

DICK'S Sporting Goods, Inc. NYSE:DKS

FQ2 2023 Earnings Call Transcripts

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Presentation

Operator

Hello, all, and a warm welcome to the Q2 2022 DICK'S Sporting Goods Earnings Call. My name is Lydia, and I'll be your operator today. [Operator Instructions] It's my pleasure to now hand you over to Nate Gilch, Senior Director of Investor Relations. Please go ahead when you're ready.

Nathaniel A. Gilch

Senior Director of Investor Relations

Good morning, everyone, and thank you for joining us to discuss our second quarter 2022 results. On today's call will be 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.

During this morning's call, we will be discussing earnings per diluted share on a non-GAAP basis, which eliminates the impact of certain items related to our convertible senior notes issued in Q1 2020. For additional details on this or to find a reconciliation of any non-GAAP financial measures referenced on today's call, please refer to our Investor Relations website. And finally, for your future scheduling purposes, we are tentatively planning to publish our third quarter 2022 earnings results on November 22, 2022. And with that, I will now turn the call over to Lauren.

Lauren R. Hobart

President, CEO & Director

Thank you, Nate, and good morning, everyone. We are very pleased with our second quarter results, which demonstrate the strength of our core strategies and the foundational improvements we've made across our business over the past 5 years. In fact, we delivered approximately the same EBT in Q2 as we did in all of fiscal 2019.

While the macroeconomic environment remains uncertain, the DICK'S Sporting Goods consumer has held up quite well. Over the past 2 years, they've made lasting lifestyle changes focused on health and fitness, sports and outdoor activities, and we remain uniquely positioned to capitalize on these secular trends.

Our inventory is healthy and well positioned with improved in-stock levels in key categories. Importantly, we are raising our full year outlook, which continues to incorporate an appropriate level of caution, given today's macroeconomic environment and contemplates an approximate 10.7% EBT margin at the midpoint.

Now to our results. As we announced earlier this morning, we delivered second quarter sales of \$3.1 billion. This included a comparable store sales decline of 5.1% and, as expected, represented a sequential improvement from the first quarter. It's important to highlight that our sales continued to run substantially above pre-COVID levels, up 38% versus Q2 2019, reinforcing that the favorable shift in consumer behavior that I just mentioned is durable, and our actions to capitalize on this shift are yielding strong results.

Notably, for the year, our key athlete success metrics, inclusive of acquisitions, new athlete retention, repeat purchasing and omnichannel behavior are elevated across the board compared to pre-COVID levels. Our increasingly differentiated product assortment, combined with our sophisticated and disciplined pricing strategies and favorable product mix continue to drive strong merchandise margin. Our merchandise margin rate was up 439 basis points versus Q2 2019 as we maintained the majority of the merchandise margin expansion that we drove over the past 2 years.

Before continuing, let me emphasize a critical point. The content of the product that we carry today is very different from the product that we carried 5 years ago. It's higher heat and more narrowly distributed than what you'll find in the marketplace and therefore, it is not as susceptible to promotions. In addition, the tools we have today to surgically adjust pricing and promotions are significantly more sophisticated than they were several years ago.

Lastly, our product mix has structurally shifted toward higher-margin categories. We've materially reduced hunt exposure, which had margins approximately 1,700 basis points below the company average in 2019, and we continue to grow our vertical brands, which currently have margins between 600 to 800 basis points above the national brands.

Looking ahead, we remain very confident that our merchandise margin will be meaningfully higher compared to pre-COVID levels on an annual basis, and that this improved profitability is sustainable due to these foundational changes in our business. With our structurally higher sales, expanded merchandise margins and operating efficiencies compared to pre-COVID levels, we achieved double-digit EBT margin of nearly 14%, approximately 2x our Q2 2019 EBT margin. In total, we delivered non-GAAP earnings per diluted share of \$3.68 in Q2 compared to \$3.69 for the entire fiscal year of 2019.

As we continue our transformational journey, we are focused on enhancing our existing strategies to further strengthen our core business and to drive long-term profitable growth. At the heart of these strategies is our athlete experience, and we continue to develop a highly engaging in-store service model to better serve our athletes. Our teammates are highly trained and are focused on creating confidence for our athletes by finding the best product for them.

Our stores also now have highly experiential elements such as our premium full-service footwear decks, elevated soccer shops, golf simulators, HitTrax technology and batting cages. Our new DICK'S House of Sport and Golf Galaxy Performance Center stores are tremendous examples of the power of elevated service models and experiential retail. These new concepts are redefining sports retail and providing us with valuable learnings while also driving strong sales and profitability.

In addition, our digital experiences remain an integral part of our success, and we continue to prioritize investments in technology and in data science to elevate the athlete experience. We're focused on advancing our personalization capabilities and enhancing our one-to-one relationships with our athletes through our digital marketing, ensuring we serve them the most relevant products at the right time.

Our personalization strategies are fueled by our robust and growing ScoreCard loyalty program and total athlete database. We now have over 25 million active ScoreCard loyalty members, a valuable cohort that has grown in recent years. And during the second quarter, our ScoreCard members generated well over 70% of our total sales, up approximately 200 basis points from the same period last year.

Furthermore, our omnichannel platform, which features our stores as a hub is an important competitive advantage for us. During the second quarter, our stores enabled over 90% of our total sales, serving both our in-store athletes and providing over 800 forward points of distribution for omnichannel fulfillment.

Next, within merchandising, our brand portfolio is a tremendous asset. And in fact, our data tells us that approximately 80% of our active athletes look to DICK'S for a multi-branded shopping experience. Importantly, our relationships with key brands remain stronger than ever, and we are continuing to develop relationships with new and emerging brands. At

the same time, we are creating and growing disruptive vertical brands like CALIA, VRST and DSG. Our assortment is on trend across categories, and we -- our wide range of price points ensures we are able to meet the needs of all athletes.

Our teammates are our greatest assets, and we see our ability to attract and retain talent as a key differentiator and a competitive advantage for us. We're proud of our high teammate engagement levels, which reflect our efforts to be a great place to work. We'll continue to invest in our teammates and our enhanced service model to maintain our strong culture and drive a top-tier athlete experience.

In closing, our strategies are working, and we remain confident in our ability to deliver long-term sales and earnings growth. We're the clear market leader in a large fragmented industry, and we believe we are well positioned to continue taking market share and extending our lead. Through the macro -- though the macroeconomic environment remains uncertain, we will continue to focus on meeting the current needs of our athletes.

Before concluding, I want to thank all of our teammates for their hard work and unwavering dedication to our business. 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 second quarter results. Consolidated sales decreased 5% to approximately \$3.1 billion. When compared to 2019, sales increased 38%, demonstrating the sustainability of our structurally higher sales base compared to pre-COVID levels. Comparable store sales decreased 5.1% and, as expected, accelerated sequentially from the first quarter. As a reminder, we were lapping a 2-year stack comp increase of approximately 40% in Q2.

Transactions declined 8.4% while the average ticket increased 3.3%. Within our portfolio, each of our 3 primary categories of hardlines, apparel and footwear performed generally in line with our expectations. Gross profit in the second quarter was \$1.12 billion or 36.03% of net sales and declined 388 basis points versus last year. As expected, this decline was driven by merchandise margin rate decline of 197 basis points, higher supply chain costs and deleverage on fixed occupancy costs from lower sales.

Compared to 2019, our merchandise margin rate expanded 439 basis points, driven by our increasingly differentiated product assortment, combined with our sophisticated and disciplined pricing strategies and favorable product mix. As Lauren mentioned, because of these structural drivers, we continue to expect our merchandise margin rate to be meaningfully higher than pre-COVID levels on an annual basis.

SG&A expenses were \$657.4 million or 21.12% of net sales and deleveraged 157 basis points compared to last year, primarily due to the decrease in sales. The increase in SG&A dollars was driven by our continued investment in hourly wage rates and talent to support our growth strategies.

Interest expense was \$25.5 million, an increase of \$19.3 million on a non-GAAP basis compared to the same period last year. This increase was primarily due to the \$13.8 million of interest expense related to our \$1.5 billion senior notes issued during Q4 of 2021. The current quarter also included \$6.6 million of inducement charge related to our exchange of \$100 million outstanding principal of our convertible senior notes.

Driven by our structurally higher sales, expanded merchandise margin and operating efficiency compared to pre-COVID levels, EBT was \$427.3 million or 13.73% of net sales. This compares to EBT of \$151 million or 6.69% of sales in the second quarter of 2019. In total, we delivered non-GAAP earnings per diluted share of \$3.68. This compares to non-GAAP earnings per diluted share of \$5.08 last year and GAAP earnings per diluted share of \$1.26 in 2019.

Now looking to our balance sheet. We ended Q2 with approximately \$1.9 billion of cash and cash equivalents and no borrowings on our \$1.6 billion unsecured credit facility. Our quarter-end inventory levels increased 49% compared to Q2 of last year. However, we were chasing inventory last year amid significant supply chain disruptions.

A better comparison is against Q2 of 2019, where our 40% increase in inventory was relatively in line with our 38% increase in sales. As Lauren said, our inventory is healthy and well positioned. We are excited about the assortment we have in place for the important back-to-school season, and we are prepared to continue navigating a dynamic global supply chain environment through the rest of the year.

Turning to our second quarter capital allocation. Net capital expenditures were \$84.5 million, and we paid \$36.9 million in quarterly dividends. During the quarter, we exchanged \$100 million or approximately 21% of then-outstanding principal of our convertible senior notes for cash and unwound the corresponding portion of the convertible note hedge and warrants for 1.7 million shares of our common stock. Following this exchange, we have \$375 million in aggregate principal amount outstanding. During the quarter, we also repurchased 3.9 million shares of our stock for \$319 million at an average price of \$80.84.

Now let me wrap up with our outlook for 2022. We are pleased with our performance in the first half of the year and continue to deliver meaningful sales and profitability growth over 2019. As a result of our Q2 performance and improved inventory position for the important back-to-school season, we are raising our 2022 guidance. Importantly, as Lauren indicated, our updated outlook continues to incorporate an appropriate level of caution, given the uncertainty around the macroeconomic backdrop, geopolitical environment and the dynamic global supply chain.

For the year, we now expect comparable store sales in the range of negative 6% to negative 2% compared to our prior expectation between negative 8% to negative 2%. In addition, we now expect non-GAAP earnings per diluted share in the range of \$10 to \$12 compared to our prior expectation of \$9.15 to \$11.70.

While our outlook is not dependent upon share repurchases beyond the \$361 million executed through the end of Q2, we will continue to be opportunistic as the year progresses. EBT margin is expected to be approximately 10.7% at the midpoint, more than double our 2019 rate. Our earnings guidance assumes an effective tax rate of approximately 24% and is based on approximately 88 million average diluted shares outstanding.

In closing, we are very pleased with our Q2 results, and we remain very enthusiastic about the future of DICK'S. 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 today comes from Simeon Gutman of Morgan Stanley.

Simeon Ari Gutman

Morgan Stanley, Research Division

I have a short-term and then maybe a longer-term question. The short term is on the guidance. The better performance this quarter meant that the year could have gone up or, in theory, could have stayed the same or gone down. So given the uncertainty, why the confidence to even slightly nudge up the back half when you could have just kept it more conservative?

Lauren R. Hobart

President, CEO & Director

Simeon, I'll take that one. That was your short-term question. Guidance, we felt, given the momentum that we had in Q2, the strong Q2 and the fact that within Q2, sequential -- our comp sequentially accelerated as we moved into July and the back-to-school season and our inventory started to be in stock more than it had been before, we feel like we're going into the back half with a lot of momentum. And thus, we wanted to appropriately adjust our guidance and take the low end of the range up.

Navdeep Gupta

Executive VP & CFO

And Simeon, just on the EPS basis, I would say that we also raised our EPS expectations, and that was driven by, if you recall at the end of Q1, we had kind of foreshadowed that the freight and the fuel expenses were continuing to remain elevated versus last year but continuing to rise. And what we have seen in the last, call it, 3 months, that they are not remaining -- they're not going as fast up as they were going before, and some of that favorability was contemplated in our adjustment of the EPS expectation for full year.

Simeon Ari Gutman

Morgan Stanley, Research Division

Got it, okay. And then the longer-term question is the stacks, the comp stacks, are holding up at remarkably strong levels even though the top line this quarter declined a little. I guess the skeptic would say that some of the demand post COVID is holding up a little bit longer than we think, and it's going to eventually subside.

The non-skeptic, [the bull], would say, this is new normal and we continue to move higher. Do you have any thoughts on that? I guess as you get more information post COVID, I guess, as demand rebases in some categories, how to think about digestion reversion going forward?

Lauren R. Hobart

President, CEO & Director

Yes, Simeon, we agree. Our comps are significantly higher than they were pre COVID, and we believe very strongly that, that is structural in nature, both because consumers have adopted more of a healthy and active outdoor lifestyle and we're getting a bigger market share of that, but also there are many structural changes in our business. There's

almost nothing structurally the same in our business as there was several years ago.

I would point to the fact that our assortment is completely different now than it was. We've got access to higher-heat products, more narrowly distributed product that doesn't -- isn't nearly as susceptible to pricing pressures and promotions. Our product mix has meaningfully changed toward higher-margin products. We've reduced our hunt exposure meaningfully over the past years, and that hunt business was 1,700 basis points below our average.

We're having success with our vertical brands, which have 600 to 800 basis points higher than our average margin. And then I think one of the most important things is that we have moved our entire marketing effort from what used to be a long-term print-based effort, where we had to make decisions multiple weeks and even months in advance on how we wanted to price and promote, we've moved that all to a digital marketing capability, where we can be much more surgical, much more real-time, much more personalized, so we don't have to put the whole store or the whole website on sale. We can be very, very specific with our pricing and leverage data science to do that.

So absolutely agree with you. The business is structurally different than it was several years ago, and we are no longer looking at this nor will we ever as a COVID bump that was going to return.

Operator

Our next question today comes from Kate McShane of Goldman Sachs.

Katharine Amanda McShane

Goldman Sachs Group, Inc., Research Division

We had a question around inventory and gross margin. I wondered if there was any way to break it down, the inventory between cost and units and maybe any earlier receipts that you might be taking.

And then just our second question is around the gross margin cadence in the second half, if you expect much difference between Q3 and Q4 and how we should think about the promotional environment around back-to-school and holiday?

Navdeep Gupta

Executive VP & CFO

Kate, in terms of the cost and the units, I would say it's a pretty balanced breakdown between the two. Definitely a little bit more elevated on the cost side. So that's -- but like we said in our commentary, it is important to look at the inventory versus 2019 just because of where the makeup of the inventory last year was and how the makeup, right, this year is looking very different. We were chasing a lot of categories last year, and we feel much, much better about the in-stocks today. And the last thing I would say is if you look at the growth versus 2019, again on a unit and on a cost basis, it's, call it, comparable view. Lauren?

Lauren R. Hobart

President, CEO & Director

Yes. As we look to the promotional environment for back-to-school and holiday, we are anticipating a slightly more normalized pricing and promotion environment. If you look versus last year, it was an incredibly benign pricing promotion environment. But all of that is reflected in our go-forward guidance. We're not expecting any surprises there.

Operator

Our next question today comes from Adrienne Yih of Barclays.

Adrienne Eugenia Yih-Tennant

Barclays Bank PLC, Research Division

Congratulations on another really solid quarter. Lauren, I'm going to start with you. We've always talked about how the notion that you're about 85% branded is a pretty significant competitive advantage.

Can you talk about that with regard to return of some vendor levers, say, markdown money or RTV? How is that evolving? And are you seeing any more of it current day or expecting more of it in your forward guidance?

And then for Navdeep, it's obviously peak inventory period. So wondering what the inventory might look like at the end of third quarter and probably more importantly, at the end of the year.

Lauren R. Hobart

President, CEO & Director

Thanks, Adrienne. Our brand assortment is absolutely a competitive advantage for us. We've got fantastic relationships with our strategic partners. We also are doing a really, really strong job with our vertical brands. We always work with our core partners on managing our inventory levels.

So yes, we have certain return levers, RTVs, but we also work really real-time to determine how best to move through product. And we have, in our case, a really elevated clearance process, including our new Going, Going, Gone! concept, which allows us to work -- to move product really quickly through if there are any overages. Navdeep, about inventory?

Navdeep Gupta

Executive VP & CFO

Adrienne, we won't provide the guidance for an inventory on an outlook for Q3 or for full year. However, having said that, the point that I want to make is like Lauren called out in her comments, right? We feel really, really good about where our inventory right now is, especially as we head into the important back-to-school season. We feel good about the inventory levels and our overall composition of the inventory itself. It's very well positioned and very healthy. So we feel very optimistic as we go into the back half of this year.

Operator

The next question today comes from Robby Ohmes of Bank of America.

Robert Frederick Ohmes

BofA Securities, Research Division

Great quarter and outlook. A couple of quick questions. Just -- could you give a little more color on the categories that outperformed in the second quarter, excluding back-to-school? And the ticket growth, I think you guys said, if I got it right, ticket was up around 8% and transactions down around 8%. Maybe some color around -- I think that would mean decelerating transactions versus the first quarter, and some color around what's maybe going on there. And is there any kind of trade-down things happening with your customers as well?

Lauren R. Hobart

President, CEO & Director

Thanks, Robby. So starting with the categories that outperformed in Q2, we actually had tremendous success across all of our key categories. They were in line with our expectations. Footwear, in particular, is really strong, given our

assortment is absolutely best-in-class, and that's driving incredible success with our customers.

Team Sports have been back and that business is very strong. We were really pleased with the golf business, which sequentially accelerated in Q2 versus Q1 and still remains significantly above 2019. Athletic apparel was the only business that was slightly challenged in Q2 of our core businesses, and that was really because there were some lead shipments in apparel, where some of the spring products came in on top of back-to-school products.

But even within apparel, once the products started flowing, and our teams have done an absolutely incredible job flowing product and getting it into the stores, in July, we started to see comp significantly improve in athletic apparel as well. So overall, really, really strong across the categories. I'll turn it to Navdeep to answer the ticket question.

Navdeep Gupta
Executive VP & CFO

So let me give a little bit of a breakdown again. So in Q2, our comps declined 5.1%. The transactions actually declined 8.4% and the average ticket was up 3.3%. However, as you can imagine, there's meaningful noise in the transactions data, especially as we are going up against the stimulus payments that were given out last year as well as the kind of the timing of the different markets reopening because of COVID.

And therefore, we -- if you look at the comp -- the transactions comparison versus 2019, the transactions actually grew in both quarters, Q1 and Q2. And they were much more in line versus kind of the change that you might see if you look at on a transaction -- on a Q1 versus Q2 basis. So hopefully, that gives the answer in terms of the transaction trends.

Robert Frederick Ohmes
BofA Securities, Research Division

That does. That really helps. And just any sort of color around just the consumers' shifting behavior in a high inflation environment, and if you're seeing that kind of trade down stuff in your stores?

Lauren R. Hobart
President, CEO & Director

Yes. Robby, we actually are not seeing a significant trade down. Our consumer is holding up very well. We're not seeing people trade from best to better and better -- from best to better and better to good products. In fact, across all income demographics, the trends are pretty similar. I think that just speaks to the fact that our portfolio has something for everybody.

If you're looking for the most premium technical piece of equipment or cleats, we've got that for you, but we also have opening price point brands like our DSG brand, which is doing really, really well and has tremendous value and fashion to it. So across the board, no meaning -- our consumer is holding up very well.

Operator

Our next question today comes from Warren Cheng of Evercore ISI.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Great job, guys. I had a follow-up on Simeon's question on the comp stack and how it's been remarkably stable. Can you dig in and give us some color on how the pandemic winter categories, in particular, have performed the last few

quarters? Are they still normalizing and dragging on that overall comp? Or has that started to normalize and stabilize? Just trying to think through kind of how those categories are going to drag or not drag on comps from here.

Lauren R. Hobart
President, CEO & Director

Warren, so the "pandemic-winning" categories, and by the way, there were a lot of pandemic-winning categories, including footwear and apparel, which remain incredibly strong, some of the more specific pandemic winners like fitness or outdoor equipment bikes, those are acting in line with our expectations and, in fact, are still significantly above 2019 levels. So while there is some adjustment going on year-to-year due to the surge in those businesses, they are significantly higher than they were pre-pandemic.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Got it. And my follow-up. I thought you guys made an interesting comment in your prepared remarks. You called out that more higher heat, more narrowly-distributed product has been a driver of the merch margin. If we step back and look at that 400 basis points of merch margin expansion you've achieved since 2019, has the mix shift component, some mix shift to high heat product, higher-margin product, has that been the more material driver or has the lower markdowns and lower promos been the more material driver?

Navdeep Gupta
Executive VP & CFO

Yes. Warren, this is -- I would say it actually is all balanced, right? If you look at it, what we are seeing is that the mix shift that we have gotten from the hunt product, which used to have 1,700 basis points lower margin rate, going down as well as acceleration of the vertical brands with 600 to 800 basis points is 1 driver of mix.

And as you called out, the premium of products that we carry, especially in the key categories like footwear and apparel as well, we are seeing benefits in twofold: one, the benefit is coming because of the margin rates from this category. The bigger benefit, like you called out, is coming because of the lack of promotion that -- because these are highly allocated product. It's a combination of both of those things that is also driving our merch margins higher.

Operator

Our next question today comes from Christopher Horvers of JPMorgan.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

You talked about momentum in the business and called out July and back-to-school. I know you don't guide to the quarters, but any thoughts on the cadence? And as you revisited the guidance, did your internal expectations change for the back half in 3Q versus 4Q?

Navdeep Gupta
Executive VP & CFO

Chris, like you called out, right, we were pleased with the way the quarter 2 finished. And if you look at the tail end of July, it's kind of the early season of the back-to-school season. If you look at that as a testament of where we are expecting for back-to-school season, we are very happy with the early start of the back-to-school season.

And yes, and you also called out correctly the one guide to the inter-quarter trend. But we -- the inventory levels that we have, the in-stock position that we are going into the important back-to-school season, we are very pleased with that.

In terms of the internal expectation, definitely, if you look at what we did at the lower end of the guidance of raising the low end of the guidance to minus 6% for the full year, that kind of flowed not only the benefit that we saw from Q2 but also our optimism around the consumer trend holding up well, better than we had kind of feared at the end of Q1. And that has been factored into the -- bringing the low end of the guidance up to minus 6%.

Christopher Michael Horvers

JPMorgan Chase & Co, Research Division

Understood. And then you also mentioned on the expectation at 3Q, you'll have some promotional normalization. So how are you thinking about that margin stack that you referenced for the second quarter? Do we see any degradation in that in the third quarter? Obviously, still very strong versus 3Q '19, but does it lessen in the third quarter?

Navdeep Gupta

Executive VP & CFO

Yes, Chris, I don't think we called out that we anticipate our promotions will be going up. What we called out in our guidance is the fact that what we don't know is what the overall promotional landscape in the back half will look like. And that is what has been factored into our guidance. So if we continue to see a benign environment, that will be a factor into the actual results for Q3.

There are, like Lauren indicated, there are certain categories where we are a bit heavier like, say, in apparel, and we will be appropriately activating around those products as we go into the back half. However, even that impact has been contemplated into our guidance, and so we feel really strongly about the guidance that we have given for the full year.

Lauren R. Hobart

President, CEO & Director

Chris, I would just add that long term, we still feel very confident that structurally, we will maintain more than half of our -- the margin gains that we've gotten over the past couple of years.

Operator

The next question in the queue comes from Michael Lasser of UBS.

Atul Maheswari

UBS Investment Bank, Research Division

This is Atul Maheswari on for Michael Lasser. First, a quick question on the comp guidance. At the midpoint, it implies that the 3-year CAGR, so the 3-year geometric stacks in the back half, decelerate relative to the second quarter and the first half. So does this reflect the caution that, Lauren, you cited in the prepared remarks with respect to your guidance? And does the comp guidance assume that demand for your categories in the back half decelerate further from what you saw in the second quarter?

Navdeep Gupta

Executive VP & CFO

Yes. I would say like we called out in our prepared comments, right, we are appropriately being cautious about our expectations for fall. And the macroeconomic situation as well as the geopolitical situation continue to remain challenge.

So we need to be cognizant of those trends, and that is what has been contemplated in our guidance. And if you look at the high end of the guidance and the low end of the guidance, yes, the midpoint is there, it is. But at the high end of the guidance, we are expecting the comp to be minus 2% for full year.

Lauren R. Hobart
President, CEO & Director

Yes. I would also point out the comparison that you're making versus triple year of 2019 includes the fact that we were very, very promotional in 2019. So while we are contemplating that there will be some normalized pricing and promotion in the back half, that could be impacting the comps as well on a 3-year stack.

Atul Maheswari
UBS Investment Bank, Research Division

Got it. That's very helpful. And then my follow-up question is, I mean, granted that there are a lot of reasons to believe that the current comp levels and the current sales levels are sustainable, but in the event that comps do remain pressured in 2023, how much room is there to cut back on operating expenses to manage profitability?

If I look at your P&L, your SG&A margin has not really leveraged much versus 2019 despite sales being 35% higher. So one would think that there is room to cut back on costs next year, should sales come under pressure, but would love to get your thoughts on it as well.

Navdeep Gupta
Executive VP & CFO

Yes. So we have tremendous amount of flexibility in our P&L, if you look at it, right? The first thing is, and I mean, we are talking about a hypothetical here in case the 2023 sales are down because we are not hiding anything like that. We feel really optimistic about our business, keeping the macroeconomic situations aside. But just looking into the P&L flexibility, the first thing would be we'll look into the variable expenses. And to the extent you called out, there is flexibility even in our discretionary and our fixed expenses.

And then lastly, as you called out, we -- like we said, we only have 8% share today in a very strong industry that is doing really well. So we are being aggressive in terms of our investments in the key categories and in key capabilities to be able to ensure the long-term sustainability of the trends that we have been driving. And we potentially could look into those investments as well, if need be. But we feel very optimistic about the long-term sales and the profit trajectory of the business.

Operator

The next question comes from Paul Lejuez of Citigroup.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Curious if you could talk a little bit more about the footwear category. Curious about your performance in Nike product versus non-Nike product, if that's something that you might be willing to give more color on. And also, I would love to hear an update on the linkage of your app with the Nike app and what that might be doing in terms of new customer acquisition if, in fact, it is bringing in new customers into your network.

Lauren R. Hobart
President, CEO & Director

Thanks, Paul. Footwear is doing incredibly well across the board. Nike is doing well. Other brands are doing very well. So just in general, the quality of our assortment and the type of products we have is so meaningfully different than it was before that, that business is really being responded to very well by consumers.

Our connected membership with Nike continues to be really fruitful. We are working together. We're starting as the supply chain continues to improve, starting to get some higher-heat product going through that connection, and we are growing new customers that are jointly connected to Nike and DICK'S each quarter meaningfully, this past quarter as well.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Got it. And then just a follow-up. Just thinking out to next year, I don't know if you -- sorry if I missed any update you gave on some of the younger growing concepts, but just performance in the quarter, how are you thinking about growth for next year?

Lauren R. Hobart
President, CEO & Director

Yes. So we -- Public Lands has 3 stores now. We're very, very pleased with how that's doing. It's very small, obviously, compared to the large DICK'S business. Our House of Sport concept continues to do very, very well and we're learning significantly from that experience. We're going to be growing more House of Sport experiences go forward, but we're also taking lessons and rethinking throughout the entire chain how we can improve the service and the experience.

And similarly, with Golf Galaxy Performance Center, we are redeveloping, reinventing the consumer experience. We'll continue to invest in more Golf Galaxy Performance Centers but also bringing the learnings through the rest of that chain. The last new concept that is really doing very well right now is our Going, Going, Gone! and warehouse channel. That business is obviously in an inflationary environment. It's great to have that kind of channel. We've built significantly more even in the past months, and we're finding the consumer responding very well to that channel as well.

Operator

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

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

Okay. So you -- the comment -- I want to go back to the comment about maintaining at least 50% of the margin gained during the pandemic. And so if I look at it on the EBT line, that implies something a little bit north of about 10.8%, 10.9%. Your guidance this year is 10.7%. Does that imply or can we infer that you think margin is going to be down this year, obviously, versus last year, but they sort of bottom here and start to go back up in 2013 (sic) [2023]. Is that a reasonable assumption based on that comment?

Navdeep Gupta
Executive VP & CFO

Yes. Mike, if you look at the midpoint of the guidance, yes, you are right that we are maintaining a majority of the margins that we have driven over 2019. And again, we're not going to guide to 2023. Like we said, we are very confident about the sales and the earnings trajectory of the business over the long term. The biggest unknown, if you think about

'23, is around the macroeconomic condition. So if those -- keeping the macro aside, your thesis is spot on. We feel really optimistic about the sales and the profit trajectory of the business over the long term.

Michael Allen Baker

D.A. Davidson & Co., Research Division

Okay. Great. Fair enough. As a follow-up, you gave some color -- some good color on components of the P&L. We can obviously make our own estimates, but one missing piece, if you would. How should we think about interest expense -- non-GAAP interest expense after the adjustments for the convert? How should we think about that in the back half of the year or full year?

Navdeep Gupta

Executive VP & CFO

Yes. The biggest variable factor, if you look at it, again, if you're doing the year-over-year comparison is the fact that we didn't have the long-term senior notes that we have outstanding on the balance sheet today. So if you keep -- and we believe that is the right capital structure for us as a company. So that is a structural piece.

The piece that is -- if you look in both in Q1 and in Q2, we had the onetime cost associated with settlement of the convertible notes to the tune of just over \$6 million, and if we do make another transaction like that in the second half, there will be a corresponding cost. But that is onetime in nature. It's associated with just unwinding of the convert earlier than it is due.

Michael Allen Baker

D.A. Davidson & Co., Research Division

So putting that all together, would you care to just give us a non-GAAP interest expense number? Or we can certainly figure it out, but it might just be easier for everyone if you told us how to expect non-GAAP interest in the third and fourth quarter.

Navdeep Gupta

Executive VP & CFO

Yes, non-GAAP interest expense would be pretty much in line with Q2, with the exception of the \$6.1 million that we called out for the onetime transaction cost.

Operator

Next today is Cowen's John Kernan.

John David Kernan

Cowen and Company, LLC, Research Division

Wanted to go back to maybe the merchandise margin expectations. The assumptions for apparel, in particular, it looks like some of the vendors moved away from mats. Promotions look high in store. They look -- inventory units and costs on all the vendors balance sheets look fairly high. So what's the assumption for athletic apparel as we move through the back half of the year? When do you think we'll be in a normalized promotional environment in that apparel category as we go into next year?

Lauren R. Hobart

President, CEO & Director

Thanks, John. We are working really closely with our vendors. And you're right that apparel is a category where we're all working due to fleet through to make sure that we clear through the product. We are moving through that through our Going, Going, Gone! channel, through also our DICK'S clearance activity.

It's hard to know when exactly we'll see a normalized promotional activity, but we do have everything that we anticipate reflected into our guidance, and we are marking some apparel down right now. That's included in our guidance and it's moving well through the system. So we're hoping for improvement in the near term.

John David Kernan

Cowen and Company, LLC, Research Division

Got it. Maybe just a follow-up to the earlier question on inventory balance into year end and maybe just the costs associated with some of the inventory on balance sheet now. How should we expect some of the costs associated with the current inventory units on the balance sheet?

Obviously, freight is elevated, product costs need to be moving higher. Could some of this carry over into next year? How should we think about the cost piece of the inventory that's on the balance sheet right now for both you and a lot of your vendors?

Navdeep Gupta

Executive VP & CFO

Yes, I would say that some of that cost will continue into next year as well. As you can imagine, the cost increases that have been taken this year, it will take some time for us to be able to sell through that inventory. So that cost pressure, as you look from the freight cost increases, especially, will remain with us, I would say, until an early part of next year.

The piece that is unknown is how the overall supply chain landscape continues to remain for the balance of this year. We feel better about that as we are going into the second half versus how we felt, call it, 3 months ago at the end of Q1. So we'll have to continue to navigate that cost pressures as we go through the balance of this year.

John David Kernan

Cowen and Company, LLC, Research Division

Okay, that's helpful. Best of luck and congrats on the success through this year.

Operator

The next question today comes from Sam Poser of Williams Trading.

Samuel Marc Poser

Williams Trading, LLC, Research Division

I have a follow-up on the last question. In regard to the -- can you give us some more color on what happened in July and if the MAP holiday that started towards the end of the month helped that? And are you being -- are you having to absorb any of the markdowns associated with that MAP holiday?

Lauren R. Hobart

President, CEO & Director

Yes. So we did have a strong month throughout July in the business overall and in apparel, so the MAP rates at the end

of the month, we participated in them. We absorbed an appropriate portion of that as do our brand partners. So nothing meaningful to talk about there.

Samuel Marc Poser

Williams Trading, LLC, Research Division

And then secondly, a lot of the conversation is about what may happen next and about what the consumer is going to do. Can you talk about the improvement in all these investments you're doing in digital, in consumer engagement, both in the store and online to help -- it appears to have helped you overcome some of the concerns you had about the macro. And can you talk about how that's evolving and how that bit of flexibility may or may not help you both in good and bad times?

Lauren R. Hobart

President, CEO & Director

Yes. Thank you, Sam. It's a great question. We have been working on improving our entire omnichannel experience over the past several years. And so you're seeing us, first of all, bring experiences into our DICK'S stores and our Golf Galaxy stores that the consumer is responding really well to; elevated service levels, which the consumer also is valuing so that they can find the right product for them. We've completely transformed our marketing so that we are much more digitally savvy and we can be much more personalized.

And I think you see all of that when you look at our athlete database. One thing that we haven't mentioned on the call yet, I don't think, is that our ScoreCard Gold customers who are now 5 million strong are contributing 40% of our sales. So they are growing in terms of their contribution and their mix, which again speaks to the fact that we are creating engagement with our customers. So the entire experience from a customer standpoint, both online and in-store, is meaningfully improved from what it was several years ago.

Samuel Marc Poser

Williams Trading, LLC, Research Division

I just have a quick follow-up. How much of sort of this -- how much when you look at what the consumer is doing and what you're doing and so on, do you feel, is in your control versus sort of what's happening on the macro? Because everybody asks about what the consumer is going to do. But my question is what -- how much of this do you really believe you have control of to keep that consumer coming again, both in good times and bad?

Navdeep Gupta

Executive VP & CFO

Sam, to me, the way to think about this would be to look at the structural drivers of what is in our control, and we have done a really, really good job around. So the things that I look to is, quite frankly, that we have 16 million new athletes that we acquired over the last couple of years alone. And like Lauren mentioned, the ability to be able to really engage with them is definitely differentiated approach that we have than a lot of players in the industry.

And then when you look at, in terms of the access that we have gotten of the high heat and kind of the narrowly distributed product also drives the differentiation that is much more in our control. And then looking very similarly on a P&L basis, if you look, the drivers that we called out to the margin rate improvement are much more structural improvements that we have made in our business very, very consciously over the last few years, and those are the reasons why we feel really optimistic about the long-term sales and the profitability trajectory of the company.

Lauren R. Hobart

President, CEO & Director

I would add to that, that our product mix and our assortment, while some of it you may consider discretionary, there are things in our business that are essential. And that's everything from making sure that your kids have the right cleats on their feet to equipment that you need to perform at your best to if you're outside running and your shoes are worn down. So we do have products that have held up well in prior recessions and the fact that we offer different price points and different levels for everybody is something in our control.

Operator

The next question comes from Chuck Grom of Gordon Haskett.

Charles P. Grom

Gordon Haskett Research Advisors

On the changing guide, can you remind us the expectation for promotions, given how elevated inventory levels are across a lot of retail today? And then on 2Q, can you unpack the gross margin decline between merch, occupancy, e-comm and if there's any other items that played into the quarter?

Navdeep Gupta

Executive VP & CFO

Chuck, I'll take the second question first and then I'll come back to your first question. So if you look at the de-comp of the gross profit decline, within that, the merch margin declined 197 basis points and that's probably the biggest driver. And like we called out, right, there was pressure, as you can expect, from the supply chain cost because of the freight cost and the occupancy deleverage because of the negative comps.

When you -- the way to think about the gross margin decline, to me, this was expected and we had contemplated and guided to that at the beginning of the year. What is -- what we have -- we are continuing to look deeper into is to make sure that we are maintaining a vast majority of the margins and the structural changes we have made versus 2019.

Coming back to your first question in terms of the promotional expectations, so we are expecting -- or in our guidance, we have contemplated a more normalized promotional landscape in the second half. Not that it will go back to 2019 time frame as it was then, but it definitely may not be -- or it may not be as benign as what we saw in 2021. So that is what has been contemplated in our guidance.

Charles P. Grom

Gordon Haskett Research Advisors

Great. And then as a follow-up, you talked about better tools to control pricing. And I think that's been one of the key building blocks on the merchandise margin improvement. Can you elaborate on that a little bit? Is that zone pricing? Just a little bit more color.

Lauren R. Hobart

President, CEO & Director

Yes. We've developed a really strong data science capability where we can optimize pricing, and we're looking to do that real-time item by item and market and consumer by consumer. So that is a key advantage that we've built over time.

Operator

Our next question in the queue comes from Justin Kleber of Baird.

Justin E. Kleber

Robert W. Baird & Co. Incorporated, Research Division

If I look at the midpoint of your guidance on sales, it assumes that you're going to be up about 36% from '19. Just curious how you bridge that gap between growth in the sector versus your market share gains. I know, Navdeep, you mentioned 8% share earlier, which I think is the same number you have in the investor deck for 2020. It just seems like your growth is outpacing the industry. So any updated thoughts on where share stands today?

Navdeep Gupta

Executive VP & CFO

Yes. Justin, we are pleased with the performance that we have driven through the first half of this year. And if you look at it, and we have definitely gained share in the first half of this year. And that is kind of our expectation as well with the differentiating capabilities that we have, we will be able to continue to gain share, especially in the key categories where -- which are core categories for us as we think about footwear, apparel, team sports and golf.

Justin E. Kleber

Robert W. Baird & Co. Incorporated, Research Division

Okay. And just a quick follow-up on the promotional environment. Have you guys changed your internal expectations from a merch margin perspective over the back half of this year relative to what you were thinking back in May?

Navdeep Gupta

Executive VP & CFO

I would say it's a combination of both of those things. Yes, the internal capabilities are the biggest unknown. In terms of the midpoint of the guidance, continues to be more to do with the external environment versus our internal expectations.

Operator

Next, we'll take a question from Joe Feldman of Telsey Advisory Group.

Joseph Isaac Feldman

Telsey Advisory Group LLC

Congrats on the quarter. In terms of the inventory, how is the flow of goods these days in apparel versus footwear versus hardware? Like are you seeing -- I mean, hardlines. Are you seeing differences among the categories and the flow of goods and are you getting things on time? Are you still finding you need to kind of accelerate orders or order more than you anticipate getting because you won't get the full order fulfilled?

Lauren R. Hobart

President, CEO & Director

Yes. Thanks, Joe. Our inventory, overall, I think it's important just to restate that our inventory is very healthy and we do not -- we are not concerned that there's toxicity in our inventory. Our flow of goods has improved significantly category by category throughout the last 2.5 years. It's been a series of different challenges. The most recent challenge was apparel, as I mentioned, but we are -- that is moving now, and we are working through the backlog that was there and clearing that through, and it is affecting our sales as well.

When it comes to some of our hardline categories, say, fitness and outdoor equipment, we have bought -- that is -- we have a lot of inventory there that we just -- we're buying around for next year. So no issues with flow there. And footwear has been pretty good. So flow is good. It's just -- there's -- over the last 2.5 years, something is a new challenge every

few months. So that's how we're managing it.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Got it. Yes, that's helpful. And then kind of what are you guys seeing these days from a labor perspective? Like I know wage pressures there, and we keep hearing about how hard it is to get talent, especially at distribution centers. And I'm just wondering what you guys are seeing from your stores and distribution centers. Do you have the staffing you need gearing up for this holiday season?

Lauren R. Hobart
President, CEO & Director

Yes. Labor, there has been labor shortage in the market for a couple of years now. It has improved. We have not been having issues that maybe some other people are having in terms of not being able to staff appropriately. Our stores have remained fully staffed. Our distribution centers are staffed and operating well.

And I think that, that speaks to the fact that we -- obviously, we have a competitive wage and our wage costs have gone up as everybody's has. But more importantly, our teammate engagement, our employee engagement is at an all-time high. And I do think that being a fun and great place to work is meaningfully a competitive advantage for us that's made a meaningful improvement in this area for us.

Operator

The next question comes from Seth Basham of Wedbush Securities.

Seth Mckain Basham
Wedbush Securities Inc., Research Division

My question is on the high heat and narrowly distributed products that you mentioned being key to driving margin expansion for the last 3 years. Could you give us a sense of what your sales mix is of those products relative to 2019 and what the margin differential is on those products relative to average, realized margin differential it is?

Navdeep Gupta
Executive VP & CFO

Seth, definitely, the mix of those products, if you look -- within the key categories like footwear, the mix is significantly higher compared to where it was in 2019. And in terms of the margin, the margin also -- the net margin that -- the realized margin is also higher. It's a combination, like we said. The promotional intensity on those products and how narrowly distributed they are helps us drive our incremental margin in that as well.

Seth Mckain Basham
Wedbush Securities Inc., Research Division

Got it. But can you provide any more quantification? Are we talking 1,000 basis point difference in mix in high heat and narrowly distributed products relative to 2019?

Navdeep Gupta
Executive VP & CFO

Yes. As we have called out, it's a very proportional view between the mix benefit that we have driven between the lower

penetration of hunt, the vertical brands, the pricing capabilities that Lauren talked about as well as the narrowly distributed mix and the higher heat product that we have. So it's balanced between all 3 of those levels.

Seth Mckain Basham

Wedbush Securities Inc., Research Division

Got it, okay. And my follow-up question is just, I know you don't normally talk too much about cadence in the quarter, but can you give us a sense of whether or not your traffic or transactions growth on a comparable store sales basis improved through the quarter?

Navdeep Gupta

Executive VP & CFO

It's very, very noisy to look on a year-over-year basis because of the stimulus impact and the timing of stimulus from last year. The way I would look at it is if you look at it versus 2019, it was pretty balanced, and we were pleased with the overall trajectory of the traffic as -- even looking back into Q1 of this year.

Operator

Next, we have a question from Jim Duffy of Stifel.

James Vincent Duffy

Stifel, Nicolaus & Company, Incorporated, Research Division

A few around the apparel business. On the spring product, I'm curious. Will you carry inventory over to spring '23? Or have you pushed that back to the vendors, given the dynamic of late deliveries? And then given the environment, do you foresee favorable buying opportunities for spring '23 in the apparel business?

Lauren R. Hobart

President, CEO & Director

Thanks, Jim. We are looking -- some of the seasonal business is -- well, some of the business in apparel is seasonal and won't be appropriate to carry over to fiscal '23. Some of it is appropriate. We work with our vendors to cancel where appropriate and/or our RTV.

But mostly, we are working together now to clear through any overages, any late product that isn't seasonal right now or that needs to move before we get into holiday. So -- and yes, I do think we see favorable buying opportunities in spring '23, where we could be buying now for them.

Operator

And finally, our last question comes from Brian Nagel of Oppenheimer.

Brian William Nagel

Oppenheimer & Co. Inc., Research Division

I, too, would like to add my congratulations for another extraordinarily solid quarter. So congrats. The questions I have. I guess they're longer term in nature. But I mean when we look at the business, just to understand what's really -- kind of what's really happening here. Your business is clearly, as you mentioned in your prepared comments in response to the question, we've clearly [restrengthened] stronger here over the past couple of years and a few years.

So as you look at it, do you think that's more -- I mean, is it more a function of behavioral changes on the part of your consumers that took hold during the pandemic or these internal initiatives, in particular on the merchandising side? But then the follow-up question I have for that, to the extent that you've now shifted the business to better products, higher end product, clearly, we're seeing no indication of this right now, but does that make DICK'S or render DICK'S potentially more susceptible in a weaker spending environment?

Lauren R. Hobart
President, CEO & Director

Thanks, Brian. So our business certainly has strengthened, as you said. And I would say this is more a function of the strategies that we have put in place over the past 5 years to make our business completely transformed. You cannot look at our merchandising assortment and not notice just how completely different it is. At the same time, we've been fortunate that our consumer has chosen a more outdoor lifestyle, a healthier lifestyle, more active.

And so the pie is growing. But I would say the bigger change, if you look over the past several years, is the strategies that we've put in place in the business. With the high-end products, people spend money on what's important to them and these products are highly desirable. So we're seeing that now even though it's a tougher -- it's an inflationary time frame. So we're happy to have that product and to be delighting consumers in that way.

Operator

We have no further questions in the queue today, so I'll turn the call back to Lauren Hobart, President and CEO, for closing remarks.

Lauren R. Hobart
President, CEO & Director

Thank you, and thanks, everybody, for your interest in DICK'S Sporting Goods. I will look forward to seeing you and talking next quarter. Thank you.

Operator

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

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