

## DICKS Sporting Goods (DKS)

**\$47.64** (As of 01/03/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 11/29/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: C

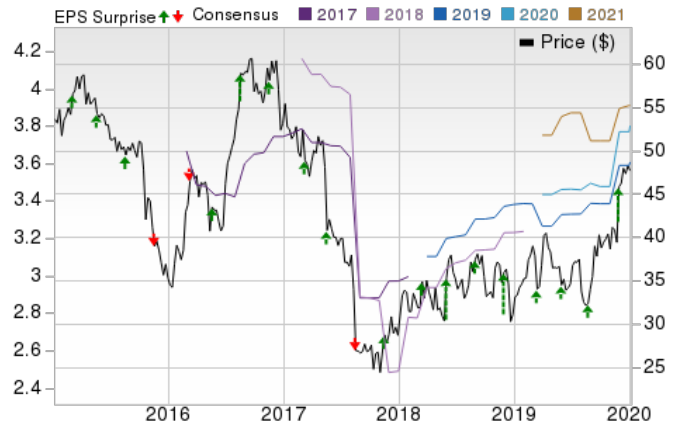
Growth: F

Momentum: A

### Summary

Shares of DICK'S Sporting outpaced the industry in the past three months driven by its strategic efforts. The stock is particularly winning investors' hearts through the exiting of its hunting business. Benefits of its strategies were reflected in the quarterly results. In third-quarter fiscal 2019, it delivered third straight positive earnings surprise, with fourth sales beat. Results gained from solid comps on higher average ticket and transactions coupled with growth in major categories. Its merchandising strategy and omni-channel efforts also bode well. It remains optimistic about the holiday season and raised view for fiscal 2019. However, higher SG&A expenses, increased spending for business transformation and escalated fulfillment costs are threats to margins. Incremental tariffs on goods imported from China might hurt profits.

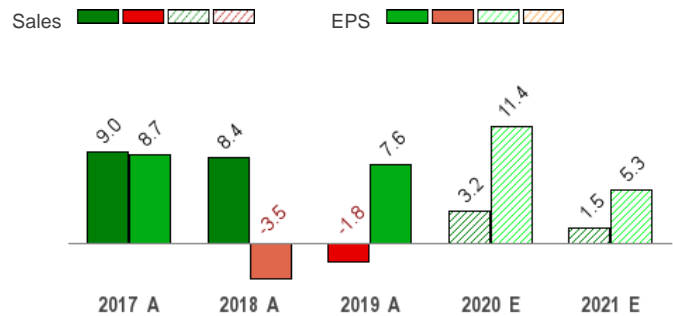
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$49.80 - \$31.27
20 Day Average Volume (sh)	1,514,462
Market Cap	\$4.2 B
YTD Price Change	-3.7%
Beta	0.64
Dividend / Div Yld	\$1.10 / 2.3%
Industry	<a href="#">Retail - Miscellaneous</a>
Zacks Industry Rank	Top 6% (15 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.8%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	12.4%
P/E TTM	13.7
P/E F1	13.2
PEG F1	2.3
P/S TTM	0.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,948 E	2,280 E	1,978 E	2,582 E	8,840 E
2020	1,921 A	2,259 A	1,962 A	2,563 E	8,707 E
2019	1,910 A	2,177 A	1,857 A	2,492 A	8,437 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.65 E	\$1.32 E	\$0.52 E	\$1.26 E	\$3.80 E
2020	\$0.62 A	\$1.26 A	\$0.52 A	\$1.23 E	\$3.61 E
2019	\$0.59 A	\$1.20 A	\$0.39 A	\$1.07 A	\$3.24 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

## Overview

DICK'S Sporting Goods Inc. was founded in 1948 in New York under the labels Dick's Clothing and Sporting Goods, Inc. It was earlier reincorporated as a Delaware corporation and changed our name to Dick's Sporting Goods, Inc. in April 1999. The company's executive office is located in Coraopolis, Pennsylvania.

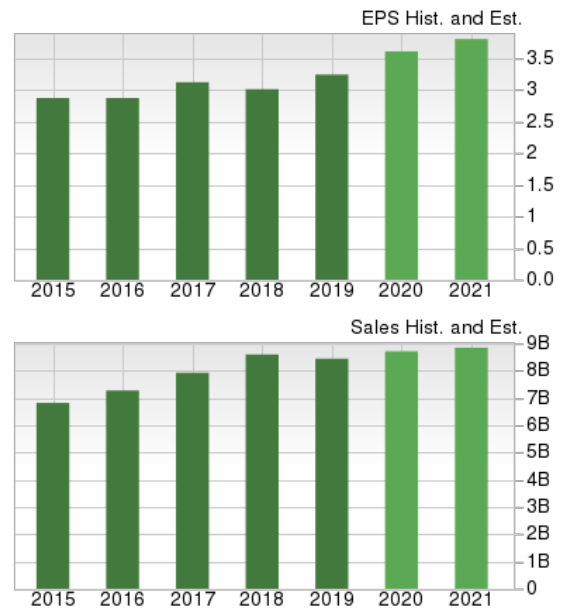
The company operates as a major omni-channel sporting goods retailer, offering athletic shoes, apparel, accessories and a broad selection of outdoor and athletic equipment for team sports, fitness, camping, fishing, tennis, golf, water sports, etc.

DICK'S Sporting offers these items through a blend of associates, in-store services and unique specialty shop-in-shops. DICK'S Sporting also owns operates Golf Galaxy and Field & Stream stores as well as Team Sports HQ. It also operates all-in-one youth sports digital platform, which offer scheduling, communications and live scorekeeping via the GameChanger mobile apps, free league management services, custom uniforms and fan wear.

The company also operates through its e-commerce websites and catalog operations. The company operates 4 kinds of stores – a) single-level DICK'S Sporting stores of approximately 50,000 square feet, b) two-level DICK'S Sporting store of approximately 80,000 square feet, c) DICK'S Sporting stores for smaller markets of about 35,000–40,000 square feet, and d) 13,000–18,000 square feet Golf Galaxy stores.

DICK'S Sporting stocks nationally recognized brands such as Callaway Golf, adidas, TaylorMade-adidas Golf, The North Face, Asics, Under Armour, Nike, Columbia and Remington.

As of Nov 2, 2019, DICK'S Sporting operated 733 flagship stores across 47 states, 95 Golf Galaxy stores in 32 states and 27 Field & Stream stores in 16 states.



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## Reasons To Buy:

- ▲ **Robust Q3 Performance & Outlook Aid Stock:** Shares of DICK'S Sporting have surged 25.5% in the past three months compared with the industry's 5.2% growth. In third-quarter fiscal 2019, the company's earnings and sales surpassed the Zacks Consensus Estimate and grew year over year. This marked third straight positive earnings surprise, with fourth consecutive sales beat. Results gained from rise in same-store sales (comps) driven by higher average ticket and transactions coupled with growth in each of its three major categories, including hardlines, apparel and footwear. Its brick and mortar stores delivered positive comps with continued strength in e-commerce business. Notably, the company witnessed broad-based improvement in its business and remains optimistic about the holiday season. Consequently, management raised view for fiscal 2019. It now envisions adjusted earnings of \$3.50-\$3.60 per share, up from the earlier view of \$3.30-\$3.45. For fiscal 2019, consolidated comps are now projected to increase 2.5-3% versus the earlier expectation of low-single digits growth and a 3.1% decline in fiscal 2018.
- DICK'S Sporting's omni-channel efforts are aiding sales. Its e-commerce penetration improved to about 13% of net sales in third-quarter fiscal 2019, up from 12% in the prior-year quarter.
- ▲ **Exiting Hunt and Electronics Categories:** DICK'S Sporting's consistent efforts to dispose underperforming businesses to boost comps bode well. It removed the electronics business in the fourth quarter of fiscal 2017. Further, it is on track with the removal of the hunting category from its stores. During the fiscal third quarter, it exited eight Field & Stream stores. Though negative comps at hunting business continued to hurt the consolidated comps in the reported quarter, the metric rose 6% year over year. In the fiscal third quarter, the company delivered positive comps from the nearly 125 stores that eliminated the hunting category in the fiscal second quarter, replacing it with more compelling assortments. Going forward, management plans to continue the strategic review of the hunt business, which is a part of the Field & Stream format.
- ▲ **Initiatives – Omni-channel Growth:** DICK'S Sporting has been gaining from continued focus on developing every possible avenue to generate greater sales. As part of its long-term plan, the company plans to make significant investments in e-commerce, technology, store payroll, Team Sports and private brands. It also remains on track to build the best omni-channel experience for athletes by strengthening store network and expanding e-commerce presence. In third-quarter fiscal 2019, e-commerce sales grew 13% year over year. Moreover, e-commerce penetration improved to about 13% of net sales, up from roughly 12% in the prior-year quarter. On store-front, the company has completed its store development program for the current fiscal year, with the opening of six flagship outlets and one Golf Galaxy store in the fiscal third quarter. The company expects omni-channel investments throughout fiscal 2019 to be focused on enhancing in-store experiences for athletes, improving e-commerce fulfillment capabilities, and developing technology solutions to boost athlete experience and employee productivity. Additionally, the company is making efforts to improve digital marketing efforts by strengthening partnerships, which should bode well.
- ▲ **Merchandise Strategy:** DICK'S Sporting is progressing well with the merchandising strategy (announced in fourth-quarter fiscal 2016), which is all about optimizing inventory to make shelves available for popular and private label brands. Its efforts to improve in-store experience include the space reallocation to regionally relevant and growing categories, the rollout of HitTrax technology and batting cages in several stores, expansion of strike point presentations, and investment in product development teams. Further, the company remains focused on private brands including CALIA, Walter Hagen Alpine Design and DSG, which remain key strengths within its assortment. DICK'S Sporting also remains encouraged about its product pipeline for the next fiscal year. These actions will not only improve customer satisfaction and inventory turnover but also boost merchandise margin rates. Apparently, merchandise margins expanded 60 basis points (bps) in third-quarter fiscal 2019, mainly driven by favorable merchandise mix and lesser promotions. This further boosted gross margin, which expanded 140 bps in the quarter under review.
- ▲ **Shareholder-Friendly Moves:** DICK'S Sporting's shareholder-friendly actions remain encouraging. During third-quarter fiscal 2019, the company bought back nearly 2.8 million shares for \$99.5 million. Following this, it had roughly \$67 million under its standing authorization, extending through 2021. On Jun 12, 2019, the company's board approved an additional five-year share repurchase program for up to \$1 billion of its common stock. It paid cash dividends of \$74.5 million in the first nine months of fiscal 2019. Over the past 12 months, DICK'S Sporting returned more than \$495 million to its shareholders via share repurchases and quarterly dividends. Recently, management also announced a quarterly cash dividend of 27.5 cents per share, payable Dec 31, 2019. In addition, the company continues to efficiently utilize cash flows to accomplish long-term growth target via omni-channel development and store openings.
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## Risks

- **Elevated Costs a Threat to Margins:** Although DICK'S Sporting's margins expanded in third-quarter fiscal 2019, adjusted SG&A expenses, as a percentage of sales, increased 102 bps. This increase was primarily driven by higher incentive compensation expenses and continued cost of investments in business. In addition, higher startup costs related to the opening of two e-commerce fulfillment centers were deterrents. Management expects net investments for business transformation to be roughly \$30 million in fiscal 2019. Persistence of these costs coupled with any shipping or freight costs might hurt margins and overall profits.
  - **Tariff Pressures:** DICK'S Sporting, like most of its peers in the apparel industry, remains exposed to significant headwinds from the increase in tariffs for List 3 goods from 10% to 25%, which were announced on May 10. These increased tariffs are resulting in elevated costs incurred by the apparel companies, which is reducing profitability. These may also cause these companies to raise prices of goods to recover the costs incurred. Going forward, the company's athletic apparel business is likely to face the brunt of these tariff increases to 25%. DICK'S Sporting now envisions GAAP earnings per share of \$3.63-\$3.73 for fiscal 2019, which includes the anticipated impact of all tariffs presently in effect, and tariffs to come into effect. However, the company is still analyzing the impact of the increase in tariffs with its manufacturing and brand partners. Further, how much these tariffs will influence the company's margins and bottom line is yet to be ascertained.
  - **Seasonality Affects Performance:** DICK'S Sporting's business is seasonal in nature and typically generates stronger sales during the fourth quarter, which is characterized by the holiday and winter sports selling seasons. As a result, the company is exposed to significant risks if the seasons fail to deliver the expected operating performance.
  - **Competitive Pressure:** DICK'S Sporting faces intense competition from other sporting goods retailers on grounds of size, availability of financial, distribution and marketing resources, pricing strategies and retail sales methods. The company's inability to stay afloat amid such competition may result in loss of market share and adversely impact its business.
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## Last Earnings Report

### DICK'S Sporting Up 19% on Q3 Earnings Beat & Upbeat View

DICK'S Sporting delivered robust third-quarter fiscal 2019 results, wherein earnings and sales surpassed the Zacks Consensus Estimate and also grew year over year.

Quarterly results gained from solid same-store sales (comps) performance. Comps were driven by higher average ticket and transactions coupled with growth at each of its three major categories — hardlines, apparel and footwear. Its brick and mortar stores also delivered positive comps and e-commerce business remained strong in the reported quarter. Notably, the company witnessed broad-based improvement in its business and remains optimistic about the holiday season.

As a result, management raised its fiscal 2019 view. The company now expects adjusted earnings of \$3.50-\$3.60 per share, up from the earlier guided view of \$3.30-\$3.45. Further, consolidated same store sales (comps) are projected to increase 2.5-3% versus the earlier expectation of low-single digits growth and a 3.1% decline in fiscal 2018.

#### Q3 in Details

In the fiscal third quarter, DICK'S Sporting reported earnings of 52 cents per share, exceeding the Zacks Consensus Estimate of 38 cents. Additionally, the bottom line jumped 33.3% from the year-ago quarter's earnings of 39 cents.

Net sales of \$1,962.2 million grew 5.6% year over year and surpassed the Zacks Consensus Estimate of \$1,906 million. Consolidated same store sales (comps) rose 6% year over year. Further, e-commerce sales grew 13% year over year. E-commerce penetration improved to about 13% of net sales in the reported quarter, up from roughly 12% in the prior-year quarter.

Moreover, gross margin expanded 140 basis points (bps) to 29.6% in the quarter under review. This was due to a 60-bps rise in merchandise margins and 87-bps leveraged occupancy costs.

Adjusted SG&A expenses, as a percentage of sales, increased 102 bps year over year to 26.3%, thanks to rise in incentive compensation expenses. Further, adjusted operating margin expanded 32 bps to 3.17%.

#### Financial Aspects

DICK'S Sporting ended third-quarter fiscal 2019 with cash and cash equivalents of \$87.6 million, nearly \$719.3 outstanding borrowings under its revolving credit facility and total stockholders' equity of \$1,708.9 million. Further, total inventory rose 17.1% year over year at the end of the fiscal third quarter, driven by investments to support growth categories.

In the first nine months of fiscal 2019, the company used \$212.8 million in cash for operating activities. Moreover, total capital expenditure amounted to nearly \$165.7 million (on a gross basis) and \$140.1 million (on a net basis).

#### Dividend and Share Repurchases

During third-quarter fiscal 2019, the company bought back nearly 2.8 million shares for \$99.5 million. It now has roughly \$67 million under its standing authorization, extending through 2021. On Jun 12, 2019, the company's board has approved an additional five-year share repurchase program of up to \$1 billion of its common stock. On Nov 21, management announced a quarterly cash dividend of 27.5 cents per share, payable Dec 31, 2019, to its shareholders of record as on Dec 13.

#### Store Update

During the reported quarter, DICK'S Sporting opened six flagship outlets and one Golf Galaxy store. Notably, this completes its store development program for fiscal 2019. Also, it exited eight Field & Stream stores that were subleased to Sportsman's Warehouse while shuttered one Golf Galaxy store.

As of Nov 2, 2019, DICK'S Sporting operated 733 flagship stores across 47 states, 95 Golf Galaxy stores in 32 states and 27 Field & Stream stores in 16 states.

#### Guidance

Management plans to continue the strategic review of the hunt business, which includes Field & Stream. The company now envisions earnings per share in the range of \$3.63-\$3.73. This view includes roughly \$30 million of net investments for business-transformation efforts. It also includes the anticipated impact from all tariffs presently in effect, and tariffs to come into effect.

For fiscal 2019, management still expects capital expenditure to be nearly \$230 million (on a gross basis) and \$200 million (on a net basis).

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	2.95%
EPS Surprise	36.84%
Quarterly EPS	0.52
Annual EPS (TTM)	3.47

## Valuation

DICK'S Sporting shares are up 44.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.2% but the Zacks Retail-Warehouse sector is up 20.9% over the past year.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 12.58X forward 12-month earnings, which compares to 12.7X for the Zacks sub-industry, 25.29X for the Zacks sector and 18.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.22X and as low as 7.08X, with a 5-year median of 11.87X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$55 price target reflects 14.52X forward 12-month earnings.

The table below shows summary valuation data for DKS

Valuation Multiples - DKS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.58	12.7	25.29	18.7
	5-Year High	19.22	20.29	26.13	19.34
	5-Year Low	7.08	12.7	18.99	15.17
	5-Year Median	11.87	15.03	22.89	17.44
P/S F12M	Current	0.47	1.03	1.07	3.47
	5-Year High	0.94	1.21	1.1	3.47
	5-Year Low	0.29	0.86	0.8	2.54
	5-Year Median	0.49	1.06	0.9	3
EV/EBITDA TTM	Current	11.23	14.05	15.31	12.01
	5-Year High	11.3	16.34	15.31	12.86
	5-Year Low	3.63	10.95	10.27	8.49
	5-Year Median	6.87	14.05	12.32	10.66

As of 01/03/2020

## Industry Analysis Zacks Industry Rank: Top 6% (15 out of 252)



## Top Peers

Hibbett Sports, Inc. (HIBB)	Outperform
Shoe Carnival, Inc. (SCVL)	Outperform
Zumiez Inc. (ZUMZ)	Outperform
Deckers Outdoor Corporation (DECK)	Neutral
Five Below, Inc. (FIVE)	Neutral
Foot Locker, Inc. (FL)	Neutral
KAR Auction Services, Inc (KAR)	Neutral
Walmart Inc. (WMT)	Neutral

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	DKS Outperform	X Industry	S&P 500	FIVE Neutral	FL Neutral	HIBB Outperform
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>A</b>	<b>A</b>
Market Cap	4.19 B	1.31 B	23.66 B	7.11 B	3.98 B	458.31 M
# of Analysts	9	4	13	7	10	2
Dividend Yield	2.31%	0.00%	1.79%	0.00%	3.99%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>A</b>	<b>A</b>
Cash/Price	0.02	0.11	0.04	0.02	0.18	0.16
EV/EBITDA	10.68	7.41	13.88	33.29	6.89	8.40
PEG Ratio	2.26	1.43	1.99	1.66	0.87	0.88
Price/Book (P/B)	2.45	1.37	3.36	11.01	1.64	1.36
Price/Cash Flow (P/CF)	7.93	5.96	13.62	38.27	5.93	7.76
P/E (F1)	13.20	10.81	18.74	40.29	7.78	10.79
Price/Sales (P/S)	0.48	0.39	2.67	4.03	0.49	0.39
Earnings Yield	7.58%	9.24%	5.32%	2.48%	12.86%	9.27%
Debt/Equity	1.89	0.86	0.72	1.22	1.17	0.55
Cash Flow (\$/share)	6.01	3.34	6.94	3.34	6.42	3.41
<b>Growth Score</b>	<b>F</b>	-	-	<b>F</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	3.60%	11.48%	10.56%	30.70%	3.95%	-10.42%
Proj. EPS Growth (F1/F0)	11.32%	8.95%	7.41%	19.12%	4.03%	38.42%
Curr. Cash Flow Growth	0.31%	10.02%	14.83%	39.97%	3.72%	8.16%
Hist. Cash Flow Growth (3-5 yrs)	2.72%	8.72%	9.00%	30.11%	5.11%	-5.96%
Current Ratio	1.38	1.45	1.23	1.57	1.90	1.63
Debt/Capital	65.39%	51.52%	42.92%	55.02%	53.93%	35.34%
Net Margin	3.82%	3.82%	11.08%	8.74%	6.39%	2.34%
Return on Equity	17.68%	10.84%	17.10%	23.01%	21.66%	12.75%
Sales/Assets	1.37	1.54	0.55	1.17	1.34	1.65
Proj. Sales Growth (F1/F0)	3.21%	0.68%	4.20%	21.18%	1.36%	14.11%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Daily Price Chg	-1.20%	-1.33%	-0.61%	0.02%	0.03%	-4.10%
1 Week Price Chg	1.95%	1.34%	0.13%	0.24%	-1.10%	-1.85%
4 Week Price Chg	3.77%	4.09%	2.60%	3.23%	-4.37%	-2.72%
12 Week Price Chg	21.53%	2.55%	8.87%	1.61%	-9.26%	16.99%
52 Week Price Chg	47.04%	2.80%	29.34%	23.11%	-28.68%	74.29%
20 Day Average Volume	1,514,462	311,782	1,603,615	949,619	2,436,090	507,208
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.06%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.15%	0.00%	0.00%
(F1) EPS Est 12 week change	6.06%	0.19%	-0.57%	0.15%	-0.78%	11.87%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.13%	0.00%	0.00%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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