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Market Intelligence

DICK'S Sporting Goods, Inc. NYSE:DKS

Company Conference Presentation

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EXECUTIVES

Lauren R. Hobart
President & Director

Lee J. Belitsky
Executive VP & CFO

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Morgan Stanley, Research Division

Unknown Analyst

Presentation

Simeon Ari Gutman
Morgan Stanley, Research Division

Good afternoon. I'm Simeon Gutman, Morgan Stanley's hardline, broadline and food retail analyst. It's my pleasure to welcome DICK'S Sporting Goods to our conference, their first of what we hope will be many appearances. DICK'S is represented by President, Lauren Hobart; EVP and CFO, Lee Belitsky; and Director of Investor Relations, Nate Gilch.

Pardon the sports pun. So when Tiger Woods won the Masters this year, Jim Nantz, his call was return to glory. And while the people on this stage would probably say that they're not there yet, that's the path that this company is actually back on. And I think it's something that's actively being debated among investors. This was once this high-growth darling, high-multiple name. And the business has gone through a sizable transformation over the past few years: IT; e-com investments; store investments; pruning categories, pruning brands; slowing store growth; and most of all, optimizing their e-commerce experience.

As CEO, Ed Stack, said on the second quarter call, the business has now bent the curve on sales, and now we in the market are looking for the -- bending the curve on profitable growth. And so the 2 executives we have here have been instrumental in this comeback, and we hope to learn more.
I'll kick off the session with one question and I'll sit.

Question and Answer

Simeon Ari Gutman
Morgan Stanley, Research Division

Let's talk about the third quarter, big top line breakout, 6% comp. Can we talk about the drivers and what led up to that and the sustainability going forward?

Lauren R. Hobart
President & Director

So yes, we were very excited about our third quarter and actually the steady progress that we've made every quarter this year. We had a 6% comp, and I think there were several drivers of that. It wasn't just one thing. It wasn't one magic moment or any event that happened.

We have been very focused on what we would call executing the basics, and step 1 of that is getting our inventory to the right level. We were a little too lean for the past several years, and that was creating out-of-stock situations. We were assuming people would shop online and make that up. And in fact, what we have found is that we need to lean into our stores and make sure that they have the right level of investment, the right level of service.

And that actually was the second part of our transformation, is that we put significant investment into our stores in terms of training for teammates as well as a real focus on service. We call the customer the athlete, so serving athletes and engaging them and giving them confidence about their purchase. And that whole service model has become a big part of our journey as well.

Just to build on that quickly, we also have really embraced recognition as a culture, which is a little bit of a change for us in terms of we're really celebrating even the small wins. We call it the extra 1% that everybody does every day that makes a big difference in the scheme of things. And I would say lastly, our marketing has completely transformed. So I feel like all of these different elements have created the flywheel turning, which is why you saw the results you saw this quarter.

Simeon Ari Gutman
Morgan Stanley, Research Division

And we're going to give 10 minutes, I'll stop in about 20 and let the audience chime in. Can we talk about the growth for the sporting goods category broadly? You sell into a bunch of different categories, most of which seem like you're hitting right now, doing well in. But what is the growth broadly? And what should be -- what is the sustainable growth for the industry going forward?

Lee J. Belitsky
Executive VP & CFO

Well, from an industry perspective, we're looking at generally low single-digit growth categories. Certainly, the athleisure trend is continuing and is growing somewhat higher than the low single digits, probably in the mid-single digits. But the sports equipment and footwear is probably a low single-digit grower, pretty, pretty consistently.

Within athletic, the athletic apparel space or athleisure, we believe that even with the growth that's been happening within the space, so the pie is getting larger, we are back to gaining market share there this year, our comps have really been very strong. Comp sales in the athletic apparel space, driven by great relationships that we have with our key brands, Nike and adidas; and real expansion of our private brands, our CALIA and our new DSG line, have really helped to drive the growth in that space.

Team sports is lightly competitive. We've returned to more enthusiast athlete assortments, some better products there that have resonated really well. So it's helped us grab market share in the team sports equipment area.

And footwear has been strong industry-wide, at least over the course of the last quarter or 2. And we've been even stronger than what we've seen in the industry, helped by great product allocations from Nike, along with some Yeezy launches that we had for the first time in the third quarter from adidas. So we're really pleased about where we stand in those product categories in addition to the improved in-stock position that we have in our stores.

Simeon Ari Gutman
Morgan Stanley, Research Division

Can you talk about, for 2019, which categories have you been surprised by the amount of strength versus -- and alternatively, categories that are not as strong as you had expected?

Lee J. Belitsky
Executive VP & CFO

Yes. I'd say the category that has, I'd say, surprised us the most, and we knew we were making big investments, let's say, in athletic apparel and athletic, but we were very bullish on that going into it. But I would say the team sports category and hardlines has been very strong for us this year. I think the continued strength in the hydration category with YETI and Hydro Flask has been very, very powerful for us throughout the year this year as well. And some of the other hardlines equipment -- hardline outdoor equipment categories like bikes and fishing have also been strong. And that was a little surprising because they hadn't been trending that well. So we have a pretty broad swath of our stores performing at a high level. The only real part of the store that's underperforming really is the hunting category, and we've been deemphasizing that.

Simeon Ari Gutman
Morgan Stanley, Research Division

I just want to follow up on the team sports reference and how well it's doing. It seems like DICK'S should be the destination in the marketplace for that. Is the share or the growth that you're seeing because that -- the customer has realized? I mean can you talk about the investment that you've made in that category and also aligning with either teams or local communities to be able to win that business?

Lauren R. Hobart
President & Director

I'll start. I mean baseball is a really good example. It's a category that we've really put focus on. And actually, last year, there was a youth bat change, for any of you guys who have kids. And so everybody had to buy a new bat. So we didn't go into this year thinking that there could be significant growth in that category.

But we've widened our assortment. We've got athletes -- and our in-stock position. And so we've got athletes of all levels coming to the store, and we've also expanded the season because kids are now playing well beyond what you would define as the typical baseball season. They're playing year-round. Just one example. But the team sports have been doing very well. And even football this year surprised us with a strong comp.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. So just jumping to online for a minute. Can you talk about the SKU count that you have online, how does it compare to the store? And then talk about the tail of merchandise that's on the website. And is that going to build? Or is it building over time?

Lee J. Belitsky
Executive VP & CFO

So we have a long tail online, and substantially higher, I don't have the exact SKU count, but many multiples of what we have available in store, and it's continuing to grow. We have stuck to the sporting goods space. So we haven't ventured out like some of the other brands have and put everything in the store. So we have largely full catalogs of product online from most of our key vendors at this point as well as extended sizes and colors in addition to extended items.

Simeon Ari Gutman
Morgan Stanley, Research Division

Going back to hunt, you made a comment about some challenges there. So you removed hunt, I think 125 stores. And there was some disruption in those stores. Does it follow that now comp should reaccelerate as you remerchandise or repurpose that space for other categories?

Lee J. Belitsky
Executive VP & CFO

So during the second quarter, we took the hunting departments out of 125 stores. And third and fourth quarter is kind of the peak hunting season when we sell most of the products. But in the 125 stores that we removed the hunting departments from in Q2, we were able to replace those sales in Q3 at a higher margin rate. So we were very excited about that.

We went in store-by-store with whatever made the most sense from a localized perspective for those individual stores, whether it be the expansion of individual team sports where our license business is in strong markets that might have multiple professional teams that need space for it or expansion of athletic apparel or youth athletic apparel. We kind of went through it store-by-store, developed new plans and expanded those categories where we thought we could grow the business. And so far, it's been successful.

Lauren R. Hobart
President & Director

I think the thing to note is that the stores that we took -- the 125 stores where we took hunt out were the least-penetrated hunt stores. So it was a challenge to remove a whole category, but we -- it was an easier challenge than it might be in some stores.

Simeon Ari Gutman
Morgan Stanley, Research Division

I see. So I guess that begs the next question then. How are you evaluating the likelihood of this occurring in more stores? It sounds like it is a bigger piece of business in other places and probably loyal to certain customers. So how do you think about that in the future?

Lauren R. Hobart
President & Director

We're under a strategic review for our hunt business. It is a business that has been a challenging economic business, low-margin business, very cyclical. And so it is our -- well, we're under strategic review, that's all I'm going to say. Yes.

Simeon Ari Gutman
Morgan Stanley, Research Division

Fair enough. Fair enough. Good. Let's talk about the pipeline of innovation that you see. Can you talk about it at a moment in time today looking forward versus where we were a year ago or so? Is it -- how different is it? And how much stronger are you strategically aligned with your partners and your brands so that the product you're seeing is even more exclusive to DICK'S Sporting Goods?

Lauren R. Hobart
President & Director

You're saying how much is the products that they're coming out with more innovative?

Simeon Ari Gutman
Morgan Stanley, Research Division

Yes. I guess the first part is just how do you feel about the innovation in the pipeline going forward?

Lauren R. Hobart
President & Director

Yes. So we feel really good about the products that we've seen for next year. There's constantly innovation, both in the technology that supports the athlete and then also into new categories. The hydration space is a perfect example. Our strategic relationship with our vendors is definitely at an all-time high. We are collaborating. We are co-creating product together. And we're also very excited about the innovation that we're bringing out with our own private brands. So we just launched a new brand called DSG, which is an opening price point brand of very high quality that can help us kind of get some market share that may have been going to some other retailers. So all across the board, we're very excited about the products that we're seeing.

Simeon Ari Gutman
Morgan Stanley, Research Division

Have you seen historically, I mean, the comps of this business are driven because of innovation?

Lee J. Belitsky
Executive VP & CFO

Innovation plays a large role for sure in comps. There are great -- it's great new product cycles that are out there that helps a great deal, also driven by what's going on in the competitive environment. But certainly innovation, strong innovation, helps.

Simeon Ari Gutman
Morgan Stanley, Research Division

And then sticking with product, private label has been -- I think it's around 14% to 15% of sales. I thought we used to have a target in terms of billions of dollars.

Lauren R. Hobart
President & Director

We have said and still say it can be a $2 billion business for us.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. So -- and the current launches that we see today between DSG, and CALIA is not a launch anymore, but the curve that some of these newer launches are on, do they look as promising as some of the prior launches?

Lee J. Belitsky
Executive VP & CFO

They definitely do. We believe that the DSG brand by -- as we enter the back half of next year will be the largest private brand for us. So we're really enthusiastic. That will be our biggest launch by far that we've ever had. It replaced the Reebok business, which was a license business which was kind of the #2 brand. And it's outperforming that in terms of sales dollars and margin rate. So we're really enthusiastic about it.

Simeon Ari Gutman
Morgan Stanley, Research Division

You've recently launched a new tier in the -- or in the loyalty program, ScoreCard Gold tier. Can you remind us what percentage of sales loyalty members represent? And what percent of the wallet, if that's something you can share?

Lauren R. Hobart
President & Director

Yes. We have a very robust ScoreCard loyalty program. I think we've said before that we have over 20 million members in the program and over 70% of our transactions go through the ScoreCard program, which helps us drive loyalty. But also, it's this enormous database for us that we can use to tap into our customers from a marketing standpoint. So the ScoreCard Gold platform that we just launched is for our best customers, customers who spend over $500 a year or have our credit card. And they will have the opportunity to have exclusive events, additional points. They'll be getting a surprise in the mail very soon, if any of you are ScoreCard Gold members. I'm guessing you are, Simeon. But it's just -- it's a way for us to really reward the loyalty that our best customers have and for us to know when they're coming into the store.

Simeon Ari Gutman
Morgan Stanley, Research Division

How well do you know your customer or your best customer? And how good is the conversion when you're targeting them with a certain type of ads or product?

Lauren R. Hobart
President & Director

On the first part of the question, how well do we know them, we know everything about obviously all of their purchases, and then we have some demographic, assumptive data through all kinds of data matching that goes on. We do try to personalize wherever possible. I mean we try not to send just mass e-mails out. But if you have a kid playing baseball, you're going to get a different cadence of direct mail and e-mail than a customer who's got a kid playing soccer or a runner. Our ScoreCard members are our best customers. So from a conversion standpoint, we can't actually share the specific numbers. But that is -- it's worthwhile for us to invest in our Gold members.

Simeon Ari Gutman
Morgan Stanley, Research Division

And I don't know if this was said in the last quarter, but the acceleration in growth that we've seen last quarter and even the prior, the mix of new customer versus existing versus the number of items that they're purchasing, have we talked about that?

Lee J. Belitsky
Executive VP & CFO

We haven't gotten to that level of detail yet.

Simeon Ari Gutman
Morgan Stanley, Research Division

Fair enough. Okay. I'm going to jump over to tariffs for a minute. Ed mentioned -- you mentioned on the last call that tariffs didn't seem like they'd be a big factor to the business in terms of pricing. Is that because of negotiation with suppliers? Is it because of end pricing? Have you been able to resource a meaningful amount away from China?

Lee J. Belitsky
Executive VP & CFO

So with regard to tariffs, there are a number of avenues we're pursuing there. About 15% of our products, let's say, are private brand. So we control those directly. Most of the apparel is not coming from China right now. The hardlines are. We're having negotiations with those vendors to try to bring the prices down. The exchange rate has been favorable. It's been able to mitigate some of the pressure on tariffs in private brands there. And it really hasn't been much of a factor for us on the apparel side.

With regard to the other 85% of the business, which is what we're buying from national brands, each of those is pursuing their own strategy. And at this point, we're not seeing much at all in the way of price increases being proposed by those vendors to us. So either they're able to move production in some cases, or they've been able to negotiate better deals with their suppliers overseas, or they're absorbing some of the costs themselves. But we're not seeing much cost pressure even going into the early part of next year with regard to tariffs. A couple of small pockets here and there, but we're not seeing anything significant at this point.

Simeon Ari Gutman
Morgan Stanley, Research Division

So pricing to the end consumer in your world hasn't really changed.

Lee J. Belitsky
Executive VP & CFO

A couple of small categories have changed, but it's definitely kind of lower single digits as a percent of penetration in the stores.

Simeon Ari Gutman
Morgan Stanley, Research Division

Yes. It would have been a more appropriate question without the news that maybe we're going to delay on negotiation for a while. I was going to ask, though, if we dial them back, are there -- are you -- is the industry or are you likely to keep what you've increased? But it seems like it's somewhat...

Lee J. Belitsky
Executive VP & CFO

It's been a really small, small category so far.

Simeon Ari Gutman
Morgan Stanley, Research Division

So going back to bending the curve on profitable growth, I want to talk about investments a bit. The business has been in investment mode for a while. I don't think you've been shy to say that it's going to continue. What are the biggest changes? Or what have the investments impacted the most in the business to date?

Lauren R. Hobart
President & Director

The first major investment we made a few years ago was bringing our e-commerce site in-house so that we could control our destiny in terms of e-commerce. And similarly in prior years, or in recent -- more recent years, we've invested in e-commerce fulfillment facilities. As well as in our store, things like the HitTrax baseball experience that we've put in. So we don't think that the investment levels that we have are meaningfully going to change. So it's just sort -- it's more of a steady-state investment, just what we'll be investing in will change.

Simeon Ari Gutman
Morgan Stanley, Research Division

Is the HitTrax investment complete? Or when does that...

Lee J. Belitsky
Executive VP & CFO

So we've got about 170 stores up and running right now. I'd say we'll see slower growth going forward because we've got to open up some space in the stores to make room for it. And we love the experiential factor that we've got in HitTrax with customers coming in with their kids and trying out bats and having a lot of fun with it. And we love driving that experience, but it does take up quite a bit of space. So we've got to carve out some more space. So I'd expect the growth to be a lot slower in HitTrax going forward.

Simeon Ari Gutman
Morgan Stanley, Research Division

And what are some of the next investment priorities?

Lee J. Belitsky
Executive VP & CFO

So from a prioritization perspective, we are going to continue to invest in technology. We've converted over to agile development from waterfall about 2 years ago, building out our product teams there, which I think are allowing us to move much faster in making the kind of systems changes that we need to make to drive better customer experience and to drive productivity in the organization. But we're still in the early stages of that journey.

I think we're in pretty good shape from the e-commerce fulfillment perspective for the next year or 2 there, and we'll be continuing to invest in our stores going forward. We've got some nice comp sales traction. We want to make sure those stores are a great experience for our athletes when they come to shop with us. So we'll be continuing to invest there.

Simeon Ari Gutman
Morgan Stanley, Research Division

And to just put it a different way of asking this unlimited budget type of question. If margins and CapEx didn't matter for a year and you got a free pass, could you go quicker in some of the investments that you're doing to get things done quicker? Or is the organization at its point and you're at a good balance?

Lee J. Belitsky
Executive VP & CFO

I think we're at a good balance right now. If we went quicker, we probably wouldn't execute that well, and we'd probably unfortunately throw away some money along the way if we tried to go faster just because there was more money available. So we're moving pretty fast right now.

Simeon Ari Gutman
Morgan Stanley, Research Division

I want to talk about the service initiative which I think you started talking about 2 quarters ago on the conference -- yes.

Lauren R. Hobart
President & Director

Yes. April is when we rolled it out nationally.

Simeon Ari Gutman
Morgan Stanley, Research Division

And this idea of recognition and motivating and incentivizing people in the store has really, I think, been a big ingredient, as you mentioned. Can you talk about where you are in that effort? Have all stores been "touched" in some way? And then the natural question is when you lap the bump that the morale of this company has changed by, how do you comp that comp?

Lauren R. Hobart
President & Director

Yes. So it has been -- we've been working on it for over a year. It's been more tangibly rolled out since April of this past year, that we have these new service standards and all of our recognition programs. That said, I feel like we are -- despite all the training and the focus on engaging athletes and focus on recognition, we're still in very early innings in terms of the opportunity.

So we look at it -- we're very critical of ourselves -- we look at it like we could continue to improve this meaningfully for some time to come. So I'm not remotely worried about lapping it. I think we're going to be introducing new and different service enhancements, and people's skills are getting better and better in this area. So this will be a focus for some time.

Simeon Ari Gutman

Morgan Stanley, Research Division

Have all stores been -- okay.

Lauren R. Hobart
President & Director

Yes. Sorry, I forgot to answer that question. Yes. All stores have had the same rollout. In fact, we kicked it off in a way that we've never done before, where we had all 40,000 teammates at one time in the stores on a Sunday night to roll it out in a big, big way.

Simeon Ari Gutman
Morgan Stanley, Research Division

So that negates this question, which I was -- how have stores -- how has the performance been in stores that have had the initiatives versus not?

Lauren R. Hobart
President & Director

Yes. Yes.

Simeon Ari Gutman
Morgan Stanley, Research Division

And I guess -- and we're not going to disclose, "Hey, how much service has helped our business?" But do you have a sense of that in a control and saying, "Hey, this has impacted our business by a certain magnitude."

Lauren R. Hobart
President & Director

We can't -- we don't have a test and control on this. It did roll out, and it's the softer stuff of people. We see it in conversion. We see it in our OSAT, which is our customer satisfaction data. And we just continue to believe fully that it's part of the flywheel that's turning now that's driving our comps. And we hear it anecdotally and we see it on social media, so yes.

Simeon Ari Gutman
Morgan Stanley, Research Division

And I imagine it's evident in employee turnover as well.

Lauren R. Hobart
President & Director

Yes. Turnover has improved.

Simeon Ari Gutman
Morgan Stanley, Research Division

Right. I'm going to jump back to some margin questions. So if tariffs are manageable, which it seems like they are, private label is going to be expanding. Inventory is in a better position but you're leaning into it, but it seems to be turning. Why couldn't merchandise margins be flat or up next year? Understanding that you're not guiding 2020 at this point.

Lee J. Belitsky
Executive VP & CFO

Right. So with regard to merchandise margins next year, again, we should be -- have favorability from a mix perspective as the hunt business continues to decline and we replace it with some higher-margin categories. So we're feeling good about that. We're feeling good about the marketing programs that we have in place for next year. We can be much more granular with our promotions using digital marketing than we could historically using newspaper tabs that we've got out of, that you have to commit to large amounts of promotions that fill up a lot of pages. We're out of that now and entirely in digital and direct mail for promotional purposes and electronic media really for branding. So we're excited about that opportunity. And we're continuing to invest in technology around doing smarter pricing as we go. So we're excited about a number of opportunities on the merchandise margin side.

Simeon Ari Gutman
Morgan Stanley, Research Division

And on expenses for this year, you talked about -- or you identified $30 million in expenses to offset some of the investments you're making. Can you size the magnitude of cost opportunities that remain and what the biggest buckets may be?

Lee J. Belitsky
Executive VP & CFO

Yes. Yes. The cost opportunities are probably in the same zone for next year as what we had this year. So optimistic we can keep that going.

Simeon Ari Gutman
Morgan Stanley, Research Division

Got it. I'm going to turn it to the audience to see if there's questions. So feel free to raise your hand. We have mic runners. Please.

Unknown Analyst

So 2 questions, if I may. Number one, how much is the private label mix adding to merch margins?

And then number two, if we think about the strong comps for this year, how much of those are a function of just kind of getting past or lapping the elevated out-of-stocks that you mentioned earlier as opposed to new merchandise offerings or other changes that you're making in-store?

Lee J. Belitsky
Executive VP & CFO

I would say for this year the private label opportunity or the private label mix shift is having a relatively small impact on margin rates this year. The big lift we're getting is in the DSG brand over the Reebok brand, and that really started in the third quarter. We're running much better margins in DSG than we did in Reebok in that replacement, and it's a larger business. And we expect that to continue through the rest of the year this year.

The second part of the question, could you repeat part 2 of the question?

Unknown Analyst

So for the strong comps of this year, can you just break that down here? How much was we're getting past all these elevated out-of-stocks versus other stuff?

Lee J. Belitsky
Executive VP & CFO

Yes. So with regard to in-stock, certainly, our conversion has improved somewhat in stores, which is helping us. But it's a lot more than just a onetime transactional thing. We really believe that if that athlete comes into our store and they're satisfied and they walk out with products in their hand that they can use and they've satisfied their journey, that, that athlete, as we call them, is much more likely to come back to our stores or shop us online because they've had a favorable experience.

So we don't think it's a one-and-done on the lift from that. Although we're not going to be adding any meaningful amount of inventory, we expect inventories to be up a little bit in the first half of the year next year and then level off in the back half. So -- but we think that the positive experience that the athletes are getting by coming in and getting what they want will have a carryover effect into future years as well.

Unknown Analyst

Can you talk about where you feel you are with your customer experience or user experience on the Internet and where you'd like to be? And how you're measuring that balance in experience going into the store, the product not being there, going online, it takes 6 days to get it, how you're able to measure that and measure the engagement and the customer satisfaction based on all those things? And particularly with the Internet, where you feel that you need to be. Maybe it doesn't need to be same-day shipping or whatever, just where you are versus where you think you want to get.

Lauren R. Hobart
President & Director

Yes. I'll take that one. I mentioned that I thought we were in early innings in terms of the service in the store. I think we're also in early innings in terms of our online experience. We in-sourced the platform a couple of years ago, and frankly, the last 2 years have been spent increasing page load times and just things that -- or decreasing page load times, increasing speed. But things that are making checkout an easier process, but not delighting the customer, just kind of getting the basics up and running.

We're moving now into a phase where we're going to be very focused on fulfillment times, so speed to customer. We actually do have already significant penetration of buy online pick up in store that is doubling the e-commerce growth rate in terms of meeting customers where they want to be served in the very same day. And we will be working hard to get that faster. At the same time, bringing our service model to life online, the in-store model and how do we recommend products online, how do we help people pick what's best for them is other things that we're working on in terms of making the experience more holistic.

So I think early innings online, yet we're getting double-digit growth out of that channel as well and feeling great about that channel. But we have much more upside.

Simeon Ari Gutman
Morgan Stanley, Research Division

There's one in the back. And then next, the one in the front.

Unknown Analyst

As we think about just the mix shift to e-commerce, like what percentage of sales is e-commerce now versus in-store? And then as we think about as it relates to the SG&A growth, with e-commerce being more of a variable model, SG&A dollars this year look like they're up kind of mid-single-digit dollar growth year-over-year, unlike a low single-digit positive comp. If we have a similar low single-digit positive comp next year, all else equal, should we expect a similar level of EBIT -- or SG&A dollar growth, given that kind of mix shift to more variable channels and maybe any other investments you're making in the business or -- and then just kind of the standard labor inflation, et cetera?

Lee J. Belitsky
Executive VP & CFO

Okay. So just -- our e-commerce business represents, the last full year, about 15% of our total business, and it is growing from there. And just order of magnitude, the fourth quarter was the biggest quarter last year, it was 23% of the business, and we expect to grow from that level as well. So it's a big business for us. It's growing and it's disproportionate in Q4.

With regard to SG&A expenses and how the e-commerce business affects that, to begin with, our e-commerce business is profitable. Even fully allocated with all admin expenses allocated to it and everything, we make solid EBT levels in our e-commerce business. So we're really pleased with that, and we're looking to improve that as well.

Specifically to the variable cost structure in e-commerce, the variable costs are really on the gross margin line. So we have shipping expense. Most of our products ship for free to the customer and we incur cost to make that delivery to the customer as well. So it's really depressed on the gross profit line, not on the SG&A line. It's actually favorable from a leverage perspective on the SG&A line. So that's not driving SG&A.

SG&A is a different factor this year. We're having a great year. And frankly, we have more incentive comp hitting us this year, and that's what's hitting on the SG&A line. It's a disproportionate hit this year with that.

Unknown Analyst

So as we think about the SG&A dollar, next year growth, it should be at a lower level than this year?

Lee J. Belitsky
Executive VP & CFO

Should be at a lower level. It's not driven by e-commerce at all.

Unknown Analyst

Yes. I have a 3-part question regarding new stores. How many new stores do you intend to open over the next few years?

The second part is, what's the cash-on-cash returns of those new stores initiatives or payback? Whatever metrics you're looking at.

And then what's been the trend the last 3 years versus what you intend to get in terms of returns or payback in the future of -- for new stores?

Lauren R. Hobart
President & Director

New stores. Go for it, Lee.

Lee J. Belitsky
Executive VP & CFO

I guess I'll take that one, too. So I would expect to open 10 to 20 new stores per year and we'll probably close 5 to 10 stores per year. So net new, it's pretty modest growth. In the sporting goods space, there's been a lot of dislocation over the last few years and many competitors have gone out of business, and there are some large retail trade areas that have no sporting good stores at all right now. So there's still some white space out there with good business to be had.

We're generally looking for a 50% cash-on-cash return in that first year. And the minimum threshold to open a new store is an 18% return on investment, fully loaded with corporate expense allocations in there, even covering that in 18%. And we've been successful achieving those levels. We're just waiting for the right economic deals. We're not in a big hurry to open stores now. Some of the markets that we're not in are very expensive real estate markets like New York City, and we're waiting for the right opportunities to enter those markets financially.

Unknown Analyst

Has the trend remained relatively stable?

Lee J. Belitsky
Executive VP & CFO

Yes, pretty stable in certain...

Unknown Analyst

Or it has come down with real estate being a bit more expensive to...

Lee J. Belitsky
Executive VP & CFO

No. The real estate is not getting more expensive right now. The trend of return on investment has been relatively stable, but we've been a lot more selective. So we've opened fewer stores than we have historically because we're just not in a big rush to expand the top line. If we get a great opportunity in a trade area that needs to be served, we're going to go after it. But we don't -- we haven't set kind of an arbitrary goal, we've got to get 20 or 30 stores a year to open. It's just not part of it. We're just waiting for the right deals to come along.

Simeon Ari Gutman
Morgan Stanley, Research Division

Okay. I'm going to -- I guess we have 2.5 minutes. I'm going to give you a 2-part question to close out. First, store comps have returned to positive territory. I think you were asked a similar question on the call about the visibility of store comps staying positive because that seems to be a key element in driving profitable growth.

The second part is DICK'S has put up its -- one of its best comps right after Amazon rolled out its 1-day. To what extent do you think your customer wants or is going to demand 1-day? And how close can DICK'S be in achieving that?

Lauren R. Hobart
President & Director

I'll start with the second one. In terms of 1-day, we do have the ability with buy online pick up in store to get to the customer 1-day. And some of the other retailers are actually including that as 1-day. We don't typically look at it that way. But it is a significantly growing channel, and we will continue to work on speed to customer, fulfillment speed to customer. So it's a big initiative for us. Our FedEx partnership has enabled us to get faster. We're delivering now on Saturdays, soon hopefully, on Sundays.

And we're also going to be inventory-aware so that we will be able to promise to somebody -- right now, we have to promise the worst-case scenario so that we don't disappoint the customer, but many of our products are actually getting there much faster than what we promised on the site. And so soon, when we're more aware of where the inventory is coming from, when the person places the order, we'll be able to say, "You know what? We have that Tempo short in every single store. We'll have it to you in 1 day." And we'll meaningfully move the assortment that way.

Lee J. Belitsky
Executive VP & CFO

All of our stores are enabled to do ship from store. And with 850 stores or so across the country, we're in 1-day range to almost everybody except Alaska and Hawaii in the United States. We don't have the full assortment in every store, but we have the key items, so we should be able to get to 1-day in a pretty good percentage of the orders.

Lauren R. Hobart
President & Director

And relatively inexpensively because...

Lee J. Belitsky
Executive VP & CFO

Yes, relatively inexpensively.

Lauren R. Hobart
President & Director

And your first question about brick-and-mortar comps. Maybe you're asking if we have a crystal ball, are they going to continue? I can't answer that one. But I will say we have had continued strength in the brick-and-mortar stores, and that is where I think you can see the flywheel turning more than anything. It is incredibly positive to see the sales come in, the traffic is positive, and the stores are getting rewarded as such and feeling positive, and the inventory is there to sell. So certainly, that's our goal, is to continue the brick-and-mortar strength. We are leaning into brick-and-mortar stores. We think they're a huge asset for us.

Simeon Ari Gutman
Morgan Stanley, Research Division

Great. On that, we will close. Thank you very much for your time. Have a great holiday season. Thank you.

Lauren R. Hobart
President & Director

Thank you. You, too. Thanks, everybody.

Lee J. Belitsky
Executive VP & CFO
Thank you.