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DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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Call Participants

EXECUTIVES

Edward W. Stack
Executive Chairman

Lauren R. Hobart
President, CEO & Director

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ATTENDEES

Unknown Attendee

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Presentation

Robert Frederick Ohmes
BofA Securities, Research Division

Hi, everybody. I'm Robby Ohmes from BofA Global Research. Alex Perry and I are obviously very excited to have DICK'S Sporting Goods here with us today. We've got Ed Stack, Executive Chairman, sitting to my right; and then after him, we have Lauren Hobart, President and CEO; and then we've got Navdeep Gupta, EVP and CFO.

Let me -- Navdeep has to make a disclosure claim and then we're going to do -- open it up to the fireside chat.

Navdeep Gupta
Executive VP & CFO

Fantastic. We'll do a quick housekeeping. There is a safe harbor statement that is posted. The legal team has told me that I need to mention at the beginning. So with that out of the way, I'll turn it back to Robby.

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Question and Answer

Robert Frederick Ohmes
BofA Securities, Research Division

Thanks, Navdeep. So you all know that DICK'S Sporting Goods has executed extremely well over the last 3 years, transfer forming its markdown strategy, attracting a lot of customer traffic, a lot of great things. So maybe, Ed, to kick it off because Alex and I get this question all the time, can you talk about the kind of transformation of DICK'S Sporting Goods over the last 5 years?

Edward W. Stack
Executive Chairman

Yes. Sure, Robby, thanks. And thanks for having us. We've really transformed our business over the last 5 years. And as we look back at it, we say internally that we do virtually nothing the same as we did in 2017. So the content that we carry, meaning the products that we carry kind of the square footage allocation of space in the store, what we do from a marketing standpoint, what we've done from the service standpoint in the store, we do virtually nothing the same as we did.

We've got access to products that we didn't have access to before based on the way we've rebuilt out our footwear deck, what we've done from a participation aspect inside the stores. We've got a very different product line that -- than we had back then in 2017, much more narrowly distributed product, which carries higher margins. We've got more unique products that aren't as widely distributed and really differentiates us in the marketplace.

And you can see that with our sales from '19 has gone up more than $3 billion. Our operating profit is more than double than it was as a percent of sales than it was in 2017. And we do -- there is virtually nothing that we do the same from a technology standpoint, from a content standpoint, from a service standpoint to real estate that we have in the store to what we've done with the value chain. It has been a big help with our business to move product out of the stores into this value chain where our margin recapture on that.

Clearance merchandise is meaningfully higher than if we did it in the store, which then clears space out of the stores, which we bring in more newer product that has higher margins. And I mean, it's -- and you can see it in the results that more than double the operating margins from -- to well over 11% in this last year. It's a very different business. And people don't quite understand, and I think they're starting to understand that we're not merely a COVID beneficiary that this transformation was going on before COVID. And right now, what you're seeing is the -- really the benefits of those investments that we made beginning back in 2016, 2017. And we think it's very sustainable.

Robert Frederick Ohmes
BofA Securities, Research Division

That's been great. One other question I want to ask you is, so from DICK’S Sporting Goods perspective, what is going on with the U.S. consumer? What are you guys seeing?

Edward W. Stack
Executive Chairman

Our consumers really very -- has been very good. Our businesses continues to be good. I think what's going on in our consumer -- so from a COVID standpoint, now post COVID, kids want to play sports. They want to be with their friends.

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They want to be out. They want to be a part of something or be part of a team, and that's really very good for our business.

And they've also got their parents saying to them, "Okay, we've been in the house for X amount of time. You haven't been doing this. You should be out there playing sports." And we think that this has got a lot of legs out there right now. And we're seeing participation in team sports. We're seeing participation in people from a health and wellness standpoint. They're still wanting to be out there. If it's not running, then just walking being outside, being health conscious. The state of our consumer is really good because I think we're in a really good lane in the -- in this business cycle. We're in a great lane right now.

Lauren R. Hobart
President, CEO & Director

I would just add to that, that we were fortunate this past quarter year not to see consumers trading down. So we didn't see trade downs invest to better and better to good. And we saw growth across every income demographic across the entire line. So it does seem like we have a product for everybody between our opening price point, and then we've got product for the most elite enthusiast athlete who wants to better their game.

Alexander Thomas Perry
BofA Securities, Research Division

Great. So I wanted to ask a question here. So I think you said 80% of the growth since 2019 has come from priority categories, including athletic footwear, apparel, team sports and golf. If our math is right, that would sort of implied $2.9 billion in sales added across those categories, quite impressive given just one of those categories would sort of be considered a COVID beneficiary, maybe just golf there. I guess the question is, first, can you just talk about what initiatives will continue to drive growth in these categories? And second, are these the categories that you kind of continue to expect to lead the way?

Edward W. Stack
Executive Chairman

We expect those to continue to lead the way. And the initiatives that we've done from a footwear standpoint, we rebuilt the vast majority of the footwear decks in our store, which is we've redone the service component in those footwear decks. By doing that, we've got access to product that we didn't have access to before. So we're going to continue with that. We'll continue from an apparel standpoint.

The team sports, which I just talked about, we think, is going to be great. We're in a great lane from a team sports standpoint. And we've got that product for the beginner, intermediate and enthusiast. And whether it's in the team sports category and in the footwear category, which part of that is team sports from a cleat standpoint, there's a constant need to upgrade your equipment or from a -- as kids grow, they need other products. So if your son or daughter had a 27 -- needed a 27-inch bat last year, they've grown, they need a 28 or 29 inch bat. This year, you're going to go buy them a 28 or 29-inch bat. And I've often said that if your daughter wore size 5 soccer cleat last year, and she wears a size 6 this year, you don't put your arm around and go, "you know what, honey, really curl up your toes, put on your old cleats and go out and play." You don't do that. You buy a new set of cleats. So it's -- we think all these initiatives that are really going to have great legs. We continue to invest in them.

And in the golf category that you talked about, I think golf is going to be -- it's going to continue to be a good category for us, but it's not going to be at the same level that the footwear business, the apparel business and that team sport business is. But it's still going to be an important initiative and a big business for us that we think can grow.

Alexander Thomas Perry

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BofA Securities, Research Division

And then just a follow-up, what is sort of the expectation for cells and maybe the nonpriority categories, maybe the more COVID beneficiaries like bikes, camping, fishing, home fitness? Are those categories still challenged? Or should they grow this year?

Lauren R. Hobart
President, CEO & Director

So again, they are a smaller piece of our business. And each one of them had big surges, but has landed at levels that are above 2019, and we expect that to continue. So there are strong pieces of our business. They're just going through a cycle right now overall, not impacting the total as much as the other categories are.

Robert Frederick Ohmes
BofA Securities, Research Division

Lauren, maybe another question for you. Largest brand campaign ever, 75th anniversary, how important is this? Is this -- do you expect this to drive a lot of excitement in sales or what?

Lauren R. Hobart
President, CEO & Director

Yes.

Robert Frederick Ohmes
BofA Securities, Research Division

Yes.

Lauren R. Hobart
President, CEO & Director

Well, excitement, yes, and hopefully, sales. But I will say -- so it's our 75th anniversary. The company was founded in 1948 by Dick Stack, Ed's father, and then taken to what it is today by Ed. And so it's a moment to stop and pause. It's a moment for our teammates. And honestly, we talk a lot about the importance of people and the importance of our teammates, but there's so much pride going on internally that it only helps to foster what's going on externally.

We just decided to take our brand voice and the brand campaigns that we've done. They're very inspirational. They want to get you out there to play. We also have this whole Sports Matter initiative, where we've gotten over 1 million kids access to play who are having trouble because there is a use sports funding crisis in our country. And so we've merged the 2 ideas into our newest brand campaign. It's called Sports Change Lives. It's really impactful. You'll see it all over the NCAA tournament and all over the media for the next several weeks. It is the biggest campaign we've ever done. But it has 1 million legs because it is about the power of sports and the fact that kids need access to play.

So one of the biggest things that we've done related to it is we just launched under our Sports Matter campaign an initiative that's called 75for75, and we'll -- because of our 75th anniversary. We'll be giving out $75,000 grants to 75 teams in need. And that's really exciting for us. It's exciting for our stores and our distribution centers to be able to have that community impact.

Alexander Thomas Perry
BofA Securities, Research Division

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Great. And then Navdeep, we wanted to ask a question about capital allocation. So you recently more than doubled the dividend, announced a pretty significant step-up in your CapEx program to, I think, $550 million to $560 million this year from roughly $328 million last year. Can you just talk to us about how you're thinking about capital allocation going forward?

Navdeep Gupta
Executive VP & CFO

Yes. No, so things are pretty consistent with what we have been saying. Our priority continues to be maintaining an appropriate level of cash on the balance sheet. We are an investment-grade company. Maintaining that status is really important. And after those 2 things, we are looking to aggressively invest into the business. As Ed talked about, the opportunity that we have, the premium full-service footwear deck, the topic that we have talked a lot about, the House of Sport and the confidence that we have in that new format of DICK'S Sporting Goods stores, those are all great growth drivers as we look to not just the immediate term, but into the future as well. So we'll continue to aggressively invest into the business.

The change that we made in our dividend was actually showcasing the confidence in the results that we have already driven and the sustainability of that profitability into the future. And we felt that there was no better way to indicate that confidence by actually stepping up our dividend, which had not kept pace with the earnings profile that the company has now.

And then what we have also shared is that our expectation is to buy $300 million of stock back this year. And if you look at the capital allocation decisions that we have done, we have returned $2.4 billion of excess cash to the shareholders in the recent years. So we'll continue to do that into the future as well. We're not a very acquisitive company, but we made a recent acquisition of Moosejaw, and we continue to look for unique opportunities where we can continue to build upon the differentiation that we have in our industry.

Robert Frederick Ohmes
BofA Securities, Research Division

Navdeep, maybe another one for you since we got you talking. Ed brought up in his comments about the transformational stuff you guys are doing about the clearance strategy change. So we get, Alex and I get asked a lot of questions on the math on Going, Going, Gone! and Warehouse Stores and obviously better clearance margins. But are there more shipping costs? Or what's the structure there? And how big could this be? And anything you can tell us on the math?

Navdeep Gupta
Executive VP & CFO

Yes. No, this was a key learning that we kind of tested out during the COVID time frame when we couldn't open the tent stores that used to be right outside of stores. We are very happy with the results that we have been able to drive in the last few years. I think so the biggest driver of success actually is what Ed said, it allows us to move the clearance merchandise out of a normal DICK'S store, allow that space more for the red merchandise to be moved into that store. So we are seeing a better recovery rates, not only in the clearance stores, but even in the DICK'S stores. We are seeing more red product being sold there through the productivity of the square footage within the DICK'S store is higher. The margin profile is much better. And then because you are able to concentrate all of the clearance into this small group of stores, so at the end of last year, we had 15 Going, Going, Gone! stores and almost about 43 Warehouse plus store.

So the model that we have, which is flexible that we can flex up or down depending on how many stores do we need, the concentrating all of this clearance into these small locations gives us much better access to a value athlete that is looking and finding this product and a really good bargain there. The second thing is we are able to liquidate this product

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in a much more efficient way and are much better margins than we were able to do before both online and in stores. We are very happy with the strategy.

Robert Frederick Ohmes
BofA Securities, Research Division

And just a quick follow-up. Is it expensive to run the stores or to move the inventory to the stores or...

Navdeep Gupta
Executive VP & CFO

I would say it is not expensive, but that is a cost that is included, right? If you think about it, there is a additional lease costs that are -- those store team members. But when you look at the overall economic return of this decision, including the benefit of what you are able to see from the DICK'S stores, overall, we are very, very happy with the economic decision as well.

Alexander Thomas Perry
BofA Securities, Research Division

Great. And then, Ed, we just wanted to ask a little bit about the House of Sport concept. So 9 new House of Sport stores this year, I think the conversion of 8 Field & Stream and DICK'S Sporting Goods combo stores. Just first, can you talk about what makes you so excited about this concept? And do you see House of Sport as the biggest growth driver going forward, especially around square footage?

Edward W. Stack
Executive Chairman

Yes. We think House of Sport might be one of the most exciting concepts in retail today. So we've got 3 of these opened up, and this is a concept that it started probably almost 8 years ago that we started to build what we wanted to -- that we dubbed as the store of the future. And we designed it. We went through the whole design elements of it. We built part of it down in our lab store, in our office. And as we walk through it, our comment was, as we walk through, we said it's not different enough from what we do today. We're not going to do this. We designed it. We scrapped it. We said it wasn't different enough.

And probably 3.5 years ago or maybe 4 years ago now, we brought the idea back. And as we sat down and talked about this store of the future, the whole concept became -- the idea of this and the brief -- this became that we're going to build the concept that would kill DICK'S Sporting Goods. We're going to build a concept that if somebody built the store across the street from one of our stores, we wouldn't be able to stay in business. It would put us out of business.

And we did -- we painstakingly went through this of what the experiences were and what the traffic flow was going to be, the products that we're going to carry, what we're going to do to really differentiate out there with House of Sport. And I can tell you that our objective of building a concept that would kill DICK'S Sporting Goods, we absolutely did it.

If you've seen that store, they're roughly -- we've got 3 of them opened today. They're roughly 100,000 to 120,000 square feet. We've got a field next to them, which is between 17,000 and 20,000 square feet, that teams are coming to practice on. Kids can go out and try product out there on the field. We've got T-ball leagues, little leagues, soccer leagues that are coming that have actually scheduled time to practice on these fields. So there's this constant traffic that's being driven here.

And when we opened the store, we -- the first one we opened was in Rochester. It was right across the street from a store that we opened a number of years ago. And when we walked the store when it was done, we said, if somebody

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put this store across the street from that store, we're out of business. And we're really very excited about it.

The brands are totally jazzed about this also. The access to product that we have in these stores, the brands have walked in and want all of their best product there because it's a place where they can showcase their entire brand as if it was in their own retail. So whether that's Nike, whether that's adidas, whether that's Patagonia and North Face, all of these, it's a place that they all want to be and have their best product, which is actually more narrowly distributed, which gives us a higher profit margin. We've got a climbing wall in there, batting cages, the fitting base for golf, the footwear areas just out of this world. We've got a health and wellness space there. It's really terrific, and we're really excited about this.

And we've got 9 more of these going right now that a vast majority of them were renovating the DICK'S Field & Stream combo stores. And based on what we've seen with this House of Sport, these stores will be meaningfully more productive from a sales standpoint and from a profit standpoint. And those of you who know us know that we're pretty conservative. And if we weren't really excited and confident that these would be scalable, we would never kind of come out and say that we think we'll have 75 to 100 of these over the next 5 years. It's really a very cool concept in retail. And if you haven't seen it, we hope you get out to see it. You'll love it. You might actually buy something too when you're in there.

Robert Frederick Ohmes
BofA Securities, Research Division

Lauren, on the last earnings call, I think you answered a question, I think, about new customer acquisition. You mentioned that the customers are skewing younger and more female. How -- are you driving that on purpose? Should we expect that to continue? Anything you can share with us on that?

Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Robby. That has been a pretty consistent trend within a larger trend that we've just -- we've had incredible numbers of people, of athletes joining our database. So in the last 3 years, 23.5 million new athletes have come into our database, 7 million in the last year. They are skewing slightly more female, slightly younger, which is great because it's just wonderful to be able to open up other demographics. I think that's credit to some of the products that we carry and the marketing that we're doing.

But generally speaking, we work very hard to retain athletes. That's the entire marketing engine that's working with this database to make sure that we invite people back and provide them with the next best experience for them. And our retention rates have stayed the same even while the funnel has widened, and we're keeping and retaining as many customers as a percentage basis as we used to.

So overall, I think our database is one of the biggest assets that we have. Actually, I know it is. Certainly one of the best in new sports. And it really is the driver of things like our -- all of our marketing but also our connection with Nike on connected membership that we're able to sync up our 2 membership programs to get even more insights out of the program.

Alexander Thomas Perry
BofA Securities, Research Division

And Navdeep, we wanted to ask a question about market share. So I think you -- in the presentation slides, you said you have roughly 8% share now. I guess where do you think you're taking the most share from? Would it be smaller independents, large department stores, maybe retailers that are losing access to the differentiated product from a Nike, for instance?

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Navdeep Gupta
Executive VP & CFO

Yes. So let's start with that. So the overall industry, as we talk about it, it's about $140 billion in size. We are the most dominant player. But even if you look at it, our share in that industry is just about 8%. So overall, a really large industry with a very large TAM, however, very, very, very fragmented industry as well. As we look toward what we also called out was our share gains have come pretty much across all our priority categories, so from athletic footwear, apparel, team sports and golf. And that's -- the sustainability of this trend that we are seeing in terms of how we're accelerating share gains have been also giving us the confidence.

To answer your question, we believe we are probably taking share from all of the players that you indicated and probably also some of the online pure-play team sports players as well. So really good overall in terms of the capabilities that we have driven as well as the differentiation that the brand and the access that we have today is helping us drive that share gains.

Robert Frederick Ohmes
BofA Securities, Research Division

Maybe a follow-up on that. Maybe just focusing on apparel. We get a lot of questions about the current apparel environment. What are -- talk to us about elevated inventories. We are hearing a lot about winter fleece product being a challenge to clear. Can you give us any color on what you're seeing in markdown pressure?

Lauren R. Hobart
President, CEO & Director

Apparel has certainly been a challenge this past year. The whole industry felt it when a lot of spring apparel came in late and on top of back-to-school, and we've been working through it with our partners through Q3 and Q4. But different from what I am hearing about other apparel providers, retailers, because we have such a narrowly distributed product where we don't have to compete with big department stores, say, on product, we've been able to be much more surgical. So we didn't have a very promotional environment in Q4. We had select item-level pricing. We had a few Doorbusters, but we did not have a massively promotional environment. So I think it's our distribution and our access that makes us different than other potential competitors.

Alexander Thomas Perry
BofA Securities, Research Division

And then, Ed, I think you mentioned your relationship with Nike is an all-time high. I think you have roughly 1 million connected members. Can you maybe talk about how your access to product is evolving and what future programs could look like?

Edward W. Stack
Executive Chairman

Yes. Our relationship with Nike is at an all-time high. With the investment that we're making in the Nike brand, the investments that Nike has made with us, the access to product that we have that hadn't had in the past for a more narrowly distributed product, faster-turning, higher-margin product on both the apparel side and on the footwear side, and we think that we don't -- we see that continuing. And we're very excited about the relationship with Nike. They're certainly the hottest brand in the market today, products across not only just the lifestyle side of the business but also the performance side of the business, what they're doing from a running shoe, the new invincible running shoe, what they're doing from a cleated standpoint, from a basketball standpoint. So they're hitting on all cylinders across all aspects of their business, and we're really excited about that. And Lauren's really been focused on the connected

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inventory. I'll let her talk a little bit about that.

Lauren R. Hobart
President, CEO & Director

Yes. I think it's been fantastic for our teams to enter this new level of partnership where we've got now people throughout the entire organization partnering with the organization over at Nike because it took a village to do this connected membership. It was not a quick turn of a button. So now we do have over 1 million athletes who are using both -- linked both of our loyalty programs, but we're now looking to innovate in terms of what are the next steps of this partnership.

So right now, if you're a connected member, you get access, you get early access. But people can also, in the future state, pick up at our stores, return at our stores. There's just a lot of different elements. So we're partnering throughout the entire ecosystem of our 2 companies to innovate on the athlete experience.

Robert Frederick Ohmes
BofA Securities, Research Division

So you're hitting a home run with Nike, but you're also hitting a home run in private label. Can you talk more about private label? Or maybe the -- are there any other areas you could be going in private label? Maybe highlight what's working the best in -- sorry, vertical brands is the appropriate term. I apologize.

Edward W. Stack
Executive Chairman

Yes, that's okay.

Robert Frederick Ohmes
BofA Securities, Research Division

That's my grocery stuff coming through. But yes, anything on vertical brands you can share would be great.

Edward W. Stack
Executive Chairman

Yes. We're really excited about our vertical brands. And I think one thing I'd like everybody to understand is that our vertical brands of what we're doing with CALIA on the women's side, VRST on the men's side, DSG and this whole family aspect of product for men, women, kids has been great on the apparel side. But what we have -- I think, has lost at times, we have a really robust and profitable hardline side of the business from a private brand standpoint. So whether it's in Maxfli from a golf ball standpoint, what we're doing in fitness, what we're doing in the outdoor category, so I mean our #1 brand in golf are our own brands. Our #1 brand in fitness are our own brands. It's really an important aspect of our -- of the outdoor category we have, and these are all hard lines that, again, margin rates that are meaningfully higher than what the company as a whole is.

So it's -- we've got a great blend between hard lines and soft lines. And I think people kind of -- we probably don't talk enough about the hard line side of our vertical brands. And we think this is going to continue to grow.

Alexander Thomas Perry
BofA Securities, Research Division

Just a follow-up on that. We wanted to ask more about sort of the rationale behind the Moosejaw acquisition. Do you

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see this as a vertical brand, maybe outerwear opportunity? Or are you trying to take some learnings from their pretty unique marketing approach that they have?

Lauren R. Hobart
President, CEO & Director

Yes. Very excited to have Moosejaw join the DICK'S Sporting Goods family before the end of this month. Our main goal, we've been trying to really excel in the outdoor category, and we started this company Public Lands within the DICK'S family in the last 2 years. Moosejaw, being a 30-year brand in the industry, has incredible loyal following and also it's a digital-first business, which I think will be really great for our teams to explore. So we're looking at it largely as an omnichannel retail concept. And then sure, there might be some vertical brand opportunities as well.

Robert Frederick Ohmes
BofA Securities, Research Division

Let me pause here and give the audience -- does anybody in the -- I see a question over there.

Unknown Attendee

Yes. First, thanks for doing a great job. I'm your #5 shareholder, so thank you. You guys have talked a lot about Nike. And I think a more nuanced bare case than COVID is that you really benefited from Nike narrowing distribution. And now Nike is really reembracing wholesale distribution like that partners other than the DICK'S. And can you talk about what that might mean for you?

Edward W. Stack
Executive Chairman

I think that Nike has narrowed their distribution, but I think they're focusing on key brands. And for the full story, you should probably talk to Nike. But from what we see and what we've talked about is that they're narrowing distribution. They're focusing on some really important retailers, of which we happen to be one of them. And we think that the relationship with Nike is at an all-time high. We don't see anything changing, and we don't see any changes that Nike or any of the other brands have kind of on the table going to affect us. We just think it's going to continue to expand, especially with what we've done with House of Sport, what we're doing with the traditional DICK'S store and modifying some of the square footage that we're doing there.

Nike sees -- in the partnership we have with Nike, we're able to showcase the entire Nike brand, which most other retailers can't do. They don't have enough square footage to do that. So we can showcase the entire -- the Nike apparel assortment, footwear assortment, how those 2 hook up together, what we can do from a hardline standpoint and what they do from a baseball standpoint, a basketball standpoint. What they're doing from an outdoor standpoint. We've got the ability to be a great partner to Nike and for Nike for their entire brand and not just different segments of it.

Robert Frederick Ohmes
BofA Securities, Research Division

I see a question over there.

Unknown Analyst

Thank you very much. Besides what you're doing on the House of Sport, with some of the current dislocation in real estate again, how is that informing what you might be doing on your own store locations in terms of store size, locations and whatever? What -- any update there?

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Edward W. Stack
Executive Chairman

Yes. So the real estate market is a pretty dynamic market right now. And so we've got House of Sport that we're really excited about. We think we do 75 to 100 of those stores over the next 5 years. And there's a significant amount of roughly over 50% of our stores that come up for renewal over the next 5 years approximately. So that gives us the opportunity to relocate some of those stores, work with the landlords on what the terms and conditions are going forward. We're a great credit. I think we're in a great place to reposition our real estate where we need to and upgrade some of the stores to the new concept and some of the new aspects that we learned from House of Sport that go into the more traditional DICK'S Sporting Goods stores going forward, such as what we're doing from a footwear standpoint, what we're doing from a team sports standpoint. So you'll see a lot from us from a real estate standpoint over the next several years that will reposition the traditional DICK'S stores.

Robert Frederick Ohmes
BofA Securities, Research Division

Got one right down here.

Unknown Analyst

Thanks. I guess you guys disclosed that merch margins were down, I think, 500, 600 basis points in Q4. They will be down in Q1 year-over-year. You're expecting merch margins up for the full year. Can you help us understand like what will be the change that result in, I guess, implicitly merch margins being up year-over-year in the back half or at least Q2 through Q4?

Lauren R. Hobart
President, CEO & Director

Yes, I'll take that. And then Navdeep, please for free to add on. But we -- as we move into the first half of this year, you'll recall, if you go back a year ago, we were chasing products very -- had very limited inventory in the market. And so as we're bringing in now, we've got an amazing assortment of fresh receipts. We expect margin to be positive in the -- I'm sorry, challenged. I'm doing it wrong.

Navdeep Gupta
Executive VP & CFO

Yes. No, what we are expecting is like maybe 2 things, maybe I'll clarify. One that -- yes, you were right that the fourth quarter margins were down 600 basis points. What we have guided to is that we expect the merch margins to sequentially improve as we go from fourth quarter into the first quarter. What you are -- what Lauren was indicating was the inventory was extremely lean not just for us but within the industry as well. So as we cycle that, you're going to see that pressure that we have kind of guided into the first part of the year. But then in the back half, we are going against some of the clearance action that we were -- that Lauren indicated, again, on the apparel side.

In addition, freight. So freight cost has started to come down, but we capitalize the freight cost. So as the freight -- the inventory starts to sell out into the first part of this year, more so into the back half of 2023, that freight benefit would also be included into the merch margin. So those will be the 2 big drivers that will build as we go into 2023, and that's the confidence that we indicated in expanding merch margins.

Unknown Analyst

Any way to size the freight benefit in the second half of the year.

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Navdeep Gupta
Executive VP & CFO

I would say maybe the easiest way to look at that would be the headwind that we kind of called out between 2019 and 2021 because it took us a little bit of time. The same thing it's going to take a little bit of time that to be unbound. We are not going back to where the container cost was back in 2019. It's still elevated compared to '19, but the pressure will definitely start to be -- will be coming down, and you'll see that benefit in '23.

Robert Frederick Ohmes
BofA Securities, Research Division

Okay. I don't see any hands up. So Navdeep, just because we're on profitability topic right now, can you remind us the -- how the profitability of e-commerce has evolved and how we should think about the gross margin and the EBIT margin for e-commerce versus the stores?

Navdeep Gupta
Executive VP & CFO

No, fantastic question, Robby. I think that this is one of the things that we have called out is a structural driver of our profitability improvement versus 2019. Our e-commerce business was always profitable. That is something that not many people understand that, even back in 2019, our e-commerce business was profitable. However, the profitability of our e-com business is at parity with the overall company.

I would say there are 3 big drivers what has kind of contributed to these elevated levels of profitability, which we feel really, really strong about. The first and foremost is the size of the business. The business has become significantly bigger. So you're able to leverage on all of the fixed cost infrastructure. We own our own platform. The capability investments that we have been making over the last several years, we are able to leverage on that.

The second thing is the capabilities that we have developed in terms of the pricing and the promotion management. If you look back into 2018 or 2019, there used to be this big site-wide promotions, 20% off big category promotions. We don't have to do any of that at all between the personalization capability as well as the pricing capabilities that we have built in-house on the e-com business is the second big driver.

The third big driver is the BOPIS on the curbside. As you can imagine, the last mile of e-com is expensive. So having that curbside capability where a vast majority of our orders get shipped from store or get fulfilled from store, that last mile cost has come down significantly compared to where 2019 used to be. So that has also significantly elevated our profitability. Those, I would say, are the 3 biggest drivers.

Robert Frederick Ohmes
BofA Securities, Research Division

That's really helpful.

Alexander Thomas Perry
BofA Securities, Research Division

Great. And then, Lauren, we wanted to ask a little bit about store culture and employee engagement programs a bit more. I think this has been a key differentiator for you. Can you just talk about how DICK'S Sporting Goods differentiates themselves in those areas?

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Lauren R. Hobart
President, CEO & Director

Yes. That's a great question. We do believe very much that our team, the people who work for us, we've got 50,000 teammates out there, are the best representation of our brand. And therefore, our culture is really, really important. And we've been working for the past several years on really improving the culture of recognition, so High Five awards. If any of you follow us on LinkedIn, you'll see us leaning into that. A culture of empowerment so that they're able to serve athletes – customers/athletes in the best way possible. You'll see us doing what we call moments of wow, which is something -- a small moment of wow is when you just delight an athlete. In any way, it's not something extraordinary. But if you find the product, you run into the back room, you get it and they're pleased. That's what we're striving for.

So I think the culture, our employee engagement scores, we've always had an amazing culture. We came out of COVID having really prioritized teammate health, safety, wellness. And our engagement scores are so much higher now even than they were before COVID. And I think it's just a testament to -- the family kind of feel that our company has, which we're very lucky to be a part of, is really connecting with our teammates. So it's a huge not-so-talked-about asset to our team.

Alexander Thomas Perry
BofA Securities, Research Division

And then Ed, I wanted to ask one more merchandising question. If we could just maybe isolate the golf category. It's obviously been a very strong category for you guys over the last few years. We're entering an environment where maybe high-ticket items are under more pressure, but you're continuing to roll out the Golf Galaxy Performance Center. So just maybe talk to us a little bit more about how you're thinking about the golf category and any historical perspective you have there as well?

Edward W. Stack
Executive Chairman

Yes. I think the golf category, we continue to be excited about that. The Golf Galaxy Performance Centers have done extremely well. We're really pleased with that. There's not very many of them. We've only got 100 Golf Galaxy stores. A number of those, we would like to reposition or the older stores that when we bought Golf Galaxy back in 2007, 2008.

But the Galaxy Performance Center, it really takes a much more personal view of the golfer. It's really focused around lessons. It's focused around fitting and how we can help them perform better. We have the right product. We've got great apparel assortment, and we're really excited about that. And the ones that we've opened up so far, we are really excited from a performance standpoint return. And we think there's real market share of -- to get from the Golf Galaxy Performance Center. So golf business is still really dominated by some mom-and-pop shops, still dominated by some on courseshops and where there are no golf retailers in those markets. We think there's a real opportunity for us, and we plan to roll out a number of these.

Robert Frederick Ohmes
BofA Securities, Research Division

All right. We can sneak in one last question.

Unknown Analyst

Question. In markets where you have the Going, Going, Gone! stores or the clearance stores, dedicated clearance stores, has that had any negative impact on the traffic because you're basically taking the promotional customer out? Or is it creating a whole new customer base?

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Navdeep Gupta
Executive VP & CFO

Yes, it's actually been accretive. So we actually have sometimes opened a Going, Going, Gone! store right the opposite at DICK'S Sporting Goods store. What we have seen is actually, there's a benefit in both the locations. One, you're attracting a value-conscious customer that is a different customer profile. But then they are experiencing and understanding DICK'S Sporting Goods and then actually shopping in the opposite location as well. And like I said, you're able to move the clearance merchandise out of the DICK'S Sporting Goods store, make space for more regular merchandise, which, again, is resonating really well. So we actually see this as a very accretive strategy on both sides.

Robert Frederick Ohmes
BofA Securities, Research Division

Ed, Lauren, Navdeep. We've come to the end of the clock. And I want to thank everybody for joining us and the special thanks to DICK'S Sporting Goods for coming to our conference.

Edward W. Stack
Executive Chairman

Thanks, Robby.

Navdeep Gupta
Executive VP & CFO

Thank you, Robby.

Lauren R. Hobart
President, CEO & Director

Thank you, everybody.

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