March 24, 2017

Dick's Sporting Goods, Inc: DKS

Edward Stumm

Sector: Consumer Discretionary
Industry: Specialty Retail
Current Price: $46.99
Target Price: $59.78

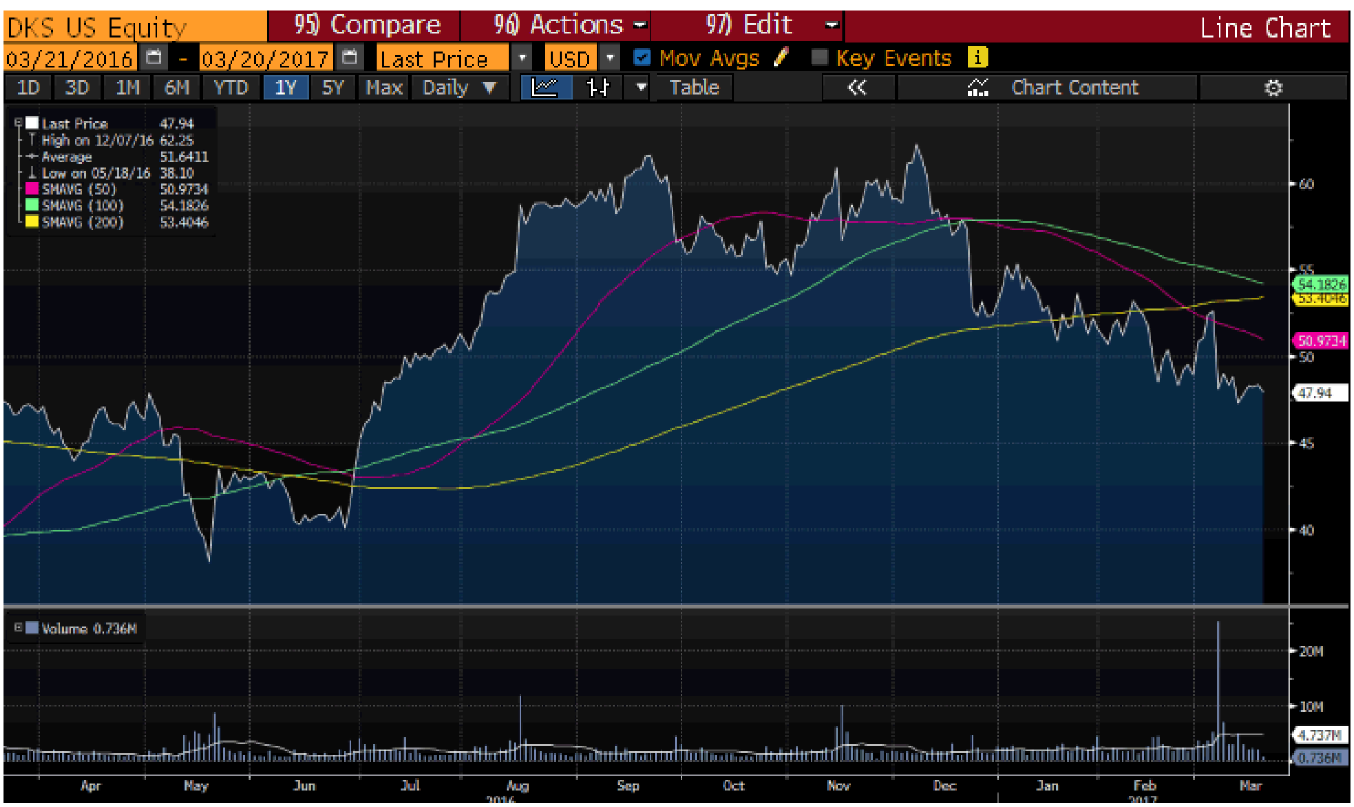
Company Description: Dick's Sporting Goods, Inc. is a sporting goods retailer that operates in the United States. The company offers an extensive assortment of sports equipment, apparel, footwear, and accessories from the top brands. Dick's Sporting Goods, Inc. is headquartered in Pittsburgh, Pennsylvania and was founded in 1948 by Dick Stack.

BUY

Current Price:	$46.99
Target Price:	$59.78
Market Cap:	5.38B
SP Debt Rating:	B+
ROE(LTM):	15.46
Ke:	8.57%
P/E Ratio:	17.94
Net Income Margin:	3.63%
Equity Multiplier:	2.05
Total Asset Turnover:	2.08
Cash/Total Assets:	0.04

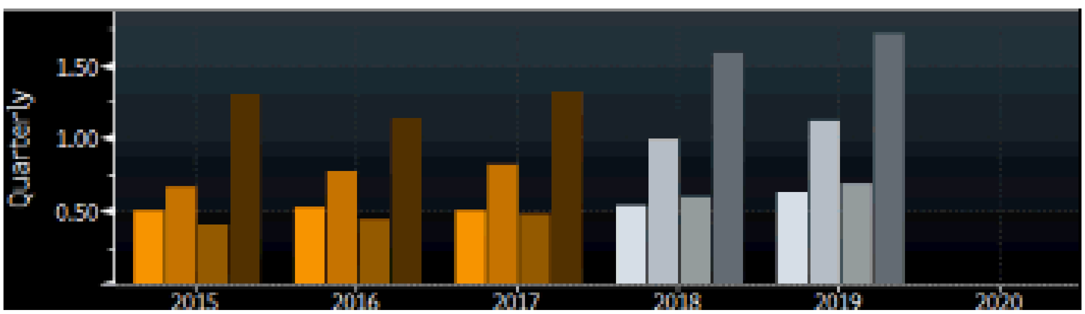
Catalysts:

- Vendor Consolidation and growth of private labels
- Significant investment into the ecommerce business
- Expansion of retail stores



Thesis: Dick's Sporting Goods is currently operating in the specialty retail industry. This industry has seen many companies fold due to the ongoing pressure provided from the ecommerce giant, Amazon. Dick's Sporting Goods has managed to keep solid financials despite these pressures. Through 2017, Dick's Sporting Goods plans to increase their sales in the ecommerce section which went up 27% in 2016 as a result of in housing their platform and ended a long term partnership with eBay. Dick's will also be able to pick up market share that has been uncaptured due to the closure of close competitors over the recent years with an aggressive expansion strategy. The final initiative that Dick's will incorporate to further differentiate themselves from their competitors is the consolidation of up to 20% of their vendors which will help grow margins. Dick's Sporting Goods has made a name for themselves within the United States and remains a formidable opponent for years to come.

Earnings Performance:



Dick's Sporting Goods experienced strong quarterly growth in the 4th quarter. Net income for the quarter was $90 million which is down 30.23 percent from last year's quarter 4. The company saw increase in sales which went up 10.9% to approximately $2.5 billion. Same comp sales increased 5% over from the previous Q4. Gross profit for Q4 was $766 million and went up 85 basis points from the previous Q4 results. To further support the strong growth Dick's Sporting Goods has achieved, they decided to pay 16.7 million in dividends which increased to 12% for the quarter. Dick's also decided to repurchase $29.7 million of stock at an average price of $54.06. Dick's was in the process of beginning the in housing of their new ecommerce platform which resulted in a 26% in sales in 2016. With a positive 4th quarter, Dick's is looking to keep moving forward. In order to achieve this, they are adopting an aggressive expansion strategy which will result in lower first quarter numbers.

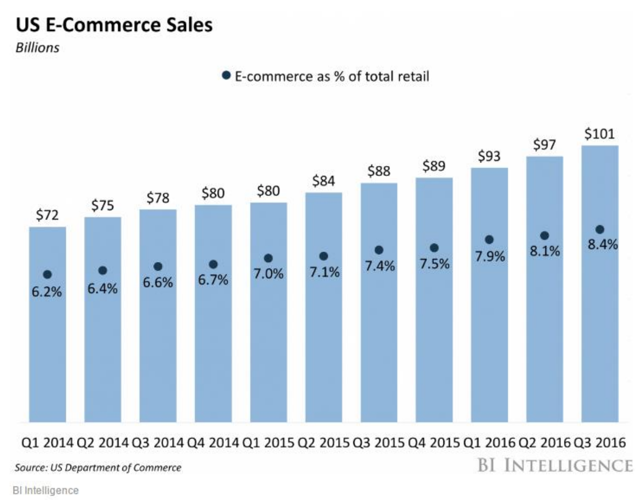
Industry Outlook:

Sporting Goods stores are facing a shrinking industry. This past year multiple stores such as Golfsmith, The Sports Authority, and Sports Chalet filed for bankruptcy leaving dicks Sporting Goods, Inc. as one of the sole survivors. Retail stores are beginning to suffer because of the decrease in foot traffic throughout malls, and the rise in the ecommerce business. As a result, Dicks Sporting Goods has invested more into their online website in order to regain some of the lost business. Dicks Sporting Goods has taken a different approach this year to maintain better inventory costs by reducing their vendors by 20 percent and replacing them with better performing products and private label brands exclusive to Dicks Sporting Goods. There is some light for this industry as sports participation is projected to increase 2.1% up through 2021, and with strategic partnerships such as little league Baseball, little league softball, US Youth Soccer, and Pop Warner Sports, Dicks Sporting Goods will continue to maintain a loyal customer base.

Vendor Consolidation:

Announced during the quarter 4 earnings call, Dicks Sporting Goods will eliminate up to 20 percent of their vendors in a push to further capitalize on the closure of businesses throughout the industry. By removing these vendors that are underperforming, Dicks will be able to give more shelf space to big brand names like Nike and Under Armour, as well as private labels such as Calia by Carrie Underwood, and their own private brand. Dick's is looking to further expand their in house brands which are projected to generate $1 billion over the year. Overhead costs rose 20 percent more than the fourth quarter revenue in 2016 which led to the decision to consolidate the vendors. Overhead costs were one of the factors leading to the closure of rival competitors. This decision will help increase margins over the year. This will also further drive Dick's Sporting Goods to differentiate themselves from competitors. The loyalty program is tailored to draw in customers to continue shopping with the same brand.

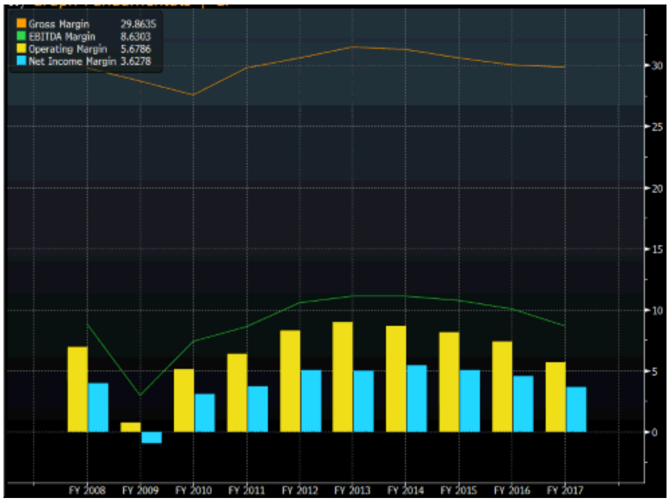
Ecommerce:

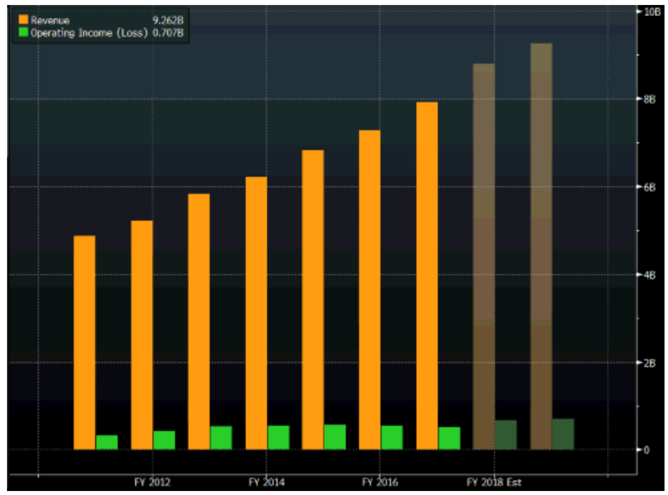


The ecommerce business has been rising since its inception over 40 years ago. It paved the way for the new generation to shop without having to leave home. Over time, the ecommerce business began to rise and with the startup of Amazon in 1994, companies faced the biggest threat of their existence. As seen in the chart, ecommerce sales have risen to a total of 8.4% of total retail sales. Ecommerce has an advantage over brick and mortar stores because ecommerce has the ability to sell goods from a variety of industries, whereas brick and mortar stores sell only what their focus is in. In the sporting industry, many companies such as The Sports Authority, Golfsmith, and Sports Chalet have been driven to closing their doors by the ecommerce industry. Dick's Sporting Goods has taken strides to compete with the ecommerce business by launching a new ecommerce platform of their own. Dick's Sporting Goods originally partnered with eBay to outsource their ecommerce section, but have recently taken it in house in an attempt to gain more control and become more profitable. Sales have increased 27% in the ecommerce section in 2016. The plan is to bring Field and Stream, and Golf Galaxy onto the new platform within 2017. Dick's Sporting Goods is taking steps to make sure they don't end up consolidating like the rest of the industry.

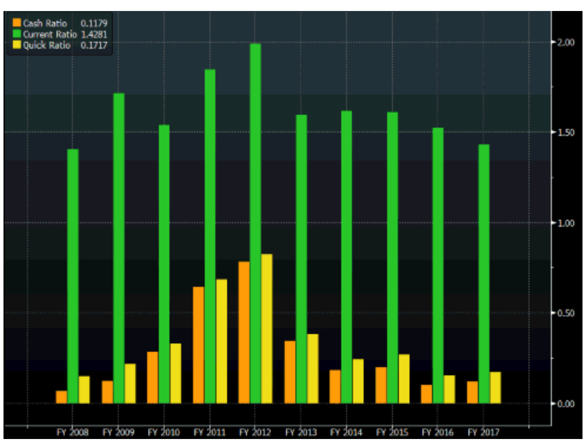
Financials:

Dick's Sporting Goods has seen increasing margins in recent years until about 2014 when margins began to decline. This can be a result of higher supplier costs, or it can be a cause of Dick's having to lower prices to remain competitive with the ecommerce industry. Dick's has taken appropriate measures to begin to increase these margins again by consolidating their vendors up to 20% and selling off the inventory with a $46 million write off. However, Dick's Sporting Goods has continued to grow revenues consistently throughout the years and operating income has remained relatively constant. In order to grow their operating income, Dick's Sporting Goods may need to look for a way to decrease their cost of goods sold which increased at a rate of 9.20% when sales increased at a rate of 8.95%.



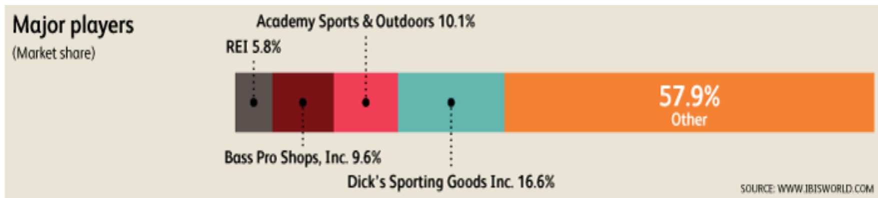


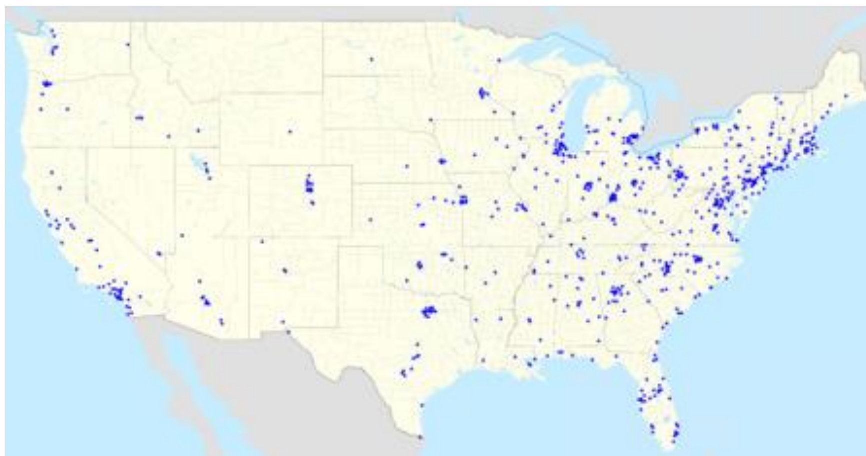
Dick's Sporting Goods is relatively liquid. Their current ratio is consistently above 1, but has been on the decline within the past few fiscal years. This means that Dick's will be able to pay back their short term and long term obligations if need be. Their cash ratio and quick ratio however have not been doing too well, but are projected to increase over the next fiscal year. Their company has kept sufficient cash on hand at $165 million with no current debt. This will benefit the company moving forward with their plans to expand. The company's CAPEX for the quarter was $45 million which was a result of the opening of several new stores.



Expansion:

With the consolidation of many sporting goods stores throughout the industry, Dick's Sporting Goods has seen an opportunity to expand and capture their shares of the market. In 2017, Dick's Sporting Goods is planning to open 43 new Dick's Sporting Goods located primarily in California, Florida, Texas, and the Northwest region of the United States. Management also plans to relocate 7 Dick's Sporting Goods. Dick's has taken an aggressive approach to recapturing the lost market share, and they plan to turn 19 former Sports Authority stores into Dick's Sporting Goods within the first half of the year. On top of the expansion of the Dick's Sporting Goods store, management plans to expand the Golf Galaxy brand, and the Field and Stream brand. In 2017, management plans to open 8 new Field and Stream stores which will be a combo store with Dick's Sporting Goods. Management also plans to open 9 new Golf Galaxy stores, which 8 of them used to be former Golfsmith stores. In total, Dick's Sporting Goods expects to write a $47 million charge to cover the impaired leasehold improvements of 12 stores, and incurring The Sports Authority and Golfsmith integration costs. This aggressive strategy to expand will lead Dick's Sporting Goods to gain market share that was never before possible.





Competitors:

The Sporting Goods Industry has been in a steady decline ever since the inception of ecommerce. Dick's Sporting Goods remains one of the few standing brick and mortar stores who offer such a variety of products ranging from sport to sport, footwear, apparel, etc. Some competitors in the market who have folded due to the pressure of ecommerce are The Sports Authority, Golfsmith, and Sports Chalet. Some of the competitors who are still alive in the industry are Cabela's and Hibbett Sports. Cabela's focuses on hunting and fishing and Hibbett Sports focuses more on the apparel section. In terms of a full blown sporting goods retailer, Dick's Sporting Goods remains the last standing. The biggest competition that Dick's Sporting Goods is facing is Amazon. Amazon has continued to grow their online retail business and offers products at near unbeatable prices. The big question being asked is if Amazon will drive Dick's Sporting Goods out of business as well. Dick's Sporting Goods has taken measures to differentiate themselves from competitors such as Cabela's, Hibbett Sports, and Amazon. For starters, Dick's has increased their sales from their ecommerce by 27% just by in housing their ecommerce platform. Second, Dicks has consolidated their vendors by up to 20% to make room for more profitable brands, private brands such as Calia, and their own private brand. Finally, Dick's Sporting Goods offers equipment for stores specific to their location which helps draw in customers who want to test out the equipment, and get a feel for what they like.

Conclusion:

As a result of the Q4 earnings call, Dick's Sporting Goods stock has fallen nearly 8%. I see this as a buying opportunity since the company has several initiatives in line to increase their margins and further increase business. With the aggressive expansion of their stores, Field and Stream, Golf Galaxy, and Dick's Sporting Goods, the vendor consolidation, and the in housing of their ecommerce platform, I believe this stock will rise to the target price of $59.78.

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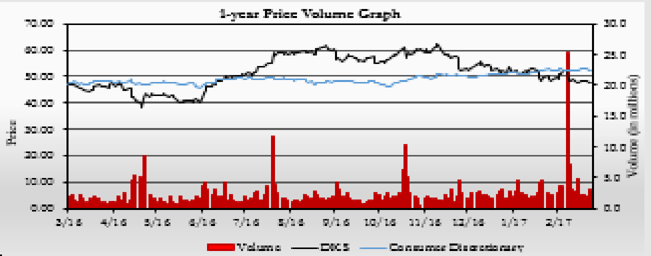
Dick's Sporting Goods, Inc. (DKS) | **BULLISH**

Analysis by Edward Stumm	Current Price:	$46.99	Intrinsic Value	$58.16	Target 1 year Return: 32.63%
3/26/2017	Divident Yield:	2.4%	Target Price	$61.17	Probability of Price Increase: 90



Description

Dick's Sporting Goods, Inc. operates as a sporting goods retailer primarily in the eastern United States.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	5.73%
Effective Tax rate	40%
Effective Operating Tax rate	49%

Market Data

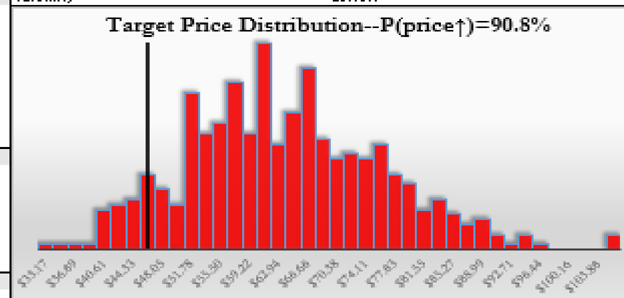
Market Capitalization	$5,300.31
Daily volume (mil)	2.07
Shares outstanding (mil)	112.80
Diluted shares outstanding (mil)	112.22
% shares held by institutions	74%
% shares held by investments Managers	58%
% shares held by hedge funds	11%
% shares held by insiders	19.83%
Short interest	9.15%
Days to cover short interest	3.59
52 week high	$62.88
52-week low	$37.96
Levered Beta	0.66
Volatility	25.83%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
1/30/2016	-5.18%	-9.51%
4/30/2016	-1.16%	-9.58%
7/30/2016	1.83%	7.18%
10/29/2016	0.57%	-4.64%
1/28/2017	-1.25%	-14.64%
Mean	-1.04%	-6.24%
Standard error	1.2%	3.7%

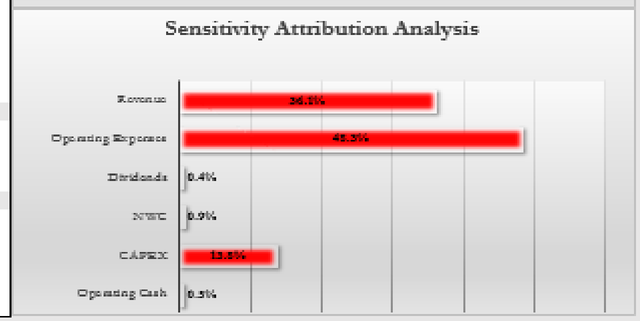
Peers

Tractor Supply Company
Hibbett Sports, Inc.
Cabela's Incorporated
O'Reilly Automotive, Inc.
Advance Auto Parts, Inc.
Foot Locker, Inc.
Bed Bath & Beyond Inc.
Williams-Sonoma, Inc.

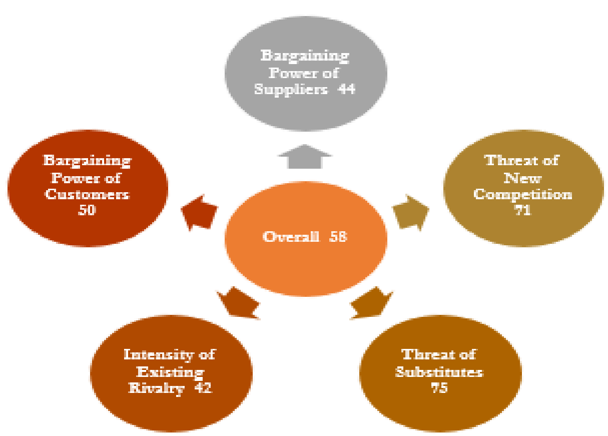


Management	Position	Total compensation growth	Total return to shareholders
Stack, Edward	Chairman and Chief Executive	-100% per annum over 4y	3.83% per annum over 4y
Belitsky, Lee	Chief Financial Officer and	-100% per annum over 1y	-23.27% per annum over 1y
Hauaux, Andre	Chief Operating Officer and	-100% per annum over 2y	-12.7% per annum over 2y
Hobart, Lauren	Chief Marketing Officer, Exe	-100% per annum over 1y	-23.27% per annum over 1y
Willoughby, Michele	Executive Vice President of	-100% per annum over 3y	-1.15% per annum over 3y
Schnieders, Kurt	Chief Information Officer an	N/M	N/M

Profitability	DKS (LTM)	DKS (5 years historical ave	Industry (LTM)
ROIC	7.0%	11.68%	20.49%
NOPAT Margin	3%	7.83%	6.8%
Revenue/Invested Capital	2.79	1.49	3.02
ROE	-8.9%	11.07%	24.90%
Adjusted net margin	-3%	4.77%	6.1%
Revenue/Adjusted Book Value	3.53	2.32	4.09
Invested Funds	**DKS (LTM)**	**DKS (5 years historical ave**	**Industry (LTM)**
Total Cash/Total Capital	5.2%	5.9%	21%
Estimated Operating Cash/Total Capital	5.2%	5.6%	N/A
Non-cash working Capital/Total Capital	13.7%	11.8%	18%
Invested Capital/Total Capital	87.8%	90.6%	80%
Capital Structure	**DKS (LTM)**	**DKS (5 years historical ave**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.07	0.21	0.25
Cost of Existing Debt	112.72%	32.01%	4.65%
Estimated Cost of new Borrowing	15.18%	15.18%	4.65%
CGFS Risk Rating	F	F	D
Unlevered Beta (LTM)	0.61	1.04	0.90
WACC	14.82%	11.27%	8.94%



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	9.0%	2.5%	0.47
1/28/2018	8.6%	8.4%	3.52
1/28/2019	3.6%	7.9%	1.77
1/28/2020	5.9%	7.6%	1.30
1/28/2021	8.9%	7.9%	1.38
1/28/2022	3.9%	7.3%	1.23
1/28/2023	3.9%	7.7%	1.25
1/28/2024	3.9%	8.1%	1.32
1/28/2025	4.0%	8.5%	1.39
1/28/2026	4.0%	8.9%	1.45
1/28/2027	4.0%	9.3%	1.52
Continuing Period	4.1%	9.7%	1.24

Period	Invested Capital	Net Claims	Price per share
Base Year	$3,822.79	$445.33	$59.33
1/28/2018	$4,119.51	$2,580.41	$62.12
1/28/2019	$3,275.22	$4,177.31	$66.04
1/28/2020	$2,974.19	$4,280.10	$70.94
1/28/2021	$2,838.42	$4,478.81	$76.46
1/28/2022	$2,783.93	$4,584.96	$81.88
1/28/2023	$5,429.20	$4,487.35	$87.36
1/28/2024	$7,472.30	$4,372.83	$92.74
1/28/2025	$7,988.59	$4,240.56	$98.00
1/28/2026	$8,718.43	$4,093.00	$103.04
1/28/2027	$9,258.52	$3,933.43	$107.76
Continuing Period			