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Dicks Sporting Goods
“Every Season Starts at Dicks Sporting Goods”



In 1948 Dick's Sporting Goods was founded by Dick Stack who at the time worked at an Army surplus store in Binghamton, New York. Dick was an avid fisherman who knew the ins and out of the fishing world and all the necessities that went along with it. One day the Army surplus store owner approached Dick asking him to come up with a list of products that was needed to open a fish tackling business. Dick then provided a list of everything he thought would be necessary to open up a fish tackling business. Shortly after Dick presented his ideas to the store owner, the owner told Dick that he had no idea what he was talking about and that he was dumb. This spiked a fire inside of Dick and he was very frustrated with what the store owner said to him. He immediately quit his job at the Army surplus store. He then went and told his grandmother what had happened at work and she was frustrated with what had happened as well. She then asked Dick how much it would cost to build the store himself and he said about \$300. Following that, his grandmother went into her life savings and pulled out \$300 and gave it to Dick. He took the \$300 his grandmother gave him and turned it into millions. He used that money along with his great work ethic to open his own bait-and-tackle shop in Binghamton.



In 1952, he expanded his store products by offering work clothes, sportswear, picnic supplies, camping gear, and still his wide variety of fishing supplies. He then expanded his product line in the late 1970's and this product line includes most of what you will still currently find at Dicks Sporting Goods. In 1984, Dicks son, Ed Stack, and his siblings bought the company from Dick. Ed then became the Chairman and Chief Executive Officer. Then, over a seven-year period from 1986-1993 the Dicks Sporting Goods product lines were expanded. This new expansion included footwear, outdoor equipment, and athletic apparel. In 1994, the corporate headquarters was relocated in Pittsburgh, Pa. Following this in 2002 Dicks Sporting Goods went public on the NYSE under the ticker "DKS."



At the end of that year there was a total of 141 stores across 25 states. In 2007, Dicks Sporting Goods acquired Golf Galaxy which is a leading specialty golf retailer with 65 stores in 24 states which then made Dicks the largest specialty golf retailer in the USA. The Dicks Sporting Goods

Foundation was established in 2011 with a mission to inspire and enable youth sports participation. The next year the 500th Dicks sporting goods store opened in West Nyack, NY. The idea of expansion never did die down over the years. Now, in addition to the Dicks Sporting Goods store and Golf Galaxy they opened up the very first Field and Stream store in Cranberry, Pa in 2013. This first Field and Stream store is only about 45 minutes from the Washington and Jefferson campus. In this same year “Ship-from-store” was made available in all stores, allowing the stores to serve as distribution centers for customers. In 2014, Buying online and picking up in stores launched in all stores. It is easy to see how Dicks Sporting Goods is always looking to expand their product line while also keeping up with the culture of online shopping and convenience.

The logo for Golf Galaxy is displayed in a dark blue, bold, sans-serif font. The word "GOLF" is on the top line, and "GALAXY" is on the bottom line. The letters are widely spaced, giving the logo a clean and modern appearance.

Today, Dicks Sporting Goods is a leading omni-channel sporting goods retailer that offers an assortment of high-quality sports equipment, apparel, accessories, and footwear. You can find just about anything athletic or outdoors related in Dicks Sporting Goods. The company looks to inspire athletes and outdoor enthusiasts to achieve their personal best. In addition to Golf

Galaxy and Field & Stream that Dicks Sporting Goods owns, they also own GameChanger which is a youth sports mobile app for scheduling, communications, live scorekeeping and video streaming. Customers also have the convenience of shopping online with its 24-hour storefront.

Some key competitors that Dicks Sporting Goods faces include Finish Line, Foot Locker, Bass Pro Shops and others. Finish line is a direct competitor because they are a retailer of athletic shoes, apparel, and accessories of different brands for men, women, and kids. Foot Locker is also a competitor because they operate as an athletic footwear and apparel retailer. On the flip side, Bass Pro Shops also competes with Dicks Sporting Goods because they operate as a chain of retail stores for outdoor gear and apparel.



When looking at the macro-environments using PESTEL it is very interesting to see where Dicks Sporting Goods stands. When looking at the political factors it is important for Dicks Sporting

Goods to consider the political stability and importance of sporting goods stores in the country's economy. In addition to this it is important for them to consider pricing regulations, taxation, wage legislation, employee benefits, safety regulations, product labeling, and much more. For example, considering the change in presidency it is important for them to recognize the fact that taxes will change and that it will have a direct impact on their profit and such. An additional example for these could be the wage legislation. If minimum wage is increased this would have a direct correlation to their product pricing and much more. Now, looking at the Economic Factors these would include interest rates, inflation rate, labor cost, exchange rates, business cycle, infrastructure quality, etc. This is all subject to change really at any time considering new regulations and such being implemented. Looking at the social factors the society's culture and way of going about things directly impact the culture of the company. Dicks Sporting Goods must promptly evaluate the beliefs and attitudes of the given population because that will play a large role in how their marketers will market. Considering that will give the marketers a look at how to design the message for their consumers. It is important for Dicks Sporting Goods to understand the current attitudes, leisure interests, and culture of the current population. As far as Technological Factors, Dicks Sporting Goods considers recent technological developments by their competitors, technology's impact on product offering, impact on cost structure in the industry, etc. It is important to take a close look at these factors because if Dicks Sporting Goods doesn't then their competitors may end up having a competitive advantage. Next, there are Environmental Factors that can impact Dicks Sporting Goods. These include weather, climate change, laws regulating environment pollution, recycling, attitudes toward "green" products, and much more. It is important to carefully evaluate the

environmental standards that are required to operate in the market, and if they don't then it could be costly to the company. Lastly, there are legal factors that impact Dicks Sporting Goods. These factors include copyright, patents, employment law, data protection, health and safety law, and others. It is ideal for Dicks Sporting Goods to follow these guidelines to avoid falling to competition and to avoid having a bad reputation as a company. If they do not follow these guidelines it can be very costly monetarily and could lead to a poor reputation in the consumers eye.

Looking at the income statement there are a few things to consider. Firstly, looking at the revenue over the years, in 2020 Dicks Sporting Goods had its highest revenue in the past five years. From 2016-2020 there was a 20.35% increase in revenue. I believe this might be due to the increased amount of outdoor activities. The increased amount of outdoor activities is due to the COVID-19 pandemic. People are feeling more comfortable doing outdoor activities to eliminate the spread of this virus and this increased outdoor activities benefits Dicks Sporting Goods overall revenue. In addition to this over the course of the past five years there was a 17.03% increase in Gross Profit and a 18.02% increase in Earnings Per Share. Also, it is interesting to see how there was a substantial decrease in Total Non-Operating Income/Expense which is also important to consider.

<u>Income Statement</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Horizontal Analysis (2016-2020)</u>	
In Millions							
						\$	(% Change)
Revenue	\$ 8,750.74	\$ 8,436.57	\$ 8,590.47	\$ 7,921.98	\$ 7,270.97	\$ 1,479.78	20.35%
Cost of Goods Sold	6,196.19	5,998.79	6,101.41	5,556.20	5,088.08	\$ 1,108.11	21.78%
Gross Profit	2,554.56	2,437.78	2,489.06	2,365.78	2,182.89	\$ 371.67	17.03%
Basic EPS	\$ 3.40	\$ 3.27	\$ 3.02	\$ 2.59	\$ 2.87	\$ 0.53	18.47%
EPS - Earning Per Share	\$ 3.34	\$ 3.24	\$ 3.01	\$ 2.56	\$ 2.83	\$ 0.51	18.02%

Now, looking at the balance sheet there are a few interesting numbers to look at. One being the Cash on Hand. The Cash on Hand over the course of the last five years had decreased by nearly fifty million and about 42% overall. In addition to this the inventory has decreased by 43% in the last year alone. Now, I believe this has a direct correlation to the COVID-19 pandemic and the push for more outdoor activities as mentioned before. Looking at the Retained Earnings over the past five years there has been a 52% increase which is always good for a company to see. Lastly, Long Term Debt had increased by 218 million dollars, but I look at it as possibly new investment that Dicks Sporting Goods is taking on, and they wouldn't invest in something that they don't believe will have a huge return on investment.

<u>Balance Sheet</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Horizontal Analysis (2016-2020)</u>	
In Millions						<u>\$</u>	<u>(% Change)</u>
Cash on Hand	\$ 69.33	\$ 113.65	\$ 101.25	\$ 164.78	\$ 118.94	\$ (49.60)	-41.70%
Retained Earnings	2,645.28	2,455.19	2,205.65	1,956.07	1,737.21	908.07	52.27%

Now, when looking at the market comparables it is important to consider looking at companies of similar size to the company that you are evaluating. The companies I chose to compare to Dicks Sporting Goods include Foot Locker (FL), Under Armour (UAA), Academy Sports + Outdoors (ASO), Genesco (GCO), and Sportsman's Warehouse (SPWH). These companies have similar Market Caps except for Sportsman's Warehouse and Genesco. I chose to include these two companies in the comparable because they are very similar to Dicks Sporting Goods as far as products that they offer so I thought it was reasonable to include those two companies. Many people might not necessarily recognize companies such as Foot Locker and Under Armour as competitors because they don't deal with as many products used in the outdoors. These products include hunting apparel and equipment, fishing apparel and equipment, and sports equipment such as basketball hoops, Football apparel, and much more. The Foot Locker and Under Armour styles of store focus mainly on footwear such as running shoes, basketball shoes, casual shoes, and really whatever the newest shoes are. Along with footwear they will have products such as such as accessories, bottoms, tops, underwear, and even merchandise from sport to sport. In the United States there are a total of 894 Foot Locker Stores, 153 Under Armour Stores and about 730 Dick's Sporting

Goods stores. Now, when looking at competitors such as Academy Sports + Outdoors, and Sportsman's Warehouse they have very similar product offerings to Dick's Sporting Goods. Academy Sports + Outdoors has featured categories such as team sports, clothing, shoes, fan shop, range targets for shooting weapons, outdoors man equipment, fitness equipment, fishing gear, and so much more. The Academy Sports + Outdoors primarily have their stores in the southeast and midwest part of the country. This company is very similar to Dicks Sporting Goods as far as their product diversity goes.

(In Millions)

Company Name	Market Cap	EV	EV/Sales	EV/EBITDA	EV/EBIT	P/E	P/Book
Foot Locker (FL)	6,068	6,390	2.92	30.88	5.869	0.61	1.72
Under Armour (UAA)	7,963	7,449	1.665	17.87	17.87	1.73	5.31
Academy Sports + Outdoors (ASO)	2,788	3,740	2.34	22.9		0.34	1.98
Genesco (GCO)	581.84	1,260	1.97	17.12	2.714	0.3	1.24
Sportsman's Warehouse (SPWH)	764.72	1,040	2.37	22.94	5.699	0.61	4.39
Dicks Sporting Goods (DKS)	6,000	8,140	2.6	20.83	5.853	0.66	2.83

Median	2.34	22.9	5.784	0.61	1.98
Enterprise Value	\$22,426.60	\$16,290.14	\$4,399.00		
Total Equity Value	\$22,271.83	\$16,135.37	\$4,244.23	\$1,860.93	\$2,754.13
Equity Value Per Share	\$340.03	\$246.34	\$64.80	\$28.41	\$42.05
	Under	Under	Over	Over	Over

Mean	2.253	22.342	8.038	0.718	2.928
Enterprise Value	\$21,592.79	\$15,893.21	\$6,113.28		
Total Equity Value	\$21,438.02	\$15,738.43	\$5,958.50	\$2,190.41	\$4,072.77
Equity Value Per Share	\$327.30	\$240.28	\$90.97	\$33.44	\$62.18
	Under	Under	Under	Over	Over

These charts here look at the mean and medians of the comparable companies. The mean and median numbers are calculated using the numbers in the market comparables chart. The market comparables chart consists of calculations such as EV/Sales, EV/EBITDA, EV/EBIT, P/E, and P/Book along with the companies’ respective market caps and Enterprise Value. Following the calculations of the Equity Value Per Share for each segment is an assessment of whether or not it is under or over value.

Multiples

High	2.92	30.88	17.87	1.73	5.31
Average	2.253	22.342	8.038	0.718	2.928
Median	2.34	22.9	5.784	0.61	1.98
Low	1.665	17.12	2.714	0.3	1.24

Equity Value

High	\$424.89	\$4,516.03	\$2,612.39	\$250.77	\$774.60
Average	\$327.30	\$3,266.74	\$1,173.76	\$102.70	\$426.06
Median	\$340.03	\$3,348.39	\$843.96	\$86.89	\$287.35
Low	\$241.26	\$2,502.65	\$394.75	\$41.53	\$179.07

These charts have a similar idea when analyzing the data. Using the same numbers from the Market Comparisons I calculated the multiples and Equity values high, average, median, and low. I believe this gives a good look at where things stand in the market and among the competitors.





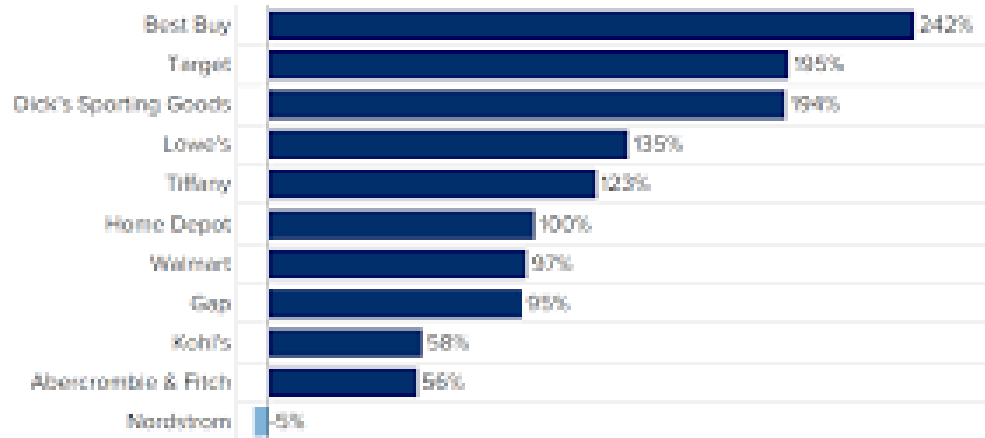
Foot Locker®



Now, after looking at the direct competitors it is very important for Dicks Sporting Goods to look at their competition as far as ecommerce goes. Typically, Dicks Sporting Goods has about 10% of all sales that come from online sales. In this last year, that 10% was increased to 70% in total sales being online. So, looking at this there is a much bigger demand for customers ordering products online rather than in the stores. Initially, this can sound terrifying when thinking about the usage of the store fronts having that much less traffic than before. When thinking about this from Dicks Sporting Goods perspective it can definitely be scare to think that there are less people in the actual store. This thought can be scary because if customers are not in the stores it less likely for them to buy products that they didn't go into the store with the attention of buying those items, but they picked up along the way. It has actually been beneficial for Dicks Sporting Goods doing more sales on lines than in the stores. Some may ask how this is beneficial to the company, but it actually is beneficial because when they are making sales online there is that much less overhead that they are responsible for. This meaning that there are less costs from the storefront because they are not being utilized as much. With more people buying online there are less costs for Dicks Sporting Goods. Examples of these decreasing expenses include electric, employee payment, etc. The increase in online sales are really benefitting Dicks Sporting Goods by decreasing many of their expenses.

Year-over-year online sales growth

Q2 2020



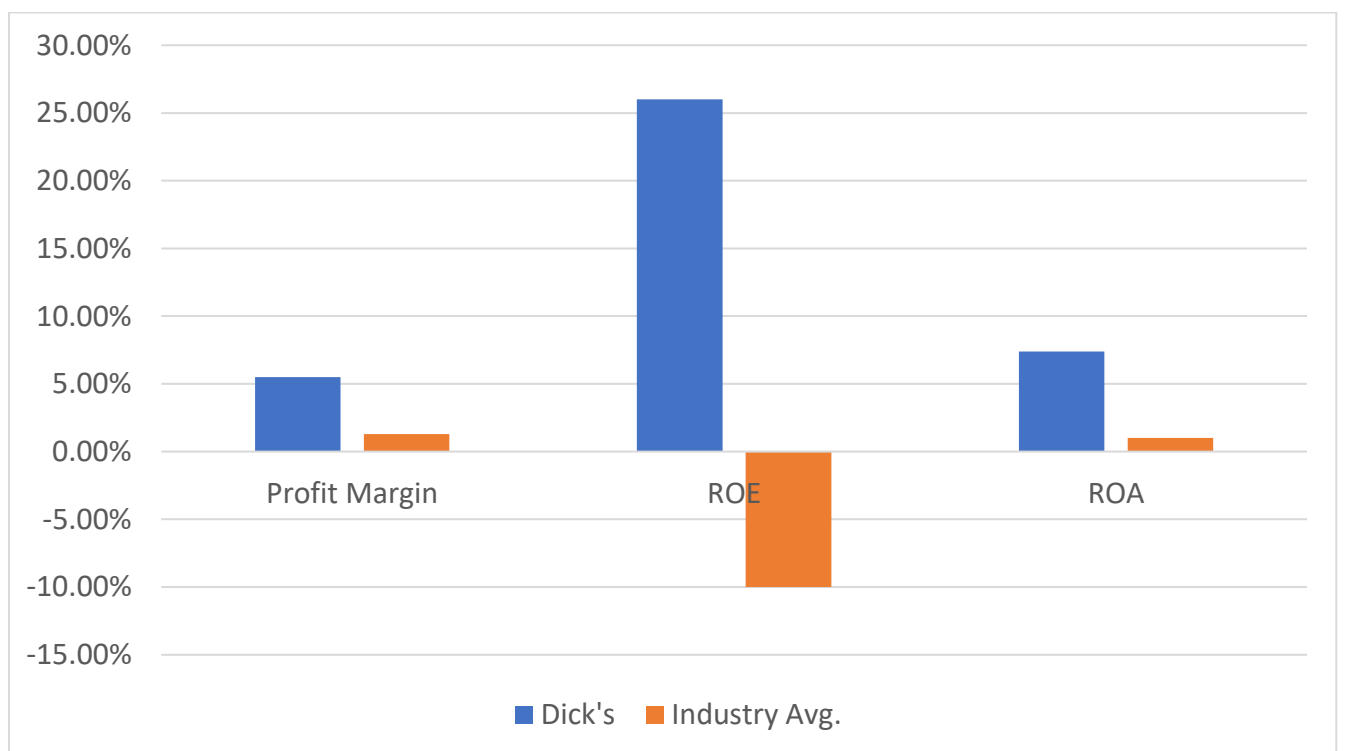
SOURCE: Company statements



This chart here illustrates the competition that Dicks Sporting Goods faces as far as online sales competition. Dicks Sporting Goods matches up this part year with some of the traditional biggest online sellers. It is impressive to see that Dicks Sporting Goods is among some of the biggest retail stores regardless of what products they sell.

In addition to Dicks Sporting Goods performing very well amongst other top online sales growth companies they also have an advantage over their competitors when looking at their key ratios. The ratios that I primarily looked at were the profitability ratios. Profitability ratios look indicate how efficiently a company generates profit and value for shareholders. They earn profit and value for shareholders through profits from its sales or operations, balance sheet assets, or shareholders equity. The three ratios that I specifically looked at included Profit Margin, Return on Equity (ROE), and Return on Assets (ROA). The profit margin looks at the level to which a company or business actively makes money. This is expressed as a percentage and indicated how much profit is generated by each dollar sale. When looking at Dicks Sporting Goods

compared to the rest of the industry they are ahead of the competition. Dick's Sporting Goods sits at a 5.5% profit margin while the rest of the industry sports a 1.3% profit margin. Looking at the Return on Equity Dick's Sporting Goods also stands apart from the competition. Return on Equity (ROE) looks at how well the given company utilizes its shareholders equity. Dick's Sporting Goods holds a 26% return while the rest of the industry sits at a -10% return. In addition to this Dick's Sporting Goods has far better Return on Assets (ROA) than its competitors. A Return on Assets is a ratio that provides how much profit a company is able to generate from its assets. The industry average for Return on Assets is 1%. Dick's Sporting Goods Return on Assets is 7.4%. It is easy to see that Dick's Sporting Goods is far superior to its competitors based on their profitability ratios.



I also chose to look at the liquidity ratios between Dick's Sporting Goods and the rest of the industry. Looking at the current ratio Dicks Sporting Goods yet again has the advantage over the competition where Dicks Current Ratio is 1.47 where the industry average is 1.34. As far as the Quick Ratio goes Dicks Sporting Goods falls slightly behind its competitors. The Quick Ratio for the industry average is 0.69 and Dicks Sporting Goods Quick Ratio is 0.67. Lastly, Dicks Sporting Goods has a far better Cash Ratio sitting at 0.65 and the industry average being 0.30. This was a very intriguing part of my research finding that Dicks Sporting Goods dominates its competitors when looking at ratios.

Total Liabilities	MV	Weight of Debt	Weight of Equity	After Tax Cost of Debt	Beta	Risk Free Rate	Market Risk	Cost of Equity	WACC
\$4,896,960,000	6,870,000,000	0.416	0.584	6.00%	1.72	2.25%	5.75%	12.14%	8.10%
Current Price:	\$81.88								
# of Shares	65,500,000								
Long-Term Debt	224,100,000								
Interest Expense	17,012,000								
Tax Rate	21%								
Cost of Debt	7.59%								

Pictured above is a chart of the WACC calculation that I configured and assessed. Looking at this WACC calculation, the Total Liabilities and MV were critical in calculating the weight of debt and the weight of equity. The after-tax cost of debt sat at 6% along with the beta being 1.72 and the risk-free rate being 2.25%. As of March 31st, 2021, I found that the market risk was currently at 5.75% which was necessary to figure it in order to get the most accurate calculation.

Discounted
Cash Flow

	2020	2021	2022	2023	2024	2025	Terminal Period
Cost of Capital	8.10%						
Terminal Growth Rate	2.5%						
EBIT%	4.29%						
<i>In Millions</i>							
	\$						
Sales	8,750.74	9,538.31	9,690.92	9,991.34	10,211.15	10,394.95	10,654.82
Growth Rate		9%	1.6%	3.1%	2.2%	1.8%	2.5%
EBIT	375.61	409.41	415.97	428.86	438.30	446.18	457.34
Taxes		85.98	87.35	90.06	92.04	93.70	96.04
OCF		323.44	328.61	338.80	346.25	352.49	361.30
Change in NWC		55.92	10.84	21.33	15.61	13.05	18.45
Change in CAPEX		15.04	2.91	5.74	4.20	3.51	4.96
FCF		252.48	314.86	311.73	326.45	335.93	337.88
Discounted FCF		233.56	269.44	246.78	239.06	227.57	

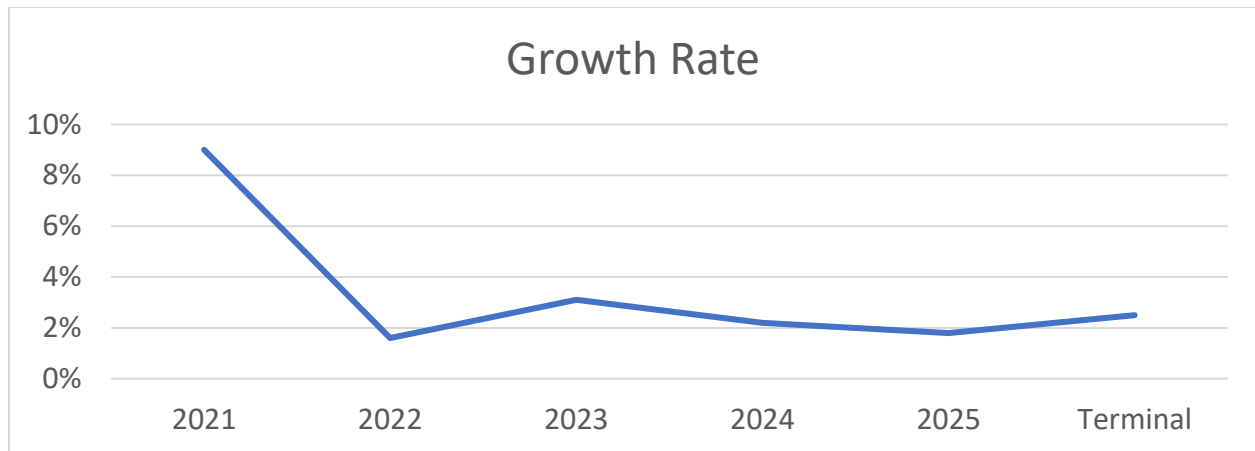
Terminal Value	6,184.47
PV of Terminal Value	3,875.69
Enterprise Value	5,092.10
Less Net Debt	3,150
Cash & Equiv	1,658
Equity Value	3,600.10

Shares Outstanding	65.5
Price Per Share	81.88

NWC % of Sales	7.10%
CAPEX % of Sales	1.91%

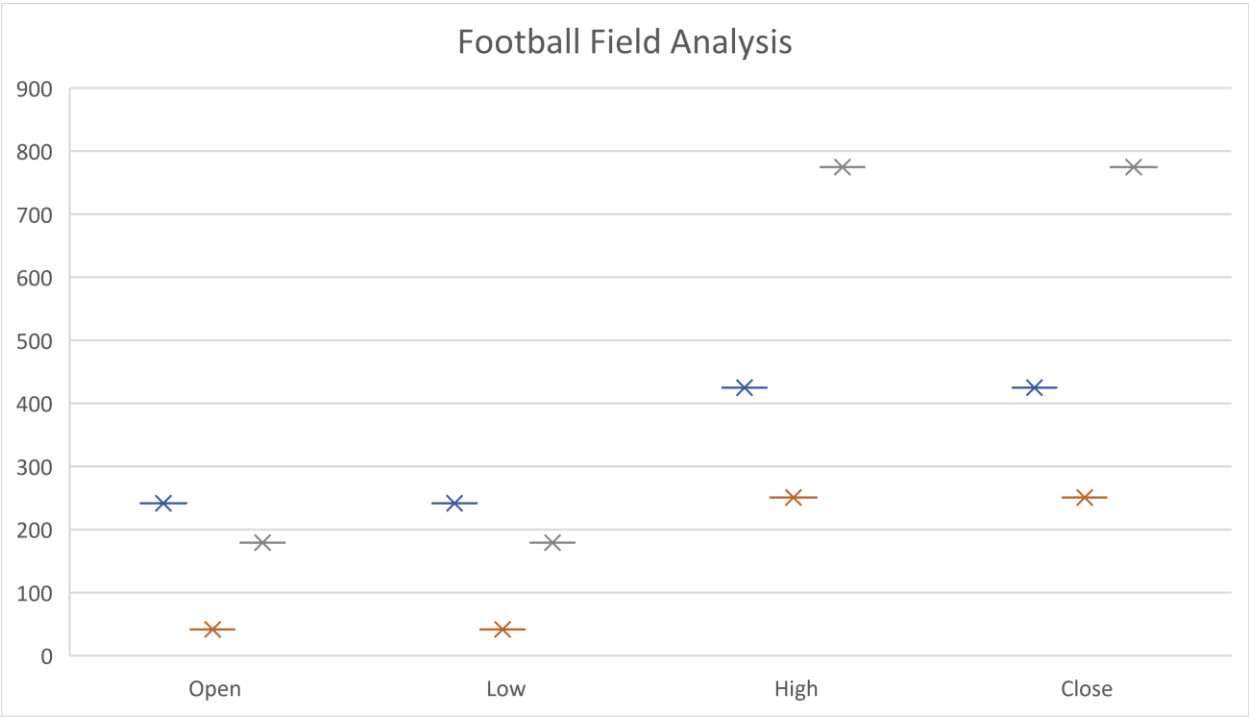
Exit Multiple Method

	2020	2021	2022	2023	2024	2025	Terminal Period
Cost of Capital	8.10%						
Terminal Growth Rate	3%						
EDITDA%	8.13%						
In Millions							
	\$	\$	\$	\$	\$	\$	\$
Sales	8,750.74	9,538.31	9,690.92	9,991.34	10,211.15	10,394.95	10,654.82
Growth Rate		9%	1.6%	3.1%	2.2%	1.8%	2.5%
EBITDA	711.36	775.38	787.79	812.21	830.08	845.02	866.15
Less Taxes		58.86	59.80	61.66	63.01	64.15	65.75
OCF		716.52	727.99	750.55	767.07	780.87	800.39
Change in NWC		55.92	10.84	21.33	15.61	13.05	18.45
Change in CAPEX		15.04	2.91	5.74	4.20	3.51	4.96
Unlevered CF		645.56	714.24	723.49	747.26	764.31	776.98
Terminal Year EBITDA		866.15					
Exit Multiple		20					
Terminal Value		17,322.91					
PV of TV		10,855.92					
Enterprise Value		14,450.78					
Less Net Debt		3,150					
Cash and Cash Equiv		1,658					
Equity Value		12,958.78					
Shares Outstanding		65.5					
Price Per Share		197.84					



The diagram above demonstrates the growth rates that I predict for Dicks Sporting Goods in the coming years. I was able to generate these projected growth rates of mine by looking at other professional analysts predictions along with my own reasoning factors. As you can see in the growth rate chart and also up above in the Discounted Cash Flow and Exit Multiple Method the growth rate that I project is 9% for 2021, 1.6% for 2022, 3.1% for 2023, 2.2% for 2024, 1.8% for 2025, and 2.5% for the terminal period. The reasoning why I am projecting this fluctuation within the next few years is because of the recent pandemic. The 2021 growth rate of 9% is due to the fact that there has been and will continue to be a high demand for outdoor products that Dicks Sporting Goods sells, due to the pandemic. Following this rapid spike in growth I believe there will be a gradual decline assuming that there isn't another pandemic of any sort. After this decline in 2022, Dick's Sporting Goods will grow once again at a more reasonable pace.

In conclusion, I believe that Dicks Sporting Goods is a great company to invest in. There are a few reasons why I believe that Dick's Sporting Goods is a good investment in addition to the information that I provided throughout this write up. The first reason to invest in Dick's Sporting Goods is because their Net Sales continue to grow year after year which no investor ever minds seeing. Their profitability ratios are far above the industry average showing that they are great at using their leverage and creating value for their shareholders. In addition to this Dick's Sporting Goods' ecommerce sales are higher than ever and they have proven in the last year that their technology and efficiency is among the leaders in the industry. Next, Dick's Sporting Goods not only strongly withstood a pandemic, but also excelled during it. It is not easy for a company to overcome the hurdles caused by the unexpected pandemic although Dick's thrived through the pandemic. Lastly, they have a very reasonable share price right now fluctuating around \$85. Stocks that have an "A" grade for value according to Zach's Ranks means the stock is among the best value. Many investors are watching Dick's Sporting Goods stock very closely. Dick's Sporting Goods (DKS) currently has a Zach's Rank of #1 (Strong Buy), as well as an A grade for Value.



	Open	Low	High	Close
EV/Sales High/Low	241.26	241.26	424.89	424.89
P/E High/Low	41.53	41.53	250.77	250.77
P/Book High/Low	179.07	179.07	774.6	774.6

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