



FOOT LOCKER, INC. (FL)

This GOAT Dances on

VALUEX VAIL SEPT 2021 DECK

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Presenter Experience with Foot Locker

- Have followed the company closely and the industry including key suppliers and competitors for nearly 20 years
- Have personally conducted multiple 100s of Foot Locker and competitor store visits in many U.S. markets and in multiple countries
- LONG FL was one of our best-ever recommendations in a previous sell-side role, rising ~400% from <\$11 to over \$50 from 2009 to 2014

Intro: Foot Locker, Inc. (FL)

Foot Locker is a global retailer of athletic footwear, apparel and accessories, currently operating ~2,700 stores in 27 countries

- Estimated FY21 revenues of \$9.1B
- EBITDA margin: estimated near 14% for FY21 vs. 10-year average of 12.4%
- 2021E Capex ~\$260M (2.8% of sales).
- Balance Sheet: \$745M* cash, \$10M in long-term debt. Has leases. We forecast a 2021 leverage ratio of 3.3x lease adj. debt to EBITDAR.
- FY21 Free cash flow estimated at \$509M (\$4.96 share, 8.7% yield);
- \$1.30 annual dividend (2.2% yield)
- Recent price \$53 (as of Sept 8, 2021), current market cap: \$5.6B.

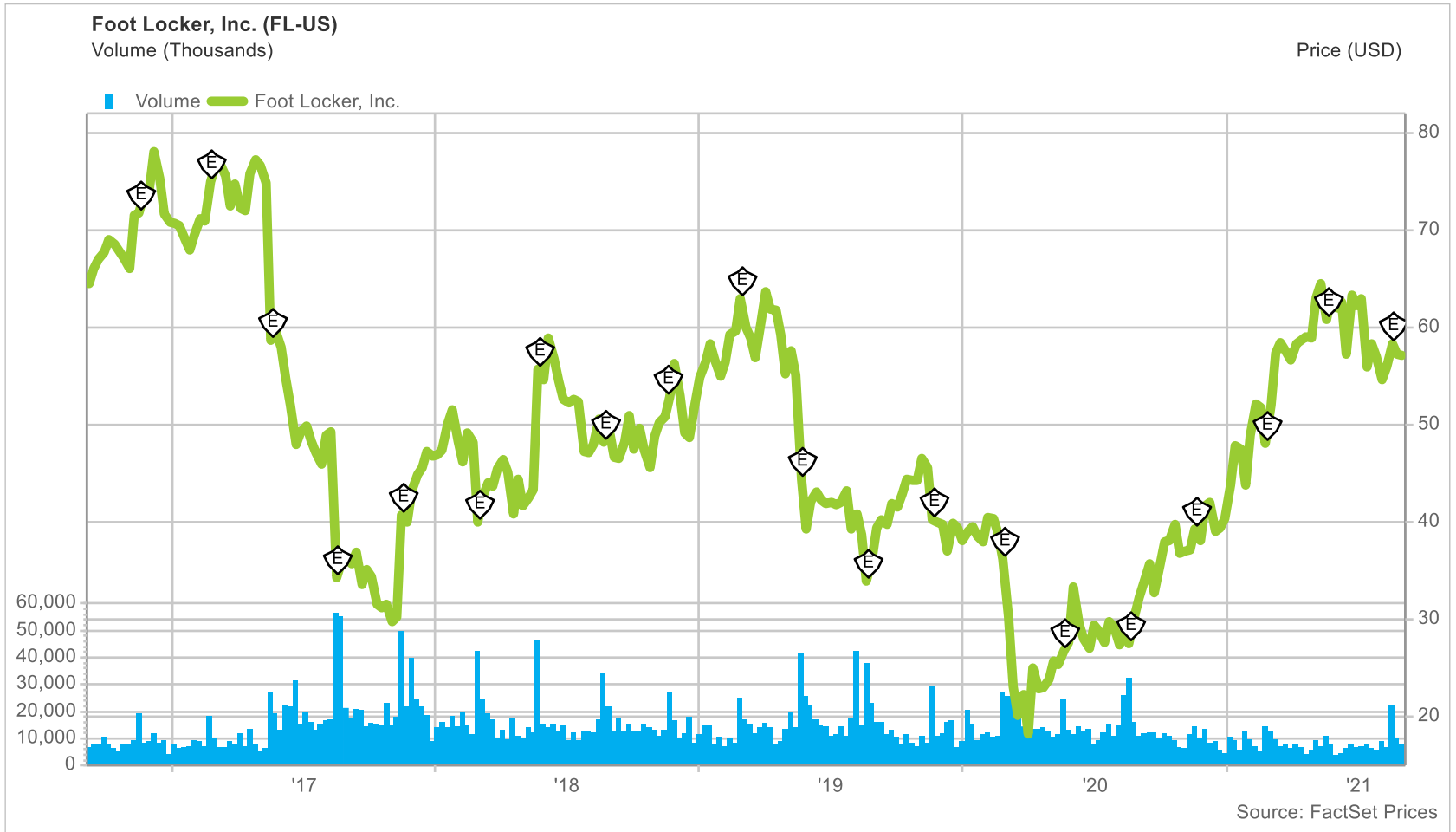
* After planned \$1.1B expenditures for acquisitions expected to close in the current quarter

Foot Locker, Inc. (FL) Select Data

- Banners operated include Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs, Footaction, Sidestep, & Eastbay.
- Geographic distribution: ~27% of revs outside the U.S.
- Product distribution: 84% footwear, 12% apparel, 4% accessories
- Channel distribution: 22% DTC (online orders)
- Vendor distribution: **75% of all products purchased from Nike, Inc.** (Nike, Brand Jordan, Converse) with 91% from five suppliers
- **Change in store count over the past five years -12%.**
- Loyalty program: FLX (launched Feb 2020) offers exclusive/ early access and free shipping (no program fee) and had 25M members recently

Five Year Chart: Trading 32% below All Time High of \$78

Added to Quo Vadis LONG idea list on 10/1/2020 @ \$33.03



Investment Thesis

The Street is underestimating the benefits from changes in Nike distribution and the environment post-Covid and therefore estimates are too low.

We see upward revisions driving valuation expansion with a potential 50% gain over one year.

1. The Valuation

FL shares currently trade at <8x P/E on FY22E & 4x EV/ FY22E EBITDA

	VS. FY22 CONSENSUS ESTIMATES	VS. 10 YEAR HISTORICAL AVERAGE
EV to Sales	0.5x	0.6x
EV to EBITDA	4.2x	5.1x
P/E	7.8x	12.6x
EV TO FCF	6.2x	9.1x
DIV YIELD	2.3%	2.0%

Source: Quo Vadis Capital Estimates, FactSet, EV adjusted for pending acquisitions

We think these multiples are pretty darn low

FL has the lowest valuation of its peer Group

Quo Vadis Capital Select Retailers												
Relative Growth, Profitability, Balance Sheet & Valuation Metrics (Consensus Forecasts)												
FOOTWEAR & SPORTING GOODS RETAILERS												
9/8/2021	AVG.	DBI	SCVL	BOOT	ASO	DKS	FL	HIBB	BGFV	GCO	CAL	NKE
Recent Price	\$ 12.88	\$ 34.90	\$ 82.88	\$ 42.67	\$ 136.14	\$ 52.91	\$ 81.51	\$ 27.54	\$ 54.82	\$ 22.60	\$ 160.35	
Mkt Cap (\$B)	\$1.0	\$1.0	\$2.5	\$4.1	\$12.0	\$5.6	\$1.3	\$0.6	\$0.8	\$0.8	\$258.9	
ENT VALUE (\$B)*	\$1.2	\$0.8	\$2.5	\$4.7	\$10.2	\$4.8	\$1.2	\$0.5	\$1.2	\$1.1	\$254.9	
Valuation Metrics*												
Vs. 2019A EPS (P/E)	27.9	8.4	23.9	50.5	26.7	36.9	10.7	35.0	64.0	12.0	10.8	100.2
Vs. 2020A EPS (P/E)	26.0	NM	62.3	43.2	11.1	22.2	18.8	13.3	10.8	NM	NM	45.0
Vs. 2021E EPS (P/E)	9.6	11.5	7.8	20.0	9.1	10.4	7.4	7.4	6.5	9.3	6.6	37.2
Vs. 2022E EPS (P/E)	10.6	9.5	10.6	21.1	9.6	13.9	7.8	8.4	8.9	9.4	6.7	31.6
Vs. 2023E EPS (P/E)	9.6	8.0	9.1	18.5	8.4	12.3	7.5	8.0	NA	8.4	6.7	27.3
EV / 2022 Sales	0.7	0.4	0.7	2.0	0.8	0.9	0.5	0.7	0.4	0.5	0.4	4.8
EV / 2020A EBITDA	15.4	NM	20.4	22.7	6.2	9.8	7.8	7.0	5.3	27.5	31.5	41.4
EV / 2021E EBITDA	6.1	6.4	4.7	13.7	6.5	5.4	4.2	4.3	3.5	7.8	5.0	30.0
EV / 2022E EBITDA	6.2	5.0	5.4	12.1	6.8	6.5	4.3	4.7	4.3	7.6	4.9	25.9
EV / 2023E EBITDA	6.0	4.7	4.9	11.4	6.2	6.2	4.2	4.5	NA	7.1	4.7	22.9
Free Cash Flow Yield ('21)	9.5%	0.0%	13.1%	5.8%	5.6%	8.2%	9.2%	NA	NA	13.3%	20.7%	2.0%
Dividend Yield	0.5%	0.0%	0.8%	0.0%	0.0%	1.9%	2.3%	0.0%	0.0%	0.0%	0.0%	0.8%
EV/ NTM EBITDA 5-Year Valuation History*												
HIGH	10.7	NM	13.6	17.0	6.4	8.3	8.0	7.6	8.1	7.3	19.8	34.1
LOW	2.3	NM	2.1	3.6	4.4	2.3	1.4	1.0	1.8	0.7	3.1	13.8
AVERAGE	5.6	2.1	6.2	10.3	5.6	5.7	5.1	4.8	4.8	4.6	6.7	21.7
Current EV/ EBITDA on FY22 Compared to 5-Year Average*												
% Premium or Discount	6%	NM	-13%	18%	23%	13%	-16%	-1%	-10%	65%	-27%	19%

Note: BOOT uses March FY; * Our EV and other LT debt values **exclude** leases; FL EV adjusted for pending acquisitions

Source: FACTSET, Company Reports, Quo Vadis Capital, Inc. estimates



Undeniable That FL is a Very Cheap Stock

So, by now you should suspect there is something really wrong...

2. The Market's Misunderstanding

Two areas:

First, the Market Thinks Nike is Planning a “Last Dance” with Foot Locker

Second, we believe investors are underestimating the effects of rationalization in the industry and post Covid demand

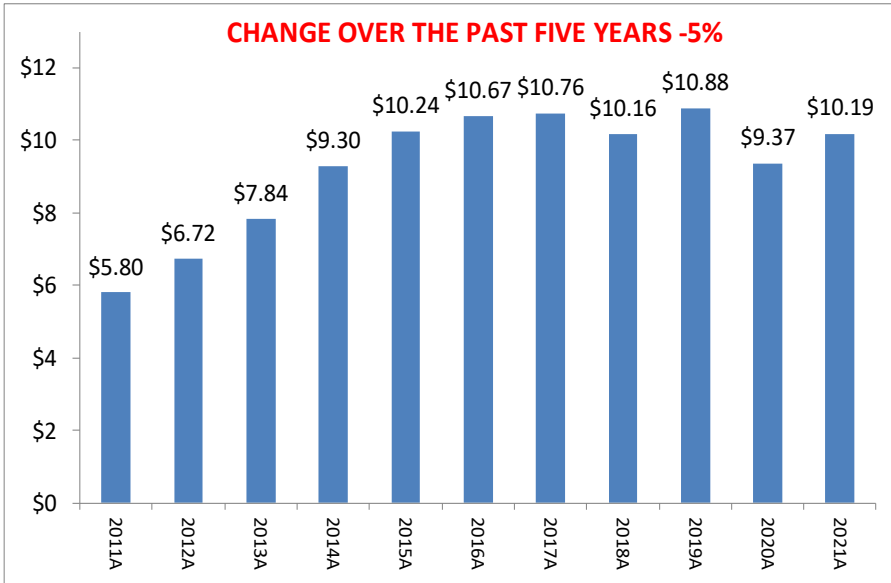
Not Possible to Understand Foot Locker without Understanding Nike

In 2017, NIKE announced a new strategy called “Consumer Direct Offense”

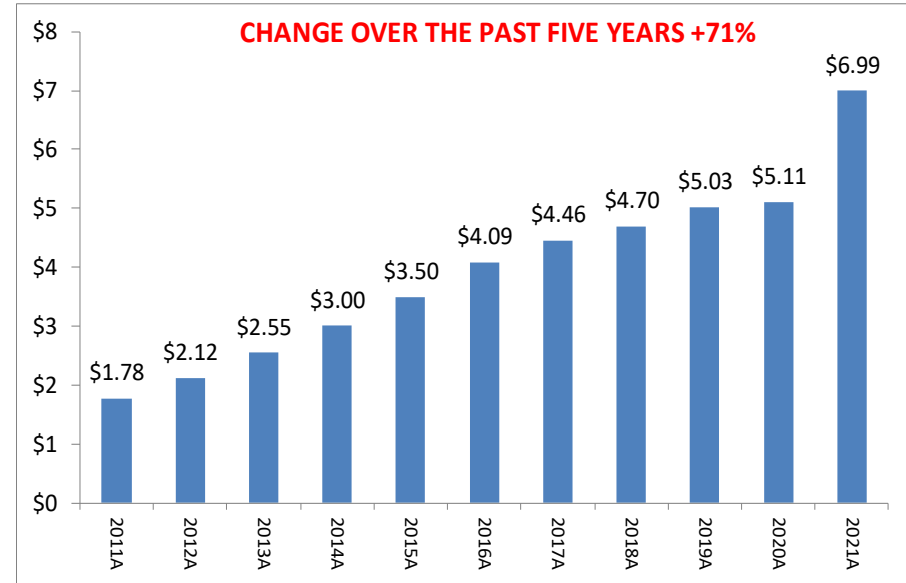
Foot Locker *bears believe this strategy means Nike plans a “Last Dance” with Foot Locker* and will pull product and demand more margin

What has happened? Nike Shrank N.A. Wholesale 5% and Grew DTC 71% Over the past Five Years

NIKE ANNUAL SALES TO NORTH AMERICAN WHOLESALE CUSTOMERS \$B



NIKE ANNUAL NORTH AMERICAN DIRECT TO CONSUMER SALES \$B



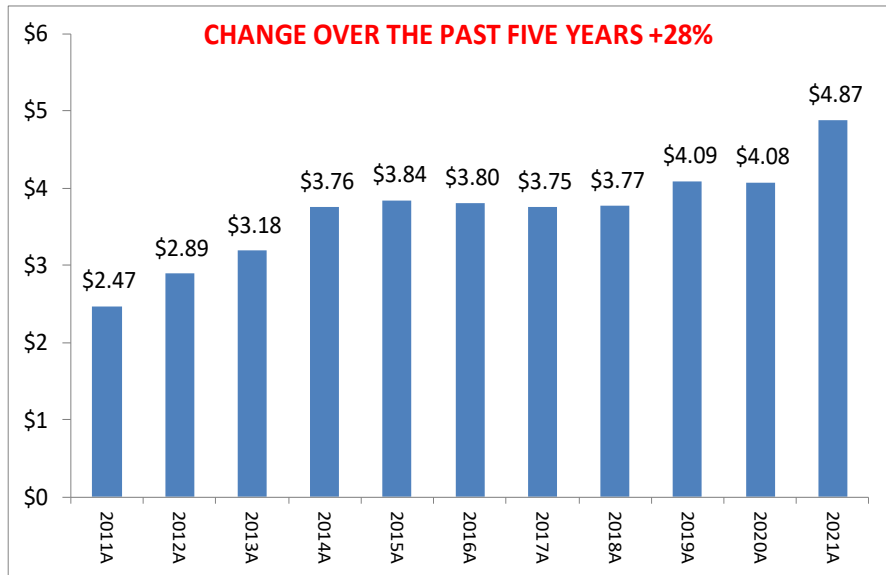
Source, Nike, Quo Vadis Capital, Inc. estimates

***Looks really bad for a Nike retail partner, right?
The music for the last dance is playing!***

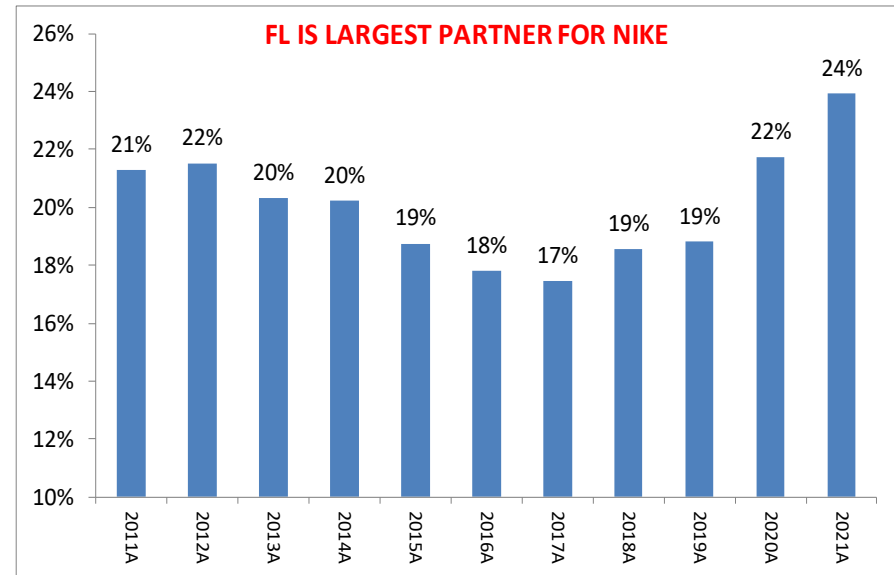
But Wait! Even as Nike Shrank N.A. Wholesale, *Foot Locker's relationship with NIKE has deepened*



FL EST. NORTH AMERICAN ANNUAL RETAIL SALES OF NIKE PRODUCTS \$B



FL EST. SHARE OF NIKE NORTH AMERICAN WHOLESALE REVS



Source: Nike, Foot Locker, Quo Vadis Capital, Inc. estimates

Further, *Nike Has Publicly Supported Foot Locker* on Many Occasions; Meanwhile...

Nike has cut off the following retailers altogether:

- DSW
 - Urban Outfitters
 - Shoe Show
 - Big Five Sporting Goods
 - Dunham's Sports
 - Olympia Sports
 - VIM
 - Perhaps 100s of small independent retailers
 - And ***EVEN AMAZON DOT COM*** *was canceled by NIKE*
- | |
|--------------|
| Belks |
| Dillard's |
| Zappos |
| Bob's Stores |
| Fred Meyer |
| EbLens |
| City Blue |

But that's not all, plenty of Competitors Stopped Getting Nike in Virtue of No Longer Existing...

Former retailers of NKE goods that have closed permanently (year):

- **The Sports Authority 2016**
- **Modell's 2020**
- **MC Sports 2017**
- **City Sports 2015**
- **Eastern Mountain Sports & Shorts Chalet 2017**
- **Numerous Department Store Chains & Independents together operating 1000s of doors**

Summary of Evolution of Nike Ecosystem

- Nike wants its product sold at full price
- Nike cut off retailers and eliminated 1000s of points of distribution
- Nike pulled its product from Amazon.
- Covid accelerated rationalization of the industry
- Foot Locker's business with Nike has grown

There is no question in our opinion, that *the new retail competitive landscape and Nike distribution strategies are massive positives for Foot Locker*

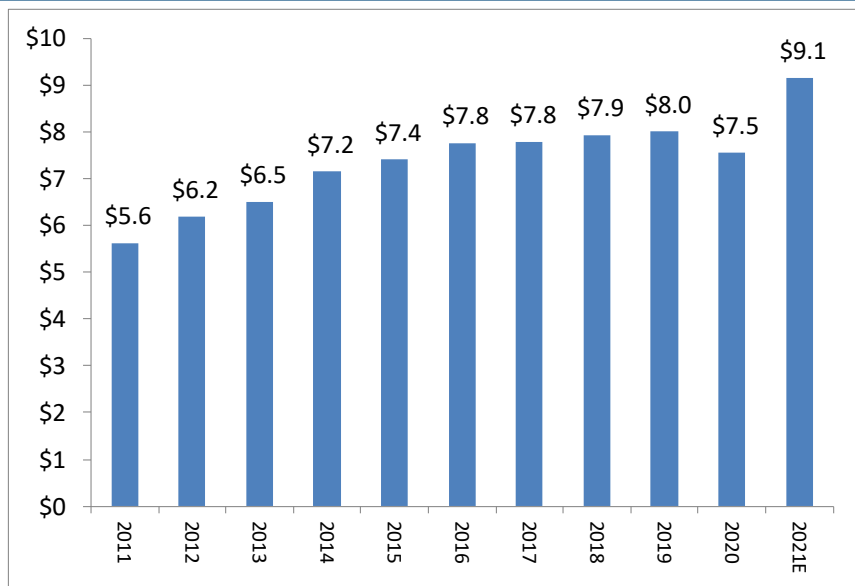
Ok, so you addressed supply, what about demand?

The Demand Side of the Equation is Also Very Positive

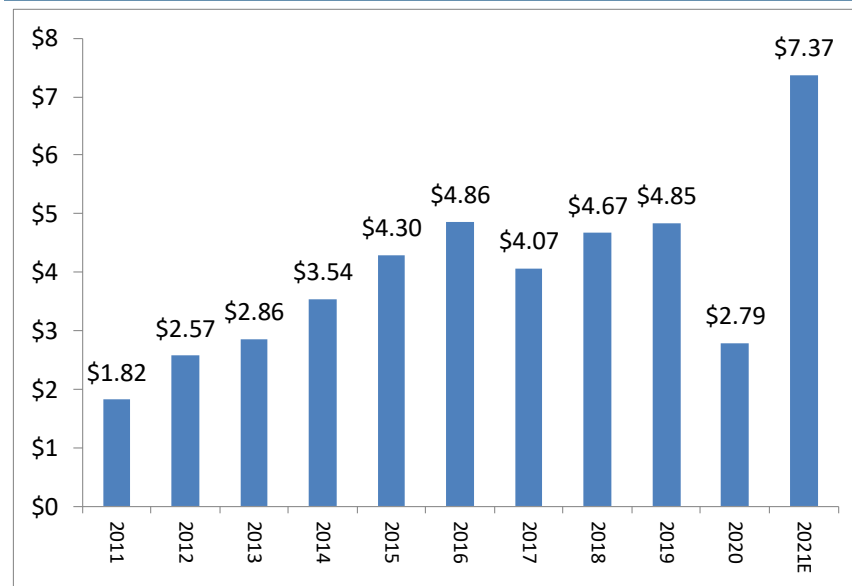
- **Consumer interest in fitness and athletic activity have been amplified by Covid**
- **Work/ School-from-home have accelerated casualization, which benefits comfortable athletic looks**
- **Foot Locker customer skews younger and less affluent and likely benefits from Child Tax Credit & other govt. transfer payments**

Given all this, it should be no surprise that **Foot Locker is on track in 2021 to report its highest sales and profits in the history of the company**

ANNUAL REVENUES \$B



ANNUAL EPS



Source: Company Reports, Quo Vadis Capital, Inc. estimates



3. The Catalyst

Analysts and Investors are Skeptical

- The Street is modeling FL as if FY21 sales and margin performance is a 1x Event (& this is how the stock is priced)

Foot Locker, Inc.						
Annual Earnings Model And Selected Financial Data						
CONSENSUS FORECASTS						
(\$ in Millions, Except per Share Data)						
Fiscal Year Ends January						
	Fiscal 2018A	Fiscal 2019A	Fiscal 2020A	Fiscal 2021E	Fiscal 2022E	Fiscal 2023E
Total retail sales	\$ 7,939.0	\$ 8,005.0	\$ 7,548.0	\$ 8,861.4	\$ 9,066.5	\$ 9,225.9
% change	2.0%	0.8%	-5.7%	10.7%	2.3%	1.8%
EBITDA	\$ 914.0	\$ 893.0	\$ 596.0	\$ 1,191.8	\$ 1,122.4	\$ 1,158.8
% change	-4.3%	-2.3%	-33.3%	33.5%	-5.8%	3.2%
EBITDA MARGIN	11.5%	11.2%	7.9%	13.4%	12.4%	12.6%
Diluted EPS	\$4.67	\$4.85	\$2.79	\$ 7.15	\$ 6.79	\$ 7.20
% change	14.7%	3.8%	-42.4%	47.5%	-5.1%	6.0%
% Δ in same-store sales	2.9%	2.3%	-0.2%	18.0%	-0.8%	1.8%
Free cash flow per share	\$5.12	\$4.66	\$8.60	\$3.48	\$6.53	\$6.48

Source: Company data, FACTSET, Quo Vadis Capital, Inc. estimates (1) 53 week year

We see > \$8 in EPS & FCF/ Share by FY23

- Assuming continued demand and a structurally more profitable industry due to rationalization, we anticipate upward revisions to consensus

Foot Locker, Inc.						
Annual Earnings Model And Selected Financial Data						
QUO VADIS CAPITAL, INC. ESTIMATES						
(\$ in Millions, Except per Share Data)						
Fiscal Year Ends January						
	Fiscal 2018A	Fiscal 2019A	Fiscal 2020A	Fiscal 2021E	Fiscal 2022E	Fiscal 2023E
Total retail sales	\$ 7,939.0	\$ 8,005.0	\$ 7,548.0	\$ 9,148.7	\$ 9,717.6	\$ 9,865.3
% change	2.0%	0.8%	-5.7%	21.2%	6.2%	1.5%
EBITDA	\$ 914.0	\$ 893.0	\$ 596.0	\$ 1,274.5	\$ 1,278.0	\$ 1,329.9
% change	-4.3%	-2.3%	-33.3%	113.8%	0.3%	4.1%
EBITDA MARGIN	11.5%	11.2%	7.9%	13.9%	13.2%	13.5%
Diluted EPS	\$4.67	\$4.85	\$2.79	\$7.37	\$7.61	\$8.25
% change	14.7%	3.8%	-42.4%	164.2%	3.3%	8.4%
% Δ in same-store sales	2.9%	2.3%	-0.2%	23.8%	0.8%	2.5%
	\$5.12	\$4.66	\$8.60	\$4.86	\$7.57	\$8.22

Source: Company data, Quo Vadis Capital, Inc. estimates ⁽¹⁾ 53 week year

If we are right on sustainability of demand and margins in post Covid environment

= upward revisions to forecasts

Plus multiple expansion to ONLY 10x P/E, FL shares could rise to >\$80, representing 50% upside

This likely underestimates true upside

4. The Other Considerations & Ways to Win

Investment in GOAT

- Foot Locker made a strategic minority investment in online sneaker reseller GOAT in 2019 for \$100M.
- GOAT recently conducted (in June) a series F fundraising valuing the total business at \$3.7B.
- Foot Locker's stake is now listed at \$728M (\$7 share) and is listed on the balance sheet.
- This could be distributed to shareholders or monetized.
- We have not considered the GOAT stake in any of our valuation work.

Estimated P&L for Recent Deals

- Foot Locker recently announced the acquisitions of WWS and atmos for \$1.1B. Guidance is for accretion of \$0.44-\$0.48 per share in FY22.
- FL shares are trading lower since deals were announced Aug 1, suggesting the market is ascribing no value to these assets.
- Yet we estimate ~\$100M of EBITDA by FY23

	FY20A	FY21E	FY22E	FY23E
WWS & ATMOS	\$425M \$170M			
Revs Both deals	\$595M	\$714M	\$821M	\$931M
<i>% change</i>		20%	15%	13%
EBITDA <i>margin</i>			\$80M 10%	\$102M 11%
EPS to FL		\$0.20 (4QFY21)	\$0.44-\$0.48	\$0.61

Source: Company reports and Quo Vadis Capital, Inc. estimates

Could FL be acquired by Nike?*

- Nike could acquire Foot Locker to accelerate its Consumer Direct Offense
- NKE market cap is \$260B. FL market cap is \$6B. NKE had \$13B in cash and \$12B in LT debt at the end of May.
- Even in a scenario where NKE paid a 50% premium or \$8.3B (our \$80 target) and lost ½ of FL's non-Nike business, we still estimate this deal would add materially to NKE pre-tax income
- A deal in NKE shares or a combination of stock and cash would also be possible and immediately very accretive

** We have no knowledge of any talks between these two companies nor have we discussed this idea with either company.*

Conclusions

- **Foot Locker is a very cheap stock**
- **The environment has changed in a very favorable way for the company**
- **Revenues and earnings will reach all-time highs this year**
- **However, analysts and investors believe this is due to temporary factors**
- **We believe higher profits and earnings are structural and durable**
- **We see upward revisions and potential for multiple expansion**
- **Potential @10x P/E = \$80 representing 50% upside**



Risks and Other Considerations

Foot Locker (FL) is a global retailer of athletic footwear, apparel and accessories.

- On a near-term basis, supply chain disruptions related to ocean freight and Covid19 could impact results.
- A majority of Foot Locker stores are located in shopping malls, which are experiencing long term secular declines in traffic.
- One vendor (Nike) accounts of 75% of sales (via three brands) if this vendor fails to produce desirable product or its brand becomes damaged it would be difficult for FL to pivot and replace this business.
- FL faces competition from online-only retailers and brands selling directly to customers.
- The company does not own its real estate and is exposed to changes in rental rates. It is also exposed to labor rate inflation.
- The company is exposed to economic factors that impact consumer spending.

Presenter Bio – John Zolidis

- **Founded Quo Vadis Capital, an equity research consultancy and Registered Investment Advisor (RIA) in 2017**
- **Analyst following U.S. consumer sector since 1999**
- **Named to Wall Street Journal's Best on the Street list in 2005**
- **Education at Kenyon College & University of Oxford (Mansfield College)**
- **Former PhD candidate in Philosophy**
- **Presenter at value investment conferences in Klosters, Vail & Cyprus**
- **Based mostly in Paris, France**

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Quo Vadis Capital, Inc. Stock Selection Process

- Our focus is on consumer sector, and we specialize in companies which can be analyzed by estimating and segmenting **unit economics**
- We solve for ROIC and **Return on Incremental Invested Capital (ROIIC)** at the unit and corporate level
- In LONGS we look for companies with upside to consensus estimates, a high ROIC and/or a rising trend in ROIC, rising margins, or accelerating growth and attractive valuations
- In SHORTS we look for companies with downside to consensus forecasts, weak ROIC or deteriorating trend in ROIC, margin contraction, decelerating growth and unattractive valuations
- OUR FAVORITE INVESTMENT THEME is finding a company **where the next dollar to be invested in the business has a significantly different return profile than the base business**. In other words, return on incremental investment is materially greater or lower than return on overall investment (ROIIC is > or < ROIC)

Previous ideas from Value Investment Conferences

CALL	COMPANY	SYMBOL	EVENT	DATE	PRICE	1 YEAR LATER	PRICE	12M % CHANGE
LONG	SPROUTS FMRS MKT	SFM	KLOSTERS	1/29/2020	\$ 15.71	2/29/2020	\$ 20.95	33%
SHORT	SHAKE SHACK	SHAK	CYPRUS	9/23/2019	\$ 102.89	9/24/2020	\$ 65.75	-36%
LONG	YUM CHINA	YUMC	VAIL	6/14/2019	\$ 41.16	9/3/2021	\$ 62.43	52%
LONG	BRINKER	EAT	KLOSTERS	1/29/2019	\$ 42.36	1/29/2020	\$ 44.57	5%
LONG	DOLLAR TREE	DLTR	CYPRUS	10/4/2018	\$ 81.11	10/4/2019	\$ 115.73	43%
LONG	STARBUCKS	SBUX	VAIL	6/28/2018	\$ 48.54	6/28/2019	\$ 83.83	73%
LONG	DSW, INC.	DSW	CYPRUS	10/3/2017	\$ 21.32	10/3/2018	\$ 33.30	56%

*Source: FactSet, Excludes dividends

Disclosures

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