



# Foot Locker Inc. (FL)

Updated March 6<sup>th</sup>, 2021 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$52	<b>5 Year CAGR Estimate:</b>	7.4%	<b>Market Cap:</b>	\$5.3 B
<b>Fair Value Price:</b>	\$53	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	04/15/21 <sup>1</sup>
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Dividend Payment Date:</b>	04/30/21 <sup>1</sup>
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$68	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	N/A

## 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, which closed in 1997. The athletic apparel retailer, known for its namesake Foot Locker brand, operates about 3,000 stores in 27 countries. Foot Locker is a \$5.3 billion market capitalization company that should generate about \$8 billion in revenue this year.

Foot Locker reported fourth quarter and full year earnings on February 26<sup>th</sup>, 2021 with results missing expectations on the top and bottom lines. Net income for the quarter was \$1.55 per share on an adjusted basis, which was down -4.9% year-over-year from \$1.63.

Comparable sales decreased by -2.7% from the prior year, and total sales fell by -1.4% to \$2.2 billion. Excluding the impact of forex translation, sales were down -3%. For the full year, sales were \$7.5 billion, down -5.7%, the result of a comparable sales decline of -5.9%. Excluding forex translation, sales fell -6.3%.

Adjusted earnings for the year fell from \$4.93 to \$2.81 year-over-year as 2020 included obvious COVID-19-related headwinds. We expect a very strong rebound in earnings to more normalized levels for this year as those headwinds have largely abated; we see \$4.65 as an initial estimate for this year but note that management declined to give any sort of guidance for 2021 at this point.

Foot Locker's balance sheet remains outstanding with \$1.7 billion in cash and just \$110 million in debt. In addition, its inventory position is -24% lower than it was a year ago, so it has tremendous financial flexibility and is poised to take advantage of any investment opportunities it sees, including share repurchases.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.80	\$2.58	\$2.89	\$3.61	\$3.84	\$4.82	\$3.99	\$4.71	\$4.93	\$2.81	<b>\$4.65</b>	<b>\$5.93</b>
<b>DPS</b>	\$0.66	\$0.71	\$0.78	\$0.88	\$1.00	\$1.10	\$1.24	\$1.38	\$1.49	\$0.93	<b>\$0.80</b>	<b>\$1.61</b>
<b>Shares<sup>2</sup></b>	152	150	146	140	137	132	120	113	105	105	<b>105</b>	<b>95</b>

During the last recession, Foot Locker's earnings dipped ~20%, but since then they had sharply rebounded. From 2008 through 2018 the company was 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%.

Moving forward we are more cautious, albeit still optimistic, on the firm's growth prospects. We note growth in 2019 was much slower, and of course, was negative for 2020.

Share repurchases were restarted in Q3 of 2020, so we see the stock as having that tailwind once again moving forward, although management has been quite cautious thus far spending on repurchases. We're moving our growth estimate to 5% annually as the coronavirus has introduced more risks, but Foot Locker is responding well to them. The company has rationalized its store base, which should help margins, and comparable sales have been very strong, excluding Q4. The company's inventory position should help with margins as well in 2021.

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

*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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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.1	12.6	12.3	14.0	16.9	13.4	13.0	11.3	9.7	11.6	<b>11.2</b>	<b>11.5</b>
Avg. Yld.	3.0%	2.2%	2.2%	1.7%	1.5%	1.7%	2.4%	2.6%	3.1%	2.9%	<b>1.5%</b>	<b>2.4%</b>

Over the past decade, shares of Foot Locker have traded hands with an average P/E ratio of about 14 times earnings. The valuation is back to a normalized level after the stock has continued to move higher. We've boosted our fair value estimate to 11.5 times earnings, and as such, we see a small tailwind to total returns. The once-attractive yield is now much less so given the lower payout, equating to just 1.5% at today's price.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	36%	27%	28%	24%	26%	23%	31%	29%	30%	33%	<b>17%</b>	<b>27%</b>

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.

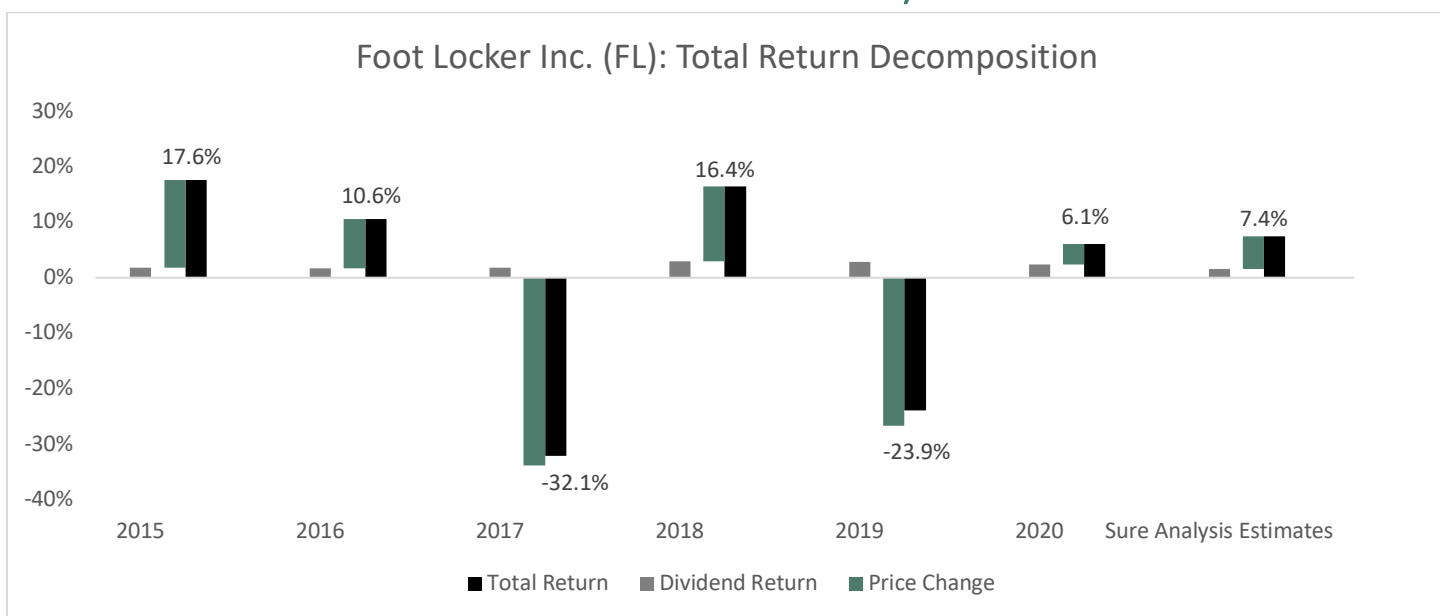
This does not mean that earnings will not deteriorate in tougher times. During the last recession, Foot Locker posted earnings-per-share of \$0.67, \$0.54 and \$1.10 through the 2008 to 2010 stretch, while the dividend was held steady. This gives a fair indication of the company's ability to withstand tougher times and bounce back. However, the dividend was suspended and reinstated at a lower rate in 2020.

The new dividend is quite low relative to earnings, so the payout should be safe for the foreseeable future. We also see the resumption of share repurchases as a vote of confidence from management.

## Final Thoughts & Recommendation

We remain positive on Foot Locker's fundamentals and outlook after Q4 results but see the share price as pricing in much of that already. With the yield quite low and the valuation near our fair value estimate, we are upgrading Foot Locker from sell to hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	5,623	6,182	6,505	7,151	7,412	7,766	7,782	7,939	8,005	7,548
<b>Gross Profit</b>	1,796	2,034	2,133	2,374	2,505	2,636	2,456	2,528	2,543	2,183
<b>Gross Margin</b>	31.9%	32.9%	32.8%	33.2%	33.8%	33.9%	31.6%	31.8%	31.8%	28.9%
<b>SG&amp;A Exp.</b>	1,244	1,294	1,334	1,426	1,415	1,472	1,501	1,614	1,654	1,587
<b>D&amp;A Exp.</b>	110	118	133	139	148	158	173	178	179	---
<b>Operating Profit</b>	442	622	666	809	942	1,006	782	736	710	420
<b>Operating Margin</b>	7.9%	10.1%	10.2%	11.3%	12.7%	13.0%	10.0%	9.3%	8.9%	5.6%
<b>Net Profit</b>	278	397	429	520	541	664	284	541	491	323
<b>Net Margin</b>	4.9%	6.4%	6.6%	7.3%	7.3%	8.6%	3.6%	6.8%	6.1%	4.3%
<b>Free Cash Flow</b>	345	253	324	522	563	578	539	594	509	---
<b>Income Tax</b>	157	210	234	289	296	340	294	172	181	171

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	3,050	3,367	3,487	3,577	3,775	3,840	3,961	3,820	6,589	7,041
<b>Cash &amp; Equivalents</b>	851	880	858	967	1,021	1,046	849	891	907	1,680
<b>Accounts Receivable</b>	49	68	99	78	94	101	106	87	100	---
<b>Inventories</b>	1,069	1,167	1,220	1,250	1,285	1,307	1,278	1,269	1,208	923
<b>Goodwill &amp; Int. Ass.</b>	198	185	230	206	201	197	206	181	176	176
<b>Total Liabilities</b>	940	990	991	1,081	1,222	1,130	1,442	1,314	4,116	4,265
<b>Accounts Payable</b>	240	298	263	301	279	249	258	387	333	400
<b>Long-Term Debt</b>	135	133	136	132	129	127	125	124	122	110
<b>Shareholder's Equity</b>	2,110	2,377	2,496	2,496	2,553	2,710	2,519	2,506	2,473	2,776
<b>D/E Ratio</b>	0.06	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.04

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	9.4%	12.4%	12.5%	14.7%	14.7%	17.4%	7.3%	13.9%	9.6%	4.7%
<b>Return on Equity</b>	13.4%	17.7%	17.6%	20.8%	21.4%	25.2%	10.9%	21.5%	20.0%	12.3%
<b>ROIC</b>	12.6%	16.7%	16.7%	19.8%	20.4%	24.1%	10.4%	20.5%	19.0%	11.8%
<b>Shares Out.</b>	152	150	146	140	137	132	120	113	105	105
<b>Revenue/Share</b>	36.42	40.14	43.22	48.98	52.64	57.48	60.84	68.38	73.37	71.82
<b>FCF/Share</b>	2.23	1.64	2.15	3.58	4.00	4.28	4.21	5.12	4.67	---

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

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