



# Foot Locker.

Foot Locker, Inc. (e.g. FL) is a famous American footwear and clothing retailer. The types of shoes sold are sportswear, casual shoes, running, shoes, sneakers, boots, dress shoes, sandals and flats for men, women and kids. The kinds of outfit sold are hoodies, shorts, pants (e.g. elastic waist), beanies, tank, pullover, jackets and jeans. FL also sells accessories, which include backpack, socks, headband and gloves.

Foot Locker, Inc. has two distinct segments: Athletic Stores and Direct-to-Customers. Athletic stores are located all around the world (e.g. North America, Europe, Australia and Asia Pacific) so that clients can have a look on wished items, try them on and buy. The Direct-to-Customers segment welcomes the customers to purchase FL's products via catalogs and diverse websites. The websites that provide these services are FL's official website, "Footlocker.com", and its daughter company's website "Eastbay".

Athletic segment owns several chains: Lady Foot Locker, Kids Foot Locker, Champs Sports and Footaction. It is important to note that FL closed down all of its 22 CCS (e.g. subsidiary company) stores at the second quarter of the fiscal year 2013.

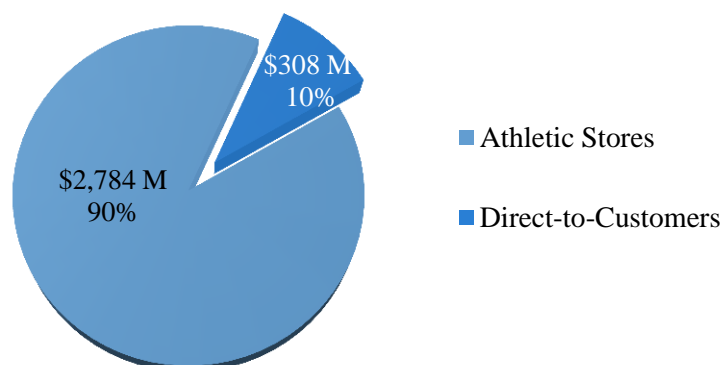
Location	Operating Stores Foot Locker - only	
USA	1,059 units	51 %
International (22 countries)	1,013 units	49 %

With 2,072 Foot Locker stores and 1,423 chain stores, a total of 3,495 stores owned by FL are operating worldwide as of August 3, 2013<sup>1</sup>. In addition, there exist 69 franchised stores.

Name	Number of Stores
Footaction	280
Lady Foot Locker	277
Kids Foot Locker	325
Champs Sports	541
CCS	0

<sup>1</sup>Refer to [http://www.footlocker-inc.com/pdf/2013/pr\\_2013\\_fl\\_2013\\_Earnings\\_Release\\_August\\_23\\_2013-FINAL.pdf](http://www.footlocker-inc.com/pdf/2013/pr_2013_fl_2013_Earnings_Release_August_23_2013-FINAL.pdf)

**Sales (26 weeks, ending August 3, 2013)**



The exact number of sales for subsidiary stores was not available in the 10-Q for the second quarter of 2013. However, some other interesting facts could be noted.

Constant level of sales was noticeable for the Foot Locker Canada. In Europe, sales for the Foot Locker section increased significantly due to men’s basketball and running shoes. Lady Foot Locker still faced with a decline in sales, despite the promotion for greater products.

Total Sales (26 weeks) increased by 5.0 %, with 0.9 % affected by the foreign currency. Gross margin (26 weeks) of 32.8 % stayed steady, compared to the previous year.

Enterprise Value & Multiple

As of October 18, 2013,

Stock price	Outstanding shares	Debt	Cash	EBITDA
\$ 33.15	\$ 148.80 M	\$ 141.0 M	836.0 M	776.0 M

\* Refer to <http://finance.yahoo.com>

Market Cap. = \$ 33.15 x 148.80 M = \$ 4.937 BN  
Hence, EV = \$ 4.937 BN + \$ 141.0 M – \$ 836.0 M = 4.242 BN

Enterprise Multiple = 4242.0 M / 776.0 M = 5.467

Comparison: Enterprise Multiple

Foot Locker Inc.	Finish Line Inc.	Wal-Mart Stores Inc.
5.467	6.66	8.05

\* Refer to <http://finance.yahoo.com> for FL’s competitors’ Enterprise Multiples

**Conclusion:** Foot Locker is currently **undervalued**. Foot Locker Inc.’s EV is lower than Finish Line Inc.’s and Wal-Mart Stores Inc.’s by 17.9 % and 32.1 %, respectively.

## SN Valuation

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👉	<u>Price: History</u>	Price		% change
	20-Oct-08	13.23		
	18-Apr-09	11.61	0.88	-12.24%
	20-Oct-09	11.96	1.03	3.01%
	20-Apr-10	15.73	1.31	31.52%
	20-Oct-10	15.73	1.00	0.00%
	20-Apr-11	21.07	1.34	33.95%
	20-Oct-11	22.06	1.05	4.70%
	20-Apr-12	31.00	1.41	40.53%
	19-Oct-12	35.96	1.16	16.00%
	19-Apr-13	31.92	0.89	-11.23%
	18-Oct-13	33.8	1.06	5.89%

Arithmetic Average	11.21%
Geometric Average	9.83%
Standard Deviation	18.65%

\* Refer to: <http://ycharts.com/companies/FL/price>

👉	<u>EV: History</u>	EV (in BN)		% change
	20-Oct-08	1.744		
	20-Apr-09	1.314	0.75	-24.66%
	20-Oct-09	1.456	1.11	10.81%
	20-Apr-10	2.012	1.38	38.19%
	20-Oct-10	2.067	1.03	2.73%
	20-Apr-11	2.701	1.31	30.67%
	20-Oct-11	2.829	1.05	4.74%
	20-Apr-12	3.993	1.41	41.15%
	19-Oct-12	4.744	1.19	18.81%
	19-Apr-13	3.997	0.84	-15.75%
	18-Oct-13	4.183	1.05	4.65%

Arithmetic Average	11.13%
Geometric Average	9.14%
Standard Deviation	21.68%

\* Refer to: [http://ycharts.com/companies/FL/enterprise\\_value](http://ycharts.com/companies/FL/enterprise_value)

*Conclusion:* The standard deviation for the % changes in semi-annual stock prices and EV's as listed above (e.g. 5 years) is calculated and found to be above 15 %. This indicates that the changes in semi-annual prices are widely spread out over a large range of values. The next % changes for the next semi-annual periods cannot be safely predicted.

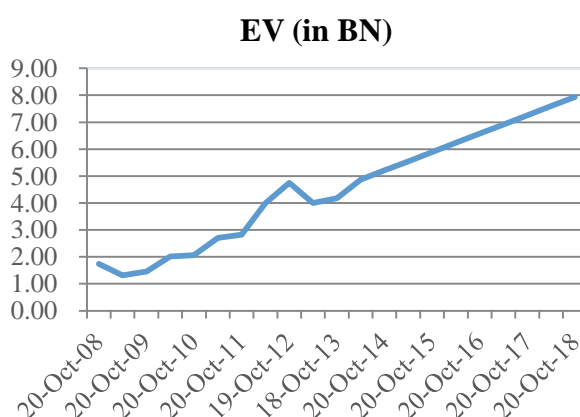
✎ Using Excel, the extended linear series for the future prices is given as follows:

19-Apr-13	31.92		20-Apr-16	48.82
18-Oct-13	33.80		20-Oct-16	51.48
20-Apr-14	38.17		20-Apr-17	54.15
20-Oct-14	40.83		20-Oct-17	56.81
20-Apr-15	43.49		20-Apr-18	59.47
20-Oct-15	46.16		20-Oct-18	62.14



✎ Using Excel, the extended linear series for future values of EV is given as follows:

19-Apr-13	4.00		20-Apr-16	6.23
18-Oct-13	4.18		20-Oct-16	6.57
20-Apr-14	4.87		20-Apr-17	6.91
20-Oct-14	5.21		20-Oct-17	7.26
20-Apr-15	5.55		20-Apr-18	7.60
20-Oct-15	5.89		20-Oct-18	7.94



*Conclusion:* Given a list of prices and EV's from the years 2008 to 2013, the future values were predicted using only the linear series. The correspondent graphs demonstrate that semi-annual values will increase significantly over the next five years. EV in 2018 will almost be doubled to 7.94 BN from 4.18 BN in 2013. Equity prices will also be doubled to \$62.14 by the year 2018 from \$33.80 in 2013.

⇒ *Final Conclusion:* Given that % changes vary dramatically for every six months, investments of six-month period could be risky. Any shorter-term investment must be further analyzed before consideration. As for the long-term investment (e.g. five years or more), the values seem to be strongly increasing when using the simple linear best-fit trend method. However, further analyses must be done to correctly predict the possible trend of its values.

### Reference

Damodaran, Aswath. "Growth Rates and Terminal Value." Damodaran Online. Web. October 21, 2013.

<<http://people.stern.nyu.edu/adamodar/pdfiles/ovhds/dam2ed/growthandtermvalue.pdf>>