



# Foot Locker Inc. (FL)

Updated March 22<sup>nd</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$43	<b>5 Year CAGR Estimate:</b>	5.8%	<b>Market Cap:</b>	\$4.0 B
<b>Fair Value Price:</b>	\$32	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	04/13/23
<b>% Fair Value:</b>	133%	<b>5 Year Valuation Multiple Estimate:</b>	-5.5%	<b>Dividend Payment Date:</b>	04/28/23
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$48	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## 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 billion market capitalization company that should generate about \$8.4 billion in revenue this year.

Foot Locker reported fourth quarter and full-year earnings on March 20<sup>th</sup>, 2023, and results were much better than expected. The company's revenue was down fractionally year-over-year to \$2.33 billion, but that was \$190 million better than expected. Comparable sales were +4.2%, which was massively ahead of the decline of 6% that was expected by analysts. Earnings-per-share came to 97 cents on an adjusted basis, which was nearly double what analysts had expected.

The company guided for 2023 sales to decline between 3.5% and 5.5%, on a comparable sales decline of the same amount. Gross margin is expected to be 30.8% to 31.0% of revenue, which is below the expected 31.5%. Guidance for earnings-per-share is expected to be \$3.35 to \$3.65.

Foot Locker also offered up very bullish guidance for 2024 to 2026, saying the company expects to see at least 20% earnings growth for those years.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.89	\$3.61	\$3.84	\$4.82	\$3.99	\$4.71	\$4.93	\$2.81	\$7.77	\$4.95	<b>\$3.60</b>	<b>\$5.29</b>
<b>DPS</b>	\$0.78	\$0.88	\$1.00	\$1.10	\$1.24	\$1.38	\$1.49	\$0.93	\$0.85	\$1.50	<b>\$1.60</b>	<b>\$2.04</b>
<b>Shares<sup>1</sup></b>	146	140	137	132	120	113	105	105	100	95	<b>90</b>	<b>80</b>

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. That said, the new repurchase authorization combined with the massive decline in the share price should see heavy buying in the coming quarters. We're moving our growth estimate to 8% annually given the guidance suggested by management, as well as the low base of earnings that the company is beginning 2023 with. The company has rationalized its store base and inventory position, which is helping margins, and comparable sales have been okay, although a decline is expected for this year. A risk is that supply constraints last longer than currently expected, but thus far, Foot Locker has weathered it reasonably well.

<sup>1</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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.3	14.0	16.9	13.4	13.0	11.3	9.7	11.6	6.9	7.6	11.9	9.0
Avg. Yld.	2.2%	1.7%	1.5%	1.7%	2.4%	2.6%	3.1%	2.9%	1.6%	4.0%	3.7%	4.3%

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 much higher after Q4 results, and the relatively low earnings guidance for this year. Given the stock is at 11.9 times earnings and our fair value estimate is 9, we see a headwind to total returns from the valuation. The stock is yielding 3.7% today.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	28%	24%	26%	23%	31%	29%	30%	33%	11%	30%	44%	39%

Foot Locker's competitive advantage is in its valuable brand names, its decades of experience in athletic apparel retailing and its sizable scale. Moreover, Foot Locker's balance sheet affords the company enormous financial stability, which it is using to buy back shares.

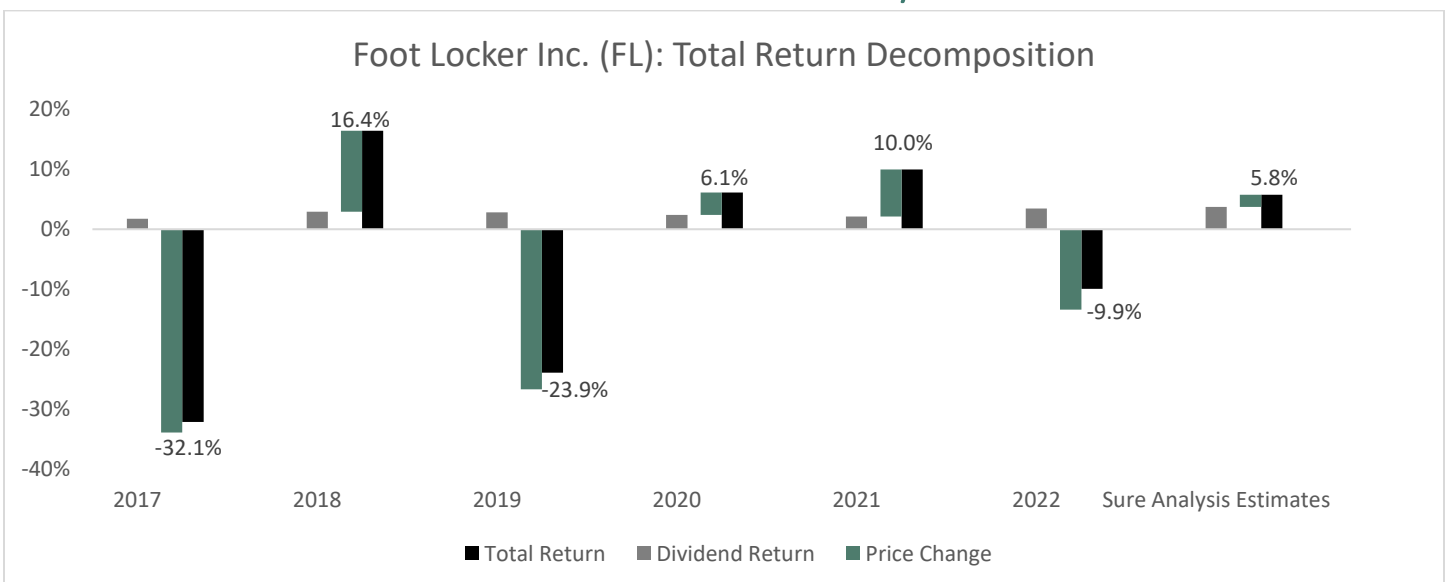
This does not mean that earnings will not deteriorate in tougher times. During the Great Recession, Foot Locker posted earnings-per-share of \$0.67, \$0.54, and \$1.10 through the 2008 to 2010 stretch, while the dividend was held steady. This gives a fair indication of the company's ability to withstand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

The new dividend is still low relative to earnings, so the payout should be safe for the foreseeable future. We also see the boost 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 the stock has rallied since our last update. With a yield of 3.7%, offset by the 5.5% headwind from the valuation and 8% growth, we are reiterating Foot Locker at a hold rating with 5.8% estimated annual returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	6,505	7,151	7,412	7,766	7,782	7,939	8,005	7,548	8,958	8,759
<b>Gross Profit</b>	2,133	2,374	2,505	2,636	2,456	2,528	2,543	2,183	3,080	2,804
<b>Gross Margin</b>	32.8%	33.2%	33.8%	33.9%	31.6%	31.8%	31.8%	28.9%	34.4%	32.0%
<b>SG&amp;A Exp.</b>	1,334	1,426	1,415	1,472	1,501	1,614	1,654	1,587	1,851	1,903
<b>D&amp;A Exp.</b>	133	139	148	158	173	178	179	176	197	---
<b>Operating Profit</b>	666	809	942	1,006	782	736	710	420	1,032	693
<b>Operating Margin</b>	10.2%	11.3%	12.7%	13.0%	10.0%	9.3%	8.9%	5.6%	11.5%	21.7%
<b>Net Profit</b>	429	520	541	664	284	541	491	323	893	342
<b>Net Margin</b>	6.6%	7.3%	7.3%	8.6%	3.6%	6.8%	6.1%	4.3%	10.0%	3.9%
<b>Free Cash Flow</b>	324	522	563	578	539	594	509	903	457	---
<b>Income Tax</b>	234	289	296	340	294	172	181	171	348	180

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	3,487	3,577	3,775	3,840	3,961	3,820	6,589	7,041	8,135	7,907
<b>Cash &amp; Equivalents</b>	858	967	1,021	1,046	849	891	907	1,680	804	536
<b>Accounts Receivable</b>	99	78	94	101	106	87	100	124	134	---
<b>Inventories</b>	1,220	1,250	1,285	1,307	1,278	1,269	1,208	923	1,266	1,643
<b>Goodwill &amp; Int. Ass.</b>	230	206	201	197	206	181	176	176	1,251	1,211
<b>Total Liabilities</b>	991	1,081	1,222	1,130	1,442	1,314	4,116	4,265	4,892	4,614
<b>Accounts Payable</b>	263	301	279	249	258	387	333	400	596	492
<b>Long-Term Debt</b>	136	132	129	127	125	124	122	110	457	452
<b>Shareholder's Equity</b>	2,496	2,496	2,553	2,710	2,519	2,506	2,473	2,776	3,239	3,293
<b>LTD/E Ratio</b>	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.04	0.14	0.14

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	12.5%	14.7%	14.7%	17.4%	7.3%	13.9%	9.6%	4.7%	11.8%	4.3%
<b>Return on Equity</b>	17.6%	20.8%	21.4%	25.2%	10.9%	21.5%	20.0%	12.3%	29.7%	10.5%
<b>ROIC</b>	16.7%	19.8%	20.4%	24.1%	10.4%	20.5%	19.0%	11.8%	27.1%	9.2%
<b>Shares Out.</b>	146	140	137	132	120	113	105	105	104	96
<b>Revenue/Share</b>	43.22	48.98	52.64	57.48	60.84	68.38	73.37	71.82	86.30	91.72
<b>FCF/Share</b>	2.15	3.58	4.00	4.28	4.21	5.12	4.67	8.59	4.40	---

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

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