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DICK'S Sporting Goods, Inc. NYSE:DKS

FQ4 2023 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 11

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Presentation

Operator

Hello, everyone, and welcome to the DICK'S Sporting Goods Q4 2022 Earnings Conference Call. My name is Emily, and I'll be coordinating your call today. [Operator Instructions]

I will now turn the call over to our host, Nate Gilch, Senior Director of Investor Relations. Please go ahead.

Nathaniel A. Gilch
Senior Director of Investor Relations

Good morning, everyone, and thank you for joining us to discuss our fourth quarter and full year 2022 results. On today's call will be Lauren Hobart, our President and Chief Executive Officer; and Navdeep Gupta, our Chief Financial Officer. The playback of today's call will be archived in our Investor Relations website located at investors.dicks.com for approximately 12 months.

As a reminder, we will be making forward-looking statements, which are subject to various risks and uncertainties and that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC including our last annual report on Form 10-K and cautionary statements made during this call. We assume no obligation to update any of these forward-looking statements or information.

Please refer to our Investor Relations website to find a reconciliation of our non-GAAP financial measures referenced in today's call. And finally, for your future scheduling purposes, we are tentatively planning to publish our first quarter 2023 earnings results on May 23, 2023.

With that, I will now turn the call over to Lauren.

Lauren R. Hobart
President, CEO & Director

Thank you, Nate, and good morning, everyone. We are very pleased with our 2022 results, which demonstrate the continued success strength of our business as we realize the benefits of our long-term transformation through focused strategies and strong execution. Our athletes are passionate about healthy active lifestyles and they've continued to prioritize sport and rely on DICK'S Sporting Goods to meet their needs. Importantly, we continued to gain market share at an accelerating pace with considerable growth in our largest and most important categories. Our fourth quarter was a strong ending to another strong year. This Q4, we achieved record quarterly sales of $3.6 billion, and our comps increased 5.3%.

This strong comp was on top of a 6.6% comp last year, a 19.3% comp in 2020 and a 5.3% comp in 2019. And for this fourth quarter, we delivered non-GAAP EPS of $2.93, significantly ahead of any pre-COVID Q4 in our history. For the full year, we achieved sales of $12.4 billion. Our non-GAAP EBT margin was 11.4%, and we delivered non-GAAP EPS of $12.04. To put this in context, when you look at our 2022 performance versus 2019, our sales increased 41% or $3.6 billion.

Our merchandise margin increased more than 300 basis points. Our non-GAAP EBT margin more than doubled and our non-GAAP EPS is more than 3x higher than 2019. Our strong performance and financial strength position us to increase the rate of investment in our business to fuel long-term growth opportunities and also return significant capital to

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shareholders. The step change increase in our dividend that we announced today, more than doubling our annualized payout to $4 per share or $1 on a quarterly basis, clearly reflects our strong conviction and a structurally higher sales and earnings profile of our business and our ongoing focus on delivering shareholder value.

With 2023 marking our company's 75th anniversary, this is an incredibly exciting time for DICK'S Sporting Goods. Our company was founded in 1948 by Dick Stack with a dream and $300 from his grandmother's cookie jar. Under Ed's leadership, it's grown from a small bait-and-tackle shop to become the preeminent sporting goods retailer in the country. I've had the honor of working alongside Ed for over a decade and we will continue partnering to drive the business forward.

While we will take the time to celebrate our heritage, we believe it's just as important to use this milestone as an opportunity to look forward. Our future is extremely bright, and we have great momentum as we write the next chapter in our growth story. Our 2022 results provide a strong foundation upon which we will build in 2023 and in the years ahead.

In 2023, we will grow both our sales and earnings through positive comps, a return to square footage growth and higher merchandise margin. We expect our comparable store sales to be in the range of flat to positive 2%. We expect our earnings per diluted share to be in the range of $12.90 to $13.80, which at the midpoint is up 11% versus 2022.

We will continue to create and define our future and as the largest U.S. sporting goods retailer, we are well positioned to extend our lead and continue gaining share in a fragmented $140 billion industry. I'd like to thank all of our teammates for delivering another strong year and for their passion, hard work and dedication to our business.

At DICK'S, it is our people who make us great. And none of what we would have accomplished -- none of what we have accomplished -- excuse me, would have been possible without our exceptional team.

I'll now turn the call over to Navdeep to review our financial results, outlook and capital allocation in more detail.

Navdeep Gupta
Executive VP & CFO

Thank you, Lauren, and good morning, everyone. Let's begin with a brief review of our full year 2022 results. Consolidated sales increased 0.6% to a record-setting $12.37 billion and the comparable store sales decreased 0.5%. When compared to 2019, sales increased 41.3% or $3.62 billion, demonstrating the sustainability of our structurally higher sales compared to pre-COVID levels.

Importantly, if you look at some of the slides that we have inserted in our investor deck, you will see that approximately 80% of our growth was driven by sales in our priority categories of footwear, athletic apparel, team sports and golf, where we gained considerable market share. These gains are the direct results of our differentiated product, enhanced service and elevated experience we provide to our athletes.

On a non-GAAP basis, gross profit for the full year was $4.29 billion or 34.65% of net sales and declined 368 basis points from last year. However, our gross profit increased 531 basis points over 2019 on a non-GAAP basis. As expected, the year-over-year decline was driven by merchandise margin rate decline of 303 basis points. When compared to 2019, our merchandise margin rate was up 308 basis points, it's important to highlight that we maintain the majority of the merchandise margin expansion that we drove over the prior 2 years. We also saw a significant leverage of 306 basis points in occupancy cost due to our structurally higher sales.

On a non-GAAP basis, SG&A expenses were $2.78 billion or 22.45% of net sales and deleveraged 78 basis points from last year. SG&A dollars increased $112 million, primarily due to investments in hourly wage rates, talent and technology

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to support our growth strategy. This was partially offset by lower incentive compensation expense. When compared to 2019, on a non-GAAP basis, SG&A leveraged 178 basis points due to the significant sales increase.

Interest expense was $95.2 million, an increase of $68.2 million on a non-GAAP basis compared to the same period last year. This increase was primarily due to $52.8 million of interest expense related to the $1.5 billion senior notes issued during Q4 of 2021. The current year also included $23.3 million of inducement charges that were partially offset by cash interest savings both related to our exchange of approximately $516 million, a principal of our convertible senior notes.

Driven by our structurally higher sales, expanded merchandise margin and operating efficiencies compared to pre-COVID levels, non-GAAP EBT was $1.41 billion or 11.43% of net sales. This compares to a non-GAAP EBT of $440.5 million or 5.03% of net sales in 2019, an increase of close to $1 billion, or 640 basis points as a percentage of net sales.

The additional slides that we have included in our investor deck highlight the key drivers of our structurally higher profitability today versus pre-COVID. These include significant leverage of fixed costs due to our structurally higher sales base, a structurally higher merchandise margin due to our differentiated product assortment, more granular pricing management and the merchandising mix benefits and the improved e-commerce profitability, which is now in line with the total company EBT margin.

In total, we delivered non-GAAP earnings per diluted share of $12.04. This compares to a non-GAAP earnings per diluted share of $15.70 last year and is more than 3x our 2019 non-GAAP earnings per diluted share of $5 -- of sorry, $3.69.

Now moving to our Q4 results. We are very pleased to report a consolidated sales increase of 7.3% to $3.6 billion. This was the largest sales quarter in the history of DICK'S Sporting Goods. Comparable store sales increased 5.3% on top of a 6.6% increase in the same period last year and 19.3% increase in Q4 of 2020 and a 5.3% increase in Q4 of 2019.

Our strong comps were driven by a 7.6% increase in transactions, partially offset by a 2.3% decline in average ticket. Within our portfolio, our priority categories did very well, driven by our differentiated assortment across footwear, athletic apparel and team sports. When compared to 2019, sales increased 37.9% or $988.1 million.

On a non-GAAP basis, gross profit in the fourth quarter was $1.17 billion or 32.44% of net sales and declined 514 basis points versus last year. However, our gross profit increased 384 basis points over Q4 of 2019 on a non-GAAP basis. The year-over-year decline was driven by merchandise margin rate decline of 640 basis points and partially offset by lower supply chain costs.

As planned, during the holiday season, we provided our athletes with a series of compelling item level deals. Additionally, we continue to address targeted inventory overages due to the late arriving Sprint product. As a result of these actions, our inventory is in great shape as we start 2023. We are taking in new receipts and could not be more excited about our spring assortment. Importantly, when compared to 2019, Q4 '22 margin rate is 209 basis points higher, driven by a differentiated assortment, combined with our sophisticated and disciplined pricing strategy and a favorable product mix. These are the same key contributors to our structurally higher margins that we have been emphasizing.

On a non-GAAP basis, SG&A expenses were $823.7 million or 22.9% of net sales and leveraged 48 basis points compared to last year. Interest expense was $18 million, an increase of $9.2 million on a non-GAAP basis compared to the same period last year. This increase was primarily due to $11.4 million of interest expense related to the $1.5 billion senior notes issued in January of fiscal '21.

Driven by our structurally higher sales, expanded merchandise margin and operating efficiencies compared to pre-

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COVID levels, non-GAAP EBT was $350.5 million or 9.74% of net sales. This compares to a non-GAAP EBT of $148.6 million or 5.7% of net sales in 2019, an increase of $201.9 million or [404] basis points as a percentage of net sales. In total, we delivered non-GAAP earnings per diluted share of $2.93. This compares to a non-GAAP earnings per diluted share of $3.64 last year and represents a 122% increase over 2019's non-GAAP earnings per diluted share of $1.32.

As Lauren said, we are very excited about the opportunities ahead of us, particularly in our core business with DICK's House of Sport. As a result, we plan to convert our 17 existing Field & Stream stores, the majority of which are part of DICK'S Field & Stream combo store to DICK's House of Sport or larger format DICK's stores and exit the Field & Stream brand.

We closed 12 of these stores during Q4, and we plan to convert the remaining stores by 2024. As a result, in Q4, we incurred pretax charges totaling $30.1 million, primarily noncash impairments of Field & Stream store assets. These charges, along with certain items related to our convertible senior notes were included in our GAAP earnings per diluted share of $2.60. For additional details on this, you can refer to our non-GAAP reconciliation table of our press release that we issued this morning.

Now looking to our balance sheet. We ended Q4 with approximately $1.9 billion of cash and cash equivalents, with no borrowings on our $1.6 billion unsecured credit facility. Quarter inventory levels increased 23% compared to Q4 of last year. As a reminder, we were chasing inventory last year amidst industry-wide supply chain disruptions. Therefore, the more useful comparison is against 2019. Compared to Q4 of 2019, a 38% increase in sales was well ahead of our 29% increase in inventory. Our inventory is healthy and well positioned.

Turning to our fourth quarter capital allocation. Net capital expenditures were $89.8 million, and we paid $39.3 million in quarterly dividends. We also repurchased approximately 610,000 shares of our stock for $66 million at an average price of $107.53. Furthermore, following the exchange of approximately $95 million of the outstanding principle of our convertible senior notes, we gave notice in February to the convertible noteholders that the remaining $59 million will be redeemed in shares for the total principal plus the accrued interest. We expect these notes to be fully paid off by April 18.

Now let me move to our 2023 outlook, which will be for 53-week year. Coming off of 2 consecutive record years in 2020 and 2021, our 2022 results provide a strong foundation upon which we will build in 2023 and in the years ahead. Let's review the details. Comparable store sales are expected to be in the range of flat to positive 2%, with comps expected to be stronger in the first half due to improved inventory availability.

At the midpoint, EBT margin is expected to be approximately 11.7%, driven by increase in gross margins. This includes an expected improvement in merchandise margin and lower supply chain costs. Q1 gross margin is expected to meaningfully improve versus Q4, but be modestly down year-over-year primarily due to lower merchandise margins partially offset by improving freight expenses.

We expect both gross margins and merchandise margins to sequentially improve through the year. SG&A expenses are expected to deleverage primarily due to investments to fund our growth strategy. Interest expense is expected to be approximately $55 million, which is down approximately $40 million year-over-year due to the inducement charges that we incurred throughout 2022 as we repurchase our convertible debt and related interest savings.

In total, we anticipate earnings per diluted share to be in the range of $12.90 to $13.80, which includes approximately $0.20 coming from the 53rd week. At the midpoint of this range, EPS is up 11% versus 2022 or up 5% (sic) [9%] on a 52-week comparable basis. Our earnings guidance is based on approximately 88 million average diluted shares outstanding and an effective tax rate of approximately 22%, which is driven by a favorable rate impact on the vesting of employee equity awards in the first quarter.

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I'll conclude with a brief discussion around capital allocation priorities. Investing in our business drive profitable organic growth remains our top priority. We also remain committed to returning significant capital to our shareholders through our quarterly dividend and through opportunistic share repurchases. In fact, over the past 2 years, we have returned nearly $2.4 billion to shareholders, which included approximately $1.6 billion of share repurchases and $766 million of dividend, all while continuing to invest in the profitable growth of our business. Where appropriate, we will pursue acquisitions to amplify our growth and add new capabilities for the future. All of this is underpinned by our commitment to a healthy balance sheet and maintaining our investment grade credit ratings.

For 2023, our capital allocation plan includes capital expenditures of $550 million to $600 million. We will make significant investments to grow our business and drive athlete engagement. And as Lauren said, we are excited to return to growing our square footage. DICK'S House of Sport will be the primary driver of the square footage growth. In 2023, we will open 9 new DICK'S House of Sport locations, 8 of which are existing DICK'S and Field & Stream combo store conversions, along with 1 relocation.

We will also begin construction on more than 10 new DICK'S House of Sport locations that will open throughout 2024. In 2023, we will grow the footprint of our Golf Galaxy business through Golf Galaxy Performance Center and convert temporary value chain stores to permanent locations. In addition, we will convert over additional 100 stores to premium full-service footwear, taking this elevated athlete experience to over 75% of our DICK'S locations.

In terms of returning capital to shareholders, today, we announced a considerable increase in our dividends of 105% to an annualized payout of $4 per share or $1 on a quarterly basis. This dividend increase is based on our confidence in our structurally higher sales and earnings profile and reflects our conviction in our strategies and future growth trajectory.

In addition, our 2023 plan includes our expectation of $300 million of share repurchases to offset dilution. The effect of which is included in our EPS guidance. However, we will consider using our excess cash flow to opportunistically repurchase shares beyond the $300 million.

With that, I'll turn it back over to Lauren to review some of the key initiatives that will propel our profitable long-term growth.

Lauren R. Hobart
President, CEO & Director

Thanks, Navdeep. At DICK'S, we've been reinventing sports for 75 years. Over this time, we've grown significantly to become the largest omnichannel sports retailer in the U.S., a $140 billion industry, and the #1 premium golf and team sports destination in the world. We provide an unrivaled athletic apparel and footwear experience to our athletes. And we are the most important U.S. retail partner to many of the world's leading sports brands.

Since 2017, we have transformed virtually every aspect of our business and have added $3.6 billion in sales over the last 3 years. We are well positioned to extend our leadership in a large, fragmented industry and have never been more excited about the future of DICK'S. Within merchandising, we've built an industry-leading assortment known for differentiated and on-trend product. Our ability to showcase an entire brand portfolio is highly valued by our strategic partners, and our relationships with key brands remain stronger than ever. We're also developing relationships with new and emerging brands, and at the same time, have created powerhouse vertical brands that collectively represent the second largest brand in our company.

In our stores, we've invested in our teammate experience in training to heighten our team's ability to provide an enhanced level of service to our athletes, all while continuing to make DICK'S a fun and rewarding place to work. We believe strongly that highly engaged teammates are critical to providing a great experience for our athletes. And our

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culture is one of our key competitive advantages.

In 2022, we were named one of Fortune's Best Workplaces in Retail. And just last month, we were named one of America's best large employers by Forbes. Along with enhanced service, we've leveraged distinct in-store elements powered by technology to provide an unparalleled athlete experience. Experiential in-store elements such as HitTrax batting cages, TrackMan golf simulators and premium full-service footwear decks, inspire confidence in our athletes and reinforce the power of our expertise.

These strategies in combination with our personalized marketing engine and brand building efforts are working. We added 7 million new athletes during the year and reached record highs in our active athlete database in Q4. Our new athletes continue to skew younger and more female, representing a great opportunity for future growth. Importantly, our gold athletes, our most valuable cohort hit a record high of over 7 million people, equating to nearly 30% of our active scorecard members.

We're seeing very strong retention with our gold athletes and they continue to drive meaningful sales growth, representing well over 40% of total sales. We've also launched new concepts such as Public Lands and Golf Galaxy Performance Center to better serve enthusiast outdoor athletes and golfers and recently announced that we will be acquiring leading outdoor retailer, Moosejaw, a reaffirmation of our commitment to growth in the multibillion-dollar outdoor category.

However, there is no greater example of our commitment to innovation within the athlete experience than DICK'S House of Sport. DICK's House of Sport is redefining sports retail. It's an experiential destination that was inspired by Ed as he challenged us to create a concept that if built across the street from a DICK'S Sporting Goods store would put that store out of business.

It's this way of thinking that drives us to continue to innovate and create market-leading disruption. House of Sport is an experience that fosters deep community involvement goes well beyond traditional retail and has become a destination where athletes can fuel their passions. Since launching House of Sport in 2021, our initial 3 locations have exceeded our expectations, driving strong engagement with our brand partners while delivering much higher total sales and profit as well as much higher sales and profit on a per square foot basis.

House of Sport will be a significant part of our future growth story. Over the next 2 years, we plan to open around 20 additional locations, including Downtown Boston and our 2 hometowns of Pittsburgh and Binghamton, New York. And over the next 5 years, we could have as many as 75 to 100 House of Sport across the country. We are also continuing to pull key learnings into our core DICK'S fleet. In fact, later this year, we're excited to open the next-generation 50,000 square foot DICK'S store in South Bend, Indiana, which will reflect the House of Sport learnings for our athletes. For those who haven't yet had the chance to visit a House of Sport in person, which we highly recommend, we've added a short video to our Investor Relations website to help bring the experience to life.

Across our ecosystem, we will continue to improve our omnichannel experience. For decades, we focused on making meaningful investments in technology with the long game in mind. Our athletes desired touch points have evolved significantly over the years, and we think about how to best meet their needs through a personalized experience enabled by technology and arguably the best data set in sports.

We continue to see growth in our omnichannel athletes who spend more with us and shop more frequently than single-channel athletes. We're excited by the results these investments are generating and believe our capabilities are distinctive in our industry and provide a long-term competitive advantage. As we expand our leadership position in youth sports, GameChanger plays a pivotal role.

GameChanger is the premier scoring and statistics mobile app for youth sports and is a leader in the multibillion-dollar

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sports technology market. As a recurring revenue Software-as-a-Service company. GameChanger has delivered 5-year revenue CAGR of 35%, while also being profitable, a function of its business model, which delivers some of the best unit economics in consumer technology. With GameChanger, we are connecting youth athletes to their teammates, coaches and families through score-keeping and live streaming, all on 1 easy-to-use mobile app.

Over the past 2 years, our GameChanger team transformed its user experience to incorporate video streaming highlights and 8 [new] sports, all delivered to athletes and their families on their phones and tablets anywhere they are. Every year, nearly 6 million games are covered on GameChanger and athletes and their families engaged with the platform for over 280 million hours. To put this in perspective, more games are covered in a single spring month on GameChanger than have been played in the entire history of Major League Baseball. We were honored to see GameChanger named to Fast Company's list of the World's Most Innovative Companies for 2023 and also be named as a finalist for the Sports Business Journal Tech awards that will be held later today. Looking ahead, we will continue innovating within youth sports technology and strengthening this important connection with athletes.

Lastly, we have big plans for our brand in 2023. Over the years, our brand marketing has inspired athletes to participate in sports and our Sports Matter program has made it possible for more youth athletes to experience the unique and life-altering benefits that youth sports provide. We believe it's time to blend the inspiration and aspiration that's always been a part of our brand marketing efforts with the raw power and emotion of our Sports Matter initiative.

To make that happen, we're really pleased to share that we will be relaunching our brand during the upcoming NCAA tournament with a campaign focused on the power of sports to change lives. We are so proud of the great work our team has done. And if you're watching the tournament, men's or women's, I promise you will not miss it.

In addition, we're combining this with a commitment from our foundation of more than $5 million to fund 75 youth sports organizations, each with a $75,000 grant to keep kids playing.

In closing, we want to reiterate that our strong Q4 and 2022 performance is the direct result of our strategies, our agility in meeting the evolving needs of our athletes and our relentless drive to innovate all supported by outstanding execution from our team. Since 1948, DICK'S has believed in the power of sports to change lives, and we are committed to bringing this belief to life through our athlete experience, brand engagement, differentiated product and, most importantly, our people.

These are the pillars of the new foundation of growth for our business, and we believe that no one is better positioned to lead in the marketplace. Before concluding, I'd like to thank all of our teammates across our stores, distribution centers and customer support center for their outstanding efforts and continued commitment to our business.
This concludes our prepared remarks. Thank you for your interest in DICK'S Sporting Goods. Operator, you may now open the line for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman
Morgan Stanley, Research Division

My first question is on the '23 merchant margin guidance that's [being up]. Can you tell us the source, the mix underlying initial markups less promo? And then is the '22 level of merch margin, is that the baseline that you're underwriting has number we won't fall beneath.

Lauren R. Hobart
President, CEO & Director

Simeon, yes, our fiscal '22 level of merch margin is indeed a new baseline. We are planning to grow our merch margin going forward. I'll turn to Navdeep to answer the breakdown of where we think that will come from next year.

Navdeep Gupta
Executive VP & CFO

Simeon, as we articulated in our guidance, we expect the profitability of the business to improve next year, driven by both growth in our merchandise margin and gross margin. And as we talked about it, we are very optimistic about continuing to grow our top line and profitability on the long-term basis as well.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. I guess the follow-up, switch to sales. One of the factors or a lot of factors have driven the better sales performance I think some of the narrow distribution, which is also a reflection of how well you've done that DICK'S is getting key product [high heat] has helped. What's your line of sight that this structure holds that DICK'S continues to be a place with exclusive unique product and that the marketplace doesn't evolve to be more widespread.

Lauren R. Hobart
President, CEO & Director

Thanks, Simeon. You're absolutely right that our product mix and our assortment is a key driver of our growth, and it's been a driver of our growth in our transformation, and it will be going forward. we believe there has been a structural change in our business over the last 5 years. First of all, we've seen a shift in consumer behavior where they are prioritizing athletic endeavor sports, health and active -- heath and -- healthy excuse me, and active lifestyle, and they're prioritizing DICK'S in order to meet those needs. But as you mentioned, we've also completely revamped our athlete experience. So we've got omnichannel capabilities that people are leaning into. We've got a great service model that we continue to focus on. And we brought in experiences such as HitTrax and TrackMan into our overall experience so that people can really feel confident in the goods that they're buying.

And then lastly, our ability to showcase a brand from head to toe and to really put a brand forward and the best light possible has become a big advantage. So our distribution, our access to products, the fact that we now have products all the way from opening price point up to what the enthusiast will desire to meet their needs on the field is absolutely

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part of our ongoing strategy. We're very confident in that growth.

Operator

Our next question comes from Adrienne Yih with Barclays.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Great. And nice end to a great year. Lauren, I wanted to focus sort of on the maybe longer-term horizon on the new concept and the store growth. It sounds like you're now back into the acceleration of square footage and the stores that are being opened are much larger in size, I think. Can you talk about kind of the sales productivity of those boxes and the EBIT contribution and how we should think about that sort of impacting the consolidated 4-wall. And then my follow-up, Navdeep is also on that, in that kind of top line environment, what do longer-term kind of EBT margins look like maybe on a 3-year or 5-year horizon, if you will.

Lauren R. Hobart
President, CEO & Director

Thanks, Adrienne. You're absolutely correct that we are leaning into new store growth and specifically due to the experience we've had with House of Sport, the fact that the 3 experiences that we built as really concept stores have become scalable, highly profitable, more sales, more profit, both on a total basis as well as a square footage basis, we are leaning into that growth. And so we will have 9 that are being built this year from remodels and one relocation as well as 10 in the pipeline for 2024 that we're already going to start construction this year. we're very, very bullish on House of Sport and what this can do for our athlete experience in our business. Navdeep?

Navdeep Gupta
Executive VP & CFO

Adrienne, great question. I think maybe there is 2 ways to answer this. First of all, like we have said 2022 is the new baseline foundation upon which we will grow our sales and earnings over the long term. As also Lauren noted, as we look to the future, we still believe there is a tremendous amount of share gain opportunity for us. We are the largest sporting goods company. And right now, our share in $140 billion industry is just 8%. So as we look to the future, that is we are very optimistic about the opportunity that we have to continue to provide differentiated assortment and service to our athletes and continue to gain share. I'm not willing to give today a long-term rubric, but here's the way to think about it, that we believe we can continue to drive positive comps, continue to grow our square footage and continue to expand our profitability into the future. And we are very optimistic, as you can see based on the guidance that we have provided that for 2023.

Operator

Our next question comes from Robby Ohmes with Bank of America.

Robert Frederick Ohmes
BofA Securities, Research Division

I think 2 questions, just -- I just want to -- I think this is kind of obvious, but the cadence of comps in 2023, could you give a little more color? Are they sort of strongest in the first quarter and then fade through the year and at a 0 to 2. I think you're implying that we should be doing negative same-store sales for the back half of the year. I just want to confirm that.

And then the other question is somewhat related. Just the average transaction size was, I think you guys said down in

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the fourth quarter, I think 2.3%. That doesn't -- you guys don't have negative average transaction size often? Is it -- can you give us color on it? Is it weak, large ticket or lack of price increases? And then also related to that, the traffic was obviously offset that. Was that store -- more store traffic or more online transactions? Any color on these things around same-store sales would be great.

Lauren R. Hobart
President, CEO & Director

Thanks, Robby. I'll start off. The cadence of comps in fiscal '23, you're correct. That we will expect -- we do expect comps to be stronger in the first half than the second half. As you think back to last year at this time, Q1 and Q2, we had significant inventory challenges. That's the whole reason why the inventory came in late as the year went on. And it was difficult to put together a really fantastic athlete experience. At this point, our spring product is in. I would actually encourage you to go to a DICK'S store and take a look. We have a fantastic assortment.

And so due to the comps from last year and the confidence we have in our business, we do expect comps to be very strong in the first half. As you look towards the back half of the year, we're just being cautious. We're up against a 6% comp, and we want to reflect that the comps will moderate. I'll turn it -- I will turn it over to Navdeep to break down some of your further questions. But I do want to start by saying your question about transaction size, I think you have to start with the fact that transactions were up 7.6%.

So while there was a slight decline in average ticket and we don't break out whether that's AUR, UPT, we did find that there were more athletes, so we have more athletes in our database. They shopped more frequently. And in total, they spent more. So delivering a 5.3% comp with that level of transaction size, we're really, really pleased with that.

Navdeep Gupta
Executive VP & CFO

Robby, I think Lauren covered that answered really well. Maybe another way to think about this is if you look at our -- the same transaction and ticket versus 2019, we saw much balanced performance. So that maybe is another way to think about that. And then as you look to the guidance overall, we are remaining very optimistic and confident about the guidance that we have provided here for 2023.

Operator

Our next question comes from Kate McShane with Goldman Sachs.

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

We wondered if we could go back to the merchandise margins and the gross margin guide in terms of what is driving the improvement that you expect for gross margins in '23. Is it because we're lapping such severe inventory issues and promotions in '22 that you expect things to be a little bit better? Is there something changing with the vendor relationships or the merch margin to be a little bit better? Any drill down there would be really helpful.

Navdeep Gupta
Executive VP & CFO

Kate, this is Navdeep. So we gave 2 color commentary around the gross margin expectation. First, that we expect that the merch margin and gross margins will improve into 2023, 2 drivers merch margin as well as the lower freight expenses that we will start to see the benefit into 2023 as well. In terms of a little bit of more cadence around gross -- merch margin itself, as you can imagine, the inventory positions in Q1, both for us as well as the -- in the industry was pretty lean and was pretty constrained. So as we are annualizing that, we expect some level of normalization of the

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pricing in the first half and that's what we gave in our kind of a cadence for the merch margin expansion. And as you think about the back half, we also expect the freight expenses to start to have the benefit as the inventory starts to turn because we capitalize those expenses. So that's the other factor that we have contemplated in our guidance.

Lauren R. Hobart
President, CEO & Director

Kate, I just want to pick up one other part of your question. You asked whether we're lapping severe inventory issues or promotions. I want to be very clear that while we managed through a lot of inventory disruptions last year, there was no return to an overall promotional environment. We cleared due inventory through our value chain stores, through our Going, Going, Gone! chain, and we were able to keep the DICK'S store really looking great for holiday with an assortment of full-price merchandise. And that really was true throughout the entire year. So promotions, I just want to pick up on the -- story that comes up all the time, promotions were not a key factor in our year, last year. There was price item discounts, especially on lumps, but it wasn't a highly promotional environment for us.

Operator

Our next question comes from Chris Horvers with JPMorgan.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

I have a couple of top line-related questions as well. So first, as you think about how you're planning the business you've referenced 2019 up until this point, we're getting to a period is 2019 even a good reference point. So are you looking at things on a 4-year basis? And then more broadly, is the expectation that your business sort of reverts to like a normal seasonal cadence over the year? And then related to that, just as you think about that back half and that hard compare, to what extent do you think that the promotions elevated the comp trend in the back half of the year as -- in terms of like some sales that you're just going to have to naturally get back?

Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Chris. We have been talking in 2019 just due to all of the ups and downs of the past few years, but we will not be doing that going forward. And '22 is the new base from which we're going to grow. We're going to grow the top line and bottom line. And yes, it is our hope that this year, finally, there is some normalized seasonal cadence just because with the inventory challenges for last year and the impact that had on consumer shopping behavior as well as some of the issues people are having with inflation. All of that will -- we're hoping will normalize this year so that we can continue to plan from this going forward.

Important point and related to what I was just saying to Kate, our promotions did not elevate our comp trends in the second half. In fact, most of the inventory liquidation that we had happened in our value chain and in our warehouse stores, which don't affect our comp, our comp was driven by transactions, 7.6% increase in transactions.

Operator

Our next question comes from Mike Baker with D.A. Davidson.

Michael Allen Baker
D.A. Davidson & Co., Research Division

Okay. Geez I hate to ask too mundane and boring modeling questions, but I did want to ask you about your 2020 sales growth or sales outlook versus comps, we can probably estimate the extra week, but is Moosejaw, which I think is a

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couple of hundred million dollars supposed to close in March. Is that in the guidance? Or would that be above and beyond?

Lauren R. Hobart
President, CEO & Director

Go ahead, Navdeep.

Navdeep Gupta
Executive VP & CFO

Mike, Moosejaw is not included in our guidance as the transaction has not yet closed. So we will include that commentary in our next quarter's outlook.

Lauren R. Hobart
President, CEO & Director

It's not likely to be material.

Michael Allen Baker
D.A. Davidson & Co., Research Division

Okay. Fine. Okay. And then a second modeling question. Talk to us about interest income was a big driver to earnings in the fourth quarter. What is -- you told us what interest expense should be in 2023. Can you tell us what interest income is expected within your EBT guidance?

Navdeep Gupta
Executive VP & CFO

That's a great question, Mike. I think it will all depend on what do we do with the excess cash as we have also included in our guidance that we will continue to remain opportunistic with our share buyback. So depending on what we do with the share buyback, that will have an impact on the interest income. But you rightfully said, with the current interest environment that we have, we are able to get a good yield on our excess cash on the balance sheet.

Operator

Our next question comes from Michael Lasser with UBS.

Michael Lasser
UBS Investment Bank, Research Division

So you mentioned that the 30 -- the 2022 percent a 34.6% gross margin -- let me start that again. You mentioned that the 2022 gross margin of 34.6% is the new level from which you'll start to move higher from over -- from here. Yet the 34.6% gross margin last year had a significant amount of inventory liquidation within that. So plus you have the benefit of lower transportation costs. So a, why wouldn't you get more of that back? And to what degree are you just assuming that transportation costs are going to drive the gross margin in 2023.

In a nutshell, why isn't your gross margin going to be even better moving forward? Are you expecting that promotions are going to increase, and that will provide a little bit of an offset?

Navdeep Gupta

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Executive VP & CFO

Michael, let's make sure we understand your question currently because maybe I'll begin with the middle part of your question. You indicated that the transportation cost was a benefit in 2022. Actually, that is not the case because we recognize the freight expenses over the turn of the inventory. So by the time we started to see the early benefits of the freight expenses by the time it rolls through, we actually will start to see the benefit in the second half of 2023.

And in terms of the guidance, that's kind of the first part of your question, what we said about both the sales and the profitability and we're not indicating to the gross margins. We're talking about the overall profitability of the company is the new baseline. So we are very confident in the guidance that we gave that we will improve both the merch margin and gross profit into 2023 over where we finished 2022.

Michael Lasser
UBS Investment Bank, Research Division

Here's the better way to maybe ask the question because it wasn't clear, and I apologize for that. Why wouldn't you get back to the 38% gross margin you had in 2021 when there was less inventory clearance and you should have the favorable transportation costs on top of that? And just in case I want to add my second question, how did the stores that had the full complement of assortment for priority category do compared to the stores that did not have as elevated an assortment within priority categories in the fourth quarter. Did you see a material difference in the comp in those 2 cohorts of stores.

Navdeep Gupta
Executive VP & CFO

Yes. I'll take the first part, and I'll turn to Lauren for the second one. In terms of over time, like we have said, there is nothing structurally that is holding us back from achieving that level of profitability that we delivered in 2021. So over time, Michael, your comment is appropriate. And maybe Lauren, you can take the second one.

Lauren R. Hobart
President, CEO & Director

Sure. Yes. I mean if you think about our priority categories of footwear, athletic apparel, team sports, footwear in our premium full-service footwear decks, we are making a larger investment in those, as you heard in our prepared remarks because it does allow us to have a full assortment, which does really delight the athlete and enable us to drive strong comps. Beyond that, we're not going to break down how it was -- how we did in Q4 by various categories. But generally speaking, our assortment was really strong and drove the comp.

Operator

The next question comes from Brian Nagel with Oppenheimer.

Brian William Nagel
Oppenheimer & Co. Inc., Research Division

Great, great quarter and year. Congratulations. So my first question is just -- I mean a bit of a follow-up. And look, there's obviously a lot of talk in your broader space about inventory clearance and our normalizing promotions. So if I hear what you're saying, is that promotions did not drive the business in the second half of the year. You're actually optimistic as we look into the first half of '23, the better inventory availability will help you drive improved sales or further improved sales at DICK'S. So the question I have is, is DICK'S then just not affected by promotions outside of your company, what you're seeing with other brands or other retailers? Have you just been managing through that?

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Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Brian. So DICK'S is -- I can't say it's not affected by any promotions outside of our company, but our assortment is so narrowly distributed now and just differentiated that we don't spend a lot of time looking at an outside promotional environment. We have an extensive database of 150 million people. We can manage on a personalized basis what pricing we want to offer, and we are very much more focused on strategic investments in price item where necessary to move our business.

Brian William Nagel
Oppenheimer & Co. Inc., Research Division

That's very helpful. And congrats on that. And then the second question I have also just looking at DICK'S relative to what else is happening out there. So a number of retailers have talked lately about pressure within their consumer, whether it be inflation or some other type of economic factors. Clearly, your sales improved here. So I guess the question I have is, are you seeing any signs of a more pressured consumer behind your strong results and as we look into '23, what's the basic macro assumption underpinning the guidance you outlined today?

Lauren R. Hobart
President, CEO & Director

Yes. Thanks. So we are seeing our consumer doing very, very well. And I would point to a few data points on that. So over each one of our income demographics, we have seen growth, and we saw growth in this past quarter. We saw growth in our gold athletes, but every single income demographic. And what we're finding is that people are prioritizing health and wellness and active lifestyle team sports. And those are -- they're even more popular than they were before the pandemic, I think people really have decided with whatever they have in their wallet, they're prioritizing these categories. They're coming to life more as necessities rather than discretionary. Navdeep, I'll turn it to you to answer the question on our macro assumptions.

Navdeep Gupta
Executive VP & CFO

Yes. In terms of the macro assumptions, we will continue to be mindful about what is happening in the macroeconomic landscape. But to your point, as you look at the guidance that we have provided, flat comp to plus 2%, we are very optimistic and confident about the guidance that we have provided. Just based on the differentiated assortment, the capabilities that we have as well as the number of athletes that we have acquired over the last several years here, we are confident in the guidance that we have provided.

Operator

The next question comes from Warren Cheng with Evercore ISI.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

I just wanted to ask about the partnership with Nike. So you're over a year now into the loyalty program plug-in and they're presumably getting a much deeper level of customer data insight than they were before. And they've talked a lot about investing in the best strategic partners. Are there examples you can give on just how they've been using that data? Or any updates on how they're engaging with you as a partner?

Lauren R. Hobart
President, CEO & Director

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Yes, Warren. Thank you. Our relationship with Nike is at an all-time high, and that's everything from insights that we are sharing, product information that we're sharing. And we're looking very long term at the state of the consumer and each category and working at a very strategic level. We've been very pleased with how the connected membership has gone. We have over 1 million members now who have opted to link both their Nike and their DICK'S loyalty accounts. And because of that, we're able to get much better insights into our athletes, how they're shopping, where they're shopping and how we can continue to innovate in that partnership. We're very excited about some of the things coming down the pike with that connected membership in terms of omnichannel experiences that we're going to offer that we haven't gotten into yet. But overall, the Nike partnership is a tremendous -- just a wonderful partnership for us.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Great. And my follow-up, just a clarification on some of the comments you made earlier about the House of Sport roll-up or rollout. Is that actually going to be margin accretive or margin neutral? Or is that -- does that take time to scale before that happens?

Navdeep Gupta
Executive VP & CFO

Yes. So Warren, just a couple of comments before we get into the specifics. So we are very confident about the House of Sport strategy. The 3 stores that we have opened, it's a handful of stores, but the results both on the top line and the bottom line that we are seeing are really, really great. And that's what gives us the confidence that we have. In terms of the impact of these things, that will be recognized over time, as you can imagine, over the next 2 years, we intend to open about 20 and like Lauren said in our prepared comments over the next 5 years, it could be 75 to 100. So the benefit will be seen over time, but we are very optimistic about the strategy and the differentiation as well as the ability it provides us to engage with the athlete in a very differentiated way.

Operator

Our next question comes from Paul Lejuez with Citi.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

I'm curious if you can give an update on Going, Going, Gone!. How many did you end the year with? How many are pop-ups versus permanent? And anything you could share in terms of what that added to sales in F '22? And what's the plan for F '23?

Navdeep Gupta
Executive VP & CFO

So Paul, in terms of the Going, Going, Gone! on stores, like as we call them permanent, there were 15 of them that we had at the end of the year. We had more warehouse plus those are kind of the 43 temporary locations as we call them, really, really enthusiastic about the strategy, not only is it allowing us to engage with an athlete and a different profile of an athlete than a DICK'S Sporting Goods athlete. So that's 1 benefit. In addition, as we have talked about the benefit that this provides in terms of being able to liquidate our inventory and actually get a better recovery rate on that inventory is also a strong asset for us.

Lauren R. Hobart
President, CEO & Director

Paul, I would just add one thing. I think the way we look at the Going, Going, Gone! chain is that it's a flexible asset. So

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we can expand, and we've done that with our temporary pop-up locations. We can take those down if we don't need them or if they're not working. So by the time something becomes a Going, Going, Gone! concept, it's been proven and tested, but the warehouse strategy is very flexible.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Got it. And then could you just maybe just get a little bit of a further breakdown of CapEx investments for '23? Just how much of that is at the store level, both new and existing stores versus IT and corporate.

Navdeep Gupta
Executive VP & CFO

Yes. Paul, look the vast majority of the expend or the capital investment will be going into stores as we called out, right? We -- our plan is to open 9 new House of Sport locations as well as to the earlier capital investment into the 2024 House of Sport openings. In addition, as we indicated, we'll be upgrading hundred of our stores to premium full-service footwear DICK'S. There is definitely an investment on the backside in terms of the GameChanger technology, the investments that we are making in personalization as well as the other capability from data and analytics, all of that is also included in the guidance. But the vast majority of the investment will continue to be store facing.

Operator

The next question comes from John Kernan with Cowen.

John David Kernan
TD Cowen, Research Division

Congrats on a great year. So how should we think about the new store productivity contribution from square footage growth? It looks like that -- the gap between comps and overall reported sales was close to 200 basis points this quarter, which would suggest any new store productivity has come online. It's been quite productive. So just curious as how should we model 1 new store productivity and overall square footage growth based on the number of stores you're talking to and also the bigger size of some of them.

Navdeep Gupta
Executive VP & CFO

Yes. John, 2 different answers to that. First of all, if you look at Q4, the difference that you're seeing between the comp sales and the total sales growth, one, like you said, is driven by some of the new store openings. In addition, the temporary warehouse locations that we have, the warehouse plus stores, as we call them, they are not included in the comp numbers. So the sales that happened during the fourth quarter in those temporary locations are included in that.

Coming back to your macro question, we do see a significant improvement in our sales productivity when we convert a store from the basic 50,000 store to a House of Sport location or even a comparable store to a House of Sport location. Considering that the majority of the stores that we have remodeled right now are relocations. So those will be in our comp expectation. They won't be as part of the new stores. And when we opened DICK'S House of Sport as a brand-new location, yes, they will definitely start to benefit our new store productivity metrics.

Operator

Our final question today comes from Joe Feldman of Telsey Advisory Group.

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Joseph Isaac Feldman
Telsey Advisory Group LLC

I wanted to ask about any merchandising changes you might be considering for 2023? Like are there any categories or certain trends or products that you might be leaning into or emphasizing a little bit more based on what you're seeing from the consumer?

Lauren R. Hobart
President, CEO & Director

Joe, yes, we are still very focused on our 4 priority categories, footwear, team sports, athletic apparel and golf, we're always looking for new trends in new categories. But generally speaking, that's the 80% plus of our business, and that's where we're focused on driving growth.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Got it. Okay. So not much newness coming, I guess, for some of those. What about -- sorry, yes.

Lauren R. Hobart
President, CEO & Director

Sorry, Joe, I just want to -- I didn't say there wasn't any newness. There's a ton of newness coming. I just want to share with you that our priority categories of footwear, teams sports, apparel and golf are where we're focused. But there's certainly a ton of newness across the business.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Okay. I got it. Okay. Sorry for misunderstanding that. And then with regards to private label, maybe could you share just kind of the latest penetration and what you saw in the fourth quarter, I feel like you guys usually have shared a little more color there around how the consumer is opting for some of your brands.

Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Joe. Our vertical brands did tremendously well last year and in the quarter. We are really pleased with how the DSG brand is doing, opening price point brand, high function, high fashion as well as CALIA and VRST, which are filling white space in our portfolio. And even the Hagen brand doing incredibly well. So as we look to the end of the year, our overall vertical brand penetration for this past year was 14%. We had originally laid out a goal of about $2 billion a few years ago for vertical brands, and we finished about $1.7 billion very excited about both the sales and margin opportunity to go forward. As you know, vertical brands have 600 to 800 basis points of higher margin than our average.

Operator

Unfortunately, that is all the time we have today for questions. I'll now turn the call back to Lauren Hobart, President and CEO, for any concluding remarks.

Lauren R. Hobart
President, CEO & Director

Thank you all for your time today and for your interest in DICK'S Sporting Goods. We look forward to seeing you on the

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next call. Thank you.

Operator

Thank you, everyone, for joining us today. This concludes our call, and you may now disconnect your lines.

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