



Foot Locker Inc. (FL)

Updated August 28th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	1.7%	Market Cap:	\$1.6 B
Fair Value Price:	\$13	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	10/12/23
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Dividend Payment Date:	10/27/23
Dividend Yield:	N/A	5 Year Price Target	\$19	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Rating:	Sell

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 \$1.6 billion market capitalization company that should generate about \$7 billion in revenue this year.

Foot Locker posted second quarter earnings on August 23rd, 2023, and results were worse than expected, guidance was well off from expectations, and the company eliminated its quarterly dividend. The combination of these factors saw the stock plummet by a third of its value after the earnings release.

The company posted adjusted earnings-per-share of four cents, which missed estimates by a penny. Revenue was off 10% from the year-ago period to \$1.86 billion, which missed estimates by \$20 million. The revenue decline was driven by a comparable store sales decline of 9.4%, which the company blamed on consumer spending softness, changing vendor mix, and the repositioning of its Champs Sports brand.

Sales are now expected to fall between 8% and 9% this year, as comparable sales are expected to decline between 9% and 10%. Both of those are reductions from prior guidance. Adjusted earnings-per-share guidance is now for \$1.30 to \$1.50, well off of the prior range of \$2.00 to \$2.25.

The company's previously declared dividend in October will be paid, but no dividends beyond that are to be made for the foreseeable future.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.89	\$3.61	\$3.84	\$4.82	\$3.99	\$4.71	\$4.93	\$2.81	\$7.77	\$4.95	\$1.40	\$2.06
DPS	\$0.78	\$0.88	\$1.00	\$1.10	\$1.24	\$1.38	\$1.49	\$0.93	\$0.85	\$1.50	---	---
Shares¹	146	140	137	132	120	113	105	105	100	95	90	80

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 given awful 2023 results and guidance, and only forecast earnings growth given the extremely low base. We note growth in 2019 was much slower, and of course, was negative for 2020. We've left our growth estimate unchanged given the base of earnings for 2023 is now at a decade-plus low.

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 repurchase authorization and lack of new dividend payments combined with the massive decline in the share price should see heavy buying in the coming quarters. We're reiterating our growth estimate at 8% annually given the guidance suggested by

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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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, but consumer spending weakness is a massive headwind.

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	12.1	9.0
Avg. Yld.	2.2%	1.7%	1.5%	1.7%	2.4%	2.6%	3.1%	2.9%	1.6%	4.0%	---	---

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 higher after Q2 results, and the lower earnings guidance for this year. Given the stock is at 12.1 times earnings and our fair value estimate is 9, we see a headwind to total returns from the valuation. The yield is now no longer a factor given no more dividends are being declared.

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%	---	---

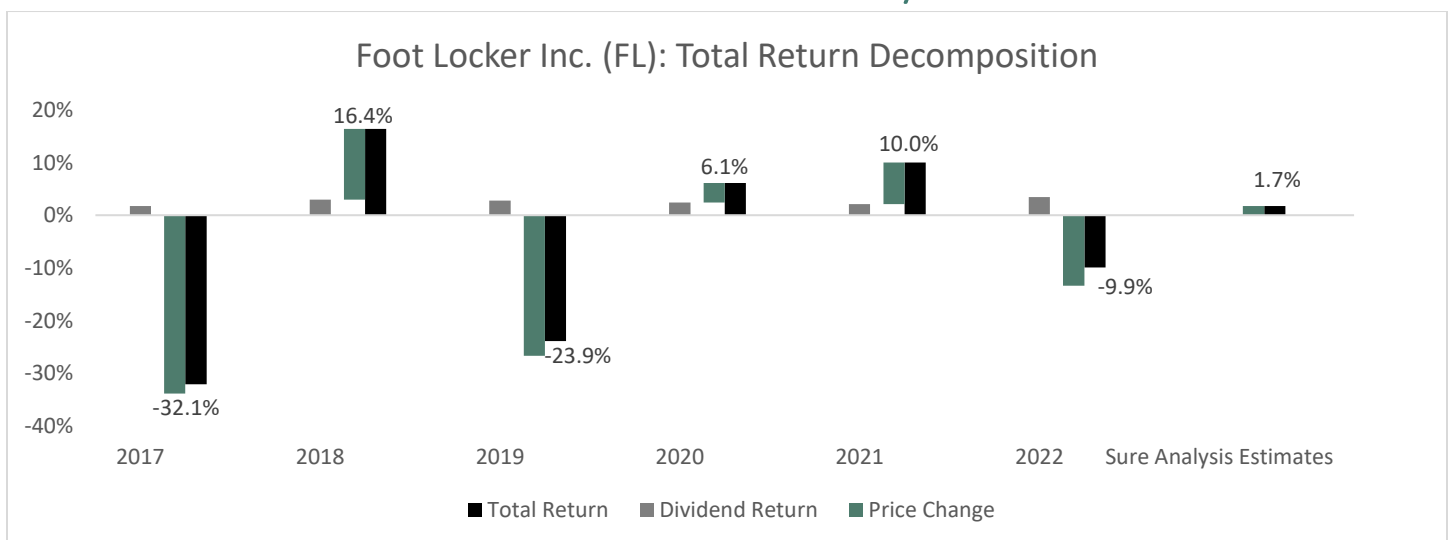
Foot Locker's competitive advantage is in its valuable brand names, its decades of experience in athletic apparel retailing and its sizable scale. Moreover, Foot Locker's balance sheet affords the company enormous financial stability, which it is using to buy back shares. That advantage, however, appears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

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 company has suspended its dividend for the foreseeable future.

Final Thoughts & Recommendation

We continue to have serious concerns with Foot Locker's fundamentals following the guidance cut in Q2. The ample dividend yield is now gone, the stock is overvalued, and there seems to be no end in sight for negative guidance revisions. We're moving the stock from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,487	3,577	3,775	3,840	3,961	3,820	6,589	7,041	8,135	7,907
Cash & Equivalents	858	967	1,021	1,046	849	891	907	1,680	804	536
Accounts Receivable	99	78	94	101	106	87	100	124	134	---
Inventories	1,220	1,250	1,285	1,307	1,278	1,269	1,208	923	1,266	1,643
Goodwill & Int. Ass.	230	206	201	197	206	181	176	176	1,251	1,211
Total Liabilities	991	1,081	1,222	1,130	1,442	1,314	4,116	4,265	4,892	4,614
Accounts Payable	263	301	279	249	258	387	333	400	596	492
Long-Term Debt	136	132	129	127	125	124	122	110	457	452
Shareholder's Equity	2,496	2,496	2,553	2,710	2,519	2,506	2,473	2,776	3,239	3,293
LTD/E Ratio	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
Return on Assets	12.5%	14.7%	14.7%	17.4%	7.3%	13.9%	9.6%	4.7%	11.8%	4.3%
Return on Equity	17.6%	20.8%	21.4%	25.2%	10.9%	21.5%	20.0%	12.3%	29.7%	10.5%
ROIC	16.7%	19.8%	20.4%	24.1%	10.4%	20.5%	19.0%	11.8%	27.1%	9.2%
Shares Out.	146	140	137	132	120	113	105	105	104	96
Revenue/Share	43.22	48.98	52.64	57.48	60.84	68.38	73.37	71.82	86.30	91.72
FCF/Share	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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