

# Floor & Decor Holdings, Inc. (FND)

Rating	<b>OUTPERFORM</b>
Price (01-Nov-18, US\$)	31.73
Target price (US\$)	(from 33.00) 37.00
52-week price range (US\$)	57.50 - 24.32
Market cap(US\$ m)	3,087
Enterprise value (US\$ m)	3,267

Target price is for 12 months.

Research Analysts  
Seth Sigman

Kieran McGrath

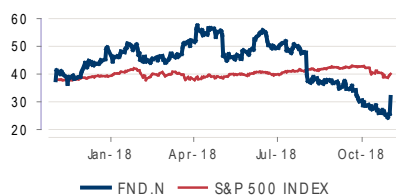
Lavesh Hemnani

**INCREASE TARGET PRICE**

## Finding a Floor; Unique Model Helping Navigate Uncertain Housing and Tariff Period

- **FND reported slightly better Q3 results**, while Q4 guidance was slightly below owing to lapping last year's hurricane, but not materially different, in our view. We view the results favorably in light of recent negativity on FND, and continue to see value in stock after the recent pullback. We also realize this quarter alone won't fully ease the concerns on the stock; there are a number of challenges ahead (incl. housing uncertainty, tariffs, competition). But, the fact that comps accelerated from Q2 and that margins were less impacted by mix - a key concern for investors - supports the relief. Looking ahead, we recently outlined a scenario of more modest growth for the sector ([Home Improvement Retail: Taking Some Time Away from Home](#)), but we believed that FND stock was more than reflecting that vs. other players in the space and that it should have numerous opportunities to navigate that through share gains, through store growth and growing awareness, and cost management.
- **Key changes**; No change to 2018, but we raise 2019 slightly, to \$1.09 from \$1.06. We raise comps to 7%, incl. some inflation and based on the better current run-rate, lower GM (now down 25 bps) based on transport costs, slightly lower SG&A (we assume corporate expenses grow below sales growth). We expect lower growth in 1H, due to hurricane comparisons, new stores and higher run-rate for certain costs (transport). Our TP goes to \$37, driven by our long-term EPS analysis, and equates to ~35x 2019 EPS, 18x EV/EBITDA, a slight premium to its home peer group. Key risks include housing turnover/home price appreciation, product mix, including competition in the hard surface flooring space, tariffs, and execution of store growth.

### Share price performance



On 01-Nov-2018 the S&P 500 INDEX closed at 2736.89  
Daily Nov01, 2017 - Nov01, 2018, 11/01/17 = US\$38.79

Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.13	0.20	0.17	0.19
2018E	0.26	0.27	0.24	0.17
2019E	0.27	0.31	0.30	0.21

### Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
EPS (CS adj.) (US\$)	0.69	0.94	1.09	1.37
Prev. EPS (US\$)	-	-	1.06	1.33
P/E rel. (%)	211.1	190.2	181.8	159.5
Revenue (US\$ m)	1,384.8	1,707.5	2,098.6	2,547.4
EBITDA (US\$ m)	158.8	190.0	225.2	280.1
OCFPS (US\$)	1.06	1.66	2.84	3.19
P/OCF (x)	45.9	19.1	11.2	9.9
EV/EBITDA (current)	20.6	17.2	14.5	11.6
Net debt (US\$ m)	189	180	171	161
ROIC (%)	19.41	16.69	14.10	15.64
Number of shares (m)	97.28	IC (current, US\$ m)		631.37
BV/share (Next Qtr., US\$)	-	EV/IC (x)		-
Net debt (Next Qtr., US\$ m)	-	Dividend (current, US\$)		-
Net debt/tot eq (Next Qtr., %)	-			-

Source: Company data, Thomson Reuters, Credit Suisse estimates

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, LEGAL ENTITY DISCLOSURE AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

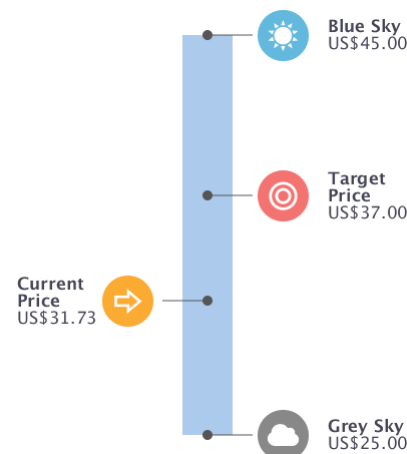
# Floor & Decor Holdings, Inc. (FND)

Price (01 Nov 2018): **US\$31.73**; Rating: **OUTPERFORM**; Target Price: (from 33.00) **37.00**; Analyst: **Seth Sigman**

Income Statement	12/17A	12/18E	12/19E	12/20E
Revenue (US\$ m)	1,384.8	1,707.5	2,098.6	2,547.4
EBITDA (US\$ m)	159	190	225	280
Depr. & amort.	(38)	(47)	(112)	(71)
EBIT (US\$)	118	133	158	199
Net interest exp	(14)	(8)	(9)	(9)
PBT (US\$)	104	125	149	190
Income taxes	4	(9)	(35)	(44)
Profit after tax	108	116	114	145
Other NPAT adjustments	0	0	0	0
Cash Flow	12/17A	12/18E	12/19E	12/20E
Cash flow from operations	109	174	299	339
CAPEX	(102)	(165)	(170)	(175)
Free cashflow to the firm	7	9	129	164
Cash flow from investments	(102)	(165)	(170)	(175)
Net share issue/(repurchase)	201	0	0	0
Dividends paid	0	0	0	0
Changes in Net Cash/Debt	202	9	9	10
Balance Sheet (US\$)	12/17A	12/18E	12/19E	12/20E
Cash & cash equivalents	1	2	4	6
Account receivables	54	58	63	76
Other current assets	21	10	12	13
Total fixed assets	221	339	450	554
Investment securities	-	-	-	-
Total assets	1,068	1,191	1,414	1,651
Total current liabilities	359	371	466	573
Shareholder equity	443	561	688	812
Total liabilities and equity	1,068	1,191	1,414	1,651
Net debt	189	180	171	161
Per share	12/17A	12/18E	12/19E	12/20E
No. of shares (wtd avg)	103	105	105	106
CS adj. EPS	0.69	0.94	1.09	1.37
Prev. EPS (US\$)	-	-	1.06	1.33
Dividend (US\$)	0.00	0.00	0.00	0.00
Free cash flow per share	0.07	0.08	1.22	1.54
Earnings	12/17A	12/18E	12/19E	12/20E
Sales growth (%)	31.8	23.3	22.9	21.4
EBIT growth (%)	52.3	13.3	18.5	25.7
Net profit growth (%)	74.4	39.0	15.8	27.1
EPS growth (%)	70.0	36.6	15.3	25.8
EBITDA margin (%)	11.5	11.1	10.7	11.0
EBIT margin (%)	8.5	7.8	7.5	7.8
Pretax margin (%)	7.5	7.3	7.1	7.5
Net margin (%)	5.1	5.8	5.5	5.7
Valuation	12/17A	12/18E	12/19E	12/20E
EV/EBITDA (x)	20.6	17.2	14.5	11.6
P/E (x)	45.9	33.6	29.1	23.2
Returns	12/17A	12/18E	12/19E	12/20E
ROIC (%)	19.4	16.7	14.1	15.6
Gearing	12/17A	12/18E	12/19E	12/20E
Net debt/equity (%)	42.6	32.0	24.8	19.8
Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.13	0.20	0.17	0.19
2018E	0.26	0.27	0.24	0.17
2019E	0.27	0.31	0.30	0.21

**Company Background**  
 Floor & Decor retails tile, wood, laminate, and natural stone flooring along with decorative and installation accessories, serving customers in the United States.

## Blue/Grey Sky Scenario



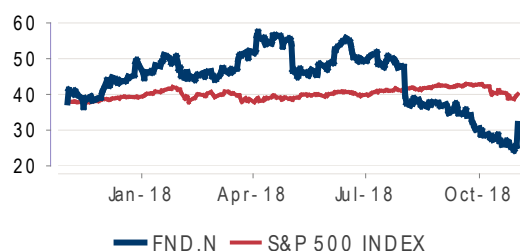
### Our Blue Sky Scenario (US\$) (from 40.00) 45.00

Our Blue Sky valuation of \$45 is based on 35x blue sky EPS of \$1.25, based on 1) greater mature store comp contribution, 2) higher new store productivity, and 3) incremental expense leverage driving EPS upside.

### Our Grey Sky Scenario (US\$) (from 20.00) 25.00

Our Grey Sky valuation of \$25 is based on 25x grey sky EPS of \$1.00, based on 1) weaker mature store comp contribution, 2) lower new store productivity, and 3) a weaker housing market, implying lower earnings growth compared to recent history.

## Share price performance



On 01-Nov-2018 the S&P 500 INDEX closed at 2736.89  
 Daily Nov01, 2017 - Nov01, 2018, 11/01/17 = US\$38.79

Source: Company data, Thomson Reuters, Credit Suisse estimates

## Incremental takeaways from Q3

- 1. Comps ex-hurricanes remain strong, +10%**, vs. 8.6% in Q2, accelerating within the quarter, as well. That was partly helped by greater contribution from newer stores entering the comp base. Guidance implies similar 9.5-10.0% base comps in Q4. Our sense is that business took a step down in Q2 from the prior run-rate, but has stabilized for now.
- 2. Some ticket trends to monitor**; Ticket was down 1.4%, which compares to down 0.5%. While consumers still seem to be trading up within product categories, we think project size per square foot was down slightly. Meanwhile transactions were +12.7%, up from 12.0% last quarter.
- 3. GM down but trending slightly better**; While transportation costs are rising, FND more effectively managed the mix towards LVP - by reducing product costs, and focusing on better attachments. GM is expected to decline more in Q4 primarily due to the comparison, and we still expect greater pressure in 1H18 than in consensus, but potentially stabilizing in 2H18.
- 4. Still some tariff uncertainty - but NT manageable**, with minimal impact in Q4, helped by cost renegotiations and currency offsets. Management discussed reducing costs, shifting sourcing, and select price increases to help mitigate the 25% tariff rate. While we see plenty of uncertainty in this scenario and would still expect GM rate to be down, we do believe that FND can maintain its value proposition, particularly in the “better” and “best” assortment vs. the many small players in its space that will be grappling with these issues as well.
- 5. SG&A leverage in comp stores better than expected**; Comp store SG&A leveraged 90bps vs. 50bps in Q2, due to leverage of occupancy expenses. Looking ahead, we think SG&A could be a key lever to support EPS should comps begin to moderate. For example, we expect corporate expenses to grow below sales growth.

## Q3 Details

- **Q3 adj. EPS of \$0.24 came in above consensus \$0.22** and \$0.21-0.23 guidance. Stronger than expected sales in the quarter helped drive better expense leverage, while mix was less impactful for GM relative to Q2.
- **Comps of +11.1% were ahead of consensus +9.9%** and 9.5-10.5% guidance. Comps included transactions +12.7% and ticket -1.4%. Hurricanes from last year contributed 110bps to Q3 comps, implying underlying comps of 10%, which would imply an acceleration on a three year basis. This includes ~40bps headwind related to Hurricane Harvey demand, called out separately in the 10Q.
- **Gross margins declined 54bps vs. consensus -64bps** and was better than -60 to -80bps guidance. This compares to 44bps of deleverage last quarter. The Q3 deleverage was mainly driven by lower product margins due to higher transportation expenses and higher inventory shrinkage. FND was lapping 55bps of better product margins helped by a favorable product mix and lower inventory shrinkage, offset by 5bps headwind related to distribution center costs.
- **Adjusted SG&A leveraged 8 bps vs. consensus expectations for 12bps of deleverage**; this was helped by 91bps of occupancy leverage from comparable stores, accelerating from 50bps last quarter, although still below historical run-rate of 100bps+. FND was lapping about 30bps of expense leverage from stronger sales last year.
- **EBIT deleverage lower than expected**; The combination of lower than expected GM deleverage and better SG&A leverage helped limit EBIT deleverage to -46bps vs. consensus -75bps, much better than -70 to -100bps guidance. This marks a significant

improvement from -134bps in Q2. Adjusted EBITDA margins were down 32bps vs. -77bps consensus, improving from -103bps in Q2.

## Q4/ 2018 Outlook

- **Full year EPS/comps unchanged, EBITDA slightly lower;** EPS is still expected in the \$0.93-0.96 range vs. consensus \$0.96 but also includes less than half a penny benefit from lower share count. Comps are unchanged at 9-10%, however low end of revenue guidance is up slightly (\$1,702-1,710mn vs. prior \$1,696-1,710mn). Adjusted EBITDA is now expected to be about 0.5-0.8% lower at \$187.7-191.6mn vs. 188.7-193.2mn prior, implying 100bps lower EBITDA margin at 11.0-11.2%. This is due to ~\$1mn of costs related to SOX compliance not embedded in prior guidance. FND still expects to end the year with 100 stores in operation.
- **Q4 guidance below expectations;** Q4 EPS is expected in the \$0.16-0.19 range vs. consensus \$0.21 and prior expectations of \$0.19-0.20, which seems to be driven by lower revenue expectations (flat to 2% comps vs. prior +1 to 4%) and weaker gross margins (-70bps vs. consensus -50bps). Actual sales dollars are now expected to be +10-12%, about 100bps below prior expectations. Adjusted EBITDA guidance of \$40.3-44.2mn implies 9.4-10.1% in margins, down 100-180bps y/y and 50-85bps below prior expectations.
- **Q4 comps guidance of flat to +2% brackets consensus +1.8% but is below 1-4% prior expectations.** The Houston market is expected to be a 900bps headwind to Q4 comps, driven by strong recovery sales last year. Adjusting for this, guidance would imply comps of 9-11% and imply an acceleration on a two-year basis. This compares to 10.5-12.5% comps at the high end based on prior expectations, which included a 650-850bps hurricane headwind.

Figure 1: FND Income Statement

Credit Suisse Earnings Model																
FLOOR & DÉCOR QUARTERLY INCOME STATEMENT																
FY ends December, in thousands except per share data																
	2013	2014	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18	4Q18E	2018E	2019E	2020E
<b>Net Sales</b>	443,995	584,588	772,118	1,050,759	307,296	344,047	343,923	389,501	1,384,767	402,948	434,279	435,882	434,425	1,707,534	2,098,609	2,547,352
Cost of Sales	274,172	355,051	464,450	621,497	181,825	201,819	201,432	227,127	812,203	237,562	256,641	257,656	256,094	1,007,953	1,243,885	1,513,637
<b>Gross Profit</b>	169,823	229,537	307,668	429,262	125,471	142,228	142,491	162,374	572,564	165,386	177,638	178,226	178,331	699,581	854,724	1,033,716
Selling and Store Operating Expenses	106,834	146,486	200,372	271,876	80,751	85,650	85,023	102,223	353,647	102,567	108,626	109,182	119,356	439,731	542,384	649,125
Pre-Opening and Relocation Expenses	5,196	7,412	7,380	13,732	4,167	2,958	6,700	2,660	16,485	2,974	6,588	8,330	7,516	25,408	32,528	40,758
Store Level Costs	112,030	153,898	207,753	285,608	84,918	88,608	91,723	104,883	370,132	105,541	115,214	117,512	126,872	465,139	574,913	689,883
General and Administrative	30,530	41,958	49,637	64,025	17,881	19,518	22,172	25,090	84,661	23,339	25,179	26,477	26,066	101,061	121,766	145,199
SG&A	142,561	195,856	257,389	360,133	102,799	108,126	113,895	129,973	454,793	128,880	140,393	143,989	152,937	566,199	696,679	835,082
Adjusted EBIT	27,650	37,664	50,574	79,629	22,672	34,102	28,596	32,401	117,771	36,506	37,245	34,237	25,394	133,382	158,045	198,633
<b>Adj. Pro Forma EBIT as Public Co.</b>	25,361	35,375	48,285	77,340	22,672	34,102	28,596	32,401	117,771	36,506	37,245	34,237	25,394	133,382	158,045	198,633
Interest Expense	7,684	8,949	9,204	12,804	5,414	3,353	2,610	2,400	13,777	1,784	2,145	2,171	2,200	8,300	8,600	8,700
Loss on Early Extinguishment of Debt	1,638	0	0	1,813	0	5,442	0	0	5,442	0	0	0	0	0	0	0
Pre-Tax Income	17,940	24,732.0	41,075	54,513	17,258	25,307	25,986	30,001	98,552	34,722	35,100	32,066	23,194	125,082	149,445	189,933
Adjusted Pre-Tax Income	19,966	28,716	41,370	66,825	17,258	30,749	25,986	30,001	103,994	34,722	35,100	32,066	23,194	125,082	149,445	189,933
<b>Adj. Pro Forma EBT as Public Co.</b>	17,677	26,426	39,081	64,536	17,258	30,749	25,986	30,001	103,994	34,722	35,100	32,066	23,194	125,082	149,445	189,933
Taxes	6,857	9,635	15,463	11,474	6,130	4,878	2,731	-17,975	-4,236	2,851	-4,746	5,498	5,437	9,040	34,970	44,444
Net Income	11,083	15,097	25,612	43,039	11,128	20,429	23,255	47,976	102,788	31,871	39,846	26,568	17,757	116,042	114,475	145,489
Adjusted Taxes	12,335	17,529	25,796	50,846	11,128	25,871	23,255	47,976	108,230	31,871	39,846	26,568	17,757	116,042	114,475	145,489
Adjusted Net Income	12,335	17,529	25,796	50,846	11,128	25,871	23,255	47,976	108,230	31,871	39,846	26,568	17,757	116,042	114,475	145,489
<b>Adj Pro Forma Net Income as Public Co.</b>	6,835	12,867	21,877	40,791	13,157	20,735	17,341	19,911	71,144	26,731	28,373	25,533	18,257	98,894	114,475	145,489
Diluted EPS	\$0.11	\$0.15	\$0.26	\$0.43	\$0.11	\$0.20	\$0.22	\$0.46	\$1.00	\$0.30	\$0.38	\$0.25	\$0.17	\$1.11	\$1.09	\$1.37
<b>Adj. Pro Forma EPS as Public Co.</b>	\$0.07	\$0.13	\$0.22	\$0.41	\$0.13	\$0.20	\$0.17	\$0.19	\$0.69	\$0.26	\$0.27	\$0.24	\$0.17	\$0.94	\$1.09	\$1.37
Diluted shares outstanding	100,375	100,375	100,375	100,375	98,792	102,930	103,900	104,238	102,949	104,665	104,937	104,565	104,800	104,742	105,146	106,197
<b>EBITDA Reconciliation</b>																
EBITDA	33,864	44,754	67,072	94,280	30,440	42,128	37,121	41,628	151,317	46,734	47,928	46,224	39,730	180,616	216,806	269,959
Adjusted EBITDA (incl Pre-Open Costs)	36,776	51,208	70,704	108,460	31,897	43,681	39,709	43,494	158,781	47,827	50,683	48,918	42,602	190,030	225,200	280,149
<b>Adjusted Pro forma EBITDA (Incl. Pre-Open)</b>	34,487	48,919	68,415	106,170	31,897	43,681	39,709	43,494	158,781	47,827	50,683	48,918	42,602	190,030	225,200	280,149
<b>Ratios</b>																
<b>Gross Profit</b>	38.2%	39.3%	39.8%	40.9%	40.8%	41.3%	41.4%	41.7%	41.3%	41.0%	40.9%	40.9%	41.1%	41.0%	40.7%	40.6%
Store Operating Expenses	24.1%	25.1%	26.0%	25.9%	26.3%	24.9%	24.7%	26.2%	25.5%	25.5%	25.0%	25.0%	27.5%	25.8%	25.8%	25.5%
Pre-Opening Expenses	1.2%	1.3%	1.0%	1.3%	1.4%	0.9%	1.9%	0.7%	1.2%	0.7%	1.5%	1.9%	1.7%	1.5%	1.6%	1.6%
Store Level Costs Sub-Total	25.2%	26.3%	26.9%	27.2%	27.6%	25.8%	26.7%	26.9%	26.7%	26.2%	26.5%	27.0%	29.2%	27.2%	27.4%	27.1%
Store EBIT	13.0%	12.9%	12.9%	13.7%	13.2%	15.6%	14.8%	14.8%	14.6%	14.9%	14.4%	13.9%	11.8%	13.7%	13.3%	13.5%
G&A Expenses (incl Public Co Costs)	7.4%	7.6%	6.7%	6.3%	5.8%	5.7%	6.4%	6.4%	6.1%	5.8%	5.8%	6.1%	6.0%	5.9%	5.8%	5.7%
SG&A, Adj.	32.5%	33.2%	33.6%	33.5%	33.5%	31.4%	33.1%	33.4%	32.8%	32.0%	32.3%	33.0%	35.2%	33.2%	33.2%	32.8%
<b>Adjusted pro forma EBIT incl Public Co Costs</b>	5.7%	6.1%	6.3%	7.4%	7.4%	9.9%	8.3%	8.3%	8.5%	9.1%	8.6%	7.9%	5.8%	7.8%	7.5%	7.8%
D&A	1.5%	1.9%	2.2%	2.4%	2.5%	2.3%	2.5%	2.4%	2.4%	2.5%	2.5%	2.8%	3.3%	2.8%	2.8%	2.8%
Stock Option Expense	0.4%	0.4%	0.4%	0.3%	0.29%	0.36%	0.41%	0.36%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%	0.4%	0.4%
<b>Adjusted Pro forma EBITDA incl Public Co Costs</b>	7.8%	8.4%	8.9%	10.1%	10.4%	12.7%	11.5%	11.2%	11.5%	11.9%	11.7%	11.2%	9.8%	11.1%	10.7%	11.0%
Interest Expense	1.7%	1.5%	1.2%	1.2%	1.8%	1.0%	0.8%	0.6%	1.0%	0.4%	0.5%	0.5%	0.5%	0.5%	0.4%	0.3%
Adj. Pre-Tax Income	4.0%	4.5%	5.1%	6.1%	5.6%	8.9%	7.6%	7.7%	7.5%	8.6%	8.1%	7.4%	5.3%	7.3%	7.1%	7.5%
Effective Tax Rate	38.2%	39.0%	37.6%	21.0%	35.5%	19.3%	10.5%	-59.9%	-4.3%	8.2%	-13.5%	17.1%	23.4%	7.2%	23.4%	23.4%
<b>Adj. Pro Forma Net Income incl Public Co Costs</b>	1.5%	2.2%	2.8%	3.9%	4.3%	6.0%	5.0%	5.1%	5.1%	6.6%	6.5%	5.9%	4.2%	5.8%	5.5%	5.7%

Source: Company data, Credit Suisse estimates

**Companies Mentioned** (Price as of 01-Nov-2018)

**Floor & Decor Holdings, Inc.** (FND.N, \$31.73, OUTPERFORM, TP \$37.0)

**Disclosure Appendix**

**Analyst Certification**

Seth Sigman, Kieran McGrath and Lavesh Hemnani each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Floor & Decor Holdings, Inc. (FND.N)**

FND.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
22-May-17	36.28	43.00	O *
17-Jul-17	39.47		R
25-Jul-17	37.88	43.00	O
03-Nov-17	41.29	47.00	
13-Nov-17	39.07		R
20-Nov-17	38.45	47.00	O
10-Jan-18	46.25	50.00	
03-May-18	46.56	55.00	
02-Aug-18	39.53	50.00	
17-Oct-18	26.99	33.00	



\* Asterisk signifies initiation or assumption of coverage.

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Not Rated (NR) :** Credit Suisse Equity Research does not have an investment rating or view on the stock or any other securities related to the company at this time.

**Not Covered (NC) :** Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	48%	(64% banking clients)
Neutral/Hold*	38%	(59% banking clients)
Underperform/Sell*	12%	(52% banking clients)
Restricted	2%	

\*For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

### Important Global Disclosures

Credit Suisse's research reports are made available to clients through our proprietary research portal on CS PLUS. Credit Suisse research products may also be made available through third-party vendors or alternate electronic means as a convenience. Certain research products are only made available through CS PLUS. The services provided by Credit Suisse's analysts to clients may depend on a specific client's preferences regarding the frequency and manner of receiving communications, the client's risk profile and investment, the size and scope of the overall client relationship with the Firm, as well as legal and regulatory constraints. To access all of Credit Suisse's research that you are entitled to receive in the most timely manner, please contact your sales representative or go to <https://plus.credit-suisse.com>.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: <https://www.credit-suisse.com/sites/disclaimers-ib/en/managing-conflicts.html>.

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

Credit Suisse has decided not to enter into business relationships with companies that Credit Suisse has determined to be involved in the development, manufacture, or acquisition of anti-personnel mines and cluster munitions. For Credit Suisse's position on the issue, please see <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/policy-summaries-en.pdf>.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Floor & Decor Holdings, Inc. (FND.N)

**Method:** Our \$37 target price is based on ~35x our 2019 EPS of \$1.09 (18x EBITDA). Our Outperform rating is based on total return relative to the rest of our coverage.

**Risk:** Risks to our \$37 target price and Outperform rating include: 1) macro risks, including rising interest rates, deteriorating consumer confidence, and tighter credit availability; 2) store growth execution risk, and 3) risks around increased regulation in the hard surface flooring industry.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures/view/selectArchive> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

Credit Suisse currently has, or had within the past 12 months, the following as investment banking client(s): FND.N

Credit Suisse provided investment banking services to the subject company (FND.N) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (FND.N) within the past 12 months.

Within the past 12 months, Credit Suisse has received compensation for investment banking services from the following issuer(s): FND.N

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FND.N) within the next 3 months.

Credit Suisse or a member of the Credit Suisse Group is a market maker or liquidity provider in the securities of the following subject issuer(s): FND.N

A member of the Credit Suisse Group is party to an agreement with, or may have provided services set out in sections A and B of Annex I of Directive 2014/65/EU of the European Parliament and Council ("MiFID Services") to, the subject issuer (FND.N) within the past 12 months.

For date and time of production, dissemination and history of recommendation for the subject company(ies) featured in this report, disseminated within the past 12 months, please refer to the link: <https://rave.credit-suisse.com/disclosures/view/report?i=389020&v=23gzjfsya2oyo2dvzjnlazor>.

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report may participate in events hosted by the subject company, including site visits. Credit Suisse does not accept or permit analysts to accept payment or reimbursement for travel expenses associated with these events.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit <https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html>.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

This research report is authored by:

**Credit Suisse Securities (USA) LLC** .....Seth Sigman ; Kieran McGrath ; Lavesh Hemnani

Important disclosures regarding companies that are the subject of this report are available by calling +1 (877) 291-2683. The same important disclosures, with the exception of valuation methodology and risk discussions, are also available on Credit Suisse's disclosure website at <https://rave.credit-suisse.com/disclosures> . For valuation methodology and risks associated with any recommendation, price target, or rating referenced in this report, please refer to the disclosures section of the most recent report regarding the subject company.



This report is produced by subsidiaries and affiliates of Credit Suisse operating under its Global Markets Division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in **European Union (except Switzerland)**: by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **Germany**: Credit Suisse (Deutschland) Aktiengesellschaft regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). **United States and Canada**: Credit Suisse Securities (USA) LLC; **Switzerland**: Credit Suisse AG; **Brazil**: Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; **Mexico**: Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); **Japan**: by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kisho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; **Hong Kong**: Credit Suisse (Hong Kong) Limited; **Australia**: Credit Suisse Equities (Australia) Limited; **Thailand**: Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahim Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok10500, Thailand. Tel. : **Malaysia**: Credit Suisse Securities (Malaysia) Sdn Bhd; **Singapore**: Credit Suisse AG, Singapore Branch; **India**: Credit Suisse Securities (India) Private Limited (CIN no.U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India as Research Analyst (registration no. INH 00001030) and as Stock Broker (registration no. INB230970637; INF230970637; INF010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. : **South Korea**: Credit Suisse Securities (Europe) Limited, Seoul Branch; **Taiwan**: Credit Suisse AG Taipei Securities Branch; **Indonesia**: PT Credit Suisse Sekuritas Indonesia; **Philippines**: Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above.

#### Additional Regional Disclaimers

**Hong Kong**: Credit Suisse (Hong Kong) Limited ("CSHK") is licensed and regulated by the Securities and Futures Commission of Hong Kong under the laws of Hong Kong, which differ from Australian laws. CSHK does not hold an Australian financial services licence (AFSL) and is exempt from the requirement to hold an AFSL under the Corporations Act 2001 (the Act) under Class Order 03/1103 published by the ASIC in respect of financial services provided to Australian wholesale clients (within the meaning of section 761G of the Act). Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person.

**Australia** (to the extent services are offered in Australia): Credit Suisse Securities (Europe) Limited ("CSSEL") and Credit Suisse International ("CSI") are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority under UK laws, which differ from Australian Laws. CSSEL and CSI do not hold an Australian Financial Services Licence ("AFSL") and are exempt from the requirement to hold an AFSL under the Corporations Act (Ch) 2001 ("Corporations Act") under Class Order 03/1099 published by the Australian Securities and Investments Commission ("ASIC"), in respect of the financial services provided to Australian wholesale clients (within the meaning of section 761G of the Corporations Act). This material is not for distribution to retail clients and is directed exclusively at Credit Suisse's professional clients and eligible counterparties as defined by the FCA, and wholesale clients as defined under section 761G of the Corporations Act. Credit Suisse (Hong Kong) Limited ("CSHK") is licensed and regulated by the Securities and Futures Commission of Hong Kong under the laws of Hong Kong, which differ from Australian laws. CSHK does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act under Class Order 03/1103 published by the ASIC in respect of financial services provided to Australian wholesale clients (within the meaning of section 761G of the Corporations Act). Credit Suisse Securities (USA) LLC (CSSU) and Credit Suisse Asset Management LLC (CSAM LLC) are licensed and regulated by the Securities Exchange Commission of the United States under the laws of the United States, which differ from Australian laws. CSSU and CSAM LLC do not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act under Class Order 03/1100 published by the ASIC in respect of financial services provided to Australian wholesale clients (within the meaning of section 761G of the Corporations Act).

**Malaysia**: Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on + .

**Singapore**: This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore Branch to overseas investors (as defined under the Financial Advisers Regulations). Credit Suisse AG, Singapore Branch may distribute reports produced by its foreign entities or affiliates pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact Credit Suisse AG, Singapore Branch at for matters arising from, or in connection with, this report. By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore Branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore Branch may provide to you.

**EU**: This report has been produced by subsidiaries and affiliates of Credit Suisse operating under its Global Markets Division

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

This material is issued and distributed in the U.S. by CSSU, a member of NYSE, FINRA, SIPC and the NFA, and CSSU accepts responsibility for its contents. Clients should contact analysts and execute transactions through a Credit Suisse subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this case are available upon request in respect of this report.

CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that. No information or communication provided herein or otherwise is intended to be, or should be construed as, a recommendation within the meaning of the US Department of Labor's final regulation defining "investment advice" for purposes of the Employee Retirement Income Security Act of 1974, as amended and Section 4975 of the Internal Revenue Code of 1986, as amended, and the information provided herein is intended to be general information, and should not be construed as, providing investment advice (impartial or otherwise).

Copyright © 2018 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.