

Foot Locker(FL)

\$25.37 (As of 04/28/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

Shares of Foot Locker have declined and underperformed the industry in the past six months. The stock came under pressure following management's decision to close stores and call-off 2020 guidance owing to difficulty in ascertaining the impact of the coronavirus on its performance. Certainly, shrinking consumer demand and supply-chain hurdle remain major deterrents at this moment. We believe that loss of sales owing to store closures are likely to show on the company's first-quarter fiscal 2020 performance. In the last reported quarter, top line fell and missed the consensus mark. Comps also declined during the quarter. The company witnessed softer-than-expected demand and highly promotional environment during the holiday season. As a result, actions undertaken to manage slower moving items hurt gross margin.

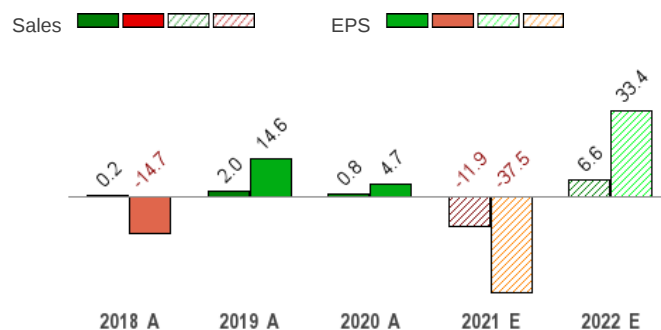
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.94 - \$17.46
20 Day Average Volume (sh)	2,687,289
Market Cap	\$2.6 B
YTD Price Change	-34.9%
Beta	1.29
Dividend / Div Yld	\$1.60 / 6.3%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Bottom 21% (201 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-27.8%
Expected Report Date	05/22/2020
Earnings ESP	-45.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,329 E	1,158 E	1,794 E	2,204 E	7,522 E
2021	1,544 E	1,465 E	1,845 E	2,238 E	7,053 E
2020	2,078 A	1,774 A	1,932 A	2,221 A	8,005 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.65 E	\$0.02 E	\$0.34 E	\$1.55 E	\$4.11 E
2021	\$0.47 E	\$0.14 E	\$0.94 E	\$1.53 E	\$3.08 E
2020	\$1.53 A	\$0.66 A	\$1.13 A	\$1.63 A	\$4.93 A

*Quarterly figures may not add up to annual.

P/E TTM	5.1
P/E F1	8.2
PEG F1	0.9
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/28/2020. The reports text is as of 04/29/2020.

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.

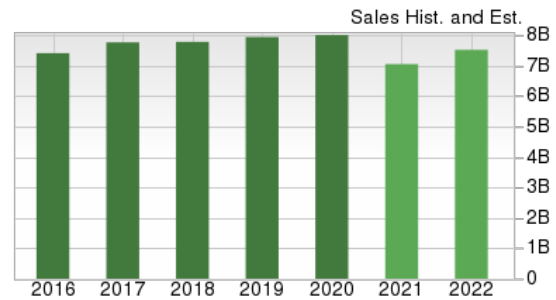
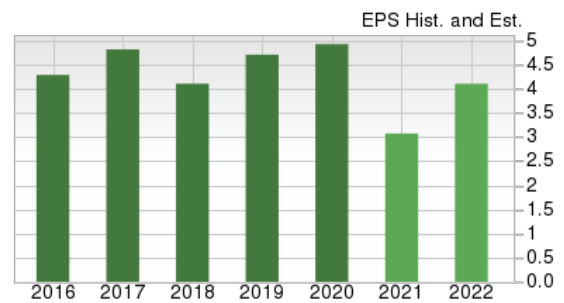
Foot Locker has franchise operations in the Middle East. Moreover, in Germany, the franchised stores are operated under the banners of Runners Point.

As of Feb 1, 2020, the company operated 3,129 outlets across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 130 franchised Foot Locker stores in the Middle East. Germany has 9 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 Sell:

- ▼ **COVID-19 Impacts:** Shares of Foot Locker have plunged 42.2% compared with the industry's decline of 38% in the past six months. The stock came under pressure following management's decision to close stores and call-off 2020 guidance owing to difficulty in ascertaining the impact of the coronavirus on its performance. Certainly, shrinking consumer demand and supply-chain hurdle remain major deterrents at this moment. We believe that loss of sales owing to store closures are likely to show on the company's first-quarter fiscal 2020 performance. Foot Locker closed its stores across all of its brands in North America, EMEA, and Malaysia that includes Foot Locker, Lady Foot Locker, Kids Foot Locker, Footaction, Champs Sports, Runners Point, and Sidestep.
- ▼ **Negative Sales Surprise:** We note that the top line not only declined year over year but also missed the Zacks Consensus Estimate for the fourth straight quarter. Also, comparable-store sales declined, following an increase in the preceding quarter. Comparable-store sales slid 1.6% during the quarter under review. This compares unfavorably with an increase of 5.7% in the preceding quarter and 9.7% in the year-ago period. Management highlighted that the company witnessed weaker-than-expected demand and highly promotional environment for apparel during the festive season. Consequently, the actions undertaken to manage slower moving items hurt gross margin rate during the quarter under review. Foot Locker's gross margin rate contracted 90 basis points to 31.5% during the quarter on account of 70 basis point decline in merchandise margin rate and 20 basis points deleverage in occupancy and buyers' compensation expenses.
- ▼ **Higher SG&A Expense May Strain Margins:** During fiscal 2019, SG&A expenses rose 2.2% to \$1,650 million, while as a percentage of sales the same increased 30 basis points to 20.6% due to ongoing investments in digital capabilities. 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. For fiscal 2020, Foot Locker expects SG&A rate to be up 40-60 basis points due to ongoing investments in digital capabilities and increase in minimum wage rate.
- ▼ **Debt Analysis:** We note that the company's debt-to-capital ratio has increased on a sequential basis from 0.54 at the end of the third quarter to 0.57 at the end of the fourth quarter of fiscal 2019. As of March 27, 2020, the company's corporate credit ratings from Standard & Poor's and Moody's Investors Service are BB+ and Ba1, respectively.
- ▼ **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 fourth-quarter fiscal 2019 net sales by \$6 million.
- ▼ **Fashion Obsolescence a Threat:** Fashion obsolescence remains the main concern for Foot Locker's business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be hurt by delays in its product launches. The company operates in the highly competitive athletic footwear and apparel segment. It faces stiff competition from athletic footwear specialty stores, sporting goods stores, department stores, discount stores and traditional shoe stores in terms of distinctiveness, innovativeness, quality and pricing, which may weigh on its results.
- ▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.

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

Risks

- **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, operating margin of low double-digit, net income margin of high-single digit, and return on invested capital of mid-teens.
- **Strategic Partnership:** 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 NTRK, 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.
- **Growth Catalyst:** 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 has opened six Power Stores in fiscal 2019. 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 across Netherlands, France, and the UK, and will continue to roll out the same in additional countries.

- **Capital Allocation Plan:** Foot Locker remains committed to enhance shareholder value and sustain robust level of investment to achieve long-term goal. The company's investments are directed toward community-based power stores in markets worldwide. The company will continue focus on digital advancement and enhancement of its U.S. 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 \$187 million in its store fleet, digital platforms, supply chain and logistics capabilities, and other infrastructure during fiscal 2019.
 - **Shareholder Friendly Moves:** Foot Locker is focused on boosting investor sentiment through several growth initiatives and shareholder-friendly moves. To this end, the company announced a 5% hike in its quarterly cash dividend to 40 cents per share (\$1.60 annually). The company has a dividend payout ratio of roughly 32.3%. The company has also been repurchasing shares to return capital back to the stockholders. During the fourth quarter of fiscal 2019, the company repurchased 881,423 shares for \$35 million.
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Last Earnings Report

Foot Locker Q4 Earnings Beat Estimates, Comps Decline

Foot Locker, Inc. came up with fourth-quarter fiscal 2019 results, which display the second straight quarter of an earnings beat but the fourth consecutive revenue miss. While the bottom-line increased year over year, top line came below the prior-year reported number. Also, comparable-store sales declined, following an increase in the preceding quarter.

Management highlighted that the company witnessed weaker-than-expected demand and highly promotional environment for apparel during the festive season. Consequently, the actions undertaken to manage slower moving items hurt gross margin rate during the quarter under review. Nonetheless, efficient cost management did provide cushion to the bottom line.

This operator of athletic shoes and apparel retailer posted adjusted earnings of \$1.63 per share that came ahead of the Zacks Consensus Estimate of \$1.58. The quarterly earnings increased 4.5% from the prior-year period reported figure of \$1.56. This can be attributed to lower cost of sales and SG&A expenses as well as share repurchase activity.

Total sales of \$2,221 million declined 2.2% year over year and also fell short of the consensus estimate of \$2,236.9 million. Excluding the effect of foreign currency fluctuations, total sales decreased 2%.

Comparable-store sales slid 1.6% during the quarter under review. This compares unfavorably with an increase of 5.7% in the preceding quarter and 9.7% in the year-ago period. Direct-to-customer channel comps were down 4.3%. DTC business penetration was 18.7% of total sales during the quarter versus 19.1% in the year-ago period.

Foot Locker's gross margin rate contracted 90 basis points to 31.5% during the quarter on account of 70 basis point decline in merchandise margin rate and 20 basis points deleverage in occupancy and buyers' compensation expenses. We note that SG&A expense rate declined 50 basis points to 19.4%. Management had earlier projected gross margin contraction of 10-30 basis points and SG&A rate to be flat to up 10 basis points for the fourth quarter.

Store Update

During the quarter, Foot Locker opened 32 new outlets, remodeled or relocated 66 stores, and shuttered 63. As of Feb 1, 2020, the company operated 3,129 outlets across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 130 franchised Foot Locker stores in the Middle East. Germany has nine franchised Runners Point stores.

Other Financial Details

Foot Locker ended the quarter with cash and cash equivalents of \$907 million, long-term debt of \$122 million, and shareholders' equity of \$2,480 million. During the quarter, the company repurchased 881,423 shares for \$35 million. The company had \$867 million remaining under \$1.2 billion share repurchase program. The company raised the quarterly dividend payout by 5% to 40 cents a share.

Management incurred capital expenditure of \$187 million in its store fleet, digital platforms, supply chain and logistics capabilities, and other infrastructure during fiscal 2019.

The company's board of directors approved a \$275 million capital expenditure plan for fiscal 2020, targeting to deliver organic growth across its business. Planned investment for the fiscal signifies higher spending toward community-based power stores in markets worldwide, apart from investments to enhance core stores. Through this spending, the company will continue focusing on digital advancement and enhancement of its U.S. supply chain.

Management plans to spend roughly \$150 million on improvement of store fleet, including 65 new stores with further expansion in Asia and approximately 125 remodels or relocations of existing stores. The company intends to close approximately 150 stores.

Outlook

Management envisions comparable sales to be up low-single digits and earnings per share to increase in the low-to-mid single digit range during fiscal 2020. Adverse currency fluctuations will remain a top line headwind. It anticipates, gross margin improvement of 10-30 basis points driven by improvement in merchandise margin rate. For fiscal 2020, Foot Locker expects SG&A rate to be up 40-60 basis points due to ongoing investments in digital capabilities and increase in minimum wage rate.

Quarter Ending 01/2020

Report Date	Feb 28, 2020
Sales Surprise	-0.71%
EPS Surprise	3.16%
Quarterly EPS	1.63
Annual EPS (TTM)	4.95

Recent News

Foot Locker Withdraws Guidance – March 17, 2020

Due to coronavirus outbreak, Foot Locker is temporarily closing its stores across all of its brands in North America, EMEA, and Malaysia from March 17-31. The athletic retailer has also chosen to withdraw its fiscal 2020 guidance. The rest of the locations in the Asia Pacific region, which include Hong Kong, Singapore, Australia and New Zealand – will remain open subject to direction from local and national governments.

Foot Locker Hikes Dividend – February 19, 2020

Foot Locker is focused on boosting investor sentiment through several growth initiatives and shareholder-friendly moves. To this end, the company announced a 5% hike in its quarterly cash dividend to 40 cents per share (\$1.60 annually). The new dividend is payable on May 1, 2020 to shareholders on record as of Apr 17. Notably, this marks the company's 10th straight year of dividend increase.

Valuation

Foot Locker shares are down 35% year-to-date period and nearly 55.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 42.7% but the Zacks Retail-Wholesale sector is 1.2%. Over the past year, the Zacks sub-industry is down 56.2% but the sector is up 6.1%.

The S&P 500 index is down 10.8% in the year-to-date period and 2.8% in the past year.

The stock is currently trading at 7.63X forward 12-month earnings, which compares to 13.72X for the Zacks sub-industry, 28.48X for the Zacks sector and 20.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.34X and as low as 3.63X, with a 5-year median of 11.36X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$22 price target reflects 6.49X 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	7.63	13.72	28.48	20.2
	5-Year High	17.34	16.88	28.48	20.2
	5-Year Low	3.63	7.87	19.06	15.19
	5-Year Median	11.36	14.16	23.16	17.45
P/S F12M	Current	0.37	0.4	1.02	3.22
	5-Year High	1.38	1.21	1.11	3.44
	5-Year Low	0.24	0.32	0.8	2.54
	5-Year Median	0.8	0.8	0.93	3.01
EV/EBITDA TTM	Current	5.79	6.03	15.54	10.52
	5-Year High	9.51	9.3	16.35	12.87
	5-Year Low	3.02	4.71	10.9	8.27
	5-Year Median	6.83	6.86	12.55	10.78

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Abercrombie & Fitch Company (ANF)	Neutral	3
Buckle, Inc. (The) (BKE)	Neutral	4
Chicos FAS, Inc. (CHS)	Neutral	3
Genesco Inc. (GCO)	Neutral	3
The Gap, Inc. (GPS)	Neutral	3
American Eagle Outfitters, Inc. (AEO)	Underperform	3
Boot Barn Holdings, Inc. (BOOT)	Underperform	5
The Childrens Place, Inc. (PLCE)	Underperform	5

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	FL	X Industry	S&P 500	ANF	BKE	GPS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	A	-	-	A	A	A
Market Cap	2.64 B	414.67 M	20.14 B	688.66 M	752.49 M	3.20 B
# of Analysts	12	3.5	14	11	1	11
Dividend Yield	6.31%	0.00%	2.13%	7.16%	7.88%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.38	0.35	0.06	1.20	0.35	0.65
EV/EBITDA	5.33	6.11	12.15	6.16	4.90	7.15
PEG Ratio	0.93	1.01	2.43	NA	NA	0.81
Price/Book (P/B)	1.07	0.97	2.68	0.65	1.93	0.97
Price/Cash Flow (P/CF)	3.70	3.64	10.78	3.16	5.68	2.47
P/E (F1)	8.78	14.17	19.06	NA	10.50	9.74
Price/Sales (P/S)	0.33	0.29	2.12	0.19	0.84	0.20
Earnings Yield	12.14%	4.71%	5.11%	-3.76%	9.52%	10.22%
Debt/Equity	1.13	0.97	0.72	1.39	0.75	2.04
Cash Flow (\$/share)	6.86	1.44	7.01	3.53	2.68	3.49
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	3.39%	0.13%	10.88%	-0.50%	-11.03%	-2.19%
Proj. EPS Growth (F1/F0)	-37.63%	-39.79%	-6.33%	-156.91%	-32.24%	-55.15%
Curr. Cash Flow Growth	-1.10%	-0.32%	5.92%	-6.25%	4.13%	-14.41%
Hist. Cash Flow Growth (3-5 yrs)	1.64%	0.42%	8.55%	-5.89%	-8.00%	-5.36%
Current Ratio	2.00	1.41	1.23	1.55	2.19	1.41
Debt/Capital	53.10%	51.06%	43.90%	58.09%	42.72%	67.08%
Net Margin	6.22%	2.49%	11.13%	1.09%	11.60%	2.14%
Return on Equity	21.49%	11.79%	16.47%	4.61%	25.98%	21.04%
Sales/Assets	1.19	1.22	0.55	1.05	1.02	1.18
Proj. Sales Growth (F1/F0)	-11.90%	-5.50%	-1.35%	-9.85%	-13.18%	-11.20%
Momentum Score	D	-	-	F	B	C
Daily Price Chg	2.42%	3.77%	1.10%	5.37%	3.96%	10.53%
1 Week Price Chg	0.66%	-7.22%	-1.74%	-17.80%	-10.42%	-17.37%
4 Week Price Chg	15.06%	18.80%	11.80%	22.99%	11.09%	22.30%
12 Week Price Chg	-36.81%	-40.77%	-17.28%	-30.65%	-38.59%	-51.63%
52 Week Price Chg	-55.66%	-48.15%	-10.69%	-62.60%	-17.59%	-66.99%
20 Day Average Volume	2,687,289	384,482	2,660,864	2,283,136	571,765	11,868,230
(F1) EPS Est 1 week change	-8.35%	0.00%	0.00%	0.00%	0.00%	-0.82%
(F1) EPS Est 4 week change	-27.80%	-28.27%	-6.46%	-249.35%	-20.77%	-28.74%
(F1) EPS Est 12 week change	-41.72%	-45.18%	-12.81%	-134.00%	-26.02%	-48.02%
(Q1) EPS Est Mthly Chg	-48.01%	-100.00%	-10.84%	-29.57%	-152.38%	-102.52%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
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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