S&P Global
Market Intelligence

DICK'S Sporting Goods, Inc. NYSE:DKS

FQ3 2022 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Presentation

Operator

Good day, and welcome to the DICK'S Sporting Goods third quarter earnings conference call. [Operator Instructions] Please note today's event is being recorded.

I would now like to turn the conference over to Nate Gilch, Senior Director of Investor Relations. Please go ahead, sir.

Nathaniel A. Gilch
Senior Director of Investor Relations

Good morning, everyone, and thank you for joining us to discuss our third quarter 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. Our consolidated same-store sales calculation includes stores that we temporarily closed last year as a result of COVID-19. The method of calculating comp sales varies across the retail industry, including the treatment of temporary store closures because of COVID-19. Accordingly, our method of calculation might not be the same as other retailers.

Next, as a reminder, due to the uneven nature of 2020, we planned 2021 off of a 2019 baseline. Accordingly, we will compare 2021 sales and earnings results against both 2019 and 2020. And lastly, for your future scheduling purposes, we are tentatively planning to publish our fourth quarter 2021 earnings results before the market opens on March 8, 2022, with our subsequent earnings call at 10 a.m. Eastern Time.

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

Edward W. Stack
Executive Chairman & Chief Merchandising Officer

Thanks, Nate. Good morning, everyone. We're extremely pleased to announce another very strong quarter in which we delivered significant sales and earnings growth over both last year and 2019. I'd like to thank all of our teammates for their hard work and commitment to DICK'S Sporting Goods which helped make this performance possible.

Our strategies continue to work as we reimagine the athlete experience in our core business and with the new concepts. We've driven strong profitable growth at DICK'S. And earlier this year, we launched 2 DICK'S House of Sport stores, highly experiential destinations that are redefining sports retail.

The innovations we've made in our Golf Galaxy business are performing extremely well, and our second Public Lands store recently opened, focusing on the outdoor activity. As Lauren will discuss earlier, we've joined forces with Nike in a first-of-its-kind partnership that will deepen our strategic relationship and further differentiate DICK'S in the marketplace.

Looking ahead, I couldn't be more excited about the future of DICK'S Sporting Goods. We now expect to deliver comp sales of over 20% for 2021 and remain very confident in the long-term prospects of our business.

I'll now turn the call over to Lauren.

Lauren R. Hobart
President, CEO & Director

Thank you, Ed, and good morning, everyone. As we announced earlier this morning, we delivered another exceptionally strong quarter, achieving record third quarter sales and earnings that significantly exceeded our expectations. Before diving into our Q3 results, I think it's important to recognize that our current success is a result of a transformational journey that began in the back half of 2017 when we started to make meaningful changes across our business.

We elevated the athlete experience in our stores through more differentiated and premium product and delivered stronger merchandise presentations. We also improved our service and selling culture, made our stores more experiential and reallocated floor space to regionally relevant and growing categories. These changes fueled improved results and significantly improved our comp sales trajectory well before the pandemic. For years, we've also invested in technology and data science to build our best-in-class omnichannel platform. This allowed us to quickly capitalize on athlete needs and strong consumer demand throughout 2020 and deliver a full year comp sales increase of nearly 10%.

Moving to 2021, we announced today that we have raised our full year guidance for the third time this year and now expect our comp sales to increase between 24% and 25%. During a time when consumers are making lasting lifestyle changes with an increased focus on health and fitness and greater participation in outdoor activities, we believe that DICK'S Sporting Goods has become synonymous with sport in the United States.

Nearly our entire category portfolio has re-baselined meaningfully higher versus pre-COVID sales levels. We've capitalized on strong consumer demand and have gained considerable market share in key categories, driven by enhanced product access, service and omnichannel capabilities. Looking ahead, we are well positioned to continue gaining share, and we remain optimistic about the long-term demand trends in our most important categories like athletic apparel, footwear, team sports and golf.

We also remain very optimistic about longer-term EBT margin, driven by a number of permanent changes versus pre-COVID levels. These changes include a highly differentiated product assortment that is less susceptible to broader promotional pressures, more granular management of promotions and significantly higher profitability of our e-commerce channel.

Now getting back to our Q3 results. Consolidated same-store sales increased 12.2% on top of a 23.2% increase in the same period last year and a 6% increase in Q3 2019. Driven by our strong sales and gross margin rate expansion, on a non-GAAP basis, our third quarter earnings per diluted share of $3.19 increased 59% over last year and 513% over Q3 2019. Our Q3 comps were supported by broad-based growth across our business as our strong execution, diverse category portfolio and world-class omnichannel platform helped us continue to capitalize on and meet robust consumer demand despite a dynamic global supply chain.

We're continuing to see strong retention of the 8.5 million new athletes we acquired last year, and we added another 1.7

million new athletes during this quarter. Our active athlete database is at a record high.

Our increasingly differentiated product assortment, combined with our disciplined promotional strategy and cadence, is continuing to drive significantly higher merchandise margin rates. During the quarter, we expanded our merchandise margin rate by 301 basis points versus 2020 and by 578 basis points versus 2019.

As we discussed previously, we're focused on enhancing the athlete experience across our entire omnichannel ecosystem. In our stores, we continue to make DICK'S a great place to work as we know that our people are our competitive differentiator, and a great teammate experience drives a great athlete experience. In fact, we recently earned a place on Fortune's list of Best Workplaces in Retail for 2021. We're also engaging our athletes with new and elevated service standards and making our stores more experiential. These strategies are working and continue to set us apart within the marketplace.

During the quarter, our brick-and-mortar stores comped up approximately 15% versus last year and delivered a 31% sales increase when compared to 2019. Importantly, our stores continue to be the hub of our omnichannel strategy, enabling over 90% of our total sales and fulfilling approximately 70% of our online sales in Q3.

Moving to our e-commerce business. During the quarter, we were pleased to deliver online sales growth of 1%, which was on top of a 95% increase in the same period last year. Our online sales remained substantially above pre-COVID levels, increasing nearly 100% when compared to the same period in 2019. Importantly, we also continued to drive a significant improvement in the profitability of our e-commerce channel by leveraging fixed costs, sustained athlete adoption of in-store pickup and curbside as well as fewer and more targeted promotions.

Beyond our omnichannel platform, our portfolio of brands is a tremendous asset. We continue to invest substantially in our highly profitable and growing vertical brands. Key brands, including DSG, CALIA and VRST, are driving exclusivity within our assortment and gaining meaningful traction with our athletes. At the same time, while many national brands continue to narrow distribution and focus more on their most strategic partners, DICK'S offers them something unique and valuable. We are rooted in sport and can showcase an entire brand portfolio, including apparel, footwear and hardlines, across our over 800 stores and online.

Our brand partners continue to make significant investments in our business every year and provide us with increasing allocations of exclusive and differentiated products. These top-of-the-line products are highly coveted and rarely promoted, driving significant sales and margin momentum. Our strategic partnerships with key brands have never been stronger, and we're making big bets with important brand partners.

To that end, we recently announced a groundbreaking new partnership with Nike that we see as truly transformative for the sports industry. Through this collaboration, DICK'S and Nike will create unmatched value for our athletes through exclusive products, experiences, content and other specialized offers. Together, we'll embrace our collective strengths and capabilities to expand our reach, connect with even more athletes, and most importantly, serve them better. Our companies have a long and successful history of working together, and this demonstrates a deepening of the DICK'S and Nike relationship. This partnership is aimed at driving growth for both companies while serving our customers in a personalized way.

At DICK'S, part of our strategy is to lead with mobile, and we're excited to launch this partnership through a connected marketplace exclusively in our DICK'S mobile app. Looking ahead, we'll explore additional opportunities to work with Nike and our other strategic partners across our respective physical and digital properties to further enhance convenience, experiences and content for our athletes.

Now I'd like to provide a few updates on our newest concepts. First, we remain very pleased with our first 2 DICK'S House of Sport stores in Rochester and Knoxville. House of Sport is built around experience, service, community and product, setting an unparalleled standard for sports retail and athlete engagement. Moving forward, we're excited to continue to refine and grow House of Sport while pulling key learnings into the rest of the DICK'S chain.

We're also excited by the early results of our first 2 Golf Galaxy Performance Centers located outside of Boston and Minneapolis, St. Paul. Golf Galaxy Performance Center has been completely redesigned and equipped with TrackMan and BioMech golf technologies. We've also invested in talent to ensure our teammates become trusted advisers to golf enthusiasts of all levels.

In addition to innovating within our core business, we also launched Public Lands, a new omnichannel specialty concept to better serve outdoor athletes. Our first Public Lands store recently opened here in Pittsburgh, and our second store opened in Columbus just a few weeks ago. We also launched publiclands.com, a complete e-commerce experience for the outdoor enthusiast. While still early, Public Lands is off to a strong start, and we are very enthusiastic about this growth opportunity and its goal to get more people outside, exploring and protecting America's public lands.

Before concluding, I want to spend a moment on the supply chain. Amidst a very dynamic environment, our team has done an excellent job working with our vendor partners and with our vertical brand manufacturers to ensure a robust flow of product to meet strong demand. We ordered aggressively to get ahead of this disruption, and our quarter-ending inventory levels increased 7.3% compared to the end of the same period last year. While there will continue to be inventory challenges across the marketplace, our fourth quarter is off to a strong start, and we feel that we are well positioned within our industry this holiday season.

In closing, we have exciting growth opportunities ahead of us. And as Ed said, we are very confident in the longer-term prospects of our business. As we continue to execute against our strategic priorities and reimagine the athlete experience, we believe the investments we've made to transform our business will strengthen our leadership position within the marketplace. Our teammates are at the center of this transformation, and I would like to thank them all for their continued hard work and dedication to our athletes.

It's now my pleasure to turn the call over to our CFO, Navdeep Gupta, to review our financial results and our outlook in more detail. After joining the company in 2017 as SVP of Finance and Chief Accounting Officer, Navdeep was appointed to the CFO position last month. Navdeep's impact on our business has been phenomenal. Over the last 4 years, he's led most of the finance functions in the organization, and he's become a trusted partner to our entire executive team. He's also driven company-wide productivity efforts, served on our long-term strategic committee, and he played a really critical role in securing financing at the outset of COVID.

Prior to DICK'S, Navdeep spent 11 years at Advance Auto Parts in various leadership roles, most recently serving as Senior Vice President of Finance. Earlier in his career, Navdeep held a variety of management roles at Sprint Nextel, and he served as a lieutenant in the Indian Navy. Navdeep's keen financial acumen and strategic vision will be instrumental to the continued growth and success of DICK'S.

And with that, Navdeep, it is my pleasure to hand it over to you.

Navdeep Gupta
Executive VP & CFO

Thank you, Lauren, for that very kind introduction.

Good morning, everyone. It's great to be here on today's call, and I'm looking forward to continuing to work with each of you. With 3 quarters of the year now behind us, our consistent strong results have demonstrated our ability to serve our athletes in a very differentiated way while driving towards another record sales and earnings year in 2021.

Let's begin with a brief review of our third quarter results. Like Lauren said, we are excited to report a consolidated sales increase of 13.9% to approximately $2.75 billion. Consolidated same-store sales increased 12.2% on top of a 23.2% increase in the same period last year and a 6% increase in Q3 of 2019. Our strong comps were driven by growth across each of our 3 primary categories of hardlines, apparel and footwear as well as an 8.5% increase in transaction and a 3.7% increase in average ticket.

When compared to 2019, consolidated sales increased 40%. Our brick-and-mortar stores comped up approximately 15% versus 2020 and delivered a 31% sales increase when compared to 2019 with roughly the same square footage. Our e-commerce sales increased 1% versus last year on top of a 95% online sales increase in the third quarter of 2020. Compared to Q3 of 2019, our e-commerce sales increased 97%. As a percent of total net sales, our online business has grown from 13% in 2019 to 19% in the current quarter. E-commerce penetration was 21% last year.

Moving to gross profit. Gross profit in the third quarter was $1.06 billion or 38.45% of net sales and improved 354 basis points compared to last year. This improvement was driven by merchandise margin rate expansion of 301 basis points and leverage on fixed occupancy costs of 111 basis points from sales increase. The increase in merchandise margin was primarily driven by fewer promotions due to our increasingly differentiated assortment and disciplined promotional strategy as certain categories in the marketplace continue to be supply constrained. We also saw a favorable sales mix.

In addition, we were able to pass through selective price increases to help cover merchandise cost increases from higher supply chain and input costs. As expected, these improvements were partially offset by higher freight costs resulting from global supply chain disruptions and our prioritization of inventory availability over costs.

Compared to 2019, gross profit as a percent of net sales improved 886 basis points, driven by merchandise margin rate expansion of 578 basis points due to fewer promotions as well as leverage on fixed occupancy costs of 370 basis points, which, again, was partially offset by higher freight costs.

SG&A expenses were $631.9 million or 23% of net sales, however, leveraged 151 basis points compared to last year due primarily to the increase in sales. SG&A dollars increased $40.8 million due primarily to current year cost increases to support the growth in sales. In the prior year quarter, SG&A included $43 million of COVID-related 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 increases and higher wage minimums, partially offsetting last year's COVID-related costs.

Compared to 2019 and on a non-GAAP basis, SG&A expenses as a percentage of net sales leveraged 325 basis points due primarily to the increase in sales. SG&A dollars increased $116.8 million due to increase in store payroll and operating expenses to support the increase in sales as well as hourly wage rate investments.

Driven by our strong sales and gross margin rate expansion, non-GAAP EBT was $415.6 million or 15.12% of net sales and increased $171.8 million or 501 basis points from the same period last year. Compared to 2019, non-GAAP EBT increased $355.6 million or approximately 1,200 basis points as a percentage of net sales.

In total, we delivered a non-GAAP earnings per diluted share of $3.19. This compares to a non-GAAP earnings per diluted share of $2.01 last year, a 59% year-over-year increase; and a non-GAAP earnings per diluted share of $0.52 in 2019, a 513% increase.

On a GAAP basis, our earnings per diluted share were $2.78. This included $7.7 million in noncash interest expense as well as 12.8 million additional shares that we have designed to be offset by our bond hedge at settlement but are required in the GAAP diluted share calculation. Both of these are related to our convertible notes we issued in Q1 of 2020. For additional details on this, you can refer to the non-GAAP reconciliation tables of our press release that we issued this morning.

Now looking to our balance sheet. We are in a strong financial position, ending Q3 with approximately $1.37 billion of cash and cash equivalents and no borrowings on our $1.855 billion revolving credit facility. Our quarter-end inventory levels increased 7.3% compared to end of Q3 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 at least in the fourth quarter and have included the impact of this within our outlook. To reiterate Lauren's comment, while there will continue to be supply chain challenges across the marketplace, we feel that we are very well positioned within our industry this holiday season.

Turning to our third quarter capital allocation. During the quarter, net capital expenditures were $54.1 million. We paid $503 million in dividends, which included a special dividend of $5.50 per share that we announced last quarter. We also repurchased 2.17 million shares of our stock for approximately $273 million at an average price of $125.80. We have approximately $605 million remaining under our share repurchase program. Year-to-date, we have returned nearly $1 billion to shareholders through dividends and share repurchases. Looking ahead, we will continue to invest in the profitable growth of our business while maintaining an appropriate level of cash on the balance sheet. Returning capital to shareholders will also continue to be an important component of our capital allocation strategy.

Now let me move on to our fiscal 2021 outlook for sales and earnings. While still early, Q4 is off to a strong start. Taking this into account, along with our significant Q3 results and expectation of a continued strong consumer demand and our confidence in our ability to navigate the global supply chain challenges, we are raising our consolidated same-store sales guidance and now expect the full year comp sales to increase by 24% to 25% compared to our prior expectation of up 18% to 20%. This is on top of 9.9% increase in consolidated same-store sales last year and a 3.7% increase in 2019. At the midpoint, our updated comp sales guidance represents a 39% sales increase versus 2019 compared to our prior expectation of up 33%.

On a non-GAAP EBT basis, we expect the full year results to be in the range of $1.89 billion to $1.92 billion compared to our prior outlook of $1.61 billion to $1.67 billion, which, at midpoint and on a non-GAAP basis, is up 333% versus 2019 and up 160% versus 2020. At the midpoint, non-GAAP EBT margin is expected to be approximately 15.7%.

Within this, gross margin is expected to increase versus both 2019 and 2020, driven by leverage on fixed expenses and higher merchandise margins. This assumes higher freight costs and fewer promotions compared to both 2019 and 2020 for the fourth quarter.

SG&A expenses is expected to leverage versus both 2019 and 2020 due to the significant projected increase in full year sales.

In total, we are raising our full year non-GAAP earnings per diluted share outlook to a range of $14.60 to $14.80 compared to a prior outlook of $12.45 to $12.95. At the midpoint and on a non-GAAP basis, our updated EPS guidance is up 298% versus 2019 and up 140% versus 2020. Our updated earnings guidance is based on 99 million average diluted shares outstanding and an effective tax rate of approximately 23.5%.

In closing, the work that we have done over the past several years to rearchitect our strategy, operations and financial sets us up well to deliver improved value to our shareholders over the long term.
This concludes our prepared remarks. Thank you once again for your interest in DICK'S Sporting Goods. Operator, you may now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman
Morgan Stanley, Research Division

My first question on gross margin. Visibility around maintaining some of these, I don't know, COVID-related gains, is it improving? Do you have a sense of that? And are there any examples of categories where promotions may have come back and you're managing that margin at just a structurally higher level?

Lauren R. Hobart
President, CEO & Director

Simeon, we have -- we feel very strongly about our gross margin improvements because they are not just coming from various COVID-related activity. It's more a result of a very differentiated merchandise assortment that we've put in place over the past several years, so we have been less promotional. But really, the thing that's driving our merchandise margin increases is our product assortment and the fact that these more desirable products don't go on sale so much, and so we do feel long-term confidence in our margin.

Navdeep Gupta
Executive VP & CFO

Yes. Simeon, I will just add to the -- on the promotions that are coming back, we are yet to see a change in the promotional landscape. Especially as we look to Q3, we didn't see a significant change. It's still early in Q4, and we are playing close attention to the landscape overall for the holiday season here.

Simeon Ari Gutman
Morgan Stanley, Research Division

And maybe I'll ask you the follow-up since you have such an easy comparison for your first year as a CFO. Initial planning for '22 on the top line, I just -- I know you won't give us a framework, but is it a year of digestion, reversion? Or do you think the business keeps compounding and grows?

Navdeep Gupta
Executive VP & CFO

Yes. Simeon, thanks for the comment. I think it's a little bit too early for us to guide as yet for '22. As you can expect, we are in the process of creating our internal expectations and budgets for '22. So we will share more in due course.

However, I think -- so the comment that I will definitely say is we feel really strongly about the gains that we have seen all throughout this year, especially in some of the key categories like apparel, footwear, team sports and golf. So those are the core categories for us, and we have definitely gained share this year consistently, and that gives us a lot of confidence as we look to '22.

Operator

And our next question today comes from Warren Cheng with Evercore ISI.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

I was wondering if you can help us think through the normalization, kind of a follow-up to Simeon's question, just the normalization of EBIT margins from what looks to be over 1,000 basis points versus pre-pandemic level this year. So you talked a little bit about the differentiated merchandise assortment. What are the other areas that you feel most confident are structural and sustainable? And where can we see some normalization in 2022?

Navdeep Gupta
Executive VP & CFO

This is Navdeep, so let me take that. The other areas where we feel really strong is actually -- is around the margin management. We have talked about the digital capabilities as well as the analytics capability that we have built over the last couple of years, and the benefits of that are around pricing optimization, promotion optimization as well as clearance margin management. And those are significantly -- something that we feel will elevate our profitability when compared to 2019.

And the other aspect that I want to draw the attention to is the profitability of our e-commerce business. With the curbside capability that was launched during COVID and the strong adoption that we have seen from the athlete, we are very confident that the overall profitability of the e-comm business, which is in line with the overall company's EBT right now, will be a significant permanent uptick in our profitability as we look to the future.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

And I just had a follow-up, just on the partnership with Nike. I was curious if there's an element of data sharing that's going to go into that relationship, either on the customer data side or on the [seller] side? And are there -- also, are there any implications for inventory integration as part of that partnership?

Lauren R. Hobart
President, CEO & Director

Warren, yes. So we are really excited about the new partnership with Nike, which is for everyone's benefit, this is a transformational moment in our partnership, where we're taking a decades-long partnership and really innovating in the way that we serve our athletes together. ScoreCard users in our app can now connect their ScoreCard to their Nike membership, and that unlocks a tremendous amount of product, experiences, different content. So there's a real -- it opens up a tremendous amount of access to our athletes.

There is some data sharing. The Nike database and the DICK'S database have a significant amount of overlap. Nike is going to get specific Nike-only information. And with that data, we plan to work together to truly create a much more personalized and enriching experience for our combined athletes.

I just want to point out also, I'm very excited that the only way to access this membership is through the DICK'S app, and that inherently is driving people to download and use the DICK'S app which is a key part of our strategy.

Warren Cheng
Evercore ISI Institutional Equities, Research Division

Welcome, Navdeep, and good luck over the holiday.

Navdeep Gupta
Executive VP & CFO

Thanks, Warren.

Operator

And our next question today comes from Robby Ohmes with Bank of America.

Robert Frederick Ohmes
BofA Securities, Research Division

Two questions for me. First is maybe, Lauren, could you -- maybe to help us understand the supply chain environment, can you talk about the differences between what you've seen in supply chain in your private label business versus with your brand partners?

And then my other question is I think -- I forgot who mentioned the favorable sales mix benefit for the quarter. What was favorable to the gross margin from a sales mix perspective? And also price increases were mentioned. Can you talk a little bit about where you're taking price increases and where -- how much inflation might have helped the same-store sales this quarter?

Lauren R. Hobart
President, CEO & Director

Thanks, Robby. I'll start off. I'm sure Navdeep will weigh in. But on the supply chain, we have developed a really amazing muscle across our supply chain organization, both in terms of how we work with our brand partners to really expedite getting product in and with our manufacturing of our vertical brands. So we have become, honestly, very creative in terms of how we bring product in, and we are doing -- we are prioritizing product over costs. And we've got that all baked into our guidance, but we want to make sure we keep that flow of product coming, and that's why we're up 7.3% in inventory going into this quarter.

In terms of where we're taking price increases, I wanted to mention a couple of things. We are gaining share -- and also our sales mix. We're gaining share across the board in all of our key categories of footwear, apparel, team sports and golf. And footwear, in particular, is really, really strong, and we're very excited about that. When we look at our comp numbers for this quarter at 12.2%, 8.5% of that increase was due to an increase in transactions. So 2/3 of our comp was coming from additional transactions, either in our stores or on our e-commerce site. So inflation was a very minimal part of the story. The remaining 3.7% of our comp came from some reduction in promotions, and we did pass along some select cost increases in our hardlines categories. But overall, inflation was not the big driver of our comps this quarter.

Navdeep Gupta
Executive VP & CFO

Yes, Robby, let me take the favorable sales mix and price increases. So like we said that the merchandise margin rate expanded 301 basis points. However, the bigger driver of this margin rate expansion was actually fewer promotions and the differentiated assortment. There was a slight favorable mix as well, as you can imagine, like Lauren shared, right? We saw great growth in our key categories like footwear and apparel that tend to have a higher margin, and that was the favorable mix. But the bigger story was much more about the full price selling from differentiated assortment and lower promotions.

In terms of the price increases, the only price increases that we have seen, and it's been not material, is in the hardlines category, and that's where we are selectively pricing -- passing some of the cost -- price increases to our athletes, but again, really, really small factor in the overall story for Q3.

Operator

And ladies and gentlemen, our next question comes from Adrienne Yih with Barclays.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Congrats on another really standout quarter. Lauren, I was -- I guess my kind of high-level question is you're in a very rare position of [excess] margins well above inflation to be able to invest in IT, CapEx projects, marketing. Can you talk about where you're putting those dollars to stay ahead of the competition?

And then, Navdeep, welcome. Good to talk to you again. Can you talk about the AHR, the average hourly rate minimum, that you kind of just invested in? Where are you now? And maybe some stats on turnover, employee happiness, et cetera and how that's also advantaging you?

Lauren R. Hobart
President, CEO & Director

Adrienne, good to talk to you. We have been investing in our business for the long term for many, many years now, and that's part of this overall transformation that we've been on since 2017. We've invested in our store footprint. We've made our stores more experiential. We've elevated the footwear decks and the golf areas and a huge baseball attack team. We're investing in technology. So that when the pandemic happened, we were able to spin up curbside and we're able to leverage our entire omnichannel ecosystem.

So we continue to invest in all aspects of our entire omnichannel system. I'll let Navdeep speak to the hourly minimums. However, I do want to say that we have become what I would say as an employer of choice, and our retention is lower, and we're really well staffed going into the holiday. So we feel really good about the way we are engaging with our teammates and how we're going to be staffed going forward.

Navdeep Gupta
Executive VP & CFO

Adrienne, to hit upon the average wage rate minimum, so I would say 2 things. One, as you recall, we gave what we call as hero pay last year, and when we transitioned away from the hero pay at the beginning of this year, we gave accelerating as well as an increasing merit increases to our hourly teammates. We did another similar change here in middle of this year, and our intent here is to continue to provide a very competitive wage within the market that we operate and find the right talent that we need to be able to provide a differentiated experience to our athletes as they walk into the store. So we don't look at it necessarily to say what is the starting minimum wage rates. We pay more attention to finding the right talent and making sure we can provide a differentiated experience to our athletes as they come into the store.

Lauren R. Hobart
President, CEO & Director

Adrienne, I want to correct one thing. I think I ended up saying that retention is higher. What I meant is we're retaining more people, so we are keeping more employees in our ecosystem.

Adrienne Eugenia Yih-Tennant
Barclays Bank PLC, Research Division

Fantastic. Great stuff, and best of luck for holiday, and happy Thanksgiving.

Operator

And our next question today comes from John Kernan with Cowen.

John David Kernan
Cowen and Company, LLC, Research Division

Navdeep, it's great to get started with you on these calls. Maybe if you could quantify the impact from supply chain, just on -- from a sales or cost perspective. Any thoughts on the freight impact from a margin perspective in the back half of this year? And as we go into next year, what's your assumption in terms of when freight costs start to normalize?

Navdeep Gupta
Executive VP & CFO

Yes. John, I think, first of all, thanks for the comment and the call-out. In terms of the supply chain impact, we called it out that, in Q3, it was an unfavorable impact, not significant, but it was included in the results that we set for Q3. I think it's going to be a little bit more pronounced as we look to Q4 as we are continuing to prioritize the availability over the supply chain expenses. And that increase has been, again, contemplated in our guidance.

And to look beyond, I think, the overall situation remains really fluid, and we'll continue to monitor really closely to make sure we are doing the prudent decisions between the supply chain expenses and the price increases. However, we feel that this disruptive kind of the place will remain here at least into the first half of 2022. But we'll continue to pay close attention to it.

John David Kernan
Cowen and Company, LLC, Research Division

Understood. Just my follow-up goes in a different direction. Just on capital allocation. Pre-COVID, DICK'S was an organization that ran with pretty lean levels of cash on the balance sheet and was opportunistic in terms of returning cash to shareholders through dividends and buybacks and also reinvesting in the business. By the end of this year, it looks like you could have $1.8 billion in cash, $1.4 billion or so in net cash. How should we think about share buyback, capital allocation and the dividend as we go into next year?

Navdeep Gupta
Executive VP & CFO

Yes. John, first of all, I would say that we are very, very happy with the fact that we were able to return nearly $1 billion of excess cash to the shareholders this year between the special dividend, the normal dividend as well as the share buyback. And as you called out, I think that one of the things that we have learned through pandemic is to make sure that we have more than sufficient level of cash on the balance sheet. So we -- like I said in my prepared comments, we will keep appropriate level of cash on the balance sheet as we continue to look to the immediate future.

In terms of returning the excess cash to the shareholders, we'll continue to do what we have done always, that we will look to continue to grow our dividends and continue to opportunistically buy shares. I feel like when you look at the kind of the elevated levels of cash that you may be seeing on the balance sheet, we feel like the -- our working capital is continuing to be an area where we need to invest and because the demand continues to remain strong and we are flowing the product that is from the supply chain perspective. However, the in-stock potentially has some opportunities that we are working through. So the areas of investment for us would be continuing to work on working capital, and like Lauren called out, continuing to build some of the new differentiating capabilities that we have been investing in.

Operator

And our next question today comes from Michael Baker at D.A. Davidson.

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

Just a couple. First, not to be so short-term-focused, but can you just tell us, is your fourth quarter outlook -- how does that compare to how you thought about the fourth quarter when you gave the back-half outlook or the implied back-half outlook 3 months ago? Are you more confident, less confident, equally confident in what you're seeing in front of the holidays?

Lauren R. Hobart
President, CEO & Director

Michael, yes, we are much more confident. And in fact, that's why we've taken up our full year guidance to that comp of up 24% to 25%. We feel as we've gotten closer and we were always concerned about supply chain and now that we can see how the quarter is going to shape up from an inventory standpoint, we feel really good about the quarter and have taken the guidance up.

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

Okay. Great. That's helpful. One more. This is more of a bigger-picture one since I just asked a short-term question. Can you talk about or quantify or conceptualize in any way the percent of product today that you would consider to be differentiated, either because it's a vertical brand or it's one of those exclusive products that you're getting from your vendors, compared to where it was, I don't know, pick a year, last year, 2017, when you started this transformation? Just some way to sort of conceptualize that would be great, if possible.

Lauren R. Hobart
President, CEO & Director

Yes. It's a great question. We are significantly more distinctive in our product assortment than we were a few years ago and versus 2017, meaningfully more so. If you think about the fact that before we even had footwear decks, we just did not get an allocated or high-heat access to product at all. And our vertical brands continue to grow and gain share. So we're not going to provide the number, but it is a meaningful increase, such that we feel like it's a key driver of our margin rate expansion go forward.

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

Fair enough. One more quick one, if I could. Just any color on team sports versus some of the categories that were really strong over COVID like maybe kayaks or bicycles? How -- I imagine team sports are much better than we were a year ago. Are some of those other areas holding up even as we're moving further away from the pop at the beginning of the pandemic? So if you could sort of talk about, that would be great.

Lauren R. Hobart
President, CEO & Director

Yes. It's a really great question. I think it's a really important question. When you look at the increases that we had from what you would maybe say COVID categories, surging categories, you mentioned kayaks and bikes, but you could say fitness as well, those -- every single category has meaningfully re-baselined versus what the pre-pandemic levels were. That's true of golf as well.

Team sports, in particular, has come back guns blazing, that's the wrong expression, but come back really, really strong as people are really valuing their time outdoors, and we're seeing team sports across every single business really, really pick up. At the same time, those other categories are holding their own and are significantly higher than they were 2 years ago. So that's a meaningful part of our comp story.

Operator

And our next question today comes from Christopher Horvers with JPMorgan.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

So my first question is -- there are certain categories that are more exposed to areas like Vietnam. Can you talk about what your expectations are around footwear and golf in terms of the risk that you could see increased out-of-stocks as you proceed towards Christmas? And then related to that, there's been a lot of media coverage around potential pull forward of demand. How are you thinking about how the holiday season and fourth quarter might progress?

Lauren R. Hobart
President, CEO & Director

Yes. So we've been managing supply chain challenges for the entire time of the pandemic. And the more recent challenges that you referred to in Vietnam in Southeast Asia, we have been aware of, managing through with our key brand partners, and we do feel we're in a position to continue to gain share and have great access to product. So as you look at out-of-stocks for Christmas, not a concern related to those issues, and we feel really good about the inventory levels that we have.

As for consumers pull forward demand, so far, in Q3, we didn't think that was the case. We don't think that's the case. Obviously, we have Thanksgiving this weekend. Anecdotally, the news is buzzing about lack of product availability across every single retailer, so I imagine there will be some pull forward. But time will tell, and we'll look at how the quarter shapes out.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

Got it. And then as you think about some other categories, as you get into '22, are there any categories where you say, you know what, like the momentum in this category can continue to accelerate for one reason or another. Maybe it wasn't a COVID beneficiary category. Maybe it's better allocations from vendors, maybe it's more from sort of pricing and promotional management.

Lauren R. Hobart
President, CEO & Director

Yes. I think this is another really important question, but we believe that all of our key categories, be it footwear, apparel, team sports, golf, can continue to gain share and continue to accelerate. We have differentiated our assortment, such that we do -- we have brought in 8.5 million new customers last year and another 1.7 million this past year -- this past quarter, and we're retaining those customers. And at the same time, the national brand partners have been very vocal about the fact that they're narrowing distribution and going to be focused on strategic partners. And we are fortunate to be in a position where we are strategic partners through all of the key brands in the category. So I believe we're going to see continued momentum in key categories and share gains.

Christopher Michael Horvers
JPMorgan Chase & Co, Research Division

So I guess, just to put a fine point on that, do you -- so do you expect that you could see growth from a top line perspective in '22?

Lauren R. Hobart
President, CEO & Director

So we're not going to guide to '22 right now. We do feel confident that we've meaningfully re-baselined versus 2019 and that our profitability has meaningfully expanded since that time. But we're going to have to wait to guide to '22.

Operator

And our next question today comes from, and pardon the pronunciation, Paul Lejuez with Citi.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Curious, are you seeing higher prices from vendors outside of the hard goods category like apparel and footwear as you look out for the first half of '22? And what's the plan for pricing in those categories specifically?

And then second, just curious, just high level where you think your market share is coming from and how that might differ on a category-by-category basis.

Lauren R. Hobart
President, CEO & Director

Yes. Our strategy going into next year is going to be to work with our vendor partners and manage pricing, keeping in mind the balance between what's right for the customer and what's right for the business. And so we will continue to manage that as we go forward and assess where the pricing is coming in.

Our market share gains, as I just mentioned, we believe are coming from multiple places. It's coming from our differentiated assortment, maybe -- and perhaps categories like footwear. But if you look across other categories, we are gaining market share in virtually every category in which we compete, and we feel really, really confident about that.

Navdeep Gupta
Executive VP & CFO

Paul, this is Navdeep. Let me add 2 quick comments on the share gain. So we have -- as you all have heard and we have experienced this as well, there is narrowing of distribution by our key national brands which is also helping us gain some share. As well as what Lauren talks about a lot, in terms of providing better assortment, service and experiences in our store is actually helping us attract a lot of new athletes to our database as well as to our company and which is allowing us to gain share in some of the core categories like footwear, apparel, team sports as well as golf.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Got it. Just to follow up on the new customers that you gained last year. Anything you could share in terms of their shopping behavior and what they look like in year 2 of being a DICK's customer versus year 1?

Lauren R. Hobart
President, CEO & Director

Yes. So we have been delighted with how many athletes we've brought into the ecosystem, and we're also really happy about how many of them we're retaining. They are coming in through every channel, be it stores, be it e-comm, curbside within e-comm. So each of the channels is doing well, and they are repeating at great rates.

The one thing that's of note that we're very pleased with is that the demographic of the newer customers that we've brought in skews slightly more female, and we've had a ton of initiatives around women and girl team sport athletes as well as athletic female. And as well, they skew a little bit younger, which I think has something to do with our expanded assortment of hot products. And they skew a little bit more urban, which we think has to do with the urbanization that happened during the pandemic and people experiencing the brand for the first time. So it's a really good group of new customers. We're working incredibly hard and passionately to retain them and keep them satisfied.

Operator

And our next question today comes from Chuck Grom at Gordon Haskett.

Charles P. Grom
Gordon Haskett Research Advisors

I know you guys talked about the store being more experiential as part of the success of the story here. I'm wondering if there's anything that you're seeing early on in the House of Sport or Public Lands that you think you could roll over into the typical DICK'S store format?

Lauren R. Hobart
President, CEO & Director

Yes. Thanks, Chuck. We are seeing great results from our approach with regard to experience, and that's true across our core DICK'S stores. So our baseball attack team a few years ago, we brought HitTrax into the store, and that's gaining traction, and we have experience in the golf department and [throughout this].

And then if you look at House of Sport, we've elevated further experiences. We have a rock-climbing wall. We have a track and field outside. We've elevated the service model, and the golf experience at that store is top-notch and rivals any specialty.

So all of those things are giving us ideas and lessons to bring into the DICK'S store. One example is the service model and the fitting room experience at House of Sport is very different and very elevated than what you've seen in the past at DICK'S, and we'll be bringing things like that into the DICK'S stores.

Charles P. Grom
Gordon Haskett Research Advisors

Okay. That's helpful. And then just one near-term question for you guys. I'm just trying to reconcile your comments that the fourth quarter is off to a great start with your implicit fourth quarter comp guide, which, on the stack, looks like it's a pretty big deceleration. I presume that's just the status of being conservative, given that it's still early in the quarter, but I just wanted to see if you could just squash that up for us.

Lauren R. Hobart
President, CEO & Director

Yes. So we have taken our guidance up significantly as we get closer to the quarter and we are more confident in our inventory levels. I think one thing to note is that even at the midpoint of our guidance, the sales are up 23% to LLY, and we are expecting this to be a much more non-promotional quarter than previous holidays. So there probably is some conservatism baked in. We're still going up and down with the challenges to make sure we have the exact perfect product for everybody that comes in, but we are really feeling good and increasing our guidance each quarter on Q4.

Operator

And the next question today comes from Michael Lasser, UBS.

Michael Lasser
UBS Investment Bank, Research Division

Recognizing that the business has transformed since 2017, your sales are going to be up by maybe 1/3 since that time, and your EBIT probably triples or double -- or quadruples since that time. The debate really is what's a sustainable level, recognizing that you're averse to giving us some long-term margin target. Is there a minimum operating margin that you think is realistic for the business? Is it the 8% operating margin that you did in 2020 when your stores were closed for a period of time?

Navdeep Gupta
Executive VP & CFO

Michael, this is Navdeep. I think there are 2 things I would say to that. First of all, like we are working through our long-term guidance. Having said that, what we feel internally very confident that our business has significantly baselined higher than where 2019 was. So if you think about the athlete demand, the capabilities that we have talked about as well as the profitability of the e-comm business is at a whole different level. So that's where we feel very confident that the business has significantly baselined much, much, much higher than where it was back even in 2019. So we'll continue to provide more guidance, but we feel very confident about that.

Michael Lasser
UBS Investment Bank, Research Division

My follow-up question is can you frame out any potential investments that you think are on the horizon in 2022, investing in experiential new stores? The labor market is likely to remain tight. All else being equal, if your sales were flat, do you think you could maintain this operating margin next year?

Navdeep Gupta
Executive VP & CFO

Yes. I won't provide any further guidance on '22. But to answer your question where we will be investing, I think the big areas of investment will continue to be in our footwear -- premium full-service footwear expansion. Those have done really well, and we'll continue to invest in similar experiences and both in stores as well as building the capabilities within our e-commerce as well as on the technology side.

Operator

Our next question today comes from Sam Poser with Williams Trading.

Samuel Marc Poser
Williams Trading, LLC, Research Division

I've got a handful here. One, what percent of your business, this is a 2-parter, is your loyalty customer doing right now? And have you seen the newer loyalty customers who've been signed up over the last year, almost 2 years now, be more active than the customers that had signed up previously?

Lauren R. Hobart
President, CEO & Director

Yes. The percentage of our business that's actually in the ScoreCard database as a percentage of our transactions is over 70% and continues to be growing and strong. And we have seen new ScoreCard customers be more active. You see that in the results that we have and the growing comps. So yes, they are more active. They are more omnichannel and more profitable.

Samuel Marc Poser
Williams Trading, LLC, Research Division

And then -- this is a 2-parter again. Nike -- the partnership with Nike, I noticed online that you were getting access to some product that isn't normally as accessible in your channel. So are -- with the partnership, are you going to be seeing a larger degree of, I'll call it, launch-type product?

And then secondly, given the supply chain constraints or disruptions, how -- it sounds to me like your priority with your -- you have a very, very high priority with your vendors to be able to have the inventories you have and to feel confident. Should we view that there's any change in sort of the type of inventory levels going into the beginning of next year because that appears to be when the real product availability issues may become a little more bigger, I guess, is the better way -- best way to put it?

Lauren R. Hobart
President, CEO & Director

Yes. So to answer the first part of your question, you're correct. We are going to see and we already are seeing a larger degree of launch-type product in that connected membership experience. And we've also connected our inventory across the board, so we should be seeing the benefits of that. We are being prioritized by vendors and our strategic partners. And so obviously, it's too soon for us to guide into 2022 and some of the supply chain issues that have been going on for the last 2 years will continue. They continue to change, but we're well prepared to deliver a good customer experience.

Operator

And our next question comes from Seth Basham with Wedbush Securities.

Seth Mckain Basham
Wedbush Securities Inc., Research Division

Not to be too short-term focused. But just thinking about the implied guidance for the fourth quarter, obviously, it implies a pretty material slowdown in the top line but also much less margin expansion. Other than more limited leverage of fixed cost and a little bit more freight pressure, are there any other headwinds that you're experiencing in the fourth quarter guide?

Navdeep Gupta
Executive VP & CFO

Yes. Seth, this is Navdeep. I think you nailed the 2 of the biggest areas as you look at the profitability of the business. Outside of those, we feel really good that we'll be able to continue to manage. And potentially another area that we are looking into would be advertising, considering that this is a peak holiday season, and advertising would be another area that I would briefly call.

Seth Mckain Basham
Wedbush Securities Inc., Research Division

Got it, helpful. And my follow-up question is just around some of the new concepts like House of Sport and Public Lands. Do you have enough confidence in how those new concepts are performing that you'll accelerate store openings in 2022 and beyond?

Lauren R. Hobart
President, CEO & Director

We are really confident in both House of Sport and Public Lands, and we do have stores being prepared to open next year for both concepts. So we will continue appropriately to grow the concepts while we optimize them and expand them.

Navdeep Gupta
Executive VP & CFO

Yes. Seth, I would add that, in addition to opening new stores, we also have some of the conversion opportunities on our existing stores, so it's a relocation, conversion as well as new store opening opportunity when we look at the new concepts.

Operator

And ladies and gentlemen, today's final question comes from Joe Feldman at Telsey Advisory Group.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Had a question about e-commerce. I think you made a comment that you're now at the same profitability as the overall business on an EBT basis, and I was just wondering how high you think that could go 1 day. Could it exceed the store-level profitability or I guess it's at bat at this point?

Navdeep Gupta
Executive VP & CFO

Yes. Joe, this is Navdeep. I think, to me, we look at the business in a balanced way because we don't want to drive profitability. We want to look at how good of an experience we are providing to the athlete and how much of a top line opportunity exists. So we are very pleased with the profitability of the business. We still have opportunities to continue to optimize, but then we will look at balancing that against the sales expectation from that channel.

Joseph Isaac Feldman
Telsey Advisory Group LLC

Yes. Got it. And then just one quick follow-up. I know you've talked a lot about inventory being in pretty good position, but we keep hearing so much about footwear being under so much stress. And it sounds like you guys have taken share there. So presumably, you're getting a better allocation than normal. Or what are you seeing on the footwear side maybe that you could share with us?

Lauren R. Hobart
President, CEO & Director

Yes. Joe, I think you're tapping into this increase in market share that we have in footwear due to the strategic relationship we have with our brand partners and also the fact that we've totally transformed the way we serve the footwear athlete in our stores. We've increased the number of footwear premium [full-service] footwear decks. And now with this Nike connected membership, we have access to even higher-heat products than we had before. So yes, we're getting a better allocation than we did in the past.

Operator

And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Lauren Hobart for any closing remarks.

Lauren R. Hobart
President, CEO & Director

Okay. Well, thank you, everybody, for your interest in DICK'S. I hope you have a wonderful holiday season. Happy Thanksgiving, and we'll see you early next year. Thank you.

OperatorAnd thank you. Today's conference has now concluded, and we thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful holiday.