

DICK'S Sporting Goods, Inc. NYSE:DKS

FQ4 2021 Earnings Call Transcripts

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Call Participants

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Presentation

Operator

Good morning, and welcome to the DICK'S Sporting Goods Fourth Quarter 2020 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to 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 2020 results. On today's call will be Ed Stack, our Executive Chairman and Chief Merchandising Officer; Lauren Hobart, our President and Chief Executive Officer; and Lee Belitsky, our Chief Financial Officer. A 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, 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 the 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 any non-GAAP financial measures referenced in today's call.

And finally, a couple of admin items. First, a note on our same-store sales reporting practices. Our consolidated same-store sales calculation includes stores that were temporarily closed as a result of COVID-19. The method of calculating comp sales varies across the retail industry, including the treatment of temporary store closures as a result of COVID-19. Accordingly, our method of calculation may not be the same as other retailers. And second, for your future scheduling purposes, we are tentatively planning to publish our first quarter 2021 earnings release before the market opens on May 26, 2021, with our subsequent earnings call at 10 a.m. Eastern Time.

And with that, I'll now turn the call over to Ed.

Edward W. Stack

Executive Chairman & Chief Merchandising Officer

Thanks, Nate. Good morning, everyone. We've never had a quite year like 2020. We were challenged in numerous ways as were so many others. But as an organization, we not only survived, we thrived. The strength of our diverse category portfolio, technology capabilities and advanced omnichannel execution helped us capitalize on the favorable shifts in consumer demand across golf, outdoor activities, home fitness and active lifestyle.

For the full year, we delivered record sales and earnings. Our consolidated same-store sales increased a record-setting 9.9%, which was on top of our 3.7% comp increase from the prior year. And our non-GAAP earnings per diluted share of \$6.12 represented a 66% increase over last year. We developed innovative technology, including curbside pickup, that set the pace for the retail industry and helped drive full year eCommerce sales of over \$2.8 billion, an increase of 100%.

Most importantly, we care for each other and our communities every step of the way. As we reopened our stores, the health and safety of our teammates and athletes was our highest priority, and we established protocols and procedures to provide a safe shopping experience. Our frontline hourly associates and distribution center teammates went above

and beyond in 2020, and we showed our appreciation through our premium pay program. In total, 2020, we invested approximately \$175 million across incremental teammate compensation and safety costs.

Additionally, last Friday, we partnered with Allegheny Health Network to host a COVID-19 vaccination clinic at our corporate headquarters. As a result of this partnership, approximately 6,000 community members were vaccinated, the largest single vaccination clinic in the state of Pennsylvania to date. We plan to host a number of these vaccination clinics in the future also.

We also recognize that youth sports programs have been severely hampered by the pandemic, and low-income communities of color have been most impacted. To help get these kids back on the field, we donated \$30 million this year to our Sports Matter Foundation to help serve these impacted communities.

While the pandemic informed much of our ESG activity in 2020, we also increased our focus on caring for the planet. Among other actions, this past year, we committed to become the sports retail sector lead of the Beyond the Bag challenge, which aims to identify innovative solutions to replace today's single-use plastic retail bags in a way that is both sustainable and convenient for our customers. We also joined the Outdoor Association's Climate Action Corps and committed to publishing climate-related goals in 2021.

Today, as Lauren and Lee talk about another strong quarter, I remain as committed and as excited about our business as I've ever been. Before concluding, I want to thank all of our teammates for their hard work and unwavering dedication to our business during this very difficult year.

I'll now turn the call over to Lauren.

Lauren R. Hobart

President, CEO & Director

Thank you, Ed, and good morning, everyone. I want to start by also thanking our team. I am extremely proud of how our teammates managed through this challenging year. They came together to care for their communities, their families and each other. At DICK'S, it is our people who make us great, and I am so excited for our future and for what I know we will all accomplish together.

Now on to our results. As announced earlier this morning, we delivered a record fourth quarter from both a sales and profitability perspective. Our Q4 consolidated same-store sales increased 19.3%, which was on top of our 5.3% comp increase in the same period of last year. Our strong comps were supported by significant growth across each of our 3 primary categories of hardlines, apparel and footwear, as we continue to benefit from favorable shifts in consumer demand as well as strong execution from our team.

From a channel standpoint, our brick-and-mortar stores comped positively for a second straight quarter, increasing mid-single digits, and our eCommerce sales increased 57%, representing nearly 1/3 of our total business. Within eCommerce, we continue to see the strongest growth across in-store pickup and curbside, which increased nearly 250% compared to BOPIS sales in the prior year. These same-day services are fully enabled by our stores, which are the hub of our industry-leading omnichannel experience, both serving our in-store athletes and providing over 800 forward points of distribution for digital fulfillment. In fact, during Q4, our stores enabled 90% of our total sales and fulfilled over 70% of our online sales, either through ship from store, in-store pickup or curbside.

During Q4, we again remain very disciplined in our promotional strategy and cadence, and certain categories in the marketplace continue to be supply constrained. As a result, we expanded our merchandise margin rate by 372 basis points. This merchandise margin expansion drove a significant improvement in gross margin, which on a non-GAAP basis increased 507 basis points. In total, our fourth quarter non-GAAP earnings per diluted share of \$2.43 represented

an 84% increase over last year.

It's clear that our strategies over the past several years are working and have helped us not only withstand the pandemic but thrive, setting us up for long-term success. As we enter 2021, our business has so much momentum, and we are pleased with the start to our year. Our focuses here will center around enhancing our existing strategies to accelerate our core and enable long-term growth.

First, within merchandising. Our strategic partnerships with key brands have never been stronger, and we will continue to make big bets with important brand partners. At the same time, we will continue to elevate our vertical brands. As we've discussed on previous calls, our vertical brands have become a significant source of strength and growth.

During 2020, our vertical brands eclipsed \$1.3 billion in sales with comps outperforming the company average by over 400 basis points. Our DSG brand finished the year as our largest vertical brand, and CALIA was again our second-largest women's athletic apparel brand, only behind Nike. Furthermore, our vertical brands together represented the company's largest brand in golf, fitness, outdoor equipment and team sports.

During 2021, we will invest in making our vertical brands even stronger through improved space in store and increased marketing while expanding into additional product categories. Later this month, we'll augment our men's apparel selection by launching VRST, our new premium apparel brand that serves the modern athletic male. VRST, which will only be available at DICK'S, will put us in a much stronger position to compete with similar offerings from premium apparel brands and specialty athletic apparel stores.

Also in 2021, we will build on our momentum from 2020 and drive growth in important categories, including golf, athletic apparel, footwear and team sports, as well as in fitness, which saw significant gains throughout the pandemic.

In 2020, our golf business across both DICK'S and Golf Galaxy was tremendous. As the country's largest golf retailer, we are very well positioned to capitalize on increased participation and other favorable trends. And in 2021, we will invest in TrackMan technology to enhance the fitting and lesson experience in our Golf Galaxy stores. We'll also enable online booking of lessons and club fittings, and we'll invest in talent to elevate our in-store service model.

Additionally, in 2021, we plan to build on the strong results and momentum in our athletic apparel and footwear businesses. Our athletic apparel assortment for 2021 is on trend, and we're excited to continue the energy in this category beyond the pandemic. We will complete head-to-toe looks with a strong footwear assortment and presentation. As part of this, we'll convert over 100 additional stores to premium full-service footwear, taking this experience to over 60% of the DICK'S chain. We believe that these enhancements, along with strong consumer trends and improving allocations of the most in-demand styles, will drive continued positive results in our athletic apparel and footwear business.

Lastly, we expect our team sports business to provide a nice tailwind during 2021, as kids get back out on the field following a year in which many seasons were canceled. Furthermore, we plan to reconceptualize our soccer business, an initiative we delayed last year because of COVID. We will follow the same playbook we used to attack the baseball category in 2019, centered around more premium product, enhanced store experiences and exceptional service.

Beyond merchandising, in 2021, we'll focus on several key areas to enable the profitable growth of our business, including our omnichannel experience, data science and customer relationships. Within our omnichannel experience, we'll continue to lean on our stores as well as our eCommerce business to serve our customers whom we call athletes whenever, wherever and however they want.

As Ed mentioned earlier, in 2020, our eCommerce sales increased 100%, partially driven by our curbside service that

we launched in March and continuously improved throughout the year. Curbside pickup, along with fewer promotions and leverage of fixed costs, drove significant improvements in the profitability of our online channel in 2020. In 2021, we expect curbside to remain a meaningful piece of our omnichannel offering as our athletes turn to the service for speed and convenience.

In addition to curbside, we will continue to improve our online shopping experience. This includes leading with mobile, which for 2020 represented over 50% of our online sales. This also includes shortening the path to purchase and reducing delivery times as well as becoming a more consistent destination for our athletes' needs by offering a more integrated loyalty experience. Beyond online shopping through our game-changer technology, we will enhance our scorekeeping and live streaming offering for used sports with video-on-demand, all delivered through a premium subscription service.

We will also continue building relationships with both new and existing athletes in our stores and online. In fact, a key to our omnichannel offering is our ScoreCard program, which in 2020 drove over 70% of total sales. In 2021, we will continue to use data science to leverage our extensive athlete database to drive more personalized one-to-one marketing to increase loyalty among the 8.5 million new athletes that we acquired in 2020, including more than 2.5 million new athletes added during Q4.

Lastly, we are very excited to be opening our first experiential prototype store next week in Rochester, New York. This new DICK'S store called DICK'S House of Sport, will focus on service and community and allow us to innovate and deliver elevated experiences to our athletes, including an outdoor field to host sports events and promote product trial, a rock climbing wall and health and wellness spaces for in-store programming. It will serve as a test and learn center and will roll the most successful elements into our core DICK'S stores.

As I look at our business, we are really in a great position. Our brick-and-mortar stores and our technology platforms are working seamlessly together to deliver an industry-leading omnichannel experience. We have world-class vertical brands, and our vendor relationships with key partners have never been stronger. We've become more athlete-centric, focusing on friendly, knowledgeable and available service. Importantly, we have a respected and loved brand and are aligned behind our common purpose to create confidence and excitement by personally equipping all athletes to achieve their dreams.

In closing, we're extremely pleased with our Q4 and 2020 results and look forward to building on this success in 2021.

I'll now turn the call over to Lee to review our financial results and outlook in more detail.

Lee J. Belitsky
Executive VP & CFO

Thank you, Lauren, and good morning, everyone. Let's begin with a brief review of our full year 2020 results. Consolidated sales increased 9.5% to \$9.58 billion, even though stores were closed to foot traffic during the spring, representing 16% of our store days closed on average for the year. Consolidated same-store sales increased a record-setting 9.9%. And within this, we delivered a 100% increase in eCommerce sales. And as a percent of total sales, our online business increased to 30% compared to 16% last year.

Gross profit for the full year was \$3.05 billion or 31.83% of net sales, and on a non-GAAP basis, improved 249 basis points from last year. This improvement was driven by a merchandise margin rate expansion of 204 basis points and leverage on fixed occupancy costs of 114 basis points, partially offset by shipping expenses resulting from meaningfully higher eCommerce sales growth. Gross profit also included approximately \$23 million of incremental COVID-related compensation and safety costs.

SG&A expenses were \$2.3 billion or 23.98% of net sales on a non-GAAP basis and leveraged 25 basis points from last year, primarily driven by the significant sales increase. SG&A dollars increased \$178 million compared to last year's non-GAAP results driven by \$152 million of incremental COVID-related compensation, safety costs as well as a \$30 million donation we made to the DICK'S Foundation to help jump-start youth sports programs struggling to come back from the pandemic. Apart from these items, increases in store payroll and operating expenses encouraged to support the increase in sales were offset by expense reductions, including advertising during our temporary store closures.

Driven by our strong sales and merchandise margin rate expansion, non-GAAP EBT was \$733.3 million or 7.65% of net sales, and on a non-GAAP basis, increased \$292.8 million or 262 basis points from the same period last year. In total, non-GAAP earnings per diluted share were \$6.12 compared to non-GAAP earnings per diluted share of \$3.69 last year, a 66% year-over-year increase.

Now moving to our Q4 results. Consolidated net sales increased 19.8% to approximately \$3.13 billion. Consolidated same-store sales increased 19.3% driven by a 20.3% increase in average ticket, partially offset by a 1% decrease in transactions. Our brick-and-mortar stores comped up mid-single digits, even though we were closed on Thanksgiving Day. Our eCommerce sales increased 57%. And as a percent of total net sales, our online business increased to 32% compared to 25% last year. And lastly, we delivered significant growth across each of our 3 primary categories: hardlines, apparel and footwear.

Gross profit in the fourth quarter was \$1.05 billion or 33.67% of net sales, and on a non-GAAP basis, improved 507 basis points compared to last year. This improvement was driven by a merchandise margin rate expansion of 372 basis points and leverage on fixed occupancy costs of 148 basis points. The merchandise margin rate expansion was primarily driven by fewer promotions and lower clearance activity.

In terms of shipping expense, we saw higher costs from shipped packages due to increased volume and industry-wide holiday surcharges. However, the higher average ticket, combined with higher penetration of in-store and curbside pickup, neutralized this impact from a basis point perspective. Specifically, for the fourth quarter, our curbside and in-store pickup sales increased nearly 250%.

SG&A expenses were \$761.2 million or 24.35% of net sales, and on a non-GAAP basis, increased \$163 million or 142 basis points compared to last year. 27 basis points are attributable to the expense recognition associated with the change in value of our deferred comp plans, resulting from the increase in overall equity markets during the fourth quarter. This expense is fully offset in other income and has no net impact on earnings. The balance of the deleverage was primarily due to \$47 million of incremental COVID-related compensation and safety costs as well as the \$30 million donation made to the DICK'S Foundation, most of which was in Q4. These items were partially offset by leverage on other expenses from the significant sales increase.

Driven by our strong sales and merchandise margin rate expansion, non-GAAP EBT was \$298.5 million or 9.55% of net sales, and on a non-GAAP basis, increased \$149.9 million or 385 basis points from the same period last year. In total, we delivered non-GAAP earnings per diluted share of \$2.43 compared to non-GAAP earnings per diluted share of \$1.32 last year, an 84% year-over-year increase.

On a GAAP basis, our earnings per diluted share were \$2.21. This included \$7.2 million in noncash interest expense as well as 6.7 million additional shares that will be offset by our bond hedge at settlement, but are required in the GAAP diluted share calculation, is both related to the convertible notes we issued in the first quarter. For additional details on this, you can refer to the non-GAAP reconciliation tables of our press release that we issued this morning.

Now moving on to our balance sheet. We're in a strong financial position, ending Q4 with nearly \$1.7 billion of cash and cash equivalents and no borrowings on our \$1.85 billion (sic) [\$1.855 billion] revolving credit facility. Our quarter-end inventory levels decreased 11% compared to the end of the same period last year. Looking ahead, our inventory is very

clean, and we'll continue to chase product to improve our in-stock positions in the most in-demand category.

Turning to our fourth quarter capital allocation. Net capital expenditures were \$53 million, and we paid \$27 million in quarterly dividends.

Now let me move on to our fiscal 2021 outlook for sales and earnings. Due to the uneven nature of 2020, we planned 2021 off of 2019 baseline and for the same reason believe it will be important to compare against both 2019 and 2020. Furthermore, given the continued uncertainty around when athlete activities will normalize in 2021 and what the new normal will be, we'll be guiding to a wider range of possible outcomes than we typically do.

Let's start with the sales guidance followed by EBT dollars and rate and then onto EPS. For 2021, consolidated same-store sales are expected to be in the range of negative 2% to positive 2%, which at the midpoint represents a low-double-digit sales increase versus 2019. Our square footage versus 2019 is about the same. We have been pleased with our sales trends so far this year. And for the first quarter, we expect significant consolidated same-store sales and earnings growth as we anniversary the majority of our temporary store closures from last year. Beginning in Q2, our guidance assumes comps will decline in the range of high single digits to low double digits as we anniversary more than a 20% comp gain across those quarters in 2020.

Non-GAAP EBT is expected to be in the range of \$550 million to \$650 million, which at the midpoint and on a non-GAAP basis is up 36% versus 2019 and down 18% versus 2020. At the midpoint, non-GAAP EBT margin is expected to increase over 100 basis points versus 2019 and declined approximately 150 basis points versus 2020. Within this, gross margin is expected to increase versus 2019 driven by leverage on fixed expenses and higher merchandise margins. When compared to 2020, gross margin is expected to decline due primarily to gradually normalizing promotions and modest deleverage on fixed expenses beginning in the second quarter.

SG&A expense is expected to deleverage versus both 2019 and 2020. Compared to 2019, SG&A is expected to deleverage primarily due to hourly wage rate investments. Compared to 2020, SG&A is expected to deleverage primarily due to normalizing advertising expense as a percent of net sales. Our guidance also contemplates approximately \$30 million of COVID-related safety costs during the first half of the year, the vast majority of which will fall within SG&A.

In terms of our premium pay program for hourly in-store -- hourly store and DC teammates, at the beginning of fiscal 2021, we transitioned to more lasting compensation programs, including increasing and accelerating annual merit increases and higher wage minimums. The impact of these programs has also been included within our guidance but falls outside of the aforementioned COVID costs as these changes are now permanent.

Lastly, we anticipate non-GAAP earnings per diluted share to be in the range of \$4.40 to \$5.20, which at the midpoint and on a non-GAAP basis is up 30% versus 2019 and down 22% versus 2020. Our earnings guidance is based on 96 million average diluted shares outstanding and an effective tax rate of approximately 23%. This is lower than our traditional tax rate and is due to the favorable tax impact of share-based payments expected to vest in 2021.

Our capital allocation plan includes net capital expenditures of \$275 million to \$300 million, which will be concentrated in improvements within our existing stores, ongoing investments in technology as well as 6 new DICK'S stores, 6 new specialty concept stores, and we will also convert 2 Field & Stream stores into Public Lands stores and relocate 11 DICK'S stores.

In terms of returning capital to shareholders, today we announced an increase in our quarterly dividend of 16% to \$0.3625 per share or \$1.45 on an annualized basis. In addition, our plan includes a minimum of \$200 million of share repurchases, the effect of which is included in our EPS guidance. However, we will consider continuing to opportunistically repurchase shares beyond the \$200 million.

In closing, we are extremely pleased with our 2020 results. We are looking forward to continuing this success in 2021, and we remain very enthusiastic about our business.

Before concluding, I want to highlight a new investor presentation that will be posted to our Investor Relations website later today. The intent of this presentation is to serve as a resource to provide current and prospective investors an overview of our company, strategy and competitive differentiation.

This concludes our prepared comments. Thank you for your interest in DICK'S Sporting Goods. Operator, you may now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman

Morgan Stanley, Research Division

My first question is on the outlook for 2021. I get that gross margin is expected to be up versus 2019 levels. Obviously, there's a very wide range of outcomes in there. Is there anything you can help us think through? Obviously, on a -- let's say, a midpoint of a 0 comp, you give back some of the -- maybe rent leverage, the occupancy that you got, so we can do that part. But as far as the remaining balance of product margins, some of the puts and takes there.

Lee J. Belitsky

Executive VP & CFO

The business -- the merchandise margin rates that we've obtained during the second through fourth quarter this year were largely attributable to fewer -- far fewer promotions than we've had. And we haven't thus far seen the need to add back promotions. But as we get into the year and we believe that the supply of merchandise will become more plentiful out there, that there's a potential that the industry will return to more normal promotional levels as we get through the year. It's hard to say exactly when that will happen or to what extent it will happen, but we're planning on the merchandise margins gradually adding back promotions, looking really at Q2 through Q4.

We don't intend to lead the promotional charge there. It's not really our approach to this, but we will have to react if the marketplace goes there. Right now, inventories are in good shape but are light kind of across the industry and across categories right now. So we don't see anything imminent, but we're being cautious about kind of the back half of the year this year with respect to promotions.

Simeon Ari Gutman

Morgan Stanley, Research Division

Okay. My second question, maybe bigger picture. Can you share -- are you giving thought to the long-term margin power of the business? And I don't know if you're planning to discuss that with investors in the next year or so. It looks like the business historically peaked at around a 9% EBIT margin, and that looks like pre-eCommerce days. And a lot of this looks like it is dependent on the gross margin. So I don't know if there's a time frame in which you could share, maybe providing an update to The Street on where you think the earnings power of the business is, if 2020's margin rate is the reasonable new level of ceiling to get back to over time. How should we think about that?

Lauren R. Hobart

President, CEO & Director

We are not going to share our long-term guidance on what our operating margin will be going forward. However, we definitely view there is upside in the operating margin, and we plan to continue to deliver that over the next few years. We're just not laying down a commitment right now.

Lee J. Belitsky

Executive VP & CFO

I would just add to that, that I think we want to see how the business settles out once we get past kind of the pandemic-driven demand and how much of that demand we hold on to. We believe a lot of it's just new normal, and we'll come out of this at a meaningfully higher level of sales, but we'd like to see where that settles in. So we understand what the base is that we can build off of going forward. So we'll have more information on this probably later in the year this year.

Simeon Ari Gutman

Morgan Stanley, Research Division

Okay. And if I can just -- back to the gross margin for a second, I know there's not a lot of color, but if we get a little bit leverage actually on occupancy versus '19 and hunt is down, which should be a positive, better eComm margin should be -- could be 25, 50 basis points. It's possible like we could pencil out something 32 and change, but I don't know if you can comment on any of my math there, Lee.

Lee J. Belitsky

Executive VP & CFO

Yes. I'm not really prepared to comment on the math now, but we do believe that this will -- there continues to be opportunity on the gross margin side.

Operator

The next question is from Adrienne Yih with Barclays.

Adrienne Eugenia Yih-Tennant

Barclays Bank PLC, Research Division

Congratulations on a strong year all year long and ending on a high note. This is for Ed and/or Lauren. Can you talk about long-term store targets? And maybe on a 3 to 5-year basis, what your annual gross new store and net store growth should be, how we should think about that?

Also for Ed and Lauren, can you talk about the team sports opportunity? If you can give us some characterization of how large that is as a percent of sales historically and what the relative merch margin of that business is.

And finally, for Lee, the quarter-to-date comp and just any comments on delays, port congestion and how that's impacting the flow of product.

Lauren R. Hobart

President, CEO & Director

Okay, Adrienne, thank you. So starting with the long-term store targets. I think one thing that has become very, very clear to us this year is that our stores are an enormous asset to us as part of our whole omnichannel ecosystem. And so we are -- we view our store growth and our eCommerce growth as very symbiotic and hand in hand, and so we will see us continuing to experiment with different types of store prototypes. We've got our new House of Sport that we mentioned, which is a larger prototype, and we will continue to be looking at where we would want to penetrate. That said, I would not expect a radical change in our store growth in the next few years. We laid out what we've got on plan for this year, and we'll continue to seize opportunities as they come up.

Talking about team sports, frankly, we think there's a huge tailwind in team sports. There was a lot, obviously, of kids who did not get to play this past year. And while the season started a little slow year-to-date due to some cold weather and still COVID concerns, we fully believe -- football is sort of playing in many parts of the country now, and baseball is next. And we see team sports as a large and big tailwind, while people are still also buying golf and fitness and other

outdoor activities that have become part of their new lifestyle. Lee, you want to take the port delays?

Lee J. Belitsky

Executive VP & CFO

So with regard to supply chain, we have seen some delays across some product categories that we have. Our inventories are a little bit lower than we would like them to be. We were a little bit constrained in the fourth quarter, not so much to do with port delays, but due to some categories of merchandise not being manufactured as highly as we would have liked. But we don't anticipate that being a significant impediment to our business at this point.

Now that could change. It looks like the supply chain issues, I'd say, over the last couple of weeks, have got a little bit better. They have been trending worse for a while, but it seems like what we see Asia is catching up a little bit right now. The ports are getting a little bit better in the U.S., and we're in a pretty good inventory position at this point. So we don't really see that as an impediment to doing the business we need to do over the next couple of quarters.

Adrienne Eugenia Yih-Tennant

Barclays Bank PLC, Research Division

Great. Any comment on quarter-to-date?

Lee J. Belitsky

Executive VP & CFO

We're really pleased with our quarter-to-date sales, so we'll leave this at...

Operator

The next question is from Kate McShane with Goldman Sachs.

Katharine Amanda McShane

Goldman Sachs Group, Inc., Research Division

I wondered if you could comment at all about what you're seeing of the golf business in warmer weather regions and how it might be providing a readthrough to the spring and summer season for golf nationally.

And then my second question was just around the store relocations. I think you mentioned that you're doing 11 this year. I think this is a little bit higher than what you traditionally do. I wondered if there were more real estate opportunities or new real estate opportunities in which you're relocating into, and is it at more favorable rates?

Lauren R. Hobart

President, CEO & Director

Kate, I'll start with the golf business. We are incredibly bullish on the golf business. It has remained strong through the pandemic in the warm weather markets and still strong nationally across the board. So participation rates are up. There's new athletes in the golf sector, and we see a lot of growth ahead of us there.

In terms of relocations, we definitely have multiple opportunities, and a big part of our strategy with real estate right now has been to either renegotiate or relocate. And we do see a nice pop when we do relocate into a new store from a sales and profit standpoint.

Lee J. Belitsky

Executive VP & CFO

Yes. The big driver on the relocations is more the lift in sales we get from it than the savings in rent. Sometimes, the rent is reduced. But typically, we get a fresh new store, and we see a significant sales and profitability lift as well. Our new stores continue to perform very well as well, so we're -- we've been selective in picking our targets for new stores, and the economics have been very good. So we're not discouraged from opening new stores in any way, but we do want to continue to be selective.

Operator

The next question is from Mike Baker with D.A. Davidson.

Michael Allen Baker

D.A. Davidson & Co., Research Division

One bigger picture question. Why do you think you're better positioned today than you were pre-pandemic? Is it vendor relationships? Is it eCommerce? Is it technology? Is it all of the above? I think one thing important to note that, even before the pandemic, in 2019, I think that was your best comp in 4 or 5 years. So clearly, things are moving in the right direction pre-pandemic. What do you think is leading to that better positioning?

Lauren R. Hobart

President, CEO & Director

Mike, thank you for your question, and I couldn't agree more with you. This is not just a pandemic bump that we had this past year. We have been, many years now, working on a new strategy to develop our entire omnichannel ecosystem to make the most out of our stores, to make the most out of our online sales. And I would say that, that on top of amazingly strong vendor relationships, which have only gotten stronger through the pandemic, the ecosystem that we've created with curbside now making our stores really pinnacled part of our digital experience, our technology investments over the past few years helped us, not just grow and spin up curbside in 2 days once the pandemic hit, but also leveraged our fixed expenses in a way that we couldn't have if we hadn't invested in technology a few years ago. So I do feel like -- we've had our best quarters right before the pandemic, and then we had our best quarters during the pandemic, and we look forward to returning to a little bit of normalcy and working through our operating model.

Lee J. Belitsky

Executive VP & CFO

And just to add to Lauren's comments, from a consumer trends perspective and activities trend, we're excited about some of the new habits that our athletes have picked up during the year, whether it's golf or running or other outdoor activities that require footwear, athletic apparel and so on, in addition to some -- what's likely to be some more work from home, which should add more time to people's lifestyle. So we like the product trends going forward, and we think that demand is going to settle in at a higher level than it was pre-pandemic as well as a result of all these new activities that our athletes have got engaged with.

Lauren R. Hobart

President, CEO & Director

Sorry, Mike, I just wanted to add one more thing, which is one of the most pleasing things to see over the past few quarters is that as we launched curbside and improved our digital and our eCommerce experience and then we opened up our stores, that our stores are comping positively, while we're still getting incredibly strong growth out of the eComm. So that feels like a long-lasting trend.

Michael Allen Baker

D.A. Davidson & Co., Research Division

Yes. I was just going to add that I imagine you're selling a lot of layer-type Under Armour or the DSG similar product for winter football in New England. It's been cold out there for some of these [practices].

Lauren R. Hobart

President, CEO & Director

It's cold. Yes. There is a mini football season going on. Who knew there was going to be a football in February or March, but there is. And yes, we need some Under Armour or some cold gear -- DSG [brand].

Operator

Christopher Horvers, your line is open on our end, from JPMorgan.

Christopher Michael Horvers

JPMorgan Chase & Co, Research Division

Can you talk a little bit about -- you talked about strong performance in hardline, apparel and footwear. Can you talk about sort of the relative performance and perhaps how that changed versus what you saw in the third quarter? And any comment on how stimulus impacted those trends?

Lauren R. Hobart

President, CEO & Director

Yes. Chris, so hardlines were incredibly strong in the fourth quarter, and that's similar categories to what was doing well in Q3. But fitness, golf, outdoor equipment, which is where our bikes, paddle sports, all that -- the hardlines were really quite a champion. Despite supply constraints and challenges that we had getting a lot of product, they really dominated this year, but footwear -- this quarter and the year. But footwear and apparel also were strong.

Lee, I'll turn it over to you to -- stimulus, we don't have -- we actually -- we do not -- we cannot quantify how much stimulus checks helped us and may help us in the future. It's not something we're planning against. There's just so much noise in the business in terms of trying to measure what the exact impact of that is that we're -- yes.

Christopher Michael Horvers

JPMorgan Chase & Co, Research Division

Understood. And then can you talk a little bit about working capital outlook, the balance sheet? Where is -- what's the right level from a days of inventory perspective? Should we look at 2019 as the right level? You ended the year with \$1.7 billion of cash. You're baking in sort of a minimum \$200 million share repurchase. Most of the difference between the EPS outlook versus The Street was really driven on that -- on the share count line. So is there something that you're holding on to that cash for? Is there a big working capital drain that you're expecting? And why wouldn't you buy back significantly more than \$200 million?

Lee J. Belitsky

Executive VP & CFO

Well, a couple of things. I'll address a couple of questions. With regard to working capital, we are planning to end '21 with our inventory levels approximately even to 2019. So we expect the sales to be up about low double digits. I think the math comes out to like 11%, and we expect the inventory to be about the same at the end of '19. So while the inventory turn will probably be a little bit lower than it is in 2020, we expect it to be meaningfully higher than it was in

2019. The accounts payable leverage will be greater than 2019, will be less than 2020, but there's no unusual drain on working capital as expected.

With regard to share buybacks, we've set it at a minimum of \$200 million for this year. And we've also said that -- and that's what we baked into the forecast right now, but we'll also look at the pace of our business as we go forward and measure that, measure what's happening with the pandemic. And if there are any changes to demand resulting from that in our business, we leave open the possibility of buying back more shares that's appropriate for the business.

Christopher Michael Horvers

JPMorgan Chase & Co, Research Division

Understood. And then one last question. Do you expect eCommerce growth to be up in '21? And to the extent that you expect it down, how might that impact your gross margin.

Lee J. Belitsky

Executive VP & CFO

Yes. So we're planning our eCommerce business to be down versus 2020. We just had a really unusual lift in the business, particularly in the back half of the first quarter and into the second quarter when the stores were closed. So we're going to come up against some really big eCommerce numbers. Certainly, our run rate in the eCommerce business coming out of Q4 is a lot higher than it was last year, so we're very optimistic about the eComm business. So that's good for us.

The AURs have been good for us there. We're using ship from -- excuse me, we're using curbside, pickup and in-store pickup as well, which doesn't have a delivery cost. So the impact on our overall gross margins shouldn't be significant from the eComm business coming down as a percent of the mix modestly.

Operator

The next question is from Seth Sigman with Crédit Suisse.

Seth Ian Sigman

Crédit Suisse AG, Research Division

Congrats on the quarter. I was hoping you could frame a little bit more the incremental costs in FY '20. I think Ed had talked about \$175 million for the year. I don't think that included the \$30 million donation. And also, I assume there was higher incentive comp and maybe some other factors. So Lee, maybe can you confirm that and help us think about how much was in the base for '20?

And then for the outlook, I want to make sure we have this right. It sounds like you're saying don't necessarily assume that these costs come back because you're going to reallocate that to more permanent wages and things like that. Can you just confirm that as well?

Lee J. Belitsky

Executive VP & CFO

Yes. So a couple of points there, \$175 million. We got \$163 million of -- excuse me, \$175 million of COVID costs do not include the \$30 million of additional foundation contributions. So those are -- were incremental in 2020. However, the COVID costs, going forward, a large piece of that has been kind of reallocated into more permanent wage increases. We continue to see wage pressures in order to get the right kind of talent in our stores. We're continuing to have to invest more in our hourly wages to maintain those -- the right kind of people, both in our stores and our distribution

centers. So a large part of that is being reinvested, as you said, going forward.

Lauren R. Hobart
President, CEO & Director

The other piece I want to mention is that advertising expense this past year was pretty much nonexistent between March and May, while we were trying to figure out how we were going to manage liquidity through the pandemic. And so that is another cost that will be normalizing next year.

Seth Ian Sigman
Crédit Suisse AG, Research Division

Okay. That's helpful. And then just another follow-up and clarification. Lauren, you talked about earlier upside to the long-term operating margins of this business. Just to confirm, is that versus the 5.1% in 2019 or versus what you just saw in 2020?

Lee J. Belitsky
Executive VP & CFO

I would say it's versus our guidance for this year. If you take the midpoint of our guidance, we think we can establish that as a new base and then keep building off of that. So it's over 6% operating margin we can build from there.

Operator

The next question is from Michael Lasser with UBS.

Michael Schwartz
UBS Investment Bank, Research Division

Mike Schwartz on for Michael Lasser. Looking back at the sales growth you saw over the past year, would you be able to parse out how much of that was driven by new customers versus increased spend from existing customers? And how do new customers compare to existing customers in terms of ticket and frequency?

Lauren R. Hobart
President, CEO & Director

Yes. Mike, we have had a significant increase in new customers over the course of this past year. We had 8.5 million new customers over the full year and 2.5 million in the fourth quarter. We're very pleased with the makeup of the new customers. They tend to skew a little younger than our average former customer or current customer, a little bit slightly more female and slightly more urban. So we do think a lot of the exits from the cities are people engaged with the brand for the first time, and we're working very hard to keep those people in our database and encourage second purchases. But it's a huge -- it's a big piece of our growth.

Michael Schwartz
UBS Investment Bank, Research Division

And as a follow-up, is [it within] DICK's ability to drive a more limited promotional stance when we think about from 2019 levels? Or will it depend on pricing and promotional intensity in the marketplace?

Lauren R. Hobart
President, CEO & Director

I couldn't hear the first part of your question, but I think you were asking is DICK'S able to lead a less promotional environment than 2019? Is that -- was that your question?

Michael Schwartz

UBS Investment Bank, Research Division

Sure. Just whether or not the company has levers to drive a more limited promotional stance on its own or if it's more of a market dynamic?

Lauren R. Hobart

President, CEO & Director

We do not plan to be very promotional moving into. Of course, we will respond to any market pressure that we have or any environmental or economic pressure, but we do not plan to lead a hyperly promotional cycle here. And we believe we have the levers to manage appropriately through.

Operator

Your next question is from Chuck Grom with Gordon Haskett.

Charles P. Grom

Gordon Haskett Research Advisors

Long time, Ed. Hope you're well. Just on the lease front, I know you have a number of leases coming up for renewal over the next several years. Just wondering how we should think about the impact from that to the occupancy cost line over the next couple of years.

Lee J. Belitsky

Executive VP & CFO

Well, we've got about 2/3 of the leases coming due over the next 5 years, and we have an option on those leases. As we go forward in the majority of those stores, as we negotiate new leases, we've been able to negotiate reductions along the way. It also gives us leverage to drive better deals when we relocate stores. So I would expect modest declines year-over-year in the rent line, going forward, as we have all along.

Charles P. Grom

Gordon Haskett Research Advisors

Got you. Great. And then just one quick question, and I apologize for being near-term-oriented, but I'm wondering if you're seeing any difference in regional performance where there's been fewer COVID restrictions, particularly in states like Florida, Georgia, Texas, versus maybe, say, up here in the Northeast.

Lauren R. Hobart

President, CEO & Director

I think the best way to answer that is just that, obviously, COVID restrictions have allowed different levels of activity. And team sports coming back and we are looking at the business that way and where they are coming back, we're seeing strength in those businesses.

Operator

The next question is from Paul Lejuez with Citi.

Paul Lawrence Lejuez

Citigroup Inc., Research Division

Curious if you could talk about the mix performance and the impact it had on gross margin this year in F '20. And just how you think the mix could have an impact on that merch margin line in F '21? You maybe talk from a category perspective, also private-label perspective in terms of how you're managing that business.

And then second, just also curious if you can comment on what's going on in the competitive landscape. Just how much of your F '21 guidance is driven by what you think will be market share opportunities from competitor store closings, either medium-sized chains, small-sized competitors? Any numbers you can share around that.

Lee J. Belitsky

Executive VP & CFO

Mix in 2021 should be a little bit favorable to 2020 because the strongest part of the business in 2020 was really in the hardlines categories, outdoor equipment, fitness and so on. And as we go forward, we expect to see a recovery in team sports. We can expect to see continued strength in athletic apparel, in the athletic footwear businesses, which are higher margin businesses. In addition to that, we expect to see our private brands -- our vertical brands continue to grow, which is also a positive from a mix perspective. And the hunt business coming down, which should be favorable from a margin perspective. So there are some basis points of mixed favorability I would expect to see in 2021.

With regard to the competitive landscape, I don't see that much changing from a brick-and-mortar perspective. I think the sporting goods sector is generally in good shape right now. The pandemic has spurred sales across our sector, so I don't expect to see closures really in any kind of meaningful way this year.

With regard to department stores, some of the department stores are closing some stores, which should be favorable. But on the other hand, some of them are going after kind of the athletic apparel space a little bit more aggressively, which will work the other way. So long and short of it, I don't really see a meaningful change in the competitive landscape this year in the brick-and-mortar space.

Operator

The next question is from John Kernan with Cowen.

John David Kernan

Cowen and Company, LLC, Research Division

Congrats on a phenomenal year.

Lauren R. Hobart

President, CEO & Director

Thank you.

John David Kernan

Cowen and Company, LLC, Research Division

Can you talk to inventory levels in -- the middle of 2020 were down pretty significantly. Were you supply-constrained in any key categories where you felt like you potentially left some comps on the table? I mean comps were obviously phenomenal. I'm just curious if there was demand you couldn't fulfill.

Lauren R. Hobart

President, CEO & Director

Yes. John, there definitely was some demand we've been chasing all year in categories that were surging due to the pandemic and managing through it. So it's on a hand-to-mouth basis for some of these categories. We left some sales on the table, but let me turn it over to Lee.

Lee J. Belitsky

Executive VP & CFO

Yes. I mean the categories that we were chasing all year were fitness, kayaks and golf equipment and athletic apparel. So certainly, if we had more inventory over the course of the year in certain key categories, our sales would have been higher. We are in much better shape in inventory right now. So we're down 10%. We feel pretty good about our inventory levels right now. There's still a few pockets where we're short, but we don't have the kind of widespread inventory outages that we did through mid and the latter part of the year last year.

John David Kernan

Cowen and Company, LLC, Research Division

Got it. And maybe my follow-up question goes back to the mix question. How will mix affect comps this year? I know ticket was a big driver of overall comps in fiscal '20. Just curious how you expect mix to affect, not only the gross margin but also the comps this year.

Lee J. Belitsky

Executive VP & CFO

Well, that remains to play out, I think, for us to take a look at it and see how well the big-ticket items hold up. Part of the reason the average retail is up so much because we were less promotional, so that drove a lot of the average ticket. But we did have strength in big-ticket items like in the fitness area, in kayaks, golf clubs and so on. And I think we feel really good about the golf business. We feel good about all of those categories right now. And time will tell as we get later in the year when the new activities kind of normalize, what will happen to the sales there.

Operator

The next question is from Scot Ciccarelli with RBC Capital Markets.

Robert Scot Ciccarelli

RBC Capital Markets, Research Division

It's Scot Ciccarelli. So it seems like your new men's athletic apparel brand, VRST, is aimed right in the middle of the core merchandise offering for some of your most important vendor partners. I'm just curious how you guys are planning to introduce that brand. And any potential conflicts that could create with those partners, especially given your comment on the improving vendor relationships?

Lauren R. Hobart

President, CEO & Director

Yes. Scot, so the VRST brand that we mentioned, our new men's premium athletic apparel brand, we believe is very much a white space in our stores right now. It's competing with other specialty, but we do believe, when you see it, it will be -- it's a very different product assortment from what we have with our core vendor partners right now, and it is a white space. You can think of it sort of as the CALIA version on the men's side in terms of filling a white space that we have,

that our current partners are just not -- are not in.

Robert Scot Ciccarelli

RBC Capital Markets, Research Division

So can you provide any more detail on why that's going to be different than, say, a Nike, Under Armour type offering, Lauren?

Lee J. Belitsky

Executive VP & CFO

I would say it's closer to lululemon, and the assortments that they've got, it's more a...

Lauren R. Hobart

President, CEO & Director

Lifestyle.

Lee J. Belitsky

Executive VP & CFO

It's lifestyle apparel that you can wear to work, you can travel in. There is -- you can work out in it if you choose to. So it covers a broader range of activities than kind of the Nike, which is a little bit more athlete focused than our new brand that's coming out.

Operator

The next question is from Steven Forbes with Guggenheim.

Steven Paul Forbes

Guggenheim Securities, LLC, Research Division

So given the comments, right, on the importance of the stores, I think Lee spoke to that 6-plus percent operating margin. Curious if you can remind us what the 4-wall margin profile is across the mature store base and/or what sort of 4-wall margin target you guys are looking at when you're identifying relocations, right, or new store opportunities.

Lee J. Belitsky

Executive VP & CFO

We really run on a return on investment, and we're -- and in our new stores, the hurdle that we're aiming for is at least an 18% IRR on the stores, including relocations have to be an IRR over, if we've remained in the existing store so in order to spur the new investment. And typically, we can do that because we get a large sales lift out of the stores when they move.

Steven Paul Forbes

Guggenheim Securities, LLC, Research Division

And then just a follow-up, right, given that ROI focus. Any comments as we return to sort of these premium footwear decks on the IRR attached to that initiative? Or any color on what we should think about in terms of a sales lift?

Lauren R. Hobart

President, CEO & Director

We're not going to share the IRR of the deck, other than to say that the decks have unlocked a lot of assortment and a much better athlete experience. And so it's really been a game changer, a very positive game changer for our entire footwear business.

Operator

The next question is from Joe Feldman with Telsey Advisory.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Wanted to ask -- you've mentioned last -- doing some things to enhance the mobile experience. If you could share a little more color on that and how you would be better integrating, I guess, that experience for the consumer.

Lauren R. Hobart
President, CEO & Director

Yes. We're working on a relaunch of our mobile app. That said, mobile is already 50% of our eCommerce sales. And the plans we have right now are to fully integrate both the store experience and the ScoreCard experience into the online shoppers' experience, and in particular, making the mobile app the hub of the ScoreCard users -- the ScoreCard members' entire DICK'S experience. More to come.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Got it. Okay. And then the other kind of topic I wanted to ask about was sort of on the last mile. Obviously, you made great strides this past year. Where are you headed in '21? Like is it -- do you kind of go back and find ways to make curbside more efficient, BOPIS, things like that? And how do you do that, if you could share some plans for that?

Lauren R. Hobart
President, CEO & Director

Yes. We are focused on the last mile, and we are focused on trying to improve the BOPIS profitability. But also, the profitability is great in that channel, but the customer experience -- so we're working on things like speed to athletes. So right now, people are getting notified that their BOPIS curbside order is ready. We promise under an hour. It's a lot faster than that, usually within 30 minutes or faster. Curbside wait is -- it's just a couple of minutes, very quick. And so we're trying to just make the experience become so convenient that people love it. And the other thing we did this past year is tested Instacart for same-day delivery, and that's just a small test to see whether our athletes want same-day delivery, and we'll be looking into that as the year goes on.

Operator

The next question is from Warren Cheng with Evercore ISI.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Great quarter. I just had a follow-up question on Simeon's question and some of the other questions on gross margin. So if I just try to sort out what's happening to your gross margin structurally and filter out some of the noise of 2020 and even 2021, in a scenario where we're back to a post-COVID sales mix, post-COVID more normalized promotional

environment, whenever that may be, can you maybe just rank order the biggest changes to your structural underlying gross margins relative to 2019 levels?

Lee J. Belitsky

Executive VP & CFO

I would say the largest one, we believe, will be the merchandise margin being higher due to mix shift and due to better promotions management, particularly online. I'd say that's the largest. I'd say the second largest is going to be around leverage of occupancy expense. To the extent we've got the same square footage in 2021 as we did in '19 and we're able to continue to drive some rent reductions along the way, we should be able to continue to leverage our occupancy expense.

Going the other way, as eCommerce is a larger part of the business, there is some pressure from additional delivery expenses to get products to customers. We did a really good job in the fourth quarter, mitigating that through more BOPIS and curbside pickup and higher AURs. We think we'll be able to hold on to some of that, but it will be a constant, very detailed management effort on our expenses there to try to keep that down. But I would expect versus '19, the delivery expenses to run a little bit higher as a percent of sales from the eCommerce business.

Operator

The next question is from Seth Basham with Wedbush Securities.

Seth Mckain Basham

Wedbush Securities Inc., Research Division

My question's around SG&A. If you could contextualize the underlying growth in SG&A that we're seeing in the business. Maybe if you think about it on a 2-year basis from 2019, should we be looking at 3% to 4% growth on an annual basis underlying?

Lee J. Belitsky

Executive VP & CFO

So versus '19, the main drivers of growth are really our store payroll expenses, and that's really driven by higher wage rates that are across the board. I'm not going to comment on the exact amount that it's going up, but the deleverage that we are experiencing is really attributable to that factor, the hourly wage rates. Advertising is in good shape. Admin expenses are in good shape as well, so it's really driven by store payroll.

Seth Mckain Basham

Wedbush Securities Inc., Research Division

Okay. But no comment on what the underlying growth rate's been?

Lee J. Belitsky

Executive VP & CFO

I don't have a comment on that at this point.

Seth Mckain Basham

Wedbush Securities Inc., Research Division

Okay. And just as a follow-up, thinking about some of the smaller elements of SG&A. Looking at your D&A on the

CapEx step-up and other SG&A that might follow with those increased capital investments, is that a headwind in 2021?

Lee J. Belitsky

Executive VP & CFO

Not really. Not really. As we know, we got investments coming in throughout the year this year, a partial year of depreciation expense. It's not really a headwind for this year.

Operator

And the final question today will be from Tom Nikic with Wells Fargo.

Tom Nikic

Wells Fargo Securities, LLC, Research Division

Lauren, I just want to ask quickly on the ScoreCard loyalty program. I think it launched something like 18 months ago, and it seems like you've gotten a pretty good uptake there, like I think 70% of sales. I just wanted to ask you, are there like meaningful differences in the metrics you're seeing of your ScoreCard members, non-ScoreCard members in terms of buying frequency or average basket or anything like that? And then just also, do you think that, that 70% penetration can move even higher from here? Is this the kind of situation where you could see it becoming 80%, 90% of sales?

Lauren R. Hobart

President, CEO & Director

Yes. Thanks, Tom. Just to clarify one thing. Our ScoreCard program has been around for actually many, many years, and 70% penetration has been similar for the past few years. We always hope it's going to increase, but it's a very, very high number as it is. What I think you're referring to is our ScoreCard Gold Program, which we launched probably about 18 months ago now, which is for our best customers who do account for our highest level of sales, over \$500 a year is what the criteria is, and they contribute an awful lot of our total sales, are -- higher on an AUR -- every transaction, every lever is higher.

Tom Nikic

Wells Fargo Securities, LLC, Research Division

Understood. Got it. And so you think 70% is kind of the sort of steady-state penetration for the loyalty program overall?

Lauren R. Hobart

President, CEO & Director

It's a reasonable assumption.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Lauren Hobart for any closing remarks.

Lauren R. Hobart

President, CEO & Director

Okay. Thank you, everybody, for your interest in DICK'S, and a final thank you to our teammates for their amazing performance this year. Thanks, everybody.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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