

Company Description: Footlocker, Inc. is a leading global retailer of athletically inspired shoes and apparel. The company operates approximately 3,160 athletic retail stores in 27 countries, as well as websites and mobile apps, under its wide array of brand names including Foot Locker, Champs Sports, Eastbay, and more.

BUY

Current Price:	\$39.84
Target Price:	\$51.13
Market Cap:	4.264B
Beta:	2.33
Daily Volume:	2.03
Short Interest:	7.60%
Volatility:	41.64%



Thesis: I am initiating coverage of FL with a BUY at \$39.84 (market price) with a target at \$51.13. I believe that Foot Locker, Inc. has been undervalued due to their relative standpoint within the marketplace, as well as over reaction to the changing retail space and its overall effect on FL as a whole. Growth potential within Asian marketplaces as well as a re-positioning of the sales approach within retail locations to accommodate today's youth as a place to come and be, not just as a store you walk into and walk out of with goods.

Catalysts:

- Short Term (within the year):
- Mid Term (1-2 years): Asian marketplace growth- Can trade tensions slow enough to create a great opportunity to grow further into the ever-so growing Asian Marketplace?
- Long Term (3+): The long-term outlook of brick-and-mortar stores

Company History:

Originally its own subsidiary, Foot Locker dates back to its original creation in 1879 as a successor corporation to the F W Woolworth Company, as many of its freestanding stores were originally Kinney Shoes and Woolworth's locations. As the decline in stock price and the fall of the Woolworth Company out of the Dow Jones index, Footlocker became responsible for more and more sales of the company, and in 2001, the Wentworth/Ventnor Company changed its name to Footlocker, Inc. From then on, acquisitions and mergers within the business has created what is now known today as Footlocker, inc.

Consumer Discretionary Outlook:

It is not hard to look around and notice that people are spending more money. Big cars, designer items everywhere, \$1,000 smartphones, \$160 headphones in what seems everyone's ear's (yes. AirPods.). Paired with the modest wage growth, high consumer confidence, and large gains in the stock market you do not really have to look far to correlate the two items. Looking into a historical graph of this segment, the numbers speak for themselves.



What we need to be cautious of is where this industry is within the business cycle. Fidelity Investments assumes that the consumer discretionary sector is heading into Late Expansion period, and historic trends indicate consistent underperformance. However, the markets are still booming- offering room for more market growth in the near term. Additionally, the added risk of a tariff addition leaves the question truly unanswered about prices of such goods that are sold within the Footlocker, Inc. outreach that are primarily made within the Asian-Pacific marketplace. This can bring in lower sales, and in turn, pressure margins for companies as well, driving down financial performance. According to Charles Schwab's outlook, the American consumer is optimistic, but they are on guard for a potential softening of that mood if business leader's cutbacks on capital spending broaden into cutbacks in labor. As of September, 2019 they have been at a Market perform rating.

*Source: Charles Schwab Center for Financial Research
Fidelity Investments Market Outlook*

Q3 Earnings Report (Nov 22, 2019):

The Company reported a strong quarter with net income of \$125 million or \$1.16 per share in the third quarter, compared to net income of \$130 million or \$1.14 per share last year. GAAP results reported a pre-tax gain of \$4MM in part of the acquisition of a Canadian distribution lease. On a non-GAAP basis, third quarter

earnings were \$122MM (\$1.13/share) which was a 19% increase from last year's \$108 MM (\$0.95) per share. Credit to this is given to a reported sales increase of 5.7% and improvement to both the gross margin as well as SG&A rates. Comparable sales growth was heavily driven by footwear sales, focused mainly in the success of the men's basketball shoe sales. This may not come as a surprise to many, as it is known to be a hangout of sneaker collectors "sneakerheads" that typically will go to these online stores to catch the latest release of Adidas "Yeezy" sneakers and the many Nike Air Jordan limited releases special to such stores as Footlocker, Champs, and Eastbay. It was noted however, that apparel sales are still lacking, but precautions are being made to slowly increase sales within apparel. A 50 basis-point rise to a 32.1% gross margin was seen in relation to the leverage of their fixed occupancy and buyer's compensation abilities. According to Lauren B. Peters (Executive Vice President and Chief Financial Officer), the strongest performance this quarter was the continued productivity of their inventory system. Inventory was flat on a constant currency basis, while achieving sales gain. Inventory health is "fresh and productive" as they head into the holiday season.

Source: Q3 Earnings Call

Key Financial Statistics:

Capital expenditures are expected to hit -220MM (down from the original \$250MM expectation), a rise from the -\$187MM reported last year. This is due to a multitude of factors, including an investment into digital and analytic capabilities, piloting their new FLX Membership program, expansion into Asia, and what they call the "ongoing efforts to elevate customer experience in stores". Clients are looking for a new shopping experience that they cannot get from simply opening their computer or going on their phone to get the good needed.

This is especially so within the footwear industry- having that need to go in to try the shoes on offers a great place for these brick and mortar stores to capitalize on having a person-to-person contact. 11 new stores were opened this year, bringing the total year-to-date openings to 35 stores, with an end goal of 70 stores being opened, 160 that will be re-modeled or relocated. However, this is coupled with the 96 store closures this year upon a post-holiday lease expiring.

FL US \$

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Vol 2,152,024

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H 40.80P

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Financial Analysis

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Foot Locker Inc

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Key Stats

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11 Adj Highlights

12 GAAP Highlights

13 Earnings

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15 EV Ex Operating Leases

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In Millions of USD	2016 Y	2017 Y	2018 Y	2019 Y	Current/LTM	2020 Y Est	2021 Y Est
12 Months Ending	01/30/2016	01/28/2017	02/03/2018	02/02/2019	11/02/2019	01/31/2020	01/31/2021
Market Capitalization	9,254.2	8,943.0	5,797.3	6,178.9	4,265.5		
- Cash & Equivalents	1,021.0	1,046.0	849.0	891.0	744.0		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	130.0	127.0	125.0	124.0	3,346.0		
Enterprise Value	8,363.2	8,024.0	5,073.3	5,411.9	6,867.5		
Revenue, Adj	7,412.0	7,766.0	7,782.0	7,939.0	8,056.0	8,046.8	8,232.6
Growth %, YoY	3.6	4.8	0.2	2.0	2.3	1.4	2.3
Gross Profit, Adj	2,505.0	2,636.0	2,456.0	2,528.0	2,578.0	2,572.4	2,634.4
Margin %	33.8	33.9	31.6	31.8	32.0	32.0	32.0
EBITDA, Adj	1,090.0	1,170.0	955.0	914.0	1,238.0	900.7	904.6
Margin %	14.7	15.1	12.3	11.5	15.4	11.2	11.0
Net Income, Adj	606.7	672.9	526.0	547.0	548.0	537.2	530.4
Margin %	8.2	8.7	6.8	6.9	6.8	6.7	6.4
EPS, Adj	4.31	4.98	4.11	4.71	4.91	4.93	5.24
Growth %, YoY	19.9	15.5	-17.4	14.6	10.6	4.6	6.2
Cash from Operations	791.0	844.0	813.0	781.0			
Capital Expenditures	-228.0	-266.0	-274.0	-187.0		-247.0	-251.8
Free Cash Flow	563.0	578.0	539.0	594.0		409.5	485.7

Australia 61 2 9777 8600

Brazil 5511 2395 9000

Europe 44 20 7380 7500

Germany 49 69 8204 1210

Hong Kong 852 2377 8000

Japan 61 3 4555 8900

Singapore 65 6212 1000

U.S. 1 212 318 2000

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One thing that immediately pops out upon looking at the attached screenshot is the rapidly declining market capitalization (over -50% from 2016-now). Footlocker, Inc. has been engaged in hefty stock buyback programs as well as dividend

payout system. This current year, \$178MM shares were repurchased (appx 4.6MM shares) with a dividend payout of \$0.38 per share this quarter. Outlook of this is viewed as opportunistic.

Source: Q3 Earnings Call

Competitors:

Operations within this industry cause competition primarily within athletic footwear specialty stores, sporting goods stores, department stores, traditional shoe stores, mass merchandisers, and internet retailers, many of which are units of national or regional chains that have significant financial and marketing resources. Within the sneaker retail realm, Footlocker is the leading competitor within its size range. ROE and Dividend yield top the competition, providing a great value to investors. With that, P/E growth is slowly moving within the average range of competition, providing a great outlook for the future to come. The principal competitive factors in their markets are selection of merchandise, customer experience, reputation, store location, advertising, and price. It is no secret that the industry is slowly moving away from retail experience, and more towards online purchases. Such attributes and direct numbers can be seen below in the diagram:

Name (BICS Best Fit)	Mkt Cap (USD)	Last Px	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld
Median	1.21B	26.12	2.16%	-5.69%	3.95%	26.43%	11.24	15.63%	3.61%
100) FOOT LOCKER INC	4.27B	39.85	0.03%	-14.26%	2.02%	14.58%	8.12	22.47%	3.73%
101) DESIGNER BRANDS INC...	1.21B	16.63	1.59%	-10.64%	13.27%	-9.95%	10.83	14.67%	6.01%
102) CALERES INC	908.36M	22.31	3.77%	-8.49%	1.77%	5.40%	9.91	12.75%	1.26%
103) GENESCO INC	732.24M	48.82	32.27%	20.57%	2.87%	26.43%	12.19	9.94%	--
104) SHOE CARNIVAL INC	534.09M	37.63	3.21%	3.44%	1.03%	58.19%	13.49	13.60%	0.88%
105) BOOT BARN HOLDINGS ...	1.20B	42.04	2.16%	9.82%	14.59%	79.43%	27.04	17.40%	--
106) TAPESTRY INC	7.04B	25.53	0.31%	-5.69%	2.50%	-2.41%	10.28	22.54%	5.29%
107) URBAN OUTFITTERS INC	2.56B	26.12	2.96%	-14.56%	9.25%	64.73%	11.24	16.60%	--
108) WINMARK CORP	674.00M	175.94	0.52%	-1.41%	3.95%	28.27%	23.18	--	0.51%
109) GAP INC/THE	6.07B	16.27	-0.18%	-9.91%	4.57%	25.90%	7.71	22.70%	5.96%

Management and Ownership:

Lead by Richard (Dick) Johnson since 2014, Johnson has provided a different outlook than what would typically be seen in a CEO of a large public firm. Johnson has held many responsibilities within Footlocker, providing him with many different levels of understanding about the corporation and all that has to be attained at each stop before reaching the proposed goal.

As seen below, ownership of FL is majorly held within Investment Advisors (78%), followed by Hedge Fund Managers. Looking into the buying and selling history over the month of these owners, barely anything has moved substantially, with more institutional purchases and positions, and a decrease in institutional sell offs. This is an important aspect to keep in mind, as the price of the shares have decreased, people are not pulling out. This shows the continued optimism that prices will come back around.

FL US \$ C 39.85 +0.01  N39.85 / 39.86 N 694 x 145
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FL US Equity 25) Export Settings Security Ownership
FOOT LOCKER INC CUSIP 34484910

1) Current 2) Historical 3) Matrix 4) Ownership Summary 5) Insider Transactions 6) Options 7) Debt

Compare Current Stats Against 12/01/19

Institutional - Based on Current Filings

51) Institutional	12/01/19	Curr	Change
11) % of Shares Held	107.26	107.26	0.00%
12) % of Float Held	108.6	108.6	0.00%
13) # of Institutions	727	728	+0.14%
14) # of Buyers	224	226	+0.89%
15) # of Sellers	244	242	-0.82%
16) # of New Buyers	90	94	+4.44%
17) # of Selloffs	179	173	-3.35%
18) % Chg in Inst Positions	+14.78	+14.61	-0.17%

Insider - Based on Last 6 Months

52) Insider	12/01/19	Curr	Change
21) % of Shares Held	1.24	1.24	0.00%
22) % Chg Insider Positions	+0.88	+0.88	0.00%
23) # of Insiders	22	22	0.00%
24) # of Buyers Opn Mkt	0	0	
25) # of Sellers Opn Mkt	1	1	0.00%
26) # of Shrs Bought Opn Mkt	0	0	
27) # of Shrs Sold Opn Mkt	7,000	7,000	0.00%
28) Avg Opn Mkt Buy Price	0	0	0.00%
29) Avg Opn Mkt Sell Price	40.53	40.53	0.00%

Top Geographic Ownership (%)

53) Geographic	12/01/19	Curr	Change
31) UNITED STATES	84.8	84.79	-0.01%
32) UNITED KINGDOM	5.56	5.63	+0.07%
33) NETHERLANDS	1.89	1.89	0.00%
34) CANADA	1.46	1.55	+0.09%
35) NORWAY	1.36	1.36	0.00%
36) Unknown	1.17	1.17	0.00%
37) LUXEMBOURG	0.66	0.62	-0.04%
38) JAPAN	0.56	0.56	0.00%
39) CZECH	0.52	0.52	0.00%

Top Ownership Type (%)

54) Ownership Type	12/01/19	Curr	Change
41) Investment Advisor	78.22	78.22	0.00%
42) Hedge Fund Manager	12.63	12.63	0.00%
43) Pension Fund	2.34	2.34	0.00%
44) Bank	1.43	1.43	0.00%
45) Sovereign Wealth Fund	1.41	1.41	0.00%
46) Brokerage	1.37	1.37	0.00%
47) Individual	1.14	1.14	0.00%
48) Insurance Company	1	1.01	+0.01%
49) Government	0.29	0.29	0.00%

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2019 Bloomberg Finance L.P.
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Asian Marketplace Expansion:

Beginning in 2018, expansion into the Asian marketplace began with the opening of 5 stores and a launch of digital channels throughout Singapore, Hong Kong, and Malaysia, China was also included within this expansion- with a partnership with Tmall. This proved as a success, offering the opportunity for 2019 moves into the integral leadership of Footlocker, creating an accelerated growth structure to increase optimal performance. This included the appointment of Lew Kimble who will serve as EVP and CEO of Asia-Pacific. With the seemingly rapid growth of the Asian marketplace as a whole accessing the online shopping and retail community of the Asian marketplace can create a great hedge to these headwinds that are bound to hit Footlocker.



Source: Footlocker Inc. News Release

The Future of “Youth Culture Empowerment”:

Lead by CEO Richard Johnson, the future of “youth culture empowerment” is the child of the new generation of sneaker shoppers. As mentioned earlier, this as described by footlocker is the idea of being seen as a place where the youth can come and feel at home with, something that simply cannot be created with the click of a button and have arrive at your door step within 2 days. This is the idea that Footlocker is aligned with pop culture, as well as market trends. Most specifically, the purchase of Goat, a sneaker resale business brings light to the new wave of sneaker collecting and the rapid and instantaneous purchase and resale of sought after limited sneaker releases. Building early client brand loyalty is a crucial part to the continued success of Footlocker for the next years to come.

Sources: Forbes, Footlocker 2019 10k

Conclusion:

Consumer skepticism on the long-term growth of Footlocker in the ever-so-changing retail market paired with Chinese trade fear has built a wall of fear for some investors in relation to their optimism of Footlocker’s future. Great precautions to protect against the coming changes to the marketplace have placed Footlocker in a crucial position to succeed in the headwinds that are bound to hit this industry. However, institutions and insiders are buying, and selling has waned off. This time-period of a low point in the stock’s price offers a great time to get into the marketplace and reap the large upswing potential that Footlocker has positioned itself to spring into action.

Foot Locker, Inc.		Symbol: FL	Cost of Capital Estimates			
Analyst	Paul Liguori		CGFS Credit Rating	Credit Rating Model	Probability of Default ModelModel	
Buy below	#VALUE!		Implied Cost of Borrowing (FL)	5.7%	4.4%	6.4%
Sell above	#VALUE!		Implied Cost of Borrowing (Peers)	5.7%	4.7%	6.6%
Probability of Price Increase	19%		Base Year	Explicit Period (6 years)	Continuing Period	
Last Price	\$39.85		Cost of New Debt Estimate	8.84%	5.00%	5.00%
Intrinsic Value	\$42.02		Country Risk Premium Estimate	6.50%	6.50%	6.50%
Target Dividends	\$1.45		Cost of Equity Estimate	15.34%	11.50%	11.50%
Target Price	\$51.13		WACC Estimate	15.08%	11.28%	11.28%
Forecast Assumptions						
Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other	
Base Year (Actual)	-1.40%	11.4%	2.4%	0.95	SBC/Revenue	0.00%
year 1	1.40%	14.9%	3.1%	0.95		Constant/same as LTM
year 2	2.30%	14.6%	3.1%	0.95	Lease term	10
year 3	2.20%	14.3%	3.0%	0.95	Rent Expense/Revenue	9.44%
year 4	6.20%	14.0%	3.1%	0.95		Tappers off to historical average
year 5	2.90%	13.8%	3.0%	0.95	R&D life	10
year 6	2.70%	13.5%	3.0%	0.95	R&D Expense/Revenue	0.00%
year 7	2.50%	13.2%	3.1%	0.95		Constant/same as LTM
year 8	2.50%	13.0%	3.1%	0.95	LIFO Reserve	Tappers off to zero
year 9	2.50%	12.7%	3.1%	0.95	Non-operating pension costs	Tappers off to zero
year 10	2.50%	12.4%	3.2%	0.95	Net financing pensions costs	Tappers off to zero
year 11	2.50%	12.2%	3.2%	0.95	Overfunded pension plans	Tappers off to zero
year 12	2.50%	11.9%	3.2%	0.95	Capitalized interests	Constant/same as LTM
year 13	2.50%	11.7%	3.3%	0.95	Dividends/Revenue	0.00%
year 14	2.50%	11.5%	3.3%	0.95	Tax Rate	27.58%
year 15	2.50%	11.2%	3.3%	0.95		
Continuing Period	2.50%	11.0%	3%	0.97		
Simulation Assumptions						
Random Variables	Distribution Assumption	MAX	Likely	MIN	Sensitivity: Price Variance Attribution Analysis	
Deviations in annual Revenue Growth--Expl. Per.	Triangular	1.23%	0%	-3.24%	7.18%	Revenue growth
Deviations in annual Revenue Growth --Cont. Per.	Normal	1.41%	0%	-1.41%	21.95%	EBITDA Margin
Deviations from EBITDA Margin base annual estimates	Triangular	-0.19%	0%	-2.83%	54.98%	CAPEX/Rev
Deviations from CAPEX/Revenue base annual estimates	Triangular	0.90%	0%	-0.10%	9.66%	Discount Rate
Deviations from Kd base annual estimates	Triangular	3.87%	0%	-1.97%	0.00%	TEV/Rev
Deviations from CRP base annual estimates	Triangular	2.07%	0%	-1.67%	0.05%	TEV/EBITDA
Deviations from TEV/Revenue base estimate	Triangular	0.55	0%	-0.45	0.20%	P/BV
Deviations from TEV/Revenue base estimate	Triangular	10.19	0%	-2.03	0.00%	P/E
Change in P/BV (TTM)	Triangular	1.71	0%	-1.19	0.00%	Asset Recovery Rate
Change in P/E (FW)	Triangular	31.19	0%	-5.46		
Recovery Rate	Triangular	20.00%	0%	10%		
Valuation						
DCF Valuation						
	Base	Explicit Period (Average)	Continuing Period			
Revenues	\$7,939.00	\$9,539.10	\$11,768.35			
EBITDA Margin	8%	13%	11%			
UFCF	\$310.10	\$783.80	\$2,148.16			
WACC	15.08%	11.28%	11.28%			
ROIC	11.98%	12.06%	11.28%			
Relative Valuation						
	Median Justified Multiple	Basis	Implied Equity Value			
EV/Rev (FW)	1.1x	\$8,047.56	\$5,355.74			
EV/EBITDA (FW)	9.4x	\$1,180.44	\$7,554.92			
P/BV (TTM)	2.3x	\$3,087.71	\$7,009.32			
P/E (FW)	13.0x	\$695.75	\$9,057.18			
Intrinsic Value Distribution--Probability (Upside)=19.33%						
Asset Based Valuation						
Recovery Rate	70%		Valuation Summary	Intrinsic Value	Target Price	Model Weight
Capital	\$13,723.79		DCF Valuation	\$ 40.06	\$ 49.31	87%
Intangibles	\$172.00		EV/Rev (FW)	\$ 48.06	\$ 53.63	0%
Claims	\$7,417.49		EV/EBITDA (FW)	\$ 67.79	\$ 76.34	8%
Implied Equity Value	\$2,068.61		P/BV (TTM)	\$ 62.50	\$ 70.25	5%
			P/E (FW)	\$ 81.27	\$ 91.85	0%
			Asset Based Valuation	\$ 18.56	\$ 19.69	0%
			Price per Share	\$ 43.40	\$ 52.52	100%