

DICK'S Sporting Goods, Inc. NYSE:DKS

FQ4 2022 Earnings Call Transcripts

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Presentation

Operator

Hello, and welcome to the DICK'S Sporting Goods Fourth Quarter Earnings Call. My name is Charlie, and I will be coordinating your call today. [Operator Instructions]

I will now hand you over to your host, Nate Gilch, Senior Director of Investor Relations, to begin. Nate, 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 2021 results. On today's call will be Ed Stack, our Executive Chairman; Lauren Hobart, our President and Chief Executive Officer; and Navdeep Gupta, 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 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 few admin items. First, a note on our same-store sales reporting practices. Beginning in Q1 2022, we will update our method for determining consolidated same-store sales. Prior to fiscal 2022, relocated store locations have been excluded for our consolidated same-store sales calculation until the relocated store commenced its 14th full month of operations. Beginning in fiscal 2022, relocated store locations will remain in our calculations, consistent with our holistic view of each market.

In an 8-K filed today, we have provided a table that presents quarterly and full year consolidated same-store sales results for fiscal 2021 calculated in the same manner that same-store sales will be calculated beginning in fiscal 2022. The table will also be available on our Investor Relations website.

Second, also beginning in Q1, we will adopt new rules that will impact the accounting of our convertible senior notes due 2025, resulting in lower interest expense and higher diluted shares on a GAAP basis. We do not expect the net effect of these changes to materially impact our GAAP earnings per diluted share. Given our intent to settle the principal in cash and the shares that will be delivered by our bond hedge settlements, we do not expect the notes to have a dilutive effect of settlement. Accordingly, we believe that reflecting the notes as debt more closely reflects the underlying economics of the transaction which is included in our non-GAAP outlook. For additional details on this, you can refer to our press release that we issued this morning.

Next, I want to highlight a new investor presentation that was posted to our Investor Relations website earlier 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.

And lastly, for your future scheduling purposes, we are tentatively planning to publish our first quarter 2022 earnings results before the market opens on May 25, 2022, with our subsequent earnings call at 10 a.m. Eastern Time.

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

Edward W. Stack

Executive Chairman

Thanks, Nate. Good morning, everyone. We had an exceptionally strong 2021 and delivered record sales and earnings. Our consolidated same-store sales increased 26.5%, which was on top of a 9.9% increase from the prior year and 3.7% increase in 2019. Our non-GAAP earnings per diluted share of \$15.70 represented a 157% increase over last year and a 325% increase over 2019.

Our current success is the result of a deliberate multiyear transformational journey that is driving sustainable sales and profitability growth. With an athlete-first approach, we have built significant competitive advantages across our merchandise assortment, brand relationships, service model, in-store and digital commerce experiences. We have also invested in our technology capabilities, including data science, personalization, to advance our omnichannel growth strategy. Virtually nothing about our business is the same as it was 5 years ago.

As expected, 2021 has been the most transformational year in our company's history. Among our accomplishments, we drove strong growth in our core DICK'S business; launched DICK'S House of Sport, a completely new experiential destination that's redefining sports retail; we reengineered Golf Galaxy and launched the Golf Galaxy Performance Center, a new immersive experience for golf enthusiasts of all levels; and finally, we unveiled Public Lands, a new omnichannel specialty concept, to better serve the outdoor athlete.

We are the clear market leader in a fragmented \$120 billion industry with strong secular growth trends. Our strategies are working, and we've set our business on a new trajectory for growth. We'll continue to take market share and extend our lead. We have the best overall management team we've ever had and are entering 2022 stronger than ever. Looking ahead, I couldn't be more excited about the future of our business.

Before concluding, I'd like to thank all of our teammates for their hard work and unwavering dedication to our business. 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 echo Ed's thanks to our team for their incredible passion, hard work and dedication to our athletes and to our business. At DICK'S, it is our people who make us great, and none of what has been accomplished this past year would have been possible without our exceptional team.

Now on to our results. In Q4, we delivered the largest sales quarter in our company's history. Our record quarterly sales of \$3.35 billion were driven by a consolidated same-store sales increase of nearly 6%, which was on top of a 19.3% increase in the same period last year and a 5.3% increase in Q4 of 2019. Our Q4 comps were supported by growth in key categories and increases in both average ticket and transactions as our diverse category and brand portfolio, world-class omnichannel platform and strong execution helped us continue to meet robust consumer demand.

Our athlete counts remain strong, and we added another 2.3 million new athletes during the quarter for a total of approximately 8 million new athletes acquired this year. Our highly differentiated product assortment, combined with our granular and disciplined promotion management, is enabling us to drive significantly higher merch margin rates. During the quarter, there were no major store or site-wide promotions, and we expanded our merchandise margin rate by 476 basis points versus 2020 and by 848 basis points versus 2019. Led by strong sales and merchandise margin, we achieved non-GAAP EBT margin of nearly 14%. In total, our fourth quarter non-GAAP earnings per diluted share of \$3.64 represented a 50% increase over the same period last year and a 176% increase over Q4 of 2019.

As Ed indicated, over the past 5 years, we've been on a transformational journey that's driving sustainable growth in sales and profitability. During this time, we meaningfully improved our merchandise assortment, including developing even stronger relationships with our key brand partners to drive greater access to highly differentiated product.

We implemented an enhanced service model and leaned into highly engaging in-store experiences. We focused on our culture and put our teammates, athletes and communities at the center of everything we do. Finally, we invested in technology, data science and our omnichannel platform and significantly improved our digital marketing and personalization capabilities. These transformational changes were driving improved results well before the pandemic and further accelerated our performance over the past 2 years.

DICK'S is a growth company. And with the recent completion of our \$1.5 billion long-term investment-grade debt issuance, we have ample flexibility to pursue our robust growth agenda. We're entering 2022 with incredible momentum and confidence in our business. Virtually our entire category portfolio has re-baselined meaningfully higher versus pre-COVID sales levels. We've gained considerable market share in key categories. And as the largest U.S. sporting goods retailer, we are well positioned to extend our lead and continue gaining share in a large, growing and fragmented industry.

Importantly, our 2022 sales and earnings guidance establishes a new foundation upon which we will build in the years ahead. Navdeep will address our outlook in greater detail within his remarks. Our focus in 2022 is on enhancing our

existing strategies to continue to accelerate our core business and enable long-term profitable growth. First, our stores will continue to be the hub of our industry-leading omnichannel experience, serving both our in-store athletes and providing over 800 forward points of distribution for digital fulfillment.

During 2021, our stores comped up 42%, including a 14% increase in Q4. They enabled over 90% of our total sales and fulfilled approximately 70% of our online client sales through either ship from store, in-store pickup or curbside. In 2022, we will continue to enhance our service model and provide opportunities to try products through experiential elements, such as our premium full-service footwear decks, our HitTrax batting cages, soccer shops and golf simulators. We will also continue to invest in technology to enhance our store fulfillment and in-store pickup capabilities and drive profitability of our e-commerce business.

Beyond our stores, we will also continue to improve our digital experience by adding more personalization and making it even easier for athletes to find the best product for them. Backed by our investments in service, data science and our ScoreCard Program, we will continue to serve our athletes whenever, wherever and however they want, instilling confidence in their purchase and inspiring their loyalty.

Next within merchandising. Our relationships with key brands are stronger than ever, and we will build on our momentum and drive growth in important categories, including athletic apparel, footwear, team sports and golf. We are rooted in sport, and our ability to showcase an entire brand portfolio across our national store footprint and online is highly valued by our strategic partners.

In 2021, we announced a groundbreaking new partnership with Nike to create an unmatched experience for our connected athletes. We've been encouraged by the athlete response and look forward to continually working with Nike to anticipate and fulfill the evolving needs of the athletes we serve. Looking ahead, we will continue to make big bets with all of our big brand partners to deliver an unparalleled athlete experience across our physical and digital properties.

At the same time, we will leverage athlete feedback and insights to drive vertical brand growth in new segments and categories. As we've discussed on previous calls, our vertical brands have become a significant source of strength and growth. During 2021, our vertical brands eclipsed \$1.7 billion in sales, and together, represented our largest brand in golf, team sports, fitness and outdoor equipment.

Finally, we remain very pleased by the early results of our new concepts and experiences, including DICK'S House of Sport, Golf Galaxy Performance Center and Public Lands. We're excited to continue to refine and grow these concepts while pulling key learnings into our core business.

In closing, I want to reiterate that our record performance in 2021 was the result of our deliberate investments, our emphasis on analyzing, understanding and meeting the evolving needs of our athletes and the tremendous execution from our team. We are very confident about the ongoing long-term growth potential of our business and believe that no one is better positioned to lead in the marketplace.

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

Navdeep Gupta
Executive VP & CFO

Thank you, Lauren, and good morning, everyone. Let's begin with a brief review of our full year 2021 results. Consolidated sales increased 28.3% to \$12.29 billion. As Ed noted, consolidated same-store sales increased a record-setting 26.5%. This was on top of a 9.9% increase last year and a 3.7% increase in 2019. As a percentage of net sales, our online business has grown from 16% in 2019 to 21% in the current year.

Gross profit for full year was \$4.71 billion or 38.33% of net sales and improved 650 basis points from last year. This improvement was driven by merchandise margin rate expansion of 407 basis points and leverage on fixed occupancy costs of 223 basis points. We also saw lower shipping expense as a percentage of sales. This was due to sustained strength in our brick-and-mortar sales and higher brick-and-mortar sales penetration, following last year's temporary store closures. These items were partially offset by higher freight costs, resulting from global supply chain disruptions and our prioritization of inventory availability.

SG&A expenses were \$2.66 billion or 21.67% of net sales and leveraged 231 basis points from last year, primarily due to the significant sales increase. SG&A dollars increased \$366 million, primarily due to current year cost increases to

support the growth in sales, as well as last year's operating expense reduction following our temporary store closures. In the prior year, SG&A included \$152 million of COVID-related compensation and safety costs. However, in the current year, we transitioned our hourly teammates to compensation programs with a longer-term focus, including increasing and accelerating annual merit and higher hourly wages, partially reinvesting last year's COVID-related costs.

Driven by our strong sales and merchandise margin rate expansion, non-GAAP EBT was \$2.03 billion or 16.47% of net sales and increased \$1.29 billion or 882 basis points from the same period last year. In total, non-GAAP earnings per diluted share was \$15.70. This compares to a non-GAAP earnings per diluted share of \$6.12 last year, a 157% year-over-year increase and our non-GAAP earnings per diluted share of \$3.69 in 2019, a 325% increase.

Now moving to our Q4 results. We are pleased to report a consolidated sales increase of 7.3% to \$3.35 billion. As Lauren said, this was the largest sales quarter in our history. Consolidated same-store sales increased 5.9% on top of a 19.3% increase in the same period last year and a 5.3% increase in Q4 of 2019. Our strong comps were driven by growth in team sports, apparel and footwear, as well as a 4.8% increase in average ticket and a 1.1% increase in transactions. When compared to 2019, consolidated sales increased 28.5%, driven by balanced growth across our 3 primary categories of hardlines, apparel and footwear.

Our brick-and-mortar stores comped up approximately 14% versus 2020 and delivered a 24% sales increase when compared to 2019 with roughly the same square footage. As expected, our e-commerce sales decreased 11% versus last year, which was on top of a 57% increase in Q4 of 2020. This reflects our deliberate decision to minimize site-wide promotion to better manage our inventory throughout the quarter. Compared to 2019, e-commerce sales increased 39%. And as a percentage of net sales, our online business has grown from 25% in 2019 to 27% in current quarter. E-commerce penetration was 32% last year.

Now moving to gross profit. Gross profit in the fourth quarter was \$1.26 billion or 37.58% of net sales and improved 391 basis points compared to last year. This improvement was driven by merchandise margin rate expansion of 476 basis points, primarily due to product promotions, the result of our increasingly differentiated assortment and disciplined promotional strategies. In addition, certain categories in the marketplace continue to be supply constrained, which resulted in a reduced promotional environment. We also saw a favorable sales mix. As expected, these improvements were partially offset by higher freight costs, resulting from global supply chain disruptions and our prioritization of inventory availability.

Compared to 2019, on a non-GAAP basis, gross profit as a percentage of net sales improved 898 basis points. This improvement was driven by merchandise margin rate expansion of 848 basis points due to product promotions and favorable sales mix, as well as leverage on fixed occupancy costs, partially offset by higher freight costs.

SG&A expenses were \$783.6 million or 23.38% of net sales and leveraged 97 basis points compared to last year, primarily due to increase in sales. SG&A dollars increased \$22 million, primarily due to current year cost increases to support the growth in sales. In the prior year quarter, SG&A included \$47 million of COVID-related compensation and safety costs, as well as \$30 million donation we made to DICK'S Foundation to help jump start youth sports program struggling to make comeback in the pandemic, most of which was in Q4. As I mentioned previously, in the current year, we transitioned our hourly teammates to compensation programs with a longer-term focus, partially reinvesting last year's COVID-related costs.

Compared to 2019, on a non-GAAP basis, SG&A expense as a percentage of net sales deleveraged 45 basis points, primarily due to the increase in store payroll and operating expenses to support the increase in sales, as well as hourly wage rate investments and higher advertising to support our new concepts.

Driven by our strong sales and merchandise margin rate expansion, non-GAAP EBT was \$468.4 million or 13.97% of net sales and increased approximately \$170 million or 442 basis points from the same period last year. Compared to 2019, non-GAAP EBT increased \$319.8 million or 827 basis points as a percentage of net sales.

In total, we delivered non-GAAP earnings per diluted share of \$3.64. This compares to non-GAAP earnings per diluted share of \$2.43 last year, a 50% increase on a year-over-year basis and a non-GAAP earnings per diluted share of \$1.32 in 2019, a 176% increase.

On a GAAP basis, our earnings per diluted share were \$3.16. This included \$8.1 million in noncash interest expense, as well as 12.6 million additional diluted shares that are designed to be offset by our bond hedge settlement but are required

in the GAAP diluted share calculation, both related to our convertible notes we issued in Q1 2020. For additional details on this, you can refer to the non-GAAP reconciliation table of our press release that we issued this morning.

Now looking to our balance sheet. In January, we were very pleased to complete our inaugural long-term investment-grade debt transaction, raising \$1.5 billion of cash through the issuance of our senior unsecured notes. As a result, we have further strengthened our financial position, providing us the flexibility to continue investing in our business, as well as repay the \$575 million of convertible senior notes.

We ended Q4 with approximately \$2.64 billion of cash and cash equivalents and no borrowings on our new \$1.6 billion unsecured credit facility. Our quarter ended inventory levels increased 17.6% compared to Q4 of last year.

Looking ahead, we continue to aggressively chase product to meet demand and prioritize inventory availability over cost. As part of this, we expect elevated freight expenses to continue and have included the impact of this within our 2022 outlook.

Turning to our fourth quarter capital allocation. Net capital expenditures were \$64.7 million, and we paid \$35.7 million in quarterly dividends. During the quarter, we also repurchased approximately 6.8 million shares of our stock for \$750 million at an average price of \$110.72. We have approximately \$1.85 billion remaining under our new \$2 billion share repurchase program. For the year, we have returned approximately \$1.8 billion to shareholders through the share repurchases and dividends.

Now let me move to our fiscal 2022 outlook for sales and earnings. Coming off 2 consecutive record years in 2020 and 2021, our 2022 expectations provide a new foundation upon which we will build in the years ahead. As Ed said, our strategies are working, and they have set us on a new trajectory. Let us now review the details of 2022 sales and earnings and capital allocation in detail.

Consolidated same-store sales are expected to be in the range of negative 4% to flat with quarterly comps expected to improve sequentially throughout the year. This is on top of a 26.5% comp sales increase in 2021 and a 9.9% increase in 2020 on as-reported basis. EBT is expected to be in the range of \$1.43 billion and \$1.6 billion. This includes approximately \$55 million of pretax interest expense associated with our new \$1.5 billion long-term debt. At the midpoint, EBT margin is expected to be approximately 12.5%.

Within this, gross margin is expected to decline approximately 250 basis points at the midpoint. This assumes some normalization of promotional landscape, higher freight expenses and modest deleverage on fixed expenses. SG&A expense is expected to deleverage, primarily due to hourly wage rate investments, as well as investments in advertising, talent and technology, to fund our growth strategies. In total, we anticipate non-GAAP earnings per diluted share to be in the range of \$11.70 to \$13.10.

Our earnings guidance is based on 94 million average diluted shares outstanding and an effective tax rate of approximately 23%. Our capital allocation plan includes net capital expenditures of \$340 million to \$365 million, which will be concentrated in improvements in our existing stores, ongoing investments in technology as well as new store growth.

In terms of returning capital to shareholders, today, we announced an increase in our quarterly dividends of 11% to \$0.4875 per share or \$1.95 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 using our expected strong free cash flow to opportunistically repurchase shares beyond the \$200 million.

Before concluding, I'd like to take a moment to highlight an upcoming change in our disclosures. Beginning in Q1 2022, we will be moving away from providing e-commerce sales growth and penetration metrics. Our athletes are increasingly shopping across multiple channels on the same transaction, and it no longer makes sense to try and attribute a sale to a specific channel. And with EBT margins being similar, regardless of an online versus in-person transaction, the difference is even less relevant from a modeling perspective.

We believe the single view of the consumer and of our business best represents our omnichannel approach, which centers around serving our athletes whenever, wherever and however they want to shop. As you know, we previously announced our intent to make the shift in 2020 but delayed as a result of COVID-19 and related temporary store closures. We will continue to provide consolidated same-store sales results with an updated method, as Nate described in his introduction.

In closing, we are extremely pleased with our 2021 results. We are now looking forward to continuing this success in 2022 and over the longer term.

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 comes from Simeon Gutman of Morgan Stanley.

Simeon Ari Gutman

Morgan Stanley, Research Division

My first question is on the new margin base for the company. You've talked about it being a foundation. One of the assumptions, it sounds like in '22, is some normalization of promotions or markdowns. I guess what if it's more than some? What are the puts and the takes in the gross margin? Are you expecting supply chain eventually to go away, and that's why we should feel confident in this new normal for gross margin?

Lauren R. Hobart

President, CEO & Director

I'll take that, Simeon. Thank you for the question. From a margin standpoint, we do believe that the vast majority of our merch margin improvements over time are sustainable. We do expect some normalization of promotions, but what's really driving that is a complete change in our merchandising assortment, such that we now have products that are highly differentiated and not really subject to vast promotional environment.

And so what if it's more than some? I mean, we will be managing our pricing and our promotions as we do, looking every day at what the right prices to our customers and for our business, and we expect to be able to drive significant continued margin gains versus where we were pre-pandemic.

Simeon Ari Gutman

Morgan Stanley, Research Division

And then maybe just a direct follow-up, is there something around the initial markup? Is there something around how you're using the circular where you can basically feel confident that you're at this permanently higher level? Like what is the bottom-up reason why we should be confident that we've reached this new normal?

Lauren R. Hobart

President, CEO & Director

Yes, Simeon. I think it's a few key things. First of all, as I mentioned, it is the differentiated product assortment that is not a subject because some of the products are more high-heat and desirable products. They're not a subject to a promotional environment. But at the same time, we also have evolved our marketing mix from what used to be a fully print-based plan where we would have to make decisions on pricing and promotion many weeks before understanding what the market was going to be like, to a much more digital and flexible environment now.

And we also have stepped away from the business of being promotional on a total site-wide or store-wide level because we can now be much more personalized and granular in terms of our offers with direct customer messaging. So we absolutely feel there are structural things in our gross margin that are going to set us up to permanently retain this higher level.

Simeon Ari Gutman

Morgan Stanley, Research Division

Okay. I'll turn it over. Congratulations. Good luck.

Lauren R. Hobart

President, CEO & Director

Thank you.

Operator

The next question comes from Adrienne Yih of Barclays.

Adrienne Eugenia Yih-Tennant

Barclays Bank PLC, Research Division

Congrats on another commendable finish to the year to the team. Lauren, my first question is for you. It's on the Nike partnership. What was Nike total as a percent of, I guess, COGS or however you want to do it for 2021? And then can you give us more detail on the partnership kind of as a key distributor in their "marketplace of the future"? Or is there any additional advertising demand creation budget? Will the stores look any different? Any details on that rollout, especially in light of what we've heard from other partners.

And then Navdeep, for you, 2 quick ones. What does your 2022 outlook anticipate in terms of, number one, the impact on the supply chain of higher oil prices; and number two, the impact on your target market in terms of demand forecasting?

Lauren R. Hobart

President, CEO & Director

Thanks, Adrienne. So starting off with the Nike partnership, our relationship with Nike is at an all-time high, and I would say it's become incredibly strategic in that we are reinventing together what the customer experience is. We started that over the past several years and most recently with our connected membership program, where consumers can opt in to both a DICK'S and Nike membership, and that unlocks tremendous amount of access to products for them, experiences and content.

And so I do believe we will continue to innovate with Nike, spend in co-marketing as we have and really reinvent the consumer experience. I would say that that's true of all of our strategic partners. We have many strategic partners, if you look at our co-creation model with Adidas and Under Armour and tremendous strategic partnerships with Callaway and TaylorMade.

To answer your specific question about Nike and what percentage of sales they were for this past year, they were 17% of our mix. Navdeep?

Navdeep Gupta

Executive VP & CFO

Yes. Adrienne, thanks for your question. I think maybe I'll answer both questions together. When we created our budget, the geopolitical situations were not what they are right now, so we'll continue to watch how these situations evolve. In terms of the demand, I'll start with that, and then I'll come to the oil prices. We feel strongly about the demand. We have seen a sustained level of demand, both even in Q4 and all through 2021.

When we look at the macro changes, we are seeing that those are still very lasting. The lifestyle changes that our athletes have made in terms of focus on the health and fitness, the greater participation in the outdoor activities, as well as casualization of the workplace, that trend has continued to remain elevated.

And what I -- what Lauren called out, right, the brand partnerships that we have, the allocations that we are getting, as well as the capabilities that we have built internally to be able to kind of capture the demand, gives us a lot of confidence.

And then on the -- in terms of the oil prices, we looked at the -- when we created the budget, as you can imagine, that was at the beginning of this year, we use the market prices as part of our budget expectation, and we'll closely monitor the situation as the year evolves in terms of our financial expectations. But we are very optimistic in the guidance that we have given based on the time and place when the budgets were created.

Operator

The next question comes from Paul Lejuez of Citi.

Paul Lawrence Lejuez

Citigroup Inc., Research Division

Can you talk a little bit more about how you're thinking about comp performance in the first half versus second half? I think you mentioned sequential improvement each quarter. Anything you can provide in terms of color around what -- how you guys are planning and specifically in the March, April period as you anniversary stimulus?

And then just second, just curious about category performance in '21 versus '19. Which categories sit most above your 2019 levels? And how are you thinking about growth by category in 2022?

Lauren R. Hobart
President, CEO & Director

You take the first, Navdeep, and I'll take the second.

Navdeep Gupta
Executive VP & CFO

Paul, this is Navdeep. I'll take the first question. Like I called out in our guidance, we are expecting the comps to sequentially improve. I think one of the factors you called out, which is the stimulus impact, the stimulus impact, I would say, was much more in March through the May time frame. And so as we kind of lap that in Q1, that expectation has been included in our guidance. As well as, as we look to the inventory position, we believe that will continue to improve. We finished strongly at the end of Q4 of 2021. However, we are continuing to build our inventory as we go into the peak selling season here. So we believe that the inventory position, as well as the lapping of the stimulus money from last year, is what we have called out that we expect our comps to sequentially improve as we move through the year.

Lauren R. Hobart
President, CEO & Director

And regarding our category performance in 2021 versus 2019, I think it's really important to note that we have increased our sales in every single category over -- meaningfully over 2019 with the exception of hunt, which is a result of a long-term strategy. But every single category has re-baselined significantly higher. We saw, in 2021, incredible strength in our -- what I would say is our core businesses, so team sports, athletic apparel, athletic footwear and golf. I'll even point out golf in this past year had a record number of rounds played. So we have a lot of confidence in those categories. And then in some of the "pandemic-surging categories" like fitness and bikes, while there's some rightsizing going on, they are significantly higher than they were in 2019.

Operator

The next question comes from Warren Cheng of Evercore.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

I just wanted to ask a follow-up to Simeon's question, and I just want to make sure I'm hearing that correctly. It sounds like you expect some normalization in promotions this year. But then on the flip side, there's going to be elevated freight expense in your gross margin structure that's potentially going to normalize the other direction. So on a net basis, am I hearing correctly that this -- the guidance you've given is down 250, that's a rough proxy for kind of the new sustainable gross margin structure going forward?

Navdeep Gupta
Executive VP & CFO

Yes. Warren, this is Navdeep. I'll take this question. So in terms of the freight expenses, what we have called out is that we expect the freight expenses to remain elevated, even in 2022. So there's not much of a decline that we are expecting in freight expenses. At least as of now, we can't see that playing out in the marketplace.

The reduction in the gross margin that we have called out is primarily related to the normalization of the promotions environment and some deleverage as well on the fixed expenses with the midpoint of the comp guidance that we have given.

Lauren R. Hobart
President, CEO & Director

But Warren, I do want to also mention, Navdeep mentioned in his opening remarks, that we do think across the board, this is a new base from which we can grow in the future, our sales and our margin rates.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Okay. Great. Okay. That was kind of what I was getting at. And then my second -- my follow-up question, I just wanted to ask about some of your brand partnerships. If you kind of look outside your biggest 2 or 3, can you just give us a little sense of how some of those conversations are going? Are there smaller brands that you highlight as getting more material or maybe conversations you're having now that you haven't had before in the past?

Lauren R. Hobart
President, CEO & Director

Our brand relationships are at an all-time high. We are having incredibly strategic discussions with every key brand partner we have in key categories, and that's across athletic apparel, athletic footwear, team sports. We are also working with new and emerging brands, as we always have, and continue to take bets on emerging players.

But over -- across the board, I would say some -- part of the reason for this elevated expectation that we have is our relationships with our brand partners are at an all-time high. We're getting better allocation, and they are narrowing distribution, and we are working with them to reinvent the consumer experience.

Operator

The next question comes from Kate McShane of Goldman Sachs.

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

Our question, also centered around the comp build for 2022. We wondered if you could talk to us a little bit about the big ticket assumptions in the outlook versus what you've seen in '21, how inflation comes into play with your comp guide and any kind of market share assumptions there.

And then our second question is you've mentioned you have a much different assortment than you did 5 years ago. How much do you think the success of the DICK'S Sporting Goods private label brand has been to changing over your assortment and your market share gains.

Navdeep Gupta
Executive VP & CFO

This is Navdeep. I'll take the first one in terms of the build for FY '22. So maybe I'll begin a little bit with what we saw in Q4. So the vast majority of our Q4 comp was driven by ticket. But actually, if you'll peel that a little bit further, what you see is that there was a strong growth that we saw in transactions in our store, and the ticket increase was actually driven by our decision to be not promotional in the e-comm and in our stores.

So as we look to 2022, we will constantly continue to evaluate what is the right strategy of balancing our kind of the needs of the athlete as well as what is the right decision from a marketplace perspective.

And in terms of -- we haven't given this level of granularity, but I would say that we expect that the tickets will continue to be stronger as we look to '22. However, transactions will also remain strong as we have seen a good experience and the traction with our brick-and-mortar business as well as e-comm.

Lauren R. Hobart
President, CEO & Director

Yes. From an assortment standpoint, our vertical brands remain very, very strong. We're over \$1.7 billion. We're getting very strong growth out of our vertical brands, and we continue to use those brands to fill in opportunities across our portfolio. Brands like DSG, which brings in an opening price point; and CALIA, which attracts the female athletic female; and then VRST, our new men's apparel brand, all fill white space that was missing in our portfolio before.

Operator

The next question comes from Michael Baker of D.A. Davidson.

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

I want to ask you about the new debt you took and what that means for some -- for growth initiatives going forward. Does it signal more aggressive growth, higher CapEx? I know you gave guidance for next year, which is up a little bit. But longer term, store count growth, et cetera, if you could sort of talk to that.

Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Michael. So the new debt we just raised, we're very pleased. We raised \$1.5 billion investment-grade debt, which just gives us an incredible amount of opportunity to invest in our business and growth. So first and foremost, we are going to maintain what we would consider an appropriate cash balance and always make sure that we can weather any storm. We're also going to invest heavily in our business, be that new store expansion, real estate and in-store experience, as well as technology. And then lastly, of course, we will look to return excess cash flow to shareholders in various ways.

So in terms of our store count growth and our CapEx, store counts, we are expecting 11 new DICK'S stores this coming year, actually 11 new stores this period, 4 DICK'S and 7 specialty and 11 remodel stores, including 1 House of Sport and 1 Golf Galaxy Performance Center. And our CapEx will support all the activities I mentioned before, in-store and real estate and technology.

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

Okay. That's helpful. One more, if I could. I don't know if you're willing to talk about the pace of business throughout the fourth quarter. You came in better than the pre-announcement in early January, so I suppose that implies that January was better than expectation. But what, in particular, was better in January? And can you talk about how January was planned versus November and December?

Lauren R. Hobart
President, CEO & Director

Yes. We were very, very pleased with our January performance, as you note, as we did indicate what our forecast was in the early weeks of January. What happened to drive those results even higher is that we had an improved inventory level versus our expectations, just given our really strong promotional management throughout the earlier months in the quarter. And then we also had a significant impact of cold weather that drove a lot of outerwear business in January. So we were very pleased. Overall, we were pleased with January versus our forecast and also versus 2 years ago. It performed very, very well.

Operator

The next question comes from Chuck Grom of Gordon Haskett.

Charles P. Grom
Gordon Haskett Research Advisors

Congrats on a really great year. My question is on the long term and how you're thinking about the algo beyond '22 as you build off the roughly \$14 million per store that you're generating today and the 12.5% EBT margin that you've forecasted for '22.

Navdeep Gupta
Executive VP & CFO

Chuck, this is Navdeep. I'll take that question. First of all, we are very excited about the results that we have delivered over the last couple of years but actually, as Ed called out, the transformation journey we have been on for the last 5 years. And what gives us the confidence as we look to the future are the things that, like Lauren called out, the changes and the improvements that we have made are so foundational to our success over the last few years, and that's what gives us the confidence as we look to the future as well.

In terms of an EBT margin, we have improved our sales, or if you just look at pre-pandemic, our sales are up \$3 billion. Our earnings, even with the midpoint of guidance, will be up over \$1 billion from where they were. So we are really excited about the results, and we feel like we can continue to create this in '22 as a new foundation and continue to grow our sales and profitability on a long-term basis.

Charles P. Grom

Gordon Haskett Research Advisors

Okay, very helpful. And then when you think about House of Sport and Public Lands, you talked about key learnings that you plan to introduce into the core business. Just wondering if you can maybe provide some examples of some of the recent learnings over the past couple of quarters and then what you are applying to the existing store fleet.

Lauren R. Hobart

President, CEO & Director

Yes. House of Sport is a fully experiential destination with a tremendous service model, community involvement, different fitting room experience and all those things we are pulling back into the DICK'S -- all of the DICK'S stores when we look at how we want to serve athletes and different experiences that we want to build into. You'll see us continuing to grow things of an experiential nature in our stores, so increased soccer shops, increased premium footwear decks. We've already -- we've got HitTrax in many of our stores. But most importantly, I think the service model has become really emblematic of how we want to serve athletes.

With Public Lands, we have really -- we're excited about the learnings that we're getting about the outdoor category and the consumer that we feel is underserved there. We've got brand partnerships that we're very excited about developing, which can come back to DICK'S and just a general focus on the outdoor business in DICK'S Sporting Goods.

Operator

The next question comes from Chris Horvers of JPMorgan.

Christopher Michael Horvers

JPMorgan Chase & Co, Research Division

So my first question is have you tried to put a number on how much you thought that inventory constraints impacted fourth quarter comps in total? And maybe thoughts on how that could impact perhaps the first quarter of '22. And then I have a follow-up.

Lauren R. Hobart

President, CEO & Director

So we haven't put a number on how much inventory constraints impacted Q4. But I will say for the last 2 years, there has been inventory challenges, supply chain challenges, constraints. And what I think we've proven with the 5.9% comp that we just delivered in Q4 is that despite some inventory constraints, we have a broad portfolio. We can offer some substitutions when we don't have the exact products that people wanted and that we can manage really well. And we will expect to do that through any choppiness that's coming through the next year.

Christopher Michael Horvers

JPMorgan Chase & Co, Research Division

Got it. And then on the capital allocation question, you mentioned maintaining a higher level of cash on the balance sheet. But at this point, you're sitting on gross cash that's more than 20% of your current market cap, and you'll probably generate another 10% in free cash flow this year. So I guess, to what extent is the \$200 million share repurchase guide conservative versus maybe looking to opportunistically collapse that convert structure? And if you were able to take the convert structure down, how accretive might that be to EPS?

Navdeep Gupta

Executive VP & CFO

Yes. Chris, great question. I don't think someone will dispute anything that you called out. But like we called out in my prepared remarks, the \$200 million is a minimum that we called out. So as we look to this year, we will evaluate all available options to us, whether to do an incremental opportunistic share buyback as well as we'll definitely look into a convert, as we have called out. And you know that these notes are callable next year and -- but still, the maturity is still further quite a ways away. So we'll continue to evaluate all opportunities available to us, and at the same time, continue to maintain an appropriate level of cash on the balance sheet because the uncertainties in the world are not behind us.

Operator

The next question comes from Beth Reed of Truist Securities.

Beth Reed Pricoli

Truist Securities, Inc., Research Division

Could you frame for us how you're thinking about gross margins, maybe first half versus second half, given that it sounds like you don't expect freight to ease all that much, even in the back half, if I understood that comment correctly?

And then thus far, have you seen anything in the environment to indicate that perhaps others are starting to ratchet up the promos a bit?

Lauren R. Hobart

President, CEO & Director

Beth, we do not -- we are not anticipating nor are we seeing right now any sort of an increase of any meaningful proportion in the promotional environment. When we've looked at the year, in the second half, we have planned for a little bit more of a promotional activity than what we're seeing now but nothing like what we used to see in pre-pandemic levels for all the reasons I said before about the differentiated assortment and the fact that we can be much more surgical with our pricing.

Navdeep Gupta

Executive VP & CFO

And Beth, on your question on the freight, I would say that the freight expenses will continue to remain volatile. We did prioritize inventory availability over cost in fourth quarter, including air freighting of some products. So we'll have to just continue to evaluate that situation. And maybe we may see some favorability as we go into the fourth quarter of this year and don't have to repeat those processes. But that's still much further away, and we'll have to continue to evaluate.

Operator

The next question comes from Seth Basham of Wedbush.

Seth Mckain Basham

Wedbush Securities Inc., Research Division

When you look at your implied gross margin guidance for 2022 of nearly 36%, it's up about 650 basis points since 2019. And then if that's the new foundation on which to grow, can you help us understand the key building blocks to bridge from 2019 to 2022, and in particular, focus on how much has been driven by better allocations and good relationships with vendors for high-heat products?

Navdeep Gupta

Executive VP & CFO

Seth, this is Navdeep. I'll take that question. First of all, we are very pleased with the results that we have delivered over the last several years. And as Lauren called out, vast majority of this margin increase that we have driven is structural. And the big callout is, if you look at the improvements that we have driven, vast majority of that improvement is in merchandise margin.

And we won't break this out. But if you look at it, the reason what gives us the confidence is because of the fact that most of this improvement is structural because differentiated assortment, more sophisticated promotion strategy. And the other 2 things that we don't talk as much about, but we have seen a huge improvement in our clearance and price optimization work as well through the data analytics. And those are the things that give us a lot of confidence that -- as well as the hunt penetration which has gone down pretty substantially from where it was in 2019. So that's the reason we believe these are structural, and we'll be able to continue to have these benefits going forward.

What we did call out in our FY '22 guidance is that we expect some of this -- some giveback to happen because of the promotion as well as the leverage on the fixed expenses.

Seth Mckain Basham

Wedbush Securities Inc., Research Division

Got it. And specifically, as it relates to high-heat product allocation, would you care to quantify or say how big a driver that's been of the improved structural gross margin that you see going forward?

Lauren R. Hobart
President, CEO & Director

We're not going to quantify it, but I will go back to what we said over the last 5 years. Our entire portfolio of products has changed and been elevated, and that's all access. It's high-heat product, which we continue to be very pleased with our allocation, but also just highly desirable and coveted product that is across our footwear and apparel and other categories of our stores. So we're very much looking forward to that continuing to help us drive gross margin.

Operator

The next question comes from Michael Lasser of UBS.

Michael Lasser
UBS Investment Bank, Research Division

The debate on the stock is not really about what's going to happen to DICK'S Sporting Goods this year. It's really more about what's going to happen next year in 2023 and beyond. So if you're starting to see some giveback of the categories that have done really well during the pandemic and experienced in order demand and maybe that even extends the footwear apparel, given that consumers have been at home and shifted their wardrobe to more casual wear, why wouldn't sales be down again in 2023 as things return to normalcy?

Lauren R. Hobart
President, CEO & Director

Michael, yes, it's Lauren. We definitely see future significant share gains available to us in all of the key categories. We -- I mean, evidenced by Q4, we had some pandemic reset of some of those categories, like fitness, as I mentioned before. But our core categories of athletic apparel, athletic footwear, team sports and golf, we expect to continue to grow due to the assortments, due to our strategic partnerships and due to the fact that we are a clear market leader now in \$120 billion marketplace that only has the opportunity to grow. So we -- this is a new base for us. We believe on the top line and the bottom line, we're going to continue to grow, and we're excited for the future.

Michael Lasser
UBS Investment Bank, Research Division

And then my follow-up question is you mentioned you expect some promotions to return in the second half of this year. Have you assumed that you'll go back to site-wide or store-wide promotions as part of that expectation?

Lauren R. Hobart
President, CEO & Director

That is not -- we're moving more toward personalized and optimized promotional activity and pricing. I can't see the future, but that's not on my immediate radar screen right now that we will go back to that.

Operator

The next question comes from John Kernan of Cowen.

John David Kernan
Cowen and Company, LLC, Research Division

Excellent. Just curious on your view of the levels of in-transit inventory out there. A lot of the vendors are stuck right now with a lot of in-transit inventory on -- that's recorded on the balance sheet. I'm just curious how you envision product flows and inventory dynamics changing as we get into the back half of the year.

Navdeep Gupta
Executive VP & CFO

John, this is Navdeep. Yes, I think that this is -- we would say, even on the vertical brand side, we had product that was in transit, and this is a little bit of the manifestation of the shutdowns that happened overseas in Q3 and early part of Q4.

And so we'll have to just continue to watch. And as we called out in our prepared comments, we feel that the inventory positions will continue to improve as we go through 2022. And we feel that the current level of inventories are appropriate, but we'll have to continue to evaluate the situation and the marketplace as it plays out. But we are very optimistic about the guidance that we have given as well as the inventory levels and building throughout the year.

John David Kernan

Cowen and Company, LLC, Research Division

Got it. Maybe just a follow-up on wages and SG&A rates in dollars as we go through this year and into next. Where are you on the wage cycle? Some of your big-box peers have been increasing wages pretty systemically. Just curious when you think about stores and DCs, where we are in terms of labor costs and labor inflation in the model.

Navdeep Gupta

Executive VP & CFO

Yes. First of all, I would call it that we don't look at the wage minimums as the defining criteria. We look much more as to what is the appropriate wage we have to pay, both in the distribution center in our stores by market to attract the right level of talent. And so it's much more of finding the right talent that can provide that right level of experience to our athlete, which is definitely elevated than a lot of other retailers that are in the marketplace.

The other thing that I'll call out is we have become an employer of choice. We saw this even in third and fourth quarter where a lot of other retailers were having challenges in staffing their stores. We were very fortunate. The morale, the engagement and the camaraderie that exist in our stores is phenomenal, and that's been one of the core strengths in terms of us continuing to deliver strong results in Q4 as well as in 2021. And we look forward to continuing to maintain that.

Operator

The final question comes from Sam Poser of Williams Trading.

Samuel Marc Poser

Williams Trading, LLC, Research Division

I have 3. I'm just going to do it real quick. The Nike dropping numerous accounts over last year, how do you view that as helping your share gain?

Number two, your inventory is up like 4% versus 2019 and up a lot from last year. What is the optimum inventory? How much are you missing right now based on what you think?

And the last question I would be able to ask on the e-commerce is your e-commerce business is up 80% from pre-COVID levels. Are we looking at sort of a re-basing of this business in that \$2.6 billion range? And when you think about next year and going forward, how much of that future -- of the growth that you anticipate will be driven from your e-commerce business given this will be the last time I can ask that question?

Lauren R. Hobart

President, CEO & Director

Sam, all right. I'll take your questions in order, I hope. So starting with Nike and their strategy towards more differentiated retail and the fact that they are narrowing distribution is certainly something as they focus on us as a key strategic partner, and we reinvent the consumer experience together certainly helped some share gains.

From an inventory level, I think you raised a really good point that we are turning our inventory very, very quickly, just due to supply chain challenges and inventory challenges. And we do hope, as we go forward, that we will continue to build inventory this year so that we can be even more in stock than we are now.

With e-commerce, we absolutely expect e-commerce to continue to grow. So you mentioned the base right now of \$2.6 billion. We do think that we should be able to continue to grow that. But as we said before in our prepared remarks, the e-comm versus store segmentation is a little bit arbitrary in that there are so many people who are touching multiple channels in any given purchase. But we're very pleased with our omnichannel experience in driving that business.

Samuel Marc Poser

Williams Trading, LLC, Research Division

So let me just one last follow-up. On the inventory, how -- like what would be optimum right now? If you said -- assuming it's the right product, what would be the level that would be optimum at the moment with your inventory around, like \$2.7 billion? Is that -- yes, in that \$2.7 billion range? Is that the way to think about it?

Navdeep Gupta

Executive VP & CFO

Yes. Sam, this is Navdeep. Yes, I would say yes. I don't know if we'll put an exact number to it. We will say that the inventory has definitely not kept pace with the overall sales growth since 2019, and we'll continue to build our inventory position as we go through this year. The big areas that I would call out would be our -- building of the inventory in athletic footwear, apparel. And we feel strong about the in-stocks today, but we feel there is definite opportunities, and we'll look to build as we go into the future.

Samuel Marc Poser

Williams Trading, LLC, Research Division

Okay. And one last one, I'm sorry. The -- how do you prevent yourselves from your eyes getting bigger than your stomach is when you are building for demand going forward given the success? I understand you're going to re-base well above where you were pre COVID, but how do you prevent yourself from like getting the buyers to start buying too aggressively? Or -- and how do you use the learnings you had to better, more efficiently buy and make sure you don't get ahead of yourself, which has certainly been something that would happen by design or not even by design over the last 2 years?

Lauren R. Hobart

President, CEO & Director

Yes. I would say this is one of our absolute core competencies. When we look at how to buy and what demand is, we certainly don't just look at last year. We look at multiple years of history and underlying trends. And I think we've managed it really, really well so far and better than most in the marketplace. So we -- there's very little risk of us getting too aggressive. We are constantly monitoring our open to buy and our investments and chasing where appropriate and managing where we need to pull back.

Operator

This concludes the Q&A portion of this call, so I'll hand it back to Lauren Hobart, President and CEO, for any closing remarks.

Lauren R. Hobart

President, CEO & Director

Thank you, and thanks all for your participation. I just want to reiterate that, at DICK'S, we have been on a transformational journey for the past 5 years, and there are several long-term reasons for our business being as strong as it is which we know will continue into the future. I want to thank our teammates for everything that they've done to drive our results, and thank you all for your interest in DICK'S Sporting Goods.

Operator

This concludes today's call. Thank you for joining. You may now disconnect your lines.

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