



Foot Locker Inc. (FL)

Updated December 5th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	14.0%	Market Cap:	\$4.6 B
Fair Value Price:	\$84	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	01/13/22
% Fair Value:	53%	5 Year Valuation Multiple Estimate:	13.7%	Dividend Payment Date:	01/28/22
Dividend Yield:	2.7%	5 Year Price Target	\$76	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	50.0%

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 \$4.6 billion market capitalization company that should generate about \$9 billion in revenue this year.

Foot Locker reported third quarter earnings on November 19th, 2021, and results were well ahead of expectations on both the top and bottom lines. Net income was \$1.93 per share in Q3 on an adjusted basis, well ahead of the \$1.21 the company posted in last year's Q3, and the \$1.13 it saw in the same period of 2019, pre-COVID.

Comparable sales were up 2.2% in Q3, driving total sales growth of 3.9% to \$2.2 billion. That was also more than 13% higher than the same period in 2019.

The company said it was seeing continuously strong demand, as well as fresh inventory, and that led to more full-priced selling, gross margin expansion, and stronger earnings. Management mentioned that it expects to see at least one more quarter of supply constraints, but that inventory levels remain strong and able to meet current demand.

We now expect \$7.60 in earnings-per-share for this year but note that 2021 may mark an intermediate-term top for Foot Locker given the confluence of events that are driving a combination of strong sales and margins simultaneously, driving record earnings levels.

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	\$7.60	\$6.87
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	104	95

During the Great 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 3% annually to -2% given the massive improvement in earnings this year, which should very easily be a new company record, but also very difficult to match in the coming years. 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 Q3. A risk is that supply constraints last longer than currently expected, but thus far, Foot Locker has weathered it very well.

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	5.8	11.0
Avg. Yld.	3.0%	2.2%	2.2%	1.7%	1.5%	1.7%	2.4%	2.6%	3.1%	2.9%	2.7%	3.2%

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 Q3 results, and the guidance raise. Given the stock is at 5.8 times earnings and our fair value estimate is 11, we see a massive tailwind to total returns from the valuation. With the dividend raise, Foot Locker is now back near a 3% 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%	16%	35%

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.

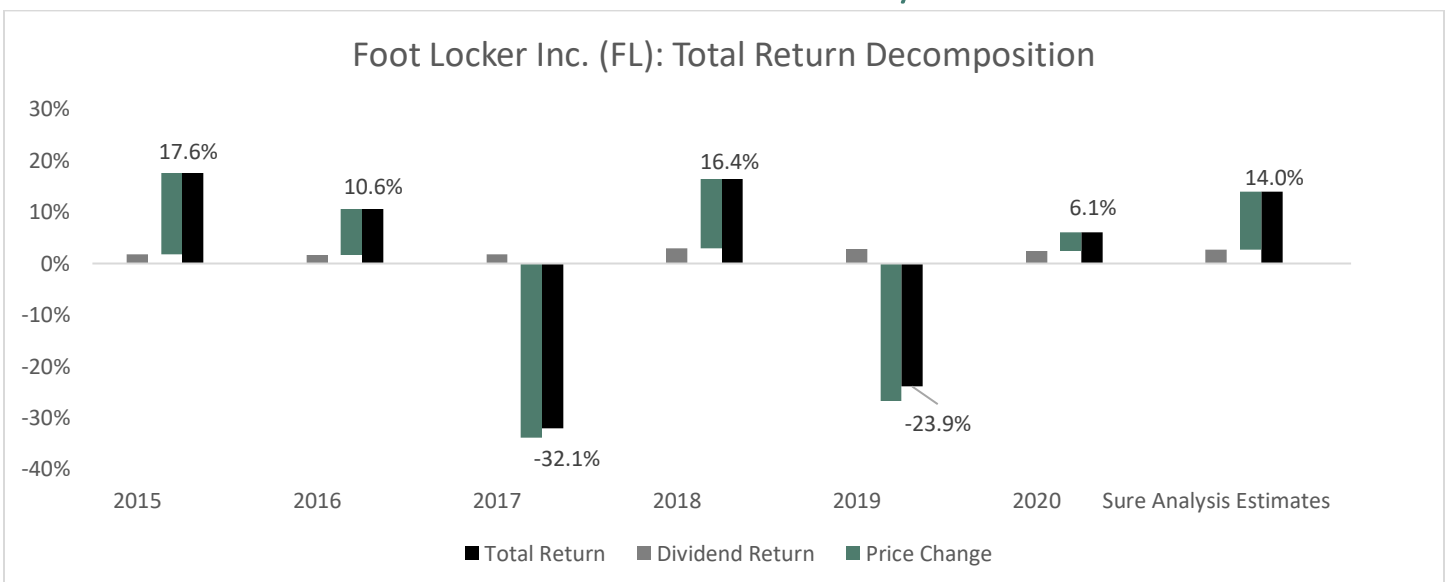
This does not mean that earnings will not deteriorate in tougher times. During the Great Recession, Foot Locker posted earnings-per-share of \$0.67, \$0.54 and \$1.10 through the 2008 to 2010 stretch, while the dividend was held steady. This gives a fair indication of the company's ability to withstand 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 Q3 results, and given the stock has pulled back, we see the valuation as very attractive. The yield is back well above 2%, plus the double-digit tailwind from the valuation, we are reiterating Foot Locker at a buy rating on 14% projected total annual returns. We note that earnings growth is likely to be extremely difficult to come by in the coming years from this year's record base.

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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