INVESTING

Finish Line Looks to Rebound with Full-Year Results

By Julian Willis
March 20, 2013

With Finish Line's (FINL) fourth quarter and full-year earnings release approaching on March 28th, shareholders will soon know if the mall-based specialty retailer will recover from a difficult third quarter. The company last reported earnings on January 4th and missed guidance, admitting that a new e-commerce site, rolled out in November 2012, added to the company's autumn and early winter woes.

Of course, Wall Street punished the shares on the news, with the stock declining more than 8% over a 24-hour period. Despite a rocky start to calendar 2013, Finish Line is still managing its ~650 storefronts effectively, with same-store sales increasing a healthy 3.6% quarter-over-quarter. Below are three reasons why March 2013 might be the time to build a long position in this specialty retailer.

As Nike Goes — So Goes Finish Line

An outstanding preview for Finish Line's full-year results will be provided a week prior, on March 21st, when Nike (NKE) releases third quarter earnings. As with its largest competitor, Foot Locker (FL), Nike provides many products for Finish Line's shelves. Overall, Nike has been delivering outstanding business results the last few quarters and saw topline revenue surge +7% for the second quarter of 2012 versus the same quarter of 2011.

A retail and apparel brand bellwether, Nike should benefit from a reported 1.1% increase in February 2013 retail sales (which was a whopping 4.6% increase over February 2012), according to the U.S. Commerce Department. If Nike meets or beats earnings guidance on March 21st, don't expect Finish Line to follow far behind on March 28th. Finish Line's revised guidance for the fiscal year ending March 2nd is earnings per share between $1.47 and $1.51.

Finish Line May Be Trading at a Discount

According to Capital IQ, Finish Line has a trailing P/E (ttm) of 12.29, a price/book (mrq) of 1.82, and a gross margin (ttm) of 0.40 — all accomplished with zero debt. Finish Line's closest competitor in terms of market capitalization, Hibbett Sports (HIBB), appears to trade at a serious premium. Hibbett has a trailing P/E of 20.39, a price/book of 5.80, a gross margin of 0.37, and $714,000 in debt. Foot Locker has five times as many storefronts as Finish Line, has a comparable P/E of 12.55, a higher price/book of 2.13, a lesser gross margin of 0.33, and $133 million in debt. Despite displaying stronger operating discipline than its peers, Finish Line's shares are trading just slightly above their 52-week low of $16.87. Overall, Finish Line is trading at a discount to its historical valuation and peer retail comps — and its shares remain beaten down.

Running Shoes Remain Hot

Despite the fact that Americans have been reducing discretionary spending during economic uncertainty, athletic shoemakers continue to see a surge in demand. Whereas overall apparel sales have remained relatively flat in the last twelve months, according to NPD Group, athletic shoe and apparel sales are increasing in the high single digits.

In the last few quarters, Finish Line continues to reiterate brisk sales of lightweight running shoes — such as Nike's "Free" and new "Flyknit Lunar1+"— along with double-digit growth in traditional running shoes. In addition to its own click and mortar stores, Finish Line also operates 25 specialty running shops (known as "The Running Company") across seven states through a joint venture with Gart Capital Partners, a Denver private equity partnership.

With an expected strong earnings report from Nike on March 21st, an undervalued business, and ample opportunity to ride a running shoe trend, Finish Line should be able to meet or beat full-year guidance and lift its share price out of its third-quarter trough.