

# WESTPEAK RESEARCH ASSOCIATION

## Foot Locker Inc. (NYSE: FL)

Consumer Cyclical – Sportswear and Footwear Retail

### Unlock more with Foot Locker

March 18, 2022

Foot Locker Inc. (“Foot Locker” or the “Company”) is a prominent sportswear and footwear company headquartered out of New York City. Along with its portfolio of companies that include Champs Sports and Eastbay, the Company celebrates youth and sneaker culture at its core. With over 3000 retail stores and a prominent e-commerce presence, Foot Locker continues to fuel the passion for sneaker love and fashionable sportswear around the world.

#### Thesis

Foot Lockers’ diversified business positioning, household brand name power and strong balance sheet combine to make the Company a leading player in the sports and sneaker communities. Growing online sales, strategic investments and transforming into a social hub for the youth will allow Foot Locker to grow and better serve its’ consumers for years to come.

#### Drivers

Two crucial drivers that Foot Locker must prioritize to strengthen their long-term growth prospects are doubling down on transforming brick-and-mortar locations into hubs for the sneaker community and investing in revamped online direct-to-consumer infrastructure are. This focus must be combined with continued strategic acquisitions of established companies.

#### Valuation

At its current share price of USD \$32.34, Foot Locker has unrealized potential. With an implied upside of 39%, our analysis suggests a target share price of USD \$45.01. This price is based on 35% weights derived from the Perpetuity Growth Multiple and EV/EBITDA Exit Multiple generated from our Discounted Cash Flow Analysis and 15% weights derived from the EV/EBITDA Multiple and the PE Multiple generated from our Company Comparable Analysis. As a result, we initiate a **BUY** rating for Foot Locker Inc. (FL).

Analyst: Paul Gill, BCom. ‘23  
contact@westpeakresearch.com

#### Equity Research US

|                             |             |
|-----------------------------|-------------|
| Price Target                | USD\$ 45.00 |
| Rating                      | Buy         |
| Share Price (Mar. 18 Close) | USD\$ 32.34 |
| Total Return                | 39%         |

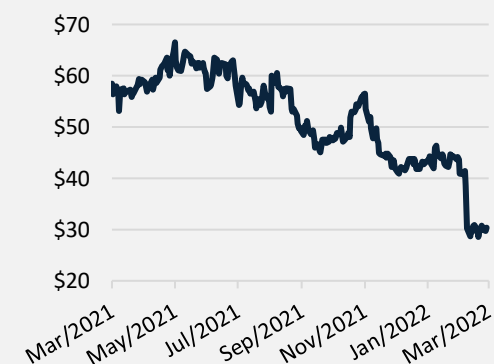
#### Key Statistics

|                              |                 |
|------------------------------|-----------------|
| 52 Week H/L                  | \$66.71/\$26.36 |
| Market Capitalization        | \$3.14B         |
| Average Daily Trading Volume | \$3.12M         |
| Net Debt                     | \$779M          |
| Enterprise Value             | \$6.68B         |
| Net Debt/EBITDA              | 4.4x            |
| Diluted Shares Outstanding   | \$104.4M        |
| Free Float                   | 86.71%          |
| Dividend Yield               | 5.39%           |

#### WestPeak’s Forecast

|            | <u>2022E</u> | <u>2023E</u> | <u>2024E</u> |
|------------|--------------|--------------|--------------|
| Revenue    | \$8.90B      | \$9.02B      | 9.16B        |
| EBITDA     | \$837M       | \$875M       | \$904M       |
| Net Income | \$414M       | \$434M       | \$447M       |
| EPS        | \$3.97       | \$4.16       | \$4.28       |
| P/E        | 8.2z         | 7.8x         | 7.7x         |
| EV/EBITDA  | 8.3x         | 8.4x         | 7.7x         |

#### 1-Year Price Performance



## Business Overview & Fundamentals

### Company Overview

Foot Locker, Inc. is a popular youth and sneaker culture-focused athletic clothing and footwear company founded in California in 1974 and now headquartered out of New York City. With over 3000 store locations in over 27 countries, Foot Locker is the go-to shop worldwide for the latest sportswear and sneaker trends. In addition to its traditional in-store locations, Foot Locker has a wide and growing online and mobile presence. Unlike other major footwear and clothing corporations, Foot Locker concentrates solely on retail rather than producing and supplying its' own products.

**PURPOSE:** To inspire and empower youth culture

**MISSION:** To fuel a shared passion for self-expression

**VISION:** To create unrivaled lifestyle experiences for customers

**POSITION:** To be at the heart of the sport and sneaker communities

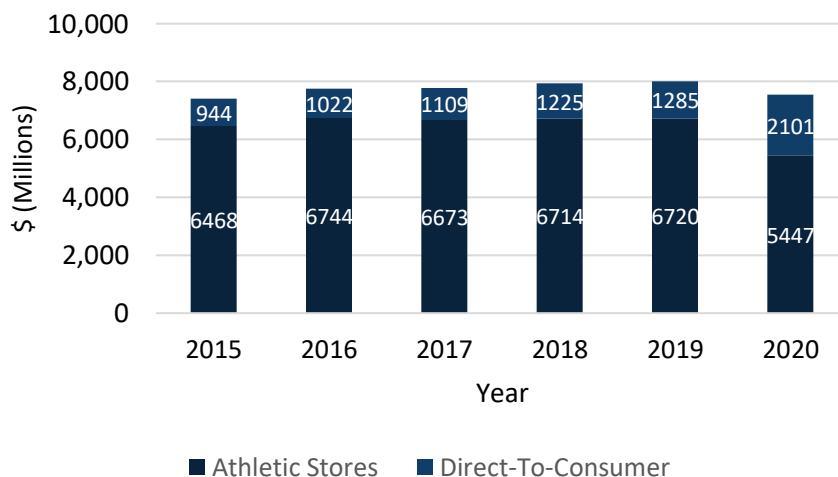
Source: Company Filings

### Business Operating Segments

Foot Locker operates in two distinct business segments: traditional brick-and-mortar stores and direct-to-consumer (e-commerce). Essentially, "Mall Shoppers" shop in stores, whereas "Sneakerheads" shop online. Over the years revenue was growing in both segments but slightly faster for the direct-to-consumer segment. However, with the emergence of the COVID-19 pandemic in 2020, e-commerce revenue was propelled due to store closures. Although overall revenue temporarily dipped for 2020 given the unique circumstances, more customers

were exposed to Foot Lockers' e-commerce outlets. Although e-commerce activity has drastically increased in the apparel and footwear industry, in recent years Foot Locker has doubled down on serving its customers through both segments. In 2020, 82 stores were remodelled to elevate the customer experience. These transformations involved improved

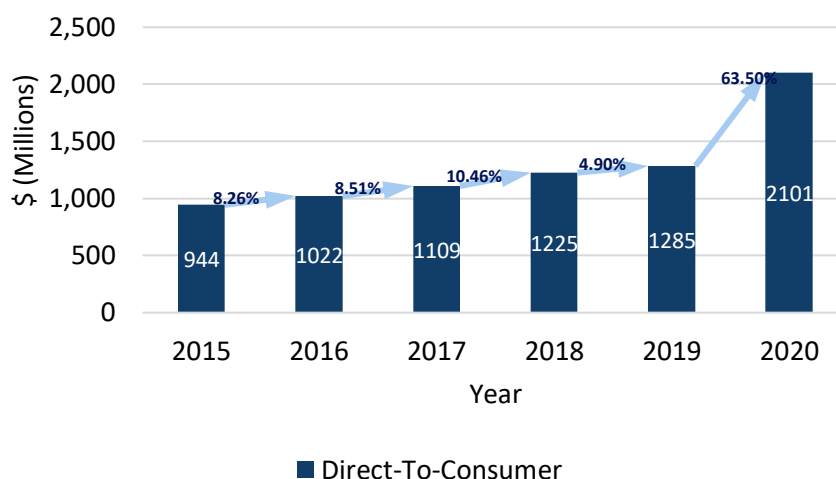
**Net Sales of Foot Locker Worldwide**  
FY15 - FY20



Source: Company Filings

storytelling and a more premium overall presentation. Apple Pay and Google Pay options were added to improve customer convenience. Returned on invested capital (ROIC) has traditionally been strong averaging over 12% in the past ten years. E-commerce sales for Foot Locker increased 63.5% in 2020 YoY from 2019 and accounted for 27.8% of total sales up 62.8% from 2019 when they only accounted for 16.1%. Through its diverse portfolio of brands, the Company is well equipped to seize more growth!

**Direct-To-Consumer Online Sales Growth**  
FY15 - FY20



Source: Company Filings

## Brands

The stores' business segment is tied to the conventional, traditional, in-person retail stores, some of which are in shopping centres while others may be outlet's locations. While the direct-to-consumer segment is linked to Foot Locker sales made through websites, and smartphone applications. In addition to the main Foot Locker brand, the Company's portfolio of brands includes Kids Foot Locker, Lady Foot Locker, Champs Sports, Footaction, Sidestep, WSS, Eastbay and Atmos. Although all these brands have successful and growing direct-to consumers branches too, their stores still combine to generate most Foot Locker's revenue.

### Foot Locker (Original)

The original and primary brand that has continuously evolved since its founding to keep up with sneaker and sportswear trends, customers want and needs and other competitors. A female focused expansion known as Lady Foot Locker is still in operation but is to be managed down to closure.

### Kids Foot Locker (Expansion)

Kids Foot Locker is an expansion brand targeted to serve kids aged 12 and younger. With selections of premium brand such as Nike, Jordan and Champion, this brand is often the first introduction to those who later become customers of Foot Locker's target demographic: youth and young adults.



**Champs Sports (Acquired)**

After Foot Locker, Champs Sports which is primarily a mall-based specialty athletic footwear and apparel retailer has over 500 locations primarily in the US, Puerto Rico, and Canada. Champs Sports also offers sport-lifestyle inspired accessories. Most stores have at least 3,500 of selling space.

**Footaction (Acquired)**

Footaction focuses on offering lifestyle brands and looks and positions itself at the intersection of style and sport. Products offered are authentic and premium. The brand currently operates around 240 stores averaging a selling space of 3,200 square feet.

**Sidestep (Acquired)**

Sidestep is Europe focused and specializes in selling athletic fashion footwear. The brand caters to a more discerning, fashion forward consumer. With an average space of 1,200 selling square feet, the branch operates 76 stores in Germany, Netherlands, and Switzerland.

**WSS / Eurostar Inc. (Acquired)**

Acquired recently in 2021 for USD \$750 million, WSS operates 93 off-malls locations. WSS is footwear retailer. With a loyal customer base, approximately 80% of WSS sales come from loyalty programs. The company is particularly strong among the Hispanic population. With net sales of USD \$425 million in 2020, WSS is expected to add an estimated \$0.30 – \$0.34 to earnings per share. The acquisition of WSS was strategic decision to diversify Foot Locker's location and customer mix.

**Eastbay (Acquired)**

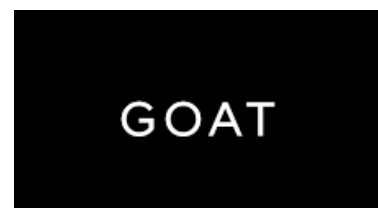
Acquired for USD \$146 million in 1996, Eastbay is direct marketer of sports goods in the United States. A team of over 100 sales professionals work with high schools coaches and athletic directors across the country to provide an all encompassing solutions to sports from apparel, equipment, athletic footwear and accessories. Team licenses merchandise is also supplied. Eastbay provides Foot Locker Inc. a unique and diversified revenue source.

**Atmos (Acquired)**

Acquired recently in 2021 for USD \$360 million, Atmos is Japan based vintage and specialty sneaker company in a quickly growing Asia Pacific market. There are three stores in Asia and over 40 operating in Asia. 60% of Atmos sales were online in 2020 which makes it the only Foot Locker brand bring in most of its revenue through e-commerce. Globally renowned as a key influencer in sneaker culture, Atmos adds a high-priced option for consumers to Foot Locker's product mix.

**Strategic Investment in GOAT**

In 2019, Foot Locker announced that it had acquired a minority interest in secondary sneaker marketplace: GOAT, for USD \$100 million. Although GOAT is a private company, it is speculated that Foot Locker owns around 15% of the company and have seen an over 500% gain on its interest.



Recently, GOAT received funding at a USD \$3.7 billion valuation. GOAT is a well-recognized platform in sneaker culture. The authenticity of the footwear being resold is guaranteed which makes the platform attractive and convenient

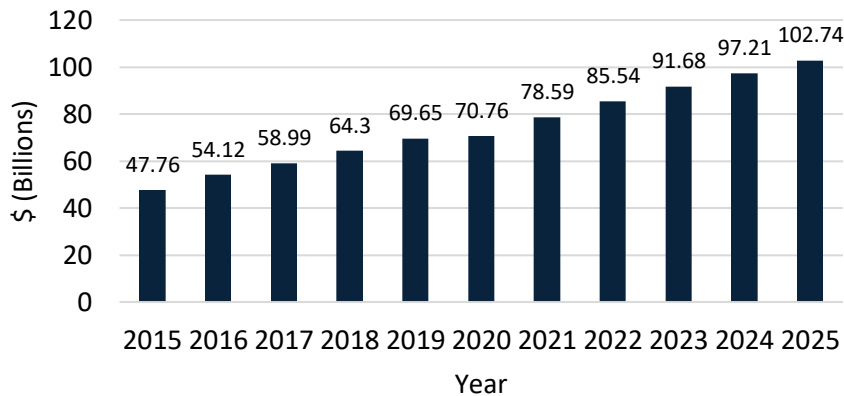
to sneaker lovers. Over the long term, this strategic investment will likely be a real difference maker for Foot Locker. Footlocker with access to GOAT’s data will be able to better accommodate demand, pick trends and optimize product mixes. There is enormous potential for synergy among the two companies going forward.

## Industry Analysis

### The Sneaker Industry Outlook

In 2020, the overall sneaker market was valued at \$70.6 billion and by 2025 the value is projected to be around \$102.7 billion. This six-year expansion represents a compounded annual growth rate of 4.56% and a 46% increase overall. The projected expansion comes as an opportunity for Foot Locker to expand operations and better deliver on its purpose. Although online sales for sneakers have increased, most consumers still buy footwear in-store. Foot Locker is well equipped to serve this segment while elevating the online shopping experience. A 2021 NPD Footwear Trends Buying Report indicates that 54% of consumers still see themselves doing most of their sneaker shopping in person.

**Value of Sneakers Market Worldwide**  
FY15 - FY25



■ Market Size

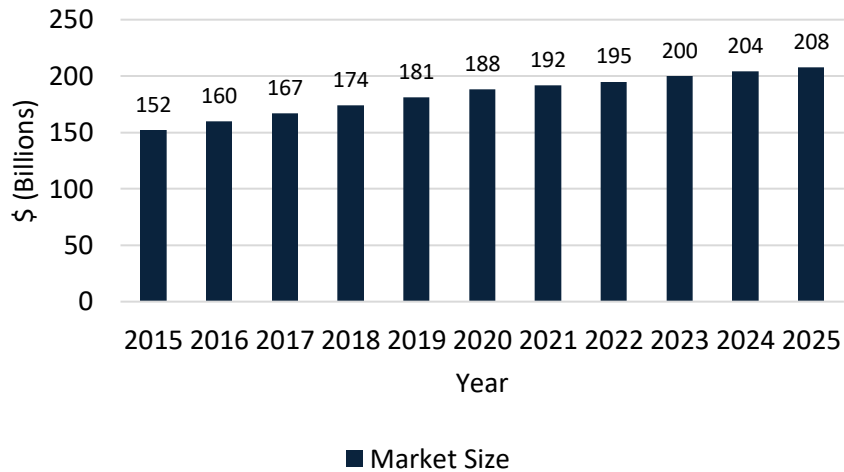
Source: IBIS World

### The Sportswear Apparel Industry Outlook

The global sportswear market is valued around \$188 billion USD in 2020. By 2025, it is projected to grow to \$208 billion USD. This equates to a forecasted compounded annual growth rate of 6.6%. Although demand was negative during the pandemic, the increase in growth is attributable to demand and growth years leading to the pandemic. The rising growth of urban population will increase people’s involvement in fitness activities as part of the growth. Also, the rising number of females participating in sports will contribute too. Furthermore, increasing health consciousness among the world population will also fuel demand. South America and Asia are to see a massive portion of this growth opening Foot Locker up to more customers. However, the US market will continue to remain the largest in the world. In the US market, the

growth of “Athleisure” and demand for sustainably sourced apparel are a few driving factors for the upcoming years. Overall, Foot Locker will be operating in an industry that will be seeing consistent growth in the foreseen future.

**Value of Sports Apparel Market Worldwide**  
 FY15 - FY25



Source: IBIS World

### Competitive Landscape

Some of Foot Lockers key competitors include DICKS’s Sporting Goods, Inc., PVH Corp., and V.F. Corporation among other. In order to remain a competitive player in the market, Foot Locker must continue improve and focus on its key factors for success that are described below.

| Key Success Factors                          | Advantages   |
|--|--|
| <i>Product demonstration</i>                 | The layout of the store and display of products encourage purchases while strengthening Foot Lockers reputation.   |
| <i>Having connections with suppliers</i>     | Companies that are more involved in production or have collaboration with suppliers, have a chance of buying goods at lower prices, increasing profit margins. |
| <i>Having a positive work environment</i>    | Having positive customer service can foster client trust, providing shoe stores with a competitive edge above other shoe retailer.                             |
| <i>Trends that are popular on the market</i> | Having whichever trends are popular on hand can help generate sales from customers.  |

Source: Company Filings

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## Corporate Strategy

The sneaker and sportswear markets are becoming more competitive than ever before. To combat this change, Foot Locker must swiftly execute of its' strategies to remain a top competitor in its respective markets. Although its strong balance sheet provides it a great financial foundation to manoeuvre through times evolving customers' needs and diversifying selling channels, appropriate allocation of capital is necessary to main a high return on invested capital.

### Driver 1: Community Engagement – FLX & Power Stores

To increase engagement amongst its target community, Foot Locker recently launched a free loyalty program: FLX Rewards. The program allows users to earn 'XPoints' with purchases and redeem them for various awards. Rewards include sweepstakes, products, and early access to product launch event details. FLX is now the consolidated loyalty program for all Foot Locker brands making the shopping experience convenient and central. With FLX, shipping is free with no minimum spend. 2020 was the launch year of the program and it saw 17 million members join. As it continues to improve, FLX has proven that members are likely to shop more frequently and spend more. As FLX sees growth, the collected consumer data will help Foot Locker reiterate to improve the overall experience that will continue to promote customer acquisition while doubling down on customer retention.

In 2019, Foot Locker launched the Power Store format. Unlike typical brick-and-mortar locations, Power Store aims to be community hubs. Foot Locker has committed to hiring a certain number of employees who lived within a five-mile radius of Power Stores. Local artists are prioritized when commissioning art design for the interior and exterior of Power Stores. Merchandise from local creators is also displayed and there are often spaces to highlight local DJs too. Generally, Power Stores are experimental in nature but continue to open with the core goal being community engagement. Most recently Power Stores have been opened in Compton, California and Vancouver, British Columbia

### Driver 2: Social Media Presence & Collaborations

As online sneakers and sportswear sales are projected to see double digit growth in the upcoming years, Foot Locker is continuing to invest heavily in its social media presence. The Company has successfully run online campaigns on various social media platforms such as Twitter and Instagram. In the process, various collaborations were executed in partnership with professional athletes. A notable collaboration was bringing on board NBA basketball superstar James for the "Play My Tweet" initiative where fans made personal requests for Harden by tagging Foot Locker's account in the tweets. "We Live Sneakers" is another example of a recent successful online campaign in collaboration with Nike focussing on how Nike products have evolved. As customers chose to shop online more, Foot Locker must stay on top with its social media presence and collaborations moving forward.

### Driver 3: Strategic Investments – GOAT & The Greenhouse Incubator

In recent years, some of Foot Locker's top suppliers: Nike and Adidas have shifted their selling focus to direct-to-consumer from wholesale. Although, as a strategic partner, Nike for example is committed to build on its long existing partnership with Foot Locker, Foot Locker has made strategic investments in GOAT (as explained earlier) and in launching

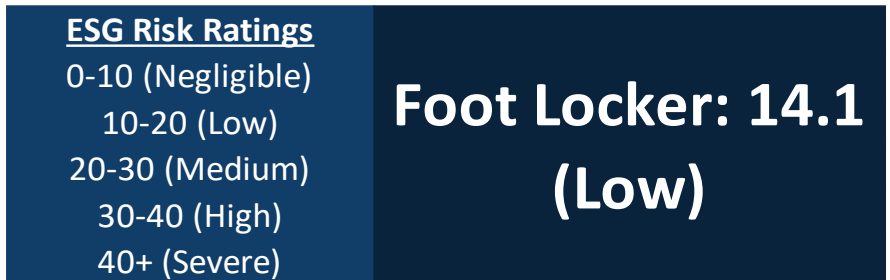
an incubator called Greenhouse. Such investments prepare Foot Locker to diversify its revenue and data sources going forward. The Greenhouse incubator was formed to cultivate new relationships, initiatives, and brands. Newly launched proprietary women's wear brand, Cozi, is a product of Greenhouse. Lckr is another brand that Foot Locker created in 2021; the brand's focus is on designs that can be worn to and from the game, practice, or workout.

## Environmental, Social, and Governance (ESG)

Foot Locker highlights its approach regarding environment, social and governance (ESG) factors in its annual Impact Report that was launched last year in 2020. This report is consistent with Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD) reporting standards. The company has set up a Corporate Social Responsibility program that is built off transparent values. Foot Locker is committed to playing its part in envisioning a more sustainable world. The company acknowledges its stakeholders' increasing attention on ESG values.

The Impact Report breaks down Foot Locker's approach to the following four priorities:

1. Leveraging the Power of Our People and Communities
2. Strengthening the Sustainability of Our Supply Chain
3. Managing and Reducing Our Environmental Impacts
4. Operating Ethically and Transparently



Source: Morningstar

Morningstar's Sustainalytics has most recently given Foot Locker an ESG Risk Rating of 14.1 as of April 2021. This puts the company in the low-risk category and ranks it 97 out of 457 companies in the retail industry. With a rating of 2, Foot Locker ranks Moderate when it comes to controversy level (1 = Low, 5 = Severe)



Source: Company Filings



### Foot Locker's Top 3 ESG Areas of Focus



Source: Company Filings

## Catalysts

### Acquisition of established businesses

Amid business challenges, there is also rising opportunity. As time goes on and the global business environment grows according to innovative technology and advancements, it is crucial to adapt to such trends, as it will reflect positively in a company's success and stock price. Within the past few years, Footlocker has expanded its company by devising a strategy to acquire small retailers to expand beyond North America. To strengthen their foundation, Footlocker purchased WSS and Atmos from Los Angeles and Japan including a total of \$1.1 billion of investments. By thriving off WSS's consumer relationships, Footlocker expects to see a growth in revenue, engagement and success as the deal closed in Q4 of 2021. In addition, the acquisition of Atmos has helped them transition into global markets, particularly Asia which not only populates over 60% of the world but is a hub for digital business, in which Atmos generates most of its income from, contrary to Footlocker in North America. Footlocker has shown that it is defying its limit as a sneaker-distribution business as they are branching out from their roots to capitalize on the large market of buying and selling sneakers. By prioritizing expansions and strengthening their operations, Footlocker can pose an even bigger threat to any possible business competitors. Not only does this bring the possibilities of revenue growth for the ownership of Footlocker, but it can also lead to an increase in stock prices, which is appealing to possible shareholders as well.

### Declining sales due to the re-emergence of COVID-19

Traditionally, companies in the sneaker and athletic apparel business such as Footlocker have relied on physical stores as the backbone of their revenue; the COVID-19 pandemic has and continues to act as an obstacle for organizational operations. Before the pandemic, statistics showed that Footlocker generated around 85% of its sales through physical stores. As a result of the COVID-19 pandemic, Footlocker's net income plummeted from \$491 million to \$323 million. Diving deeper into the supply of the products which are provided by Footlocker, it is important to note that Footlocker is facing challenges from transportation logjams from Asia, particularly in China. At one-point, daily imports from China were over 50% lower than on average historically. As a result, the company has seen a decrease of fiscal sales statistics of

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at least 5.7%. In the future, the possible emergence of new variants can have further implications on the supply-chain and physical operations which Footlocker traditionally relies on. Any future implications in the coronavirus pandemic may force Footlocker to act in contingency and adapt to unfamiliar business environments. New COVID-19 variants have the potential to act as a barrier on the path of future growth. This will make their stock prices especially volatile to negative performances. A failure to adapt and continuing to grow amidst remote business operations has the potential of negatively affecting the future market view, income, and cash flow of Footlocker.

## The E-Commerce Era

Since the beginning of the COVID-19 pandemic, global e-commerce sales have skyrocketed by approximately 50% in Canada, China, and the United Kingdom. Adjusting to such changes in the market is essential as it is the only way you can grow your operations, let alone keep your foot in the door. With over \$100 million invested in GOAT, an online sneaker reselling app, Footlocker has shown that it is sharpening its tools by creating a multidimensional business structure which is built to succeed in multiple environments. With over 3000 wide-spread locations already in use, Footlocker is hoping to create a future in which uses its physical stores as a complimentary attribute to be buying and selling shoes online. This expansion opens the doors for Footlocker to thrive into a new climate of business, regardless of different roadblocks such as COVID-19. If Footlocker invests and grows their online shopping business, they will solidify their operations by increasing sales and can lead to a positive reflection in the value and profit of the company.

## Nike cutting most wholesale partners

Recently, Nike has been aggressively cutting down on wholesale customers aiming to prioritize its direct-to-consumer sales. In December of 2021, Nike announced that it will be cutting Designer Shoe Warehouse (DSW), a leading shoe store chain in the US in 2022. Foot Locker's chances to be cut or limited as a wholesale partner to Nike remained low coming into the first quarter of 2022 as in 2021's Annual Report, Nike reiterated its' focus to continue to build long term momentum with strategic wholesale customers that offer a unique and elevated retail experience. Foot Locker for many years has done exactly that and has been actively taking steps to keep improving. However, in a statement issued in February, Foot Lockers' management addressed that by the end of 2022, Nike's product will make up no more than 55% of the overall product mix, down from 75% in 2020. This led to a 35% drop in the stock price as sales are projected to drop. This market sentiment may have been an overreaction as Foot Locker has options to expand relationships with other leading brands such as Adidas and Puma. Also, this opens more space on shelves for Foot Lockers' own brands: Cozi and Lcker.

## Management Team

Foot Locker's management team, which includes executive leadership, corporate leadership, divisional leadership, and the board of directors, are crucial members of the corporation who collaborate to run the business strategically. They are dedicated to accomplishing the objective of utilising the power of the footlocker community, increasing the supply chain's sustainability, controlling, and minimising environmental effects, and operating ethically. Foot Locker has a total of ten

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independent directors on its Board of Directors and a total of five executive members. Lauren B. Peters stepped down as Executive Vice President in November 2020, but she will continue to serve as Chief Financial Officer. Andrew E. Page was hired in 2021 to fill the position of Executive Vice President.

### Richard A. Johnson – Chairman, President, and Chief Executive Officer



Foot Locker is led by Richard A. Johnson, who has served as Chairman, President, and Chief Executive Officer since May 2016. Mr. Johnson is the Company's most experienced businessman, with over 24 years of dedication. Mr. Johnson is a critical influence in forming and delivering Foot Locker's strategic initiatives. Besides Foot Locker, Mr. Johnson is also at the head of other companies. He is a director of H&R Block Inc. and Big 5 Corp.'s Senior Vice President-Store Operations and a director of the Retail Industry Leaders Association and the Footwear Distributors and Retailers of America. He received his education at the University of Wisconsin, where he is now an Eau Claire National Leadership Council candidate. As of March 2021,

Mr. Johnson owns 1.3% of outstanding shares of common stock. Foot Locker reduced the Chief Executive Officer's compensation by 40% in 2020 due to the financial impact of COVID-19. In 2019, Mr. Johnson's annual base salary was \$1,137,500. In 2020, his annual base salary was \$996,667 with \$4,937,518 in stock awards.

### Andrew E. Page – Executive Vice President and Chief Financial Officer



Andrew E. Page serves as Foot Locker's Executive Vice President and Chief Financial Officer. Mr. Page, who has extensive expertise in athletic footwear and apparel finances, joined Foot Locker in April 2021. Mr. Page specializes in the accounting, financial planning and analysis, investor relations, treasury, tax, internal audit, and risk management departments of Foot Locker. In addition, he works to strengthen Foot Locker's long-term company performance, profitability, and shareholder value. Mr. Page has over 30 years of financial background, which he gained before joining Foot Locker. He worked with Advance Auto Parts, Inc. and Under Armour, Inc. as a Senior Vice President, and Chief Accounting Officer. Mr. Page graduated from Eastern Kentucky University with a Bachelor of Business

Administration in Accounting and a Master of Business Administration from Georgetown University. Due to the economic effect of COVID-19, Mr. Page's compensation reduced by 20% in 2020.

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## Sheilagh M. Clarke – Senior Vice President, General Counsel, and Secretary



Sheilagh M. Clarke is the Senior Vice President, General Counsel, and Secretary of Foot Locker. Ms. Clarke has worked with Foot Locker since 1988, progressing through the positions and gaining seniority. With her experience, Ms. Clarke has solid expertise in corporate and securities law, executive compensation, corporate governance, and compliance. Ms. Clarke earned her bachelor's degree in economics from Monmouth University and her law degree from Seton Hall University School of Law. Foot Locker imposed a 20% compensation reduction for Ms. Clarke in 2020, given the current economic impact of COVID-19.

## Investment Thesis

### Market View

For clothing, shoe, and apparel businesses around the world, the transition from physical to remote online operations has been foreseeable for years; however, the sudden roadblock of the COVID-19 pandemic greatly accelerated this process and forced companies to act in contingency to maintain their financial strength. Before the pandemic, Foot Locker was experiencing a steady growth in sales revenues but hit a small roadblock as sales decreased by approximately \$500 million in 2020. In addition, their stocks dropped to the lows of \$20 during the second quarter of 2020. However, forward-thinking investments adding up to well over a billion dollars, have created an optimistic market view for Foot Locker as not only were they able to stay afloat during the pandemic, but they also put themselves in a situation to excel in new market environments. Due to heavy engagement in online commerce, global markets, and technological advancements, Footlocker has been able to sustain a positive market position as their stock prices have nearly doubled since 2020, and the company recovered with four consecutive quarters of growth.

### Investment Thesis 1 – Strong Intrinsic Position Will Enable Growth, Diversification and Acquisition Opportunities

Within the past two years, Footlocker's, forward-thinking investments have created a multidimensional structure that creates a field of optimism regarding their long-term operational success. Straying away from a traditional physical shoe store model, Footlocker has diversified its areas of focus by investing over \$1.1 billion, which is approximately half of their annual revenue into companies WSS and Atmos, respectively. WSS focuses primarily on its off-mall store fleet located in large markets, which shows that they are prioritizing long-term value through technological advancements. On the other hand, Atmos taps Footlocker in strongly with the Asian market, which shows us that they are prioritizing global growth for the future. The COVID-19 pandemic has forced successful companies to act proactively and aggressively to maintain success in challenging environments. Such diversification and acquisitions have proven to be successful for Footlocker as their revenue continues to steadily increase by every quarter including a growth of 50% in stock price since the beginning of the COVID-19 pandemic.

## Investment Thesis 2 – A New Breed of Footlocker – Redefining the Brick-and-Mortar Shopping Experience

Since the spring of 2020, the operations of all brick-and-mortar shopping experiences have been redefined. Since Footlocker is not a shoe creator, but more of a marketer and distributor, it is vital for them to adapt to new methods of the buying and selling of shoes, which is dominated by online platforms. Following COVID, Footlocker saw a slight 6.5% dip in yearly revenues from \$8 billion to \$7.55 billion, yet their futuristic investment in GOAT, shows that they are not only focusing on a recovery following the pandemic, but a rewarding asset which will blossom in the years to come. Purchasing GOAT is notable strategy as Footlocker has turned a potential competitor in the online shoe-reselling business into another tool in their attributes. Footlocker understands that it is not always necessary for one to go door-to-door to purchase or sell sneakers as almost 25% of consumers stated that nearly 100% of their shoe purchases will be online and shipped to their homes. By maximizing the potential of such new methods of shopping experiences, Footlocker will be able to guarantee a similar growth of over \$100 million increase in pre-COVID that they were having prior to the pandemic.



Source: Company Filings

## Shareholder Base, Liquidity, Market Depth

### Shareholder Base

Footlocker has one hundred four million and four hundred thousand shares outstanding and a free float of 86.48 million shares in which 1.10% are held by Insiders and 84.83% are held by Institutions. The number of Institutions holding shares is 543. Vesa Equity Investment S.a R.L. is the top holder with 12.70% of total shares outstanding. The remaining shareholders are venture capital/private equity firms (12.70%) and the public and other (1.34%). Foot Lockers ten largest shareholders are listed in the figure below:

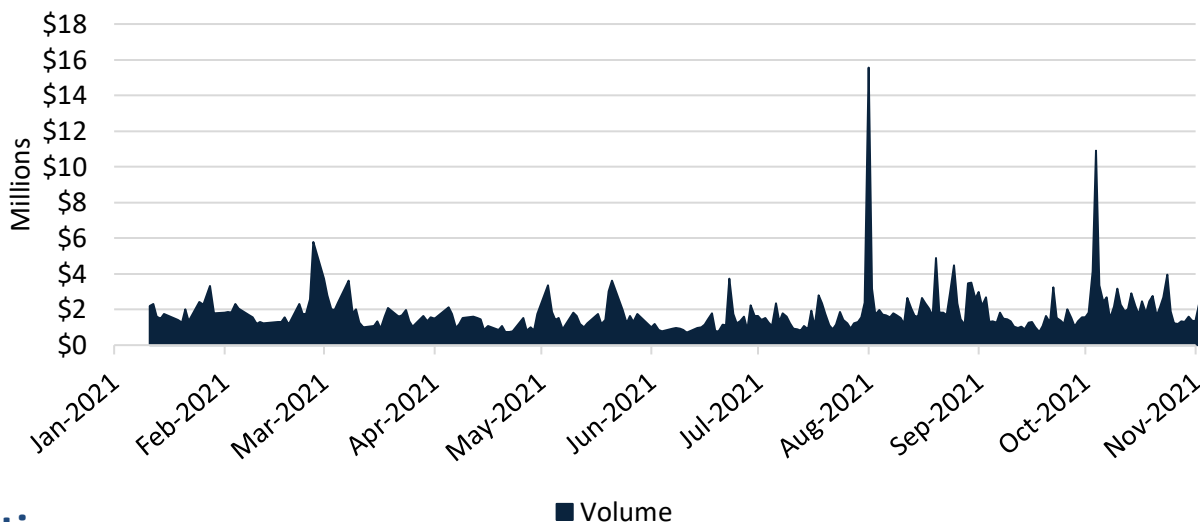
| Shareholder                              | Common Stock Equivalent Held | % of Total Shares Outstanding | Market Value (USD in mm) | Position Date       |
|--|------------------------------|-------------------------------|--------------------------|---------------------|
| Vesa Equity Investment S.a R.L.          | 12,750,317                   | 12.70                         | 536.2                    | Sept-30-2021        |
| The Vanguard Group, Inc.                 | 11,078,218                   | 11.04                         | 465.8                    | Sept-30-2021        |
| BlackRock, Inc.                          | 7,743,695                    | 7.72                          | 325.6                    | Sept-30-2021        |
| FMR LLC                                  | 6,780,605                    | 6.76                          | 285.1                    | Sept-30-2021        |
| Boston Partners Global Investors, Inc.   | 5,627,259                    | 5.61                          | 236.6                    | Sept-30-2021        |
| LVS Asset Management                     | 4,244,209                    | 4.23                          | 178.5                    | Sept-30-2021        |
| Dimensional Fund Advisors L.P.           | 3,996,658                    | 3.98                          | 168.1                    | Sept-30-2021        |
| State Street Global Advisors, Inc.       | 2,511,639                    | 2.50                          | 105.6                    | Sept-30-2021        |
| Arrowstreet Capital, Limited Partnership | 2,247,294                    | 2.24                          | 94.5                     | Sept-30-2021        |
| Citadel Advisors LLC                     | 2,151,852                    | 2.14                          | 90.5                     | Sept-30-2021        |
| <b>Top 10 Identified Shareholders</b>    | <b>59,131,746</b>            | <b>59</b>                     | <b>2487</b>              | <b>Sept-30-2021</b> |

Source: Cap IQ

## Liquidity

As of March 18<sup>th</sup>, 2022, the one-year average trading volume of Foot Locker Inc. is 1,832,372 shares. Given that the top ten shareholders hold more than 58% of the free float, if there was a large sell off for whatever reason, there could be risks associated to the overall market value. The highest trading day was on August 20, 2021, when Foot Locker crushed fiscal second-quarter earnings estimates despite conservative projections due to ongoing COVID-19 pandemic challenges.

Year-To-Date Daily Trading Volume (NYSE: FL)



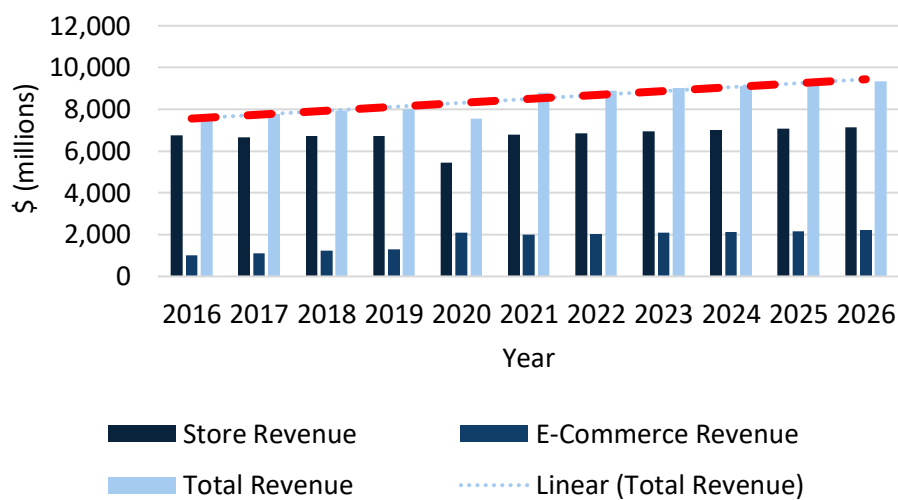
## Valuation

### Discounted Cash Flow (DCF) Assumptions

## Revenue Forecast

Revenue projections in the DCF were done separately for each operating segment: store sales and direct-to-consumer (e-commerce). Although in 2020 both segments saw a temporary decrease in revenue due to the COVID-19 pandemic, in the first three quarters of 2021, revenues have slowly started bounce back (up 18.5% since 2020). The pandemic increased the overall sales and proportion of sales for Foot Locker’s e-commerce operations. As supply chain operations continue to improve, Foot Locker is projected to grow its store sales by 1% (CAGR) annually and e-commerce sales by 2% (CAGR) annually. With the increased preference of consumers wanting to shop online being parallel to Foot Locker’s e-commerce improvement strategies, direct-to-consumers sales are projected to grow slightly more than store sales. The outlook for Foot Lockers’ two main general offerings: sneakers and athletic apparel have outlooks of respective 7.2% (CAGR) and 4.1% (CAGR).

**Revenue Forecast**  
FY16 - FY26



Source: Company Filings and Projections

## Cost of Goods Sold (COGS) Forecast

Historically, COGS for Foot Locker has been relatively steady in the past years between 65.0% and 70.0% as percentage of total revenue. As the retail sector continues to recover from the COVID-19 pandemic, federal interests’ rates remain low. This should assist Foot Locker is keeping COGS within its historical range going forward balancing out additional costs from supply chain woes. As a result, COGS is projected at 69% further decreasing by 0.2% every proceeding year signalling minimal margin expansion.

## Capital expenditures (CAPEX) Forecast

We believe that Foot Locker will aim to diversify its business interests through acquisitions going forward. There will also be a focus on further improving online e-commerce infrastructure and launching more Power Stores while supporting general operations. We have forecasted it to be a 28% (average) of property, plant and equipment which is higher than historical average close to 20%.

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### **Weighted Average Cost of Capital (WACC)**

Foot Locker's weighted average cost of capital was calculated to be 11.6%. Data used to calculate the WACC was provided by Bloomberg. A risk-free rate of 1.8% (U.S. 5-Year Treasury Bill rate), expected market return of 10.3% and Beta of 1.30 were used to attain a cost of equity of 12.9% and a market risk premium of 8.6%. Next, using the pre-tax cost of debt as 1.6%, effective tax rate of 27.1%, and an adjustment factor of 1.58, cost of debt was calculated to be 1.8%.

### **Effective Tax Rate**

The effective tax rate was assumed to be 34.5%. This represents Foot Locker's long-term tax rate.

### **Terminal EV/EBITDA Multiple**

A Terminal EV/EBITDA Multiple of 4.5x was used. This number is close to the average of pre-pandemic multiples of around 5x. This is a conservative approach given Foot Locker's potential to capture greater market share.

### **Perpetuity Growth Rate**

The Perpetuity Growth Rate was assumed to be 1% which reflects a conservative rate of growth for the industry overall.

### **Dividend Policy**

Foot Locker has consistently paid out a dividend over the years even through the pandemic. As a result, this trend is projected to continue moving forward with \$0.35 dividend projected every quarter of 2022 totalling to \$1.40 for the year. Annually, the dividend is projected to increase by \$0.10 each year which would mean a payout of \$1.60 in 2023 and \$1.70 in 2024.

## **Comparable Company Analysis Set**

The following companies have been chosen to compare Foot Locker with businesses that share some key operational similarities. This could include similar customer bases, similar sizes, and similar geographic markets. Overall, their business models are like those of Foot Locker and the businesses may be direct or indirect competitors.

**DICK's Sporting Goods, Inc. (NYSE: DKS):** DICK's is America's largest sporting goods retailer with a revenue of 9.584 billion. Nike, Adidas, Columbia, and a variety of other well-known brands are sold by the company. They promote sports apparel, equipment, accessories, footwear, as well as other products.

**Nordstrom, Inc. (NYSE: JWN):** Nordstrom is a well-known fashion retail company that sells clothing, handbags, jewellery, and other accessories. Since its inception in 1901, the company has grown to 468 locations.

**PVH Corp. (NYSE: PVH):** PVH, also known as the Phillips-Van Heusen Corporation, is an apparel company that owns Tommy Hilfiger, Calvin Klein, and several other profitable brands. It is one of the highly respected clothing businesses in the industry with clients in more than 40 countries.



**The Gap, Inc. (NYSE: GPS):** The Gap Inc. is a clothing company based in the United States that caters to people of all ages. Two of their most well-known subsidiaries are Old Navy and Banana Republic. The company promotes and offers in person as well as online through their website.

**Ralph Lauren Corporation (NYSE: RL):** Ralph Lauren is an American company which was initiated by a fashion designer. Ralph Lauren named the company after himself, and it has since expanded to become one of the world's leading fashion conglomerates. The company, which was founded in 1967, now generates approximately \$7 billion per year.

**American Eagle Outfitters (NYSE: AEO):** American Eagle Outfitters is an American retail company that specializes in high quality clothing and accessories. Through productive expansion, the company has expanded to online and standalone stores, with future growth plans to double Aerie revenues to \$2 billion.

Source: Bloomberg

## Recommendation

### Buy

The retail sector is known to be fast-paced and highly competitive, yet Foot Locker has been not only been able to survive but thrive since its founding. As it continues to rebound back to its' original growth before the COVID-19 pandemic, it is undervalued in the market at its current price of CAD \$42.05. Given the discount, there is great long-term growth potential. COVID-19 has forced Foot Locker to prioritize their e-commerce direct-to-consumer selling as stores saw a dip in foot traffic. However, given that stores are transforming with a renewed focus as sneaker and street wear hubs and that foot traffic is increasing again, both online and store channels are set up for success. Better integrating the shopping experience between the two channels is likely to increase loyalty among current customers while attracting new customers especially those is the target consumer market: youth. Keeping such considerations in mind, the implied target share price was computed using the following weightings:

- A 35% weighting on the Perpetuity Growth DCF method, which projects a \$37.82 share price
- A 35% weighting on the Exit Multiple Implied Price DCF method, which projects a \$36.88 share price
- A 15% weighting on the EV/EBITDA Implied Price Method, which projects a \$64.92 share price
- A 15% weighting on the P/E Implied Price method, which projects a \$60.86 share price

Greater weightings were given to the Perpetuity Growth DCF method and the Exit Multiple Implied Price DCF method as their calculation account for the recently realized catalyst of Nike choosing to decrease offerings to Foot Locker. Because this change did not directly affect market competitors, the comparable methods provide a generous share price in comparison.

Combining these four weights collectively derived from the DCF model and Comparable Companies Analysis, we achieved are target share price of CAD \$45.01. Therefore, a **BUY** rating is initiated, given the 39.20% upside.

Please see legal disclaimer at the bottom.

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## Risks

### Decline of Physical Department Store Usage

Within the last two years, shopping malls have seen an extensive decrease in use. This started because of safety, but it is not backed by convenience as well. Foot Traffic in Canada's top-10 shopping malls alone has dropped over 42%, and this poses a direct risk to Footlocker as 85% of their revenue is dependent on their physical stores. Prior to the pandemic, mall foot traffic was already falling, but with new variants of COVID-19 still growing deadly enough to ramp up physical distancing policies. Footlocker is at risk of having to adjust their standard operations of procedures going into 2022.

### Insufficient Inventory Levels

For Foot Locker to provide their services, they must ensure that they have an appropriate level of inventory and completely avoid a shortage of inventory as it would go against their core competencies of providing a wide variety of sneakers in a timely manner. With nearly 75% of their products coming from Nike, a company which has its lead manufacturing coming out of China and Vietnam, a cease or decrease in shipping due to a safety amidst a new COVID-19 variant is a potential risk that Footlocker is involved in since they're at the receiving end of this supply chain, which is susceptible to extensive delays.

### Disruption due to COVID-19

The COVID-19 pandemic in 2020 led to many closures of manufacturing facilities and distribution centers. Over 65% of North American's reported that they resorted to online shopping due to COVID-19. This made it a challenge to maintain adequate inventory in local distribution centers and stores. The disruption in supply led to reduced traffic for the year. Over 72% of North American businesses reported a negative effect on their business supply chains, while 17% reported a significantly negative effect. As the world navigates out of the pandemic, effects from 2020 are still expected to be

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prevalent from some years to come. Given that future developments remain uncertain, there is a fundamental risk to Foot Lockers' operations financials.

## Fashion Trend Dependent Industry

The retail industry at large is heavily dependent on fashion trends. Product innovation must be in line with customer preferences. These preferences are always changing based on fashion trends and other fashion-related factors, especially knowing that 75% of online shoppers purchase more than once a month. There is a reliance on suppliers to be creating innovating products that appeal to target consumers. It is not possible to guarantee that merchandise selection will accurately capture preferences of customers when it is offered for sale. Young males ranging from ages 12-25 account for a sizeable portion of the highest margin sales. Although this consumer base is a frequent purchaser, their products want are usually evolving as per current fashion trends. With over 2.14 billion people worldwide estimated to be online shoppers in 2022, a failure to react to, identify or anticipate fashion trends in a timely manner could lead to a downfall in interest from core and potential customers. This can lead to adverse implications of Foot Lockers' operations and financials.

## Dependency on Nike

Approximately 91% of the merchandise sold in 2020 was purchased from only five suppliers. This trend is to continue for future periods. Furthermore, 75% of all merchandise purchased in 2020 was from one supplier: Nike, Inc. Every operating division of Foot Locker is highly dependent on Nike. Therefore, any disruption to the supply chain or damage to the supplier relations can potentially lead to adverse effects on operations and financials. Nike's reputation is correlated to a substantial portion of Foot Locker's sales therefore, if Nike fails to appeal to target consumers with future products, there could be an adverse effect on Foot Locker's operations and financials.

## The Highly Competitive Nature of the Apparel and Footwear Business

Given that there are many competitors in the apparel and footwear business, it is difficult to win and retain business. Store location, advertising, reputation, and selection of merchandise are some key factors to earning and retaining market share. By 2023, 22% of global retail will be controlled by e-commerce. As new competitors enter established markets and as Foot Locker enters new markets, it is challenging to be an industry leader in all factors which brings forward an inherent risk. Factoring in the increasing transition to online sales, companies such as Amazon, a company that once would not be considered a competitor are now contending for market share, in fact they are currently the leading mobile online shopping app in the world. Today, over 60% of North American shoppers have purchased something online within the last year, and the increasing online presence has also made it lucrative to suppliers to offer their products direct-to-consumer. If key suppliers choose to conduct business in this manner, there may be an adverse effect on Foot Lockers' operations and financials.

## **Appendix**

### Exhibit 1: Model Summary

|                                      | Jan-16   | Jan-17   | Jan-18   | Jan-19   | Jan-20   | Apr-20   | Jul-20   | Oct-20   | Jan-21   | Jan-21   | Jan-22   | Jan-23   | Jan-24   | Jan-25   | Jan-26   |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| (Figures in mm USD)                  | FY2016   | FY2017   | FY2018   | FY2019   | FY2020   | Q1-2021  | Q2-2021  | Q3-2021  | Q4-2021  | FY2021   | FY2022   | FY2023   | FY2024   | FY2025   | FY2026   |
| <b>Income Statement</b>              |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Revenue                              | 7,766.0  | 7,782.0  | 7,939.0  | 8,005.0  | 7,548.0  | 2,153.0  | 2,275.0  | 2,189.0  | 2,180.9  | 8,797.9  | 8,905.9  | 9,015.3  | 9,126.3  | 9,238.8  | 9,352.8  |
| EBITDA                               | 1,158.0  | 744.0    | 877.0    | 828.0    | 479.0    | 294.0    | 212.0    | 147.0    | 152.7    | 805.7    | 837.3    | 874.5    | 903.5    | 896.2    | 925.9    |
| Net Income                           | 664.0    | 284.0    | 541.0    | 491.0    | 323.0    | 169.0    | 330.0    | 60.0     | 68.0     | 627.0    | 414.2    | 434.4    | 447.0    | 435.8    | 448.8    |
| Earnings Per Share                   | \$ 4.91  | \$ 2.22  | \$ 4.66  | \$ 4.50  | \$ 3.07  | \$ 1.61  | \$ 3.14  | \$ 0.57  | \$ 0.65  | \$ 5.99  | \$ 3.97  | \$ 4.16  | \$ 4.28  | \$ 4.17  | \$ 4.30  |
| <b>Cash Flow Statement</b>           |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Capital Expenditures                 | (266.0)  | (274.0)  | (187.0)  | (187.0)  | (159.0)  | (51.0)   | (36.0)   | (50.0)   | (60.2)   | (197.2)  | (244.8)  | (248.2)  | (258.2)  | (268.0)  | (277.6)  |
| Acquisitions                         | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        |
| Divestitures                         | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        |
| Dividend Payment                     | (147.0)  | (157.0)  | (158.0)  | (164.0)  | (73.0)   | (21.0)   | (21.0)   | (30.0)   | (31.1)   | (103.1)  | (144.9)  | (165.6)  | (176.0)  | (186.3)  | (196.7)  |
| Dividend Per Share                   | \$ 1.10  | \$ 1.24  | \$ 1.38  | \$ 1.52  | \$ 0.90  | \$ 0.20  | \$ 0.30  | \$ 0.30  | \$ 0.30  | \$ 1.10  | \$ 1.40  | \$ 1.60  | \$ 1.70  | \$ 1.80  | \$ 1.90  |
| Dividend Payout to Earnings          | 22.1%    | 55.3%    | 29.2%    | 33.4%    | 22.6%    | 12.4%    | 6.4%     | 50.0%    | 45.6%    | 16.4%    | 35.0%    | 38.1%    | 39.4%    | 42.8%    | 43.8%    |
| Dividend Payout to Core FCF          | 12.6%    | 15.4%    | 18.6%    | 19.7%    | 8.4%     | 3.9%     | 19.3%    | 10.4%    | 34.1%    | 10.1%    | 16.9%    | 18.7%    | 19.1%    | 20.1%    | 20.5%    |
| Dividend Yield                       | 1.7%     | 2.3%     | 2.8%     | 3.0%     | 3.0%     | 0.4%     | 0.5%     | 0.5%     | 0.9%     | 2.2%     | 4.3%     | 4.9%     | 5.3%     | 5.6%     | 5.9%     |
| <b>Balance Sheet</b>                 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Current Assets                       | 2,633.0  | 2,551.0  | 2,518.0  | 2,386.0  | 2,835.0  | 3,267.0  | 3,178.0  | 2,893.0  | 2,812.1  | 2,812.1  | 2,894.3  | 3,128.7  | 3,364.7  | 3,581.8  | 3,799.4  |
| Non-Current Assets                   | 1,207.0  | 1,410.0  | 1,302.0  | 4,203.0  | 4,208.0  | 4,175.0  | 4,407.0  | 5,318.0  | 5,330.4  | 5,330.4  | 5,377.4  | 5,421.3  | 5,465.4  | 5,509.5  | 5,553.4  |
| Assets                               | 3,840.0  | 3,961.0  | 3,820.0  | 6,589.0  | 7,043.0  | 7,442.0  | 7,585.0  | 8,211.0  | 8,142.6  | 8,142.6  | 8,271.7  | 8,550.0  | 8,830.1  | 9,091.3  | 9,352.8  |
| Current Liabilities                  | 612.0    | 616.0    | 764.0    | 1,194.0  | 1,644.0  | 1,913.0  | 1,681.0  | 1,757.0  | 1,651.6  | 1,651.6  | 1,511.4  | 1,520.9  | 1,529.9  | 1,541.7  | 1,551.0  |
| Non-Current Liabilities              | 518.0    | 826.0    | 550.0    | 2,922.0  | 2,623.0  | 2,599.0  | 2,563.0  | 3,112.0  | 3,112.0  | 3,112.0  | 3,112.0  | 3,112.0  | 3,112.0  | 3,112.0  | 3,112.0  |
| Liabilities                          | 1,130.0  | 1,442.0  | 1,314.0  | 4,116.0  | 4,267.0  | 4,512.0  | 4,244.0  | 4,869.0  | 4,763.6  | 4,763.6  | 4,623.4  | 4,632.9  | 4,641.9  | 4,653.7  | 4,663.0  |
| Shareholders' Equity                 | 2,710.0  | 2,519.0  | 2,506.0  | 2,473.0  | 2,771.0  | 2,925.0  | 3,336.0  | 3,337.0  | 3,374.0  | 3,374.0  | 3,648.3  | 3,912.1  | 4,183.2  | 4,432.6  | 4,684.8  |
| Cash                                 | 1,046.0  | 849.0    | 891.0    | 907.0    | 1,680.0  | 1,963.0  | 1,845.0  | 1,339.0  | 1,190.4  | 1,190.4  | 1,043.7  | 706.1    | 916.0    | 1,106.3  | 1,297.1  |
| Debt                                 | 1,130.0  | 1,442.0  | 1,314.0  | 4,116.0  | 4,267.0  | 4,512.0  | 4,244.0  | 4,869.0  | 4,763.6  | 4,763.6  | 4,623.4  | 4,632.9  | 4,641.9  | 4,653.7  | 4,663.0  |
| Net Debt                             | 84.0     | 593.0    | 423.0    | 3,209.0  | 2,587.0  | 2,549.0  | 2,399.0  | 3,530.0  | 3,573.1  | 3,573.1  | 3,579.6  | 3,926.7  | 3,725.9  | 3,547.4  | 3,365.9  |
| Minority Interests                   | -        | -        | -        | -        | 5.0      | 5.0      | 5.0      | 5.0      | 5.0      | 5.0      | 5.0      | 5.0      | 5.0      | 5.0      | 5.0      |
| Debt/EBITDA                          | 0.1 x    | 0.8 x    | 0.5 x    | 3.9 x    | 5.4 x    |          |          |          |          | 4.4 x    | 4.3 x    | 4.5 x    | 4.1 x    | 4.0 x    | 3.6 x    |
| <b>Operating Metrics</b>             |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Return on Equity (ROE)               | 24.5%    | 11.3%    | 21.6%    | 19.9%    | 11.7%    | 5.8%     | 9.9%     | 1.8%     | 2.0%     | 18.6%    | 11.4%    | 11.1%    | 10.7%    | 9.8%     | 9.6%     |
| Return on Assets (ROA)               | 17.3%    | 7.2%     | 14.2%    | 7.5%     | 4.6%     | 2.3%     | 4.4%     | 0.7%     | 0.8%     | 7.7%     | 5.0%     | 5.1%     | 5.1%     | 4.8%     | 4.8%     |
| Return on Invested Capital (ROIC)    | 24.5%    | 5.0%     | 15.3%    | 13.2%    | 9.0%     | 5.1%     | 9.2%     | 0.9%     | 1.1%     | 15.5%    | 7.4%     | 6.9%     | 6.5%     | 5.6%     | 5.4%     |
| <b>Valuation Metrics</b>             |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Stock Price (High)                   | \$ 79.43 | \$ 77.86 | \$ 59.40 | \$ 68.00 | \$ 43.07 | \$ 59.90 | \$ 66.71 | \$ 66.71 | \$ 32.34 | \$ 66.71 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 |
| Stock Price (Low)                    | \$ 50.90 | \$ 28.42 | \$ 38.17 | \$ 33.12 | \$ 17.46 | \$ 38.90 | \$ 53.79 | \$ 53.79 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 |
| Stock Price (Average)                | \$ 65.17 | \$ 53.14 | \$ 48.79 | \$ 50.56 | \$ 30.27 | \$ 49.40 | \$ 60.25 | \$ 60.25 | \$ 32.34 | \$ 49.53 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 | \$ 32.34 |
| Diluted Shares Outstanding (Average) | 135.1    | 127.9    | 116.1    | 109.1    | 105.1    | 105.0    | 105.2    | 104.4    | 104.4    | 104.8    | 104.4    | 104.4    | 104.4    | 104.4    | 104.4    |
| Market Capitalization (Average)      | 8,803.8  | 6,796.6  | 5,663.9  | 5,516.1  | 3,180.9  | 5,187.0  | 6,338.3  | 6,290.1  | 3,376.3  | 5,187.7  | 3,376.3  | 3,376.3  | 3,376.3  | 3,376.3  | 3,376.3  |
| Enterprise Value (Average)           | 8,887.8  | 7,389.6  | 6,086.9  | 8,725.1  | 5,772.9  | 7,741.0  | 8,742.3  | 9,825.1  | 6,954.4  | 8,765.9  | 6,960.9  | 7,308.0  | 7,107.2  | 6,928.7  | 6,747.2  |
| P/E                                  | 13.3 x   | 23.9 x   | 10.5 x   | 11.2 x   | 9.8 x    |          |          |          |          | 8.3 x    | 8.2 x    | 7.8 x    | 7.6 x    | 7.7 x    | 7.5 x    |
| EV/EBITDA                            | 7.7 x    | 9.9 x    | 6.9 x    | 10.5 x   | 12.1 x   |          |          |          |          | 10.9 x   | 8.3 x    | 8.4 x    | 7.9 x    | 7.7 x    | 7.3 x    |
| FCF Yield to Market Capitalization   | 5.6%     | 3.6%     | 11.2%    | 9.3%     | 15.8%    |          |          |          |          | 0.1%     | 1.5%     | -3.5%    | 13.1%    | 12.8%    | 13.1%    |
| FCF Yield to Enterprise Value        | 5.6%     | 3.3%     | 10.5%    | 5.9%     | 8.7%     |          |          |          |          | 0.0%     | 0.7%     | -1.6%    | 6.2%     | 6.2%     | 6.6%     |
| <b>Free Cash Flow</b>                |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| EBIT                                 | 1,000.0  | 571.0    | 699.0    | 649.0    | 303.0    | 249.0    | 164.0    | 98.0     | 104.9    | 615.9    | 639.4    | 670.2    | 689.4    | 672.3    | 692.3    |
| Tax Expense                          | (340.0)  | (294.0)  | (172.0)  | (181.0)  | (171.0)  | (82.0)   | (157.0)  | (64.0)   | (28.5)   | (167.1)  | (173.5)  | (181.8)  | (187.0)  | (182.4)  | (187.8)  |
| D&A                                  | 158.0    | 173.0    | 178.0    | 179.0    | 176.0    | 45.0     | 48.0     | 49.0     | 47.8     | 189.8    | 197.9    | 204.3    | 214.1    | 223.9    | 233.7    |
| Capital Expenditures                 | (266.0)  | (274.0)  | (187.0)  | (187.0)  | (159.0)  | (51.0)   | (36.0)   | (50.0)   | (60.2)   | (197.2)  | (244.8)  | (248.2)  | (258.2)  | (268.0)  | (277.6)  |
| Changes in NWC                       | (56.0)   | 69.0     | 119.0    | 51.0     | 352.0    | (86.0)   | (69.0)   | (143.0)  | (139.1)  | (437.1)  | (369.1)  | (562.5)  | (17.0)   | (15.1)   | (17.5)   |
| Unlevered Free Cash Flow             | 496.0    | 245.0    | 637.0    | 511.0    | 501.0    | 75.0     | (50.0)   | (110.0)  | (75.1)   | 4.2      | 49.9     | (118.0)  | 441.2    | 430.7    | 443.0    |
| <b>Valuation Summary</b>             |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Current Price                        | \$ 32.34 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Target Price                         | \$ 45.01 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Total Return                         | 39.2%    |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Recommendation                       | BUY      |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| <b>DCF Valuation</b>                 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Perpetuity Growth Implied Price      | \$ 37.82 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Exit Multiple Implied Price          | \$ 36.88 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| <b>Comps Valuation</b>               |          |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Comps - EV/EBITDA Implied Price      | \$ 64.92 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |
| Comps - P/E Implied Price            | \$ 60.86 |          |          |          |          |          |          |          |          |          |          |          |          |          |          |

Exhibit 2: Discounted Cash Flow Analysis

| (Figures in mm USD)                       | Jan-16   | Jan-17  | Jan-18  | Apr-18  | Jul-18  | Oct-18  | Jan-19  | Jan-19  | Apr-19  | Jul-19  | Oct-19  | Jan-20  | Jan-20  | Apr-20                      | Jul-20    | Oct-20  | Jan-21  | Jan-21  | Apr-21  | Jul-21  | Oct-21  | Jan-22  | Jan-22  | Jan-23  | Jan-24  | Jan-25  | Jan-26  |       |
|---|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|
|   | FY2016   | FY2017  | FY2018  | Q1-2019 | Q2-2019 | Q3-2019 | Q4-2019 | FY2019  | Q1-2020 | Q2-2020 | Q3-2020 | Q4-2020 | FY2020  | Q1-2021                     | Q2-2021   | Q3-2021 | Q4-2021 | FY2021  | Q1-2022 | Q2-2022 | Q3-2022 | Q4-2022 | FY2022  | FY2023  | FY2024  | FY2025  | FY2026  |       |
| <b>WACC Calculations</b>                  |          |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| <b>Cost of Equity</b>                     |          |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Risk-free rate                            | 1.8%     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Expected market return                    | 10.3%    |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Market Risk Premium                       | 8.6%     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Beta                                      | 1.30     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Cost of Equity                            | 12.9%    |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| <b>Cost of Debt</b>                       |          |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Pre-tax cost of debt                      | 1.6%     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Debt Adjustment Factor                    | 1.58     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Effective tax rate                        | 27.1%    |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Cost of Debt                              | 1.8%     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| <b>WACC</b>                               |          |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Market value of equity                    | 3,376.3  |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Market value of debt                      | 560.0    |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Total Capitalization                      | 3,936.3  |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Cost of equity                            | 12.9%    |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Cost of debt                              | 1.8%     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| WACC                                      | 11.3%    |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| <b>Free Cash Flow</b>                     |          |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| EBIT                                      | 1,000.0  | 571.0   | 699.0   | 228.0   | 81.0    | 164.0   | 176.0   | 649.0   | (105.0) | 69.0    | 178.0   | 161.0   | 303.0   | 249.0                       | 164.0     | 98.0    | 104.9   | 615.9   | 173.9   | 176.5   | 158.4   | 130.6   | 639.4   | 670.2   | 689.4   | 672.3   | 692.3   |       |
| Less: Tax expense                         | (340.0)  | (294.0) | (172.0) | (62.0)  | (25.0)  | (46.0)  | (48.0)  | (181.0) | (5.0)   | (25.0)  | (104.0) | (37.0)  | (171.0) | (82.0)                      | (157.0)   | (64.0)  | (28.5)  | (167.1) | (47.2)  | (47.9)  | (43.0)  | (35.4)  | (173.5) | (181.8) | (187.0) | (182.4) | (187.8) |       |
| Add: Depreciation and amortization        | 158.0    | 173.0   | 178.0   | 44.0    | 46.0    | 44.0    | 45.0    | 179.0   | 44.0    | 44.0    | 44.0    | 44.0    | 176.0   | 45.0                        | 48.0      | 49.0    | 47.8    | 189.8   | 48.5    | 49.1    | 49.8    | 50.4    | 197.9   | 204.3   | 214.1   | 223.9   | 233.7   |       |
| Less: Capital expenditures                | (266.0)  | (274.0) | (187.0) | (45.0)  | (36.0)  | (45.0)  | (61.0)  | (187.0) | (52.0)  | (31.0)  | (33.0)  | (43.0)  | (159.0) | (51.0)                      | (36.0)    | (50.0)  | (60.2)  | (197.2) | (60.6)  | (61.0)  | (61.4)  | (61.7)  | (244.8) | (248.2) | (258.2) | (268.0) | (277.6) |       |
| Less: Change in net working capital       | (56.0)   | 69.0    | 119.0   | -       | -       | -       | 51.0    | 51.0    | (119.0) | 422.0   | (113.0) | 162.0   | 352.0   | (86.0)                      | (69.0)    | (143.0) | (139.1) | (437.1) | (366.9) | (40.0)  | 30.2    | 7.6     | (369.1) | (562.5) | (17.0)  | (15.1)  | (17.5)  |       |
| Unlevered Free Cash Flow                  | 496.0    | 245.0   | 637.0   | 165.0   | 66.0    | 117.0   | 163.0   | 511.0   | (237.0) | 479.0   | (28.0)  | 287.0   | 501.0   | 75.0                        | (50.0)    | (110.0) | (75.1)  | 4.2     | (252.4) | 76.7    | 134.1   | 91.5    | 49.9    | (118.0) | 441.2   | 430.7   | 443.0   |       |
| Discount factor                           | 0.25     |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Present Value of Unlevered Free Cash Flow | -        |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         | (73.2)  | (73.2)  | (239.2) | 70.8    | 126.4   | 80.0    | 32.1    | (92.7)  | 311.4   | 273.1   | 252.4 |
| <b>Discounted Cash Flow Valuations</b>    |          |         |         |         |         |         |         |         |         |         |         |         |         |                             |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| <b>Perpetuity Growth Method</b>           |          |         |         |         |         |         |         |         |         |         |         |         |         | <b>Exit Multiple Method</b> |           |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Perpetuity Growth Rate                    | 1.0%     |         |         |         |         |         |         |         |         |         |         |         |         | Terminal EV/EBITDA Multiple | 4.5x      |         |         |         |         |         |         |         |         |         |         |         |         |       |
| PV sum of unlevered FCF                   | 703.1    |         |         |         |         |         |         |         |         |         |         |         |         | PV sum of unlevered FCF     | 703.1     |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Terminal value                            | 2,470.9  |         |         |         |         |         |         |         |         |         |         |         |         | Terminal value              | 2,373,476 |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Enterprise Value                          | 3,174.0  |         |         |         |         |         |         |         |         |         |         |         |         | Enterprise Value            | 3,076.6   |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Add: Cash                                 | 1,339.0  |         |         |         |         |         |         |         |         |         |         |         |         | Add: Cash                   | 1,339.0   |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Less: Debt                                | 560.0    |         |         |         |         |         |         |         |         |         |         |         |         | Less: Debt                  | 560.0     |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Less: Other EV adjustments                | 5.0      |         |         |         |         |         |         |         |         |         |         |         |         | Less: Other EV adjustments  | 5.0       |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Equity Value                              | 3,948.0  |         |         |         |         |         |         |         |         |         |         |         |         | Equity Value                | 3,850.6   |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Shares outstanding                        | 104.4    |         |         |         |         |         |         |         |         |         |         |         |         | Shares outstanding          | 104.4     |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Implied Share Price                       | \$ 37.82 |         |         |         |         |         |         |         |         |         |         |         |         | Implied Share Price         | \$ 36.88  |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Current Price                             | \$ 32.34 |         |         |         |         |         |         |         |         |         |         |         |         | Current Price               | \$ 32.34  |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Implied Price                             | \$ 37.82 |         |         |         |         |         |         |         |         |         |         |         |         | Implied Price               | \$ 36.88  |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Total Return                              | 16.9%    |         |         |         |         |         |         |         |         |         |         |         |         | Total Return                | 14.0%     |         |         |         |         |         |         |         |         |         |         |         |         |       |

|                        |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|
| Perpetuity Growth Rate | 0.00% | 0.50% | 1.00% | 1.50% | 2.00% |
|                        | 2.5x  | 3.5x  | 4.5x  | 5.5x  | 6.5x  |
|                        | 2.5x  | 3.5x  | 4.5x  | 5.5x  | 6.5x  |
|                        | 2.5x  | 3.5x  | 4.5x  | 5.5x  | 6.5x  |
|                        | 2.5x  | 3.5x  | 4.5x  | 5.5x  | 6.5x  |

| WACC     |          |          |          |          |
|----------|----------|----------|----------|----------|
| 12.60%   | 12.10%   | 11.60%   | 11.10%   | 10.60%   |
| \$ 31.84 | \$ 33.17 | \$ 34.62 | \$ 36.21 | \$ 37.95 |
| \$ 32.68 | \$ 34.10 | \$ 35.66 | \$ 37.36 | \$ 39.24 |
| \$ 33.60 | \$ 35.12 | \$ 36.79 | \$ 38.63 | \$ 40.67 |
| \$ 34.59 | \$ 36.23 | \$ 38.03 | \$ 40.03 | \$ 42.25 |
| \$ 35.68 | \$ 37.45 | \$ 39.40 | \$ 41.58 | \$ 44.02 |

| WACC     |          |          |          |          |
|----------|----------|----------|----------|----------|
| 12.60%   | 12.10%   | 11.60%   | 11.10%   | 10.60%   |
| \$ 25.67 | \$ 26.09 | \$ 26.53 | \$ 26.97 | \$ 27.43 |
| \$ 30.43 | \$ 30.96 | \$ 31.51 | \$ 32.07 | \$ 32.65 |
| \$ 35.19 | \$ 35.83 | \$ 36.50 | \$ 37.18 | \$ 37.88 |
| \$ 39.94 | \$ 40.70 | \$ 41.48 | \$ 42.28 | \$ 43.11 |
| \$ 44.70 | \$ 45.57 | \$ 46.47 | \$ 47.39 | \$ 48.33 |



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