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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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President, CEO & Director

Navdeep Gupta
Executive VP & CFO

ANALYSTS

Simeon Ari Gutman
Morgan Stanley, Research Division

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Presentation

Simeon Ari Gutman
Morgan Stanley, Research Division

Hi, everyone. I'm Simeon Gutman, Morgan Stanley's hardline, broadline and food retail analyst. Hope you're good. We're kicking off I don't know what number global consumer retail conference. Pleased to have DICK'S Sporting Goods here represented by Lauren Hobart, President and CEO; and Navdeep Gupta, EVP and CFO. First time back in person in 3 or so years. DICK'S has been a regular participant. Thank you for that. I'm going to read a quick disclosure, and then we're going to get underway.

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 Morgan Stanley sales representative. I think DICK'S may have a quick disclosure themselves.

Lauren R. Hobart
President, CEO & Director

Yes. Hi, everybody. I'm Lauren Hobart, and I do want to remind you that our safe harbor statement is on our website at DICK'S.com.

Simeon Ari Gutman
Morgan Stanley, Research Division

Thank you. So we have 35 minutes. I think I may hog the entire session. We'll see. But we do have Q&A. We have mic if it's appropriate. Quick intro, which I don't think DICK'S needs much one. DICK'S is -- I don't want to describe the story as a pigeon hole of the most successful retailer post pandemic, but it is one of the more debated stocks because of how well the business is performing and holding its post-pandemic gains.

I think what a lot of folks don't appreciate is how much this business has changed inside and out. And a lot of the focus of these questions are more in fundamental change as opposed to some of the tactical things. So with that, we'll kick it off.

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Question and Answer

Simeon Ari Gutman
Morgan Stanley, Research Division

First on top line, which categories over the next few years, do you think grow the most or least? And then with respect to durables, I guess some of the big ticket durables were the torchbearers of the pandemic, what do we -- what's the outlook there? And what do you see in those categories going forward?

Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Simeon. I think when you look at our business, it is unique among retail, and there's several things driving that. First of all, our category is growing, and we have an 8% market share and $120 billion category, and we've been gaining share. If you look at our core categories, which are footwear, apparel, team sports and golf, those are the 4 that comprised our biggest focus areas.

They are doing unbelievably well. We've changed our assortment strategy completely. We have access to much more allocated and higher heat products. And those are, at this point, past any pandemic impact. Golf is maybe the one that if you're talking about a hardline durable, that still has some pandemic hangover, so to speak.

But even that has rebaselined significantly higher than it was in 2019. In fact, all of the pandemic categories, which are, again, smaller pieces of our business, so bikes, outdoor equipment, generally fitness, all have rebaselined bigger. So you put that aside, and that's great.

But the core business, footwear, apparel, team sports is doing incredibly well. And that's really what drove our comp this past quarter. We had a 6.5% comp. The other thing I would just point out is that this Q3, which was a record Q3 for us, it was a 6.5% comp on top of a double-digit comp, on top of an over 20% comp, on top of a 6% comp. So I'm hoping that, that will start to demonstrate to people the sustainability of the growth that we've been on.

Simeon Ari Gutman
Morgan Stanley, Research Division

You mentioned rebaseline. So what gives you that confidence that these durables have rebaselined? How do we know it's done...

Lauren R. Hobart
President, CEO & Director

Because the sales are significantly -- so if they were “x” in 2018 or '19, and they spiked in '20 and '21, they are here now. So if they're not receding to the levels that they were before. So I think what that speaks to is that a lot of people took up outdoor activities even walking, running, biking. So -- but the behaviors have changed so much. So there was a surge, but it's come back at a higher level.

Simeon Ari Gutman
Morgan Stanley, Research Division

Yes. I think even 1 or 2 conference calls ago, we started talking about how it doesn't look like the big ticket trends were

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getting [worse].

Lauren R. Hobart
President, CEO & Director

No, they're not. And in fact, we've been dealing with that behavior for some time. I mean that's been embedded in our numbers all year that has been receded back to higher but lower than last year levels.

Simeon Ari Gutman
Morgan Stanley, Research Division

Yes. So you mentioned the impressive stacked on stacked on stacked comps, no pun for Ed. So you're one of the few companies where you had positive transaction growth in the most recent quarter. Can you talk about the customer base and how that's changed versus pre-COVID?

Lauren R. Hobart
President, CEO & Director

Yes. That's actually one of our best assets is our customer base, our athlete database. So during COVID, we gained, 2.5 years now, we've gained 20 million new athletes. So our entire database is now 150 million athletes that we have access to in some way, shape or form. Now when you get lower into the number of active athletes, we have over 30 million active athletes.

And then you go a little lower and you say active scorecard athletes, that's grown from 20 million to 25 million. So it was a few years ago, the 20 and now it's 25 and it continues to grow. So those are our absolute best customers. And those scorecard athletes contribute over 70% of our sales. Within that group, there's a gold base that is 25% of our athletes and 40% of our sales. Those are people who spend $500 or more. So they are incredibly loyal, and that is the benefit of all of our direct-to-consumer marketing, our database, our partnership with Nike, the connected membership, all of it is hinging from the power of that database.

Simeon Ari Gutman
Morgan Stanley, Research Division

Customers seem more sticky. Can you talk about structural changes? Why these customers are showing up more? Why the membership is increasing? And why are they repeating at a higher rate?

Lauren R. Hobart
President, CEO & Director

Yes. I think it's because of the core differentiator. So we've been on a transformation now since -- for 5 years, I mean well before the pandemic. It had to deal with increasing allocation of the best products. So if you went back 5 years ago, at DICK'S Sporting Goods, if any of you shop there, you could get amazing apparel, amazing gear, but you could not get the cool footwear.

And that's been a mutual investment between us and some of our brand partners to make it our footwear experience such as that we can get the premium product and the assortment of highly allocated products. So we are -- we have access to much cooler. So that makes it sticky, of course, because now we're having drops of shoes that are liquidating in an hour.

But also, I think it's -- even if you look at our gear, I mean, we now have everything from the opening price point for the rec kid all the way up to enthusiast player stuff. So soccer, we have $279 cleats. So the soccer kid who is really cares

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about performance is willing to invest in those. That makes us sticky because we didn't use to have that kind of breadth.

And the last thing I would say is we've been working tremendously on the service aspects and the omnichannel aspect of our experience. We've been on a 5-year mission to really put -- the athlete is what we call the customer, put the athlete at the center of everything we do. And I know you follow on LinkedIn because I see you from time to time. But you can see us celebrating. We have high 5 cards. We're embracing a culture of recognition and now moving into moments of wow. So how do you really delight athletes become a huge focus. So I think that's another driver.

Simeon Ari Gutman
Morgan Stanley, Research Division

I'll mention it since you went to that direction. The LinkedIn, the culture or the recognition culture. It felt like that started about a year pre-pandemic, maybe a year or 2.

Lauren R. Hobart
President, CEO & Director

Yes.

Simeon Ari Gutman
Morgan Stanley, Research Division

Now you're lapping all of those changes. The [employee base seems] very motivated, bought in. How do you sustain that and build on that?

Lauren R. Hobart
President, CEO & Director

I think it's the gift that keeps on giving in terms of -- we have started -- I mean, we've been doing overt recognition, the high 5 cards, all of that for at least 5 years now. We created a common purpose, which is we create confidence and excitement by personally equipping all athletes to achieve their dreams, which is a mouthful, but the confidence and excitement that we're trying to provide athlete is very much engrained in our teammates and you sustain it because you celebrate it and you get what you measure. So we're always talking about the service levels in the store. We're highlighting and recognizing moments. And I think people are excited to demonstrate what great looks like from that. It only builds a positive momentum.

Simeon Ari Gutman
Morgan Stanley, Research Division

We've been searching and digging for sports participation data as one of the more powerful indicators or justification that there's a higher water level of growth or TAM for this business. What do you see in sports participation data? Which categories -- the data we see is supportive, but it's not the greatest data. So what should we think on that?

Navdeep Gupta
Executive VP & CFO

Yes, Simeon, that's a great question. I would say there are multiple sources of data because there's no single source of data. So we look at NPD, we look at these sporting goods, the industry reports itself. In addition, we also look at the Golf participation data just because the Golf is such a unique piece of the business, and it's not one comprehensive place where you can find it.

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So for us, it's combining these disparate data sources. So that's when like Lauren mentioned, we have -- we operate in a $120 billion of industry, and we only have 8% of the share. And coming back to your question on Team Sports, what we are seeing is that the team sport participation is coming back strongly. It started to come back right after pandemic. And in the first 2 -- or first, call it, 3 quarters of this year, we have seen really strong participation continuing to rise again in the team sports area.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. I want to talk about the R word, recession. Can you talk about how recession proved the category is broadly and whether a shift away from discretionary spend now is any different in terms of fundamental dynamics that we've had in the past few...

Navdeep Gupta
Executive VP & CFO

Yes. No, I would say we are not recession resistant, but we are pretty resilient because, again, if you look back to when the last recession happened back in '08, '09, even though that was a very different type of a recession, and we'll see how this one shapes out to be. But if you look back as the proxy for that, 2008 comps did turn modestly negative. But then they came back really strong in 2009 timeframe.

And the big difference, as we see it, is the fact that team sports, remaining an active lifestyle or pursuing an active lifestyle is such core aspects of just how we live our lives, like the kids need to go and play the team sports activity. The parents want them continuing to be engaging in these activities. And that's the reason we say that it's not that we are resistant to it, but we are resilient.

One of the things that we have consistently watched in our industry is the fact that we are not as much discretionary category as people tend to think of us. We are much more of a necessity, especially if you think of the 4 categories like team sports, active lifestyle, outdoor lifestyle, the habits that the athletes have adopted continue to remain pretty resilient even in those economic times.

Simeon Ari Gutman
Morgan Stanley, Research Division

Switching topics to products and vendors. I think it was the summer of '19, you had a conference call or it may have been a little before that, where we talked about consolidating the portfolio of products. We're reducing vendor exposure by somewhat like 30%, pretty big moment for DICK’S.

Can you talk about the strategy of that consolidation? Does that continue? Can you talk about how that maybe that change profoundly helped the company? You mentioned some of the high-heat product [post] pandemic. Is it easier to execute in the store now and does it enhance? Or does it -- what does it do to your buying leverage?

Lauren R. Hobart
President, CEO & Director

Yes. So 2 things are going on. First of all, I do remember -- I recall very well, we narrowed our vendor base pretty much so that we could focus on strategic partners and partners who matter and not open up the book to everybody because it was not -- it wasn't curated. It didn't express the power of our expertise.

So we narrowed. Simultaneously, certainly over the past couple of years, our biggest brand partners have also narrowed distribution. And I think it's been a meeting of the minds in that what most of our brand partners are looking for is a

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partner where they can bring their whole brand to life. So that's everything from head to toe, footwear, apparel.

And they're looking for places that are rooted in sport and that provide differentiated retail. So while we've been narrowing and we are completely rooted in sport, that's also been aligned to what our brand partners are looking for. And I think that, that combination has made us just much stronger. The partnerships are much stronger. Our business is much stronger, and we are investing with our brand partners in a level that we haven't done before.

Simeon Ari Gutman
Morgan Stanley, Research Division

So just to paraphrase, it sounds like it's a competitive advantage, what's happening. The other side of that, the risk of a brand partner not doing something aligned with that strategy -- you kind of -- so what -- I think the market worries about that still you become so big with someone that it could still go the other way. So how do you think about that?

Lauren R. Hobart
President, CEO & Director

There's all kinds of checks and balances. We're always going to want to have, of course, the relationships with the biggest and best, but we also are always bringing in new brands. So we have HOKA, for example, a new brand that because we are able to provide a great experience in running has, new for us anyway, has really expanded distribution. We're starting with ON. We are always diversifying.

Even our Golf business and our Public Lands new venture is the new brands, and we're constantly bringing new brands and we have a nice House of Sport has enabled us to meet even new partners, so Free People Movement, FP Movement, for example, we met through House of Sport. That's now being rolled through the DICK'S Sporting Goods chain. So it's just part of how we work. We're constantly -- we have big strategic partnerships, but we're always innovating. And then we've got our vertical brands, which are doing incredibly well and which fill a ton of white space and have a lot of power with consumers at this point.

Simeon Ari Gutman
Morgan Stanley, Research Division

Can you share what percentage is vertical today versus pre-pandemic? And maybe directionally, high heat, I'm assuming is higher as a percent than I was going to say low heat, high heat vs. high heat pre-pandemic.

Navdeep Gupta
Executive VP & CFO

Yes. So 14%, if you look at vertical brand penetration that was -- it's an annual disclosure. So that is as of the end of last year. On surface, you would look at it and say even 2019, our penetration was the same, 14%. However, keep in mind, there's a big change that has happened.

If you look back in 2019, Field & Stream, which was such an integral part of our hunt business and the outdoor category, used to be the biggest category and that business is no longer that relevant. And we have quickly replaced that with the brands like CALIA, CALIA which was always strong, but then VRST has been launched, DSG did not exist. And the success that we are seeing in these new vertical brands that have been launched in the last few years is really, really differentiating the assortment. What was the second question, Simeon?

Simeon Ari Gutman
Morgan Stanley, Research Division

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High heat versus...

Navdeep Gupta
Executive VP & CFO

I think to me, the question is a little bit nuanced because like Lauren said, it's not just about high-heat allocated footwear. For us, it is differentiating brands that we are partnering with. As we've looked -- as Lauren talked about, HOKA, as you look at On Running. On the apparel side, we could talk about Free People Movement.

So that's where this percentage continues to evolve. What we are very excited about is the fact that we continue to differentiate our assortment and continue to provide a wide kind of a set of price points and unique styles to our athletes, which is resonating really well.

Simeon Ari Gutman
Morgan Stanley, Research Division

Sticking with product, the other P-word, promotions. What's structurally changed? We've talked about this ad nauseam on these conference calls. I don't think the market is still a believer that something is structurally different. So what's different? Why should we fear less promotion going forward?

Lauren R. Hobart
President, CEO & Director

I'll start. And then you can toe in.

Navdeep Gupta
Executive VP & CFO

Absolutely.

Lauren R. Hobart
President, CEO & Director

This is a really, really important point. Everything related to how we promote products is vastly different from what it was before the pandemic. Some of that we've -- before -- even in the last 5 years, I would say. But I'll say, pre-pandemic.

Some of it is because of the product, which we've talked extensively about. So if you have a product that is liquidating quickly that's of high consumer demand, you are subject less to having to discount it. If you have narrow distribution, you're now no longer competing with some of the big department stores that would have X percent off on all key brands, which we were subject to -- you're less susceptible to that, so you can control your own destiny.

But I think even bigger than that, is our entire marketing approach has shifted from what used to be blunt instruments of -- I mean, honestly, we were in the newspaper business when I joined the company, I mean, we were printing newspaper circulars for years and years. You had to fill those pages 6 weeks in advance and release it. You had no idea what the consumer demand was going to be. You didn't know what competitors were going to do with pricing.

You had to just -- you just took a leap faith, and you did it, and that pricing stuck for a week. Whereas now, we don't have any of that in print. Even in our direct mail pieces, we used to have coupons and offers. We just don't have that anymore. So we -- our website used to have $20 off 100 frequently, like weekly, more than weekly. We don't have that anymore.

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So it's because of the different assortment that we have that we don't have to do that and the fact that we do have now personalized digital tools where we can be much more surgical, much more targeted. So if we have a lump of some inventory that we're trying to clear out, we can be very targeted with that and we can turn it on, turn it off. We don't have to decide 6 weeks in advance what's going on there. And that structurally is meaningfully different from how it was. If you look at our approach to even this past weekend, I mean, radically different than what it was in 2019.

Navdeep Gupta
Executive VP & CFO

Yes. Simeon, I'll add 2 more to that. One of them is the mix. And there are 2 parts to the mix. One of them, we talked about the vertical brand mix. The vertical brands carry 600 to 800 basis points of additional margin. So as we have continued to penetrate higher in vertical brands, that's driving. Hunt used to be a decent portion of our business. And that used to have almost about 1,700 to 1,800 basis points lower margin, and that's become a really small portion of the business.

So the mix benefit that we are getting from the vertical brands becoming a bigger portion and hunt going down is one. And then the second one that I would add is clearance, the work that we have done over the last, call it, 3-plus years, around how to be effectively managing our clearance with the concept like Going, Going, Gone! and the Warehouse plus store, which allows us to kind of concentrate all the clearance inventory into these selling locations.

And then you are able to light it up online as well. It's so much easier to be able to find a clearance product, one-off that exists in this dedicated store versus trying to find it in a 50,000 square foot location. So our ability to act upon that clearance merchandise, have a very programmed approach around the markdown cadences, as well as lightening up online has significantly improved the margin recovery on the clearance product as well.

And lastly, I would say is the scale. When you look below merchandise margin into the overall scale of the company, the profitability of the eComm, which was always a profitable business for us even if you look pre pandemic, the profitability of that business with the curbside capability that we launched during 2019, has made that as parallel with the overall company portfolio. So between the profitability improvement, the scale of the business, the overall EBT has significantly improved as well compared to '19.

Simeon Ari Gutman
Morgan Stanley, Research Division

A skeptic pushback to that is the demand environment you've been right on, the market was betting against that, but you've been right on that. And therefore, you haven't really needed to reach into a discounting regime or promo. And that's why we haven't had the resort to the $20 [off]. How do you respond to that? Because I think that's a misunderstanding than of how you approach the business in a different top line backdrop.

Navdeep Gupta
Executive VP & CFO

Yes, it goes back to, again, what is being marketed or promoted in the marketplace, right? If you're not competing with the product that is being actually marketed or promoted, you don't feel the impact associated with that. At the same time, I won't say that we will do -- we will just agnostically just look at the profitability and margin rates.

We will do what is right, which all throughout the high inflation period in the last few years, we have done that. We have balanced the action -- our pricing actions with what was right for the athlete versus also what is right for the business. And so we'll be always prudent, but I feel like the differentiated portfolio that we have, the capabilities that we have, the reach that we have with the athletes continues to give us a lot of confidence that we'll be able to maintain the merch

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margins.

Simeon Ari Gutman
Morgan Stanley, Research Division

On the last conference call, the term, the significant meaningful amount of gross margin retention was that -- what is -- I don't know if there's any further definition to that. And then just the mechanics of higher gross margin, we talked about less promotion. We were thinking is that higher markup? Is it less marked down? Or is it something within that? I think you've kind of answered that already though.

Navdeep Gupta
Executive VP & CFO

Yes, I would say vast -- like we would maintain the majority of the gains that we have delivered over 2019. We feel really, really confident. Again, it goes back to having the full suite of actions that you can say. It's not just about what you're able to do with the AUR. If you have a higher heat product, where the AUR is constantly going up, that helps you differentiate.

And then in addition, you have very surgical pricing capabilities that we have in terms of how we should be promoting, where and how much should we be promoting in terms of pricing actions that we take around the clearance product and the markdown capabilities we have. We feel really confident that we are differentiating.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. Transition to marketing. You touched on this in a couple of the answers, but we'll go back several years or even pre-COVID to now, what are the changes in terms of personalization, more targeted? We talked about loyalty. I don't know if there's anything we should expand upon with loyalty or if we've hit the key pieces, but what's changed about the loyalty program that people are retaining at higher levels?

Lauren R. Hobart
President, CEO & Director

Yes. The entire marketing engine has changed and is now very focused -- very much digitally focused. So it's moved medium completely. The other thing we have invested in meaningfully over the past 10 years, but continue to invest in is our brand. So we're not just transactional. So when I speak about a move from print to digital, that can often be traffic driving, and we do focus on product in those, but we also tell big brand stories, and that's only increased over the past few years because we view it as a very important part of our values and what we believe in and what attracts customers.

Loyalty is a huge driver for us, as for all the reasons I mentioned about scorecard and how much of a penetration that is. It fuels our entire direct-to-consumer marketing database. It is the power. It is the fact that we know who our customers are -- is -- it is an enormous asset. And at the same time, I would say we're in early innings in terms of being able to really tap into that data.

So we have really good segmentation now. We do personalized in small ways, and we see great responses. So if you get a personalized e-mail, the response rates are terrific. We will move to a point where you'll have a personalized web page experience. When you come in, it will be more fuel for all of the marketing we send. And that's coming. So early innings still in terms of the impact.

Simeon Ari Gutman
Morgan Stanley, Research Division

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Okay. We have 11 minutes. I have 2 more topics, omnichannel and then culture. Culture, we touched on a little. Omnichannel. In terms of capabilities that have -- that DICK'S has been investing in. This has been a multiyear journey. Some of them were about to, let's say, hit or come to fruition pre-COVID, and now they were all put on display throughout. So can we talk about some of the capabilities that have structurally been invested in the last several years?

Lauren R. Hobart
President, CEO & Director

In hindsight, we made some really good choices at the right time. And what I mean by that is we took -- it was a difficult decision to bring our entire website in-house and manage it ourselves. It took 3 years to get that done well before COVID.

But what that enabled us to do when the pandemic hit was to spin up curbside in less than 2 days. So before the stores were actually closed. We had created a curbside option. We've been able to innovate in meaningful ways across what the -- how the consumer transacts. The functionality of our site is much improved. The checkout experience is much improved.

But what we're now going to turn to, if I look to the future, is how do we make it really experiential. So take what we've done with the House of Sport. And if any of you haven't been to a House of Sport, I really encourage you to get there. There's 3 currently, one in Knoxville, one in Rochester, one in Minneapolis. It is the best expression of DICK'S Sporting Goods come to life. It's 100,000 square feet, experiential. It is very much a statement of our future. But I forgot why I brought that up. What was I...

Simeon Ari Gutman
Morgan Stanley, Research Division

Lauren we're talking about omnichannel capabilities.

Lauren R. Hobart
President, CEO & Director

Yes. So we are now able to innovate on the website in the way that we've sort of rethought the whole brick-and-mortar experience. So more to come in terms of how that looks and feels. So it becomes less transactional and more experience.

Navdeep Gupta
Executive VP & CFO

If I may add, I think the way we go to business is now an omnichannel approach, right? The way we think about an athlete, like we said, Lauren, but athlete begins how the kind of our overall view of the business begins.

But then we look at the overall omnichannel platform as how that manifests to an athlete whether an athlete walks into the store and buys the product or whether we ship it from the store. 80% of our products get shipped from store when you look at it in the eComm business. And the capabilities that we have been able to provide where an athlete can see the inventory, if they are shopping online, they can see what inventory is available in their store in their neighborhood. And actually go up there and drive. And that actually, as we sequentially look at all of these capabilities that have really given a tremendous amount of confidence when we look at the omnichannel growth.

Lauren R. Hobart
President, CEO & Director

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One other thing, too, we just, yesterday, opened up same-day delivery across the entire chain. So we were doing a test. So people can now on the DICK'S website choose same day. So that's another huge benefit. But just we keep innovating and making the curbside experience better offerings, things like that. It's really great.

Simeon Ari Gutman
Morgan Stanley, Research Division

Through a partner or?

Lauren R. Hobart
President, CEO & Director

It is. That one is through DoorDash.

Simeon Ari Gutman
Morgan Stanley, Research Division

So eComm profitability, maybe just to set the parameters. Where was eComm penetration, call it 3 years ago? Where is it today? And have you said definitively, we're making a similar margin, same unit of eComm is neutral to our EBIT margin versus what it used to be.

Navdeep Gupta
Executive VP & CFO

Yes. So the eComm penetration, if you look probably 2019, it was around kind of low -- high teens, 15% or 16%. That did rise significantly as we were going through the COVID business. And we no longer are splitting that out as far as starting this year. The reason was always that if you look at it, like Lauren said, if you're looking -- if you're beginning with the athlete in mind, it does not matter how that order gets fulfilled. We should be totally agnostic to it.

The other reason is a financial reason as well, back in 2019, the profitability of the eComm business, it was profitable, but it had -- it lagged the, kind of the overall portfolio average. With the curbside capability, the leverage we have been able to drive by having the platform being brought in-house. Those have become -- those have made the eComm business as profitable as comparable to the overall company average. So even from a financial perspective, we are agnostic on how that business gets fulfilled. And that's the reason -- when we look at the business today, we don't look at it whether it's the store business or whether it's an eComm business, we look at it on an agnostic basis.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. We'll move to culture. We talked about the service and recognition initiative. I'll transition to a second one. How have you -- and I don't know if Navdeep is answering this question, or you, built on the successes Ed have built over time? And put your own brand on the company? And in what ways are you impacting employee retention, morale, et cetera?

Lauren R. Hobart
President, CEO & Director

I'll start. But I think for any of you who know Ed Stack, couldn't have had a better partner during these last 12 years to train me in the business. I meanhe essentially took the stores from 2 to what we are today. From 2 stores from his dad that he bought back many, many decades ago.

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So he's an incredible merchant, incredible business partner, incredible mentor. So -- and we work -- we've been working side by side now for 12 years. So everything that's happened to the company has been with Ed's input very significantly. The cultural work that we've been doing over the last 5 years came out of a joint focus on the stores being -- the people in the stores are hugely important to how we execute every day.

We've always had that philosophy. So even for decades now, it's go to the stores and you'll find the truth. That's what Ed and the management team have always believed. We've put a little more sizzle and formal recognition and focus on culture on the programs. We're more recognizing in very fun ways and things. But the essence is really very much the same, and I think it always will be.

Simeon Ari Gutman
Morgan Stanley, Research Division

Anything - Oh, I'm sorry.

Lauren R. Hobart
President, CEO & Director

No, no. I was just saying...

Navdeep Gupta
Executive VP & CFO

You covered it really well.

Simeon Ari Gutman
Morgan Stanley, Research Division

You mentioned House of Sport, you have three locations. If we look back 5 to 10 years, there was always some dabbling with formats and stores. Is there anything around that? We know you have a few concepts that are out there. Do you -- is that going to look profoundly different 5 years from now?

Lauren R. Hobart
President, CEO & Director

I think our -- House of Sport has been a tremendous success. So what started off as a pilot and a test is really demonstrating great sales, great returns. So you're going to see us continue to build Houses of Sport and at the same time, pull the learnings from House of Sport down to our standard 50k.

So 80% of our stores are up for renewal in the next 5 years. We're constantly having the opportunity to remodel our fleet and/or to relocate it. We get even better bumps when we do that. So we absolutely are rethinking what redesign -- we're constantly innovating. And I would envision you might see changes in our 50,000 model.

Navdeep Gupta
Executive VP & CFO

Yes. And Simeon, to add to that. Even if you look at the Golf business, we had Golf Galaxy. But when you look at go and visit some of what we call as the Golf Galaxy Performance Center, where the focus is as much about selling you the equipment, but actually also around getting you the fit for that equipment. So we have truly invested in the capabilities within the store.

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We have the TrackMan technology, the TrackMan bays. You have the technicians there that can actually fit you for the Golf club and the golf set that you're buying. And for us, that's the part of the continuous improvement that we are making in all of our portfolios. Going, Going, Gone! Warehouse Plus is another example of that as we think about it, right. We used to put these big tents outside DICK'S stores where you would go and buy clearance items.

We no longer are going to do that, right? What we have learned through this trial and error with the warehouse concept is we can actually move the clearance, make more space available on the DICK'S store for the normal regular merchandise, which sells at a better -- it has a better sell-through rate, better margins and we can be much more surgical and much more financially aware about managing the clearance. So those are the -- to me, this is what is great about our company. We are not afraid to go and test out new ideas and see if some things work, we will -- we are not afraid to roll them out.

Lauren R. Hobart
President, CEO & Director

Can I go back to the culture thing just for one moment? Because I think it could sound like the softer side, but I do want to point to some of the really tangible business benefits. During the pandemic, we treated our teammates incredibly well because they -- really the company feels like family. It always has and we act that way.

But coming through it, when everybody in many industries was having trouble hiring, we didn't have those same issues. We never had to close an hour for any -- we certainly had challenges as everybody had versus what it used to be like. But our employee morale is at an all-time high right now. We're winning Best Place to Work. And it's a fun place to work. That's on our employee engagement survey every year. So I think it has incredible benefits.

Simeon Ari Gutman
Morgan Stanley, Research Division

Thanks for that. I have one I can ask, does anyone in the audience have a question? I'll ask one, if there are any hands. But just a housekeeping question. The hunt category. You mentioned the elimination of it. But I don't know if you've quantified in the past what that gross margin drag was.

Lauren R. Hobart
President, CEO & Director

1,700 basis points of a drag. It's tiny now.

Simeon Ari Gutman
Morgan Stanley, Research Division

Right. Tiny, but it's been a big -- the simple removal of it has been a structural change for the turn.

Navdeep Gupta
Executive VP & CFO

In terms of the profitability of the business, I would say also, it allowed us to really be surgical about what should go into that space, in that store itself. And that -- the work that we did in 2019, we called it space optimization, where we went and put regionally relevant product, and that gave us tremendous amount of confidence that we could exactly find what is relevant to the athlete and put the product there. And it wasn't that it was all footwear everywhere. It was licensed, it was team sports, it was footwear, it was cleats. And being really, really surgical about that has kind of unlocked a lot of capabilities within the company to be relevant to the athletes on a local basis.

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Simeon Ari Gutman
Morgan Stanley, Research Division

If we don't have any hands, maybe just the last question in terms of assortment online, where is it today versus several years ago? And is it 80-20 rule still apply, meaning -- I mean, we think about this endless aisle being impactful, but is that really the magic? Or is it still 20% of the product generates 80% of the revenue?

Lauren R. Hobart
President, CEO & Director

We have, in the past several years, cleaned up. We used to open up everything on the website, and we found it was harder to filter, harder to present a curated point of view. So we've narrowed our distribution on the website to be more similar to what's in the stores. We do have extended sizes.

We do have some products that are web-only, but very few. Mostly, it's an extended aisle, and that's even more reinforced by the fact that we are fulfilling over 80% of our e-commerce sales through our stores now. So it's become a huge point of differentiation that we actually put the product in the stores. We can open it up to the curbside athlete, the in-store athlete or the ship-to-home athlete.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. Well, 12 seconds still. Thank you very much, Lauren, Navdeep. Happy holidays. Congratulations on the transformation. I appreciate you joining.

Lauren R. Hobart
President, CEO & Director

Thanks, everybody.

Navdeep Gupta
Executive VP & CFO

Thanks, Simeon.

Lauren R. Hobart
President, CEO & Director

Thanks, Simeon.

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