



## ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

---

**Dick's Sporting Goods Inc. (NYSE: DKS: BUY)**

**Target Price: \$50**

**Christopher Graja, CFA**

**1/27/2016**

### **What's New?**

- A positive catalyst for Dick's share price.

### **What has happened to the stock?**

- Shares up 11% in last week.
- From Dick's earnings report on November 17 through January 19 the DKS shares were significant underperformers, down 15.5% on a total return basis compared with an 8% loss for the S&P 500.
- On January 20 and 21, the shares gained more than 7%.
- Shares up 5+% yesterday,

### **What is the catalyst for the move?**

- Believe the Street is seeing DKS as a potential beneficiary of financial weakness at rival Sports Authority.
- On January 20, Bloomberg News reported that Dick's rival, Sports Authority had skipped an interest payment on \$343 million of subordinated debt maturing in 2018.
- Bloomberg reported that Sports Authority may seek bankruptcy protection if it is unable to make a deal with its bondholders.
- Sports Authority entered a 30-day grace period on January 15, according to Moody's Investors Service. After that, a default could be triggered if the interest payment still isn't covered.

### **Investment Recommendation:**

- BUY
- 31% potential upside if my price target is achieved.
- Recent news is positive for the DKS.
- Our recommendation still hinges on:
  - Implementation of a judicious new-store strategy
  - Enhancement of e-commerce profitability
  - Repositioning of stores with more exclusive and high-margin products.

**Debates on the recent news:**

- Bloomberg News quoted Moody's as saying that Sports Authority has annual revenue of approximately \$2.7 billion.
- Divide that by approximately 450 stores and it breaks down to sales of approximately \$6 million per Sports Authority store.
- A credit analyst at RW Pressprich told Bloomberg that sales are approximately \$5.75 million per store.
- Outcome of bondholder negotiations is unknown.
- Should stores be closed it is often very unproductive stores that have been losing market share for a long time.
- Stores that close often have liquidation sales that hurt margins or take near-term sales away from surviving stores.
- Amount of sales gained from a closing store depends on a lot of factors.
- While potential industry consolidation could be positive for a surviving retailer, the need for consolidation may not be such a bullish indicator for the industry.

**Reiterating BUY:**

- We have maintained our BUY rating on this underperforming stock because:
  - Our store visits have provided evidence that management has been very capable and proactive in dealing with an array of challenges from unfavorable weather to changes in the golf business.

**What would make us more bullish?**

- A few quarters of positive earnings surprises that show that management can overcome normal variations in weather and industry-and-product changes.

**What could lead us to lower our recommendation?**

- Concern that competitive and product cycle issues were likely to be extremely challenging for even a capable management team to overcome on a consistent basis.
- 
-

---

## DISCLAIMER

This Note reflects the current thinking of an Argus analyst anticipating or responding to corporate earnings reports or other news relevant to covered companies. This Note may be an initial, real-time response to developments that are expected to impact stocks under coverage; as such, it does not imply that the information in it is correct as of any time after its preparation or that there has been no change in the business, financial condition, prospects, creditworthiness or status of a covered company. The views or opinions expressed in this Note are subject to change pending further analysis. This Note is produced and copyrighted by Argus, and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This Note is not an offer to sell or a solicitation of an offer to buy any security. The information presented in this Note is for general information only and does not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this Note. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this Note constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions and opinions than those represented in this Note, and all opinions are reflective of judgments made on the original date of publication. Those reports may reflect the different assumptions, views and analytical methods of the analysts who prepared them and Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this Note or to update or keep current the information contained in other reports so that such information is consistent with, or not contrary to, the information contained in this Note. Argus Research is an independent investment research provider and is not a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. None of our research is attributable to Argus Investors' Counsel, a registered investment adviser and the asset management arm of Argus Research. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock.

---