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DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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Call Participants

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Lauren R. Hobart
President, CEO & Director

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

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Presentation

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

Okay. We're going to get started. Thank you so much for joining us. I'm Kate McShane. We're very happy to introduce the members of the management team for DICK'S Sporting Goods, and I'll be moderating our fireside chat today.

Today, we have with us Lauren Hobart, President and Chief Executive Officer of DICK'S Sporting Goods; and Navdeep Gupta, Executive Vice President and Chief Financial Officer of DICK'S Sporting Goods. Thank you so much for joining us today.

Lauren R. Hobart
President, CEO & Director

Thanks, Kate.

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

Lauren, I know you had a...

Lauren R. Hobart
President, CEO & Director

Yes. Our lawyers want us to remind you of our safe harbor statement, which is on our webcast. Thank you.

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Question and Answer

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

Okay. Great. Great. So I'll just start with questions -- launching into some questions here. You reported a few weeks ago, so we got a good state of the union from DICK'S Sporting Goods. But questions that we still continue to feel is just about the general health of the consumer. So I thought we could start there.

And while you cater to a slightly higher higher-end demographic, can you talk about how that customer is faring or how you think they're faring? And just what you expect from them in the back half of the year?

Lauren R. Hobart
President, CEO & Director

Yes. We have found that despite the fact that all consumers are going through a lot of challenges with grocery prices and gas prices, the consumer -- our consumer has held up really well. And I would point to a few different data points to support that. The first is, as we look at all of the income demographics that we serve, every income demographic showed a similar trend in Q2.

So there was not like one type of consumer who really wasn't shopping anymore. Everybody was just making the choices that are right for them. We do have assortments that can satisfy everybody from the most enthusiast player, who wants a $279 soccer cleats, too. We have got great opening price point items in all of our equipment, and then also in our DSG brand, which is very high value, great functionality, great style.

So there's something for everybody. And so our consumer, overall, has held up well. We've been pleased.

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

And just in terms of any kind of response and since you do have the good, better, best or the opening price points, as you mentioned, have you seen any trade down as a result?

Lauren R. Hobart
President, CEO & Director

We haven't, and we look very closely into that. We have -- people are making the choices that are right for them. And again, some of our mix has gotten higher and more elevated, and people are climbing themselves in that. So we're not seeing a specific trade down.

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

Okay. If we can maybe talk, just broader picture, about demand. Because that's probably the biggest question we get, when it comes to sporting goods and anything really specialty hard lines, is just the sustainability of demand just after the last 2 years of how strong you've seen your top line.

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Maybe you can talk through a little bit how we should think about the sustainability of demand for the overall sporting goods category, but also for some certain categories where you saw some very strong demand, and how you lap those trends and what you see for them going forward.

Lauren R. Hobart
President, CEO & Director

Yes, yes. We consider our 4 main categories: team sports, apparel, footwear and golf. Those are our 4 key segments. And across the board, all of them are meaningfully higher than they were in 2019.

So you take golf, for example. It's absolutely a category that surged during the pandemic. We had people coming into the game who hadn't played before, skewed a little bit younger, more women joining the game. Those trends are still significantly higher than they were in 2019.

So there may be a little bit of a reset, and we saw that. But even in our last quarter, golf sequentially improved from Q1 to Q2. So that's an example of something that we think has staying power.

Team sports, people missed it greatly. And it's coming back with -- in a flurry right now and has been since the fields opened up again. And then footwear and apparel have absolute same power due to the fact that consumers are outside. They're walking. They're running.

And then there's been a little bit more of a casualization of society. And we do serve products in our stores that can be used to-from the gym, to-from work and even at the office, so that you're ready to jump into a workout whenever you can.

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

And another question that we get, and actually, I think DICK'S has talked about this, too, is that structurally, you think things are different for DICK'S Sporting Goods. And we can go through the whole P&L, but from a demand standpoint, if you had to pinpoint what is so different versus 2019 versus what DICK'S is today, what would you focus on?

Lauren R. Hobart
President, CEO & Director

It's everything I just talked about. It's the consumer, but it's also the fact that back -- and I'm going back to even pre-pandemic to 2017, we started on a strategy of really trying to differentiate our assortments. And we did that by leaning into experiences in the store.

So we started with premium full-service footwear decks. We have HitTrax baseball cages. We've got hitting -- we have simulators in the golf area. And all of that in the service model, as we leaned into trying to really develop a fantastic service model, enabled us to open up access to assortments that, frankly, we were not able to carry before because we didn't have a high enough service model.

So if you look at the assortment now, there's everything I just talked about with the pandemic. But the most meaningful change has happened in terms of our assortment and the fact that we've got high-heat products, footwear, apparel, things that we just didn't have access to before.

Navdeep Gupta

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Executive VP & CFO

And Kate, if I may add. If you look back into 2019, one of the points that gets lost is everybody looks at the trajectory since COVID. But if you look at the trajectory of the business even before COVID, right, back half of 2019, we did a plus 6 comp. Months leading into COVID when we shut down all our stores, we were doing plus 7 comp.

So our trajectory is what, to Lauren's point, was reflecting some of the investments that we had already made, whether it was HitTrax, whether it was the experience, the premium full-service footwear deck and then the deeper relationship that we have with the brand, all of that was already starting to show the evidence as much before COVID. And COVID significantly accelerated it.

And what we are pleased is not just the trends that we had before that have significantly improved since then. It's just because of all of the investment that Lauren talked about.

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

And there's also been some shift to with how the vendors are approaching retail now, too. So can you talk at all about how that's maybe changed versus what we saw pre-pandemic and maybe how that's resulted in more market share and how you anticipate market share gains going forward?

Navdeep Gupta
Executive VP & CFO

Yes. So we have gained consistently the market share in all our core categories, the core categories like Lauren already laid out, right? It's athletic apparel, it's footwear, team sports and golf. And we have consistently made investments in those categories, and that's where our share gains are coming from.

What is also really healthy is if you look at the composition of our overall customer, 16 million athletes that we have added that over the time continuously. The engagement of those athletes as well as the retention of those athletes is really strong.

Coming to your question on the brand itself, the relationship and the partnership that we have with brands is at an all-time high. And the big drivers, like you said, is not only the investments that we have made and how differentiated our model is compared to where everybody else in the industry, we would always differentiate it. But even if you look back where we were in 2017 versus where we are now, it's differentiated.

And through COVID, I will say that the brands have also realized what it is to get back the control of their own brand. So you're starting to see, hear more and more about narrowing of the distribution, pulling out of the distribution channel that used to kind of be the early price leaders. And those actions have actually benefited us in addition to our own core investment.

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

That's very helpful. So sticking with the theme of things being structurally different, we talked about the demand piece, but let's talk about the promotions piece too because I know that's a big question. You saw a lot of gross margin expansion over the last 2 years.

You've said publicly, you think you can keep quite a bit of that. Could you maybe again walk us through structurally

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what's very -- what's so different from pre-pandemic from a merchandise margin standpoint and a promotional standpoint and today?

Lauren R. Hobart
President, CEO & Director

Yes. We had -- we see significant gains in margin over the pandemic time frame, and we've been very public that we think, to your point, that we can maintain more than half of those gains. And that's because there are so many structural differences in our business.

So starting with the assortment that we have, and the fact that Navdeep just said that it's differentiated from the marketplace and it's not in discount channels, gives us some control over the pricing. The fact that it's higher-heat footwear and apparel is stuff that liquidates without needing to go on any sort of deals and promotions.

But on top of that, if you look long term, we have -- our vertical brands continue to grow, and we've got 600 to 800 basis points of margin enhancement when we sell vertical brands over our national brands. And that's just really rounded out our portfolio.

And then back in 2018, we took action in the firearms business, for a lot of reasons. And we've fully been really reducing that mix. And that mix was 1,700 basis points below our average. So all in all, you take those 3 things and then look at how we actually do promote and advertise.

And we used to be -- I'm going back a long time now, but we used to be in newspapers and you had to decide 8 weeks before you would release what was going to be on sale and what was -- you had no idea about supply, demand and any of that.

Obviously, that's completely gone now. And as we've moved into digital channels, we can be very surgical. We can be personalized, so we don't just give a whole house offer, a whole site offer. We just are motivated to promote when -- if we have too much inventory. We will obviously -- we'll put it on sale. But yes, so huge changes, structural across the whole P&L.

Navdeep Gupta
Executive VP & CFO

Yes. I would add one more thing to that in terms of the pricing capabilities. And pricing, I'd say, that's both for the red product as well as the product that goes into clearance. The clearance channel, having a channel like Going, Going, Gone! that we didn't have a couple of years ago, it allows us to be much more surgical in terms of the markdown cadence that we have, allows us to concentrate the inventory and liquidate that much more efficiently than we were able to do before.

Over the last few years, it has allowed us to build out on our pricing optimization capability. And that's when should a product go on promotion, what type of elasticity do we see in that product. And all of that has allowed us to -- like to Lauren's point, it gives us the confidence that we can hold on to more than 50% of the gains that we have delivered over the last few years.

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

Okay. And while we're on the subject of promotions, since we just kind of went through back to school and we're getting into holiday, I think you've said that most retailers are expecting a slightly more promotional environment this year

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versus last year when there was basically no promotions. And so trying to reconcile the commentary around what you just said about promotions and how we should look at the back half, like if we were to walk into a DICK'S Sporting Goods now or into holiday, what would we see from a promotional standpoint?

Lauren R. Hobart
President, CEO & Director

Yes. We are expecting some normalization of promotions because it was so very benign for the past few years. There was inventory scarcity. But that said, guaranteed, this is not going to be anywhere close to what it was before. So what you might have seen in 2019 or before is x percent or dollars off the website for the day or a store-wide promotion or a whole category.

We just are not going -- that is not what we're expecting maybe around the holiday. I don't know. But this is going to be much more surgical, much more strategic in terms of who we want to offer the discounting to, and it will be based on what's right for us and right for the marketplace. But we don't expect a major -- we're not going anywhere back to what 2019 looked like.

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

Okay. And part, I think, of why you've actually been so successful to keeping promotions more at bay, too, and how you've managed inventory. So I think, if I'm remembering my numbers right, on a 3-year, if you look at sales growth versus inventory growth, I think it's only like 2%, something like that. But do you mind...

Lauren R. Hobart
President, CEO & Director

The difference. So 38% in sales and 40% in inventory, yes.

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

And so -- and versus a lot of other retailers that are in double digits.

Lauren R. Hobart
President, CEO & Director

Yes.

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

So can you maybe talk to us -- there's been some supply chain issues. There's been some things that have kept, I think, inventory maybe a little bit more sporadic. But could you maybe talk to us about the evolution of your inventory build and how you've been able to manage it?

Navdeep Gupta
Executive VP & CFO

Yes. Maybe I'll start with the supply chain. The supply chain team, first of all, has done a fantastic job over the last 2-plus years. And they're still continuing to execute at a very, very high level, so we are really pleased with that.

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And overall, I would say, on the supply chain side, when you think all the way from the vendor side, it's gotten better. It's still not where it used to be pre pandemic, but it's definitely gotten better compared to where it was, call it, about a year ago or even 6 months ago.

In terms of the inventory composition, you rightly pointed out, we are looking at the inventory growth compared to 2019 because that was the last time when we would say we would have the reasonable level of in-stocks that we wanted in our stores. There are pockets of inventory, as we have called out, that where we have a little bit more of.

And it was like in athletic apparel, just to be a little bit more specific, where the product that was supposed to be received for spring came in late. And so now you have this product that came in late. We took the receipt of that, and we will act upon that accordingly and so that we don't hold on to the product for the next spring.

There are pockets of inventory like in outdoor categories like fitness and bike, where we have a little bit more of. The good thing is those products don't go obsolete that you can always buy around them. So overall, we feel really, really optimistic about the composition of the inventory that we have going into the important back-to-school season, and we remain optimistic about the back half.

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

If we could maybe go back to some of your merchandising changes that you've made over the years. We've seen a lot of new brands into DICK's Sporting Goods, a lot of innovation, and then, as you mentioned, a lot of success in private label. And I know private label had been something that DICK'S had been working on for a long time.

We saw different iterations of private brands and private label, but it really seems like you're in a groove now with DSG on the equipment side and then CALIA and VRST. So could you maybe talk to us a little bit about the private label evolution and how you're balancing that between national brands, which I think is an important balance? And what maybe is making these brands more successful then?

Lauren R. Hobart
President, CEO & Director

Yes. Our national brands are of huge importance to us, and we have strategic partners in every category. And that is part of what makes us special, the access that we have to the product and the fact that a consumer can come in and shop a multi-branded experience. So we have a lot of our consumers tell us, and we see it in the data, that they are not just monobrands. They want to shop multiple brands. So we are really, really focused on access and being the best partner to our strategic partners.

At the same time, the vertical brand opportunity is great for so many reasons. So with DSG, you mentioned it's an equipment brand, but it's actually our #1 apparel brand as well from a vertical brand standpoint. So it's only in its first year, it became #1. It's high value, high fashion, great, great product. It's really, really on trend right now, especially with all the challenges that the consumer is facing. It's just a fantastic option.

And then CALIA and VRST fill the white space in that sort of to-from. Maybe some of the national brands are more focused on the teen athlete and the younger athletes, so we were leaving mom and dad without exactly -- without things for them exactly for their lifestyle. And so -- we now serve that white space with those brands, and they're doing incredibly well.

And I think the national brands understand we have this strategy. We work very closely with them. It's not -- it's not a

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problem, it's not a surprise. It's just kind of how we round out our portfolio.

The last thing I would add is our Houses of Sport and our Public Lands have enabled us to bring in, what I would say, more new and upcoming brands that we're also really excited to carry. And we've seen success with some of those brands, the new footwear brands that we're carrying, and we're very excited about that.

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

That's great. I wanted to ask about some of your new store concepts, maybe starting with Public Lands, if that's okay? Just how the concept is performing and what you envision for more stores going forward. And actually, if I can take a step back before that question.

It's just -- since I've been covering DICK'S Sporting Goods, and I think it's been 14 years that I've covered DICK'S, there's always been something in the hopper in terms of a test -- a retail test. And I wondered, from that approach, are you looking to test concepts for within the store with those ideas? Or are you looking for more door growth from those ideas? And then we'll get into the plans.

Lauren R. Hobart
President, CEO & Director

Yes. Okay. Then we'll go to Public Lands.

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

Yes.

Lauren R. Hobart
President, CEO & Director

So yes, you're right. We do have a culture of just trying things. We're very open to trying things. We'll spin things up very quickly and test them. We don't mind if they don't work.

And yes, I'm going back to what you're probably remembering. Like we had a running concept called True Runner. That was a very small concept, more of an urban, small run shop. And while we didn't end up pursuing that particular brand, it completely transformed our thinking about how to sell running in our DICK'S stores, which has now become an enormous priority and platform for us.

So we -- and we had another brand called Chelsea Collective. It was a women's shop. Again, it was just dabbling, learning how to service the female athletes and then brought that back in terms of the service model and different brands that we were selling there. So we loved that. We don't have any regrets about anything. We just keep grabbing the learnings and figuring out where the model makes sense.

Public Lands is -- I would say, there's 2 things that are different from what I just said. Public Lands is one. So that is -- it's only 3 stores right now. There will be more. It's an outdoor concept, and it's a fantastic experience, if you ever get the chance to see one.

They are inclusive. You can do backyard camping as well as -- if you want to climb the highest mountain, we can do everything for you in Public Lands, and it's fantastic. So that, we are betting on, is a long-term growth. That's not just to

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pull into the -- oh, mood lighting. Yes, Excellent. All right.

So -- and then we have Going, Going, Gone!, which is our new outlet channel, warehouse channel, which is just a clear product through the DICK'S stores, which we're finding very, very helpful. It just enables us to keep the assortment in the DICK'S stores fresh and new.

And then I just have to say one last thing, which is, I think, people lump our new concepts and call House of Sport and Golf Galaxy Performance Center as new concepts. I would draw a distinction between those and everything else I've talked about because those are truly the evolution of the DICK'S brand and the Golf Galaxy brand. So it's much less like a new concept than it is just like the best version of DICK'S and the best version of Golf Galaxy, and we'll continue to open those and also pull earnings back.

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

Okay. Very helpful. Thank you. Just on unit growth in general, how do you view the opportunities for new door growth for all the DICK'S Sporting Goods brand infill versus new markets? Is there still white space that you're trying to identify for stores?

Navdeep Gupta
Executive VP & CFO

Yes. No, fantastic. So we talk a lot about that we are a growth company. And when you think about that, there are 2 things that come to mind. One of them is that our core focus around doing -- growing the comp sales within the existing box itself. And then the second is to continue to expand more and more doors and open that as well. So to answer your question, yes, there is a white space opportunity.

But we think of the opportunity as 2 different ways. One is actually opening more and more doors. But then, actually, the second is the way we think about it is we'll open more doors. Like Lauren said, there's a new 50,000 prototype that we are working through as well. But then we also think about how do we reimagine the marketplace with these new concepts that we have, right?

We have talked about Public Lands. We have talked about Going, Going, Gone!. When you think of Golf Galaxy and the House of Sport opportunity, and so we will definitely continue to open more and more real estate locations. We may just show up differently within the marketplace when you think of collectively the assortment of portfolio of these opportunities that we have.

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

Okay. And just given that there's been so much population growth in the suburban and the rural markets, how do you think about the opportunity for maybe urban store locations or where you're not penetrated? And then just a small store opportunity or smaller store opportunities.

Navdeep Gupta
Executive VP & CFO

Yes. A maybe easier answer on the smaller stores, so we feel like 40,000 to 50,000 is an optimum size for our stores. And even in some of the suburban markets, we have done really, really well with that size of the store. Because we want to be able to showcase all the right brands and provide the right experience to the athlete, and going smaller doesn't allow us to do justification to that.

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In terms of the urban, there is a clear focus within the company. We talk about it a lot. We want to find the right balance between the assortment, the size of the store, service that we want to provide and profitability. And so we will -- we are continuing to evolve our thinking on that, but I agree with you that, that's a great opportunity for us that we haven't unlocked.

We do a really good job in terms of the e-commerce capability. And having that access to that athlete, we have actually gotten a lot of those athletes through the COVID time frame. And so our opportunity definitely is on the urban side as well as the white space that we have.

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

So maybe you could talk a little bit about your digital business, if that's okay? It isn't on my list of questions, but it has been transformative. Again, I mean, I do feel like pre-pandemic, it was placed at -- it was invested in for quite some time.

But it seems like there was a step change or a pivot during the pandemic with your digital business. So could you maybe talk to us about the percentage of what it is of sales today, the profitability versus the in-store and how you're approaching digital with the store growth?

Lauren R. Hobart
President, CEO & Director

Yes, you're right. The journey on -- our digital journey has been a several year journey. And it started with us taking all of our capabilities in-house, which is probably, at this point, 5 or 6 years ago, which was absolutely the right thing to do.

It took us a lot of time to build, so 3 years to do that, and bring it in-house and then be able to innovate and grow from there. But as a factor of -- as a result of doing that, we are able to control our own experience, control our own destiny and also have a pricing model that scales -- that leverages when the business grows. So that was not the case before.

So fast forward to the fact that the business is significantly bigger than it was, and that's, at COVID, it was most of our business. And it's still -- I think it's a significant piece of our business. The profitability of that channel improved meaningfully to the point that we are completely indifferent between a store sale and an e-commerce sale, which really helps us. So we can just focus on having the athletes deliver where they want and what they want.

That omnichannel capability, so the day that we closed the stores during COVID on Wednesday, we announced -- we figured out we were doing that on Sunday. And we spun up a team to try to build curbside delivery, and they did it in 2 days. It was supposed to be a 1.5 years project. It was an incredible feat. And that now has become a very important distribution channel for us past the pandemic, which also really helps the profitability because that's the most profitable sales. Just very simple, people ordering, we just run outside. So am I missing anything?

Navdeep Gupta
Executive VP & CFO

No, I think you covered it. Like there are some things -- people miss the fact that our e-commerce business was always profitable.

Lauren R. Hobart
President, CEO & Director

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It was always profitable, yes. But it was less -- much less than it was now.

Navdeep Gupta
Executive VP & CFO

Much less profitable.

Lauren R. Hobart
President, CEO & Director

And we were never losing money, yes.

Navdeep Gupta
Executive VP & CFO

Yes. It's -- and now based on the benefits that we have seen from the curbside capability, the leverage on the fixed expense itself...

Lauren R. Hobart
President, CEO & Director

The increased margins, generally, yes.

Navdeep Gupta
Executive VP & CFO

And the increased margins that we talked about, and those are all sustainable things the way we look at it and say that the profitability of this channel is same as the overall company. And to me, then that allows us to be so much more agnostic. And that is one of the reasons why, at the end of last year, we said we were not going to break this channel apart in terms -- in our external reporting.

It's because the athlete is agnostic. Our athlete is choosing that they want to interact with DICK'S Sporting Goods, and they want to have the flexibility of going either to the store or to the e-com channel. And we said that's the way we need to talk about the business as well. And so we don't talk about it, but it is a huge focus within the company. And we still feel that there's still a lot of opportunity in us continuing to refine our e-commerce model.

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

And I know for your e-commerce model, you lean into your store, your asset base quite a bit, which helps with the profitability as well, the curbside and then just fulfilling from store. Just as you get bigger, will there be any need to build out more DCs or more capabilities for the store in order to keep up that ability to fulfill?

Lauren R. Hobart
President, CEO & Director

On the e-com fulfillment side, we are very much using the stores for that distribution. It's working really well. We call it the triple threat, like when you put the inventory in the store because the walk-in customer can get it, the curbside customer can get it or the store can pick it and pack it and send it to home. So it's just -- it offers a tremendous advantages to us.

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I do think inventory -- these stores, our sales are so much bigger, to your point, 38% bigger than they were in 2019. It's likely we'll need another regional distribution center just to keep managing the supply. But I don't envision more fulfillment centers.

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

And maybe if we could just talk about the supply chain very quickly. We talked about inventory before. But how are you viewing the supply chain maybe today versus 6 months ago? And do you expect to see things continuing to improve?

Lauren R. Hobart
President, CEO & Director

Yes. The supply -- our -- I just have to shout out to our supply chain team. I mean, it's been -- everybody has, for 2.5 years, just on completely unchartered territories in terms of what they were facing. And every time there was a different -- I mean the store -- we rolled around the store and different things had challenges. You couldn't find bikes and then you couldn't -- I mean, you couldn't find any -- every piece of equipment went out of stock for some period of time.

Most recently, in the last 6 months, the biggest challenge they faced was the apparel that came in late. And they were really backed up, and we had a full court press trying to move that inventory. They did an incredible job. And as soon as that inventory started flowing is when we started to see sales in July. We mentioned on our call that July had improved significantly, and that's largely due to the fact that the apparel had started hitting the stores, but it was delayed.

So I think it's going to continue to be choppy. It's not -- we're not going anywhere to make things easy. It's going to continue to be -- but it will -- should be -- there's nothing that we can't handle, and I think the team has done an extraordinary job.

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

Have you had success bringing in receipts earlier or for the holiday and back-to-school? Or is it more...

Lauren R. Hobart
President, CEO & Director

No, I wouldn't say earlier. I would say, on time. Things are starting to just get back to normal.

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

Okay. Well, we have about 10 minutes left. We are asking 4 questions of every company that is on stage with us today. We've addressed some of them already through our questions, but just so that we have a more succinct answer that we can compare, we're asking every company about, first, the health of the consumer.

So just how you're thinking about the health of the consumer into '23 without talking about guidance or anything like that? But do you think the consumer will be weaker, stronger or about the same as we enter the new year versus 2022?

Navdeep Gupta
Executive VP & CFO

Yes, that's a tough one. We don't have a crystal ball to predict that. What we have seen is what, I think, is the easiest

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way for us to continue to think about it. Our consumer has held up well. The lifestyle changes that they have made over the last few years are sustaining. And so for our company, if you look back even when the last recession happened in 2008, 2009, it gives us a lot of comfort in terms of what was the kind of the lowest point in our comp and how quickly the business came back. And that's the way internally we are talking about the business.

And I would say, we continue to remain very optimistic that our athlete will continue to hold up well. Because the importance of the lifestyle changes, the importance of team sports and the kids continuing to have that normalized childhood is important. And to me, that would be the way we continue to do think about the business for next year.

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

All right. The second question, again, we've talked about inventories and promotions. DICK'S is managing their promotions. But the overall industry, in general, seems to be very promotional, especially going into the back half of the year. So this is more of an industry question more than a DICK'S specific question, but how do you think we should think about the promotional environment, once we get into more normalized inventory environment? Again, looking into next year, what do you expect for the promotional environment for those you compete against?

Lauren R. Hobart
President, CEO & Director

I believe it will be, at least in the categories where we operate, much more normalized in terms of less deep promotions than there were and more surgical. And that's because people have really narrow distribution. The products that we sell are no longer readily accessible without real segmentation. It's different -- more discount retailers or people who put it on sale. So as we look, I feel very optimistic that the promotional environment will maintain its health go forward.

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

Okay. I'm going to skip the margin question because we've talked about that, but I will ask about units versus price. That is something that we get a lot of questions about how you lap maybe what we've seen this year, which has been a lot more -- sorry, ticket versus traffic. So as you look into 2023 and beyond, when do you see that normalization uptick in traffic returns?

Navdeep Gupta
Executive VP & CFO

Yes. So first of all, I think it will be important to make sure that the compare points are appropriate. So as we -- like I said, for inventory, we are looking at versus 2019 sales, we're looking at as well. When you look at the transaction trends also versus 2019, what we have seen is that the -- our ticket and transactions continue to remain healthy.

Yes, there is a little bit of a higher kind of acceleration coming from the ticket size, but that's a combination of 2 things, right? Our assortment has become significantly more high heat, more premium assortment. The access that we have gotten is really, really differentiated. And that drives the premium kind of a price point.

The other is, yes, there is some inflation that we have selectively decided to pass. So as we look to the inflation, the 2 things that we have talked about, that fuel and the freight costs have come down in the last, call it, 90 days. So if that trajectory holds, there could be an opposing pressure that will come on the cost of goods itself, which will be a little bit of a -- I don't know, I'd say, a little deflationary, but it will not be continuing to go up at the same clip that we have seen.

The other would be, if the product continues to be differentiated, that will continue to drive the AUR up for us. And that's

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a good way, right? We are providing a very differentiated product and the access to our athletes.

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

Okay. Great. So just in our last couple of minutes, I thought I could squeeze in one more question just about cash and prioritization. Cash balances do remain relatively high, certainly versus pre-pandemic levels.

Do you see any meaningful change in prioritization in CapEx or overall capitalization in the next year or 2 as a result of these higher balances? Or any certain projects that maybe you want to bring forward that maybe is longer term?

Navdeep Gupta
Executive VP & CFO

Yes. No, first of all, we are very pleased with the quality of the balance sheet that we have right now. And you will see us carry a more elevated cash balances than pre-pandemic. Two reasons: one, the company, it's the size and the scale itself is very different. And I think all the treasury professionals have learned a few lessons through the COVID time frame that more cash on the balance sheet is not actually a bad thing. So we will carry more elevated levels of cash compared to the prior year.

The next priority for us continues to be investing aggressively into the business. We see opportunities, like we talked about, just not opening new real estate and opening new stores. But there is so much organic opportunity to invest within the store that we have currently between the premium full-service footwear decks, the assortments that we have in terms of just more and differentiated experience within the store, whether it is through HitTrax cages or the Golf Galaxy Performance Center investment.

And then we have a lot of capability investments. We talked about retail media network that we have just launched, call it, a couple of weeks ago. And then we -- when you think about the opportunity we have in data analytics. So there's a lot of investment that are just organic to the business that we will continue to lean into. And then outside of that, we have continued to grow our dividends really well, and we have been a dividend-paying company since 2011. So that continues to be a focus as we look to the long-term capital structure.

And if there is excess cash outside of that, we will return that through the share buybacks. We have already bought $360 million worth of shares this year, and we'll continue to be opportunistic. That is what I call as a temporary capital structure today that we have with our convertible note. We have bought back, including the transaction that we finished yesterday, $300 million worth of the convertible note back. There's still $275 million that is still outstanding. We'll continue to be opportunistic with that.

And then, I guess, the next question would be M&A. Yes, we will continue to look at the M&A opportunities. We are not very acquisitive, but that does not mean that we don't look at M&A opportunities. We'll continue to evaluate those appropriately.

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

Okay. All right.

Lauren R. Hobart
President, CEO & Director

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Can I interject with what -- we've talked a lot about the financial aspects of the business, which is completely appropriate. But I do want to make sure people understand, I think the people aspects of our business is so important. And I do think part of the DICK'S journey over the last 5 years has been focusing on sort of elevated service for our customers who we call athletes. And then also an incredible focus on teammate satisfaction and being a great place to work.

And these are these intangible things that -- it doesn't come up so much on the scorecard, but as you go into a DICK'S store and talk to the teammates, they are empowered, engaged and, really, it's a fun place to work. So we never had some of the challenges that people had, staffing. We have an incredible energy out in the stores right now. And I just think that helps fuel the flywheel, just an intangible piece of the pie that we haven't talked about.

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

Well, thank you.

Lauren R. Hobart
President, CEO & Director

Thank you.

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

That was very helpful. Thank you for joining us. Thanks, everyone.

Lauren R. Hobart
President, CEO & Director

Thank you, everybody, for your interest. Appreciate it.

Navdeep Gupta
Executive VP & CFO

Thank you.

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