



Foot Locker Inc. (FL)

Updated March 1st, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	10.0%	Volatility Percentile:	96.2%
Fair Value Price:	\$69	5 Year Growth Estimate:	5.6%	Momentum Percentile:	96.2%
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	2.0%	Growth Percentile:	50.6%
Dividend Yield:	2.4%	5 Year Price Target	\$91	Valuation Percentile:	58.2%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	56.8%

Overview & Current Events

Foot Locker was established in 1974 as part of the FW Woolworth Company and became independent in 1988. The company has outlived its former parent. The athletic apparel retailer, known for its namesake Foot Locker brand, operates 3,221 stores in 27 countries. Foot Locker is a \$7.1 billion market cap company that generated \$7.9 billion in sales and \$541 million in profit last year.

On March 1st, 2019 Foot Locker announced Q4 and full year 2018 results for the period ending February 2nd, 2019 (the company's fiscal year ends the Saturday closest to January 31st). For the quarter Foot Locker reported sales of \$2.27 billion, a 2.8% increase compared to Q4 2017, driven by a comparable-store sales increase of 9.7%. The company reported net income of \$158 million (\$1.39 per share). On an adjusted basis, the company earned \$1.56 per share against \$1.14 in the prior period. For the year sales totaled \$7.94 billion, a 2.0% increase compared to 2017, driven by a 2.7% increase in comparable-store sales. On an adjusted basis earnings-per-share totaled \$4.71, an 18% increase compared to the \$3.99 posted in 2017.

In the week prior Foot Locker declared a \$0.38 quarterly dividend, representing a 10% increase, along with a new \$1.25 billion share repurchase program.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.54	\$1.10	\$1.80	\$2.58	\$2.89	\$3.61	\$3.84	\$4.82	\$3.99	\$4.71	\$4.95	\$6.50
DPS	\$0.60	\$0.60	\$0.66	\$0.71	\$0.78	\$0.88	\$1.00	\$1.10	\$1.24	\$1.38	\$1.52	\$2.08
Shares	157	155	152	150	146	140	137	132	120	116	110	100

During the last recession, Foot Locker's earnings dipped ~20%, but since then they have sharply rebounded. Indeed, from 2008 through 2018 the company has been able to increase earnings-per-share by over 20% annually. However, this was during a time when Foot Locker's net profit margin improved from ~2% to ~7% and the share count was reduced by 25% as well. Moving forward we are more cautious, albeit still optimistic, on the firm's growth prospects.

Share repurchases ought to continue to aid in bottom line growth, but we do not believe margins will expand at a rate anywhere near what was accomplished in the last decade. Meanwhile, the dividend remains an important component due to its propensity to grow over time. While the current yield is reasonable, income investors stand to collect meaningfully higher payouts if earnings continue to grow.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.6	13.7	12.1	12.6	12.3	14.0	16.9	13.4	13.0	11.3	12.7	14.0
Avg. Yld.	5.7%	4.0%	3.0%	2.2%	2.2%	1.7%	1.5%	1.7%	2.4%	2.6%	2.4%	2.3%

Over the past decade shares of Foot Locker have traded hands with an average P/E ratio of about 14 times earnings. While the growth rate is expected to slow, we still believe this is a fair baseline, especially given the company's financial



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position and reasonable growth prospects. This implies some valuation upside from this point. The dividend continues to chug along and has the potential to grow at a faster rate than earnings due to the lower payout ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	111%	54%	36%	27%	28%	24%	26%	23%	31%	29%	31%	32%

Foot Locker's competitive advantage is in its valuable brand names, its decades of experience in athletic apparel retailing and its enormous scale. Moreover, Foot Locker's balance sheet affords the company financial stability that others crave during a recession. As of the last quarterly report, the company held \$891 million in cash and equivalents against \$124 million in debt. Moreover, current assets alone (ignoring property and other assets) outpaced all liabilities by \$1.2 billion.

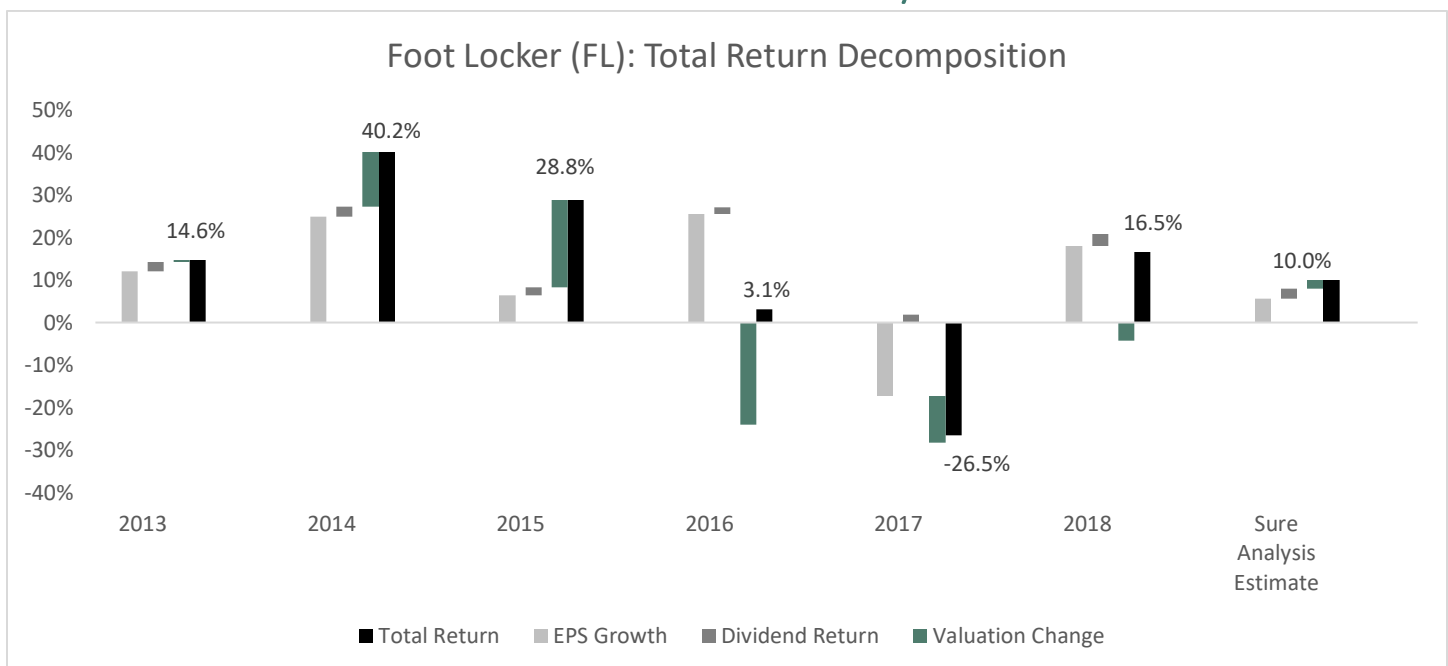
This does not mean that earnings power will not deteriorate in lesser times. During the last recession Foot Locker posted earnings-per-share of \$0.67, \$0.54 and \$1.10 through the 2008 to 2010 stretch, while the dividend was held steady. However, it does give a fair indication of the company's ability to withstand tougher times and bounce back.

The company's payout ratio has been reduced significantly since the last recession and stands at less than a third of earnings. This sets up well for faster dividend growth, a robust share repurchase program, or both in the years to come.

Final Thoughts & Recommendation

Shares are up 19% since our last update, while earnings came in better than expected. Given the significant share price run – up over 100% since October of 2017, but still down from a year ago – we are a bit less enthused about the security than we were a few months ago. However, this does not mean that today's valuation does not look compelling. Foot Locker has positive traits abound, with a reasonable expectation of growth, a solid and growing dividend, a below average valuation and a strong balance sheet to provide ballast in lesser times. We rate Foot Locker as a buy at current prices.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5237	4854	5049	5623	6182	6505	7151	7412	7766	7782
Gross Profit	1460	1332	1516	1796	2034	2133	2374	2505	2636	2456
Gross Margin	27.9%	27.4%	30.0%	31.9%	32.9%	32.8%	33.2%	33.8%	33.9%	31.6%
SG&A Exp.	1174	1099	1138	1244	1294	1334	1426	1415	1472	1501
D&A Exp.	130	112	106	110	118	133	139	148	158	173
Operating Profit	156	121	272	442	622	666	809	942	1006	782
Operating Margin	3.0%	2.5%	5.4%	7.9%	10.1%	10.2%	11.3%	12.7%	13.0%	10.0%
Net Profit	-80	48	169	278	397	429	520	541	664	284
Net Margin	-1.5%	1.0%	3.3%	4.9%	6.4%	6.6%	7.3%	7.3%	8.6%	3.6%
Free Cash Flow	237	257	229	345	253	324	522	563	578	539
Income Tax	-21	26	88	157	210	234	289	296	340	294

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2877	2816	2896	3050	3367	3487	3577	3775	3840	3961
Cash & Equivalents	385	582	696	851	880	858	967	1021	1046	849
Accounts Receivable	53	N/A	41	49	68	99	78	94	101	106
Inventories	1120	1037	1059	1069	1167	1220	1250	1285	1307	1278
Goodwill & Int. Ass.	257	244	217	198	185	230	206	201	197	206
Total Liabilities	953	868	871	940	990	991	1081	1222	1130	1442
Accounts Payable	187	215	223	240	298	263	301	279	249	258
Long-Term Debt	142	138	137	135	133	136	132	129	127	125
Shareholder's Equity	1924	1948	2025	2110	2377	2496	2496	2553	2710	2519
D/E Ratio	0.07	0.07	0.07	0.06	0.06	0.05	0.05	0.05	0.05	0.05

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-2.6%	1.7%	5.9%	9.4%	12.4%	12.5%	14.7%	14.7%	17.4%	7.3%
Return on Equity	-3.8%	2.5%	8.5%	13.4%	17.7%	17.6%	20.8%	21.4%	25.2%	10.9%
ROIC	-3.5%	2.3%	8.0%	12.6%	16.7%	16.7%	19.8%	20.4%	24.1%	10.4%
Shares Out.	157	155	152	150	146	140	137	132	120	116
Revenue/Share	34.01	31.06	32.22	36.42	40.14	43.22	48.98	52.64	57.48	60.84
FCF/Share	1.54	1.64	1.46	2.23	1.64	2.15	3.58	4.00	4.28	4.21

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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