

Foot Locker(FL)

\$40.15 (As of 02/04/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/25/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

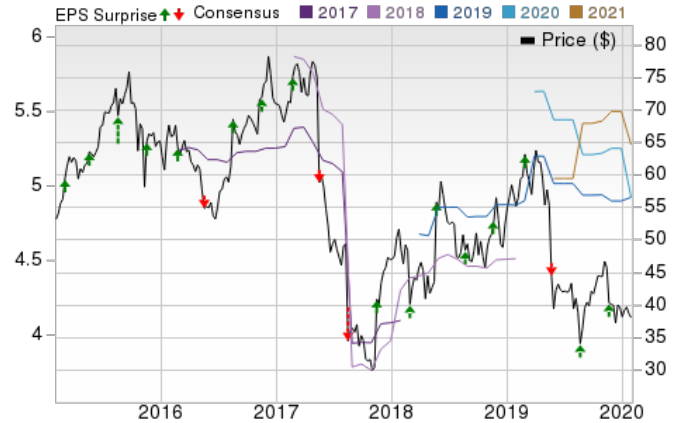
Growth: C

Momentum: D

Summary

Shares of Foot Locker have slid and underperformed the industry in the past three months. The stock came under pressure in spite of reporting an earnings beat in third-quarter fiscal 2019. We note that the top line missed the Zacks Consensus Estimate for the third quarter in a row. Also, management's projection of flat comps and 10-30 basis points contraction in gross margin in the final quarter were not well perceived by investors. Nonetheless, Foot Locker expects low single-digit increase in comps with gross margin expansion of 10-20 basis points and mid-single-digit growth in earnings per share for fiscal 2019. The company is trying to improve performance through operational and financial initiatives. It remains focused on supply chain development, improvement of mobile and web platforms and expansion of data analytics capabilities.

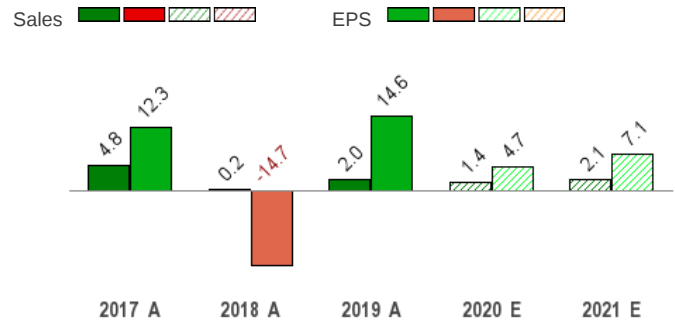
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.00 - \$33.12
20 Day Average Volume (sh)	2,773,736
Market Cap	\$4.2 B
YTD Price Change	3.0%
Beta	0.91
Dividend / Div Yld	\$1.52 / 3.8%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 41% (105 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.6%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	03/06/2020
Earnings ESP	0.0%
P/E TTM	8.2
P/E F1	7.6
PEG F1	0.8
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,105 E	1,812 E	1,940 E	2,324 E	8,216 E
2020	2,078 A	1,774 A	1,932 A	2,265 E	8,047 E
2019	2,025 A	1,782 A	1,860 A	2,272 A	7,939 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$0.72 E	\$1.17 E	\$1.77 E	\$5.28 E
2020	\$1.53 A	\$0.66 A	\$1.13 A	\$1.62 E	\$4.93 E
2019	\$1.45 A	\$0.75 A	\$0.95 A	\$1.56 A	\$4.71 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

Founded in 1879 and headquartered in New York, Foot Locker, Inc. (FL) is a retailer of athletic shoes and apparel. The company operates websites and mobile apps, aligned with the brand names of store banners comprising footlocker.com, ladyfootlocker.com, six02.com, kidsfootlocker.com, champssports.com, footaction.com, footlocker.ca, footlocker.eu, footlocker.com.au, runnerspoint.com, sidestep-shoes.com, footlocker.hk, footlocker.sg, and footlocker.my.

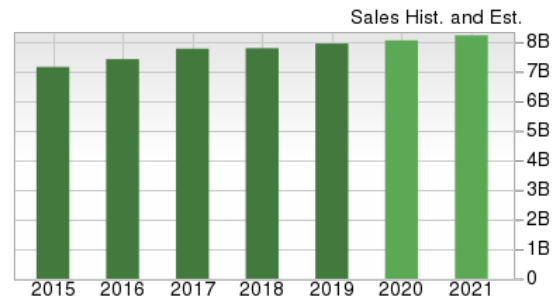
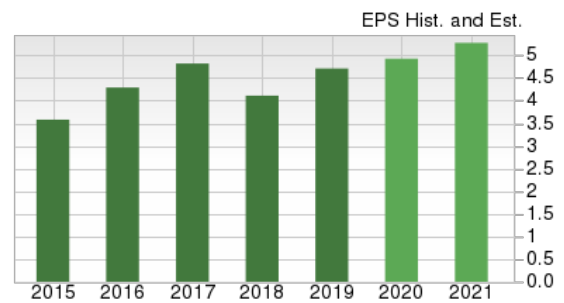
Foot Locker has franchise operations in the Middle East. Moreover, in Germany, the franchised stores are operated under the banners of Runners Point.

As of Nov 2, 2019, the company operated 3,160 outlets across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 128 franchised Foot Locker stores in the Middle East. Germany has 10 franchised Runners Point stores.

Beginning in 2018, the company has two operating segments, North America and International. Prior to 2018, the company had two reportable segments, Athletic Stores and Direct-to-Customers.

North America operating segment includes the results of the following banners operating in the U.S. and Canada: Foot Locker, Kids Foot Locker, Lady Foot Locker, Champs Sports, Footaction, and SIX:02, including each of their related e-commerce businesses, as well as Eastbay business that includes internet, catalog, and team sales.

International operating segment includes the results of the following banners operating in Europe, Asia, Australia, and New Zealand: Foot Locker, Runners Point, Sidestep, and Kids Foot Locker, including each of their related e-commerce businesses.



Reasons To Buy:

- ▲ **Strong Brand Recognition:** Foot Locker is one of the widely recognized names in the athletic footwear and apparel industry. The company boasts a strong portfolio of leading brands under a variety of store banners that helps it to target specific markets and efficiently meet consumer demand. We believe that strategic endeavors along with planned investments may help the company attain long-term goal, which include sales increase at a mid-single digit CAGR, sales per square foot of \$525-\$575, net income margin of high-single digit, and return on invested capital of mid-teens.

The company entered into a partnership with Nike for a pop-up store called Sneakeasy NYC and made a strategic investment of \$15 million in Carbon38, which owns and operates an e-commerce destination for active and performance wear for women. The company also took minority interest in Goat, a managed marketplace for authentic sneakers, making an investment of \$100 million. It invested \$3 million in Super Heroic, a kid's footwear brand and \$12.5 million in "Rockets of Awesome" a children's apparel company. The company also made a strategic investment of \$3 million in NTWRK, a leading youth culture e-commerce and content platform. These investments widen the company's scope to expand products and brands, access new business segments and take advantage of innovative technologies.

We believe that continuous exploitation of opportunities such as children's business, shop-in-shop expansion, store refurbishment and enhancement of assortments are likely to benefit the company.

- ▲ **Comps Growth Rate Accelerate in Q3:** Comparable-store sales rose 5.7% during the third quarter of fiscal 2019, following an increase of 0.8% in the preceding quarter. Month-wise comparable sales rose high single-digit in both August and September but low single-digit in October. Comparable sales increased 4.7% at its stores, while direct to customer (DTC) channel sales increased 11.4%. DTC business increased to 15.3% of total sales during the quarter, up from 14.5% in the year-ago period. For fiscal 2019, management expects comparable-store sales to be in the low single-digit range. In North America, Foot Locker Canada comparable sales were up low double-digit. Champs Sports, Foot Locker U.S. and Kids Foot Locker each delivered a high single-digit comp gain. Footaction increased low-single digits. In international markets, Foot Locker Pacific comparable sales witnessed double-digit increase. Foot Locker Europe and the Runners Point Group each registered a low single-digit increase.

- ▲ **Catalyst for Growth:** The company is trying to improve its performance through its operational and financial initiatives. The company is effectively managing inventory, investing in digital platforms, improving supply chain efficiencies along with reorganizing corporate and division staff. Management believes that by continually exploiting opportunities like kids' and women's business, shop-in-shop expansion in collaboration with its vendors (such as House of Hoops, PUMA Labs, Jordan Flight 23 shops and The ARMOURY at Champs Sports), store banner.com business, store refurbishment and enhancement of assortments, Foot Locker is likely to benefit in the long run.

International expansion, especially in Europe, is another growth catalyst. The company is also focusing on augmenting its e-commerce platform, growing direct-to-consumer operations, margin expansion, tapping underpenetrated markets and opening of Power Stores. The company had earlier outlined plans to open more than a dozen power stores in fiscal 2019 with additional locations in New York, Los Angeles, Frankfurt, and Melbourne. The company has rolled out new membership program FLX that inspires customers to remain within the Foot Locker portfolio of banners. The company has launched the program at Lady Foot Locker in the U.S. and Foot Locker Netherlands, and plans to expand the same across U.S. banners after the holiday period. In Europe, the roll out is likely to commence in 2020 with Asia Pacific to follow later.

- ▲ **Capital Allocation Plan:** In an effort to enhance shareholder value and sustain robust level of investment to achieve long-term goal, Foot Locker plans to make capital expenditures of \$220 million during fiscal 2019. The company's primary focus remained on developing digital competencies and supply chain. The company's digital endeavors comprise improvement of mobile and web platforms, implementation of new point-of-sale software worldwide, and expansion of data analytics capabilities. Apart from these, the company plans to spend a major portion of the capital on its fleet of stores, including revamping and remodeling of the same. Further, it is exploring off-mall retail formats opportunities and executing shop-in-shop spaces in collaboration with vendors. Management incurred capital expenditure of \$45 million during the third quarter of fiscal 2019. During the quarter, Foot Locker opened 11 new outlets (three Power Stores and two new doors in Asia), remodeled or relocated 34 stores, and shuttered 25. During fiscal 2019, the company expects to open about 70 stores, remodel or relocate 165 and close 180.
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Reasons To Sell:

- ▼ **Dismal Stock Performance:** Shares of Foot Locker have declined 13.1% against the industry's rise of 0.6% in the past three months. The stock came under pressure in spite of the company reporting a positive earnings surprise in the third quarter of fiscal 2019. We note that total sales fell short of the Zacks Consensus Estimate for the third quarter in a row. Also, management's projection of flat comparable-store sales and 10-30 basis points contraction in gross margin for the Christmas quarter were not well perceived by investors. Again, concerns related to stiff competition from direct-to-consumer channels of other renowned footwear makers, tariff imposition due to U.S.-China trade war and sluggish mall traffic cannot be ignored. Further, SG&A costs have been rising for a while due to sustained investments in augmenting digital capabilities and higher incentive compensation cost. Also, headwinds related to foreign currency fluctuations remain a deterrent.
- ▼ **Higher SG&A Expense May Strain Margins:** Although, SG&A expense rate declined 10 basis points to 21.3% during the third quarter of fiscal 2019, management expects SG&A rate to be flat to up 10 basis points in the final quarter. For the fiscal year, SG&A rate is projected to be up 40-50 basis points. In dollar terms, SG&A expenses increased 3.3% during the quarter under review. This followed an increase of 3.4% and 8.1% in the second and first quarters, respectively. Any strategic investments in digital capabilities and infrastructure as well as wages are likely to show on SG&A expenses. Evidently, any deleverage in the same may hurt operating margin.
- ▼ **Prone to Currency Fluctuations:** Foot Locker generates a significant amount of net sales outside the U.S. Due to high exposure to international markets, the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or reduce profit margins in locations outside of the U.S. An increase in prices may have an adverse impact on the demand for Foot Locker's products. We note that adverse currency fluctuations hurt third-quarter fiscal 2019 net sales by \$23 million.
- ▼ **Competitive Pressure:** Foot Locker faces intense competition in the footwear and apparel industry from other big guns on several attributes such as style, price, quality, comfort and brand name. The competitors with significant financial, technological, engineering, manufacturing, marketing, and distribution advantages may dent the company's sales and margins. Moreover, rapid shift in customer shopping patterns to buy athletic footwear, athletic apparel, and sporting goods from e-retailers could significantly hurt the company's business results.

Challenging retail landscape and changing consumer spending pattern are making operating environment tough. Moreover, higher SG&A expense may strain margins to an extent.

Last Earnings Report

Foot Locker Earnings Beat Estimates in Q3, Increase Y/Y

After reporting in-line earnings in the second quarter of fiscal 2019, Foot Locker, Inc. reported a positive earnings surprise in the third quarter. However, total sales fell short of the Zacks Consensus Estimate for the third quarter in a row. Nonetheless, both the top and the bottom line increased year over year. Also, the rate of growth of comparable-store sales accelerated sharply on a sequential basis. Again, gross margin improved following a contraction in the preceding quarter.

Quarter Ending **10/2019**

Report Date	Nov 22, 2019
Sales Surprise	-0.47%
EPS Surprise	5.61%
Quarterly EPS	1.13
Annual EPS (TTM)	4.88

This operator of athletic shoes and apparel retailer posted adjusted earnings of \$1.13 per share that came ahead of the consensus mark of \$1.07. The quarterly earnings surged 18.9% from the prior-year period reported figure of 95 cents. This can be attributed to higher sales as well as increased share repurchase activity.

Total sales of \$1,932 million rose 3.9% year over year but came below the consensus estimate of \$1,940 million. Excluding the effect of foreign currency fluctuations, total sales grew 5.1%. Meanwhile, comparable-store sales rose 5.7% during the quarter under review, following an increase of 0.8% in the preceding quarter.

Comparable sales increased 4.7% at its stores, while direct to customer (DTC) channel sales increased 11.4%. DTC business increased to 15.3% of total sales during the quarter, up from 14.5% in the year-ago period.

Foot Locker's gross margin rate expanded 50 basis points to 32.1% during the quarter. We note that SG&A expense rate declined 10 basis points to 21.3%. Management had earlier projected gross margin expansion of 10-30 basis points and SG&A expense rate contraction of 10-30 basis points for the third quarter.

Store Update

During the quarter, Foot Locker opened 11 new outlets (three Power Stores and two new doors in Asia), remodeled or relocated 34 stores, and shuttered 25. As of Nov 2, 2019, the company operated 3,160 outlets across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 128 franchised Foot Locker stores in the Middle East. Germany has 10 franchised Runners Point stores. During fiscal 2019, the company expects to open about 70 stores, remodel or relocate 165 and close 180.

Other Financial Details

Foot Locker ended the quarter with cash and cash equivalents of \$744 million, long-term debt of \$122 million, and shareholders' equity of \$2,427 million. During the quarter, the company repurchased 4.6 million shares for \$178 million. Management incurred capital expenditure of \$45 million during the quarter. Foot Locker plans to make capital expenditures of \$220 million during fiscal 2019.

Guidance

Management expects fourth quarter comp to be relatively flat, which reflects the trends in apparel business as well as the challenging comparison to last year's 9.7% increase. The company expects gross margin contraction of 10-30 basis points and SG&A rate to be flat to up 10 basis points. The company envisions mid-to-high single-digit growth in earnings per share.

For fiscal 2019, Foot Locker expects comps to be in the low single-digit range. It anticipates, gross margin improvement of 10-20 basis points. Again, SG&A rate is projected to be up 40-50 basis points. The company estimates a mid-single-digit growth in earnings per share.

Recent News

Foot Locker Approves Quarterly Dividend - Nov 19, 2019

Foot Locker's board has approved a quarterly dividend of 34.5 cents to be payable on Feb 1, 2019 as of shareholders record on Jan 18, 2019.

Valuation

Foot Locker shares are up 3% year-to-date period but down nearly 29.1% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 1.6% but the Zacks Retail-Wholesale sector up 3.3% in the year-to-date period. Over the past year, the Zacks sub-industry is down 27.5% but the sector is up 17.7%.

The S&P 500 index is up 2.3% in the year-to-date period and 19.7% in the past year.

The stock is currently trading at 8.15X forward 12-month earnings, which compares to 12.13X for the Zacks sub-industry, 24.75X for the Zacks sector and 18.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.34X and as low as 6.09X, with a 5-year median of 11.65X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 8.73X forward 12-month earnings.

The table below shows summary valuation data for FL

Valuation Multiples - FL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.15	12.13	24.75	18.89
	5-Year High	17.34	18.38	26.2	19.34
	5-Year Low	6.09	10.23	19.07	15.18
	5-Year Median	11.65	14.25	22.96	17.46
P/S F12M	Current	0.52	0.61	1.07	3.5
	5-Year High	1.38	1.31	1.1	3.5
	5-Year Low	0.45	0.55	0.8	2.54
	5-Year Median	0.84	0.82	0.91	3
EV/EBITDA TTM	Current	6.74	8.53	15.29	11.95
	5-Year High	9.51	8.9	15.37	12.85
	5-Year Low	3.11	4.71	10.63	8.49
	5-Year Median	6.91	6.74	12.38	10.66

As of 02/04/2019

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 255)



Top Peers

Buckle, Inc. (The) (BKE)	Outperform
Chicos FAS, Inc. (CHS)	Outperform
Genesco Inc. (GCO)	Outperform
American Eagle Outfitters, Inc. (AEO)	Neutral
Abercrombie & Fitch Company (ANF)	Neutral
Boot Barn Holdings, Inc. (BOOT)	Neutral
The Gap, Inc. (GPS)	Neutral
The Childrens Place, Inc. (PLCE)	Underperform

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	FL Neutral	X Industry	S&P 500	ANF Neutral	BKE Outperform	GPS Neutral
VGM Score	A	-	-	B	A	D
Market Cap	4.20 B	829.05 M	24.31 B	1.01 B	1.22 B	6.64 B
# of Analysts	10	3	13	10	1	7
Dividend Yield	3.79%	0.00%	1.78%	4.96%	4.84%	5.45%
Value Score	A	-	-	A	A	A
Cash/Price	0.19	0.13	0.04	0.40	0.20	0.17
EV/EBITDA	7.14	7.55	13.98	7.31	8.00	6.52
PEG Ratio	0.80	1.27	2.01	0.86	NA	1.16
Price/Book (P/B)	1.77	1.76	3.29	1.02	2.93	1.83
Price/Cash Flow (P/CF)	6.25	5.75	13.58	4.49	9.59	4.47
P/E (F1)	7.60	12.39	18.82	13.19	12.65	10.47
Price/Sales (P/S)	0.52	0.50	2.66	0.28	1.37	0.41
Earnings Yield	13.15%	7.74%	5.30%	7.57%	7.90%	9.55%
Debt/Equity	1.17	1.06	0.71	1.48	0.69	1.90
Cash Flow (\$/share)	6.42	1.58	6.92	3.59	2.59	3.98
Growth Score	C	-	-	F	B	F
Hist. EPS Growth (3-5 yrs)	3.95%	-0.69%	10.80%	-3.52%	-12.87%	-2.48%
Proj. EPS Growth (F1/F0)	7.09%	10.16%	7.40%	81.58%	-4.85%	-5.85%
Curr. Cash Flow Growth	3.72%	10.14%	10.22%	8.78%	1.12%	13.35%
Hist. Cash Flow Growth (3-5 yrs)	5.11%	-0.29%	8.55%	-7.00%	-8.74%	-2.78%
Current Ratio	1.90	1.47	1.21	1.41	2.33	1.43
Debt/Capital	53.93%	52.65%	42.91%	59.75%	40.72%	65.50%
Net Margin	6.39%	2.74%	11.79%	1.52%	11.03%	4.97%
Return on Equity	21.66%	10.96%	17.24%	5.30%	24.46%	22.33%
Sales/Assets	1.34	1.33	0.55	1.13	1.12	1.31
Proj. Sales Growth (F1/F0)	2.10%	2.31%	4.10%	1.98%	-1.05%	0.36%
Momentum Score	D	-	-	B	D	D
Daily Price Chg	1.52%	0.25%	1.49%	-1.53%	0.40%	2.01%
1 Week Price Chg	-1.63%	-2.50%	-2.60%	-2.50%	-4.16%	-1.42%
4 Week Price Chg	2.03%	-5.30%	0.51%	-9.18%	-7.15%	-1.28%
12 Week Price Chg	-11.51%	-0.38%	4.44%	-9.23%	6.03%	3.73%
52 Week Price Chg	-29.15%	-13.02%	14.65%	-27.52%	39.09%	-29.42%
20 Day Average Volume	2,773,736	270,371	1,935,862	1,974,673	490,159	4,687,360
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.47%	0.00%	0.00%	1.41%	2.62%	1.92%
(F1) EPS Est 12 week change	0.33%	0.00%	-0.10%	-3.48%	19.51%	-18.27%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	2.83%	3.33%	-0.98%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	D
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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