitability of e-commerce and digital. Seems like the profitability of that channel has really improved for you guys. Can you maybe just talk to us about how that's evolved? What the drivers have been? How it compares to your in-store business now? And where you see that going over time?

Lauren R. Hobart
President, CEO & Director

Yes. Our e-commerce business, unlike some others, has been profitable for many, many years. I mean, we were not losing money in e-commerce. However, we have now improved the profitability to such a large degree that it is essentially on par with brick-and-mortar when you look at our EBT margin in the channel. So e-comm versus brick-and-mortar, very similar, and that's because of really 3 things.

On the e-comm -- when we brought the technology in-house, which we did, I want to say, 5 or 6 years ago, that enabled us to really, when we leverage -- when we scale volume, leverage our costs significantly. And so just the flow through now, the fact that the business has doubled -- more than doubled in scale is driving leverage, which is fantastic.

We've also significantly improved the gross margin for all the reasons that Ed was talking about before, different assortment and the digital aspects of how we can promote. We don't need to go do site-wide promotions anymore, which used to be kind of a default. And then lastly, the Buy Online, Pickup in Store and curbside. Those sales are incredibly profitable because literally, it takes -- there's no shipping expense. The person comes in. They get the product in 2 minutes. And our stores are really set up to do that. So that also improves the profitability of the channel.

The channel is incredibly profitable now. And so much so that you heard us say on the call yesterday that, for us, it's a little arbitrary to try to define whether a customer is buying an e-commerce sale or an in-store sale, and we're just looking at it as omnichannel because they're touching multiple channels along their journey.

Edward W. Stack
Executive Chairman

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And if I can just add one more thing on the -- on our digital business. You're going to start to see, we just launched it last week, I think it was that the marketing campaign using Charles Barkley. And as we did some research and even though our e-commerce business has been great, that people wake up on a Saturday morning and they need a new pair of cleats for their kid or they need golf balls because they're playing golf on Sunday, they think, "I'm going to DICK'S." On Monday, if they need that stuff for the weekend and they want to do it online, they're not necessarily thinking of us top of mind, which shouldn't really surprise anybody.

We felt we really need to change that. And we've got this campaign, which is Lauren and the team did a great job pulling this campaign together, with Charles Barkley make it -- kind of acknowledging the fact that sometimes, you don't think about us from an e-comm standpoint and why you should. And Barkley does a great job. The commercials are very funny. We use a little -- we use some humor there, but I think it's going to make a really big difference in our e-commerce business going forward. So we are really, really excited about it. And as profitable as it is, we're continuing to invest in this from a marketing standpoint, which we haven't really -- from an outbound marketing, we haven't been as aggressive, but we are now and it's -- we're pretty excited about.

Lauren R. Hobart
President, CEO & Director

That's right.

Edward W. Stack
Executive Chairman

I think it's doing pretty good. Wish we had them to show you.

Lauren R. Hobart
President, CEO & Director

I know. It will make you laugh.

Robert Frederick Ohmes
BofA Securities, Research Division

Should we just -- I just want to make sure, are there any questions in the audience? Do you have another?

Alexander Thomas Perry
BofA Securities, Research Division

Yes. I was just going to ask about capital allocation from here, use to have a pretty big debt deal. So just -- can you maybe talk to us about capital allocation, especially anything around share repurchases would be great.

Navdeep Gupta
Executive VP & CFO

Yes. Let me start by saying, first of all, we were very pleased with the transaction that we were able to do at the beginning of this year. To be able to, first, become an investment-grade company, be able to go and raise $1.5 billion between 10 and a 30-year, we were very pleased with the transaction that we were able to accomplish. I think a little bit that we were able to, hopefully, time to market as well as we were very early in the year.

So as we look to the future, based on the level of debt that we have raised and the level of cash that we have on the balance sheet currently, we are thinking, first and foremost, we want to have more than appropriate level of cash on the

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balance sheet. We just want to be -- we have always been a conservative company. We'll continue to be prudent about that on making sure that we have sufficient liquidity on the balance sheet to be able to manage any kind of situation that may come.

The second is very clearly, we will continue to invest in the business. We have tremendous growth opportunities as we talked about House of Sport, Public Lands. Real estate are tremendous growth opportunities. We want to be able to continue to invest in them.

And then if -- like we had a strong free cash flow company as well. We have generated over $1 billion of cash flow over the last 2 years. So -- and our expectation is we can continue to do that. And if that continues to be the case, we called out yesterday that 11% increase in the dividends. We said yesterday, a minimum of $200 million of buyback, but that still leaves plenty of dry powder on the balance sheet.

And we'll continue to look at 2 things primarily, one, we have a convert of $575 million. That becomes callable next year. So we'll evaluate opportunities to see if we can buy that back in the open market. We did a pretty substantial amount of repurchases last year, as we believe that there is still value, a lot that has not been recognized as yet by the Street. So we'll continue to use that opportunity to invest our own money and our own story. And then the last, we will continue to look for opportunistic M&A as well. There's good assets out there in the marketplace. And if we find something attractive, we'll definitely action upon.

Robert Frederick Ohmes
BofA Securities, Research Division

Okay. I've got one last one I want to squeak in because I don't think I've ever asked you this. How is this -- for the vertical brands, how is this, the sourcing organization evolved? And where are you getting your people from? Where -- because you're getting some pretty great product in. What -- can you maybe tell us how you built that up? What the evolution was there?

Lauren R. Hobart
President, CEO & Director

Yes. We have a really strong muscle. Again, $1.7 billion of sourcing. And during these past 2 years where there were so many challenges, we were able to manage just as well as the national brands. In fact, in some cases, better than that. We have an office in Hong Kong, and we manage it. It's a core competency at this point.

Robert Frederick Ohmes
BofA Securities, Research Division

Well, great. I want to thank the DICK'S Sporting Goods management team for being here today and for a great presentation.

Edward W. Stack
Executive Chairman

Robby, thanks for having us. We appreciate it.

Navdeep Gupta
Executive VP & CFO

Thanks, Robby. [indiscernible] once again.

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Lauren R. Hobart
President, CEO & Director

Thank you, Robby. Thanks, Alex.

Robert Frederick Ohmes
BofA Securities, Research Division

Thanks, everybody. Thanks for coming.

Lauren R. Hobart
President, CEO & Director

Thank you.

Navdeep Gupta
*Executive VP & CFO*Thank you.

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