

Arizona State University
Barrett, the Honors College

Shoes, Coronavirus, and LBOs – An LBO of Foot Locker, Inc

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ABSTRACT:

This honors thesis for Barrett, the Honors College at Arizona State University provides an analysis of a leveraged buyout (LBO) of Foot Locker. This thesis serves to demonstrate how a fictional private equity firm would acquire a company through an LBO. The project provides insight onto what private equity firms do, the background of Foot Locker, and an industry analysis on the sector that Foot Locker operates in. The thesis looks to provide a deeper understanding of the fair value of Foot Locker using a discounted cash flow (DCF) analysis, comparable company analysis, and precedent transaction analysis. Included is a pitchbook, the DCF model, and LBO model.



Foot Locker, Inc Leveraged Buyout Pitchbook and Industry Analysis

Plutus Group, LP

Alexandre Gauthier Tilly

This honors thesis is intended to serve as a complete and authentic representation of the process as would be presented to Foot Locker, Inc for an acquisition by my fictional private equity firm, Plutus Group, LP. It presents the full form of a valuation, LBO model, pitch book and an industry analysis of Foot Locker's industry. The date of analysis is December 20, 2021.

Barrett, the Honors College Thesis

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Contents

| | |
|--|----|
| Abstract | 1 |
| Cover Page | 2 |
| Table of Contents | 3 |
| Executive Summary | 7 |
| Introduction..... | 7 |
| Questions to be Discussed During the Honors Thesis | 7 |
| Content & Thesis Layout..... | 8 |
| Conclusions & Recommendations..... | 8 |
| Private Equity Firm Background | 9 |
| Purpose of a Private Equity Firm..... | 9 |
| How is a Private Equity Firm Structured? | 9 |
| What is a Leveraged Buyout?..... | 9 |
| Ideal Target of a Private Equity Firm | 10 |
| Retail Sector Research & Background | 11 |
| Description & Definitions of Consumer Discretionary, Retail, and the Footwear Sectors..... | 11 |
| Major Players & Competitors Foot Locker, Inc | 11 |
| Supply Chain..... | 11 |
| Positioning of Retailers and Fulfillment Style..... | 11 |
| Product Type and Production Strategy | 13 |
| Industry Outlook | 13 |
| Outlook | 13 |
| Drivers of Growth & Key External Drivers..... | 13 |
| Industry Market Performance | 14 |
| Coronavirus Impact on Industry Performance | 14 |
| Coronavirus Impact..... | 14 |
| Tackling and Leveraging the Change | 14 |
| Products and Competitive Landscape | 15 |
| Products..... | 15 |
| Competitive Landscape..... | 16 |
| Summary..... | 16 |
| Background of Foot Locker, Inc | 17 |
| History | 17 |
| Recent Acquisitions & Investment Activity | 17 |

| | |
|---|-----------|
| Famous Products and Initiatives | 17 |
| Reason for Acquisition of FL | 19 |
| Foot Locker is the leader in facilitating sneaker-head culture | 19 |
| Foot Locker has underperformed compared to the market and its peers | 19 |
| Foot Locker has areas of improvement..... | 19 |
| Supply Chain..... | 19 |
| Predictive Analytics & Data Control | 20 |
| Other | 20 |
| Foot Locker’s Candidacy as an LBO Candidate..... | 20 |
| Potential Risks and Downsides of Foot Locker Acquisition..... | 21 |
| Incredible Competitiveness of the Retail Footwear and Apparel Industry | 21 |
| Change of Relationship with Key Suppliers | 21 |
| Inability to Adapt their Supply Chain and Technology to Current Standards | 21 |
| The Coronavirus Pandemic..... | 21 |
| Ongoing Litigation..... | 21 |
| Other Potential Issues | 21 |
| Valuation, Football Field, & LBO Analysis..... | 22 |
| LBO Analysis..... | 22 |
| Assumptions: Capital Structure and Sources & Uses of Cash..... | 22 |
| Income Statement Forecast | 23 |
| Balance Sheet Forecast | 23 |
| Exit Analysis..... | 23 |
| DCF Valuation | 24 |
| Free Cash Flow Calculations | 24 |
| Weighted Average Cost of Calculation | 24 |
| Present Value of Free Cash Flows and Value per Share..... | 25 |
| Comparable Company Analysis & Precedent Transaction Analysis..... | 26 |
| Football Field..... | 27 |
| Pitchbook | 28 |
| Conclusions & Recommendations | 38 |
| Exhibits | 39 |
| Exhibit 1: Private Equity Exemplary Acquisition Characteristics | 39 |
| Exhibit 2: Direct Competitors and Comparable Companies to Foot Locker | 40 |
| Exhibit 3: Market Performance of the Retail Industry | 40 |
| Exhibit 4: Previous M&A, Private Placements, and Buybacks | 40 |

| | |
|--|----|
| Exhibit 5: Market Returns of the S&P 500, Nike, Foot Locker, Dick’s Sporting Goods | 41 |
| Exhibit 6: Proposed Capital Structure..... | 41 |
| Exhibit 7: Sources and Uses of Cash | 41 |
| Exhibit 8: Post-Acquisition Projected Income Statement | 42 |
| Exhibit 9: Post-Acquisition Revenue Projections | 42 |
| Exhibit 10: Post-Acquisition Operating Projections | 42 |
| Exhibit 11: Post-Acquisition Balance Sheet Adjustment..... | 43 |
| Exhibit 12: Post-Acquisition Balance Sheet | 44 |
| Exhibit 13: Post-Acquisition Working Capital Projections | 44 |
| Exhibit 14: Post-Acquisition Other Projections | 45 |
| Exhibit 15: Post-Acquisition Depreciation & Amortization Schedule | 45 |
| Exhibit 16: Post-Acquisition Dividend and Debt Payback Schedule | 46 |
| Exhibit 17: Cash Projections..... | 47 |
| Exhibit 18: Exit Analysis | 47 |
| Exhibit 19: Projected Income Statement..... | 48 |
| Exhibit 20: Revenue Projections Pulled from Bloomberg | 48 |
| Exhibit 21: Revenue Projections..... | 48 |
| Exhibit 22: Operating Projections..... | 49 |
| Exhibit 23: Earnings Growth | 49 |
| Exhibit 24: Projected Balance Sheet, Assets | 49 |
| Exhibit 25: Projected Balance Sheet, Liabilities and Equity | 50 |
| Exhibit 26: Working Capital Projections | 50 |
| Exhibit 27: Other Projections..... | 50 |
| Exhibit 28: Fixed Asset Schedule | 51 |
| Exhibit 29: Equity Schedule | 51 |
| Exhibit 30: Debt Schedule | 52 |
| Exhibit 31: Statement of Cashflows..... | 53 |
| Exhibit 32: Discounted Cash Flow Calculation..... | 53 |
| Exhibit 33: Present Value of the Unlevered Free Cash Flows and Its Value per Share | 54 |
| Exhibit 34: Comparable Company Analysis..... | 54 |
| Exhibit 35: Precedent Transaction Analysis | 54 |
| Exhibit 36: Football Field Valuation Results..... | 54 |
| Figures | 55 |
| Figure 1: Industry Map | 55 |
| Figure 2: Store Fulfillment BOPIS | 55 |

| | |
|---|-----------|
| Figure 3: Direct Store Delivery..... | 55 |
| Figure 4: Pool Distribution | 55 |
| Figure 5: Integrated Fulfillment..... | 56 |
| Figure 6: Dedicated Fulfillment..... | 56 |
| Figure 7: Flow-through Fulfillment | 56 |
| Figure 8: Industry Outlook..... | 56 |
| Figure 9: Products & Services | 57 |
| References & Sources | 58 |
| Acknowledgements and Appreciation..... | 61 |

Executive Summary

Introduction

I am Alexandre Tilly, and I am presenting this thesis at the end of my senior year at Arizona State University in Spring 2022. I have an incredibly diverse background not only as a transfer student that previously studied English and Cognitive Science at Case Western Reserve University, but as a Finance and Supply Chain Management student at Arizona State University also. As a member of Barrett, the Honors College, there is a requirement to complete a thesis by graduation. There is an intense motivation on my end to synthesize what I learned at Arizona State University in both the Supply Chain Management department and the Finance department. Throughout my time as an undergraduate, I have been able to take advantage of multiple finance programs, but a great part of my study finds itself in supply chain management. A natural intersection occurs with finance and supply chain management in private equity, which is an investment tool that looks to acquire companies to generate a return for investors. The intersection between finance and supply chain management develops in optimizing business processes within the acquired firm for financial gain.

With this honors project and thesis, I want to find a business industry that heavily relies on their supply chain to operate successfully to create additional value. Thus, retail was a natural industry to investigate for a potential acquisition target for my fictional private equity firm, Plutus Group. I expressed my interest in pursuing my honors thesis with Professor Mark Simonson because private equity was the field that got me originally interested in the finance industry. After discussing my interest, it only seemed natural for this honors project to specialize in leveraged buyouts in the retail space.

To ensure success in my honors thesis, target companies to acquire are narrowed to publicly traded companies in the United States. All publicly traded companies are required to conform to strict regulations enforced bodies such as by the Securities and Exchange Commission (SEC) that mandate financial transparency through financial statement disclosure. Such availability of information to the public is not available for private companies.

Questions to be Discussed During the Honors Thesis

- What do private equity firms do? How are they structured?
- What is a leveraged buyout and what is an appropriate target rate of return for this type of investment?
- What does Foot Locker, Inc do and what is its background as a company?
- What sector and industry does Foot Locker, Inc operate in and who are the competitors?
- What does the supply chain look like for the industry and what fulfillment models are used in the industry?
- What is the current industry outlook?
- How has the Coronavirus pandemic impacted the industry?
- What are the reasons to acquire Foot Locker and the potential risks of the acquisition?
- What is the price to pay for an acquisition of Foot Locker, Inc?
- What valuation can Foot Locker, Inc be sold at after the holding period?
- What are the financial projections after the acquisition?
- What is the stand-alone value of Foot Locker, Inc if no acquisition was to take place?
- What would a pitchbook of Foot Locker, Inc look like?

Content & Thesis Layout

I consulted a variety of sources to better understand how to approach this honors thesis, including: websites, academic papers, classwork, recorded content, equity research, and industry research. From there I elaborate what is a private equity firm and provide some background to provide context to why this investment tool is attractive. Afterwards there is a discussion about pertinent trends, competitors, and the impact of the coronavirus on the industry that Foot Locker primarily operates in. Then I jump into the history of Foot Locker as a company and provide several reasons as well as risks to acquire Foot Locker. At that moment I introduce the LBO analysis and post-acquisition operating projections. Thereafter I examine the current fair value of Foot Locker as determined through a DCF analysis, a comparable company analysis, and a precedent transaction analysis.

Conclusions & Recommendations

Foot Locker is a business that is operating in an incredibly competitive industry. They have the opportunity to leverage core-capabilities to service their customers' needs. If the firm does not address the opportunity that is in front of them other firms will take market share away from Foot Locker. My fictional private equity firm, Plutus Group **should** pursue an acquisition of Foot Locker Inc after having conducted the necessary research on the industry and on the firm.

Private Equity Firm Background

Plutus Group, LP, my fictional firm, is an established private equity firm that has an expert background in supply chain management and operations. Traditionally the firm seeks to acquire target firms that deeply rely on their supply chain. The types of general sectors that fall in this area are technology, healthcare, consumer discretionary, industrials, consumer staples, energy, and materials. Currently the firm oversees around \$50 billion in assets under management (AUM).

Purpose of a Private Equity Firm

Plutus Group is a private equity firm. What does this mean? What is the purpose of a firm like this? How does it relate to the thesis? The purpose of these kinds of investment vehicles is to purchase other firms that fit specific criteria and hold them for a specified amount of time (generally five to ten years). In the world of acquisitions there are several types of strategic sponsors of acquisitions. Private equity firms are viewed as financial sponsors as the primary incentive for the firm is to experience financial gain from an acquisition (Corporate Finance Institute, 2021). These firms look to provide superior return to the investors. The structure of this firm and a hypothetical acquisition of Foot Locker follows the traditional process of a private equity firm acquisition.

How is a Private Equity Firm Structured?

There has been a discussion of the purpose of why these firms have been set up. But how are they set up? Generally private equity firms are organized in the form of a limited partnership (Kaplan & Stromberg, 2008). A limited partnership is comprised of two general types of members of the partnership. Firstly, are the general partners and secondly are the limited partners. The general partners (GPs) function as the managers of private equity firm and provide capital into the fund. The second type of members are the limited partners (LPs). The function of the limited partners in its most simple form is to invest capital in a fund that the general partners deploy. The GPs in return typically require a target hurdle rate or internal rate of return between 20% to 25% (Gompers, Kaplan, Mukharlyamov, 2015)

Private equity firms receive equity capital from the limited partners that can be investment funds, insurance companies, pension funds, and university endowments (Tuck Business School, 2003). Furthermore, the general partners can provide capital themselves however in comparison it is far less significant (Simonson, 2019). But there is an exception, independent or fund-less sponsors. This type of sponsor is an individual with the ability to fund a private equity style deal themselves, but this is a discussion for another time (Corporate Finance Institute, 2019).

General partners employ their associates to seek out firms to acquire. Most private equity funds do not devote all their capital to a single acquisition and utilize leverage to increase the expected returns to the equity investors. Thus, some level of debt provided by lenders is necessary. The use of significant debt to acquire a business acquisition is called a leveraged buyout (LBO). It is a form of financial engineering that is similar to a mortgage on a house.

What is a Leveraged Buyout?

A leveraged buyout is a form of financial engineering that enables private equity firms to purchase businesses. The process includes “putting a down payment of equity” towards a business and financing the rest of the price of the asset (in this case a business) with debt. It is

the primary means of financing the Foot Locker acquisition. The acquisition of other businesses is extremely expensive, for example, as of early 2017, the average market capitalization of a US-listed firm was around \$7.3 billion and the median of \$832 million (Brorsen, 2017). Most large private equity firms have the capital to finance such large deals, but they use leverage buyouts to amplify the returns of their investment by using this blend of debt and equity. The average equity contributions since the financial crisis is around 35% to 40% and is a benchmark for the proper amount of equity investment into the Foot Locker deal (Tuck School of Business, 2003). But isn't there a high amount of risk associated with this level of debt used in a transaction? Yes, there is. Thus, a specific type of firm must be targeted by a private equity firm.

Ideal Target of a Private Equity Firm

Due to the high amount of leverage in LBOs, the targets must fit a specific set of criteria. If a private equity firm does not screen targets for these criteria, the target is at risk for financial distress or even bankruptcy, which is undesirable for all parties involved. The acquirer is at risk for not meeting the expected hurdle rate, losing invested capital, and making undesirable business decisions. It will disappoint the limited partners as well as the general partners of the firm. Either scenario is unfavorable as it can lead to a loss of invested capital and undesirable business decisions. So, what must a good LBO candidate possess? Although no company in any single industry will fit the exact criteria listed below, Exhibit 1 elaborates on the criteria, which are:

- Strong, predictable operating cashflows
- A well-established business and products in industry leading positions
- A limited amount of working capital
- Undervalued
- Strong management team
- Mature, steady, and maybe even a boring business
- Moderate capital expenditures and research & development
- Strong tangible asset coverage
- Seller is motivated to sell
- A reasonable exit strategy

These ten criteria can be simplified into one statement: find a business that can service the large amount of debt in a leveraged buyout consistently and with as little added risk as possible. I believe that Foot Locker matches an ideal target for a private equity firm. But first it is important to understand the industry that Foot Locker operates in.

Retail Sector Research & Background

Before any large quantitative analysis can be taken under consideration, it is important to understand the qualitative elements of the industry that Foot Locker operates in. It is important to analyze the industry to have a deeper understanding of what has occurred and where the industry is going before pursuing an acquisition of Foot Locker. This is to make that there are no unfavorable elements of the industry. Furthermore, as the coronavirus pandemic recently impacted the retail industry, it is invaluable to examine its impact. This investigation serves to inform the possible future owners of Foot Locker, Plutus Group, with the best possible information to assist Foot Locker and its limited partners in achieving exemplary financial returns. Within this section, there will be a summary of the retail and clothing industry. And as Foot Locker generates most of its revenue from its shoe sales, focus will be on the shoe industry. Figure 1 demonstrates the industry and sector breakdown of Foot Locker, which is under the consumer discretionary sector and the footwear stores industry.

Description & Definitions of Consumer Discretionary, Retail, and the Footwear Sectors

Consumer discretionary is described as luxury items or services that are not necessary for survival and demand of these goods depends on the economic conditions and wealth of individuals (Corporate Finance Institute, 2022).

Proceeding down the list from the general consumer discretionary level, firms begin to specialize, and Foot Locker specializes in the specialty apparel space and specifically in shoes (Bloomberg, 2021).

So, what is retail? A retailer is a firm that sells goods directly to consumers through various distribution channels to earn a profit (Hudson, 2020). They rely heavily on logistics capabilities and are often the final point of contact of products and consumers.

Major Players & Competitors Foot Locker, Inc

The retail space is full of incredibly large players such as Walmart, Amazon, the Kroger Company, and Costco. However, within the footwear stores sector there are more than 15 direct competitors all listed in Exhibit 2. The list is narrowed down to firms that are incorporated in the United States, publicly exchanged, and all prices are as of December 20, 2021. Firms that are direct competitors, all with a similar market cap, are Designer Brands, Caleres, Boot Barn Holdings, Dicks Sporting Goods, Skechers, and Steven Madden (Bloomberg, 2021).

Supply Chain

The supply chain is incredibly important for retail as it is the main way that firms service their customers' needs. Thus, it is an important to have a full understanding of the landscape of the industry as it can provide an opportunity for the acquirers to assess the abilities of their supply chain. The discussion of the supply chain will be centered on various fulfillment styles within the industry and the type of product that Foot Locker sells.

Positioning of Retailers and Fulfillment Style

Retailers like Foot Locker are positioned closest to the customer and the last point of the value chain for sneakers and athletic goods. Most companies have two avenues of fulfilling orders: in-store and direct to consumer. Foot Locker takes advantage of both avenues. However, these are just avenues and they do not discuss how various orders go from the supplier to the

customer, which is called fulfillment. The following are popular fulfillment models that retailers use to satisfy customer orders and a figure accompanies each fulfillment model:

Store Fulfillment Buy Online Pick-Up in Store (BOPIS) – Figure 1

This is popular for customers who want to go in-person to pick up certain orders and arrange delivery. The order is facilitated online, and it is sent to or picked from a convenient store to the customer. Its advantages are the short lead time for the customer, the relatively low start-up costs for the retailer, returns being handled through the store, and prespecified customer order sizes. The disadvantages are the reduced control and consistency over order fill, conflicts between store and internet inventories, requirements of real-time visibility to in-store inventories, and requirements of store space to store pickups.

Direct Store Delivery – Figure 2

This fulfillment method involves delivering directly to a retailer's stores, by passing the retailer's distribution network. It can be valuable if a great amount of a firm's inventory is produced by a supplier. Advantages include reduction of inventory in the distribution network. Disadvantages include possible reduction of inventory visibility of products to the retailer and a close collaboration and agreement between the supplier and retailer.

Pool Distribution – Figure 3

Small retailers use third party logistics companies (like Fed-Ex and the United Postal Service) or pool distributors, for store delivery, allowing the firm to achieve efficiency during the hauling process and receive inventory on a regular schedule.

Integrated Fulfillment – Figure 4

Retailers operates one distribution network to service both brick-and-mortar retail stores and internet site channels. Its advantages are that it has a low start-up cost for retailers, and it has workforce efficiency. The disadvantages include change in order profiles, unavailability of products in batches, and quality control for each batch.

Dedicated Fulfillment – Figure 5

Retailers operates two different distribution networks to service brick-and-mortar stores and internet avenues. Its advantage is the elimination of most of the disadvantages of integrated fulfillment, but a disadvantage is the duplication of facilities and inventories.

Flow-through Fulfillment – Figure 6

The product is picked and packed at the retailer's distribution center and sent to the store for the customer to pick-up or be delivered to the customer. The advantages are the elimination of inventory conflicts between store and internet sales, the consumer bears the cost of "last mile" transportation, store level inventory status is not required, and returns are handled through the retail store. The disadvantages are storage space in the store for pick-up items, and longer fulfillment lead times.

Foot Locker Fulfillment Model of Choice

Foot Locker is taking advantage of the BOPIS fulfillment model as it is listed on their website and they are using integrated fulfillment (Foot Locker, 2022).

Product Type and Production Strategy

Recognizing the positioning of retailers like Foot Locker, it is important to recognize the product type and the supply chain strategy that suppliers of Foot Locker follow.

Sneakers and athletic shoes on the surface appear to be incredibly specialized, however when digging deeper, they are not. David Simchi-Levi in his seminal book “Operations Rules” describes the two different types of products, functional and innovative (don’t get confused by the name, think of it as a unique). Athletic shoes are an innovative product, which are “characterized by fast innovation speed, short product life cycle, high product variety, and relatively high margins” (Simchi-Levi, 2010). However, the way that the supply chain is set up for Foot Locker’s suppliers, like Nike and Adidas, should be oriented in an efficient manner. Specifically, they should have a fast supply chain, which is defined as “a supply chain focused on competitive cost and continuous portfolio renewal” (Perez, 2013). The fast supply chain is the closest strategy to a responsive supply chain that can be applied to an innovative product like shoes.

On the other hand, retailers like Foot Locker forecast shoe demand and procure shoes that come in specified sizes. Thus, there are minimal variation from product to product, and Foot Locker deals with these shoes as a functional product. Functional products are “characterized by slow innovation speed, low product variety, and typically low profit margins” (Simchi-Levi, 2010). This difference in treatment of the product reflects the ownership of the shoes by the suppliers and the position of retailers in the supply chain.

Industry Outlook

Outlook

Expected Growth Rate – Figure 7

Even though the pandemic has negatively impacted consumer spending and participation in sports, it is expected to change in 2021 with an increase of disposable income and an ability to spend on athletic shoes. The industry is expected to grow at a rate of 1.2% over the next five years to 2026 (IBIS World, 2021).

Drivers of Growth & Key External Drivers

There are four external drivers of the shoe specialty apparel space, according to IBISWorld: participation in sports, demand from Gym, Health, and Fitness clubs, consumer confidence index, and the per capita disposable income. The three major factors of e-commerce, participation in sports, and per capita disposable income are going to be discussed as they are the largest factors in growth.

Increase of Per Capita Disposable Income

Disposable income is an important function of purchasing specialty athletic shoes. If an individual doesn’t have additional funds to replace sneakers or even get athletic shoes to begin with that is a missed opportunity for firms that sell athletic shoes. Over the next five-years the per capita disposable income will increase at a rate of 2.1% (IBIS World, 2021).

Increase of Sports Participation

Sports participation drives revenue for athletic shoe sales. This is incredibly important as during the pandemic, individuals did not have the opportunity to go outside and participate in

sporting events. At least two thirds of consumers and nearly 90% of children exercise at least weekly (Mintel Group). In this note, sports participation is expected to grow at 1.2% for the next five years and around 20.3% of all consumers getting involved with exercise (IBIS World, 2021). Leisure athletic apparel is also a trend to be noted and around 20% of US consumers purchased athletic wear for leisure purposes (Mintel Group, 2021).

E-Commerce Sales

Part of the competition within the shoe industry is having exposure to internet sales and an internet presence. Traditionally, when e-commerce sales rise traditional brick-and-mortar store sales decline (IBIS World, 2021). It is important for athletic shoe retailers in this space to capitalize and develop their online presence. This is important as these firms would be missing out on large opportunity to integrate e-commerce sales into their operations (McKinsey & Co, 2021)

Industry Market Performance

In terms of returns there are no aggregate ETFs that monitor the shoe industry, however there are several retail tracking ETFs. Exhibit 3 provides the YTD return of each ETF from State Street Global Advisors, ProShares, Amplify, and VanEck. The thing to take away from the market performance of the ETFs is that they are not consistent. The returns from the retail sector from January 2021 to December of 2021 have a very high spread. The returns of the retail sector from December of 2020 to December of 2021 have a spread of around 62%. What does this mean and what caused this? Two things: the Covid-19 pandemic and supply chain constraints.

Coronavirus Impact on Industry Performance

Coronavirus Impact

Retail, including the athletic shoe industry, has experienced very difficult times considering the 2020 coronavirus pandemic and Foot Locker is not excluded either. During the pandemic individuals were incredibly apprehensive to go to stores and various non-essential retailers suffered with a decrease of in-store sales (SafeGraph, 2021). Impact of the coronavirus pandemic on brands and retailers include consumer behaviors changing with a greater emphasis towards digital, germaphobia, in-homing, and increase of brand loyalty (Goldberg, 2021).

Implications of product mixes changing, forging of new partnerships, and even prioritizing contactless transactions have become a priority for businesses with that capability (Deloitte, 2020). If these businesses do not properly adapt or are already struggling, they can declare bankruptcy with the other thirty retailers that declared it in 2020 so far (Sumida, 2020). These businesses include firms like Guitar Center, Neiman Marcus, and Brooks Brothers. So how does a firm properly leverage what they must tackle new changes in the market?

Tackling and Leveraging the Change

A report by McKinsey and Company discusses the resiliency of firms that are leaders in the customer experience being able to recover faster and be less effected (McKinsey & Co, 2020). Thus, there is value in prioritizing customers and servicing their needs. These are the ways the firm can address needs going forward according to the article:

1. Double down on digital
 - a. As the digital economy is becoming an important element in the global economy,

McKinsey recommends that the pandemic is a perfect spark to further invest in the digital infrastructure. In one manner, focus on online marketing to drive customers to the website is important. But also increasing a friendly customer interface is another necessary implementation. A further point of importance is prioritizing a mobile app or superior form of point-of-sale experience. These things are important as the digital experience needs to have zero friction and to maximize data-collection for the firm.

2. Inject innovation into the omnichannel
 - a. The omnichannel is described as the seamless and effortless, high-quality customer experiences that occur within and between contact channels as defined by Frost and Sullivan, a consulting firm (Butte, 2015). The omni-channel each corner of the customer experience and if firms can capitalize on fostering a digital community or even integrating a digital experience. Furthermore, firms ought to leverage existing partnerships and diversify delivery mechanisms. Whether it is taking advantage of delivery services, BOPIS fulfillment, or partnering with existing grocery networks like DSW there are numerous ways to create value for the consumer.
3. Transform store operations and maximize customer comfort
 - a. This important aspect ties with the injection of innovation into the omnichannel. Customers have demonstrated a preference towards using BOPIS, Safe/contactless checkout, and even drive-through delivery. Part of the customer value that can be created by this method is implementing a set of non-negotiable service standards that can assist customers.
4. Reimagining the physical network
 - a. The pandemic could be used as an opportunity to analyze the capacity constraints of the stores in the network. There could be an opportunity to re-define physical stores as a “dark-stores,” which service growing online capacity and have zero direct customer interaction (Pearson, 2022). Network and physical store optimization are a must during the time of lower foot traffic in the system.
5. Embrace an agile operating model
 - a. The ability for firms to gather data from new customers and optimize their services to assist customers is critical. Although this is a normal part of the corporate strategic cycle, the coronavirus provided an opportunity to leverage existing capabilities to assist customers. Customer expectations are expected to change through time, so retail firms must capitalize during this time-period or decrease their present market share.

As the pandemic slowly disappears, each of these items are important for growth and addressing unexpected events. A big question that is left unanswered is if these changes are permanent expectations of customers, it appears to be, but further research is needed (Deloitte, 2020). However, these points are incredibly important to Foot Locker as it is a benchmark to analyze if Foot Locker’s operation standards are addressing the changing environment.

Products and Competitive Landscape

Products

The primary products in the industry are classified as men’s shoes, women’s shoes, and

children's shoes. Male athletic shoes are expected to account for 51.1% of revenue in the industry (IBIS World, 2021). This is partially driven through the growing trend of athleisure appeal and is projected to decrease slightly compared to the other mixes. Women's athletic shoes are projected to grow to 19% because of athleisure apparel (IBIS World, 2021). Athletic shoes are becoming more along the lines of fashion pieces rather than athletic material. Finally, children's shoes are projected to make up around 15.2% of the industry, which the two drivers are the heightened replacement rate of shoes and youth marketing trends (IBIS World, 2021). A supporting figure is displayed in figure 8.

Competitive Landscape

Market Share Concentration

The athletic shoe industry is moderately concentrated with five companies representing around 52% of total industry demand. The majority of revenue comes from Foot Locker (28%). Other players in the industry like Nike, Adidas, and New Balance benefit from vertical integration and are compensated by the market for not paying wholesale prices. Smaller players in the industry are geographically specific and generally independently owned (IBIS World, 2021).

Basis of Competition

Competition is high within the industry. The wide range of athletic shoes serve as a point of differentiation between each product. There are many options for each sport, thus price, quality, location, and service are important points for the customer. Price is an important point for the customer, however when individual products become narrower, customers become less price sensitive. Quality is important as well as the durability, comfort, and aesthetics are important for customers. Location serves as an important point as individual firms need to capitalize on locations that are close to areas of high foot-traffic locations. Traditionally locations like these are shopping strips and malls. Finally, customer service is an important point for customers. The ability for associates to assist customers and provide an opportunity to increase brand loyalty within the customer. Customer service is most important for smaller regional firms (IBIS World, 2021).

Summary

Foot Locker operates in the footwear stores industry under the consumer discretionary sector. It operates in a moderately competitive space and the industry was negatively impacted by the Coronavirus pandemic. Various reports are certain that retail behavior will be impacted and to capture that change, firms must adapt through: (1) focusing on digital, (2) injecting innovation into the omnichannel, (3) transforming store operations, (4) altering the physical network, and (5) embracing an agile operating model. Now that an appropriate grasp of the industry is discussed, it is appropriate to move to Foot Locker's background, reasons, and risks for an acquisition.

Background of Foot Locker, Inc

Foot Locker is an internationally recognized sneaker and youth culture brand around the world, according to the FL's 2021 10-K form. As of January 30th, 2021, Foot Locker operated just under three thousand mall-based stores and high traffic urban retail stores across twenty-seven countries across the world according to its form 10-K (Foot Locker, 2021). With a current market capitalization of over four billion dollars, it currently is a market leader in the sports footwear space, and it closely collaborates with footwear manufactures like Nike, Adidas, and New Balance to remain on top of market culture and youth trends. Foot Locker is consistently able to bring in more than seven billion dollars' worth of sales over the past five years. Foot Locker owns several banner subsidiaries, which are Kid's Foot Locker, Lady Foot Locker, Champs Sports, Footaction, Sidestep, and Eastbay.

History

The Modern Foot Locker began in 1963 during an acquisition of the Kinney Shoe Corporation by F.W. Woolworth company. As time progressed, the Foot Locker brand came to be by 1974 through Kinney Shoe Corporation's specialty shoe stores. Kinney Shoe Corporation changed its name in 1998 to "Venator Group, Inc." And as time progressed the Foot Locker division came to account over 70% of sales. By November 2, 2021, the Venator Group changed its name to Foot Locker, Inc.

In 2004, Foot Locker acquired Footaction USA for a purchase price of \$350 million (Retail Wire, 2004). At the time of the acquisition, Footaction had around 350 stores. On April 14 of that year, Foot Locker announced that close 350 of Footaction's stores for around \$160 to expand into urban areas instead. The Footaction acquisition cemented Foot Locker's position as an urban sneaker centered business. In recent times, Foot Locker celebrated their 100th year on trading on the New York Stock Exchange and is a Fortune 500 Company, ranked 446 of 500 in 2011, and 435 in 2012 (CompanyHistory, 2021).

Recent Acquisitions & Investment Activity

Exhibit 4 offers a great perspective on the recent investment activity of Foot Locker from mergers and acquisitions to private placements. Foot Locker's most recent Acquisition was of Japanese Cool for just above three million dollars in August of 2021. Furthermore, Vista Equity Investment purchased a 6% of Foot Locker's common stock in May of 2020.

Famous Products and Initiatives

Famous Products

Foot Locker offers a variety of products through many of their stores. Although they specialize in athletic shoes, they offer a variety of other products such as tee-shirts, athletic shorts, and accessories. They carry many different labels or stock keeping units (SKUs) from multiple different firms. These firms include:

- Adidas
- Birkenstock
- Champion
- Converse
- Diadora
- Hunter
- Asics
- Brooks
- Columbia
- Crocs
- Fila
- Jordans

- K-Swiss
- Mizuno
- Nike
- Reebok
- Umbro
- Vans
- Malibu
- New Balance
- Puma
- UGG
- Under Armor
- And many more

Each of the firm's listed above are suppliers to Foot Locker's footwear offerings. But Foot Locker has many other firms and their own proprietary brand that sells apparel in their online and brick and mortar stores.

Additionally, the company owns multiple brick and mortar brand labels, including Lady Foot Locker, Kids Foot Locker, Champs Sports, Eastbay, Footaction, and Sidestep. Each of these stores specialize in their own respective style of footwear from athletic to casual. (Foot Locker, 2021)

Current initiatives

Foot Locker is looking to achieve three goals moving forward: (1) engage the community around present stores, (2) stay relevant with consumers, and (3) move away from mall locations to other high traffic sites.

Part of Foot Locker's success comes from being the center of sneakerhead culture. Part of that includes having a deeper connection with the communities that it serves. They are looking to leverage a concept called the power store format, which is a not just a store but a community hub that brings individuals together and showcases local talent. In late 2020, Foot Locker launched the first power store in Compton, Los Angeles.

Foot Locker has a long history of in person stores. However, retail businesses are looking to develop their direct-to-consumer business. Foot Locker is looking to expand its investments in firms like GOAT and StockX. It recognizes the competition in these firms but is looking to expand these businesses and potentially acquire them further down the line. Additionally, there are several incubator incentives, one of which is called Greenhouse. Launched in 2019, the initiative is "a development platform to build and cultivate new relationships [with designers], new initiatives, new brands and new ideas, all while looking at what they could be in the future as opposed to what they are today" as quoted by Jed Berger, the CMO of Foot Locker (Indigo9 Digital, 2021).

Finally, Foot Locker is looking to remove itself from malls and move into other high traffic in-person sites. Out of its three thousand stores around 80% of them are in or near malls (Foot Locker, 2021). Foot Locker is looking to leverage their power store concept and position themselves near relevant foot-traffic areas to increase visitations into brick-and-mortar stores.

Reason for Acquisition of FL

As mentioned previously, the purpose of a private equity firm is to acquire a firm for financial gain. Therefore, there are not any forms of synergies that a private equity firm can take immediate advantage of without previous acquisitions in its portfolio of companies. Foot Locker is an attractive investment, but it is valuable to extrapolate why that it is the case.

Foot Locker is the leader in facilitating sneaker-head culture

Foot Locker is currently the market leader in retail shoe sales. This is in comparison to companies such as Designer Brands, Caleres, Steven Madden, and Skechers. However, even in relation to its suppliers, Foot Locker is relatively small. Foot Locker has attracted a strong relationship between several key suppliers like Nike and Adidas. For example, Nike makes up around 47% to 82% of their merchandise according to Foot Locker's form 10-K (Foot Locker, 2021). Individuals are keenly aware to the release date of various sneakers and pursue Foot Locker as an avenue for purchasing these specialty shoes (Hernandez, 2022).

Foot Locker has underperformed compared to the market and its peers

Historically, Foot Locker has underperformed in the market and underperformed other two noteworthy companies, Dick's Sporting Goods and Nike. It is valuable to see how Foot Locker performed through the past years across December 22, 2014 to December 21, 2021. After collecting the end of week data from Yahoo Finance, one can look to see how that money would have grown in each stock. The visual aid is listed in exhibit 5. If one were to hold one hundred dollars in each of these stocks, the value of Nike at the end of the period is \$349, the value of Dick's Sporting Goods' is \$248.03, the value of the S&P 500 ETF SPY is \$248.64, and the value of Foot Locker's is \$84.79. Holding Foot Locker would have resulted in investors losing money over the 7-year holding period.

In relation to the S&P 500, the firm has underperformed that index on average by 0.12% per week. Furthermore, when analyzing a supplier like Nike, Foot Locker has not done well either. It underperformed by -0.26% per week. Looking at a directly comparable company that specializes in sporting goods, Dick's Sporting Goods, Foot Locker has underperformed by 0.31%. There do not appear to be a lot. However, this underperformance compounds through time. Foot Locker out of the sample is the only firm that lost an investor money.

So why were the S&P 500, Nike, and Dick's Sporting Goods chosen within the sample? Firstly, the SPY, an ETF that tracks the S&P 500, serves as a standard index to hold an investor's money. It can be classified as market returns. Nike is a key supplier of Foot Locker and has consistently been in the position as a key supplier. Nike has consistently outperformed the S&P 500; the most pertinent question is why Foot Locker has not received a similar reward. Foot Locker has been able to consistently sell Nike shoes and it serves as an opportunity for sales from Nike. There is an interesting opportunity for Foot Locker to either diversify away from Nike or create some form of value in collaboration with Foot Locker. Dick's Sporting Goods sells various sports sneakers in addition to various sporting supplies. Foot Locker has not nearly provided the returns that Dick's Sporting Goods has done in the past. The returns of Dick's Sporting Goods serve as a good proxy for the valuation that Foot Locker could achieve.

Foot Locker has areas of improvement

Supply Chain

The pandemic has posed several constraints on ports and even caused various lockdowns

across the world, which lock up the production process of athletic shoes in Asia for example. The congestion of ports into the United States has adversely affected Foot Locker according to its form 10-K (Foot Locker, 2021). Direct supply chain constraints are negatively affecting Foot Locker's margins, which can be expanded, and Foot Locker's cost structure can be optimized. As discussed in the recommendation section, Foot Locker must use the pandemic as an opportunity for omni-channel innovation and physical transformation. Firstly, they can inject innovative solutions to service their customer experience by building partnerships. A great feature is that they already use the BOPIS form of fulfillment, but there is room for improvement in other areas. Secondly, Foot Locker can transform in-store operations and maximize the online presence to bolster the bottom line. As the online segment grows, the firm can implement dark-stores to complement online growth.

Predictive Analytics & Data Control

Foot Locker has a minimal capability for predictive analytics compared to other firms like Target that was able to predict pregnancies before announced by parents (Kuhn, 2020). Although Foot Locker has legacy system that tracks customer traffic and engagement, it was implemented in 2012 (Bertolucci). 2012's technology is far away from the computational power of today's technology. Potential for increasing the workforce that specializes in data analysis and increasing the IT infrastructure is something that Foot Locker can take advantage of.

Other

Planned initiatives that were discussed in Foot Locker's initiative's section could be implemented upon new management and are viewed as a correct step to assist the firm's overall profitability.

Foot Locker's Candidacy as an LBO Candidate

As discussed in the exemplary acquisition characteristics section, businesses need to mimic these characteristics or unfavorable risk is introduced. Below are the requirements explained in relation to Foot Locker as a business:

- Foot Locker has strong and predictable operating cashflows. Over the past four years Foot Locker's cash provided from operations has hovered around \$750 million per year.
- The firm operates in a mature industry that is a bit boring, even.
- Foot Locker is a well-established business and has a majority of market share in both the footwear industry and the sports apparel industry as well, see exhibit 2 for more information.
- The company has around 2.5% capex from 2013 to 2020 and has minimal R&D expenses (Bloomberg, 2021).
- The firm's working capital, current assets (excluding cash) minus current liabilities (excluding debt), have hovered around 800M for the past 8 years since 2013 (Foot Locker, 2021).
- Foot Locker has a large asset coverage base in terms of properties, plants, and equipment with around 3.5 billion dollars in 2021 (Foot Locker, 2021).
- The firm has certainly become undervalued and fallen out of favor as listed in exhibit 5.
- Foot Locker has a skilled management team with tenured individuals with over 30+ years of experience from Coca-Cola and other publicly exchanged firms (Foot Locker, 2022).
- The other two requirements are subjective and are potentially the issues with the deal.

Potential Risks and Downsides of Foot Locker Acquisition

The acquisition of a firm is never a sure purchase and does not assure a positive return on investment, discussed below are several risks of the Foot Locker acquisition:

Incredible Competitiveness of the Retail Footwear and Apparel Industry

The footwear industry is incredibly competitive as described by IBIS World. The firm must position themselves to maximize customer value and foster loyalty with the customers. Foot Locker has done an incredible job of this already, however the inability to service specific needs will negatively harm the business.

Change of Relationship with Key Suppliers

As Foot Locker purchases most of the shoes from wholesalers or directly from manufactures and does not have any rights over the distribution of the athletic shoes, Foot Locker can be negatively impacted if a supplier decides to stop serving Foot Locker completely. Even though that this is incredibly unlikely, this is something that needs to be considered and managed very well during the acquisition.

Inability to Adapt their Supply Chain and Technology to Current Standards

As described in the industry research section, Foot Locker must leverage current supply chain strategies and current technologies. Inability to implement these technologies will provide the company with a poor position.

The Coronavirus Pandemic

Even though that the coronavirus pandemic has a much less severe hold on economy, unexpected variants or various unexpected factors could emerge. Whether it is lockdowns in countries that manufacture the primary goods or congestion in the ports, the best way to combat it is to be vigilant and leverage core capabilities.

Ongoing Litigation

Foot Locker has an ongoing litigation in relation to its pension plan (Polk, 2021). Although the firm plans to contest the case going forward, the case has the potential for the firm to lose at a minimum of \$290M (Larson, 2018). This amount must be factored into the acquisition price.

Other Potential Issues

As stated before two potential issues with the acquisition of Foot Locker can come in the form of the current shareholders not being motivated to sell the business and the lack of a viable exit strategy. Foot Locker is a large business and finding a firm that will purchase Foot Locker after the acquisition can be challenging. It is unlikely that a firm that specializes in athletic footwear or sports apparel could be a buyer over concerns of monopoly. The other difficulty lies in the current shareholders selling their ownership in the business. As this is a public deal, existing shareholders might not be interested in giving up their ownership in Foot Locker. Acquisitions are already incredibly tricky and adding the element of a public acquisition can be the potential for the deal to not materialize.

Valuation, Football Field, & LBO Analysis

Now that a thorough understanding of why the deal is taking place, the industry research, and the purpose of a private equity firm have been discussed it is to move to the valuation of Foot Locker. Valuation is done in four ways, in order of appearance, the LBO analysis, the DCF analysis, comparable company analysis, and precedent transaction analysis. Two financial statements for the LBO analysis and the DCF will be provided, but other schedules and underlying will be listed at the end. The date of valuation is 12/20/2021 and the closing share price of that day was \$39.68. All models are projected from 2021 to 2026. It is important to note that the fiscal year end for Foot Locker is the last Friday of January. They release financial statements in the following year to cover the previous year's earnings and is done to capture holiday sales. Now to move into the LBO Analysis

LBO Analysis

This section provides insight into the LBO analysis, which is the primary driver of what Plutus Group can get out of the acquisition of Foot Locker. My fictional Private Equity Firm Plutus Group will pursue the Foot Locker acquisition.

Assumptions: Capital Structure and Sources & Uses of Cash

In this section there are two important assumptions that need to be discussed: the proposed capital structure and the sources and uses of cash in a deal.

Proposed Capital Structure and Deal Structure – Exhibit 6

The Foot Locker deal by Plutus Group must have two elements structured into it as they stem from a similar cause: (1) the deal must be structured as an asset deal and (2) The premium attached must cover the potential liability expense of the pending lawsuit against Foot Locker.

During 2018, Foot Locker had a class action lawsuit filed against them, which Foot Locker looks to overturn going forward (Larson, 2018). Foot Locker has a potential \$290 million dollars that can be lost in the future. The purpose of the asset deal is to allow for Plutus Group select with asset and liabilities should be transferred during the acquisition (Macabacus, 2019). This comes at the cost of increased time in negotiations between various parties. To encourage the process Plutus has structured a premium to cover future litigation expenses.

The deal will be structured off a 30% premium and the acquisition will take all existing debt obligations and leases into the new company. Furthermore, the debt included in the transaction will total to 3.6 billion. Leading to a near 70% debt to 30% equity split and is well below the range of the Debt/EBITDA ratio (3.2x) which will attract the attention of regulators. The transaction yields an EV/EBITDA ratio of 4.8 x and an implied value per share of \$49.57, which is around 24% above the current share price of \$39.96.

Sources & Uses of Cash – Exhibit 7

Within a private equity deal the private equity firm wants to alter the capital structure of the firm and eliminate previous forms of claims onto the firm. The firm is looking to raise a \$1,750 million in equity, \$1,373 million in subordinated debt (which function like corporate bonds), and \$2,196 million in senior debt. The capital raised intends to pay back various claim holders within the organization as well as provide necessary capital to the to complete the transaction. The new capital structure will keep a hold of all operating leases and finance leases.

Income Statement Forecast

In Exhibit 8, the firm is expected to have both an increase in earnings and a decrease of direct costs through the cost of sales line item. It reflects Plutus Group's ability to find operational changes through the past Foot Locker initiatives and the McKinsey and Co recommendations for retailers. There are two other important areas to consider: the change of SG&A from the historical average and the increase of interest expense. During an ownership change, it is incredibly important to retain and attract top talent to increase value of the firm. The model factors in an increase in this expense line item to make sure that Foot Locker is getting access to a skilled work force. The other important change comes in the increase of interest expense. As an LBO requires a great amount of debt, the interest is slowly expensed and decreases as time goes forward.

The post-acquisition revenue projections and post-acquisition operating projections are listed in Exhibit 9 and Exhibit 10, respectively.

Balance Sheet Forecast

Balance Sheet Adjustment

As displayed in Exhibit 11, Plutus Group must take the pre-closing balance sheet and convert it to reflect the effects of the acquisition. The effects of the acquisition include various uses of cash, wiping existing retained earnings and paying off existing equity owners, and completely paying off existing interest-bearing debt.

Balance Sheet

Plutus Group is projected to find operational enhancements to Foot Locker. These operational enhancements have a positive effect of keeping working capital. Furthermore, the primary goal of debt repayment is achieved through the operational changes exiting out of the total senior debt obligations by the fifth year. Furthermore, during the period the revolver was never drawn into to assist with cashflow issues as shown in Exhibit 12.

The post-acquisition working capital projections, post-acquisition other projections, post-acquisition depreciation and amortization schedule, post-acquisition dividend and debt repayment schedule, and the statement of cash flows are listed in Exhibits 13 through 17 respectively.

Exit Analysis

Based off the traditional holding period of a private equity firm (which is 5 years) and the potential exit multiples which are based on the following section's DCF, comparable companies, and precedent transactions. The firm is most likely to be sold at an internal rate of return of anywhere from 32% to 39%. This is extremely good as the target rate for PE firms are generally 20% to 25% (Tuck School of Business, 2003). Furthermore, if the holding period is increased the equity holders can receive dividends from the firm in the final year. The accompanying exhibit for this section is exhibit 18. Overall, this is an attractive deal for Plutus Group and its limited partners.

DCF Valuation

A discounted cash flow valuation is used to find the fair value of a firm. For the sake of this honors thesis, the DCF analysis is used as a sanity check to make sure that the purchase price in the LBO model is a rational price. As a reminder the date of valuation is 12/20/2021 and the closing share price of that day was \$39.68. All models are projected from 2021 to 2026.

The operating model in Exhibits 19-31 assumes that Foot Locker is, optimistically, going to be able to address some woes that they are currently having with supply chain constraints and achieve the goals that they set out for themselves. The operating model drives free cash flow calculations that is used to articulate a proper valuation for the firm.

Free Cash Flow Calculations

As listed in Exhibit 32, unlevered free cash flow is the primary metric to value a business and discounting these values at an appropriate weighted average cost of capital. In terms of figuring out the unlevered free cash flow. One must take EBIT and find the net operating profit after tax, from there add depreciation and amortization, add stock-based compensation, subtract changes in net working capital and subtract capital expenditures. From there one can discount each value to the present by appropriately using an adjustment factor.

Weighted Average Cost of Calculation

$$WACC = \left(\frac{E}{V} * Re \right) + \left(\frac{D}{V} * Rd * (1 - Tc) \right)$$

The previous table provides the opportunity to achieve a proper discount rate relative to other firms in the market. The discount rate as portrayed by the weighted average cost of capital reflects the risk and the capital structure of the firm, thus the higher the WACC the greater the risk and the lower output value. (Ross, 2022). WACC is rooted in the Capital Asset Pricing Model.

These are the individual parts of the calculation of WACC in the previous table:

1. The formula's parts are defined as
 - a. E = Market value of the firm's equity
 - b. D = Market value of the firm's debt
 - c. V = E + D
 - d. Re = Cost of Equity, best thought of the opportunity cost of holding the equity
 - e. Rd = Cost of Debt, the effective interest rate of the firm
 - f. Tc = Corporate tax rate
2. Cost of equity can be decomposed as the risk-free rate, the market risk premium, and beta:

$$Cost\ of\ Equity = Rf + (\beta * [E(Rm) - Rf])$$

- a. The risk-free rate on the date of valuation was 1.85%, this is the 'risk-free' investment of the United States and is the return of the 30-year treasury bond issued by the US government (US Treasury Department).
- b. Beta measures the systematic risk that Foot Locker bears and how it moves with the market. It is 1.195 times more volatile than the market. (Bloomberg,

- 2021).
- c. The market risk premium is the additional risk an investor must be compensated for by participating in the market instead of investing in the risk-free rate. The risk premium attached to Foot Locker is 8.5% (Bloomberg, 2021).
 3. Cost of debt is the effective interest rate on the firm and is calculated to be 5.1%.
 4. After the cost of equity and debt are figured out, each part is inserted into the formula and the ending value of WACC is: 8.27%.

Present Value of Free Cash Flows and Value per Share

Two methods for finding value per share are used: (1) the perpetuity growth method and (2) the EBITDA multiple method. The perpetuity growth method involves taking the final unlevered free cash flow of the firm and projecting it out to infinity. The EBITDA multiple method uses a multiple of EBITDA to predict the terminal value. Both values provide an appropriate ballpark for the firm's value.

The perpetuity growth model after finding the equity value of Foot Locker leads to a value per share of around \$44.29, with an implied exit multiple of 11.1x. While the EBITDA multiple method derives the value per share of around \$21.44. The calculations are listed in Exhibit 33.

Comparable Company Analysis & Precedent Transaction Analysis

There are two additional forms of valuation that need to be considered to create a football field for valuation, which are comparable company analysis and precedent transaction analysis.

Comparable Company Analysis – Exhibit 34

Comparable company analysis finds multiple firms that are like the firm that one is looking to value. As discussed previously, firms that sell shoes, athletic shoes, and athletic apparel are great comparisons to Foot Locker. The goal of this methodology is to compare important line items and create a relative valuation that one can compare from firm to firm. An appropriate EV to EBITDA ratio for the industry is around 6.5x with a high and low of 13.6x and 5.2x, respectively.

Precedent Transaction Analysis – Exhibit 35

Precedent transaction analysis finds multiple transactions that are executed in a similar industry to the target company. It was incredibly difficult to find comparable transactions as there are not many transactions in the shoe business. Thus, the industry was expanded to retail chain stores. The goal of this methodology is to find valuable transactions to hone into an appropriate valuation for the transaction. This will be the least valuable form of methodology as there is insufficient data.

Football Field

Exhibit 36 lists a football field to derive a proper price for Foot Locker. A football field is a metric to provide an analysis of a most likely price for the firm by visually comparing the results of the three methodologies: discounted cash flows, comparable company analysis, and precedent transactions. Furthermore, the valuation provided by the stock market coming from the 52-week high and low is implemented into the football field.

The results of the football field include the discounted cash flow analysis being the most precise with a variance of \$22.86 dollars. The 52-week high/low being the second most accurate with a variance of \$26.72 dollars. The precedent company transaction being the third most accurate with a variance of \$47.99. And the comparable company analysis being the least accurate with around \$85.60 of variation.

The analysis results make sense as both the comparable company and precedent transaction analysis have the most amount of data and least amount of data respectively. Furthermore, the discounted cash flow and the 52-week high/low data have the least amount of variation as they both have a great amount of data behind the inputs to the values.

Pitchbook

The following images are the various slides in the pitch-book:

Slide 1



Foot Locker









Sneakers, Covid-19, & LBOs

– A Buyout of Footlocker –

Alexandre Tilly
Honors Finance & Supply Chain Management
May 2022















1

Slide 2

Contents

Foot Locker

1. [Title](#)
2. [Contents](#)
3. [Foot Locker Overview](#)
4. [Industry Overview](#)
5. [Executive Overview](#)
6. [Criteria for Selection](#)
7. [Stock Performance](#)
8. [Strategic Rationale for Sale](#)
9. [Summary Post-Acquisition Financial Forecast](#)
10. [Sources & Uses of Funds](#)
11. [LBO Model Value Drivers](#)
12. [IRR & MOIC Analysis](#)
13. [Discounted Cash Flow](#)
14. [Comparable Company Analysis](#)
15. [Precedent Transaction Analysis](#)
16. [Football Field](#)
17. [Overall Transaction Analysis](#)
18. [Other Considerations](#)
21. [Appendix](#)



2

Slide 3

Foot Locker

Foot Locker Overview

Summary

- Headquarters: New York, New York
- Brief History:
 - The modern Foot Locker began as F.W. Woolworth company purchased Kinney Shoe Corporation in 1963.
 - US retail leader in shoe sales, and currently on the NYSE as FL
- Business Model:
 - Purchase athletic shoes and sneakers from wholesalers. After the purchase they send it in store or direct to consumer.
 - Foot Locker has other means of apparel sales.
- Core Business Segments:
 - Foot Locker, Inc
 - Kid's Foot Locker
 - Lady Footlocker,
 - Champs Sports,
 - Sidestep, and
 - Eastbay
- Famous Brands & Partnerships: Nike, Adidas, Vans

Financial Performance

| Income Statement (\$millions, except per share amounts) | 2017 | 2018 | 2019 | 2020 |
|---|--------|--------|--------|--------|
| Sales | 57,782 | 57,939 | 58,005 | 57,548 |
| Cost of sales | 5,326 | 5,411 | 5,462 | 5,305 |
| Gross Profit | 2,456 | 2,528 | 2,543 | 2,183 |
| Selling, general and administrative expenses | 1,501 | 1,614 | 1,650 | 1,587 |
| Depreciation and amortization | 173 | 178 | 179 | 176 |
| Impairment and other charges | 211 | 37 | 65 | 117 |
| Income from operations | 571 | 699 | 649 | 303 |
| Interest (expense) income, net | 2 | 9 | 11 | (7) |
| Other income, net | 5 | 5 | 12 | 198 |
| Income before income taxes (EBT) | 578 | 713 | 672 | 494 |
| Income tax expense | 294 | 172 | 181 | 171 |
| Net income | \$284 | \$541 | \$491 | \$323 |

Trading Overview

| Capitalization | |
|---------------------------------|-------|
| Date: 12/20/2021 | |
| Currency | USD |
| Share Price | 39.68 |
| Shares Outstanding | 104.3 |
| Market Capitalization | 4,139 |
| - Cash & Short Term Investments | 1,680 |
| + Total Debt | 3,189 |
| + Preferred Equity | - |
| + Total Minority Interest | 337 |
| = Total Enterprise Value (TEV) | 5,985 |
| Book Value of Common Equity | 2,776 |
| + Preferred Equity | - |
| + Total Minority Interest | 337 |
| + Total Debt | 3,189 |
| = Total Capital | 6,302 |

Source: Foot Locker, Inc 2021 Form 10 - K & Capital IQ

Slide 4

Foot Locker

Industry Overview

Analysis: The athletic shoe market is very developed experiencing renewed interest. It has a mature outlook and is driven by athletic participation, athleisure, and the health consciousness among consumers. Revenue is forecasted to grow around 1.2% to \$18,0 billion in 2026.

Indicative Industry Life Cycle

Change in Share of Economy (%) vs Growth in Number of Establishments (%)

Regions: MATURITY, QUALITY GROWTH, QUANTITY GROWTH, DECLINE

Athletic Shoe Stores are positioned in the MATURITY region.

Industry Outlook 2021-2026

| Year | Percentage (%) |
|------|----------------|
| 21 | ~3.2 |
| 22 | ~0.8 |
| 23 | ~1.0 |
| 24 | ~1.1 |
| 25 | ~1.2 |
| 26 | ~1.2 |

- Due to the pandemic, there will be a large amount of growth in 2021.
- The industry will see standard mature growth through 2022-2026.
- Male athletic shoes make up a majority of products.

Products and Services Segmentation

| Category | Percentage (%) |
|------------------|----------------|
| Men's shoes | 51.1% |
| Women's shoes | 19.0% |
| Children's shoes | 15.2% |
| Other | 14.7% |

2021 INDUSTRY REVENUE: \$17.0bn

- The athletic shoe market is incredibly mature and incredibly consolidated.
 - Concentrated around 2 major firms: Nike & Foot Locker.
- Competition is very high as brand is one of the main points of differentiation. Firms in this space were negatively affected by the 2020 Coronavirus pandemic.

Source: IBIS World

Slide 5

Executive Overview



Leadership Team

Board of Directors

- Served since 1993.
- Led almost all Foot Locker businesses in US and internationally.
- Prior he worked at Graebel Van Lines, General Motors, Electronic Data Systems, and Wausau Insurance.

“Dick” Richard A. Johnson



Chairman, President & Chief Executive Officer

- Joined April 2021
- Specializes in enterprise optimization for stakeholder and shareholder value.
- Prior, he worked at Under Armour, FTI Consulting, AES Corporation, and General Electric.

Andrew E. Page



Executive Vice President & Chief Financial Officer

- Joined in November 2021
- Specializes in omniscustomer experience
- Prior, he worked within Foot Locker (Champs & WSS) & has experience in the Coca Cola Company and the Miller Brewing Company.

Franklin R. Bracken



Executive Vice President & Chief Operating Officer

- Significant governance, legal & financial experience.
- Has exposure to mergers & acquisitions, risk management, financial reporting.
- Member of supervisory board, the risk committee and more.

Dona D. Young



Board of Directors, Lead Director



Source: www.investors.footlocker-inc.com/executive-leadership

5

Slide 6

Criteria for Selection



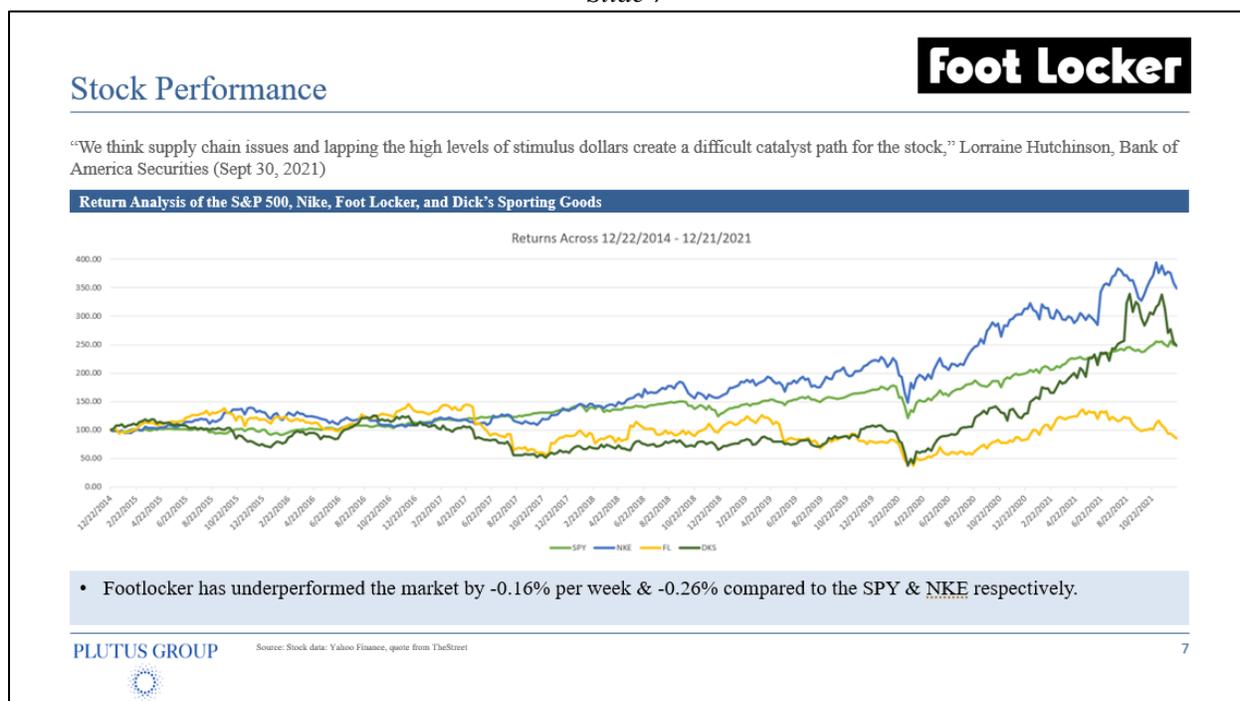
| Criteria | Purpose |
|-----------------------------|---|
| Public Company | For the sake of the honors thesis, a worthy private equity target must be publicly exchanged. Financial disclosures are required for public companies listed on a stock exchange. |
| Low EV / EBITDA | Known as the acquirer’s multiple, it indicates if a firm is undervalued or overvalued. |
| Mature Business | It serves to assure that a stable market will exist for the business in the next 5 to 10 years. |
| Stable Sales | It is important to find a business with stable and even growing sales. Minimization of revenue volatility is important to service the debt in an LBO transaction. |
| Stable Cash Flows | The ability to service other needs of a business is a key characteristic for an LBO transaction. It considers working capital requirements and stable cash on hand to service debt. |
| Multiple Avenues for Growth | All businesses can be optimized in one way or another. However, predefined methods to create value for the firm can satisfy equity holder return requirements. |
| Low Capital Requirements | The firm must not have too much of its working capital be tied to accounts receivable, inventory, or accounts payable. |
| Strong Management Team | The management team serves to provide an adequate knowledge base to the existing firm and can guide the firm with new hires through post acquisition. |



Source: <https://macabacus.com/valuation/lbo/overview>

6

Slide 7



Slide 8

Foot Locker

Strategic Rationale for Sale

| LBO Candidate Characteristics | Foot Locker, Inc |
|------------------------------------|--|
| Market Leader in Industry | Foot Locker is a recognizable name and is one of the largest against comparable. |
| Undervalued compared to Peers | Comparable median EV/EBITDA: 6.9x, Foot Locker: 5.7x & Book to Market: 0.62. |
| Mature Industry | The athletic shoe market & sneaker has consistent and predictable revenue streams. |
| Stable Revenue & Cash flows | Cash flows from Foot Locker have hovered around \$750 million per year |
| Strong asset Coverage | The firm sits on \$771 million on PP&E. |
| Opportunity for Margin Improvement | Compared to peers, Foot Locker has suppressed margins |
| Working Capital Requirements | Lower compared to the industry |
| Low Capex Requirements | Current capital expenditure spend is around 2% of revenue |
| Management Ability | Competent and experienced management team |

PLUTUS GROUP 8

Slide 9

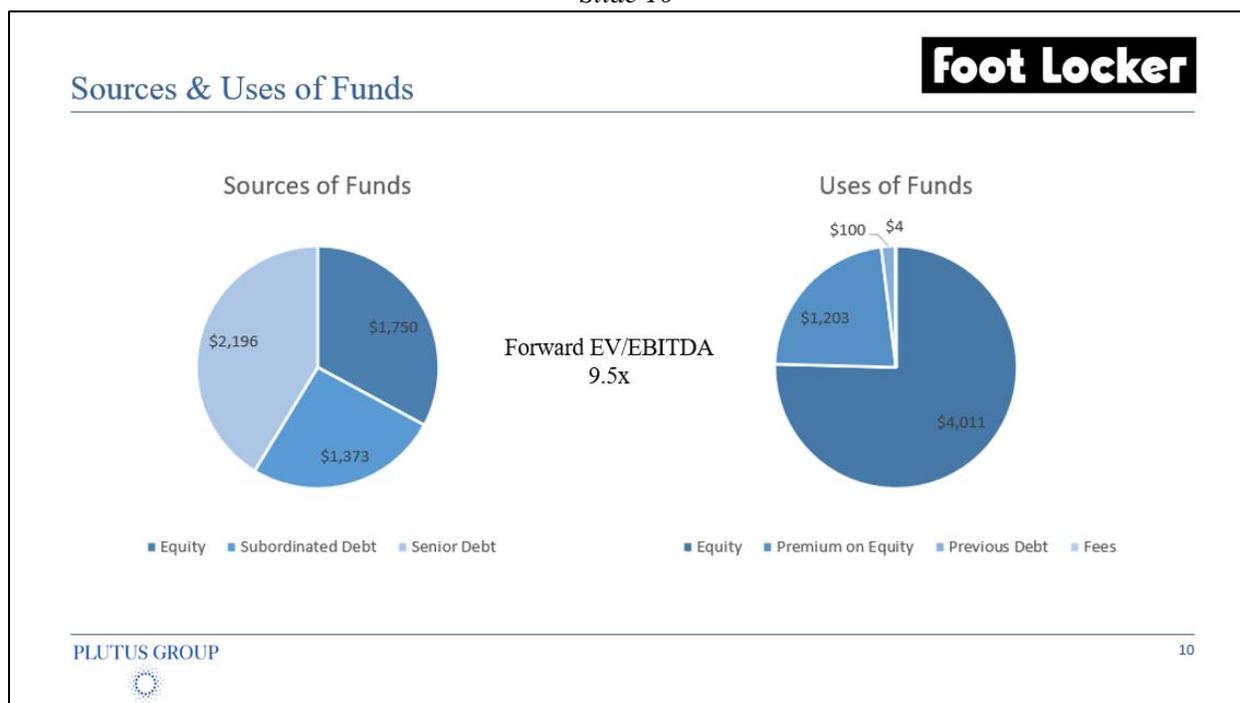
Foot Locker

Summary Post-Acquisition Financial Forecast

| Projected Income Statement after Acquisition (\$millions) | 2020 - Closing | 2021 - P | 2022 - P | 2023 - P | 2024 - P | 2025 - P | 2026 - P |
|---|----------------|----------|----------|----------|----------|----------|----------|
| Athletic Store Sales | \$5,447 | \$6,918 | \$7,229 | \$7,518 | \$7,819 | \$8,093 | \$8,376 |
| Direct to Customer | 2,101 | 2,080 | 2,132 | 2,175 | 2,218 | 2,251 | 2,285 |
| Total Sales | 7,548 | 8,998 | 9,361 | 9,693 | 10,037 | 10,344 | 10,661 |
| Cost of Sales | (5,365) | (5,938) | (6,085) | (6,203) | (6,323) | (6,413) | (6,610) |
| Gross Profit | 2,183 | 3,059 | 3,276 | 3,489 | 3,714 | 3,931 | 4,051 |
| SG&A | (1,587) | (1,935) | (2,013) | (2,084) | (2,108) | (2,172) | (2,239) |
| Depreciation & Amortization | (176) | (282) | (293) | (303) | (313) | (322) | (332) |
| Other | 117 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Income | 303 | 843 | 971 | 1,103 | 1,293 | 1,436 | 1,481 |
| Interest (expense) income, net | (7) | (323) | (288) | (253) | (217) | (182) | (165) |
| Other income, net | 198 | 2 | 2 | 2 | 2 | 2 | 2 |
| Income before income taxes (EBT) | 494 | 522 | 685 | 852 | 1,077 | 1,256 | 1,318 |
| Income tax expense | (171) | (149) | (196) | (243) | (308) | (359) | (376) |
| Net income | \$323 | \$373 | \$489 | \$609 | \$770 | \$897 | \$942 |
| EBIT | 303 | 843 | 971 | 1,103 | 1,293 | 1,436 | 1,481 |
| EBITDA | 1,098 | 561 | 678 | 800 | 979 | 1,114 | 1,149 |


9

Slide 10



Slide 11

Foot Locker

LBO Model Value Drivers

| Current Key Company Initiatives | Market Leader and Under-Performing Compared to Peers |
|---|---|
| <ul style="list-style-type: none"> • Engage the Community Around Present Stores. <ul style="list-style-type: none"> – Foot Locker wants to create a deeper connection to the community it serves → power store format • Stay Relevant to Consumers. <ul style="list-style-type: none"> – Focus on the direct-to-consumer revenue stream with investments. • Move away from mall locations to high traffic sites. <ul style="list-style-type: none"> – Network optimization and increase local foot traffic | <ul style="list-style-type: none"> • The retail athletic shoe market and the sneaker market is dominated by Foot Locker. <ul style="list-style-type: none"> – As discussed earlier, Foot Locker’s market performance is mediocre. – Depressed price leads to a more attractive LBO Model – Pressure on management to provide superior returns to shareholders. |
| Operational Improvement | Leading Consultant Recommendations |
| <ul style="list-style-type: none"> • Supply Chain <ul style="list-style-type: none"> – Brick & mortar store optimization – Congestion in ports – Cost structure optimization • Predictive Analytics & Data Control <ul style="list-style-type: none"> – Compared to other firms, Foot Locker does not have strong data analytics <ul style="list-style-type: none"> • The retail industry requires it to remain competitive. | <ul style="list-style-type: none"> • McKinsey & Co recommendation of using the pandemic as a launching point to developing e-commerce and revolutionizing in-store sales. <ol style="list-style-type: none"> 1. Double down on digital 2. Inject innovation into the omnichannel 3. Transform store operations & maximize customer comfort 4. Reimagine the physical network 5. Embrace an agile operating model |

Sources: Foot Locker 2021 Form 10-K, McKinsey & Company
11

Slide 12

Foot Locker

IRR & MOIC Analysis

| | Cash Flow To/From Equity | | | | | | | | | | |
|---------------|--------------------------|----------|----------|----------|----------|----------|-------|----------|------|------|----------|
| | Transaction | 1 | 2 | 3 | 4 | 5 | | | | | 6 |
| | 2020 - Closing | 2021 - P | 2022 - P | 2023 - P | 2024 - P | 2025 - P | | | | | 2026 - P |
| Exit Multiple | | | | | | | | | | | |
| 7.5x | (\$1,750) | 0 | 0 | 0 | 0 | 0 | 7,247 | \$8,619 | 27% | 4.93 | |
| 9.5x | (\$1,750) | 0 | 0 | 0 | 0 | 0 | 9,545 | \$10,918 | 33% | 6.24 | |
| 7.5x | (\$1,750) | 0 | 0 | 0 | 0 | 6,979 | | \$8,352 | 32% | 4.77 | |
| 9.5x | (\$1,750) | 0 | 0 | 0 | 0 | 9,206 | | \$10,579 | 39% | 6.05 | |
| 7.5x | (\$1,750) | 0 | 0 | 0 | 5,534 | | | \$7,346 | 33% | 4.20 | |
| 9.5x | (\$1,750) | 0 | 0 | 0 | 7,493 | | | \$9,305 | 44% | 5.32 | |
| 7.5x | (\$1,750) | 0 | 0 | 3,746 | | | | \$5,997 | 29% | 3.43 | |
| 9.5x | (\$1,750) | 0 | 0 | 5,345 | | | | \$7,596 | 45% | 4.34 | |
| 7.5x | (\$1,750) | 0 | 2,393 | | | | | \$5,084 | 17% | 2.91 | |
| 9.5x | (\$1,750) | 0 | 3,749 | | | | | \$6,439 | 46% | 3.68 | |
| 7.5x | (\$1,750) | 1,075 | | | | | | \$4,204 | -39% | 2.40 | |
| 9.5x | (\$1,750) | 2,196 | | | | | | \$5,326 | 26% | 3.04 | |

12

Slide 13



Discounted Cash Flow

- The unlevered free cashflows of a business are calculated taking conservative consumptions from:
 - The weighted average cost of capital: 6.23%
 - Net operating profit after tax
 - D&A, and
 - Other important expenses

| DCF (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Free Cash Flow Analysis: | | | | | | | | | | |
| EBITDA | 744 | 877 | 1,495 | 1,098 | 962 | 989 | 1,005 | 1,022 | 1,039 | 1,047 |
| EBIT | 571 | 699 | 649 | 303 | 517 | 532 | 543 | 550 | 559 | 563 |
| Free Cash Flow | 30.87% | 24.32% | 24.93% | 34.62% | 28.54% | 28.56% | 28.56% | 28.56% | 28.56% | 28.56% |
| Net Operating Profit After Tax | | | | | 369 | 380 | 386 | 393 | 399 | 403 |
| Depreciation & Amortization | | | | | 293 | 309 | 312 | 316 | 319 | 323 |
| Stock Based Compensation | | | | | 20 | 20 | 20 | 20 | 20 | 20 |
| Changes in net working capital | | | | | 20 | 26 | 4 | 4 | 3 | 15 |
| Capex | | | | | 294 | 300 | 273 | 278 | 270 | 272 |
| Unlevered Free Cash Flow | | | | | 368 | 373 | 399 | 407 | 415 | 424 |
| (Date of Valuation) | 11/20/2021 | | | | | | | | | |
| Period Adjustment Factor | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Period | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 |
| WACC | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% |
| Present Value of Unlevered Free Cash Flow | 365 | 349 | 352 | 337 | 324 | 311 | | | | |

| Perpetuity Growth Method | | EBITDA Multiple Method | |
|--------------------------------------|----------------|-------------------------------------|----------------|
| Long Term growth Rate | 3% | Exit multiple | 8.0x |
| Terminal Value of Unlevered FCF | 435 | Exit EBITDA | 1,047 |
| Terminal Value (TV UCF / (WACC - g)) | 11,651 | Terminal Value (EBITDA * Exit Mult) | 8,379 |
| Present Value of Terminal Value | 8,554 | Present Value of Terminal Value | 6,152 |
| Present Value of Projected Period | 2,038 | Present Value of Projected Period | 2,038 |
| Enterprise Value | 10,591 | Enterprise Value | 8,189 |
| Less: Net Debt | (3,189) | Less: Net Debt | (3,189) |
| Less: Non-Controlling Interest | (5) | Less: Non-Controlling Interest | (5) |
| Less: Preferred Stock | 0 | Less: Preferred Stock | 0 |
| Less: Pension Liabilities | 0 | Less: Pension Liabilities | 0 |
| Less: Capital Leases | (3,079) | Less: Capital Leases | (3,079) |
| Plus: Non-Operating Assets | 0 | Plus: Non-Operating Assets | 0 |
| Plus: Equity in Affiliates | 337 | Plus: Equity in Affiliates | 337 |
| Equals: Equity Value | 4,655 | Equals: Equity Value | 2,253 |
| Diluted Shares Outstanding | 105.10 | Diluted Shares Outstanding | 105.10 |
| Equity Value Per Share | \$44.29 | Equity Value Per Share | \$21.44 |
| Implied Exit Multiple | 11.1x | | |

- Two means of calculating the terminal value of a firm:
 - Long term growth rate:
 - Based of inflation of 2.5%.
 - Exit multiple:
 - The EBITDA multiple is based of an 8.0x (closer to historical).
- Both methods yield enterprise value (the value of the firm including various liability obligations).
- From there subtract out debt, leases, and some other items to get equity value:
 - Perpetuity growth method, equity value per share: \$44.29
 - EBITDA multiple method, equity value per share: \$21.44


13

Slide 14



Comparable Company Analysis

| Comparable Company Analysis (\$millions) | Current Stock Price (\$) | Market Capitalization (\$B) | Enterprise Value | Price/Earnings | | EV/Revenue | | EV/EBIT | | EV/EBITDA | |
|--|--------------------------|-----------------------------|------------------|----------------|-------|------------|-------|---------|-------|-----------|-------|
| | | | | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E |
| Footlocker, Inc (FL) | 39.96 | 4.011 | 6,234.72 | 13.0x | 11.1x | 1.1x | 0.9x | 20.6x | 12.1x | 5.7x | 6.5x |
| Designer Brands, Inc (DBI) | 14.24 | 1.045 | 1,941.46 | (2.1x) | 8.3x | 0.9x | 0.6x | (4.7x) | 9.1x | (17.3x) | 6.5x |
| Genesco, Inc (GCO) | 58.43 | 0.875 | 1,221.95 | (14.7x) | 8.6x | 0.7x | 0.5x | (71.9x) | 8.8x | 6.4x | 13.6x |
| Show Carnival, Inc (SCVL) | 38.70 | 1.090 | 1,123.86 | 69.1x | 7.6x | 1.2x | 0.9x | 45.5x | 5.7x | 11.9x | 5.2x |
| Caleres, Inc (CAL) | 21.08 | 0.803 | 1,588.35 | (1.8x) | 6.0x | 0.8x | 0.6x | (27.1x) | 7.8x | 9.4x | 6.0x |
| Boot Barn Holdings, Inc (BOOT) | 105.26 | 3.117 | 3,376.48 | 52.4x | 17.3x | 3.8x | 2.3x | 38.8x | 13.6x | 21.7x | 12.1x |
| Dicks Sporting Goods, Inc (DKS) | 101.26 | 8.770 | 10,452.20 | 7.3x | 8.6x | 0.9x | 0.9x | 5.1x | 6.8x | 4.4x | 5.5x |
| Steven Madden, Inc (SHOO) | 42.98 | 3.498 | 3,364.13 | 18.4x | 15.4x | 1.8x | 1.6x | 12.3x | 11.7x | 10.4x | 10.9x |
| Sketchers, Inc (SKX) | 40.16 | 6.260 | 7,057.93 | 8.5x | 13.6x | 1.1x | 1.0x | 11.8x | 10.1x | 6.9x | 8.2x |
| High | | | | 69.1x | 17.3x | 3.8x | 2.3x | 45.5x | 13.6x | 21.7x | 13.6x |
| Median | | | | 8.5x | 8.6x | 1.1x | 0.9x | 11.8x | 9.1x | 6.9x | 6.5x |
| Low | | | | (14.7x) | 6.0x | 0.7x | 0.5x | (71.9x) | 5.7x | (17.3x) | 5.2x |

| Operating Statistics | Sales | | EBIT | | D&A | | EBITDA | | EPS | | Gross Margin (%) | |
|---------------------------------|---------|---------|-------|-------|-------|-------|---------|-------|---------|--------|------------------|--------|
| | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E |
| Footlocker, Inc (FL) | \$5,447 | \$6,918 | \$303 | \$517 | \$176 | \$203 | \$1,098 | \$962 | \$3.07 | \$3.60 | 28.92% | 31.02% |
| Designer Brands, Inc (DBI) | 2,235 | 3,125 | (409) | 213 | 297 | 85 | (112) | 288 | (6.77) | 1.71 | 13.90% | 33.20% |
| Genesco, Inc (GCO) | 1,787 | 2,420 | (17) | 139 | 207 | (49) | 190 | 90 | (3.97) | 6.81 | 45.03% | 48.20% |
| Show Carnival, Inc (SCVL) | 977 | 1,298 | 25 | 196 | 70 | 19 | 94 | 215 | 0.56 | 5.09 | 28.66% | 38.90% |
| Caleres, Inc (CAL) | 2,117 | 2,842 | (59) | 203 | 228 | 63 | 169 | 266 | (11.80) | 3.52 | 37.20% | 43.20% |
| Boot Barn Holdings, Inc (BOOT) | 894 | 1,451 | 87 | 248 | 69 | 30 | 156 | 278 | 2.01 | 6.10 | 33.00% | 38.30% |
| Dicks Sporting Goods, Inc (DKS) | 12,293 | 12,116 | 2,035 | 1,548 | 323 | 342 | 2,357 | 1,890 | 13.87 | 11.73 | 31.83% | 35.60% |
| Steven Madden, Inc (SHOO) | 1,866 | 2,084 | 273 | 288 | 52 | 21 | 325 | 309 | 2.34 | 2.79 | 38.65% | 41.10% |
| Sketchers, Inc (SKX) | 6,285 | 7,144 | 598 | 701 | 430 | 157 | 1,028 | 859 | 4.73 | 2.95 | 47.63% | 49.00% |





Dick's Sporting Goods
Founded: 1948
Binghamton, New York



Genesco, Inc
Founded: 1924
Nashville, Tennessee



Skechers USA, Inc
Founded: 1992
Manhattan Beach, CA


Source: Bloomberg
14

Slide 15

Foot Locker

Precedent Transaction Analysis

| Precedent Transaction Analysis (\$millions) - Specialty Stores Transaction (Target/Acquirer) | Transaction Date | Purchase Price | | Net Debt | Earnings | Revenue | EBIT | EBITDA | Equity Value / | | Enterprise Value / | |
|---|------------------|--------------------|------------------------|----------|----------|---------|-------|--------|----------------|-------------|--------------------|------------|
| | | Market Value (\$M) | Enterprise Value (\$M) | | | | | | Earnings (x) | Revenue (x) | EBIT (x) | EBITDA (x) |
| Footlocker, Inc / Vesa Equity Investment S.a.R.L | 5/18/2020 | 2,649 | 5,260 | 2,611 | 209.0 | 7,103 | 396 | 1,596 | 12.7x | 0.7x | 13.3x | 3.3x |
| Macy's Inc / GreenLight Capital, Inc | 1/19/2016 | 11,244 | 18,142 | 6,898 | 995.0 | 26,618 | 2,196 | 3,258 | 11.3x | 0.7x | 8.3x | 5.6x |
| Big Lots, Inc / ESL Investments, Inc | 5/16/2011 | 2,898 | 2,614 | (284) | 219.1 | 2,944 | 354 | 429 | 13.2x | 0.9x | 7.4x | 6.1x |
| DSW Inc / Designer Brands, Inc | 2/8/2011 | 2,169 | 2,169 | 0 | 107.6 | 1,822 | 170 | 218 | 20.2x | 1.2x | 12.8x | 10.0x |
| High | | 11,244.26 | 18,142.26 | | | | | | 20.2x | 1.2x | 13.3x | 10.0x |
| Median | | 2,773.06 | 3,936.61 | | | | | | 12.9x | 0.8x | 10.5x | 5.8x |
| Low | | 2,169.46 | 2,169.46 | | | | | | 11.3x | 0.7x | 7.4x | 3.3x |

- The athletic shoe industry and sneaker industry does not have many transactions since January 1st, 2011.
 - Expansion to the whole specialty retail industry and department style stores.
- Precedent transaction can be incredibly valuable, but it can also be very misleading.
 - Valuable:
 - Based on public information and audit requirements are present for public firms.
 - Realistic valuation since these past transactions were based on defined multiples.
 - Demonstration of bidding trends when the industry is "hot."
 - Misleading:
 - Public data on the transaction can be difficult to access.
 - Rare to find a "pure-play" direct comparable firm and transaction type.
 - Values obtained often vary over a wide range and can be misleading.
 - Incredibly susceptible to market conditions that affect valuation.
- It is best to **avoid** for the sake of the Foot Locker valuation.

Source: Investopedia, 2020 & Standard & Poor's Capital IQ

15

Slide 16

Foot Locker

Football Field

The chart displays four valuation methods for Foot Locker, with the current value of \$39.68 indicated by a red dashed line. The 52-Week High/Low range is \$10,045 to \$39,110. The Comparable Company Analysis shows a range of \$5,710 to \$0.00. The Precedent Transactions method shows a range of \$3,623 to \$0.00. The Discounted Cash Flow Analysis shows a range of \$8,189 to \$21.44.

| Method | High Value | Low Value |
|-------------------------------|------------|-----------|
| 52-Week High/Low | \$39,110 | \$10,045 |
| Comparable Company Analysis | \$85.60 | \$5,710 |
| Precedent Transactions | \$47.99 | \$3,623 |
| Discounted Cash Flow Analysis | \$44.29 | \$8,189 |
| Current Value | \$39.68 | \$39.68 |

16

Slide 17

Foot Locker

Overall Transaction Analysis

| Drivers of Leveraged Buyouts | The Foot Locker Acquisition | |
|---|-----------------------------|---|
| | Driver | Output |
| <ul style="list-style-type: none"> • Acquisition Inputs <ul style="list-style-type: none"> – Price of purchase – Revenue and cash flow stability – Ability to exit • Operational Improvements <ul style="list-style-type: none"> – Revenue expansion – Cost of goods sold reduction • Economic Factors <ul style="list-style-type: none"> – Market timing – Demand for goods – Interest rate environment • Leverage <ul style="list-style-type: none"> – Amount of leverage – Interest rate of outstanding debt | Price of Purchase | Premium: 30% on 33% equity, 6x + returns |
| | Cash flow stability | Stable & predictable, around \$750m per year |
| | Ability to exit | Initial public offering, or strategic buyer |
| | Revenue expansion | ~4% per year, expand in-person & online |
| | COGS reduction | ~62% of revenue, supply chain optimization |
| | Market timing | Undefined impact |
| | Demand for goods | Stable demand, strong competition, optimization |
| | Interest rates | 30-year T-bond: 1.85%, low |
| | Amount of leverage | 67% leverage, 6x + multiple of invested capital |
| | Outstanding debt rates | Sub-debt: 12% & Senior debt: 8% |

PLUTUS GROUP 17

Slide 18

Foot Locker

Other Considerations

| What does this model not analyze? | Future research areas? |
|--|---|
| <ul style="list-style-type: none"> • Alternative measures of financial value <ul style="list-style-type: none"> – Environmental, social, and governance (ESG) improvements – Management incentives – Assumption viability and sensitivity • Long-term growth prospects <ul style="list-style-type: none"> – Financial vs strategic buyer – Bankruptcy • Economic Value Creation <ul style="list-style-type: none"> – Creation of new products or venues for revenue expansion – Strategic partnerships with other firms – Social impact of ESG initiatives • Ethics or historical cases of leveraged buyouts <ul style="list-style-type: none"> – RJR Nabisco, 1989 – Hilton Hotel, 2007 – Energy Future Holdings, 2007 | <ul style="list-style-type: none"> • Interviews with existing industry leaders to discuss pertinent industry issues. • Research on various areas of spend within the organization <ul style="list-style-type: none"> – Procurement costs – Wholesale prices – Logistics prices – Post acquisition salary spend • Relevant private deal analysis • Scenario analysis on the impact of leverage, growth rates, and margins. • Extensive research on returns of private equity firms in the retail sector <ul style="list-style-type: none"> – Comparison of private equity funds through years – Comparison of leverage buyout targets |

PLUTUS GROUP 18

Slide 19

Foot Locker

Questions?

PLUTUS GROUP 

Slide 20

Foot Locker

Appendix

exhibits and additional figures listed in paper, not included in final PowerPoint

PLUTUS GROUP  21

Conclusions & Recommendations

Conclusions

Foot Locker is a firm that specializes in selling trendy athletic shoes. The company is in a mature lifecycle and is the prime position to recapture some of its lost value. If Foot Locker does not take advantage of this opportunity the firm can lose market share and be in a potentially unfavorable position compared to its competitors. Foot Locker can take advantage of its value by doing six things: (1) engaging its community, (2) remaining relevant with consumers, (3) get out of malls, (4) optimizing its supply chain, (5) maximizing its predictive analytics capabilities, and (6) servicing online customers. The first three initiatives come from the company itself, which are very good ideas and should be pursued. However, the last three are ideas that come from outside the firm, Plutus Group. Foot Locker is currently undervalued at \$39.68 per share. Through the DCF analysis the fair value was calculated to be anywhere from \$44.29 to \$21.44. Through the comparable company analysis, the price of Foot Locker could be as high as \$85.60. Through the precedent transaction analysis, the price of Foot Locker could be as high as \$47.99. Foot Locker traded between \$39.10 and \$65.82 through the past 52 weeks. As stated previously Foot Locker can take advantage of its internal capabilities to address future needs. But if it does not take advantage of it other firms will take the customers that Foot Locker spent so much time to foster.

Recommendations

My fictional private equity firm **should** pursue an acquisition of Foot Locker. Foot Locker not only fits most if not all the requirements discussed in exhibit 1, but after conducting an LBO analysis, Foot Locker across the five-year holding horizon will yield anywhere from 32% to 39% of IRR. Additionally, the multiple of invested capital will be anywhere from 4.77 to 6.05. Both numbers are incredibly high for a public equity deal. However, this does not come without its risks. With the opportunity to improve operations comes with the possible deterioration of revenues. The firm operates in a crowded industry where consumer loyalty is incredibly important. As time progresses relationship between key suppliers could change and suppliers could drop Foot Locker altogether. There could be the inability to successfully adapt to the modern supply chain or technology standards. Or various new waves of the pandemic can come around and inhibit operations or provide more supply chain constraints. Considering all of these possibilities the recommendation remains a positive one towards the acquisition of Foot Locker.

Exhibits

Exhibit 1: Private Equity Exemplary Acquisition Characteristics

| Characteristic | Decomposed Meaning |
|---|--|
| Strong, predictable operating cash flows with the leveraged company that can service and pay down acquisition debt | <ul style="list-style-type: none"> The target firm has reliable cash coming into the business after servicing all other obligations so that it can pay down the debt and the interest on that debt. |
| Mature, steady (non-cyclical), and perhaps even boring | <ul style="list-style-type: none"> The business and products/services that it is selling have existed for a long time and they are consumed on a frequent basis. |
| Well-established business and products and leading industry position | <ul style="list-style-type: none"> The firm is not in a distressed position (too many costs or not enough revenue) and possesses market power in its industry. |
| Moderate CapEx and product development (R&D) requirements so that cash flows are not diverted from the principal goal of debt repayment | <ul style="list-style-type: none"> The firm does not spend too much cash on replenishing its fixed assets like property, plants, or equipment. Furthermore, its research and development do not make the lion's share of expenses; cash should be used to cover the large debt. |
| Limited working capital requirements | <ul style="list-style-type: none"> The firm must not have its capital be held in short-term non-liquid capital like accounts receivable and be transformed into cash or longer-term capital accounts. |
| Strong tangible asset coverage | <ul style="list-style-type: none"> In the event of default or distress, lenders can liquidate capital to satisfy their debt. |
| Undervalued or out-of-favor | <ul style="list-style-type: none"> Partially to assist with the price paid on a company and to assist in the sell price after the holding period. |
| Seller is motivated to cash out of his/her investment or divest non-core subsidiaries, perhaps under pressure to maximize shareholder value | <ul style="list-style-type: none"> The seller of the business has a motivation to sell the business and not stop the acquisition process. |
| Strong management team | <ul style="list-style-type: none"> A catch all to make sure that there aren't any red flags during ownership and a potential base to retain target firm leadership talent. |
| Viable exit strategy | <ul style="list-style-type: none"> Provides the acquirer to think about a route of selling the firm to allow investors of the acquirer's fund to achieve a return on their initial investment. |

Source: Macabacus, *Leveraged Buyout Analysis*

Exhibit 2: Direct Competitors and Comparable Companies to Foot Locker

| Firm | Ticker | Market Cap (\$B) | Revenue (Q3 - \$M) | Price (\$) | YTD Return |
|---------------------------|--------|------------------|--------------------|------------|------------|
| Foot Locker, Inc | FL | 4.011 | 2,106 | 39.96 | 2.20% |
| Designer Brands, Inc | DBI | 1.045 | 853.47 | 14.24 | 72.55% |
| Genesco, Inc | GCO | 0.875 | 479.28 | 58.43 | 94.18% |
| Shoe Carnival, Inc | SCVL | 1.090 | 274.58 | 38.7 | 97.55% |
| Caleres, Inc | CAL | 0.803 | 675.5 | 21.08 | 34.70% |
| Boot Barn Holdings, Inc | BOOT | 3.117 | 346.17 | 105.26 | 142.76% |
| Dicks Sporting Goods, Inc | DKS | 8.770 | 302.34 | 101.26 | 80.15% |
| Steven Madden, Inc | SHOO | 3.498 | 2,412.11 | 42.98 | 21.69% |
| Skechers, Inc | SKX | 6.260 | 1,550.96 | 40.16 | 11.74% |

Source: Bloomberg Industry Classifications System

Exhibit 3: Market Performance of the Retail Industry

| ETF Name | Symbol | YTD Return |
|-----------------------------|--------|------------|
| SPDR S&P Retail ETF | XRT | 37.09% |
| ProShares Online Retail ETF | ONLN | -25.9% |
| Amplify Online Retail ETF | IBUY | -23.63% |
| VanEck Retail ETF | RTH | 22.18% |

Source: ETF Database & Yahoo Finance

Exhibit 4: Previous M&A, Private Placements, and Buybacks

| Date Announced | Date Closed | Transaction Type | Role | Target | Size (\$m) |
|----------------|--------------|--------------------|--------|------------------------------------|------------|
| Aug 07, 2021 | Aug 07, 2021 | Merger/Acquisition | Buyer | Japanese Cool | 3.26 |
| May 18, 2020 | May 07, 2020 | Merger/Acquisition | Target | Foot Locker Inc-6% Share Purchase | - |
| Dec 11, 2019 | Dec 02, 2019 | Merger/Acquisition | Seller | Parcel of Land Situated in Chicago | - |
| Jun 26, 2019 | Sep 25, 2019 | Private Placement | Buyer | Commerce Media Holdings | 10 |
| Feb 26, 2019 | Feb 26, 2019 | Private Placement | Buyer | Launch Kids, Inc | 19.5 |
| Feb 07, 2019 | - | Private Placement | Buyer | 1661, Inc | 100 |
| Jan 03, 2019 | Jan 03, 2019 | Private Placement | Buyer | Super Heroic, Inc | 3 |
| Dec 20, 2018 | Jun 19, 2018 | Private Placement | Buyer | Pensole, LLC | 2 |
| Jan 19, 2018 | Jan 19, 2018 | Private Placement | Buyer | Carbon38, Inc | 16.8 |
| Dec 02, 2014 | Nov 28, 2014 | Merger/Acquisition | Seller | CCS Direct, LLC | - |

Source: CapIQ, Foot Locker Mergers and Acquisitions, Private Placements, and Buybacks

Exhibit 5: Market Returns of the S&P 500, Nike, Foot Locker, Dick's Sporting Goods



Exhibit 6: Proposed Capital Structure

| Proposed Capital Structure (\$M) | | | |
|-----------------------------------|-------|-----|--------------------------------------|
| Market Capitalization of FL | 4,011 | | Current Value per Share: \$39.96 |
| Premium Paid | 30% | | |
| Equity Value of FL | 5,214 | | Implied Value per Share: \$49.57 |
| Long Term Debt | 100 | | |
| Purchase Price of FL | 5,314 | EV | |
| Equity in Transaction | 1,750 | 33% | |
| Debt in Transaction | 3,565 | 67% | |
| Subordinated Debt EBITDA Multiple | 1.3x | | |
| Senior Debt EBITDA Multiple | 2.0x | | |
| EBITDA at Close | 1,098 | | Transaction Total Debt/EBITDA |
| FY - Year 1 EBITDA | 561 | | 3.2x |
| | | | Transaction EV/EBITDA |
| | | | 4.8x |
| Transaction Expenses | 2 | | Forward EV/EBITDA |
| Financing Fees | 2 | | 9.5x |

Exhibit 7: Sources and Uses of Cash

| Sources & Uses of Cash (\$M) | | | |
|------------------------------|----------------|--------------------------|----------------|
| Sources | | Uses | |
| Equity | \$1,750 | Seller Proceeds | \$5,214 |
| Subordinated Debt | \$1,373 | Previous Footlocker Debt | \$100 |
| Senior Debt | \$2,196 | Transaction Expenses | \$2 |
| | | Financing Fees | \$2 |
| Total | \$5,318 | Total | \$5,318 |

Exhibit 8: Post-Acquisition Projected Income Statement

| Projected Income Statement after Acquisition (\$millions) | 2020 - Closing | 2021 - P | 2022 - P | 2023 - P | 2024 - P | 2025 - P | 2026 - P |
|---|----------------|----------|----------|----------|----------|----------|----------|
| Athletic Store Sales | \$5,447 | \$6,918 | \$7,229 | \$7,518 | \$7,819 | \$8,093 | \$8,376 |
| Direct to Customer | 2,101 | 2,080 | 2,132 | 2,175 | 2,218 | 2,251 | 2,285 |
| Total Sales | 7,548 | 8,998 | 9,361 | 9,693 | 10,037 | 10,344 | 10,661 |
| Cost of Sales | (5,365) | (5,938) | (6,085) | (6,203) | (6,323) | (6,413) | (6,610) |
| Gross Profit | 2,183 | 3,059 | 3,276 | 3,489 | 3,714 | 3,931 | 4,051 |
| SG&A | (1,587) | (1,935) | (2,013) | (2,084) | (2,108) | (2,172) | (2,239) |
| Depreciation & Amortization | (176) | (282) | (293) | (303) | (313) | (322) | (332) |
| Other | 117 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Income | 303 | 843 | 971 | 1,103 | 1,293 | 1,436 | 1,481 |
| Interest (expense) income, net | (7) | (323) | (288) | (253) | (217) | (182) | (165) |
| Other income, net | 198 | 2 | 2 | 2 | 2 | 2 | 2 |
| Income before income taxes (EBT) | 494 | 522 | 685 | 852 | 1,077 | 1,256 | 1,318 |
| Income tax expense | (171) | (149) | (196) | (243) | (308) | (359) | (376) |
| Net income | \$323 | \$373 | \$489 | \$609 | \$770 | \$897 | \$942 |
| EBIT | 303 | 843 | 971 | 1,103 | 1,293 | 1,436 | 1,481 |
| EBITDA | 1,098 | 561 | 678 | 800 | 979 | 1,114 | 1,149 |

Exhibit 9: Post-Acquisition Revenue Projections

| Post Acquisition Revenue Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|---|------|---------|---------|---------|---------|---------|---------|---------|----------|----------|----------|
| In-Store Sales | 2 | \$6,673 | \$6,714 | \$6,720 | \$5,447 | \$6,918 | \$7,229 | \$7,518 | \$7,819 | \$8,093 | \$8,376 |
| % growth - historical | | | 0.61% | 0.09% | -18.94% | | | | | | |
| % growth - Bull | | | | | 30.00% | 7.50% | 7.00% | 7.00% | 6.50% | 6.50% | |
| % growth - Base | | | | | 27.00% | 4.50% | 4.00% | 4.00% | 3.50% | 3.50% | |
| % growth - Bear | | | | | 24.00% | 1.50% | 1.00% | 1.00% | 0.50% | 0.50% | |
| Online Sales | 2 | \$1,109 | \$1,225 | \$1,285 | \$2,101 | \$2,080 | \$2,132 | \$2,175 | \$2,218 | \$2,251 | \$2,285 |
| % growth - historical | | | 10.46% | 4.90% | 63.50% | | | | | | |
| % growth - Bull | | | | | 2.00% | 5.50% | 5.00% | 5.00% | 4.50% | 4.50% | |
| % growth - Base | | | | | -1.00% | 2.50% | 2.00% | 2.00% | 1.50% | 1.50% | |
| % growth - Bear | | | | | -4.00% | -0.50% | -1.00% | -1.00% | -1.50% | -1.50% | |
| Total Projected Sales | | \$7,782 | \$7,939 | \$8,005 | \$7,548 | \$8,998 | \$9,361 | \$9,693 | \$10,037 | \$10,344 | \$10,661 |
| YoY - % growth | | | 2.02% | 0.83% | -5.71% | 19.21% | 4.04% | 3.54% | 3.55% | 3.06% | 3.06% |

Exhibit 10: Post-Acquisition Operating Projections

| Post Acquisition Operating Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|---|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Assumption ---> | | | | | | | | | | | |
| (1 = % of revenue, 2 = % growth) | | | | | | | | | | | |
| Revenue | | 7,782 | 7,939 | 8,005 | 7,548 | 8,998 | 9,361 | 9,693 | 10,037 | 10,344 | 10,661 |
| EBT | | 578 | 713 | 672 | 494 | 522 | 685 | 852 | 1,077 | 1,256 | 1,318 |
| Cost of Sales | 1 | 5,326 | 5,411 | 5,462 | 5,365 | 5,938 | 6,085 | 6,203 | 6,323 | 6,413 | 6,610 |
| % of revenue | | 68.44% | 68.16% | 68.23% | 71.08% | 66.00% | 65.00% | 64.00% | 63.00% | 62.00% | 62.00% |
| % growth | | | 1.60% | 0.94% | -1.78% | -0.05% | -0.05% | -0.05% | -0.05% | -0.05% | -0.05% |
| Sales General & Administrative | 1 | 1,501 | 1,614 | 1,650 | 1,587 | 1,935 | 2,013 | 2,084 | 2,108 | 2,172 | 2,239 |
| % of revenue | | 19.29% | 20.33% | 20.61% | 21.03% | 21.50% | 21.50% | 21.50% | 21.00% | 21.00% | 21.00% |
| % growth | | | 7.53% | 2.23% | -3.82% | 1.98% | 1.98% | 1.98% | 1.98% | 1.98% | 1.98% |
| Income Tax Expense | | 294 | 172 | 181 | 171 | 149 | 196 | 243 | 308 | 359 | 376 |
| % of EBT | | 50.87% | 24.12% | 26.93% | 34.62% | 28.56% | 28.56% | 28.56% | 28.56% | 28.56% | 28.56% |

Exhibit 11: Post-Acquisition Balance Sheet Adjustment

| Balance Sheet Adjustments before Acquisition (\$millions) | 2020 - Pre Closing | -Source Equity- | -Source Debt- | -Use Old Equity- | -Use Old Debt- | -Use Fees- | -Leases Change- | 2021 - Post Closing |
|---|--------------------|-----------------|---------------|------------------|----------------|------------|-----------------|---------------------|
| - Assets - | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | \$1,680 | \$1,750 | \$3,569 | (\$5,214) | (\$100) | (\$4) | | \$1,680 |
| Merchandise inventories | 923 | | | | | | | 923 |
| Other current assets | 232 | | | | | | | 232 |
| Total Current Assets | 2,835 | | | | | | | \$2,835 |
| Non-Current assets: | | | | | | | | |
| Capitalized Financing Fee | \$0 | | | | | 2 | | \$2 |
| Property and equipment, net | 788 | | | | | | | 788 |
| Operating lease right-of-use assets | 2,716 | | | | | | | 2,716 |
| Deferred taxes | 101 | | | | | | | 101 |
| Goodwill, Current Transaction | 0 | | | 2,438 | | | | 2,438 |
| Goodwill, Previous | 159 | | | | | | | 159 |
| Other intangible assets, net | 17 | | | | | | | 17 |
| Minority investments | 337 | | | | | | | 337 |
| Other assets | 90 | | | | | | | 90 |
| Total Asset | \$7,043 | | | | | | | \$9,483 |
| - Liabilities & Equity - | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable | \$402 | | | | | | | \$402 |
| Accrued and other liabilities | 560 | | | | | | | 560 |
| Current portion of debt (OLD) | 100 | | | | (100) | | | 0 |
| Current obligations under finance leases (OLD) | 2 | | | | | | (2) | 0 |
| Current portion of operating lease liabilities (OLD) | 580 | | | | | | (580) | 0 |
| Current Portion of Senior Debt (NEW) | 0 | | 0 | | | | | 0 |
| Total Current Liabilities | \$1,644 | | | | | | | \$962 |
| Non-Current Liabilities: | | | | | | | | |
| Long-term debt (OLD) | \$0 | | | | 0 | | | \$0 |
| Revolving Line of Credit (NEW) | 0 | | 0 | | | | | 0 |
| Subordinated Debt (NEW) | 0 | | 1,373 | | | | | 1,373 |
| Senior Debt (NEW) | 0 | | 2,196 | | | | | 2,196 |
| Long-term obligations under finance leases (OLD) | 8 | | | | | | 2 | 10 |
| Long-term operating lease liabilities (OLD) | 2,499 | | | | | | 580 | 3,079 |
| Other liabilities | 116 | | | | | | | 116 |
| Total liabilities | \$4,267 | | | | | | | \$7,736 |
| Shareholders' equity: | | | | | | | | |
| Common stock | \$779 | \$1,750 | | (\$779) | | | | \$1,750 |
| Retained earnings | 2,326 | | | (2,326) | | (2) | | (2) |
| Accumulated other comprehensive loss | (331) | | | 331 | | | | 0 |
| Treasury stock at cost: 74,236 and - shares, respectively | (3) | | | 3 | | | | 0 |
| Noncontrolling interest | 5 | | | (5) | | | | 0 |
| Total shareholder's equity | \$2,776 | | | | | | | \$1,748 |
| Total Liabilities & Equity | \$7,043 | | | | | | | \$9,483 |
| check: | 0 | | | | | | | 0 |

Exhibit 12: Post-Acquisition Balance Sheet

| Projected Balance Sheet after Acquisition (\$millions) | 2020 - Closing | 2021 - P | 2022 - P | 2023 - P | 2024 - P | 2025 - P | 2026 - P |
|--|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
| - Assets - | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$1,680 | \$1,686 | \$1,700 | \$1,835 | \$2,143 | \$2,618 | \$3,547 |
| Merchandise inventories | 923 | 813 | 834 | 850 | 866 | 879 | 905 |
| Other current assets | 232 | 173 | 147 | 142 | 137 | 132 | 135 |
| Total Current Assets | \$2,835 | \$2,672 | \$2,681 | \$2,826 | \$3,145 | \$3,629 | \$4,587 |
| Non-Current assets: | | | | | | | |
| Capitalized Financing Fee | \$2 | \$2 | \$1 | \$1 | \$0 | \$0 | \$0 |
| Property and equipment, net | 788 | 835 | 884 | 934 | 986 | 1,040 | 1,095 |
| Operating lease right-of-use assets | 2,716 | 3,089 | 3,111 | 3,109 | 3,093 | 3,035 | 2,501 |
| Deferred taxes | 101 | 113 | 118 | 122 | 126 | 130 | 134 |
| Goodwill, Current Transaction | 2,438 | 2,438 | 2,438 | 2,438 | 2,438 | 2,438 | 2,438 |
| Goodwill, Previous | 159 | 148 | 138 | 127 | 117 | 106 | 95 |
| Other intangible assets, net | 17 | 16 | 15 | 14 | 12 | 11 | 10 |
| Minority investments | 337 | 337 | 337 | 337 | 337 | 337 | 337 |
| Other assets | 90 | 90 | 90 | 90 | 90 | 90 | 90 |
| Total Asset | \$9,483 | \$9,741 | \$9,812 | \$9,998 | \$10,346 | \$10,817 | \$11,288 |
| - Liabilities & Equity - | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable | \$402 | \$342 | \$350 | \$357 | \$364 | \$369 | \$381 |
| Accrued and other liabilities | 560 | 505 | 517 | 527 | 537 | 545 | 562 |
| Current Portion of Senior Debt | 0 | 439 | 439 | 439 | 439 | 439 | 0 |
| Total Current Liabilities | \$962 | \$1,286 | \$1,307 | \$1,324 | \$1,341 | \$1,354 | \$942 |
| Non-Current Liabilities: | | | | | | | |
| Revolving Line of Credit | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subordinated Debt | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 |
| Senior Debt | 2,196 | 1,757 | 1,318 | 878 | 439 | 0 | 0 |
| Long-term obligations under finance leases | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Long-term operating lease liabilities | 3,079 | 3,079 | 3,079 | 3,079 | 3,079 | 3,079 | 3,079 |
| Other liabilities | 116 | 116 | 116 | 116 | 116 | 116 | 116 |
| Total Liabilities | \$7,736 | \$7,620 | \$7,202 | \$6,780 | \$6,357 | \$5,931 | \$5,520 |
| Shareholders' equity: | | | | | | | |
| Common stock | \$1,750 | \$1,750 | \$1,750 | \$1,750 | \$1,750 | \$1,750 | \$1,750 |
| Retained earnings | (2) | 371 | 860 | 1,469 | 2,239 | 3,136 | 4,019 |
| Total shareholder's equity | \$1,748 | \$2,121 | \$2,610 | \$3,219 | \$3,988 | \$4,886 | \$5,768 |
| Total Liabilities & Equity | \$9,483 | \$9,741 | \$9,812 | \$9,998 | \$10,346 | \$10,817 | \$11,288 |
| check: | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Exhibit 13: Post-Acquisition Working Capital Projections

| Post Acquisition Working Capital Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|---|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|-----|
| Assumption ---> | | | | | | | | | | | |
| (1 = % of revenue, 2 = % growth, 3 = XXX days) | | | | | | | | | | | |
| Revenue | 7,782 | 7,939 | 8,005 | 7,548 | 8,998 | 9,361 | 9,693 | 10,037 | 10,344 | 10,661 | |
| Cost of Sales | 5,326 | 5,411 | 5,462 | 5,365 | 5,938 | 6,085 | 6,203 | 6,323 | 6,413 | 6,610 | |
| Merchandise Inventory | 3 | 1,307 | 1,278 | 1,208 | 923 | 813 | 834 | 850 | 866 | 879 | 905 |
| % of CoS | 24.54% | 23.62% | 22.12% | 17.20% | 21.87% | 21.87% | 21.87% | 21.87% | 21.87% | 21.87% | |
| % growth | | -2.22% | -5.48% | -23.59% | -10.43% | -10.43% | -10.43% | -10.43% | -10.43% | -10.43% | |
| Inventory Days | 89.57 | 86.21 | 80.73 | 62.79 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | |
| Other Current Assets | 2 | 280 | 424 | 271 | 232 | 173 | 147 | 142 | 137 | 132 | 135 |
| % of Revenue | 3.60% | 5.34% | 3.39% | 3.07% | 3.85% | 3.85% | 3.85% | 3.85% | 3.85% | 3.85% | |
| % growth | | 51.43% | -36.08% | -14.39% | -25.24% | -15.00% | -4.00% | -3.50% | -3.00% | 2.00% | |
| Accounts Payable | 3 | 249 | 258 | 333 | 402 | 342 | 350 | 357 | 364 | 369 | 381 |
| % of CoS | 4.68% | 4.77% | 6.10% | 7.49% | 5.76% | 5.76% | 5.76% | 5.76% | 5.76% | 5.76% | |
| % growth | | 3.61% | 29.07% | 20.72% | 17.80% | 17.80% | 17.80% | 17.80% | 17.80% | 17.80% | |
| AP Days | 17.06 | 17.40 | 22.25 | 27.35 | 21.02 | 21.02 | 21.02 | 21.02 | 21.02 | 21.02 | |
| Accrued Other Liabilities | 1 | 363 | 358 | 343 | 560 | 505 | 517 | 527 | 537 | 545 | 562 |
| % of CoS | 6.82% | 6.62% | 6.28% | 10.44% | 8.50% | 8.50% | 8.50% | 8.50% | 8.50% | 8.50% | |
| % growth | | -1.38% | -4.19% | 63.27% | 19.23% | 19.23% | 19.23% | 19.23% | 19.23% | 19.23% | |

Exhibit 14: Post-Acquisition Other Projections

| Post Acquisition Other Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|-------|---------|--------|--------|-------|-------|-------|--------|--------|--------|
| Assumption ---> (1 = % of revenue, 2 = % growth) | | | | | | | | | | |
| Revenue | 7,782 | 7,939 | 8,005 | 7,548 | 8,998 | 9,361 | 9,693 | 10,037 | 10,344 | 10,661 |
| Income Tax Expense | 294 | 172 | 181 | 171 | (149) | (196) | (243) | (308) | (359) | (376) |
| Deferred Taxes | 1 | 161 | 48 | 81 | 101 | 113 | 118 | 122 | 126 | 130 |
| % of Revenue | | 2.07% | 0.60% | 1.01% | 1.34% | 1.26% | 1.26% | 1.26% | 1.26% | 1.26% |
| % growth | | -70.19% | 68.75% | 24.69% | 7.75% | 7.75% | 7.75% | 7.75% | 7.75% | 7.75% |

Exhibit 15: Post-Acquisition Depreciation & Amortization Schedule

| Post Acquisition Depreciation & Amortization Schedules (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|--------|-------|-------|-------|-------|-------|-------|-------|---------|---------|
| Core Assumptions: | | | | | | | | | | |
| - Depreciation - | | | | | | | | | | |
| Depreciation Expense | \$154 | \$169 | \$174 | \$176 | \$270 | \$281 | \$291 | \$301 | \$310 | \$320 |
| % of Revenue | | 1.88% | 1.86% | 1.82% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| - Amortization - | | | | | | | | | | |
| Capitalized Financing Fee Asset | | | | 2.0 | 1.6 | 1.2 | 0.8 | 0.4 | 0.0 | 0.0 |
| Amortization Expense | 5 yrs | | | | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.0 |
| Goodwill, Previous Transaction | | | | 159 | 148 | 138 | 127 | 117 | 106 | 95 |
| Amortization Expense | 15 yrs | | | | 10.6 | 10.6 | 10.6 | 10.6 | 10.6 | 10.6 |
| Other Intangible Assets | | | | 17 | 16 | 15 | 14 | 12 | 11 | 10 |
| Amortization Expense | 15 yrs | | | | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| - Total Depreciation and Amortization Expense - | | | | | | | | | | |
| Depreciation Expense | 150 | 165 | 170 | 173 | 270 | 281 | 291 | 301 | 310 | 320 |
| Amortization Expense | 4 | 4 | 4 | 3 | 12 | 12 | 12 | 12 | 12 | 12 |
| Projections: | | | | | | | | | | |
| - Property, Plant, & Equipment - | | | | | | | | | | |
| PP&E, net Beginning of Period | | | | | \$788 | \$835 | \$884 | \$934 | \$986 | \$1,040 |
| Capital Expenditures | | | | | 315 | 328 | 339 | 351 | 362 | 373 |
| % of Revenue | | | | | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Sale of PP&E Related to Optimization of Network | | | | | 2 | 2 | 2 | 2 | 2 | 2 |
| Depreciation | | | | | 270 | 281 | 291 | 301 | 310 | 320 |
| PP&E, net End of Period | \$765 | \$866 | \$824 | \$788 | \$835 | \$884 | \$934 | \$986 | \$1,040 | \$1,095 |
| - Proceeds from Property, Plant, & Equipment Sales - | | | | | | | | | | |
| Proceeds from Sale of PP&E | \$0 | \$0 | \$2 | \$0 | \$2 | \$2 | \$2 | \$2 | \$2 | \$2 |

Exhibit 16: Post-Acquisition Dividend and Debt Payback Schedule

| Post Acquisition Debt & Dividend Payment Schedule (\$millions) | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|--|-------|---------|---------|---------|---------|---------|---------|
| Debt: | | | | | | | |
| - Revolving Credit Facility (Line of Credit) - | | | | | | | |
| Cash Balance BOP | | \$1,680 | \$1,686 | \$1,700 | \$1,835 | \$2,143 | \$2,618 |
| Plus: Free Cash Flow from Operations & Investing | | 395 | 484 | 581 | 739 | 864 | 901 |
| Plus: Free Cash Flow from Financing (Before LOC) | | (439) | (439) | (439) | (439) | (439) | 59 |
| Less: Minimum Cash Balance | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total Cash Available or (Required) from LOC | | 636 | 730 | 842 | 1,135 | 1,568 | 2,577 |
| Revolver Balance | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Maximum LOC | \$600 | No | No | No | No | No | No |
| Interest Paid | 10% | 0 | 0 | 0 | 0 | 0 | 0 |
| - Subordinated Debt - | | | | | | | |
| Beginning Balance | | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 |
| Plus: Additions | 1,373 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: Scheduled Amortization | 0 yrs | 0 | 0 | 0 | 0 | 0 | 0 |
| Ending Balance | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 | 1,373 |
| Interest Paid | 12% | 165 | 165 | 165 | 165 | 165 | 165 |
| - Senior Debt - | | | | | | | |
| Beginning Balance | | 2,196 | 1,757 | 1,318 | 878 | 439 | 0 |
| Plus: Additions | 2,196 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: Scheduled Amortization | 5 yrs | 439 | 439 | 439 | 439 | 439 | 0 |
| Less: Cash Flow Sweep | | 0 | 0 | 0 | 0 | 0 | 0 |
| Ending Balance | 2,196 | 1,757 | 1,318 | 878 | 439 | 0 | 0 |
| Interest Paid | 8% | 158 | 123 | 88 | 53 | 18 | 0 |
| - Interest Expense - | | | | | | | |
| Total Interest | | 323 | 288 | 253 | 217 | 182 | 165 |
| - Senior Debt Cash Flow Sweep - | | | | | | | |
| EBITDA | | 561 | 678 | 800 | 979 | 1,114 | 1,149 |
| Cash Taxes | | 149 | 196 | 243 | 308 | 359 | 376 |
| Mandatory Amortization | | 439 | 439 | 439 | 439 | 439 | 0 |
| Cash Interest Expense | | 323 | 288 | 253 | 217 | 182 | 165 |
| CapEx | | 315 | 328 | 339 | 351 | 362 | 373 |
| Excess Cash Flow | 1 | 0 | 0 | 0 | 0 | 0 | 235 |
| Cash Flow Sweep | 50% | 0 | 0 | 0 | 0 | 0 | 117 |
| Priority Cash Flow Sweep | | 0 | 0 | 0 | 0 | 0 | 117 |
| Dividends: | | | | | | | |
| Cash Flow Sweep | | 0 | 0 | 0 | 0 | 0 | 117 |
| Dividend (excess cash flow after senior debt repayment) | 50% | 0 | 0 | 0 | 0 | 0 | 59 |

Exhibit 17: Cash Projections

| Projected Cash Flow Statement after Acquisition (\$millions) | 2020 - Closing | 2021 - P | 2022 - P | 2023 - P | 2024 - P | 2025 - P | 2026 - P |
|---|----------------|----------|----------|----------|----------|----------|----------|
| From Operating Activities: | | | | | | | |
| Net Income | \$323 | \$373 | \$489 | \$609 | \$770 | \$897 | \$942 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | |
| Depreciation | 173 | 270 | 281 | 291 | 301 | 310 | 320 |
| Amortization | 3 | 12 | 12 | 12 | 12 | 12 | 12 |
| Change in assets and liabilities: | | | | | | | |
| Merchandise inventories | 294 | 110 | (20) | (16) | (16) | (12) | (27) |
| Other current assets | 39 | 59 | 26 | 6 | 5 | 4 | (3) |
| Accounts Payable | 58 | (60) | 8 | 7 | 7 | 5 | 11 |
| Accrued and other liabilities | 139 | (55) | 12 | 10 | 10 | 8 | 17 |
| Net cash provided by operating activities | \$1,029 | \$708 | \$809 | \$918 | \$1,088 | \$1,224 | \$1,272 |
| From Investing Activities: | | | | | | | |
| Capital Expenditures | (\$159) | (\$315) | (\$328) | (\$339) | (\$351) | (\$362) | (\$373) |
| Proceeds from sale of property | 0 | 2 | 2 | 2 | 2 | 2 | 2 |
| Net cash used investing activities | (\$159) | (\$313) | (\$326) | (\$337) | (\$349) | (\$360) | (\$371) |
| From Financing Activities: | | | | | | | |
| Revolving Credit Facility (L.O.C) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subordinated Debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior Debt | 0 | (439) | (439) | (439) | (439) | (439) | 0 |
| Senior Debt - Cash Flow Sweep | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid on common stock | (73) | 0 | 0 | 0 | 0 | 0 | 59 |
| Net cash used in financing activities | (\$73) | (\$439) | (\$439) | (\$439) | (\$439) | (\$439) | \$59 |
| Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash | 8 | 50 | (30) | (7) | 8 | 50 | (30) |
| Net change in cash, cash equivalents, and restricted cash | \$805 | \$6 | \$14 | \$135 | \$308 | \$475 | \$929 |
| Beginning Cash Balance | | \$1,680 | \$1,686 | \$1,700 | \$1,835 | \$2,143 | \$2,618 |
| Ending Cash Balance | | \$1,686 | \$1,700 | \$1,835 | \$2,143 | \$2,618 | \$3,547 |

Exhibit 18: Exit Analysis

| | Cash Flow To/From Equity | | | | | | Exit Equity Value | IRR | MOIC | |
|----------------------|--------------------------|----------|----------|----------|----------|----------|-------------------|----------|------|----------|
| | Transaction | 1 | 2 | 3 | 4 | 5 | | | | 6 |
| | 2020 - Closing | 2021 - P | 2022 - P | 2023 - P | 2024 - P | 2025 - P | | | | 2026 - P |
| Exit Multiple | | | | | | | | | | |
| 7.5x | (\$1,750) | 0 | 0 | 0 | 0 | 0 | 7,247 | \$8,619 | 27% | 4.93 |
| 9.5x | (\$1,750) | 0 | 0 | 0 | 0 | 0 | 9,545 | \$10,918 | 33% | 6.24 |
| 7.5x | (\$1,750) | 0 | 0 | 0 | 0 | 6,979 | | \$8,352 | 32% | 4.77 |
| 9.5x | (\$1,750) | 0 | 0 | 0 | 0 | 9,206 | | \$10,579 | 39% | 6.05 |
| 7.5x | (\$1,750) | 0 | 0 | 0 | 5,534 | | | \$7,346 | 33% | 4.20 |
| 9.5x | (\$1,750) | 0 | 0 | 0 | 7,493 | | | \$9,305 | 44% | 5.32 |
| 7.5x | (\$1,750) | 0 | 0 | 3,746 | | | | \$5,997 | 29% | 3.43 |
| 9.5x | (\$1,750) | 0 | 0 | 5,345 | | | | \$7,596 | 45% | 4.34 |
| 7.5x | (\$1,750) | 0 | 2,393 | | | | | \$5,084 | 17% | 2.91 |
| 9.5x | (\$1,750) | 0 | 3,749 | | | | | \$6,439 | 46% | 3.68 |
| 7.5x | (\$1,750) | 1,075 | | | | | | \$4,204 | -39% | 2.40 |
| 9.5x | (\$1,750) | 2,196 | | | | | | \$5,326 | 26% | 3.04 |

Exhibit 19: Projected Income Statement

| Income Statement (\$millions, except per share amounts) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales | \$7,782 | \$7,939 | \$8,005 | \$7,548 | \$8,987 | \$9,235 | \$9,389 | \$9,545 | \$9,699 | \$9,780 |
| Cost of sales | 5,326 | 5,411 | 5,462 | 5,365 | 6,199 | 6,370 | 6,476 | 6,584 | 6,690 | 6,746 |
| Gross Profit | 2,456 | 2,528 | 2,543 | 2,183 | 2,788 | 2,865 | 2,913 | 2,961 | 3,009 | 3,034 |
| Selling, general and administrative expenses | 1,501 | 1,614 | 1,650 | 1,587 | 1,826 | 1,876 | 1,907 | 1,939 | 1,970 | 1,987 |
| Depreciation and amortization | 173 | 178 | 179 | 176 | 203 | 209 | 212 | 216 | 219 | 221 |
| Impairment and other charges | 211 | 37 | 65 | 117 | 242 | 248 | 253 | 257 | 261 | 263 |
| Income from operations | 571 | 699 | 649 | 303 | 518 | 532 | 541 | 550 | 559 | 563 |
| Interest (expense) income, net | 2 | 9 | 11 | (7) | 4 | 0 | 0 | 0 | 0 | 0 |
| Other income, net | 5 | 5 | 12 | 198 | 5 | 5 | 12 | 5 | 5 | 12 |
| Income before income taxes (EBT) | 578 | 713 | 672 | 494 | 527 | 537 | 553 | 555 | 564 | 575 |
| Income tax expense | 294 | 172 | 181 | 171 | 151 | 153 | 158 | 158 | 161 | 164 |
| Net income | \$284 | \$541 | \$491 | \$323 | \$377 | \$384 | \$395 | \$397 | \$403 | \$411 |
| Basic earnings per share | \$2.23 | \$4.68 | \$4.52 | \$3.10 | \$3.60 | \$3.66 | \$3.75 | \$3.76 | \$3.81 | \$3.87 |
| Weighted-average shares outstanding | 127.2 | 115.6 | 108.7 | 104.3 | 104.6 | 104.9 | 105.2 | 105.6 | 105.9 | 106.2 |
| Diluted earnings per share | \$2.22 | \$4.66 | \$4.50 | \$3.07 | \$3.58 | \$3.64 | \$3.73 | \$3.74 | \$3.79 | \$3.85 |
| Weighted-average shares outstanding, assuming dilution | 127.9 | 116.1 | 109.1 | 105.1 | 105.2 | 105.5 | 105.8 | 106.1 | 106.4 | 106.7 |
| EBIT | 571 | 699 | 649 | 303 | 518 | 532 | 541 | 550 | 559 | 563 |
| Depreciation & Amortization | 173 | 178 | 179 | 176 | 203 | 209 | 212 | 216 | 219 | 221 |
| Operating Lease Rental Expense Adjustment | 0 | 0 | 667 | 619 | 242 | 248 | 253 | 257 | 261 | 263 |
| EBITDA | 744 | 877 | 1,495 | 1,098 | 962 | 989 | 1,005 | 1,022 | 1,039 | 1,047 |

Exhibit 20: Revenue Projections Pulled from Bloomberg

| Business Breakdown Revenue - Exhibit 1 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 E | 2022 E |
|--|--------------|--------------|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Athletic Stores | 5,790 | 6,286 | 6,468 | 6,774 | 6,673 | 6,714 | 6,720 | 5,447 | 6,956 | 6,991 |
| YOY % Growth | | 8.57% | 2.90% | 4.73% | -1.49% | 0.61% | 0.09% | -18.94% | 27.71% | 0.50% |
| Direct to Customers | 715 | 865 | 944 | 1,022 | 1,109 | 1,225 | 1,285 | 2,101 | 1,970 | 2,197 |
| YOY % Growth | | 20.98% | 9.13% | 8.26% | 8.51% | 10.46% | 4.90% | 63.50% | -6.24% | 11.54% |
| Total Revenue | 6,505 | 7,151 | 7,412 | 7,796 | 7,782 | 7,939 | 8,005 | 7,548 | 8,926 | 9,188 |
| YOY % Growth | | 9.93% | 3.65% | 5.18% | -0.18% | 2.02% | 0.83% | -5.71% | 18.26% | 2.94% |
| Average | | Total | Exlude 2020 | | | | | | | |
| Store Sales | | 2.74% | 5.45% | | | | | | | |
| D2C | | 14.56% | 8.44% | | | | | | | |

Source: Bloomberg (2021) Foot Locker Financial Analysis.

Exhibit 21: Revenue Projections

| Revenue Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|----------------------------------|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| In-Store Sales | 2 | \$6,673 | \$6,714 | \$6,720 | \$5,447 | \$6,918 | \$7,156 | \$7,300 | \$7,446 | \$7,595 | \$7,670 |
| % growth - historical | | | 0.61% | 0.09% | -18.94% | | | | | | |
| % growth - Bull | | | | | 30.00% | 6.45% | 5.00% | 5.00% | 5.00% | 4.00% | |
| % growth - Base | | | | | 27.00% | 3.45% | 2.00% | 2.00% | 2.00% | 1.00% | |
| % growth - Bear | | | | | 24.00% | 0.45% | -1.00% | -1.00% | -1.00% | -2.00% | |
| Online Sales | 2 | \$1,109 | \$1,225 | \$1,285 | \$2,101 | \$2,069 | \$2,079 | \$2,089 | \$2,099 | \$2,105 | \$2,110 |
| % growth - historical | | | 10.46% | 4.90% | 63.50% | | | | | | |
| % growth - Bull | | | | | 1.50% | 3.44% | 3.50% | 3.50% | 3.25% | 3.25% | |
| % growth - Base | | | | | -1.50% | 0.44% | 0.50% | 0.50% | 0.25% | 0.25% | |
| % growth - Bear | | | | | -4.50% | -2.56% | -2.50% | -2.50% | -2.75% | -2.75% | |
| Total Projected Sales | | \$7,782 | \$7,939 | \$8,005 | \$7,548 | \$8,987 | \$9,235 | \$9,389 | \$9,545 | \$9,699 | \$9,780 |
| YoY - % growth | | | 2.02% | 0.83% | -5.71% | 19.07% | 2.76% | 1.66% | 1.67% | 1.62% | 0.84% |

Exhibit 22: Operating Projections

| Operating Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Assumption ---> | | | | | | | | | | |
| (1 = % of revenue, 2 = % growth) | | | | | | | | | | |
| Revenue | 7,782 | 7,939 | 8,005 | 7,548 | 8,987 | 9,235 | 9,389 | 9,545 | 9,699 | 9,780 |
| Cost of Sales | 1 | 5,326 | 5,411 | 5,462 | 5,365 | 6,199 | 6,370 | 6,476 | 6,584 | 6,746 |
| % of revenue | 68.44% | 68.16% | 68.23% | 71.08% | 68.98% | 68.98% | 68.98% | 68.98% | 68.98% | 68.98% |
| % growth | | 1.60% | 0.94% | -1.78% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% |
| Sales General & Administrative | 1 | 1,501 | 1,614 | 1,650 | 1,587 | 1,826 | 1,876 | 1,907 | 1,939 | 1,970 |
| % of revenue | 19.29% | 20.33% | 20.61% | 21.03% | 20.31% | 20.31% | 20.31% | 20.31% | 20.31% | 20.31% |
| % growth | | 7.53% | 2.23% | -3.82% | 1.98% | 1.98% | 1.98% | 1.98% | 1.98% | 1.98% |
| Tax Rate | 294 | 172 | 181 | 171 | 151 | 153 | 158 | 158 | 161 | 164 |
| % of EBT | 50.87% | 24.12% | 26.93% | 34.62% | 28.56% | 28.56% | 28.56% | 28.56% | 28.56% | 28.56% |

Exhibit 23: Earnings Growth

| Earnings Growth | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|--|--------|---------|--------|---------|--------|--------|--------|--------|--------|--------|
| Basic earnings per share | \$2.23 | \$4.68 | \$4.52 | \$3.10 | \$3.60 | \$3.66 | \$3.75 | \$3.76 | \$3.81 | \$3.87 |
| Y-O-Y Percentage Change | | 109.61% | -3.48% | -31.44% | 16.24% | 1.60% | 2.64% | 0.07% | 1.30% | 1.75% |
| Weighted-average shares outstanding | 127.2 | 115.6 | 108.7 | 104.3 | 104.6 | 104.9 | 105.2 | 105.6 | 105.9 | 106.2 |
| Diluted earnings per share | \$2.22 | \$4.66 | \$4.50 | \$3.07 | \$3.58 | \$3.64 | \$3.73 | \$3.74 | \$3.79 | \$3.85 |
| Y-O-Y Percentage Change | | 109.85% | -3.42% | -31.71% | 16.50% | 1.60% | 2.64% | 0.07% | 1.30% | 1.76% |
| Weighted-average shares outstanding, assuming dilution | 127.9 | 116.1 | 109.1 | 105.1 | 105.2 | 105.5 | 105.8 | 106.1 | 106.4 | 106.7 |

Exhibit 24: Projected Balance Sheet, Assets

| Balance Sheet (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| - Assets - | | | | | | | | | | |
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents | \$1,046 | \$849 | \$907 | \$1,680 | \$2,048 | \$2,190 | \$2,380 | \$2,623 | \$2,910 | \$3,043 |
| Merchandise inventories | 1,307 | 1,278 | 1,208 | 923 | 883 | 908 | 923 | 938 | 953 | 961 |
| Other current assets | 280 | 424 | 271 | 232 | 173 | 147 | 142 | 137 | 135 | 137 |
| Total Current Assets | \$2,633 | \$2,551 | \$2,386 | \$2,835 | \$3,105 | \$3,245 | \$3,444 | \$3,698 | \$3,998 | \$4,141 |
| Non-Current assets: | | | | | | | | | | |
| Property and equipment, net | \$765 | \$866 | \$824 | \$788 | \$774 | \$776 | \$779 | \$782 | \$784 | \$785 |
| Operating lease right-of-use assets | 0 | 0 | 2,899 | 2,716 | 2,165 | 2,233 | 2,318 | 2,366 | 2,416 | 2,520 |
| Deferred taxes | 161 | 48 | 81 | 101 | 113 | 116 | 118 | 120 | 122 | 123 |
| Goodwill | 155 | 160 | 156 | 159 | 159 | 159 | 159 | 159 | 159 | 159 |
| Other intangible assets, net | 42 | 46 | 20 | 17 | 36 | 37 | 37 | 38 | 39 | 39 |
| Minority investments | 0 | 0 | 142 | 337 | 120 | 120 | 120 | 120 | 120 | 120 |
| Other assets | 84 | 290 | 81 | 90 | 90 | 90 | 90 | 90 | 90 | 90 |
| Total Asset | \$3,840 | \$3,961 | \$6,589 | \$7,043 | \$6,560 | \$6,775 | \$7,066 | \$7,372 | \$7,727 | \$7,977 |

Exhibit 25: Projected Balance Sheet, Liabilities and Equity

| - Liabilities & Equity - | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Current liabilities: | | | | | | | | | | |
| Accounts payable | \$249 | \$258 | \$333 | \$402 | 357 | 367 | 373 | 379 | 385 | 388 |
| Accrued and other liabilities | 363 | 358 | 343 | 560 | 527 | 541 | 550 | 560 | 569 | 573 |
| Current portion of debt | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current obligations under finance leases | 0 | 0 | 0 | 2 | 2 | 2 | 2 | 2 | 2 | 0 |
| Current portion of operating lease liabilities | 0 | 0 | 518 | 580 | 424 | 436 | 443 | 450 | 458 | 461 |
| Total Current Liabilities | \$612 | \$616 | \$1,194 | \$1,644 | \$1,310 | \$1,346 | \$1,368 | \$1,391 | \$1,414 | \$1,423 |
| Non-Current Liabilities: | | | | | | | | | | |
| Revolving Line of Credit | \$0 | \$0 | \$0 | \$0 | 81 | 0 | 0 | 0 | 0 | 0 |
| Long-term debt | 127 | 125 | 122 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Long-term obligations under finance leases | 0 | 0 | 0 | 8 | 6 | 4 | 2 | 0 | 0 | 0 |
| Long-term operating lease liabilities | 0 | 0 | 2,678 | 2,499 | 1,994 | 2,049 | 2,083 | 2,118 | 2,152 | 2,170 |
| Other liabilities | 391 | 701 | 122 | 116 | 116 | 116 | 116 | 116 | 116 | 116 |
| Total liabilities | \$1,130 | \$1,442 | \$4,116 | \$4,267 | \$3,507 | \$3,515 | \$3,569 | \$3,625 | \$3,682 | \$3,709 |
| Commitments and contingencies | | | | | | | | | | |
| Shareholder's equity: | | | | | | | | | | |
| Common stock and paid-in capital | \$900 | \$842 | \$764 | \$779 | 772 | 766 | 759 | 752 | 745 | 738 |
| Retained earnings | 2,254 | 2,019 | 2,103 | 2,326 | 2,572 | 2,822 | 3,078 | 3,336 | 3,597 | 3,864 |
| Accumulated other comprehensive loss | (363) | (279) | (394) | (331) | (281) | (311) | (318) | (310) | (260) | (290) |
| Treasury stock at cost: 74,236 and - shares, respectively | (81) | (63) | 0 | (3) | (10) | (16) | (23) | (30) | (37) | (44) |
| Noncontrolling interest | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total shareholder's equity | \$2,710 | \$2,519 | \$2,473 | \$2,776 | \$3,053 | \$3,260 | \$3,496 | \$3,748 | \$4,045 | \$4,268 |
| Total Liabilities & Equity | \$3,840 | \$3,961 | \$6,589 | \$7,043 | \$6,560 | \$6,775 | \$7,066 | \$7,372 | \$7,727 | \$7,977 |
| check: | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Exhibit 26: Working Capital Projections

| Working Capital Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|--|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|-----|
| Assumption ---> | | | | | | | | | | | |
| (1 = % of revenue, 2 = % growth, 3 = XXX days) | | | | | | | | | | | |
| Revenue | 7,782 | 7,939 | 8,005 | 7,548 | 8,987 | 9,235 | 9,389 | 9,545 | 9,699 | 9,780 | |
| Cost of Sales | 5,326 | 5,411 | 5,462 | 5,365 | 6,199 | 6,370 | 6,476 | 6,584 | 6,690 | 6,746 | |
| Merchandise Inventory | 3 | 1,307 | 1,278 | 1,208 | 923 | 883 | 908 | 923 | 938 | 953 | 961 |
| % of CoS | 24.54% | 23.62% | 22.12% | 17.20% | 21.87% | 21.87% | 21.87% | 21.87% | 21.87% | 21.87% | |
| % growth | | -2.22% | -5.48% | -23.59% | -10.43% | -10.43% | -10.43% | -10.43% | -10.43% | -10.43% | |
| Inventory Days | 89.57 | 86.21 | 80.73 | 62.79 | 52.00 | 52.00 | 52.00 | 52.00 | 52.00 | 52.00 | |
| Other Current Assets | 2 | 280 | 424 | 271 | 232 | 173 | 147 | 142 | 137 | 135 | 137 |
| % of Revenue | 3.60% | 5.34% | 3.39% | 3.07% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | |
| % growth | | 51.43% | -36.08% | -14.39% | -25.24% | -15.00% | -4.00% | -3.00% | -2.00% | 2.00% | |
| Accounts Payable | 3 | 249 | 258 | 333 | 402 | 357 | 367 | 373 | 379 | 385 | 388 |
| % of CoS | 4.68% | 4.77% | 6.10% | 7.49% | 5.76% | 5.76% | 5.76% | 5.76% | 5.76% | 5.76% | |
| % growth | | 3.61% | 29.07% | 20.72% | 17.80% | 17.80% | 17.80% | 17.80% | 17.80% | 17.80% | |
| AP Days | 17.06 | 17.40 | 22.25 | 27.35 | 21.02 | 21.02 | 21.02 | 21.02 | 21.02 | 21.02 | |
| Accrued Other Liabilities | 1 | 363 | 358 | 343 | 560 | 527 | 541 | 550 | 560 | 569 | 573 |
| % of CoS | 6.82% | 6.62% | 6.28% | 10.44% | 8.50% | 8.50% | 8.50% | 8.50% | 8.50% | 8.50% | |
| % growth | | -1.38% | -4.19% | 63.27% | 19.23% | 19.23% | 19.23% | 19.23% | 19.23% | 19.23% | |

Exhibit 27: Other Projections

| Other Projections (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|----------------------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----|
| Assumption ---> | | | | | | | | | | | |
| (1 = % of revenue, 2 = % growth) | | | | | | | | | | | |
| Revenue | 7,782 | 7,939 | 8,005 | 7,548 | 8,987 | 9,235 | 9,389 | 9,545 | 9,699 | 9,780 | |
| Income Tax Expense | 294 | 172 | 181 | 171 | 149 | 153 | 158 | 158 | 161 | 164 | |
| Deferred Taxes | 1 | 161 | 48 | 81 | 101 | 113 | 116 | 118 | 120 | 122 | 123 |
| % of Revenue | 2.07% | 0.60% | 1.01% | 1.34% | 1.26% | 1.26% | 1.26% | 1.26% | 1.26% | 1.26% | |
| % growth | | -70.19% | 68.75% | 24.69% | 7.75% | 7.75% | 7.75% | 7.75% | 7.75% | 7.75% | |
| Intangible Assets | 1 | 42 | 46 | 20 | 17 | 36 | 37 | 37 | 38 | 39 | 39 |
| % of Revenue | 0.54% | 0.58% | 0.25% | 0.23% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | |
| % growth | | 9.52% | -56.52% | -15.00% | -20.67% | -20.67% | -20.67% | -20.67% | -20.67% | -20.67% | |
| Deferred Income Tax | 105 | 9 | 5 | (9) | 14 | 15 | 15 | 15 | 15 | 16 | |
| % of Income Taxes | 35.71% | 5.23% | 2.76% | -5.26% | 9.61% | 9.61% | 9.61% | 9.61% | 9.61% | 9.61% | |

Exhibit 28: Fixed Asset Schedule

| Depreciation Schedule (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Core Assumptions: | | | | | | | | | | |
| Depreciation & Amortization | 158 | 173 | 178 | 179 | 203 | 209 | 212 | 216 | 219 | 221 |
| % of Revenue | | 2.18% | 2.22% | 2.37% | 2.26% | 2.26% | 2.26% | 2.26% | 2.26% | 2.26% |
| Amortization Expense | 4 | 4 | 4 | 3 | 2 | 2 | 2 | 2 | 1 | 1 |
| Depreciation Expense | 154 | 169 | 174 | 176 | 201 | 207 | 210 | 214 | 218 | 220 |
| Projections: | | | | | | | | | | |
| - Property, Plant, & Equipment - | | | | | | | | | | |
| PP&E, net Beginning of Period | \$765 | \$866 | \$824 | \$788 | \$771 | \$774 | \$776 | \$779 | \$782 | \$784 |
| Capital Expenditures | 274 | 187 | 187 | 159 | 204 | 209 | 213 | 216 | 220 | 222 |
| % of Revenue | 3.52% | 2.36% | 2.34% | 2.11% | 2.27% | 2.27% | 2.27% | 2.27% | 2.27% | 2.27% |
| Depreciation | 154 | 169 | 174 | 176 | 201 | 207 | 210 | 214 | 218 | 220 |
| PP&E, net End of Period | \$885 | \$884 | \$837 | \$771 | \$774 | \$776 | \$779 | \$782 | \$784 | \$785 |
| - Obligations Under Operating Leases - | | | | | | | | | | |
| Current Portion Maturity Schedule | 0 | 0 | 518 | 580 | 424 | 436 | 443 | 450 | 458 | 461 |
| % of Revenue | 0.00% | 0.00% | 6.47% | 7.68% | 4.72% | 4.72% | 4.72% | 4.72% | 4.72% | 4.72% |
| Non-Current Obligations | 0 | 0 | 2,678 | 2,499 | 1,994 | 2,049 | 2,083 | 2,118 | 2,152 | 2,170 |
| % of Revenue | 0.00% | 0.00% | 33.45% | 33.11% | 22.19% | 22.19% | 22.19% | 22.19% | 22.19% | 22.19% |
| Expense Under Operating Leases | | | | 10.00% | 242 | 248 | 253 | 257 | 261 | 263 |

Exhibit 29: Equity Schedule

| Debt & Equity Schedule (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| Equity: | | | | | | | | | | |
| Net Income | \$284 | \$541 | \$491 | \$323 | \$377 | \$384 | \$395 | \$397 | \$403 | \$411 |
| Dividend Halt Assumption: | \$250 | | | | | | | | | |
| Cash Dividend Payout Ratio | 55.28% | 29.21% | 33.40% | 22.60% | 35.12% | 35.12% | 35.12% | 35.12% | 35.12% | 35.12% |
| Cash Dividends Paid Out | 157 | 158 | 164 | 73 | 132 | 135 | 139 | 139 | 141 | 144 |
| Stock Based Compensation | 22 | 18 | 15 | 23 | 20 | 20 | 20 | 20 | 20 | 20 |
| Share Repurchase Assumptions: | | | | | | | | | | |
| Current Year EPS | \$2.23 | \$4.68 | \$4.52 | \$3.10 | \$3.60 | \$3.66 | \$3.75 | \$3.76 | \$3.81 | \$3.87 |
| Assumed Current Year P/E Multiple | | | | | 5.18 | 5.18 | 5.18 | 5.18 | 5.18 | 5.18 |
| Projected Share Price | | | | | \$18.65 | \$18.95 | \$19.45 | \$19.46 | \$19.71 | \$20.06 |
| Shares Repurchased (millions) | 79 | 84 | 10 | 17 | 35.2 | 35.2 | 35.2 | 35.2 | 35.2 | 35.2 |
| Repurchase of Common Stock (\$) | | | | | \$7 | \$7 | \$7 | \$7 | \$7 | \$7 |
| New Shares from Exercised Options: | | | | | | | | | | |
| New Shares Issued from Options | 48 | 97 | 23 | 67 | 35.5 | 35.5 | 35.5 | 35.5 | 35.5 | 35.5 |
| Average Strick Price | | | | | \$35.46 | \$35.46 | \$35.46 | \$35.46 | \$35.46 | \$35.46 |
| Option Proceeds | | | | | \$13 | \$13 | \$13 | \$13 | \$13 | \$13 |
| Shares Outstanding Schedule: | | | | | | | | | | |
| Begin: Basic Shares | | 127.2 | 115.6 | 108.7 | 104.3 | 104.6 | 104.9 | 105.2 | 105.6 | 105.9 |
| Shares Issued from Options | | | | | 36 | 36 | 36 | 36 | 36 | 36 |
| Shares Repurchased | | | | | (35) | (35) | (35) | (35) | (35) | (35) |
| End: End Shares | 127.2 | 115.6 | 108.7 | 104.3 | 104.6 | 104.9 | 105.2 | 105.6 | 105.9 | 106.2 |
| Average Basic Shares | | | | | 104.6 | 104.9 | 105.2 | 105.6 | 105.9 | 106.2 |
| Dilutive Effects | | 0.8 | 0.4 | 0.5 | 0.57 | 0.57 | 0.57 | 0.57 | 0.57 | 0.57 |
| Average Diluted Shares | | | | | 105.2 | 105.5 | 105.8 | 106.1 | 106.4 | 106.7 |

Exhibit 30: Debt Schedule

| | | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|-------|---------|---------|---------|---------|---------|---------|
| Debt: | | | | | | | |
| - Revolving Credit Facility (Line of Credit) - | | | | | | | |
| Cash Balance BOP | | \$1,680 | \$2,048 | \$2,190 | \$2,380 | \$2,623 | \$2,910 |
| Plus: Free Cash Flow from Operations & Investing | | 363 | 303 | 331 | 372 | 372 | 301 |
| Plus: Free Cash Flow from Financing (Before LOC) | | (124) | (129) | (131) | (135) | (132) | (138) |
| Less: Minimum Cash Balance | | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Total Cash Available or (Required) from LOC | | (81) | 222 | 389 | 617 | 862 | 1,073 |
| Revolver Balance | | 0 | 81 | 0 | 0 | 0 | 0 |
| Interest Paid | 8.50% | | 3 | 3 | 0 | 0 | 0 |
| Fee if LoC is Drawn | 1.00% | | 1 | 0 | 0 | 0 | 0 |
| Revolver Above Maximum Amount | 600 | | No | No | No | No | No |
| - Long-Term Debt (Debentures) - | | | | | | | |
| Beginning Balance | | 0 | 0 | 0 | 0 | 0 | 0 |
| Plus: Additions | | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: Scheduled Amortization | 0 yrs | 100 | 0 | 0 | 0 | 0 | 0 |
| Ending Balance | | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest Paid | 8.50% | | 4 | 0 | 0 | 0 | 0 |
| - Obligations Under Finance Leases - | | | | | | | |
| Beginning Balance | | 10 | 8 | 6 | 4 | 2 | 0 |
| Plus: Mandatory Issuances | | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: Scheduled Retirements | 5 yrs | 2 | 2 | 2 | 2 | 2 | 0 |
| Ending Balance | | 8 | 6 | 4 | 2 | 0 | 0 |
| Interest Expense | 5.00% | | 0 | 0 | 0 | 0 | 0 |
| - Interest Expense - | | | | | | | |
| Total Interest | | | 8 | 4 | 0 | 0 | 0 |

Exhibit 31: Statement of Cashflows

| Cash Flow Statement (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| From Operating Activities: | | | | | | | | | | |
| Net income | \$284 | \$541 | \$491 | \$323 | \$378 | \$386 | \$395 | \$396 | \$403 | \$411 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | | | | |
| Non-cash gain | 0 | 0 | (4) | (190) | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-cash impairment and other charges | 20 | 19 | 48 | 97 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation and Amortization | 173 | 178 | 179 | 176 | 201 | 207 | 210 | 214 | 218 | 220 |
| Deferred income taxes | 105 | 9 | 5 | (9) | 15 | 15 | 15 | 15 | 15 | 16 |
| Share-based compensation expense | 15 | 22 | 18 | 15 | 20 | 20 | 20 | 20 | 20 | 20 |
| U.S. qualified pension plan contributions | (25) | (128) | (55) | 0 | (52) | (52) | (52) | (52) | (52) | (52) |
| Change in assets and liabilities: | | | | | | | | | | |
| Merchandise inventories | 69 | (16) | 51 | 294 | 40 | (24) | (15) | (15) | (15) | (8) |
| Accounts Payable | 0 | 135 | (51) | 58 | (45) | 10 | 6 | 6 | 6 | 3 |
| Accrued and other liabilities | (30) | 39 | (40) | 139 | (33) | 15 | 9 | 9 | 9 | 5 |
| Pension litigation accrual | 178 | 13 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Class counsel fees paid in connection with pension litigation | 0 | (97) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other, net | 24 | 66 | 54 | 159 | 59 | 26 | 6 | 4 | 3 | (3) |
| Net cash provided by operating activities | \$813 | \$781 | \$696 | \$1,062 | \$582 | \$601 | \$594 | \$597 | \$607 | \$612 |
| From Investing Activities: | | | | | | | | | | |
| Capital Expenditures | (\$274) | (\$187) | (\$187) | (\$159) | (\$204) | (\$209) | (\$213) | (\$216) | (\$220) | (\$222) |
| Minority investments | (15) | (89) | (50) | (9) | (15) | (89) | (50) | (9) | (15) | (89) |
| Proceeds from sale of property | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Insurance proceeds related to loss on property and equipment | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash used investing activities | (\$289) | (\$274) | (\$235) | (\$168) | (\$219) | (\$298) | (\$263) | (\$225) | (\$235) | (\$311) |
| From Financing Activities: | | | | | | | | | | |
| Revolving credit facility | \$0 | \$0 | \$0 | \$0 | \$81 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Payment of long-term debt | 0 | 0 | 0 | (23) | 0 | 0 | 0 | 0 | 0 | 0 |
| Payment of obligations under finance leases | 0 | 0 | 0 | 0 | (2) | (2) | (2) | (2) | (2) | 0 |
| Payment of debt issuance costs | 0 | 0 | 0 | (4) | (1) | 0 | 0 | 0 | 0 | 0 |
| Contribution from non-controlling interest | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 |
| Purchase of treasury shares | (467) | (375) | (335) | (37) | (7) | (7) | (7) | (7) | (7) | (7) |
| Dividends paid on common stock | (157) | (158) | (164) | (73) | (133) | (136) | (139) | (139) | (141) | (144) |
| Proceeds from exercise of stock options | 13 | 5 | 5 | 4 | 13 | 13 | 13 | 13 | 13 | 13 |
| Proceeds from common stock issued under employee stock plans | 0 | 0 | 0 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Treasury stock reissued under employee stock plan | 5 | 2 | 3 | 0 | 5 | 2 | 3 | 0 | 5 | 2 |
| Shares of common stock repurchased to satisfy tax withholding obligations | (10) | (1) | (2) | (1) | (4) | (4) | (4) | (4) | (4) | (4) |
| Net cash used in financing activities | (\$616) | (\$527) | (\$493) | (\$126) | (\$45) | (\$131) | (\$133) | (\$137) | (\$134) | (\$138) |
| Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash | 50 | (30) | (7) | 8 | 50 | (30) | (7) | 8 | 50 | (30) |
| Net change in cash, cash equivalents, and restricted cash | (\$42) | (\$50) | (\$39) | \$776 | \$368 | \$142 | \$190 | \$243 | \$287 | \$133 |

Exhibit 32: Discounted Cash Flow Calculation

| DCF (\$millions) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|------------|--------|--------|--------|--------|-----------|-----------|-----------|-----------|-----------|
| Free Cash Flow Analysis: | | | | | | | | | | |
| EBITDA | 744 | 877 | 1,495 | 1,098 | 962 | 989 | 1,005 | 1,022 | 1,039 | 1,047 |
| EBIT | 571 | 699 | 649 | 303 | 517 | 532 | 541 | 550 | 559 | 563 |
| Tax Rate | 50.87% | 24.12% | 26.93% | 34.62% | 28.56% | 28.56% | 28.56% | 28.56% | 28.56% | 28.56% |
| Net Operating Profit After Tax | | | | | 369 | 380 | 386 | 393 | 399 | 403 |
| Depreciation & Amortization | | | | | 203 | 209 | 212 | 216 | 219 | 221 |
| Stock Based Compensation | | | | | 20 | 20 | 20 | 20 | 20 | 20 |
| Changes in net working capital | | | | | 20 | 26 | 6 | 4 | 3 | (3) |
| Capex | | | | | 204 | 209 | 213 | 216 | 220 | 222 |
| Unlevered Free Cash Flow | | | | | 368 | 373 | 399 | 407 | 415 | 424 |
| Date of Valuation | 12/20/2021 | | | | | 1/31/2022 | 1/31/2023 | 1/31/2024 | 1/31/2025 | 1/31/2026 |
| Period Adjustment Factor | | | | | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Period | | | | | 0.11 | 1.11 | 2.11 | 3.11 | 4.11 | 5.11 |
| WACC | | | | | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% | 6.23% |
| Present Value of Unlevered Free Cash Flow | | | | | 365 | 349 | 351 | 337 | 324 | 311 |

Exhibit 33: Present Value of the Unlevered Free Cash Flows and Its Value per Share

| Perpetuity Growth Method | | EBITDA Multiple Method | |
|--------------------------------------|----------------|-------------------------------------|----------------|
| Long Term growth Rate | 3% | Exit multiple | 8.0x |
| Terminal Value of Unlevered FCF | 435 | Exit EBITDA | 1,047 |
| Terminal Value (TV UCF / (WACC - g)) | 11,651 | Terminal Value (EBITDA * Exit Mult) | 8,379 |
| Present Value of Terminal Value | 8,554 | Present Value of Terminal Value | 6,152 |
| Present Value of Projected Period | 2,038 | Present Value of Projected Period | 2,038 |
| Enterprise Value | 10,591 | Enterprise Value | 8,189 |
| Less: Net Debt | (3,189) | Less: Net Debt | (3,189) |
| Less: Non-Controlling Interest | (5) | Less: Non-Controlling Interest | (5) |
| Less: Preferred Stock | 0 | Less: Preferred Stock | 0 |
| Less: Pension Liabilities | 0 | Less: Pension Liabilities | 0 |
| Less: Capital Leases | (3,079) | Less: Capital Leases | (3,079) |
| Plus: Non-Operating Assets | 0 | Plus: Non-Operating Assets | 0 |
| Plus: Equity in Affiliates | 337 | Plus: Equity in Affiliates | 337 |
| Equals: Equity Value | 4,655 | Equals: Equity Value | 2,253 |
| Diluted Shares Outstanding | 105.10 | Diluted Shares Outstanding | 105.10 |
| Equity Value Per Share | \$44.29 | Equity Value Per Share | \$21.44 |
| Implied Exit Multiple | 11.1x | | |

Exhibit 34: Comparable Company Analysis

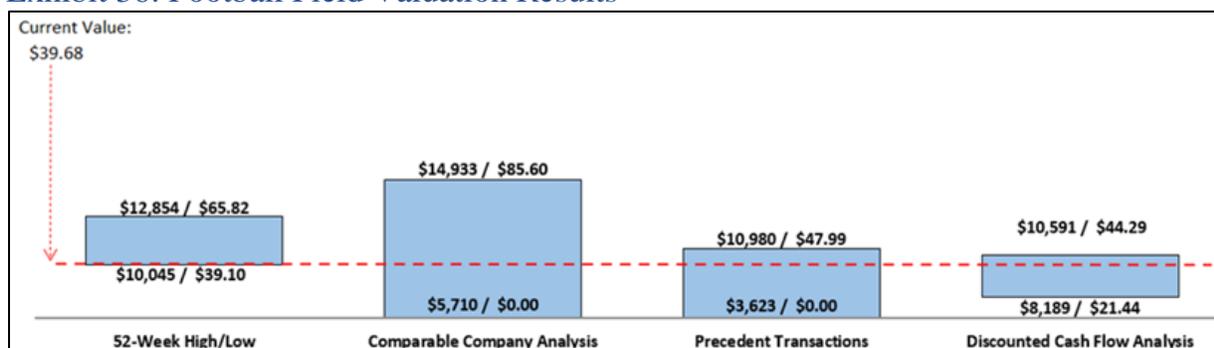
| Comparable Company Analysis (\$millions) | Current Stock Price (\$) | Market Capitalization (\$B) | Enterprise Value | Price/Earnings | | EV/Revenue | | EV/EBIT | | EV/EBITDA | |
|--|--------------------------|-----------------------------|------------------|----------------|-------|------------|-------|---------|-------|-----------|-------|
| | | | | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E |
| Company (Ticker) | | | | | | | | | | | |
| Footlocker, Inc (FL) | 39.96 | 4.011 | 6,234.72 | 13.0x | 11.1x | 1.1x | 0.9x | 20.6x | 12.1x | 5.7x | 6.5x |
| Designer Brands, Inc (DBI) | 14.24 | 1.045 | 1,941.46 | (2.1x) | 8.3x | 0.9x | 0.6x | (4.7x) | 9.1x | (17.3x) | 6.5x |
| Genesco, Inc (GCO) | 58.43 | 0.875 | 1,221.95 | (14.7x) | 8.6x | 0.7x | 0.5x | (71.9x) | 8.8x | 6.4x | 13.6x |
| Show Carnival, Inc (SCVL) | 38.70 | 1.090 | 1,123.86 | 69.1x | 7.6x | 1.2x | 0.9x | 45.5x | 5.7x | 11.9x | 5.2x |
| Caleres, Inc (CAL) | 21.08 | 0.803 | 1,588.35 | (1.8x) | 6.0x | 0.8x | 0.6x | (27.1x) | 7.8x | 9.4x | 6.0x |
| Boot Barn Holdings, Inc (BOOT) | 105.26 | 3.117 | 3,376.48 | 52.4x | 17.3x | 3.8x | 2.3x | 38.8x | 13.6x | 21.7x | 12.1x |
| Dicks Sporting Goods, Inc (DKS) | 101.26 | 8.770 | 10,452.20 | 7.3x | 8.6x | 0.9x | 0.9x | 5.1x | 6.8x | 4.4x | 5.5x |
| Steven Madden, Inc (SHOO) | 42.98 | 3.498 | 3,364.13 | 18.4x | 15.4x | 1.8x | 1.6x | 12.3x | 11.7x | 10.4x | 10.9x |
| Sketchers, Inc (SKX) | 40.16 | 6.260 | 7,057.93 | 8.5x | 13.6x | 1.1x | 1.0x | 11.8x | 10.1x | 6.9x | 8.2x |
| High | | | | 69.1x | 17.3x | 3.8x | 2.3x | 45.5x | 13.6x | 21.7x | 13.6x |
| Median | | | | 8.5x | 8.6x | 1.1x | 0.9x | (71.9x) | 5.7x | (17.3x) | 6.5x |
| Low | | | | (14.7x) | 6.0x | 0.7x | 0.5x | | | | 5.2x |

| Operating Statistics | Sales | | EBIT | | D&A | | EBITDA | | EPS | | Gross Margin (%) | |
|---------------------------------|---------|---------|-------|-------|-------|-------|---------|-------|---------|--------|------------------|--------|
| | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E | 2020A | 2021E |
| Company (Ticker) | | | | | | | | | | | | |
| Footlocker, Inc (FL) | \$5,447 | \$6,918 | \$303 | \$517 | \$176 | \$203 | \$1,098 | \$962 | \$3.07 | \$3.60 | 28.92% | 31.02% |
| Designer Brands, Inc (DBI) | 2,235 | 3,125 | (409) | 213 | 297 | 85 | (112) | 298 | (6.77) | 1.71 | 13.90% | 33.20% |
| Genesco, Inc (GCO) | 1,787 | 2,420 | (17) | 139 | 207 | (49) | 190 | 90 | (3.97) | 6.81 | 45.03% | 48.20% |
| Show Carnival, Inc (SCVL) | 977 | 1,298 | 25 | 196 | 70 | 19 | 94 | 215 | 0.56 | 5.09 | 28.66% | 38.90% |
| Caleres, Inc (CAL) | 2,117 | 2,842 | (59) | 203 | 228 | 63 | 169 | 266 | (11.80) | 3.52 | 37.20% | 43.20% |
| Boot Barn Holdings, Inc (BOOT) | 894 | 1,451 | 87 | 248 | 69 | 30 | 156 | 278 | 2.01 | 6.10 | 33.00% | 38.30% |
| Dicks Sporting Goods, Inc (DKS) | 12,293 | 12,116 | 2,035 | 1,548 | 323 | 342 | 2,357 | 1,890 | 13.87 | 11.73 | 31.83% | 35.60% |
| Steven Madden, Inc (SHOO) | 1,866 | 2,084 | 273 | 288 | 52 | 21 | 325 | 309 | 2.34 | 2.79 | 38.65% | 41.10% |
| Sketchers, Inc (SKX) | 6,285 | 7,144 | 598 | 701 | 430 | 157 | 1,028 | 858 | 4.73 | 2.95 | 47.63% | 49.00% |

Exhibit 35: Precedent Transaction Analysis

| Precedent Transaction Analysis (\$millions) - Specialty Stores | Transaction Date | Purchase Price | | Net Debt | Earnings | Revenue | EBIT | EBITDA | Equity Value / | | Enterprise Value / | |
|--|------------------|--------------------|------------------------|----------|----------|---------|-------|--------|----------------|-------------|--------------------|------------|
| | | Market Value (\$M) | Enterprise Value (\$M) | | | | | | Earnings (x) | Revenue (x) | EBIT (x) | EBITDA (x) |
| Transaction (Target/Acquirer) | | | | | | | | | | | | |
| Footlocker, Inc / Vesa Equity Investment S.a.R.L | 5/18/2020 | 2,649 | 5,260 | 2,611 | 209.0 | 7,103 | 396 | 1,596 | 12.7x | 0.7x | 13.3x | 3.3x |
| Macy's Inc / GreenLight Capital, Inc | 1/19/2016 | 11,244 | 18,142 | 6,898 | 995.0 | 26,618 | 2,196 | 3,258 | 11.3x | 0.7x | 8.3x | 5.6x |
| Big Lots, Inc / ESL Investments, Inc | 5/16/2011 | 2,898 | 2,614 | (284) | 219.1 | 2,944 | 354 | 429 | 13.2x | 0.9x | 7.4x | 6.1x |
| DSW Inc / Designer Brands, Inc | 2/8/2011 | 2,169 | 2,169 | 0 | 107.6 | 1,822 | 170 | 218 | 20.2x | 1.2x | 12.8x | 10.0x |
| High | | 11,244.26 | 18,142.26 | | | | | | 20.2x | 1.2x | 13.3x | 10.0x |
| Median | | 2,773.06 | 3,936.61 | | | | | | 12.9x | 0.8x | 10.5x | 5.8x |
| Low | | 2,169.46 | 2,169.46 | | | | | | 11.3x | 0.7x | 7.4x | 3.3x |

Exhibit 36: Football Field Valuation Results



Figures

Figure 1: Industry Map

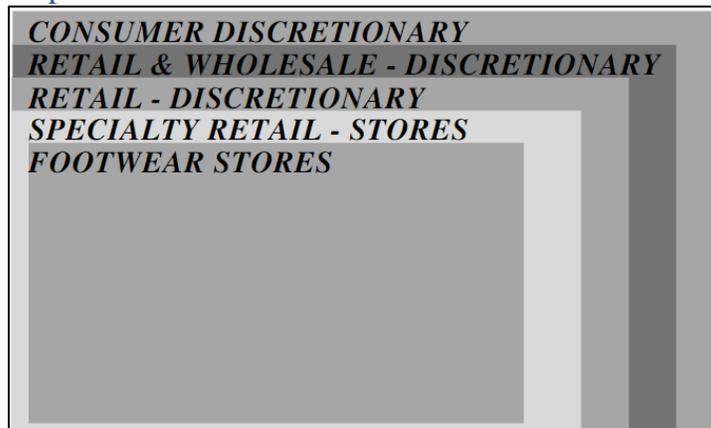


Figure 1: Bloomberg Industry Classification Standard (BICS) for Foot Locker

Figure 2: Store Fulfillment BOPIS

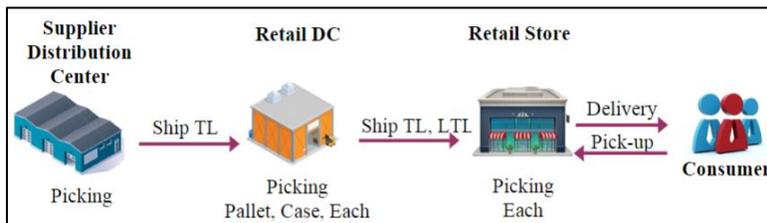


Figure 2: Figure 4-14, (Coyle et al)

Figure 3: Direct Store Delivery

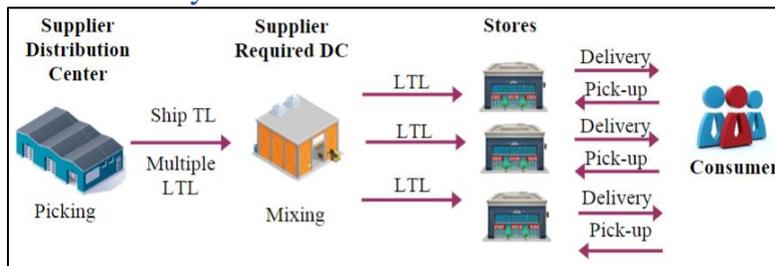


Figure 3: Figure 4-13, (Coyle et al)

Figure 4: Pool Distribution

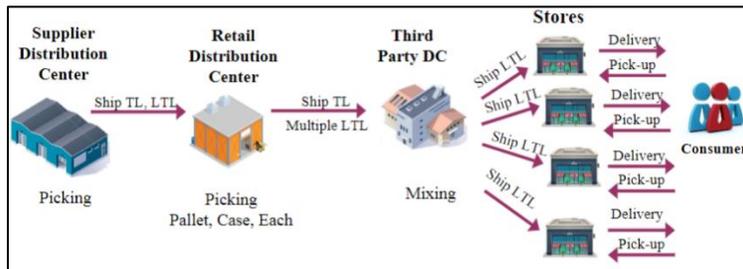


Figure 4: Figure 4-12, (Coyle et al)

Figure 5: Integrated Fulfillment

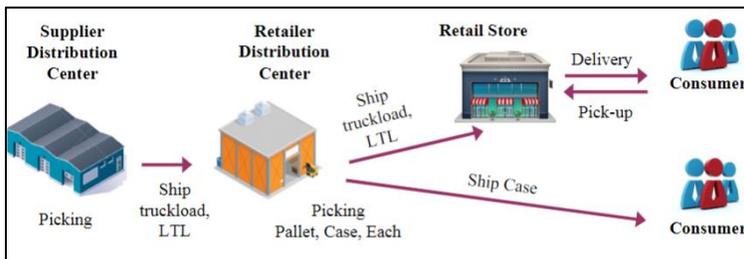


Figure 5: Figure 4-10, (Coyle et al)

Figure 6: Dedicated Fulfillment



Figure 6: Figure 4-11, (Coyle et al)

Figure 7: Flow-through Fulfillment

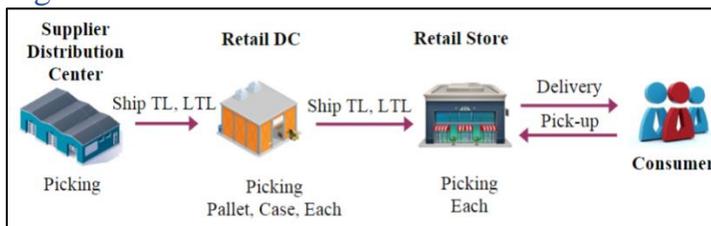


Figure 7: Figure 4-15, (Coyle et al)

Figure 8: Industry Outlook

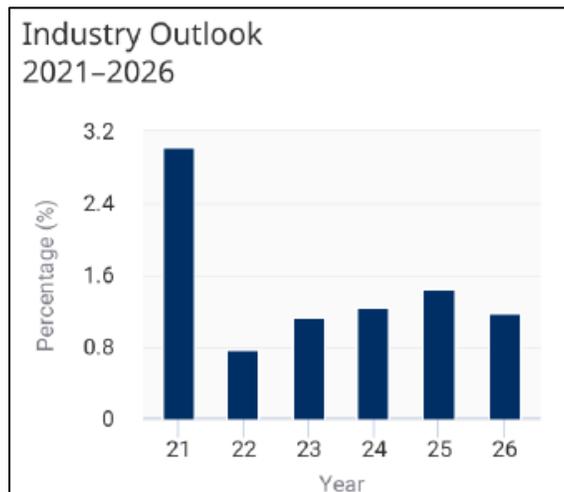


Figure 8: Industry Outlook, IBISWorld – Athletic Shoe Stores

Figure 9: Products & Services

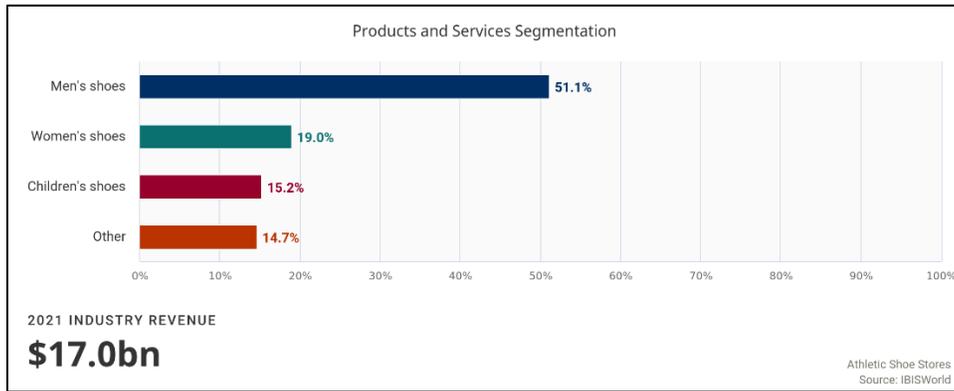


Figure 9: Products Segmentation, IBISWorld – Athletic Shoe Stores

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