

Dick's Sporting Goods
Ticker: DKS
Sector: Consumer
Discretionary
Industry: Retailers

Intrinsic Value: \$67.7
Current Price: \$51.7
Stop Loss: \$43.95
Upside Review: \$70.00

TTM P/E: 19.81
Forward P/E: 16.73
Beta: 1.32

Market Cap: \$6.5 BN
Dividend Yield: 1.0%
52 Wk Range: \$45.00 - \$58.87

Industry Trends: Dick's Sporting Goods operates in the specialty retailer sub-group within consumer discretionary. Their major competitors are Sports Authority, Cabelas, and Bass Pro Shops. This industry is very sensitive to consumer confidence and the business cycle and will continue to improve as the US economy comes back from the 2008 recession. Some of the key trends going forward are multiple retail channels and customer loyalty programs.

Investment Thesis: DKS is currently the best positioned diversified sporting goods retailer in the U.S. From a strategy perspective DKS has a clear advantage on online only retailers because they focus on high-end products that require specific presentation and a knowledgeable sales staff to sell. Dick's plans to grow retail square footage by 9 – 10% annually going forward and is planning to further capitalize on its strength in the outdoor market by opening 1,110 specialty Dick's and Field and Stream stores to compete directly with Cabelas and Bass Pro Shops. Dick's has demonstrated its ability to consistently produce positive cash flow, double digit EPS growth, and steady revenue growth. Given the strengths in the business model and consistent financial performance we believe DKS is a buy.

Business Overview: DICK'S Sporting Goods, Inc. is a sports and fitness specialty omni-channel retailer offering a range of brand name sporting goods equipment, apparel and footwear in a specialty store environment. As of May 4, 2013, the Company operated 520 DICK'S Sporting Goods stores in 44 states, 81 Golf Galaxy stores in 30 states and e-Commerce Websites and catalog operations for both DICK'S Sporting Goods and Golf Galaxy

Pros:

- Focus on high-end items limits competition with specialty retailers and mass merchants
- National advertising campaign will increase brand awareness
- Company recently raised 2014 EPS guidance, but is still relatively conservative
- Large increases in Hunting / Fishing participants will continue to drive growth

Risk Factors:

- Relatively mature industry with moderate growth and high competition
- Retail expansion from traditional and outdoor focused retailers
- Further economic slowdown in the US

5 year stock performance:



Total Return Estimates:

3 Yr FV Reversion*: 11.0%
5 Yr FV Reversion*: 7.0%
 (* - From limit order price of \$00.00)

Key Valuation Assumptions:

Est. Revenue Growth: 11.0%
 WACC: 10.14%
 Expected Inflation: 3.0%
 Terminal Growth Rate: 3.0%
 10 yr. Risk Free Rate: 2.82%
 Equity Risk Premium: 5.9%
 Effective Tax Rate: 26.63%

Key Financial Data:

2013 EPS: \$2.53
 Est. 2014 EPS: \$2.68
 PEG (TTM): 1.26
 ROE: 19.32%
 ROA: 10.38%
 Price /Book: 3.76
 Current Ratio: 1.63
 Quick Ratio: 0.38

CSR Scores vs. Industry Average:

Human Rights: 0 / 0
 Business Ethics Policy: 1 / 1
 ESG Disclosure: 12.92 / 16.39
 Equal Opportunity: 0 / 1
 Emission Reduction: 0 / 0
 Environmental Disclosure Score: N.A. / 13.02

Prepared By: George Cerwinski on Feb 12, 2014

Direct Competitor Comparison

	DKS	FL	PVT1	WMT	Industry
Market Cap:	6.52B	5.74B	N/A	241.87B	N/A
Employees:	11,100	13,356	N/A	2,200,000	N/A
Qtrly Rev Growth (yoy):	0.07	0.06	N/A	0.02	0.00
Revenue (ttm):	6.07B	6.43B	N/A	474.88B	N/A
Gross Margin (ttm):	0.31	0.44	N/A	0.25	0.00
EBITDA (ttm):	682.67M	787.00M	N/A	36.98B	N/A
Operating Margin (ttm):	0.09	0.10	N/A	0.06	0.00
Net Income (ttm):	328.71M	412.00M	N/A	17.20B	N/A
EPS (ttm):	2.61	2.72	N/A	5.20	N/A
P/E (ttm):	19.87	14.39	N/A	14.37	N/A
PEG (5 yr expected):	1.26	1.39	N/A	1.70	N/A
P/S (ttm):	1.07	0.88	N/A	0.50	N/A

FL = Foot Locker, Inc.
 PVT1 = The Sports Authority, Inc. (privately held)
 WMT = Wal-Mart Stores Inc.
 Industry = Sporting Goods Stores