Weitz | INVESTMENT MANAGEMENT

ANALYST CORNER/ JULY 2025

Our Investment Process in Action



CHRIS ALLEN, CFA®
High Yield Credit Analyst

WHY FOOT LOCKER

Foot Locker emerged as a compelling candidate for our fixed income portfolios due to a confluence of factors: a simple and manageable capital structure—anchored by a single $400 million senior unsecured bond maturing in 2029—a well-known brand operating across multiple retail banners, and pricing that had dislocated meaningfully from par. The bond's 4% coupon kept debt service manageable from an issuer perspective, while the market's discounting drove the bond into the mid-80s, creating attractive price convexity and a risk premium that suggested the potential for mispriced credit risk.

FOOT LOCKER, INC. (FL)

Foot Locker is a specialty retail company focusing on athletic apparel and footwear with approximately 2,400 retail stores in 20 countries across North America, Europe, Asia, Australia, and New Zealand, and a licensed store presence in Europe, the Middle East and Asia. Foot Locker operates five distinct brands across domestic and international markets:

- **Footlocker**
- **Kids Foot Locker**
- **Champs Sports**
- **WSS**
- **Atmos**

DISCOVER

We believe the premium spread and the combination of brand resilience, downside protection via asset coverage, and a BB credit rating warranted deeper examination. We conducted a full-cycle financial analysis covering:

- Revenue per store (nominal and inflation-adjusted)
- Gross margins, inventory levels, and cost of goods sold (COGS) trends
- General and administrative (G&A) efficiency, Capex intensity, and debt service capacity
- Leveraged free cash flow under multiple scenarios

While margins were compressed post-COVID, we identified a path back to baseline profitability—particularly if the company normalized selling, general and administrative (SG&A) spend.

EVALUATE

Each opportunity is evaluated across the entire fixed income universe—not just against peers. This comparative lens ensures that we pursue not only attractive yields but ones that compensate us appropriately for the embedded risks.

For Foot Locker, we reviewed executive backgrounds, compensation structures, and equity ownership. CEO Mary Dillon, previously at Ulta Beauty, brought credible retail turnaround experience. However, we flagged operational risks stemming from her reimagination strategy—still in early rollout phase—and weighed that into our risk budget and sizing.

We analyzed covenants of the 2029 indenture. We deemed the bondholder protections adequate, particularly for a BB-rated issuer. Relative value is an important decision in our portfolio construction. When we initially evaluated the bonds, they were trading at a spread greater than 300 basis points (bps) over Treasuries, approximately 150 bps wide of other BB rated bonds. On both a relative and absolute basis the risk/reward was attractive. This opportunity seemed rooted in some skepticism around the turnaround story. This prevailing skepticism led us to believe that the bond would exhibit above average volatility, which meant a better entry point was likely coming.

INVEST

Our patience was rewarded post–Liberation Day, when volatility pushed the bonds from the mid-80s into the high-70s. At that level, we were being paid over 6.5% above Treasuries for well-structured BB risk.

MONITOR & ADAPT

We began building the position in our Core Plus Income Fund in the high-70s and continued to evaluate relative value as the bonds rebounded. Before we could scale further, news broke that Dick's Sporting Goods (DKS) would acquire

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Foot Locker's equity at a ~70% premium. The bonds—suddenly derisked—rallied sharply and traded into the mid-90s. While unusually fast, this outcome validated our process: we were right on credit, structure, timing, and discipline.

STRATEGY AND PROCESS

Flexible, High-conviction portfolio

- Fixed Income markets are inefficient and, at times, illiquid.
- We build a flexible, concentrated, multi-sector portfolio that is conscious of asset capacity.

Bottom-up driven, top-down aware

- Human behavior and market sentiment are more volatile than the intrinsic value of a business.
- With consideration to economic and fixed income market drivers, we build the portfolio using a bottom-up research driven approach.

Emphasis on downside risk management

- Credit investing is asymmetric in nature, and attempting to forecast interest rates is speculative.
- The credit quality allocation of the fund may vary over time, but our core philosophy remains focused on managing downside risks.
- We seek to avoid investments that rely soley on making a correct interest rate forecast.

CONCLUSION

Foot Locker's 2029 unsecured bonds offered a rare opportunity to apply our high yield process from start to finish. From initial screening through recommendation, purchase, and rapid realization, the investment highlights how underwriting skill, patience, and discipline combine to generate alpha with high yield credit.

IMPORTANT DISCLOSURES

Holdings are subject to change and may not be representative of the Fund's current or future investments.

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 7/10/2025, they are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.

As of 6/30/2025, the following portfolio companies constituted a portion of the net assets of Core Plus Income Fund:

- Dick's Sporting Goods Inc. 0.04%
- Foot Locker Inc. 0.16%

Investors should consider carefully the investment objectives, risks, and charges and expenses of a fund before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvestments.com or from a financial advisor. Please read the prospectus carefully before investing.

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