



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Foot Locker, Inc.

Ticker	FL		2022A	2023E	2024E	2025E	2026E
Price	\$28	Hedgeye EPS	\$ 4.95	\$ 1.33	\$ 2.74	\$ 5.84	\$ 7.82
Market Cap	2.61 bn	Street EPS		\$ 1.27	\$ 1.89	\$ 2.42	\$ 3.74
Enterprise Value	2.88 bn	Variance		4%	45%	141%	109%
Short Interest	13.0%	P/E		20.9x	10.1x	4.7x	3.5x
Debt/EBITDA	0.0x	Target P/E		22.0x	14.0x	10.0x	9.0x
Sell Side Target	\$19	Implied Price		\$29	\$38	\$58	\$70
Return to SS Tgt	-33%	Price Variance %		5%	39%	111%	154%

HEDGEYE EDGE | Expect Dramatic Narrative Change Over 12-18 Months

One of the most out-of-favor stocks in retail due to multiple guide downs, Nike reducing allocations, and category weakness. FL is currently putting up a paltry 2% EBIT margin which is hardly worth paying up for based on what people see and hear today. But we think the business trends -- most notably increased product flow from Nike -- will turn extremely favorable over a TAIL duration. Current 'Nike ratio' of 50% compares to 76% just two years ago, and should go up to ~65% within two years. This runs counter to what both companies are guiding to the Street, but we think discussions are happening now that will change that -- and FL is the operationally levered trade. We think margins push 9% over a TAIL duration, putting \$8 in EPS power in play. Even if we give that a 'junktail' 9x multiple we get to a \$65-\$70 stock. 'Core' FL (adjusting for its 15% GOAT stake and WSS acquisition) is trading at a fraction of prior blow-ups. Ultimately, we think this stock is a 2-3 bagger over 2-3 years.

NEAR-TERM (TREND) | Reaching The Inflection Point

We've reached the bottom of rate of change in the latest quarter. Revenue just accelerated and margins will accelerate in this quarter. The company guided down the last three earnings prints, but this quarter it guided inline, and next year's \$1.90 in street EPS looks very doable, so we're likely at the end of the downward EPS revisions. Over the next 3 to 4 quarters, with the increase in Nike product flow, comps sales will continue to accelerate and margins will ramp back up.

KEY RISKS TO THE CALL | Short-Term Selling Pressure and Nike X-Factor

The next quarter or two of earnings could be squirrely. FL will be still be comping down HSD% with the Nike draw-down in its last innings. We don't think it beats the Street meaningfully until around 2H24 - though the multiple should work if we're right and the tone changes about Nike. Structurally, having such big reliance on one brand is a liability.

COMPANY DESCRIPTION

Foot Locker is an athletic shoe and apparel retailer operating different concepts across the globe. It offers products through Foot Locker, Champs, FL Kids, WSS, and Atmos. Historically, its biggest revenue source is Nike shoes. In 2022, FL hired Mary Dillon, the former CEO of ULTA, to turnaround the company.

KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	\$ 8,759	\$ 8,001	\$ 8,579	\$ 9,739	\$ 10,390
YY % Change		-8.7%	7.2%	13.5%	6.7%
Gross Margin %	32.0%	28.0%	30.0%	31.9%	32.7%
EBIT Margin %	6.2%	1.9%	4.2%	7.4%	9.0%
EBITDA	\$ 778	\$ 369	\$ 648	\$ 1,018	\$ 1,252
Net Debt	\$ (84)	\$ 14	\$ 20	\$ (216)	\$ (538)
Net Debt/EBITDA	NA	0.0x	0.0x	-0.2x	-0.4x
FCF/Share	\$ (1.17)	\$ (0.16)	\$ 4.55	\$ 6.93	\$ 8.53