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January 2019

**FLOOR & DÉCOR HOLDINGS, INC. (FND)**

Fiscal Year ends December 31

Recent Price	30.27	<b><u>ESTIMATES</u></b>	
Buy up to	30	Growth	17%
52 Week Price Range	24.01 to 58.28	Dividend Payout Ratio	0%
Quality	Average	<b><u>5 YEAR RISK REWARD ESTIMATE</u></b>	
Current Yield	None	Price Gain	124% to 68
Shares Outstanding	104.6 Mil.	Risk of Loss	34% to 20
Total Debt	\$146 Mil.	Potential Gain/Loss	3.9 to 1

**EARNINGS PER SHARE & P/E RATIOS**

<b><u>FISCAL YEAR</u></b>	<b><u>E/S</u></b>	<b><u>P/E RATIO</u></b>	<b><u>RV</u></b>	<b><u>P/E AS % GROWTH</u></b>
2017	1.03	29.4	118	173
2018 (Est.)	1.05	28.8	115	169
2019 (Est.)	1.20	25.2	101	148

Founded in 2000, **Floor & Décor Holdings, Inc. (FND)** is a specialty retailer of hard surface flooring and related accessories. As of September 27, 2018, the firm operated 95 warehouse-style stores averaging 75,000 square feet across 26 states, largely in the southern half of the U.S. The company undertook an IPO on May 2, 2017 at 21.00 per share. After reaching a high of 58.28, shares have been hit by a soft fourth quarter 2018 outlook, tariff worries, and a slowdown in the housing market. At its current price, **Floor & Décor** shares look appealing for a retailer that's early in its growth phase.

Over the past 20 years there has been a distinct turn in customer preference to hard surface flooring instead of carpet. According to Catalina Research, the U.S. floor covering market was \$22 billion per year in 2017 (as measured in manufacturers' dollars). In 2017, about 52% of the market was hard surface flooring, up from 39% in 2002. After enjoying 9% per year growth from 2012 to 2017, the hard surface flooring market is expected to slow to 3%-5% growth per year from 2018 to 2022. In addition to consumer taste, demand for hard surface flooring

is being driven by innovation, affordability, an aging housing stock, rising home equity values, household formation by millennials, and non-traditional use of flooring on walls.

**Floor & Décor** competes with home improvement centers, including The Home Depot and Lowe's; other specialty flooring companies such as Lumber Liquidators and The Tile Shop; and independents. **Floor & Décor** estimates it has room to grow as its market share represents only 7% of the hard surface flooring market.

The firm's business model and value proposition give it distinct competitive advantages. **Floor & Décor's** typical store is almost four times larger than Tile Shop, ten times larger than Lumber Liquidators, and 15-20 times larger than the flooring sections of The Home Depot and Lowe's. With such a large store, the company can stock about 1,500 different flooring SKU's, more than five times the number of home improvement centers, and significantly more than the 25-50 carried by The Tile Shop and Lumber Liquidators. By carrying such a broad assortment in stock, **Floor & Décor** ap-

peals to independent contractors that value immediate access to product. The company estimates about 60% of its sales are to contractors with the remaining 40% to do-it-yourself homeowners. A recently introduced incentive program is designed to maximize repeat business from contractors.

**Floor & Décor** emphasizes its low prices made possible by employing a direct sourcing model that cuts out resellers and distributors. The company sources from more than 225 suppliers in 20 countries. In addition to lower costs, the direct relationship with manufacturers increases the speed with which innovations in flooring materials reach customers. As an example, rigid core locking Laminate Vinyl Plank is a popular, newer flooring that has the look of wood and tile but is more durable, waterproof, and inexpensive.

The company stresses a service culture. There are separate sales and support teams for independent contractors and do-it-yourself homeowners. The firm carries a full lineup of flooring accessories, installation materials, and tools to complete any job. The stores teach classes to support design and installation.

Store unit economics are compelling. Each store costs about \$3.5 million to build and open, with roughly \$2.5 million of that expenditure invested in inventory. First year sales and EBITDA are roughly \$13 million and \$2 million, respectively, a payback of less than two years.

Like most retailers, long-term growth is a function of opening new stores and increasing comparable store sales. **Floor & Décor** believes it can eventually operate 400 stores across the U.S. by backfilling existing southern markets and expanding into northern ones. Unit growth is projected at 20% per year. Comparable store sales have averaged in the double digits due to the relatively higher mix of younger, newer stores opened over the past five years. **Floor & Décor's** goal is to grow sales greater than 20% per year and leverage its fixed-cost base to grow earnings faster. Despite costs to open new stores, the firm has been free cash flow positive since 2016 and has been using excess cash generation to pay down debt.

eCommerce is another source of future growth. About 8% of the firm's sales today are made

online. The company has significantly invested in its website, including design tools that support store employees as well as customers.

After reporting third quarter 2018 comparable store sales growth of 11.1%, fourth quarter 2018 guidance of 0%-2% disappointed. However, the shortfall is mainly due to the estimated 9% boost that comparable store sales received in 2017's fourth quarter from Houston stores that were in rebuilding mode after Hurricane Harvey. Management also expressed concern about slowing housing activity due to higher interest rates impacting affordability. However, the company reports it has yet to see housing market worries impact store results.

**Floor & Décor** is exposed to possible increases in tariffs depending on how negotiations between the U.S. and China unfold. About 45% of the firm's product is sourced from China and to this point the company has mitigated pricing pressure from the recently enacted 10% tariff. However, a 25% tariff would likely lead to price increases. Even so, **Floor & Décor** estimates that an incremental 15% tariff on a \$4,000 flooring job would add perhaps \$200 to the total price as basic flooring material represents only 40% of total job cost. Further, because China is a major flooring supplier, competitors would also feel the impact of any additional tariffs.

Analysts have a wide range of opinions on future expected EPS growth. Analyst consensus estimates call for yearly average growth of 29% while Value Line projects 18%. We forecast annual EPS growth of 17%. Five years at this growth pace and a capped future high P/E of 30 could generate a stock price as high as 68. We use a low price of 20, the product of 2017 EPS of \$1.03 and a capped low P/E of 20. The upside/downside ratio is 3.9 to 1.

**Floor & Décor Holdings Inc.** is listed on the NYSE under the symbol **FND**.

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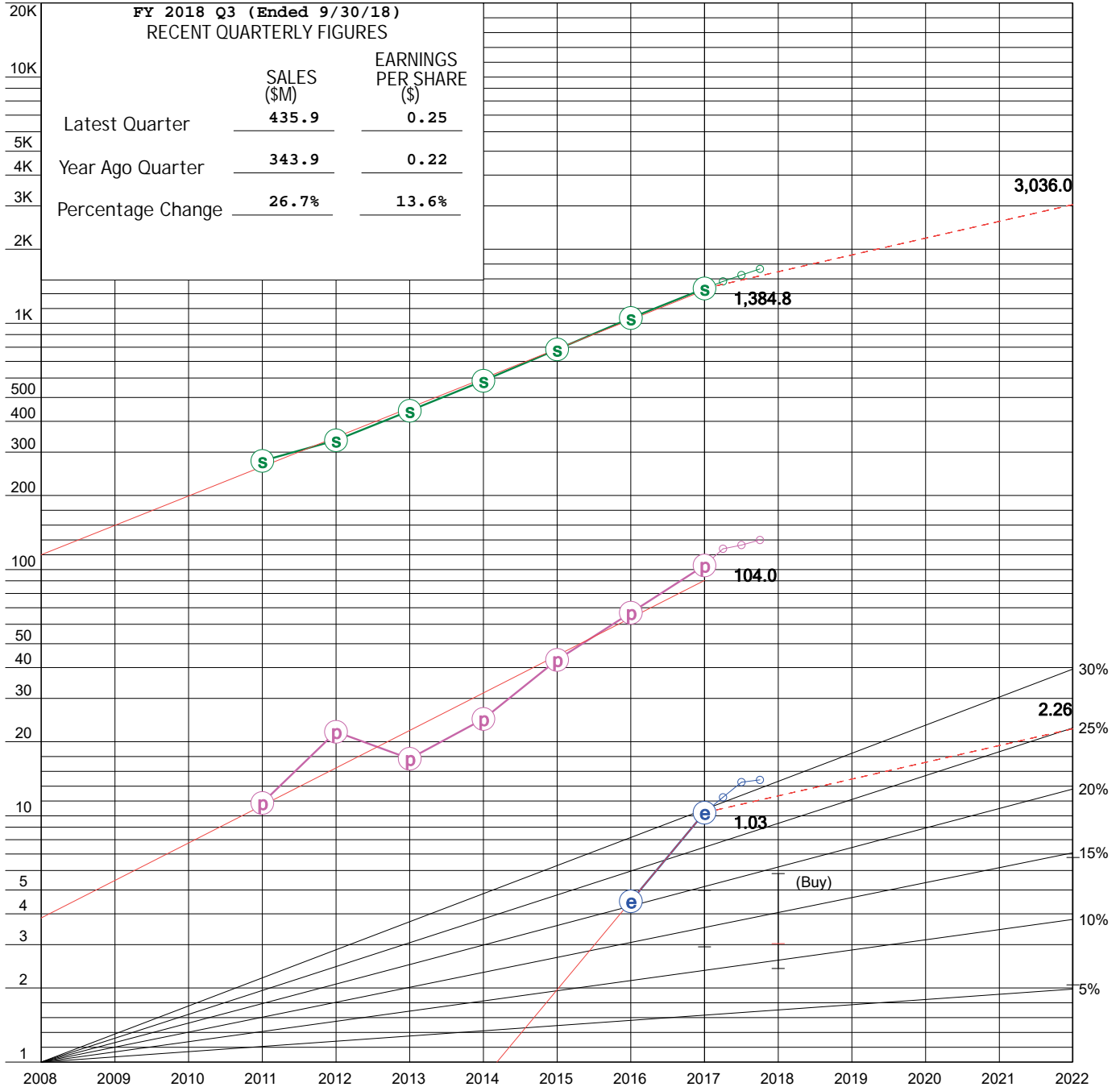


# Stock Study

Company	Floor & Decor Holding..	Price Date	12/07/18
Study by	IAS	Data Date	12/07/18
Sector	Consumer Cyclical	Last Judgment	12/07/18
Industry	Home Improvement Stores	Data Source	StkCntrl
Preferred(\$M)	0.0	Reference	Morningsta
Diluted(M Shares)	104.6	% Insiders	0.3
Total Debt(\$M)	146.0	% Institutions	139.1
% Tot Debt to Tot Cap	27.0	Quality	3.0 (IAS)

## 1 Growth Analysis

NYS: FND



(1) Historical Sales Growth	31.6 %	(3) Historical Earnings Per Share Growth	128.9 %	www.iclub.com
(2) Estimated Future Sales Growth	17.0 %	(4) Estimated Future Earnings Per Share Growth	17.0 %	
(5) Sales Growth R <sup>2</sup>	1.00	(6) Earnings Per Share Growth R <sup>2</sup>	1.00	

## 2 QUALITY ANALYSIS

Company **Floor & Decor Holdings (FND)**

12/07/18

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	5 YEAR AVG.	TREND UP / DOWN
<b>A</b> % Pre-tax Profit on Sales				4.1	6.6	3.9	4.2	5.5	6.4	7.5	5.5	UP
<b>B</b> % ROE (Beginning Yr)											0.0	NMF
<b>C</b> % LT Debt to Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	45.8	45.8	EVEN

## 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) **30.27 (21.6)** 52-WEEK HIGH (P/E) **58.28 (41.6)** 52-WEEK LOW (P/E) **24.01 (17.2)**

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield	
1 2013	0.0	0.0	NMF	NMF	NMF	0.000	NMF	0.0	
2 2014	0.0	0.0	NMF	NMF	NMF	0.000	NMF	0.0	
3 2015	0.0	0.0	NMF	NMF	NMF	0.000	NMF	0.0	
4 2016	0.0	0.0	0.45	0.0	0.0	0.000	0.0	0.0	
5 2017	49.9	29.4	1.03	48.4	28.5	0.000	0.0	0.0	
6 AVERAGE		29.4		48.4	28.5		0.0		
AVERAGE P/E RATIO	38.5		PROJECTED P/E RATIO	18.5		TTM EPS	1.40		
CURRENT P/E RATIO	21.6		PEG RATIO	1.1		FTM EPS	1.64		
RELATIVE VALUE	56.2%		PROJ. RELATIVE VALUE	48.1% 73.9%		AVG TTM + FTM EPS	1.52		

## 4 EVALUATING REWARD and RISK over the next 5 years

### A FUTURE HIGH PRICE ANALYSIS -- NEXT 5 YEARS

Selected High P/E ~~48.4~~ **30.0** X Estimated High Earnings/Share **2.26** = Forecast High Price \$ **67.8**

### B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Sel. Low P/E ~~28.5~~ **20.0** (as adj.) X Estimated Low Earnings/Share **1.03** = \$ **20.6**  
 (b) Average 5-Year Low Price = **29.4**  
 (c) Recent Severe Low Price = **0.0**  
 (d) Price Dividend Will Support = Present Divd. + High Yield = **0.00** + **0.000** = **0.0**  
 Selected Estimated Low Price = \$ **20.6**

### C PRICE RANGES

Forecast High Price **67.8** - Estimated Low Price **20.6** = Range **47.2** 25% of Range = **11.8**

BUY (Lower 25% of Range) = **20.6** to **32.4**  
 MAYBE (Middle 50% of Range) = **32.4** to **56.0**  
 SELL (Upper 25% of Range) = **56.0** to **67.8**

Current Price **30.27** is in the **Buy** Range

### D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price **67.8** - Current Price **30.27**) ÷ (Current Price **30.27** - Estimated Low Price **20.6**) = **3.9** To 1

## 5 TOTAL RETURN ANALYSIS

### A CURRENT YIELD

Present Full Year's Dividend \$ **0.000** ÷ Current Price of Stock \$ **30.27** = **0.0** % Present Yield or % Returned on Purchase Price

### B AVERAGE YIELD - USING FORECAST HIGH P/E

Avg. % Payout **0.0** ÷ Forecast High P/E **30.0** = Avg. Yield **0.0**

### C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E

Average Yield **0.0** % + Annual Appreciation **17.5** % = Compound Annual Total Return **17.5** %