Yale SCHOOL OF MANAGEMENT

Foot Locker, Inc. (NYSE: FL)

Industry: Apparel Retail
SIC Code: 5661 (Shoe Stores)

Adriano Santos — Adriano.Santos@Yale.edu

Liam Bartlet — Liam.Bartlet@Yale.edu

Investment Recommendation Overview

Recommendation:	**BUY**
Issuer:	Foot Locker, Inc.
Issue:	Senior Unsecured Notes
Size:	$400 million
Coupon:	4.00%
Maturity:	10/1/2029
Current YTW:	8.84% (as of 11/4/2022)
Current OAS:	435 bps (as of 11/4/2022)
Target OAS:	400 bps
Target Upside:	35 bps (conservative)

Key Investment Thesis

As headwinds subside, Foot Locker will drive a period of outperformance due to:

- **New CEO:** New CEO's proven retail experience will help Foot Locker achieve its key strategic initiatives, accelerating business performance
- **Digital Focus:** Growing digital footprint and connectivity will drive margin expansion
- **Increasing Off-Mall Locations:** Diversifying location of stores helps mitigate "death off-mall" paradigm
- **Diversified Shelf Space:** Reduced Nike concentration provides opportunity to drive growth with more non-Nike shelf space

Trading History – 4.00% Senior Unsecured Notes due 2029

Source: Capital IQ; Pricing as of 11/4/2022

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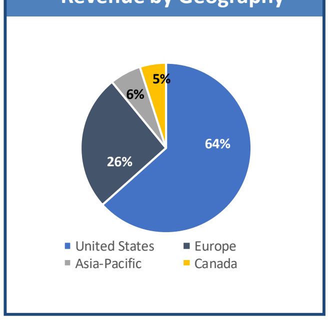
DISCLAIMER

1. COMPANY OVERVIEW: **FOOT LOCKER IS AN ESTABLISHED, WELL-RECOGNIZED BRAND NAME WITH MEANGINGFUL SCALE AND GEOGRAPHIC DIVERSIFICATION**

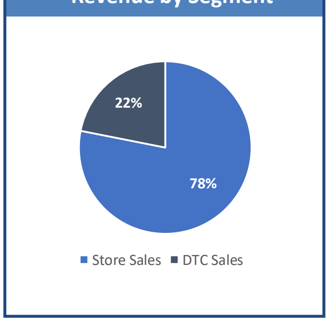
- Foot Locker, Inc. ("Foot Locker," "FL," or the "Company") is a global specialty retailer of athletic footwear, apparel, and accessories. The Company was founded in 1989 and is headquartered in New York
  - In 2021, the Company completed the acquisitions of WSS and Atmos for $811 million and $368 million, respectively
  - WSS and Atmos will allow FL to further differentiate its product offerings, as well as its customer base, and diversify retail store and omnichannel portfolio
- As of October 29, 2022, Foot Locker operates 2,794 stores in 28 countries and has 155 franchised stores in Middle East and Asia
  - The portfolio of related athletic brands includes Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Eastbay, Atmos, WSS, Footaction, and Sidestep
  - Footlocker's flagship brand under the same name is the primary driver of the overall revenue growth and physical store presence, accounting for over 56% of their global footprint
- Foot Locker is separated into two distinct segments: Athletic Stores (~78% of sales) and Direct-to-Costumer (~22% of sales)
- Foot Locker is a strong and credible competitor in the niche and fragmented athletic footwear and apparel market (16% share of total sneaker market)
- Foot Locker's scale and ability to attract an important target demographic provides vendors with a key distribution channel
- Foot Locker can source exclusive product from vendors, positioning its stores as a unique destination for premium sneakers
- The Foot Locker chain is the #1 seller of Nike footwear in the United States
  - Nike is deeply entrenched in "all-things" sports and is recognized worldwide as the premium brand of choice (FY2022 revenues and EBITDA of $47 billion and $7 billion, respectively)
  - Foot Locker is assumed to comprise 10% of Nike's sales, although the exact figure is unclear
- Foot Locker generated LTM October 29, 2022, revenues and EBITDA of $8,754 million and $985 million, respectively

LTM Revenue Breakdown

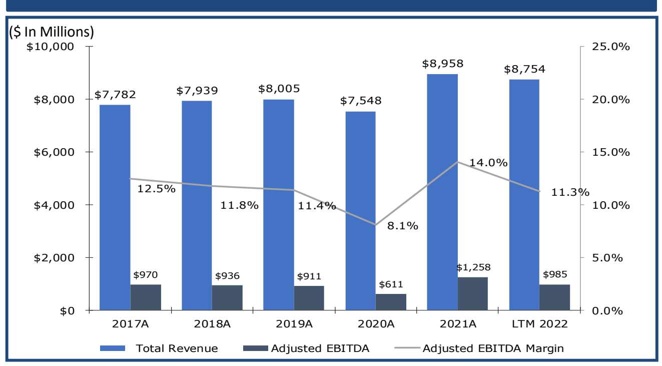
Revenue by Geography



Revenue by Segment



Historical Revenue, EBITDA & MARGIN



Source: Company filings

2. CURRENT CAPITALIZATION: FOOT LOCKER HAS NO NEAR-TERM MATURITIES AND AMPLE LIQUIDITY

Current Capitalization

($ in Millions)	10/29/2022 Current Capitalization $	%	Cumulative Multiple of EBITDA [1]	Cumulative Multiple of EBITDAR [2]
Cash and equivalents	$351			
$600 Million Asset-Backed Credit Facility due July 2025	$0	0.0%	0.0x	0.0x
Capital Lease obligations	2,805	45.5%	0.0x	1.7x
Total Secured Obligations	**$2,805**	**45.5%**	**--**	**1.7x**
Total Secured Funded Debt	**$0**		**0.0x**	**--**
4.00% Senior Unsecured Notes due October 2029	400	6.5%	0.4x	2.0x
Total Obligations	**$3,205**	**52.0%**	**--**	**2.0x**
Total Funded Debt	**$400**		**0.4x**	**--**
Net Obligations	*$2,854*	*46.3%*	--	*1.7x*
Net Funded Debt	*$49*		*0.0x*	--
Market Capitalization [3]	$2,964	48.0%		
Total Capitalization	**$6,169**	**100.0%**		
Total Liquidity [4]	$949			

Source: Company Filings

[1] Based on LTM 10/29/2022 Adjusted EBITDA of: $985

[2] Based on LTM 10/29/2022 Lease-Adjusted EBITDA ($653MM operating lease in FY2021) of: $1,638

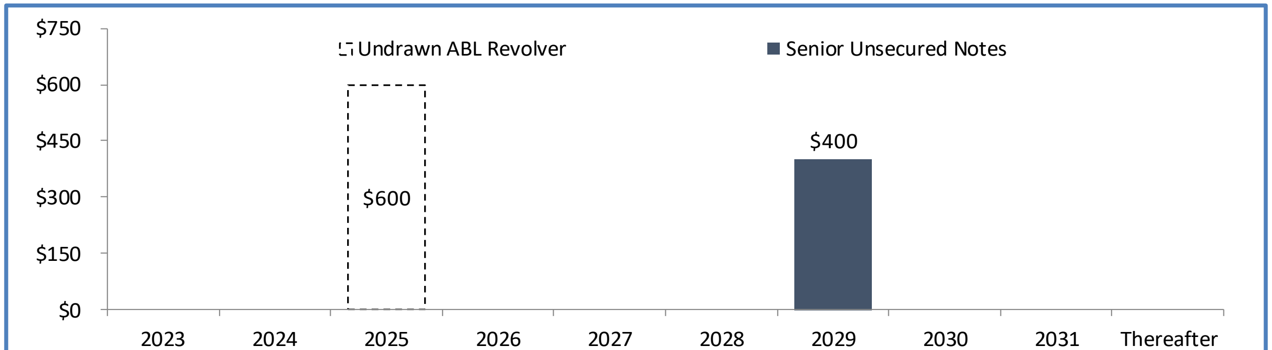
[3] Based on a share price of $31.8MM and 93.302 shares outstanding as of 11/04/2022

[4] Liquidity defined as cash & equivalents plus availability under ABL Credit Facility, net of letters of credit outstanding (~$2MM)

Key Observations

- In 2020, Foot Locker amended and upsized its $400MM Credit Facility to a $600MM Asset-Backed Credit Facility (ABL)
- In 2021, Foot Locker consummated the acquisitions of WSS ($811MM) and Atmos ($368MM) using cash on hand
  - Cash balance was reduced to $804MM in FY21, from $1,680MM in FY20
- As of October 29, 2022, the Company had $351MM in cash that, when combined with the ABL, is more than sufficient to handle cash flow needs over the next 12-18 months
- **Maintains low leverage profile, on a funded debt (0.4x) and lease-adjusted basis (2.0x)**

Current Debt Maturity Profile



Key Observations

- **Asset-Backed Revolving Credit Facility remains fully undrawn**
- **Very good liquidity with cash nearly equal to funded debt obligation**
- **No near-term maturities or significant debt maturity wall**
- **Adequate access to capital markets**

3. COMPETITIVE POSITIONING: FOOT LOCKER IS WELL POSITIONED RELATIVE TO HIGH YIELD RETAILER PEER GROUP

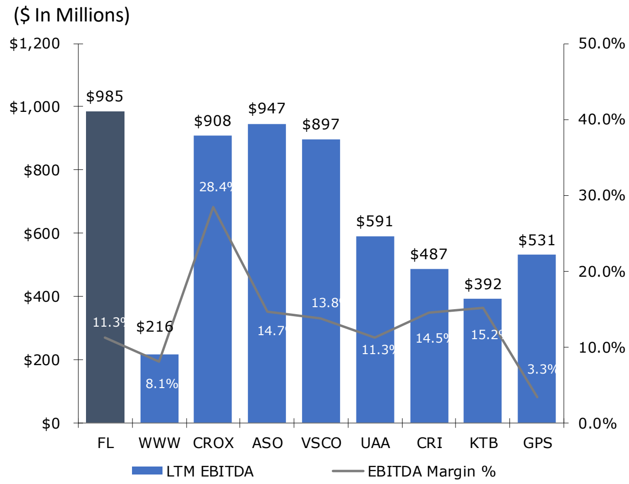
Competitive Positioning

($ in Millions)	Target Company	Footware Comparable		Specialty Retailer	Apparel & Accessories Retailers					Average
	Foot Locker	Wolverine	Crocs	Academy	Victoria's Secret	Under Armour	carter's	Kontoor	gap	
Issuer Ratings & Outlook										
Moody's/ S&P/S&P Outlook	Ba1/BB+/Stable	[Ba2]/BB/Neg.	[Ba3]/ BB-/Neg.	[Ba2]/BB/Stable	Ba3/BB-/Stable	[Ba2]/BB/Pos.	[Ba1]/BB+/Stable	[Ba2]/BB/Stable	[Ba2]/BB/Neg.	
Valuation Metrics										
Market Capitalization	$2,964	$1,376	$5,272	$3,352	$3,173	$3,533	$2,486	$2,105	$3,993	$3,161
Enterprise Value (EV)	$5,875	$2,655	$8,025	$4,807	$5,566	$4,189	$3,672	$2,935	$9,694	$5,193
Operating Metrics										
LTM Revenue	**$8,754**	**$2,655**	**$3,196**	**$6,457**	**$6,499**	**$5,230**	**$3,363**	**$2,581**	**$15,898**	**$5,735**
LTM EBITDA	**$985**	**$216**	**$908**	**$947**	**$897**	**$591**	**$487**	**$392**	**$531**	**$621**
EBITDA Margin %	**11.3%**	**8.1%**	**28.4%**	**14.7%**	**13.8%**	**11.3%**	**14.5%**	**15.2%**	**3.3%**	**13.7%**
Free Cash Flow (as of FY Ended)										
Cash Flow from Operations (CFFO)	$666	$87	$567	$673	$851	$560	$268	$284	$809	$512
Less: Capital Expenditures	(209)	(18)	(56)	(76)	(169)	(135)	(37)	(11)	(694)	(149)
Free Cash Flow (FCF)	**$457**	**$69**	**$511**	**$597**	**$682**	**$425**	**$231**	**$273**	**$115**	**$363**
Liquidity (as of Latest Reporting)										
Cash & Cash Equivalents	$351	$136	$143	$318	$126	$854	$122	$58	$679	$304
Revolver Availability	598	254	600	980	545	1,096	606	448	1,799	791
Total Liquidity	**$949**	**$391**	**$743**	**$1,298**	**$671**	**$1,949**	**$728**	**$506**	**$2,478**	**$1,096**
Revolver Size	*$600*	*$1,000*	*$600*	*$1,000*	*$750*	*$1,100*	*$850*	*$500*	*$2,200*	*$1,000*
Current Capitalization (as of Latest Reporting)										
Secured Debt (includes RC)	$0	$933	$1,995	$299	$392	$0	$240	$438	$350	$581
Unsecured Debt	400	550	700	400	600	681	500	400	1,500	666
Capital Leases	2,805	181	280	1,182	1,512	837	586	49	4,574	1,150
Total Debt	**$3,205**	**$1,664**	**$2,975**	**$1,882**	**$2,504**	**$1,518**	**$1,326**	**$887**	**$6,424**	**$2,397**
Total Funded Debt	**$400**	**$1,483**	**$2,695**	**$699**	**$992**	**$681**	**$740**	**$838**	**$1,850**	**$1,247**
Total Funded Debt / Total Debt	**12.5%**	**89.1%**	**90.6%**	**37.2%**	**39.6%**	**44.9%**	**55.8%**	**94.5%**	**28.8%**	**60.1%**
Credit Ratios (as of Latest Reporting)										
EBITDA / Interest Expense	54.7x	5.4x	9.6x	21.0x	17.3x	17.3x	10.4x	10.9x	7.3x	12.4x
(EBITDA-Capex) / Interest Expense	**42.7x**	**4.6x**	**8.4x**	**18.8x**	**13.8x**	**15.9x**	**9.7x**	**10.4x**	**(3.5x)**	**9.8x**
Secured Funded Debt / EBITDA	0.0x	4.3x	2.2x	0.3x	0.4x	0.0x	0.5x	1.1x	0.7x	1.2x
Total Funded Debt / EBITDA	0.4x	6.9x	3.0x	0.7x	1.1x	1.2x	1.5x	2.1x	3.5x	2.5x
Net Funded Debt / EBITDA	0.0x	6.2x	2.8x	0.4x	1.0x	N/M	1.3x	2.0x	2.2x	2.3x
Lease-Adjusted Debt / EBITDAR	**2.0x**	**6.6x**	**3.1x**	**1.6x**	**2.0x**	**2.1x**	**2.0x**	**2.1x**	**4.3x**	**3.0x**
CFFO / Total Debt	20.8%	5.2%	19.1%	35.8%	34.0%	36.9%	20.2%	32.0%	12.6%	24.5%
FCF / Total Debt	14.3%	4.2%	17.2%	31.8%	27.2%	28.0%	17.4%	30.8%	1.8%	19.8%
Total Debt / Enterprise Value	54.6%	62.6%	37.1%	39.1%	45.0%	36.2%	36.1%	30.2%	66.3%	46.2%
Enterprise Value / EBITDA	6.0x	12.3x	8.8x	5.1x	6.2x	7.1x	7.5x	7.5x	18.3x	9.1x
Operating Cycle (as of FY Ended)										
Days of Inventory on Hand	66 days	77 days	78 days	87 days	75 days	111 days	125 days	94 days	100 days	93 days
(+) Days of Sales Outstanding	5 days	44 days	30 days	1 days	8 days	35 days	22 days	39 days	8 days	23 days
(-) Days of Payables Outstanding	28 days	48 days	53 days	59 days	37 days	80 days	86 days	50 days	64 days	60 days
Net Operating Cycle	**43 days**	**74 days**	**55 days**	**29 days**	**45 days**	**66 days**	**61 days**	**83 days**	**44 days**	**57 days**
Bond Pricing (as of 11/4/2022)										
Coupon	4.00%	4.00%	4.25%	6.00%	4.63%	3.25%	5.63%	4.13%	3.63%	4.44%
Maturity Date	10/1/2029	8/15/2029	3/15/2029	11/15/2027	7/15/2029	6/15/2026	3/15/2027	11/15/2029	10/1/2029	--
Issue Ratings	Ba2/BB+	[Ba3]/BB-	[B2]/B	[Ba2]/BB	B1/BB-	[Ba2]/BB	[Ba1]/BB+	[Ba3]/BB-	[Ba2]/BB	--
Trading Price	75.39	78.00	79.62	92.50	79.49	85.75	94.10	78.92	69.88	82.28
Yield to Worst	8.84%	8.31%	8.46%	7.84%	8.74%	7.87%	7.23%	8.12%	9.72%	8.28%
OAS	435	463	374	306	396	302	302	397	465	375
Spread Per Unit of Total Funded Risk	**1,071**	**67**	**126**	**414**	**358**	**262**	**199**	**186**	**133**	**218**
Spread Per Unit of Lease-Adj. Risk	**222**	**70**	**121**	**186**	**202**	**146**	**149**	**189**	**107**	**146**

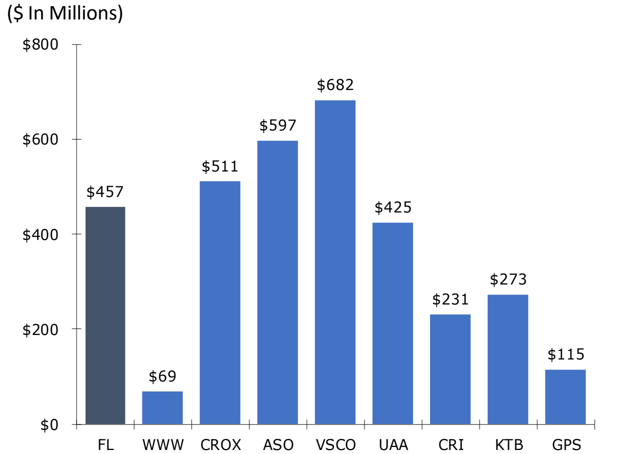
Source: Capital IQ, FactSet and Company Filings; Average excludes Foot Locker

4. SELECT PERFORMANCE METRICS: FOOT LOCKER OFFERS BETTER RISK-ADJUSTED RETURNS

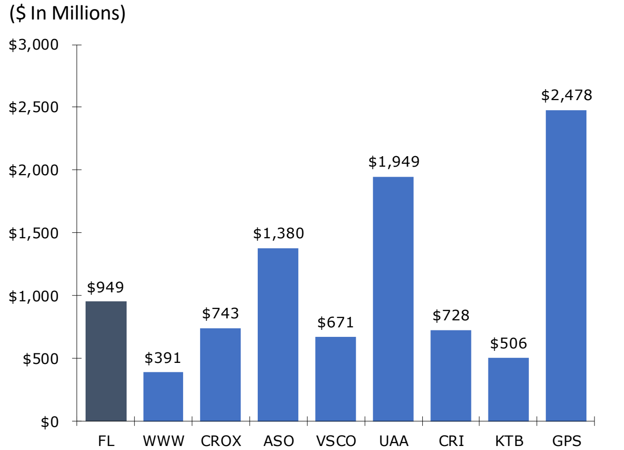
LTM EBITDA & Margin



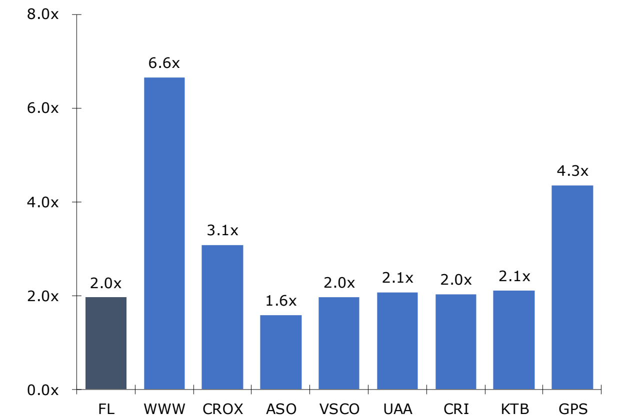
Free Cash Flow



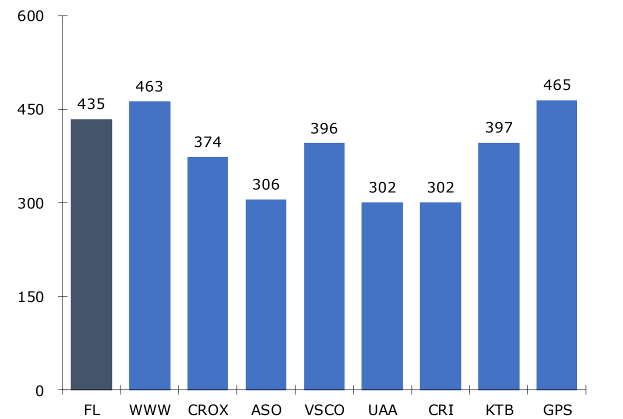
Total Liquidity



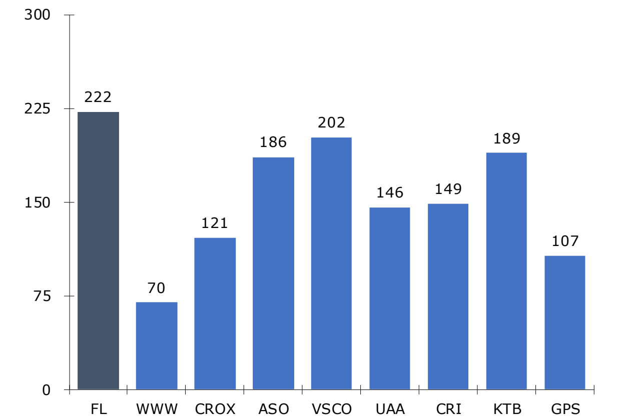
Lease-Adjusted Leverage



Option-Adjusted Spread



Spread Per Unit of Risk



Source: Company Filings, FactSet, Capital IQ; Spread per unit of risk is calculated as Option-Adjusted Spread divided by Lease-Adjusted Leverage

5. RELATIVE VALUE ANALYSIS: FOOT LOCKER'S SENIOR UNSECURED NOTES ARE MISPRICED

Relative Value Analysis

Issuer / Pricing	LTM EBITDA	EBITDA Margins	Total Leverage[1]	Tranche	Amount	Ratings[2]	Maturity	Current Price	YTW	STW	YTW Date	Duration	Convexity	OAS
Foot Locker, Inc.						Ba1/BB+								
4.000%	$985	11.3%	2.0x	Sr. Notes	$400	Ba2/BB+	10/1/2029	75.39	8.84%	466	10/1/2029	5.7	38	435
Footware Comparable														
Wolverine World Wide, Inc.						[Ba2]/BB								
4.000%	$216	8.1%	6.6x	Sr. Notes	$550	[Ba3]/BB-	8/15/2029	78.00	8.31%	414	8/15/2029	5.4	32	463
Crocs, Inc.						[Ba3]/BB-								
4.250%	$908	28.4%	3.1x	Sr. Notes	$350	[B2]/B	3/15/2029	79.62	8.46%	428	3/15/2029	5.3	33	374
4.125%				Sr. Notes	$350	[B2]/B	8/15/2031	78.00	7.61%	343	8/15/2031	6.9	57	340
Specialty Retailers														
Academy Sports and Outdoors, Inc.						[Ba2]/BB								
6.000%	$983	15.0%	1.6x	Sec. Notes	$400	[Ba2]/BB	11/15/2027	92.50	7.84%	342	11/15/2027	4.1	21	306
Apparel and Accessories Retailers														
Victoria's Secret & Co.						Ba3/BB-								
4.625%	$897	13.8%	2.0x	Sr. Notes	$600	B1/BB-	7/15/2029	79.49	8.74%	456	7/15/2029	5.4	35	396
Under Armour, Inc.						[Ba2]/BB								
3.250%	$591	11.3%	2.1x	Sr. Notes	$600	[Ba2]/BB	6/15/2026	85.75	7.87%	352	6/15/2026	3.2	12	302
Carter's, Inc.						[Ba1]/BB+								
5.625%	$487	14.5%	2.0x	Sr. Notes	$500	[Ba1]/BB+	3/15/2027	94.10	7.23%	288	3/15/2027	3.7	17	302
Kontoor Brands, Inc.						[Ba2]/BB								
4.125%	$392	15.2%	2.1x	Sr. Notes	$400	[Ba3]/BB-	11/15/2029	78.92	8.12%	394	11/15/2029	5.6	39	397
The Gap, Inc.						[Ba2]/BB								
3.625%	$531	3.3%	4.3x	Sr. Notes	$750	[Ba2]/BB	10/1/2029	69.88	9.72%	554	10/1/2029	5.6	25	465
3.875%				Sr. Notes	$750	[Ba2]/BB	10/1/2031	67.43	9.35%	504	10/1/2031	6.8	42	440
Average:	$626	13.7%	3.0x		$525			80.37	8.32%	408		5.2	31	378
Median:	$744	14.5%	2.6x		$500			79.21	8.22%	404		5.4	33	323
High:	$1,714	28.4%	6.6x		$750			94.10	9.72%	554		7.9	78	465
Low:	$216	3.3%	1.6x		$350			67.43	7.23%	288		3.2	12	102

[1] Denotes lease-adjusted leverage
[2] Corporate ratings are bolded; Moody's ratings in brackets were unavailable and kept with S&P's for illustrative purposes
Source: Company Filings, Capital IQ; Trading levels are as of 11/4/2022; $ in Millions; Average, Median, High and Low excludes Foot Locker

Key Observations

- On November 4, we noticed that Foot Locker was trading **58 and 57 bps wide of peers on a STW and OAS basis, respectively**

SELECT BASIS FOR MISPRICING:

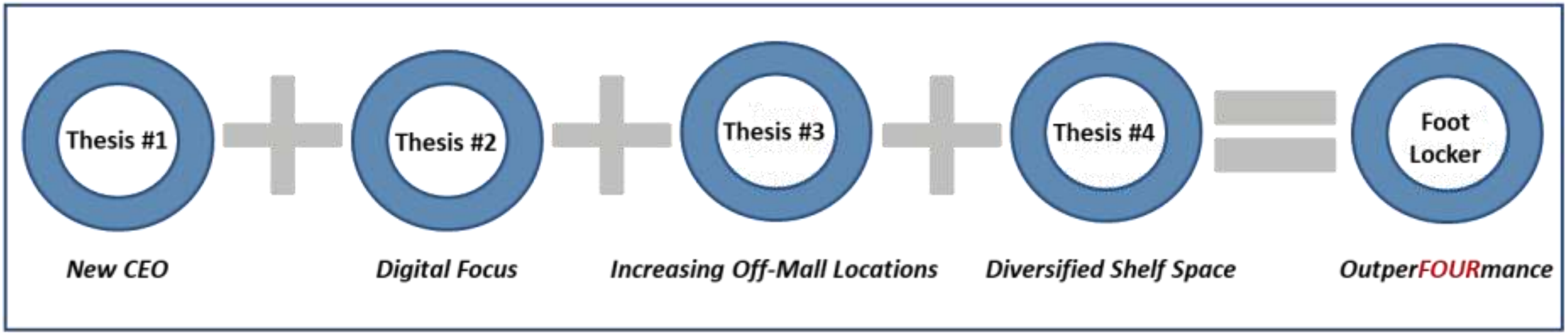
- Wolverine is a lower quality credit but trades 52 bps inside FL on a STW basis, and 28 bps wide an a OAS basis (disconnect)
- Kontoor is similarly a lower quality credit but trades 72 bps and 38 bps inside FL on a STW and OAS basis, respectively
- Both bonds have comparable **tranche size, duration and convexity**
- **Discrepancy between trading levels and fundamentals indicates a mispricing**
- Foot Locker **offers an attractive OAS spread per unit of risk (222 bps)** relative to Wolverine (70 bps) and Kontoor (189 bps)

HIGH LEVEL COMPETITIVE SELECTION ANALYSIS:

- While Crocs, Victoria's Secret, and other brands may arguably, under certain conditions, demand more value in bankruptcy as "true" manufacturer brands, Foot Locker, as a private label distributor, has significant scale advantage relative to competitors. Foot Locker also has a much more significant social media presence implying broader relevance, with 5x+ more Instagram followers (please refer to FL's 1Q22 earnings call for further detail) and 3x+ TikTok followers than its competitors (please refer to appendix for further detail)
- Additionally, Companies that manufacture and sell their brands - such as Wolverine, Crocs, Victoria's Secret, Under Armour, Carter's, Kontoor, and the Gap - are more directly susceptible to changes in fashion trends, making their merchandise strategy comparatively more complex than Foot Locker's. As expected, those comps have consistently had higher days of inventory on hand / longer sell throughputs (e.g., 93 days on average vs. 66 days for Foot Locker)
- Academy Sports Outdoor, with Senior Secured Notes, is not a "true" bond comparable. Still, we included it purely for comparative reasons, given its comparable size, rating, and retail exposure as a distributor. We looked at other names as well (e.g., BBWI, PVH, DSW), but they were either "too big" or did not have bonds in the capital structure

6. MAIN INVESTMENT THESIS: 1 + 1 + 1 +1 = KEY INGREDIENTS WILL DRIVE OUTPERFOURMANCE

Investment Thesis



Investment Catalyst

New Chief Executive Officer	Digital Focus	Increasing Off-Mall Locations	Diversified Shelf Space
➢ Highly regarded with a **proven track record** of success in retail ➢ **Grew ULTA's e-commerce penetration** to 13% in '19 (from 4% in '13) and **loyalty members** to 34M (from 13M); ~95% of revenues was derived from loyalty members; **Revenue** increased at a **16% CAGR** ➢ Experience driving **data analytics, partnerships** with premium brands, a **world class loyalty program**, and a **complex merchandise strategy**	➢ Digital connectivity and engagement will drive **cost efficiency and margin expansion** ➢ FL has only **22% e-commerce penetration** (vs. specialty peers 35% as of 2021) ➢ Increasing number of distribution centers will **improve "miles per package" by ~40-50%**[1] ➢ Leverage data to lead **decision-making regarding store count**	➢ COVID helped accelerate shift away from malls; **"off-mall" fleet** of stores stood **at 21% in '21**, up from 15% in '19 ➢ **WSS is 100% off-mall retailer** focused on large, rapidly growing Hispanic communities (population is expected to represent 1:4 Americans by 2050)[2] ➢ Atmos is a **digitally led, off-mall retailer** with high e-commerce penetration (60% of revenue)[3]	➢ Reduced NKE concentration creates opportunity for growth and margin enhancement through **a differentiated product mix** ➢ Potential to **widen customer base** ➢ FL has 16% share of the total sneaker market in the U.S., but **only 5% share of non-Nike brands**[3] ➢ **Variety matters:** 80% of repeat customers buy at least 3 different brands[4] ➢ **One-stop-shop** athletic assortment

[1] Future of the Consumer: Sustainable Growth for a new Ecosystem, May 2022; [2] U.S. Population Projections, Pew Research Center, https://www.pewresearch.org/hispanic/2008/02/11/us-population-projections-2005-2050; [3] Two Strategic Transactions to Accelerate Global Growth, Investor Presentation, August 2021; [4] Q1 2022 Foot Locker Inc Earnings Call;. Source: Company Filings, Earnings Call, and Investor Presentation

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NEW CEO IS THE RIGHT PERSON FOR THE JOB – MS. DILLON WILL REPLICATE THE STRATEGY EMPLOYED AT ULTA

7. KEY INVESTMENT CONSIDERATIONS: HIGH VENDOR CONCENTRATION & SECULAR HEADWINDS AS A MALL-BASED RETAILER

Key Investor Focus	Investment Risks & Mitigants
High vendor concentration and disintermediation with Nike	**Investment Risk:** ➢ Foot Locker's top 5 vendors accounted for 80%+ of merchandise purchased in 2021. Nike's decision to accelerate its strategic shift to its direct-to-consumer (DTC) channel will likely hurt gross margin and cash flow generation **Risk Mitigant:** *FOOT LOCKER IS NOT FACING AN "EXISTENTIAL THREAT"* ➢ New CEO is **highly-regarded and known for developing and maintaining strong strategic partnerships** and serves on the board of directors at Starbucks along with Nike COO Andy Campion ➢ Foot Locker and Nike have a **long-standing, mutually beneficial relationship (20+ years)**, and Nike is expected to **remain a key partner** (sales attributable to Nike is expected to reduce to 55% in '23, down from 70% in '21, comparable to 56% in '07) ➢ Foot Locker will offset the lower Nike sales with a **focus on non-Nike branded products and vendor diversification** ▪ **New partnership with Adidas** (as of May '22) will target over $2Bn in sales by 2025, nearly tripling levels from 2021[1] ➢ Recent acquisition (WSS & Atmos) **diversifies product mix by adding private label products** with high customer engagement ▪ WSS is **a high-growth business** ($1Bn+, $425MM in '20) due to a favorable demographic tailwind (15% Rev CAGR '17-20)[2] ▪ Atmos **accelerates expansion in Asia-Pacific** (<1% market share) and offers further growth opportunities ($6Bn+ TAM)[2]
Secular challenges as a mall-based retailer	**Investment Risk:** ➢ Foot Locker will continue to face significant secular headwinds as a mall-based retailer (~79% of its fleet in 2021) **Risk Mitigant:** *FOOT LOCKER IS SHIFTING AWAY FROM MALLS AND EXPANDNG ITS DIGITAL FOOTPRINT* ➢ Foot Locker has been consistently **increasing the number of off-mall locations** as a percentage of total fleet count from 15% in 2019 (332 stores) to 16% in 2020 (341), 21% in 2021 (421) ➢ Foot Locker has **expanded digital sale (DTC) penetration** from 16% in 2019 to 28% in 2020, 21% in 2021 ➢ While the prevalence of e-commerce & social media impacts both mall and off-mall retailers, shortening the delivery and amplifying the volatility of fashion cycles, **trends in athletic footwear/apparel are generally less volatile, are high-engagement and require a true omnichannel approach** ➢ **5x+ more Instagram followers than its top 4 competitors**[3] combined is a good indicator of Foot Locker's broader relevance

[1] Adidas Press Release, Strategic Partnership, May 2022, Retrieved November 13. [2] Foot Locker, Investor Presentation, August 2021, Retrieved November 14; [3]Q1 2022 Foot Locker Inc Earnings Call
Note: Top 4 competitors include Finish Line, Dick's Sporting Goods, JD Sports, and Hibbett Sports; Source: Company Filings

KEY INVESTMENT CONSIDERATIONS (CONTINUED): DETERIORATING ECONOMIC ENVIRONMENT & LOW CASH BALANCE

Key Investor Focus	Investment Risks & Mitigants
Deteriorating macroeconomic environment	**Investment Risk:** ➢ Foot Locker's performance will be impacted by deteriorating economic conditions **Risk Mitigant:** *PROVEN RESILIENCY, STRONG FREE CASH FLOW GENERATION, & LOW FUNDED DEBT THROUGH BUSINESS CYCLES* ➢ Foot Locker has generated **robust average annual free cash flows** of ~$461MM since '09, and $581MM since '15 ➢ Foot Locker **remained free cash flow positive throughout the Great Financial Crisis** ($135MM in '07, and $237MM in '08) **despite experiencing a ~60% decline in EBITDA** (from $583MM in '06 to $253MM in '07) ➢ Performance was **less impacted by COVID** (33% decline in EBITDA) and rebounded quickly and materially the following year ➢ Asset-light model with minimal CAPEX (~2-3% of sales) drives **high cash flow conversion** (59%, on average, since 2005) ➢ Demonstrated **sound financial risk management to ensure strong liquidity** by maintaining significant cash balances ($827MM on average) and low funded debt obligations (0.3x EBITDA on average) since 2005
Lowest cash balance in 17 years	**Investment Risk:** ➢ Foot Locker may face liquidity constraints due to low cash balance **Risk Mitigant:** *FOOT LOCKER HAS SUFFICENT LIQUIDITY TO MEET CASH FLOW NEEDS OVER THE NEXT 12-18 MONTHS* ➢ Cash balance ($351MM), when combined with the ABL ($600MM), provides **sufficient liquidity to meet operating needs** ▪ Foot Locker used cash (~$1.2Bn) to acquire WSS and Atmos in 2021, **a prudent financial management decision** ▪ Raising debt to consummate the above acquisitions in a rising interest rate environment would have elevated the perceived risk in the business as a retailer and decreased the strength of the credit profile ➢ Foot Locker **has ample inventory to sell, having made a significant investment to replenish inventory** after strong selling period **and mitigate supply chain issues** ➢ Foot Locker is **expected to approach working capital decisions prudently** as it stabilizes the expected shift in product mix ➢ **ABL credit facility has a springing-fixed charge coverage covenant** to ensure adequate protection for creditors

Source: Company Filings; Cash conversion = Free cash flow as a % of EBITDA; Free cash flow = Cash flow from operations less capex; Springing Covenant at 1.0x (if availability falls below 10% of the Loan Cap or $60MM)

(REFER TO APPENDIX FOR FURTHER DETAIL ON FINANCIALS)

8. PROJECTED FINANCIAL SUMMARY (DOWNSIDE CASE): FULL RECOVERY IS EXPECTED

Foot Locker's performance is sensitized to mirror conditions and impact to the business during the Great Financial Crisis (GFC). Our downside projections from 2023-2026 utilizes FL's performance during 2006-2009 as a primer with recent strategic shifts as added inputs. FY2022 is in line with consensus given proximity to the end of the current fiscal year. We extended the projections through 2029 to account for the maturity of the bond, which we assume is refinanced. We kept 2027-2029 assumptions consist with 2026 to forecast performance under an extended dislocated economic scenario. While we expect capital leases to decline over time given the Company's focus on growing its digital footprint, we kept capital leases flat from current levels throughout the projection period.

FINANCIAL SUMMARY- DOWNSIDE CASE	LTM	Projected Fiscal Years Ending December 31,							
($ in Millions)	10/29/2022	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Total Revenue	$8,754	$8,306	$7,628	$7,323	$7,132	$6,952	$6,765	$6,568	$6,360
Total Sales Y/Y Growth	--	*(7.3%)*	*(8.2%)*	*(4.0%)*	*(2.6%)*	*(2.5%)*	*(2.7%)*	*(2.9%)*	*(3.2%)*
Gross Profit	2,863	2,575	2,303	1,912	1,988	1,908	1,856	1,802	1,745
Margin	*32.7%*	*31.0%*	*30.2%*	*26.1%*	*27.9%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*
Adjusted EBITDA	$985	$811	$780	$348	$401	$352	$342	$332	$322
Growth		*(35.6%)*	*(3.8%)*	*(55.4%)*	*15.4%*	*(12.3%)*	*(2.7%)*	*(2.9%)*	*(3.2%)*
Margin	*11.3%*	*9.8%*	*10.2%*	*4.7%*	*5.6%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Cash Flow from Operations	--	$521	$447	$379	$337	$322	$309	$300	$291
Less: Capital Expenditures	--	(272)	(133)	(110)	(107)	(104)	(101)	(99)	(95)
Free Cash Flow	--	$248	$314	$269	$230	$218	$207	$201	$196
FCF Conversion	--	*30.6%*	*40.2%*	*77.4%*	*57.3%*	*61.9%*	*60.5%*	*60.6%*	*60.9%*
Key Balance Sheet Items									
Cash and Cash Equivalents	$351	$765	$770	$866	$914	$968	$1,017	$1,080	$1,163
Revolving Credit Facility	$0	$0	$0	$0	$0	$0	$0	$0	$0
Senior Unsecured Notes	400	400	400	400	400	400	400	400	400
Capital Leases	2,805	2,805	2,805	2,805	2,805	2,805	2,805	2,805	2,805
Total Debt	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**
Select Credit Statistics									
Total Funded Debt/EBITDA	0.4x	0.5x	0.5x	1.2x	1.0x	1.1x	1.2x	1.2x	1.2x
Total Funded Debt/(EBITDA-CAPEX)	--	0.7x	0.6x	1.7x	1.4x	1.6x	1.7x	1.7x	1.8x
Lease Adj. Debt/EBITDAR	2.0x	2.2x	2.2x	3.2x	3.0x	3.2x	3.2x	3.3x	3.3x
Net Lease Adj. Debt/EBITDAR	1.7x	1.7x	1.7x	2.3x	2.2x	2.2x	2.2x	2.2x	2.1x
EBITDA/Interest	51.8x	42.7x	41.1x	18.3x	21.1x	18.5x	18.0x	17.5x	16.9x
(EBITDA-CAPEX)/Interest	--	28.3x	34.0x	12.5x	15.5x	13.0x	12.7x	12.3x	11.9x
Total Funded Debt/Total Capitalization	10.9%	10.5%	10.2%	10.3%	10.3%	10.4%	10.4%	10.4%	10.3%
Lease Adj. Debt/Total Capitalization	49.6%	48.5%	47.6%	47.9%	48.0%	48.1%	48.2%	48.1%	47.9%
Margin Analysis									
COGS Margin	*67.3%*	*69.0%*	*69.8%*	*73.9%*	*72.1%*	*72.6%*	*72.6%*	*72.6%*	*72.6%*
SG&A Margin	*21.8%*	*21.5%*	*20.2%*	*21.6%*	*22.5%*	*22.6%*	*22.6%*	*22.6%*	*22.6%*
EBIT Margin	*8.5%*	*7.1%*	*7.5%*	*2.1%*	*3.1%*	*2.6%*	*2.7%*	*2.7%*	*2.8%*
Net Margin	*4.8%*	*4.5%*	*4.8%*	*0.8%*	*1.5%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*

Note: Lease-adjusted leverage assumes constant $653MM operating lease expense

- **Revenue:** Assumed a decline in sales of 3.5% CAGR (FY 2022-2026) vs. 3.0% CAGR throughout GFC (FY 2005-2009). Decline is driven by supply chain impacts, reduced foot traffic / same-store-sales because of lower discretionary income due to recession and rising unemployment

- **Gross Profit:** Assumed to decline by 5.8% CAGR (FY 2022-2026) vs. 4.9% throughout GFC (FY 2005-2009). Decline is driven by potential discounting needed to drive sales or clear out excess inventory and higher input costs due to persistent inflation

- **SG&A:** Assumed to decline by 2.5% CAGR (FY 2022-2026) vs. 0.5% CAGR throughout GFC (FY 2005-2009). Decline is driven by reduced headcount and other administrative expenses as store closures exceed new store openings. Company should benefit from ongoing investments in digital capabilities which should contribute to efficiencies

- **EBITDA:** Assumed to decline by 15.4% CAGR (FY 2022-2026) vs. 16% CAGR throughout GFC (FY 2005-2009). Decline is a function of Revenue, COGS, SG&A, and D&A

- **CAPEX, and D&A:** $272 million CAPEX in FY22 is in line with Company's full year guidance. CAPEX and D&A are slightly below historical basis as a percentage of revenue at 1.5-2% (vs. 2-3%) to account for the strategic shift toward e-commerce and away from brick-n-mortar

(FULL FINANCIAL STATEMENTS WILL BE PROVIDED UPON REQUEST)

9. BOND RECOVERY ANALYSIS: PERFORMANCE WOULD NEED TO DECLINE SIGNIFICANTLY TO IMPAIR EXPECTED RECOVERY, REPRESENTING AN UNPRECENDENT DETERIORATION IN THE ECONOMY EVEN BEYOND WHAT WAS EXPERIENCED DURING THE GFC

S&P Recovery Ratings Analysis

($ in Millions)			Assumed Year of Default	Distressed EBITDA	Distressed EBITDA Mult.	Value at Default
Estimated Gross EV at Default [1]			2027	$152	5.0x	$760
Admin. Expenses and Priority Claims [2]						(38)
Net Value Available to Creditors						**$722**

	Original Issuance Size	Current Amount Outstanding	% Drawn at Default	Amount Outstanding at Default	Prepetition Interest Due at Default	Total
Asset-Backed Credit Facility due 2025 [3]	$600	$0	60%	$360	$8	$368
Total Secured Debt Claims at Default						**$368**
Senior Secured Recovery Rate						**100.0%**
Net Value Available to Unsecured Creditors						**$354**

	Original Issuance Size	Current Amount Outstanding		Amount Outstanding at Default	Prepetition Interest Due at Default	Total
4.00% Senior Unsecured Notes due 2029 [3]	$400	$400		$400	$8	$408
Pari-Passu Lease Non-Debt Unsecured Claim						155
Total Unsecured Debt Claims at Default						**$563**
Senior Unsecured Recovery Rate						**62.9%**

(1) Assumes an EV/EBITDA multiple of 5.0x at Default.
(2) Admin. Expenses and Priority Claims of 5.0% of EV at Default
(3) Assumes pre-petition interest of 6-months (at default rate equal to LIBOR of 2.5% + 1.75% spread for "cov-lite covenants" on ABL)
Source: S&P Global Ratings as of May 27, 2022

Key Observations

- **$152MM Distressed EBITDA reflects 57% deterioration from $352MM FY2026 EBITDA** in downside case, indicating a decline by 25% CAGR from FY22-FY27
- Implied enterprise value is based on 5x EV/EBITDA, which is consistent with multiple during the Great Financial Crisis
- Recovery analysis indicates adequate recovery (~60%, and 3 recovery rating) even in a severely distressed scenario
- **Such a draconian outlook, while not impossible, is a low-probability event based on solid business fundamentals and healthy consumer demand that have proven resilient during prior economic downturns**

Sensitivity Analysis

($ in millions)

ABL % Drawn at Default	Implied EBITDA Deterioration: 53%	55%	57%	59%	61%	63%
Distressed EBITDA	$167	$160	**$152**	$145	$137	$130
50.0%	86.5%	80.6%	73.8%	67.9%	61.2%	55.3%
60.0%	75.6%	69.7%	62.9%	57.0%	50.3%	44.4%
70.0%	64.7%	58.8%	52.1%	46.2%	39.4%	33.5%
80.0%	53.8%	47.9%	41.2%	35.3%	28.5%	22.6%
90.0%	42.9%	37.0%	30.3%	24.4%	17.6%	11.7%
100.0%	32.1%	26.2%	19.4%	13.5%	6.7%	0.8%

Key Observations

- Implied EBITDA deterioration reflects incremental decline from FY2026 downside case
- Foot Locker has adequate access to capital markets
- Recovery value between 30-50% may yield higher capital costs but is unlikely to materially impair Foot Locker's ability to access the debt capital markets

Recovery %	Rating	Notching
>90%-100%	1	+2 Notches
>70%-90%	2	+1 Notch
>50%-70%	3	No Notching
>30%-50%	4	No Notching
>10%-30%	5	-1 Notch
0%-10%	6	-2 Notches

APPENDIX:

A. PROJECTED FINANCIAL SUMMARY (BASE CASE)
B. UPDATED RELATIVE VALUE ANALYSIS
C. HISTORICAL FINANCIAL SUMMARY (2005-2021)
D. DISTRESSED FINANCIAL PERIODS
E. INDUSTRY LANDSCAPE
F. BOND TRADING LOTS / LIQUIDITY
G. LIST OF CURRENT BOND HOLDERS
H. SOCIAL MEDIA PRESENCE

A. PROJECTED FINANCIAL SUMMARY (BASE CASE)

Foot Locker's base case performance aligns with consensus estimates. We reviewed seven equity research reports, and our thoughts on and expectations for the business were not dissimilar. We also listened to the last three earnings calls. Management acknowledged the challenges related to inflation-driven cost pressures and potential recession and delivered prudent forward guidance. As a result, we have no reason to expect that consensus expectations for the business will be materially disconnected from what the company will be able to achieve in the near term. While we may have a slightly more positive tilt regarding the long-term prospects of Foot Locker, given the exceptional retail record of the new CEO, whose experience is likely to translate very well at Foot Locker, it is far too early with too many unknowns to form any conviction. For this exercise, we focused exclusively on Foot Locker's senior unsecured bonds, which we believed were mispriced, likely due to an overreaction to the headline news about the disintermediation with Nike.

Assumptions

- Performance is expected to be negatively impacted by reduced NKE allocations, especially high-heat products, in the short term before stabilizing
- Gross Profit margins are expected to decline (~340 bps y/y) in '22 as Foot Locker rebalances its product mix
- EBITDA and EBITDA margins are likewise expected to be impacted (to 9.8% in '22, from 14% in '21)
- SG&A expenses are assumed to increase (to 21.8% in '22, from 20.7% in '21) as Foot Locker drives customer engagement initiatives to enhance recognition of new added brands
- Capital expenditures in '22 is in line with Company guidance ($275MM), which includes real estate projects designed to elevate customers' in-store experience
- Assumes Foot Locker fully executes its share repurchase program ($~1.1Bn remaining) and pays an average annual dividend of $134MM

Projected Financial Summary – Base Case

FINANCIAL SUMMARY- BASE CASE	LTM	Projected Fiscal Years Ending December 31,							
($ in Millions)	10/29/2022	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Total Revenue	**$8,754**	**$8,306**	**$7,967**	**$8,063**	**$8,133**	**$8,156**	**$8,164**	**$8,136**	**$8,107**
Total Sales Y/Y Growth	--	*(7.3%)*	*(4.1%)*	*1.2%*	*0.9%*	*0.3%*	*0.1%*	*(0.3%)*	*(0.4%)*
Gross Profit	2,863	2,575	2,490	2,520	2,552	2,569	2,582	2,583	2,584
Margin	*32.7%*	*31.0%*	*31.3%*	*31.3%*	*31.4%*	*31.5%*	*31.6%*	*31.8%*	*31.9%*
Adjusted EBITDA	**$985**	**$811**	**$778**	**$767**	**$784**	**$796**	**$807**	**$814**	**$822**
Growth		***(35.6%)***	***(4.1%)***	***(1.4%)***	***2.2%***	***1.6%***	***1.4%***	***0.9%***	***0.9%***
Margin	***11.3%***	***9.8%***	***9.8%***	***9.5%***	***9.6%***	***9.8%***	***9.9%***	***10.0%***	***10.1%***
Cash Flow from Operations	--	$521	$624	$608	$618	$634	$637	$643	$648
Less: Capital Expenditures	--	(272)	(219)	(202)	(163)	(163)	(163)	(163)	(162)
Free Cash Flow	**--**	**$248**	**$405**	**$406**	**$455**	**$471**	**$473**	**$481**	**$486**
FCF Conversion	***--***	***30.6%***	***52.1%***	***53.0%***	***58.1%***	***59.2%***	***58.6%***	***59.0%***	***59.1%***
Key Balance Sheet Items									
Cash and Cash Equivalents	$351	$765	$867	$956	$1,116	$1,284	$1,444	$1,707	$2,079
Net PP&E	897	987	1,004	1,007	977	952	931	913	898
Total Assets	7,762	8,115	8,189	8,299	8,442	8,583	8,724	8,964	9,316
Shareholders' Equity	3,259	3,400	3,517	3,616	3,752	3,892	4,034	4,279	4,636
Revolving Credit Facility	$0	$0	$0	$0	$0	$0	$0	$0	$0
Senior Unsecured Notes	400	400	400	400	400	400	400	400	400
Capital Leases	2,805	2,805	2,805	2,805	2,805	2,805	2,805	2,805	2,805
Total Debt	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**	**$3,205**
Select Credit Statistics									
Total Funded Debt/EBITDA	0.4x	0.5x	0.5x	0.5x	0.5x	0.5x	0.5x	0.5x	0.5x
Total Funded Debt/(EBITDA-CAPEX)	--	0.7x	0.7x	0.7x	0.6x	0.6x	0.6x	0.6x	0.6x
Lease Adj. Debt/EBITDAR	**2.0x**	**2.2x**	**2.2x**	**2.3x**	**2.2x**	**2.2x**	**2.2x**	**2.2x**	**2.2x**
Net Lease Adj. Debt/EBITDAR	**1.7x**	**1.7x**	**1.6x**	**1.6x**	**1.5x**	**1.3x**	**1.2x**	**1.0x**	**0.8x**
EBITDA/Interest	51.8x	42.7x	40.9x	40.4x	41.2x	41.9x	42.5x	42.9x	43.2x
(EBITDA-CAPEX)/Interest	--	28.3x	29.4x	29.7x	32.7x	33.3x	33.9x	34.3x	34.7x
Total Funded Debt/Total Capitalization	10.9%	10.5%	10.2%	10.0%	9.6%	9.3%	9.0%	8.5%	7.9%
Lease Adj. Debt/Total Capitalization	49.6%	48.5%	47.7%	47.0%	46.1%	45.2%	44.3%	42.8%	40.9%
Margin Analysis									
COGS Margin	*67.3%*	*69.0%*	*68.8%*	*68.8%*	*68.6%*	*68.5%*	*68.4%*	*68.3%*	*68.1%*
SG&A Margin	*21.8%*	*21.5%*	*21.8%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*
EBIT Margin	*8.5%*	*7.1%*	*7.0%*	*6.8%*	*7.0%*	*7.2%*	*7.4%*	*7.5%*	*7.7%*
Net Margin	*4.8%*	*4.5%*	*4.4%*	*4.3%*	*4.4%*	*4.6%*	*4.7%*	*4.8%*	*4.9%*

Source: Equity Research Reports (JPM, BoA, Credit Suisse, UBS); Note: Lease-adjusted leverage assumes constant $653MM operating lease expense

(FULL FINANCIAL STATEMENTS WILL BE PROVIDED UPON REQUEST)

B. UPDATED RELATIVE VALUE ANALYSIS: FOOT LOCKER'S BONDS TRADE TIGHTER

Relative Value Analysis

				12/6/2022			11/4/2022			Δ				
Issuer / Pricing	Amount	Ratings [2]	Maturity	Price	YTW	OAS	Price	YTW	OAS	Price	YTW	OAS	Duration	Convexity
Foot Locker, Inc.		**Ba1/BB+**												
4.000%	$400	Ba2/BB+	10/1/2029	81.49	7.52%	372	75.39	8.84%	435	6.10	(1.3%)	(63)	5.7	38
Footware Comparable														
Wolverine World Wide, Inc.		**[Ba2]/BB**												
4.000%	$550	[Ba3]/BB-	8/15/2029	78.18	8.32%	469	78.00	8.31%	463	0.18	0.0%	7	5.4	32
Crocs, Inc.		**[Ba3]/BB-**												
4.250%	$350	[B2]/B	3/15/2029	83.39	7.63%	381	79.62	8.46%	374	3.76	(0.8%)	7	5.3	33
4.125%	$350	[B2]/B	8/15/2031	82.14	6.89%	358	78.00	7.61%	340	4.14	(0.7%)	18	6.9	57
Specialty Retailers														
Academy Sports and Outdoors, Inc.		**[Ba2]/BB**												
6.000%	$400	[Ba2]/BB	11/15/2027	93.50	7.60%	300	92.50	7.84%	306	1.00	(0.2%)	(6)	4.1	21
Apparel and Accessories Retailers														
Victoria's Secret & Co.		**Ba3/BB-**												
4.625%	$600	B1/BB-	7/15/2029	84.00	7.77%	396	79.49	8.74%	396	4.51	(1.0%)	0	5.4	35
Under Armour, Inc.		**[Ba2]/BB**												
3.250%	$600	[Ba2]/BB	6/15/2026	89.18	6.76%	271	85.75	7.87%	302	3.43	(1.1%)	(30)	3.2	12
Carter's, Inc.		**[Ba1]/BB+**												
5.625%	$500	[Ba1]/BB+	3/15/2027	95.62	6.82%	207	94.10	7.23%	302	1.52	(0.4%)	(95)	3.7	17
Kontoor Brands, Inc.		**[Ba2]/BB**												
4.125%	$400	[Ba3]/BB-	11/15/2029	81.56	7.59%	386	78.92	8.12%	397	2.64	(0.5%)	(12)	5.6	39
The Gap, Inc.		**[Ba2]/BB**												
3.625%	$750	[Ba2]/BB	10/1/2029	77.28	8.02%	404	69.88	9.72%	465	7.40	(1.7%)	(61)	5.6	25
3.875%	$750	[Ba2]/BB	10/1/2031	75.80	7.71%	409	67.43	9.35%	440	8.37	(1.6%)	(31)	6.8	42
Average:	$525			84.07	7.51%	358				3.7	(0.8%)	(20.3)	5.2	31
Median:	$500			82.77	7.62%	329				3.6	(0.8%)	(9.0)	5.4	32
High:	$750			95.62	8.32%	469				8.4	0.0%	17.7	6.9	57
Low:	$350			75.80	6.76%	102				0.2	(1.7%)	(94.7)	3.2	12

[1] Denotes lease-adjusted leverage

[2] Corporate ratings are bolded; Moody's ratings in brackets were unavailable and kept with S&P's for illustrative purposes

Source: Company Filings, Capital IQ; $ in Millions; Average, Median, High and Low excludes Foot Locker

C. HISTORICAL FINANCIAL SUMMARY (2005-2021)

Historical Financial Summary

HISTORICAL SUMMARY	**Fiscal Year Ended**																	**17-year**
($ in Millions)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**CAGR**
Revenue	**$5,653**	**$5,750**	**$5,437**	**$5,237**	**$4,854**	**$5,049**	**$5,623**	**$6,182**	**$6,505**	**$7,151**	**$7,412**	**$7,766**	**$7,782**	**$7,939**	**$8,005**	**$7,548**	**$8,958**	***2.7%***
% Growth	--	*1.7%*	*(5.4%)*	*(3.7%)*	*(7.3%)*	*4.0%*	*11.4%*	*9.9%*	*5.2%*	*9.9%*	*3.6%*	*4.8%*	*0.2%*	*2.0%*	*0.8%*	*(5.7%)*	*18.7%*	
COGS	**$3,944**	**$4,014**	**$4,017**	**$3,777**	**$3,522**	**$3,533**	**$3,827**	**$4,148**	**$4,372**	**$4,777**	**$4,907**	**$5,130**	**$5,326**	**$5,411**	**$5,462**	**$5,365**	**$5,878**	***2.4%***
% Margin	*69.8%*	*69.8%*	*73.9%*	*72.1%*	*72.6%*	*70.0%*	*68.1%*	*67.1%*	*67.2%*	*66.8%*	*66.2%*	*66.1%*	*68.4%*	*68.2%*	*68.2%*	*71.1%*	*65.6%*	
% Growth	--	*1.8%*	*0.1%*	*(6.0%)*	*(6.8%)*	*0.3%*	*8.3%*	*8.4%*	*5.4%*	*9.3%*	*2.7%*	*4.5%*	*3.8%*	*1.6%*	*0.9%*	*(1.8%)*	*9.6%*	
SG&A	**$1,129**	**$1,163**	**$1,176**	**$1,179**	**$1,099**	**$1,138**	**$1,243**	**$1,294**	**$1,328**	**$1,428**	**$1,415**	**$1,472**	**$1,501**	**$1,614**	**$1,650**	**$1,587**	**$1,851**	***3.0%***
% Margin	*20.0%*	*20.2%*	*21.6%*	*22.5%*	*22.6%*	*22.5%*	*22.1%*	*20.9%*	*20.4%*	*20.0%*	*19.1%*	*19.0%*	*19.3%*	*20.3%*	*20.6%*	*21.0%*	*20.7%*	
% Growth	--	*3.0%*	*1.1%*	*0.3%*	*(6.8%)*	*3.5%*	*9.2%*	*4.1%*	*2.6%*	*7.5%*	*(0.9%)*	*4.0%*	*2.0%*	*7.5%*	*2.2%*	*(3.8%)*	*16.6%*	
Operating Income (EBIT)	**$409**	**$398**	**$78**	**$151**	**$121**	**$272**	**$443**	**$622**	**$672**	**$807**	**$942**	**$1,006**	**$782**	**$736**	**$714**	**$420**	**$1,032**	***5.6%***
% Margin	*7.2%*	*6.9%*	*1.4%*	*2.9%*	*2.5%*	*5.4%*	*7.9%*	*10.1%*	*10.3%*	*11.3%*	*12.7%*	*13.0%*	*10.0%*	*9.3%*	*8.9%*	*5.6%*	*11.5%*	
% Growth	--	*(2.7%)*	*(80.4%)*	*93.6%*	*(19.9%)*	*124.8%*	*62.9%*	*40.4%*	*8.0%*	*20.1%*	*16.7%*	*6.8%*	*(22.3%)*	*(5.9%)*	*(3.0%)*	*(41.2%)*	*145.7%*	
Adjusted EBITDA	**$586**	**$583**	**$254**	**$290**	**$245**	**$391**	**$571**	**$760**	**$830**	**$970**	**$1,112**	**$1,186**	**$970**	**$936**	**$911**	**$611**	**$1,258**	***4.6%***
% Margin	*10.4%*	*10.1%*	*4.7%*	*5.5%*	*5.0%*	*7.7%*	*10.2%*	*12.3%*	*12.8%*	*13.6%*	*15.0%*	*15.3%*	*12.5%*	*11.8%*	*11.4%*	*8.1%*	*14.0%*	
% Growth	--	*(0.5%)*	*(56.4%)*	*14.2%*	*(15.5%)*	*59.5%*	*46.0%*	*33.1%*	*9.2%*	*16.9%*	*14.6%*	*6.7%*	*(18.2%)*	*(3.5%)*	*(2.7%)*	*(32.9%)*	*105.9%*	
Cash Flow Operations	$354	$189	$283	$383	$346	$326	$497	$416	$530	$712	$745	$816	$813	$781	$696	$1,062	$666	
Less: Capital Expenditures	(155)	(165)	(148)	(146)	(89)	(97)	(152)	(163)	(206)	(190)	(228)	(266)	(274)	(187)	(187)	(159)	(209)	
Free Cash Flow	**$199**	**$24**	**$135**	**$237**	**$257**	**$229**	**$345**	**$253**	**$324**	**$522**	**$517**	**$550**	**$539**	**$594**	**$509**	**$903**	**$457**	
% Growth	--	*(87.9%)*	*462.5%*	*75.6%*	*8.4%*	*(10.9%)*	*50.7%*	*(26.7%)*	*28.1%*	*61.1%*	*(1.0%)*	*6.4%*	*(2.0%)*	*10.2%*	*(14.3%)*	*77.4%*	*(49.4%)*	
% Conversion	--	*4.1%*	*53.1%*	*81.7%*	*104.9%*	*58.6%*	*60.4%*	*33.3%*	*39.0%*	*53.8%*	*46.5%*	*46.4%*	*55.6%*	*63.5%*	*55.9%*	*147.8%*	*36.3%*	
Cash & Cash Equivalents	$587	$470	$493	$408	$589	$696	$851	$928	$867	$967	$1,021	$1,046	$849	$891	$907	$1,680	$804	
Total Funded Debt	$326	$234	$221	$142	$138	$137	$135	$133	$139	$134	$130	$125	$125	$124	$122	$102	$400	
Total Funded Leverage	0.6x	0.4x	0.9x	0.5x	0.6x	0.4x	0.2x	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.2x	0.3x	

D. DISTRESSED FINANCIAL PERIODS: GFC, COVID-19, & DOWNSIDE CASE

Distressed Financial Periods

FINANCIAL SUMMARY	Fiscal Year Ended - GFC					5-year	Fiscal Year Ended - COVID-19					5-year	Projected Fiscal Year Ended - Downside					5-year
($ in Millions)	2005	2006	2007	2008	2009	CAGR	2017	2018	2019	2020	2021	CAGR	2022	2023	2024	2025	2026	CAGR
Revenue	**$5,653**	**$5,750**	**$5,437**	**$5,237**	**$4,854**	***(3.0%)***	**$7,782**	**$7,939**	**$8,005**	**$7,548**	**$8,958**	***2.9%***	**$8,306**	**$7,628**	**$7,323**	**$7,132**	**$6,952**	***(3.5%)***
% Growth	--	*1.7%*	*(5.4%)*	*(3.7%)*	*(7.3%)*		*0.2%*	*2.0%*	*0.8%*	*(5.7%)*	*18.7%*		*(7.3%)*	*(8.2%)*	*(4.0%)*	*(2.6%)*	*(2.5%)*	
COGS	**$3,944**	**$4,014**	**$4,017**	**$3,777**	**$3,522**	***(2.2%)***	**$5,326**	**$5,411**	**$5,462**	**$5,365**	**$5,878**	***2.0%***	**$5,731**	**$5,325**	**$5,410**	**$5,144**	**$5,045**	***(2.5%)***
% Margin	*69.8%*	*69.8%*	*73.9%*	*72.1%*	*72.6%*		*68.4%*	*68.2%*	*68.2%*	*71.1%*	*65.6%*		*69.0%*	*69.8%*	*73.9%*	*72.1%*	*72.6%*	
% Growth	--	*1.8%*	*0.1%*	*(6.0%)*	*(6.8%)*		*3.8%*	*1.6%*	*0.9%*	*(1.8%)*	*9.6%*		*(2.5%)*	*(7.1%)*	*1.6%*	*(4.9%)*	*(1.9%)*	
SG&A	**$1,129**	**$1,163**	**$1,176**	**$1,179**	**$1,099**	***(0.5%)***	**$1,501**	**$1,614**	**$1,650**	**$1,587**	**$1,851**	***4.3%***	**$1,786**	**$1,543**	**$1,584**	**$1,606**	**$1,574**	***(2.5%)***
% Margin	*20.0%*	*20.2%*	*21.6%*	*22.5%*	*22.6%*		*19.3%*	*20.3%*	*20.6%*	*21.0%*	*20.7%*		*21.5%*	*20.2%*	*21.6%*	*22.5%*	*22.6%*	
% Growth	--	*3.0%*	*1.1%*	*0.3%*	*(6.8%)*		*2.0%*	*7.5%*	*2.2%*	*(3.8%)*	*16.6%*		*(3.5%)*	*(13.6%)*	*2.7%*	*1.4%*	*(2.0%)*	
Operating Income (EBIT)	**$409**	**$398**	**$78**	**$151**	**$121**	***(21.6%)***	**$782**	**$736**	**$714**	**$420**	**$1,032**	***5.7%***	**$587**	**$572**	**$154**	**$219**	**$180**	***(21.0%)***
% Margin	*7.2%*	*6.9%*	*1.4%*	*2.9%*	*2.5%*		*10.0%*	*9.3%*	*8.9%*	*5.6%*	*11.5%*		*7.1%*	*7.5%*	*2.1%*	*3.1%*	*2.6%*	
% Growth	--	*(2.7%)*	*(80.4%)*	*93.6%*	*(19.9%)*		*(22.3%)*	*(5.9%)*	*(3.0%)*	*(41.2%)*	*145.7%*		*(43.1%)*	*(2.5%)*	*(73.1%)*	*42.5%*	*(17.8%)*	
Adjusted EBITDA	**$586**	**$583**	**$254**	**$290**	**$245**	***(16.0%)***	**$970**	**$936**	**$911**	**$611**	**$1,258**	***5.3%***	**$811**	**$780**	**$348**	**$401**	**$352**	***(15.4%)***
% Margin	*10.4%*	*10.1%*	*4.7%*	*5.5%*	*5.0%*		*12.5%*	*11.8%*	*11.4%*	*8.1%*	*14.0%*		*9.8%*	*10.2%*	*4.7%*	*5.6%*	*5.1%*	
% Growth	--	*(0.5%)*	*(56.4%)*	*14.2%*	*(15.5%)*		*(18.2%)*	*(3.5%)*	*(2.7%)*	*(32.9%)*	*105.9%*		*(35.6%)*	*(3.8%)*	*(55.4%)*	*15.4%*	*(12.3%)*	
Cash Flow Operations	$354	$189	$283	$383	$346	***(0.5%)***	$813	$781	$696	$1,062	$666	***(3.9%)***	$521	$447	$379	$337	$322	***(9.2%)***
Less: Capital Expenditures	(155)	(165)	(148)	(146)	(89)		(274)	(187)	(187)	(159)	(209)		(272)	(133)	(110)	(107)	(104)	
Free Cash Flow	**$199**	**$24**	**$135**	**$237**	**$257**	***5.2%***	**$539**	**$594**	**$509**	**$903**	**$457**	***(3.2%)***	**$248**	**$314**	**$269**	**$230**	**$218**	***(2.6%)***
% Growth	--	*(87.9%)*	*462.5%*	*75.6%*	*8.4%*		*(2.0%)*	*10.2%*	*(14.3%)*	*77.4%*	*(49.4%)*		*(45.6%)*	*26.3%*	*(14.2%)*	*(14.5%)*	*(5.3%)*	
% Conversion	--	*4.1%*	*53.1%*	*81.7%*	*104.9%*		*55.6%*	*63.5%*	*55.9%*	*147.8%*	*36.3%*		*30.6%*	*40.2%*	*77.4%*	*57.3%*	*61.9%*	
Cash & Cash Equivalents	$587	$470	$493	$408	$589		$849	$891	$907	$1,680	$804		$765	$770	$866	$914	$968	
Total Funded Debt	$326	$234	$221	$142	$138		$125	$124	$122	$102	$400		$400	$400	$400	$400	$400	
Total Funded Leverage	0.6x	0.4x	0.9x	0.5x	0.6x		0.1x	0.1x	0.1x	0.2x	0.3x		0.5x	0.5x	1.2x	1.0x	1.1x	

E. INDUSTRY LANDSCAPE

The apparel and footwear sector continues to benefit from strong demand and increased foot traffic as consumers return to social activity after the global pandemic

Competition is Fierce:

- Differentiation: Retailers must compete and differentiate their product portfolio so they can cater to different consumer preferences and price points
- Price: Price is a significant basis of competition as consumers will pay more for well-known brands
- Location: The industry competes with athletic footwear specialty stores, sporting goods stores, departments stores, traditional shoe stores, large warehouse clubs and internet retailers
- Vendor Relationships: A critical competitive factor is establishing and maintaining long-term, strategic relationships with vendors

Economic Environment is a Factor:

- Discretionary Income: Operators are affected by consumer spending and available disposable income levels
- Supply chain disruption: Despite congestion at ports and terminals easing, companies will maintain higher inventory leading to elevated working capital needs
- Inflation: Pressures will gradually abate as supply and demand rebounds to near historical levels and the labor shortage eases. Companies look for offsetting cost efficiencies, selective price increases

Barriers to Entry are Low:

- Barriers include start-up costs, access to a reliable supply chain, and competing against established brands
- E-commerce-only operators can achieve operating cost efficiencies but face expensive customer acquisition and retention strategies
- A reliable supply chain is vital to have favorable contracts. However, brand names are essential for the footwear retailing industry as consumers want to keep up with trends and trust brands that are widely recognized

High Bargaining Power of Suppliers and Buyers:

- Well-known brands have more leverage and bargaining power as retailers seek to secure exclusive distribution partnerships with providers of premium product
- Fashion trends are volatile, and retailers are dependent on the ability of vendors to maintain a high pace of new product releases that command high price points and attract consumer interest which varies over seasons

COMPETITIVE ANALYSIS

In all, the principal competitive factors are the selection of merchandise, customer experience, reputation, store location, advertising, and price. Foot Locker has built strong relationships with key vendors and, as a result, has a significant allocation of exclusive and limited distribution products from their vendors at competitive prices. Competitors include but are not limited to: Nike; Adidas; Under Armour; Brown Shoe; Collective Brands; Dick’s Sporting Goods; Designer Shoe Warehouse (DSW)

F. BOND TRADING LOTS / LIQUIDITY

FL 4 10/01/29 Corp | Export | Settings | Trade History

CUSIP 344849AA | 95) Buy | 96) Sell

Source TRAC | View Price | Range 08/02/22 - 11/30/22 | Size >=250M

92) Charts | Reported Vol | Estimated Vol | Show Net | Show High/Low

	Date	Price Last	Vol(M)	Trds	Dealer to Clt. Vol(M) Buys	Dealer to Clt. Vol(M) Sells	Dealer to Clt. Vol(M) Net	Dealer to Aff. Vol(M) Buys	Dealer to Aff. Vol(M) Sells	Dealer to Aff. Vol(M) Net	D->D Vol(M)
	Total	81.852	148,270 *	119	63,178 *	57,073 *		290	5,913 *		21,816
101)	11/29/22	81.852	700	1	0	0		0	700		0
102)	11/28/22	81.625	10,009 *	5	4,390 *	4,319 *		0	1,300		0
103)	11/22/22	81.375	500	1	0	0		0	500		0
104)	11/21/22	81.846	2,000	4	0	1,000		0	0		1,000
105)	11/16/22	76.875	12,796 *	4	6,521 *	6,275 *		0	0		0
106)	11/10/22	76.607	2,040	3	0	0		0	680		1,360
107)	11/04/22	75.725	600	2	300	0		0	0		300
108)	11/02/22	75.600	530	2	265	265		0	0		0
109)	11/01/22	77.050	975	3	325	325		0	0		325
110)	10/31/22	76.500	4,736 *	2	4,236 *	500		0	0		0
111)	10/28/22	77.219	500	2	0	0		0	0		500
112)	10/27/22	76.655	2,351	6	325	0		0	0		2,026
113)	10/26/22	76.917	450	1	450	0		0	0		0
114)	10/17/22	76.250	1,100	3	700	400		0	0		0

*Estimated volume used for trades capped at size 1MM and 5MM.

TRACE Insights | Hide Insights

TRACE Buy Range: Range is 81.4 - 81.7 (0.3), narrower than 30D avg, no direction since 1...

TRACE Price: 81.820 vs 30D High 82.030, Low 74.481, Avg 77.850

TRACE Volume (Est): 1.7MM reported on 11/29, 114.34% of 30D avg

QR

TDH

Source: Bloomberg Terminal

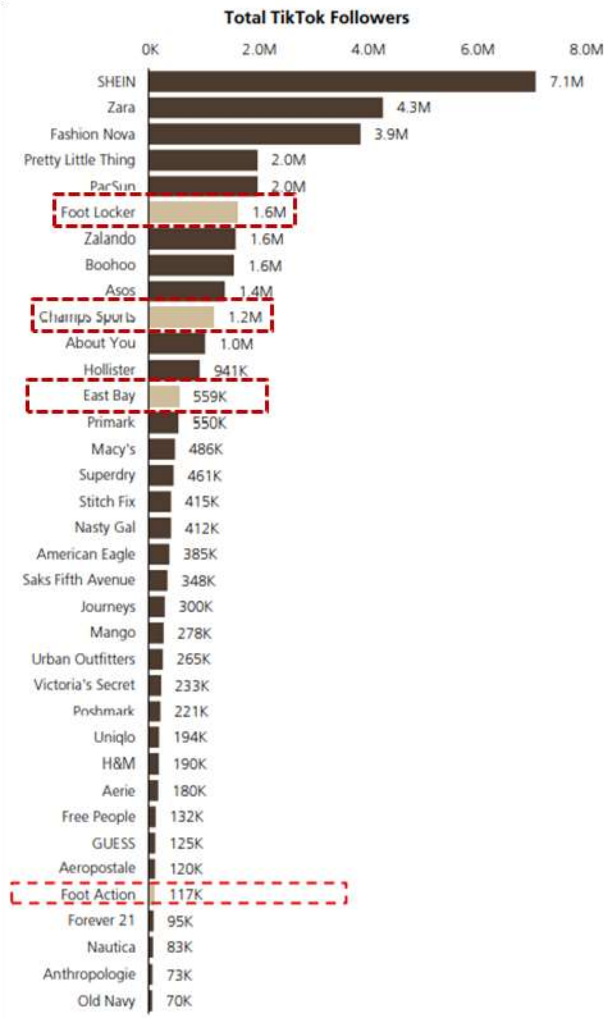
G. LIST OF CURRENT BOND HOLDERS

	Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg	File Dt
1.	CI Investments Inc/Canada		ULT-AGG		34,994	8.75	10,656	10/31/22
2.	FMR LLC		ULT-AGG		28,434	7.11	1,025	09/30/22
3.	CENTERBRIDGE CREDIT FUNDING LTD	Multiple Portfolios	MF-AGG		8,115	2.03	0	11/01/22
4.	Massachusetts Mutual Life Insurance Co		ULT-AGG		8,000	2.00	8,000	06/30/22
5.	Virtus Investment Partners Inc		ULT-AGG		7,836	1.96	0	10/31/22
6.	Neuberger Berman Group LLC	Multiple Portfolios	MF-AGG		6,495	1.62	0	10/31/22
7.	Security Life of Denver Insurance Co	Multiple Portfolios	Sch-D		5,000	1.25	5,000	06/30/22
8.	Elevance Health Inc		ULT-AGG		4,940	1.23	2,650	06/30/22
9.	BlackRock Inc		ULT-AGG		4,833	1.21	50	11/28/22
10.	POWER CORP OF CANADA		ULT-AGG		4,710	1.18	-4	08/31/22
11.	Voya Investment Management LLC	Multiple Portfolios	MF-AGG		3,270	0.82	0	10/31/22
12.	Northwestern Mutual Life Insurance Co/The		ULT-AGG		3,000	0.75	75	06/30/22
13.	Brighthouse Life Insurance Co	Multiple Portfolios	Sch-D		3,000	0.75	0	06/30/22
14.	Royal Bank of Canada		ULT-AGG		2,590	0.65	0	09/30/22
15.	JPMorgan Chase & Co		ULT-AGG		2,347	0.59	648	10/31/22
16.	Mercer Global Investments Management Ltd	Multiple Portfolios	MF-AGG		2,330	0.58	0	08/31/22
17.	Legal & General Group PLC	Multiple Portfolios	Multi		2,305	0.58	0	10/31/22
18.	GAM Holding AG		ULT-AGG		2,250	0.56	0	10/31/21
19.	State Street Corp		ULT-AGG		1,504	0.38	0	11/29/22

Source: Bloomberg Terminal

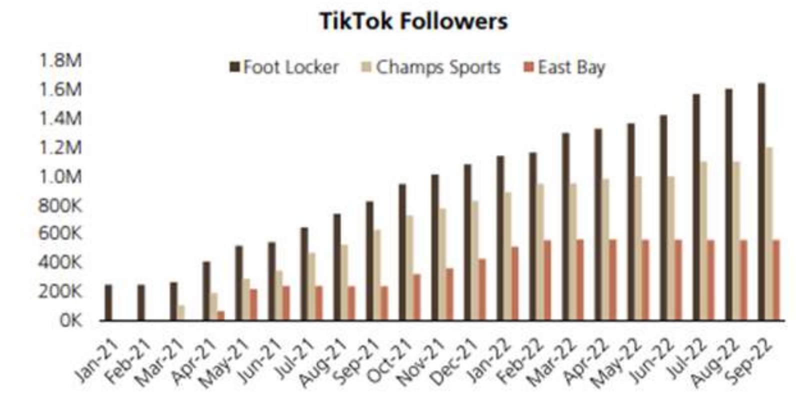
H. SOCIAL MEDIA PRESENCE: BROADER RELEVANCE HIGHLIGHTED BY SOCIAL MEDIA PRESENCE

TikTok Followers in Apparel Retail



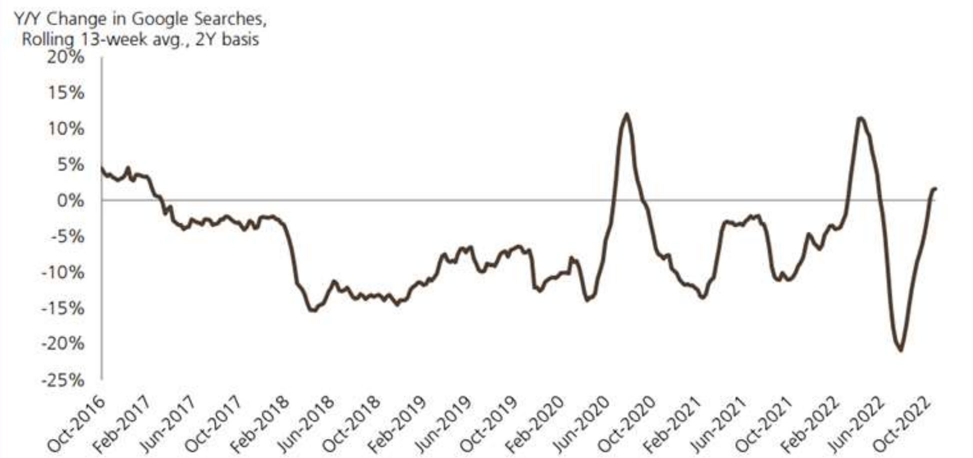
Source: UBS Evidence Lab (<Access Dataset)

FL Brands TikTok Followers



Source: UBS Evidence Lab (<Access Dataset)

Foot Locker Google Searches were up 2% on a 3 month, two year basis



Source: UBS Evidence Lab, Google (> Access Dataset)

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Foot Locker. Equity Research reports by Credit Suisse, UBS, Wells Fargo Securities, Truist, Seaport Global, Bank of America, JP Morgan (REFINITIV)

S&P Recovery Ratings Methodology & Analysis on Foot Locker (CapitalIQ)