

## Floor and Decor Holdings, Inc.

## Consumer Conference Key Takeaways

Reiterate Rating: BUY | PO: 140.00 USD | Price: 125.61 USD

## Key highlights from FND group meetings

We hosted Floor and Decor (FND) EVP & CFO, Bryan Langley and VP of IR, Wayne Hood for group meetings at our 2024 Consumer Conference in Miami, FL. We reiterate our Buy rating and raise our PO to \$140 (was \$125), 55x (up vs. 49x given rising peer & market multiples) our 2025 EPS estimate. We highlight key takeaways below:

## 2024 GM improvement reflects improving freight costs

FND expects the majority of y/y Gross Margin (GM) improvement this year to be driven by improving ocean & international freight costs. To a lesser extent, GM should also benefit from better product cost from vendors and other factors. FND expects its largest sequential and y/y GM increase in 1Q, followed by modest improvement through the year. While outsized growth in commercial could pressure GM longer-term, this should be accretive to operating margins overall. In addition, FND is committed to not “gross margin itself out of business” and will maintain its focus on growing market share, while noting that its price gaps to most of its competitors are ~30% on average.

## Ticket pressures primarily driven by smaller project size

FND has faced ticket pressure in recent quarters (including a (4.7%) decline in F4Q). The majority of the ticket pressure reflects a lower average square foot per transaction (sqft/transaction is currently slightly below 2019 levels), as customers have engaged in smaller project sizes. This is also evidenced by FND’s product mix, with tile showing the biggest pickup outside of installation materials.

## FND should have earnings power once macro improves

FND should have significant earnings power once the macro improves given the company’s high proportion of fixed costs (~55%). We expect an improvement in existing home sales to lead to a corresponding improvement in FND’s top line within 0-3 months. An improvement in sales would also support upside for new stores as they earn into their cost structure.

## Smaller format stores represent ~25% of 2024 openings

FND expects ~25% of its 2024 new store openings to be in smaller format stores (~55k sqft). The growth in smaller format stores was contemplated in FND’s total 500 store target and is typically used for one of three reasons: 1) single store markets (e.g. Augusta, GA), 2) market optimization, or 3) strategic opportunities.

14 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	125.00	140.00

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## Stock Data

Price	125.61 USD
Price Objective	140.00 USD
Date Established	14-Mar-2024
Investment Opinion	C-1-9
52-Week Range	76.30 USD - 129.37 USD
Mrkt Val (mn) / Shares Out (mn)	13,499 USD / 107.5
Free Float	93.9%
Average Daily Value (mn)	210.16 USD
BofA Ticker / Exchange	FND / NYS
Bloomberg / Reuters	FND US / FND.N
ROE (2024E)	9.8%
Net Dbt to Eqty (Dec-2023A)	8.4%
ESGMeter™	Medium

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Timestamp: 14 March 2024 01:28AM EDT

## Price objective basis & risk

### Floor and Decor Holdings, Inc. (FND)

Our 12-month price objective of \$140 is based on 55x our 2025 EPS estimate. We believe a multiple that is substantially above hardline retail peers (20x) is warranted given its superior store growth trajectory and above-average same-store sales growth. In 2024-2025 we expect annual earnings growth of almost 20%, illustrating the long-term compounding earnings growth opportunity of FND.

Downside risks to our price objective are a weakening of the housing market beyond our forecasts, execution risk given large store growth and supply chain diversification, increased competition, and higher labor costs. Upside risks are a stronger housing/flooring market than expected, or faster market share gains than modeled.

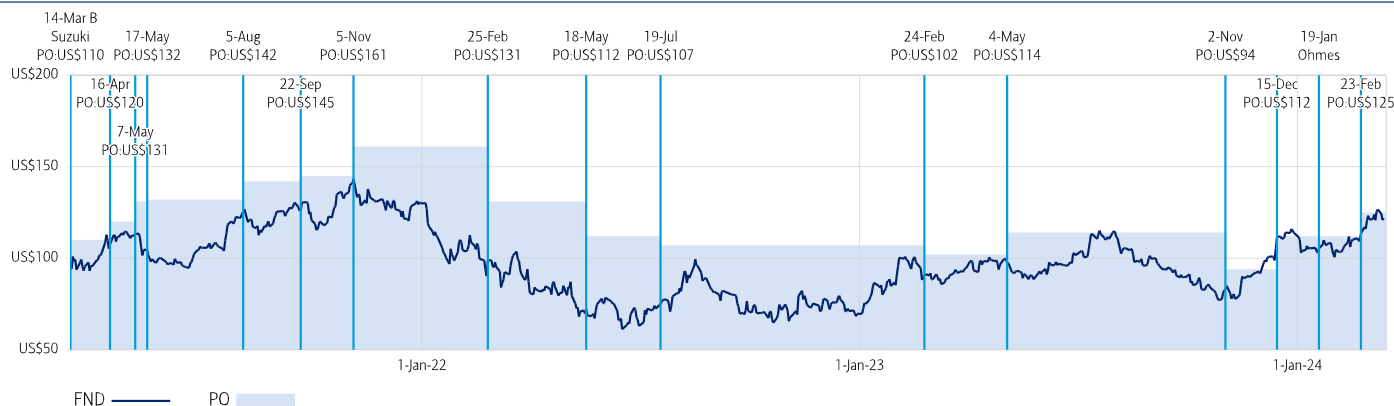
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### Floor and Decor (FND) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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