



Dick's Sporting Goods
NYSE: DKS
August 16, 2017

Dick's Sporting Goods: Price War Looming

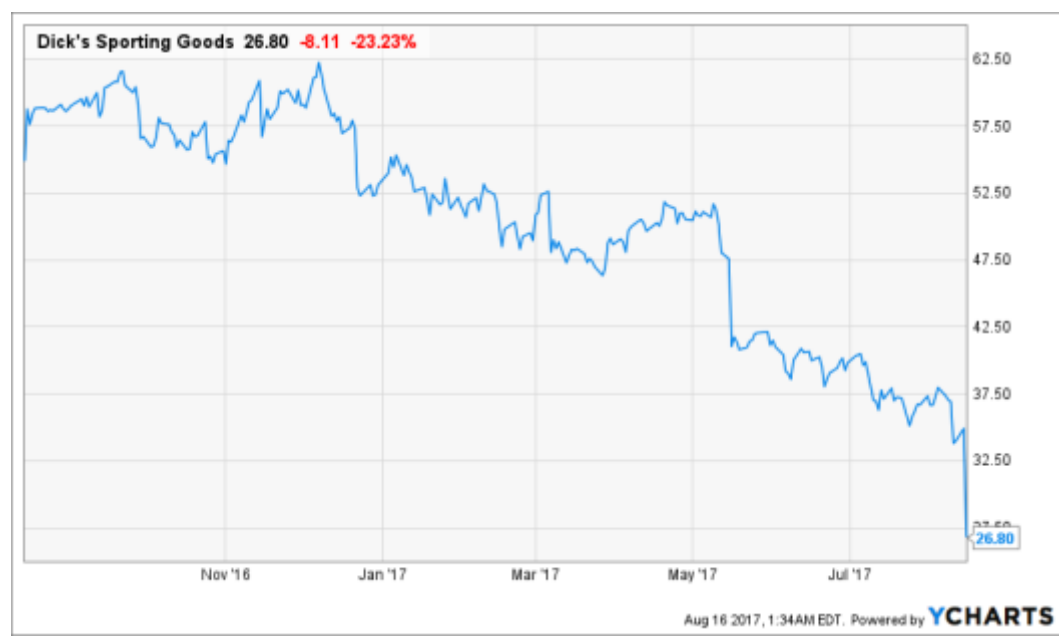
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Forward View is cutting Dick's Sporting Goods to a Sell and we're reducing our price target to \$25 a share (from \$51).

One-Year Stock Price Chart



Earnings by the Numbers

DKS Earnings Expectations

	FQ3 '15	FQ4 '15	FQ1 '16	FQ2 '16	FQ3 '16	FQ4 '16	FQ1 '17	JUST REPORTED FQ2 '17
Estimize	0.46	1.17	0.50	0.69	0.44	1.30	0.55	1.02
Wall St	0.46	1.15	0.49	0.68	0.42	1.29	0.54	1.00
Actuals	0.45	1.13	0.50	0.82	0.48	1.32	0.54	0.96
YoY Growth	10%	-13%	-6%	6%	7%	17%	8%	17%
You	-	-	0.50	0.70	0.44	1.24	0.55	1.06

- *The Dick's Sporting Goods conference call sounded more like a retail funeral.*
- *The rapid decline in traditional retail is startling.*
- *This summer represents a true inflection point in the sector.*
- *Dick's CEO Ed Stack said that everything changed around Father's Day.*
- *We've obviously gotten behind the curve, but we're changing our thinking about traditional retail.*

Earnings Summary

	1Q17 (Actual)	2Q17 (Actual)
Total Revenue Growth Rate (Y/Y)	9.9%	9.6%
Gross Margin	29.7%	29.5%
Operating Expenses (% Of Revenue)	24.8%	22.2%
Operating Margin	4.9%	7.4%
Tax Rate	36.5%	34.4%
Depreciation (% Of Revenue)	2.9%	2.6%
Change in Working Capital (% Of Revenue)	-6.8%	1.6%
Cap Ex (% Of Revenue)	6.2%	5.6%
WACC	8.5%	8.5%
Metric	1Q17 (Actual)	2Q17 (Actual)
Revenue	1,825.3	2,156.9
COGS	(1,283.4)	(1,519.7)
Operating Expenses	(451.8)	(478.0)
Operating Income	90.1	159.2
Interest Expense	(1.3)	(2.2)
Other Income	2.9	14.5
Pre-Tax Income	91.7	171.4
Tax Provision	(33.5)	(59.1)
Net Income	58.2	112.4
EBIT	92.9	173.7
Depreciation	53.0	56.0
Change in Working Capital	(124.0)	34.2
Capital Expenditures	(113.9)	(121.8)
Free Cash Flow, FCF	122.2	13.9
PV of FCFs	122.2	13.9

Best & Worst News

Best News

E-commerce sales rose 19% y/y and now represent 9.2% of the company's revenue. The footwear business wasn't awful. That's it for the good news.

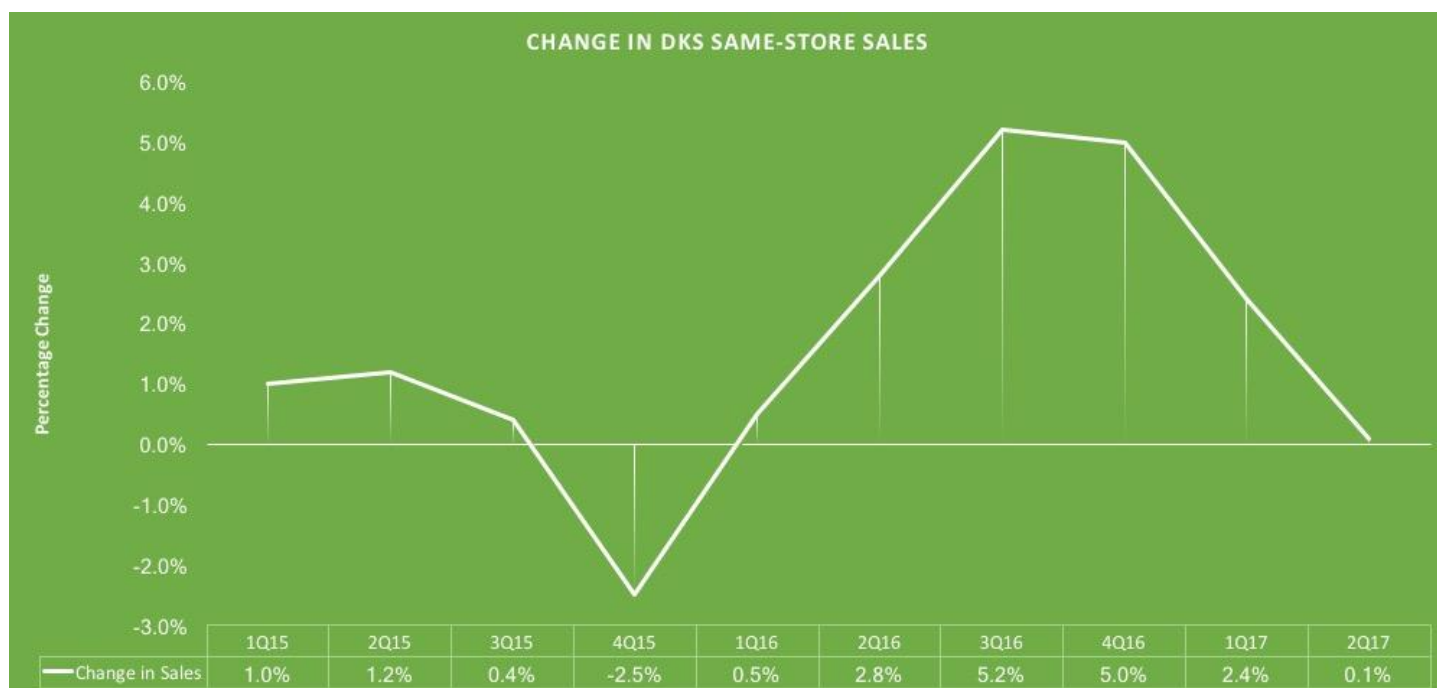
Worst News

Everything else.

The Forward View

Forward View is cutting Dick's Sporting Goods to a Sell and we're reducing our price target to \$25 a share (from \$51). Dick's CEO Ed Stack described sporting goods retailers as "panicky" and "irrational." He said that margins might never recover due to the ongoing upheaval in retail. Mr. Stack also noted that additional "consolidation" (read: *bankruptcy filings*) will occur in the sector. Finally, he declared that Dick's Sporting Goods *will* compete on price throughout the impending sporting goods retail "war."

We're ultimately struck by how quickly the management team's outlook shifted from cautious optimism to assuring investors that no further capital would need to be raised. The company's executives have clearly been shaken. It's obvious that the bottom fell out of the market for companies like Cabela's (NYSE: CAB) and Hibbett Sports (NASDAQ: HIBB), both referenced during the conference call, and they've responded by slashing prices. When two major retailers in a space throw up their hands and eviscerate margins, other retailers are bound to follow in order to avoid losing market share. Dick's Sporting Goods has fought to be a premium sporting goods retailer with enough exclusive merchandise, private label brands and quality service to avoid the pressure facing other competitors. It's clear that such a strategy wasn't sufficient. Dick's doesn't have a reputation for value nor is the company's footprint designed to be lean. We thus anticipate that Dick's will face innate challenges while moving to offer price matches and significant promotions. The company's employees may need to be pulled, kicking and screaming, into this new reality. We noted that several analysts wished Dick's management team "good luck," almost like you would do to someone about to have difficult surgery or facing a dangerous journey ahead. Forward View certainly doesn't intend to write an obituary for Dick's Sporting Goods, although some of the company's competition might want to examine their corporate wills. Ultimately, we don't want to repeat our bullish mistake, hence the Sell rating. Face it: The retail environment has permanently changed. Old ideas, patterns, plans and data now have extremely limited value for retailers and analysts. The paradigm shift will be reinforced this week by Sportsman's Warehouse (NASDAQ: SPWH) on Thursday and Hibbett Sports on Friday. The latter earnings report might make Dick's results/guidance look sunny by comparison. It's hard to imagine e-commerce newbie Hibbett Sports excelling in this new world.



Guidance¹

- Full Year 2017

- *Based on an estimated 109 to 110 million diluted shares outstanding, the Company currently anticipates reporting earnings per diluted share in the range of \$2.85 to 3.05, which includes approximately \$0.05 per diluted share for the 53rd week. The Company's earnings per diluted share guidance is not dependent upon share repurchases beyond the \$166 million executed through the second quarter of fiscal 2017. The Company reported earnings per diluted share of \$2.56 for the 52 weeks ended January 28, 2017.*
- *The Company currently anticipates reporting non-GAAP earnings per diluted share in the range of \$2.80 to 3.00. This excludes a corporate restructuring charge, TSA conversion costs and income related to a contract termination payment. The Company reported non-GAAP earnings per diluted share of \$3.12 for the 52 weeks ended January 28, 2017.*
- *Consolidated same store sales are currently expected to be in the range of approximately flat to a low single-digit decline on a 52 week to 52 week comparative basis, compared to an increase of 3.5% in 2016.*

- Third Quarter 2017

- *Based on an estimated 108 million diluted shares outstanding, the Company currently anticipates reporting earnings per diluted share in the range of \$0.22 to 0.30 in the third quarter of 2017. This is compared to earnings per diluted share of \$0.44 in the third quarter of 2016. On a non-GAAP basis, the Company reported earnings per diluted share of \$0.48 for the 13 weeks ended October 29, 2016.*
- *Consolidated same store sales are currently expected to decline in the low single-digits in the third quarter of 2017, as compared to a 5.2% increase in the third quarter of 2016.*

¹ Dick's Sporting Goods 8-K released August 15, 2017

Earnings Estimates

INCOME STATEMENT	1Q17 (Actual)	2Q17 (Actual)	3Q17	4Q17	FY17	1Q18	2Q18	3Q18	4Q18	FY18
Revenue	1,825.3	2,156.9	1,917.2	2,607.6	8,506.9	1,936.6	2,286.3	2,032.2	2,777.1	9,032.2
COGS	(1,283.4)	(1,519.7)	(1,357.3)	(1,854.0)	(6,014.4)	(1,365.3)	(1,616.4)	(1,448.9)	(1,982.8)	(6,413.5)
Gross Profit	541.9	637.2	559.8	753.6	2,492.5	571.3	669.9	583.2	794.3	2,618.7
Operating Expenses	(451.8)	(478.0)	(517.6)	(571.1)	(2,018.5)	(493.8)	(525.9)	(544.6)	(624.8)	(2,189.2)
Operating Income	90.1	159.2	42.2	182.5	474.0	77.5	144.0	38.6	169.4	429.5
Interest Expense	(1.3)	(2.2)	(2.2)	(2.1)	(7.8)	(2.0)	(2.0)	(2.2)	(2.1)	(8.3)
Other Income	2.9	14.5	2.0	2.0	21.3	3.0	4.0	3.0	5.0	15.0
Pre-Tax Income	91.7	171.4	42.0	182.4	487.5	78.5	146.0	39.4	172.3	436.2
Tax Provision	(33.5)	(59.1)	(15.1)	(67.5)	(175.2)	(28.3)	(51.1)	(14.3)	(60.3)	(154.0)
Net Income	58.2	112.4	26.9	114.9	312.4	50.2	94.9	25.1	112.0	282.2
EPS (Basic)	0.53	1.04	0.25	1.07	2.89	0.47	0.89	0.23	1.04	2.63
EPS (Diluted)	0.52	1.03	0.25	1.06	2.86	0.47	0.88	0.23	1.04	2.62
Adjusted EPS (Diluted)	0.54	0.96	0.25	1.06	2.81	0.49	0.90	0.25	1.06	2.70
Shares Data (Quarterly)										
Average Basic Shares Outstanding	110.44	108.18	107.50	107.00	108.28	107.05	107.10	107.15	107.20	107.13
Average Diluted Shares Outstanding	111.41	108.68	108.00	108.00	109.02	107.60	107.65	107.70	107.75	107.68

Valuation

WACC	8.5%
Long-Run FCF Growth	1.0%
<i>Calculation of Firm's Intrinsic Value</i>	
Sum of Free Cash Flow PVs	\$ 562.1
Terminal Value	\$ 2,224.9
Total Corporate Value	\$ 2,787.0
Plus: Cash	\$ 131.6
Less: Market Value Of Debt/Leases	\$ 191.1
Intrinsic Value Of Common Equity	\$ 2,727.5
Shares Outstanding (Millions)	108.68
Intrinsic Value Per Share	\$25

Quantitative Forecast

	1Q17 (Actual)	2Q17 (Actual)	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Total Revenue Growth Rate (Y/Y)	9.9%	9.6%	5.9%	5.0%	6.1%	6.0%	6.0%	6.5%
Gross Margin	29.7%	29.5%	29.2%	28.9%	29.5%	29.3%	28.7%	28.6%
Operating Expenses (% Of Revenue)	24.8%	22.2%	27.0%	21.9%	25.5%	23.0%	26.8%	22.5%
Operating Margin	4.9%	7.4%	2.2%	7.0%	4.0%	6.3%	1.9%	6.1%
Tax Rate	36.5%	34.4%	36.0%	37.0%	36.0%	35.0%	36.3%	35.0%
Depreciation (% Of Revenue)	2.9%	2.6%	2.9%	2.1%	3.0%	2.5%	2.7%	2.2%
Change in Working Capital (% Of Revenue)	-6.8%	1.6%	-7.9%	5.5%	-7.2%	3.0%	-7.7%	5.0%
Cap Ex (% Of Revenue)	6.2%	5.6%	6.3%	6.0%	6.0%	5.5%	6.0%	5.5%
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Metric	1Q17 (Actual)	2Q17 (Actual)	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Revenue	1,825.3	2,156.9	1,917.2	2,607.6	1,936.6	2,286.3	2,032.2	2,777.1
COGS	(1,283.4)	(1,519.7)	(1,357.3)	(1,854.0)	(1,365.3)	(1,616.4)	(1,448.9)	(1,982.8)
Operating Expenses	(451.8)	(478.0)	(517.6)	(571.1)	(493.8)	(525.9)	(544.6)	(624.8)
Operating Income	90.1	159.2	42.2	182.5	77.5	144.0	38.6	169.4
Interest Expense	(1.3)	(2.2)	(2.2)	(2.1)	(2.0)	(2.0)	(2.2)	(2.1)
Other Income	2.9	14.5	2.0	2.0	3.0	4.0	3.0	5.0
Pre-Tax Income	91.7	171.4	42.0	182.4	78.5	146.0	39.4	172.3
Tax Provision	(33.5)	(59.1)	(15.1)	(67.5)	(28.3)	(51.1)	(14.3)	(60.3)
Net Income	58.2	112.4	26.9	114.9	50.2	94.9	25.1	112.0
EBIT	92.9	173.7	44.2	184.5	80.5	148.0	41.6	174.4
Depreciation	53.0	56.0	55.6	54.8	58.1	57.2	54.9	61.1
Change in Working Capital	(124.0)	34.2	(151.5)	143.4	(139.4)	68.6	(156.5)	138.9
Capital Expenditures	(113.9)	(121.8)	(120.8)	(156.5)	(116.2)	(125.7)	(121.9)	(152.7)
Free Cash Flow, FCF	122.2	13.9	114.5	(128.9)	132.8	(41.0)	115.9	(117.1)
PV of FCFs	122.2	13.9	114.5	(126.3)	127.5	(38.5)	106.8	(105.8)

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Recommendation	Expected Return
<i>Buy</i>	<i>Shares are expected to deliver alpha</i>
<i>Hold</i>	<i>Shares are expected to match the market's risk-adjusted return</i>
<i>Sell</i>	<i>Shares are expected to underperform the market</i>

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