



Foot Locker Inc. (FL)

Updated August 29th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	13.8%	Market Cap:	\$5.9 B
Fair Value Price:	\$86	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/14/21
% Fair Value:	66%	5 Year Valuation Multiple Estimate:	8.5%	Dividend Payment Date:	10/29/21
Dividend Yield:	2.1%	5 Year Price Target	\$99	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	50%

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 nearly 3,000 stores in 27 countries. Foot Locker is a \$5.9 billion market capitalization company that should generate about \$8.8 billion in revenue this year.

Foot Locker reported second quarter earnings on August 20th, 2021, and results were better than expectations on both the top and bottom lines. The company's total sales rose 7.3% year-over-year excluding forex translation. Against the 2019 second quarter, sales were up a staggering 28.2%. The company said women's and kids' footwear were the growth drivers during the quarter, along with apparel and accessories. Foot Locker's lean inventory position, combined with this strong demand, helped drive outperformance for gross margins, which came to 35.1% of revenue. Earnings-per-share nearly tripled from the same period a year ago, coming to \$2.21.

The company ended the quarter with \$1.7 billion of net cash and spent just \$8 million on buybacks during the quarter. Foot Locker spent \$36 million on its stores, digital capabilities, supply chain, and other infrastructure items. The management team said it would stay opportunistic with share repurchases but didn't provide specific guidance. Foot Locker's net cash position is 29% of the market capitalization.

We now expect \$7.15 in earnings-per-share for this year, matching the new level of guidance from management following blockbuster Q2 results and strong forward-looking guidance.

The company also boosted its dividend by 50%, making a new annualized payout of \$1.20 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.80	\$2.58	\$2.89	\$3.61	\$3.84	\$4.82	\$3.99	\$4.71	\$4.93	\$2.81	\$7.15	\$8.29
DPS	\$0.66	\$0.71	\$0.78	\$0.88	\$1.00	\$1.10	\$1.24	\$1.38	\$1.49	\$0.93	\$1.20	\$2.41
Shares¹	152	150	146	140	137	132	120	113	105	105	105	95

During the last recession, Foot Locker's earnings dipped ~20%, but since then they had sharply rebounded prior to 2020. 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 from 5% annually to 3% given the massive improvement in earnings this year, which should very easily be a new company record. The company has rationalized its store base and inventory position, which is helping margins, and comparable sales have been very strong. These factors helped the company with blowout earnings again in Q2.

¹ 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	8.0	12.0
Avg. Yld.	3.0%	2.2%	2.2%	1.7%	1.5%	1.7%	2.4%	2.6%	3.1%	2.9%	2.1%	2.4%

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 now quite low by any standard following Q2 results, and the guidance raise. Given the stock is at 8 times earnings and our fair value estimate is 12, we see a massive tailwind to total returns from the valuation. With the dividend raise, Foot Locker is now back over a 2% current yield.

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%	17%	29%

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 enormous financial stability.

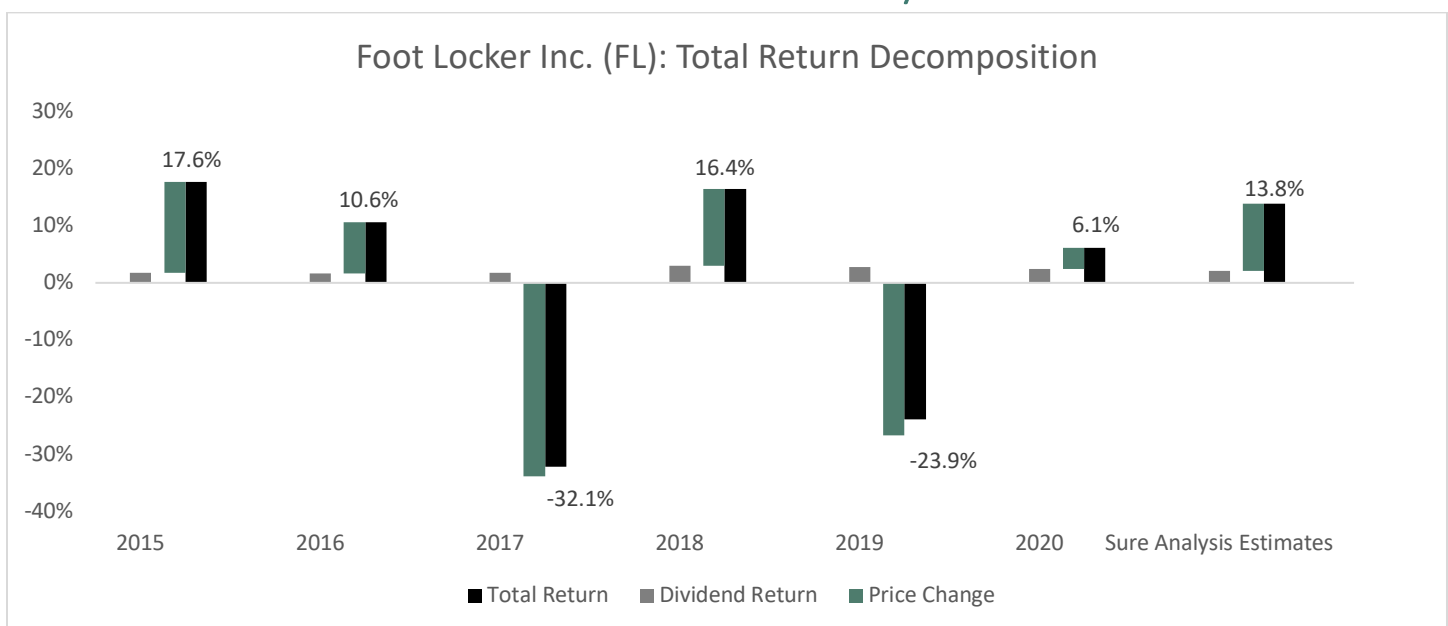
This does not mean that earnings will not deteriorate in tougher times. During the last recession, Foot Locker posted earnings-per-share of \$0.67, \$0.54 and \$1.10 through the 2008 to 2010 stretch, while the dividend was held steady. This gives a fair indication of the company's ability to withstand 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 Q2 results, and given the stock has pulled back, we see the valuation as very attractive. The yield is back above 2%, and with decent growth projected, plus the 8.5% tailwind from the valuation, we are upgrading Foot Locker to a buy rating on 13.8% projected total annual returns.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,050	3,367	3,487	3,577	3,775	3,840	3,961	3,820	6,589	7,041
Cash & Equivalents	851	880	858	967	1,021	1,046	849	891	907	1,680
Accounts Receivable	49	68	99	78	94	101	106	87	100	---
Inventories	1,069	1,167	1,220	1,250	1,285	1,307	1,278	1,269	1,208	923
Goodwill & Int. Ass.	198	185	230	206	201	197	206	181	176	176
Total Liabilities	940	990	991	1,081	1,222	1,130	1,442	1,314	4,116	4,265
Accounts Payable	240	298	263	301	279	249	258	387	333	400
Long-Term Debt	135	133	136	132	129	127	125	124	122	110
Shareholder's Equity	2,110	2,377	2,496	2,496	2,553	2,710	2,519	2,506	2,473	2,776
D/E Ratio	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
Return on Assets	9.4%	12.4%	12.5%	14.7%	14.7%	17.4%	7.3%	13.9%	9.6%	4.7%
Return on Equity	13.4%	17.7%	17.6%	20.8%	21.4%	25.2%	10.9%	21.5%	20.0%	12.3%
ROIC	12.6%	16.7%	16.7%	19.8%	20.4%	24.1%	10.4%	20.5%	19.0%	11.8%
Shares Out.	152	150	146	140	137	132	120	113	105	105
Revenue/Share	36.42	40.14	43.22	48.98	52.64	57.48	60.84	68.38	73.37	71.82
FCF/Share	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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