



Floor & Decor Holdings, Inc. (FND)

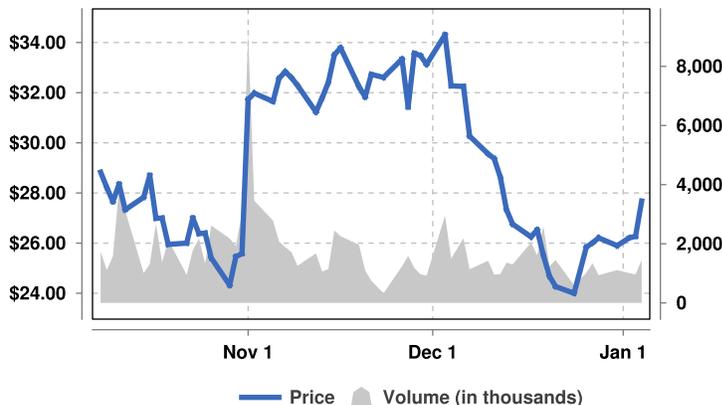
NYSE - Consumer Cyclical

3 - Neutral

Investment Recommendation

- We recommend investors hold FND.
- FND earns our Neutral rating. See Investment Rating Details below.
- A Neutral rating means this stock's upside potential is about equal to its downside risk.
- FND ranks in the 57th percentile of the 2750+ stocks we cover.
- Ranks 238th out of 435 Consumer Cyclical Sector stocks.

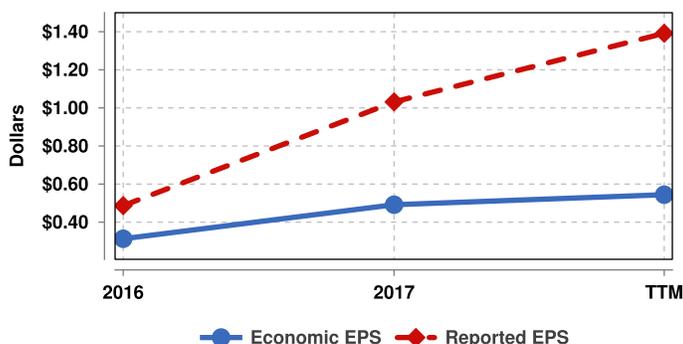
Price 01/04/2019: \$27.68
 Economic Book Value per share: \$11.94
 52-Week Range: \$23.30 - \$58.28



Investment Rating Details

Risk/Reward Rating	Quality of Earnings		Valuation		
	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield	Price-to-EBV Ratio	Growth Appreciation Period (yrs)
5 - Very Unattractive	Misleading Trend	Bottom Quintile	<-5%	> 3.5 or -1 < 0	> 50
4 - Unattractive	False Positive	4th Quintile	-5%<-1%	2.4 < 3.5 or < -1	20 < 50
3 - Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6 < 2.4	10 < 20
2 - Attractive	Positive EE	2nd Quintile	3%<10%	1.1 < 1.6	3 < 10
1 - Very Attractive	Rising EE	Top Quintile	>10%	0 < 1.1	0 < 3

Accounting vs Economic Earnings



Accounting Adjustments Summary

- FND's accounting earnings overstate its economic earnings, which equal $(ROIC - WACC) * \text{Average Invested Capital}$.
- For FND, we made a total of \$758 million in income statement and balance sheet adjustments to convert accounting earnings to economic earnings in FY17.
- We made \$1,170 million in adjustments in our DCF valuation of the stock.
- We make, in general, 10 types of [income statement adjustments](#) to derive NOPAT, 12 types of [balance sheet adjustments](#) to derive [Average Invested Capital](#), & 10 types of [valuation adjustments](#) in our reverse [DCF valuation models](#).

Stock Price Performance

Last 30 Days	(14.2%)
Last 60 Days	(12.5%)
Last 90 Days	(3.1%)
Last Year	(40.1%)

Key Market Statistics

Enterprise Value (MM)	\$3,647
EV/EBITDA	20.16
P/E (TTM)	19.89

About New Constructs

- Our research aims to empower more informed investment decision by providing the most comprehensive and accurate analysis of firms' true profitability and valuation.
- This [Ernst & Young white paper](#) demonstrates the superiority of our data and models. The Appendix details exactly how we stack up against traditional firms.
- Harvard Business School's case study "[New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#)" features our unique research automation technology.

Formulas for Key Metrics

- $\text{Economic Earnings} = (\text{ROIC} - \text{WACC}) * \text{Average Invested Capital}$
- $\text{ROIC} = \text{NOPAT} / \text{Average Invested Capital}$
- $\text{Free Cash Flow} = \text{NOPAT} - \text{change in Invested Capital}$



Economic vs Reported Earnings

Economic Earnings are 1 - Very Attractive

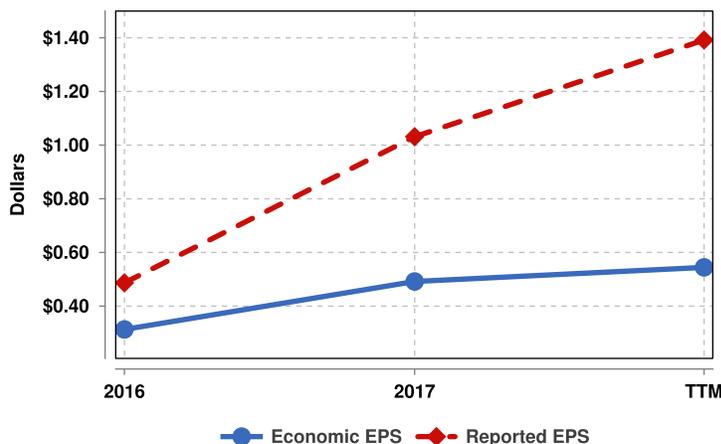
Economic Earnings are almost always meaningfully different than reported earnings. We believe Economic Earnings provide a truer measure of profitability and shareholder value creation than reported earnings because they have been adjusted to remove over twenty accounting distortions.

The majority of data required to reverse accounting distortions is available only in the Footnotes and MD&A, which we analyze rigorously. Our core competency is gathering and analyzing all relevant financial data from filings so that we can deliver earnings analysis that best represents the true profitability of businesses.

Economic Earnings per share (EEPS) for FND for the trailing twelve months earn our Very Attractive rating.

Appendix 1 in the report available to members of our website provides a detailed reconciliation between economic and accounting earnings.

Economic EPS vs Reported EPS



Return on Invested Capital (ROIC)

ROIC is 3 - Neutral

ROIC measures a company's return on all cash invested in the business. It is the truest measure of profitability. Stock valuations are more highly correlated to ROIC than any other metric. ROIC is calculated as NOPAT divided by Average Invested Capital.

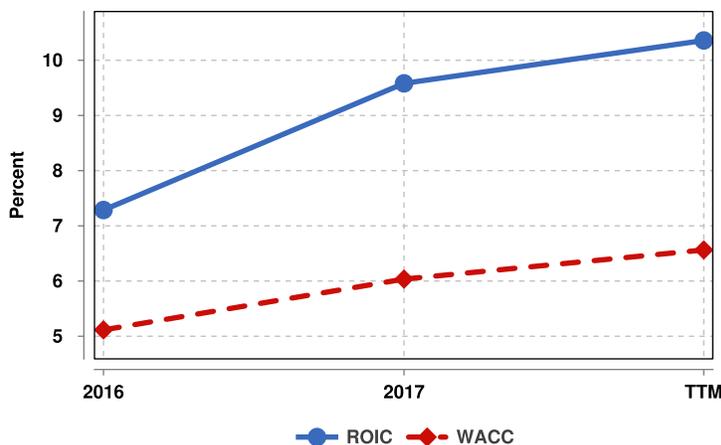
Weighted-Average Cost of Capital (WACC) is the average of debt and equity capital costs that all publicly traded companies with debt and equity stakeholders incur as a cost of operating.

Companies must earn an ROIC greater than WACC to generate positive economic earnings and create value for shareholders.

FND's ROIC for the trailing twelve months earns our Neutral rating.

Appendix 1 in the report available to members of our website provides details on all the accounting adjustments we make to provide the best ROIC in the business as demonstrated by Ernst & Young.

ROIC vs WACC



Free Cash Flow Yield (FCF Yield)

Free Cash Flow Yield is 3 - Neutral

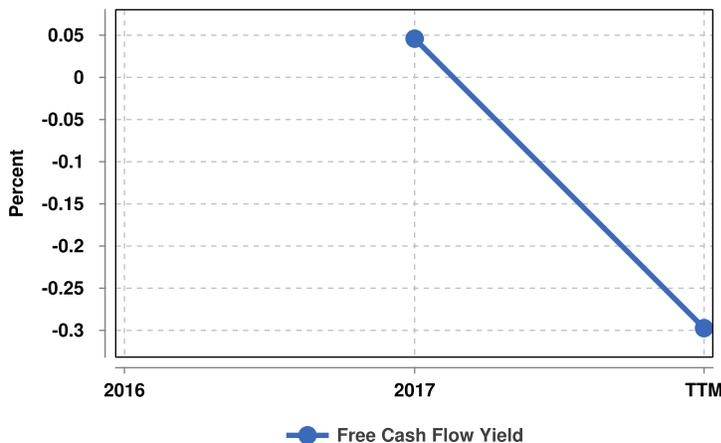
Free Cash Flow reflects the amount of cash free for distribution to all stakeholders (including debt & equity). FCF Yield divides free cash flow by enterprise value.

Using Free Cash Flow Yield to pick stocks is not a new strategy. However, our strategy yields superior results because we use a better measure of Free Cash Flow. In the same way our Economic EPS are better measures of profitability than reported EPS, our measure of Free Cash Flow is better than traditional accounting-based Free Cash Flow.

FND's FCF Yield for the trailing twelve months earns our Neutral rating.

Appendix 1 in the reports available members of our website provides the income statement and balance sheet adjustments required for an accurate measure of FCF.

Free Cash Flow Yield





Price-to-EBV Ratio

Price-to-EBV Ratio is **3 - Neutral**

Price-to-Economic Book Value (EBV) measures the difference between the market's expectations for future profits and the no-growth value of the stock.

EBV measures the no-growth value of the company based on the company's current Net Operating Profit After Tax (NOPAT).

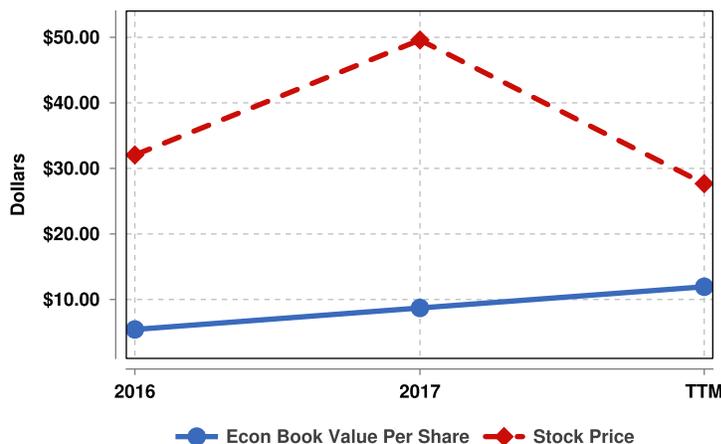
When prices are higher than EBV, the market predicts the NOPAT of the company will increase and expectations for profit growth are reflected in the stock. If the stock price equals EBV, the market predicts NOPAT will remain the same and there are no expectations for profit growth reflected in the stock. When stock prices are lower than EBV, the market predicts NOPAT will decrease and expectations for permanent profit decline are reflected in the stock.

In general, we like to buy stocks with low expectations for profit growth and sell/short stocks with high expectations for profit growth.

FND's current Price-to-EBV per share earns our Neutral rating.

Appendix 2 in the reports available to member of our website details all the valuation adjustments required for an accurate measure of economic book value.

Stock Price vs Economic Book Value (EBV) Per Share



Growth Appreciation Period

The Growth Appreciation Period is **1 - Very Attractive**

The market-implied duration of profit growth or **GAP** measures the number of years the company must maintain an edge over its competitors by earning ROIC greater than the weighted-average cost of capital on new investments.

We believe FND embeds a Very Attractive level of market expectations because there is a conservative level of expected financial performance implied by its market price compared to the company's historical performance.

At FND's current stock price of \$27.68, the market is expecting revenue to grow at 22.8% for the next 2 years. Over this period, FND is also expected to generate an average Economic Earnings Margin of 5.7%.

These results are derived using our [dynamic discounted cash flow model](#).

Performance Hurdles	Historical Performance			Market Expectations
	5 Yr	3Yr	Last FY	Default <small>based on current price</small>
Stock Price	-	-	\$49.59	\$27.68
Revenue CAGR	-	-	31.8%	22.8%
ROIC - WACC	-	3.9%	3.9%	5.7%
Growth Appreciation Period	-	-	-	2 years

Learn More

Members of our [website](#) get exclusive access to more data and detailed analytics on the 10,000 securities we cover. Stock reports from our website include detailed information on the number and dollar value of every income statement, balance sheet and DCF valuation adjustments we make.

Members also get exclusive access to multiple [model portfolios](#), weekly [Long Ideas](#), and [Danger Zone](#) calls, [IPO Research](#), [Market Outlooks](#), [Webinars](#) and thought leadership on [Machine Learning & AI for Investing](#) and [Fiduciary Rule](#) fulfillment.

Members get advanced screening capabilities on our best-in-class metrics like ROIC and Free Cash Flow Yield and alerts whenever there are changes to any of the securities in your custom portfolio.

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Appendix: Explanation of New Constructs' Stock Ratings

Ratings

In-depth risk/reward analysis underpins our stock rating. Our stock rating methodology grades every stock according to what we believe are the 5 most important criteria for assessing the quality of a stock. Each grade reflects the balance of potential risk and reward of buying that stock. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Unattractive and Unattractive correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

Risk/Reward Rating	Quality of Earnings		Valuation		
	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield	Price-to-EBV Ratio	Growth Appreciation Period
5 - Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
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1 - Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3

Ratings

Economic earnings and return on capital metrics are significantly more accurate when as-reported financial statements have been adjusted to reverse accounting distortions and Red Flags. The majority of the data required to reverse accounting distortions is available only in the Notes to the Financial Statements, which we analyze rigorously. Our core competency is gathering and analyzing all relevant financial data (from the Financial Statements and Notes) so that we can deliver earnings analysis that best represents the true profitability of businesses. See the figure below for a list of the Red Flag adjustments we make to a company's reported GAAP profits in order to reverse accounting distortions and arrive at a better measure of a firm's profits.

Accounting Issues and Red Flags that Distort GAAP

- Employee Stock Options
- Pension Over/Under Funding
- Excess Cash
- Restructuring Charges
- Pooling Goodwill
- Minority Interests
- Discontinued Operations
- Preferred Stock
- Mid-Year Acquisitions
- Off-Balance-Sheet Financing
- LIFO Reserve
- Unrealized Gains/Losses
- Goodwill Amortization
- Unconsolidated Subsidiaries
- Capitalized Expenses
- Deferred Compensation
- Net Deferred tax Assets and Liabilities



New Constructs® - Research to Fulfill the Fiduciary Duty of Care

Ratings & screeners on 3000 stocks, 650 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing with Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.

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