

Floor and Decor Holdings, Inc.

Near-term outlook soft, longer-term trends solid – reiterate Buy

Reiterate Rating: BUY | PO: 114.00 USD | Price: 102.00 USD

Adjusting estimates; maintain PO

Following FND's 2Q23 earnings results, which were in line our estimates on sales and EPS, we maintain our price target of \$114. While management's outlook for the full year is somewhat more cautious than our view, our forecasts for FY24 and FY25 remain largely unchanged. FND's annual square footage growth of 20% is among the highest growth rates of our hardline retail coverage universe, and therefore we view a premium valuation multiple (vs. home improvement peers HD & LOW which are not materially growing their store count) as appropriate. We reiterate our Buy rating and see opportunity for FND to take market share in the US hard-surface flooring category with its value-oriented pricing and its superior breadth and depth of assortment vs. both independent and big box peers.

2Q results in line with our estimates

Floor and Décor (FND) reported 2Q23 EPS of \$0.66, in line with our estimate and consensus of \$0.66. FND's same-store sales (comp) decline of (6.0)% was also in line with our expectation of (6.0)% but below consensus of (5.0)%. FND management noted that 3Q-to-date is comping (8.4)% and they expect 3Q comps to be the trough for the year, which is a negative revision from previous commentary about 2Q being the trough. The recent sluggishness in housing turnover caused management to take a more cautious view on the 2H outlook.

FY23 guidance lowered, we still expect some recovery

FND management lowered its FY23 guidance. The company now expects net sales of \$4,460-\$4,530mn (from \$4,610-4,750mn) driven by comps of (7)-(5.5)% (previously flat to down 3%) and about 32 net new stores (previously 32-35, on a base of 191 at YE2022) FND also still expects 2023 EPS to be in a range of \$2.30-\$2.50 (previously \$2.55-2.85). Given uncertainty around the macro backdrop, particularly 1) housing turnover and its impact on flooring demand, and 2) broader consumer demand for big-ticket renovation projects, we believe a cautious near-term outlook by FND management is appropriate. However, we note that our latest [BofA RENO Barometer](#) suggests that renovation activity likely troughed in 1H23 and we are modeling 2H recovery.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS | 2.44 | 2.76 | 2.52 | 3.72 | 4.43 |
| GAAP EPS | 2.64 | 2.78 | 2.52 | 3.72 | 4.43 |
| EPS Change (YoY) | 62.7% | 13.1% | -8.7% | 47.6% | 19.1% |
| Consensus EPS (Bloomberg) | | | 2.64 | 3.29 | 4.13 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| P/E | 41.8x | 37.0x | 40.5x | 27.4x | 23.0x |
| GAAP P/E | 38.6x | 36.7x | 40.5x | 27.4x | 23.0x |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% |
| EV / EBITDA* | 27.0x | 22.7x | 22.6x | 16.3x | 13.6x |
| Free Cash Flow Yield* | -1.0% | -3.2% | 2.4% | 0.3% | 0.9% |

* For full definitions of *IQmethod*SM measures, see page 5.

03 August 2023

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|---------|
| 2023E Rev (m) | 4,710.4 | 4,500.2 |
| 2024E Rev (m) | 5,440.5 | 5,265.2 |
| 2025E Rev (m) | 6,311.0 | 6,160.3 |
| 2023E EPS | 2.69 | 2.52 |
| 2024E EPS | 3.80 | 3.72 |
| 2025E EPS | 4.50 | 4.43 |

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Stock Data

| | |
|---------------------------------|------------------------|
| Price | 102.00 USD |
| Price Objective | 114.00 USD |
| Date Established | 4-May-2023 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 63.51 USD - 116.03 USD |
| Mrkt Val (mn) / Shares Out (mn) | 10,857 USD / 106.4 |
| Average Daily Value (mn) | 122.42 USD |
| BofA Ticker / Exchange | FND / NYS |
| Bloomberg / Reuters | FND US / FND.N |
| ROE (2023E) | 15.2% |
| Net Dbt to Eqty (Dec-2022A) | 104.5% |
| ESGMeter™ | Medium |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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iQprofileSM Floor and Decor Holdings, Inc.

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 10.5% | 9.8% | 7.9% | 10.1% | 10.2% |
| Return on Equity | 22.6% | 19.9% | 15.2% | 18.9% | 18.6% |
| Operating Margin | 10.2% | 9.4% | 8.2% | 10.4% | 10.6% |
| Free Cash Flow | (107) | (344) | 258 | 36 | 93 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|-------|--------|-------|-------|-------|
| Cash Realization Ratio | 1.1x | 0.4x | 3.2x | 1.6x | 1.4x |
| Asset Replacement Ratio | 3.4x | 2.9x | 3.2x | 2.6x | 2.2x |
| Tax Rate | 23.8% | 23.9% | 22.8% | 24.0% | 24.0% |
| Net Debt-to-Equity Ratio | 97.0% | 104.5% | 89.2% | 83.8% | 74.8% |
| Interest Cover | NM | 36.0x | 22.4x | 32.5x | 38.0x |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 3,434 | 4,264 | 4,500 | 5,265 | 6,160 |
| % Change | 41.5% | 24.2% | 5.5% | 17.0% | 17.0% |
| Gross Profit | 1,424 | 1,728 | 1,865 | 2,185 | 2,560 |
| % Change | 38.2% | 21.3% | 7.9% | 17.2% | 17.1% |
| EBITDA | 467 | 556 | 559 | 776 | 927 |
| % Change | 52.1% | 19.1% | 0.5% | 38.7% | 19.5% |
| Net Interest & Other Income | (5) | (11) | (17) | (17) | (17) |
| Net Income (Adjusted) | 262 | 297 | 272 | 403 | 483 |
| % Change | 64.7% | 13.1% | -8.3% | 48.2% | 19.8% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|-------------|----------------|------------|---------------|---------------|
| Net Income from Cont Operations (GAAP) | 262 | 297 | 272 | 403 | 483 |
| Depreciation & Amortization | 118 | 155 | 190 | 228 | 274 |
| Change in Working Capital | (124) | (368) | 366 | (31) | (107) |
| Deferred Taxation Charge | 3 | 3 | 0 | 0 | 0 |
| Other Adjustments, Net | 42 | 26 | 30 | 36 | 43 |
| Capital Expenditure | (408) | (457) | (600) | (600) | (600) |
| Free Cash Flow | -107 | -344 | 258 | 36 | 93 |
| % Change | NM | -222.7% | NM | -85.9% | 154.3% |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 139 | 10 | 52 | 96 | 196 |
| Trade Receivables | 81 | 95 | 100 | 117 | 137 |
| Other Current Assets | 1,052 | 1,353 | 1,202 | 1,405 | 1,714 |
| Property, Plant & Equipment | 929 | 1,258 | 1,668 | 2,040 | 2,366 |
| Other Non-Current Assets | 1,528 | 1,636 | 1,855 | 2,119 | 2,360 |
| Total Assets | 3,731 | 4,351 | 4,877 | 5,776 | 6,773 |
| Short-Term Debt | 107 | 108 | 127 | 150 | 171 |
| Other Current Liabilities | 925 | 899 | 1,119 | 1,309 | 1,530 |
| Long-Term Debt | 1,317 | 1,633 | 1,646 | 1,915 | 2,160 |
| Other Non-Current Liabilities | 59 | 54 | 54 | 54 | 54 |
| Total Liabilities | 2,407 | 2,694 | 2,947 | 3,428 | 3,916 |
| Total Equity | 1,323 | 1,657 | 1,930 | 2,349 | 2,857 |
| Total Equity & Liabilities | 3,731 | 4,351 | 4,877 | 5,776 | 6,773 |

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Hardlines

Company Description

Floor & Decor was founded in 2000 in Smyrna, Georgia. The initial concept focused on buy-outs of product, but has since evolved to direct. The stores carry all major categories of hard flooring (tile, wood, laminate and stone) along with decorative items and the accessories needed to complete a project. FND has a balanced customer mix of Homeowners and Pros. FND had 194 stores at YE2022 and is targeting 500+ stores over the long term.

Investment Rationale

Floor & Decor is a category killer with product assortment and service levels that exceed peers. The company operates in an attractive subsector in hardlines and is led by a long time industry veteran with a very strong track record. In our view, FND has ample opportunity for market share gains and to grow its store base.

Stock Data

Average Daily Volume 1,200,188

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|-------|-------|
| Q1 | 0.67A | 0.66A |
| Q2 | 0.76A | 0.66A |
| Q3 | 0.70A | 0.62E |
| Q4 | 0.64A | 0.57E |

2Q results vs. expectations

Table 1: FND quarterly earnings results, year-over-year and versus BofA estimates

FND's 2Q same-store sales and EPS were right in line with our estimates, with slightly higher gross margin offset by higher SG&A than modeled.

| (Dollars and shares in millions) | 2Q22 | 2Q23 | Y/Y change | vs. BofA est | 2Q23 |
|----------------------------------|----------------|---------------|-------------|--------------|---------------|
| Sales | \$1,089.8 | \$1,135.9 | 4% | -2% | \$1,155.2 |
| Cost of sales | 653.4 | 656.3 | 0% | -5% | 687.4 |
| Gross profit | 436.4 | 479.6 | 10% | 3% | 467.9 |
| SG&A expenses | 328.4 | 384.7 | 17% | 4% | 370.3 |
| Operating income | \$108.0 | \$95.0 | -12% | -3% | \$97.6 |
| Interest and other (inc) exp | 1.7 | 2.9 | 73% | -34% | 4.4 |
| Pretax income | \$106.3 | \$92.1 | -13% | -1% | \$93.2 |
| Income tax expense | 25.3 | 20.6 | -18% | -8% | 22.4 |
| Net income from cont ops | \$81.1 | \$71.5 | -12% | 1% | \$70.8 |
| Extraordinary items (loss) | 0.8 | 0.0 | | | 0.0 |
| GAAP net income | \$81.8 | \$71.5 | -13% | 1% | \$70.8 |
| Diluted EPS from cont ops | \$0.76 | \$0.66 | -12% | 1% | \$0.66 |
| GAAP EPS reported | \$0.76 | \$0.66 | -13% | 1% | \$0.66 |
| Average shares-diluted | 107.30 | 107.81 | 0% | 0% | 107.92 |
| Margin analysis | | | | | |
| Gross margin | 40.0% | 42.2% | 218 bp | 172 bp | 40.5% |
| SG&A to sales | 30.1% | 33.9% | 373 bp | 181 bp | 32.1% |
| Operating margin | 9.9% | 8.4% | -155 bp | -9 bp | 8.4% |
| Pretax margin | 9.8% | 8.1% | -165 bp | 4 bp | 8.1% |
| Net margin | 7.4% | 6.3% | -115 bp | 16 bp | 6.1% |
| Tax rate | 23.8% | 22.4% | -138 bp | -160 bp | 24.0% |
| Comp sales | 9.2% | -6.0% | -1520 bp | 0 bp | -6.0% |

Source: Company filings and BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

Floor and Decor Holdings, Inc. (FND)

Our 12-month price objective of \$114 is based on 30x our 2024 EPS estimate. We believe a multiple that is substantially above hardline retail peers (16x) is warranted given its superior store growth trajectory and above-average same-store sales growth. In 2022-2024 we expect annual earnings growth to average about 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.

Analyst Certification

I, Elizabeth L Suzuki, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Retail Hardline Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|--------------------------------|-------------|------------------|--------------------|
| BUY | | | | |
| | Boot Barn | BOOT | BOOT US | Jason Haas, CFA |
| | Driven Brands | DRVN | DRVN US | Elizabeth L Suzuki |
| | Five Below Inc. | FIVE | FIVE US | Jason Haas, CFA |
| | Floor and Decor Holdings, Inc. | FND | FND US | Elizabeth L Suzuki |
| | Genuine Parts | GPC | GPC US | Elizabeth L Suzuki |
| | Hasbro | HAS | HAS US | Jason Haas, CFA |
| | Leslie's | LESL | LESL US | Elizabeth L Suzuki |
| | Lowe's Companies, Inc. | LOW | LOW US | Elizabeth L Suzuki |
| | Mattel | MAT | MAT US | Jason Haas, CFA |
| | Mister Car Wash | MCW | MCW US | Elizabeth L Suzuki |
| | Ollie's | OLLI | OLLI US | Jason Haas, CFA |
| | O'Reilly Automotive, Inc. | ORLY | ORLY US | Elizabeth L Suzuki |
| | Petco | WOOF | WOOF US | Elizabeth L Suzuki |
| | PROG Holdings Inc | PRG | PRG US | Jason Haas, CFA |
| | Rollins Inc. | ROL | ROL US | Jason Haas, CFA |
| | Sonos, Inc. | SONO | SONO US | Jason Haas, CFA |
| | The Home Depot, Inc. | HD | HD US | Elizabeth L Suzuki |
| | Upbound Group Inc. | UPBD | UPBD US | Jason Haas, CFA |
| NEUTRAL | | | | |
| | Advance Auto Parts, Inc. | AAP | AAP US | Elizabeth L Suzuki |
| | AutoZone Inc. | AZO | AZO US | Elizabeth L Suzuki |
| | Tractor Supply Company | TSCO | TSCO US | Jason Haas, CFA |
| UNDERPERFORM | | | | |
| | Aaron's | AAN | AAN US | Jason Haas, CFA |
| | Best Buy Co., Inc. | BBY | BBY US | Elizabeth L Suzuki |
| | Big Lots, Inc | BIG | BIG US | Jason Haas, CFA |
| | JOANN | JOAN | JOAN US | Elizabeth L Suzuki |
| | Qurate | QRTEA | QRTEA US | Jason Haas, CFA |
| | Snap-on | SNA | SNA US | Elizabeth L Suzuki |
| | Whirlpool | WHR | WHR US | Elizabeth L Suzuki |
| | Williams-Sonoma | WSM | WSM US | Jason Haas, CFA |

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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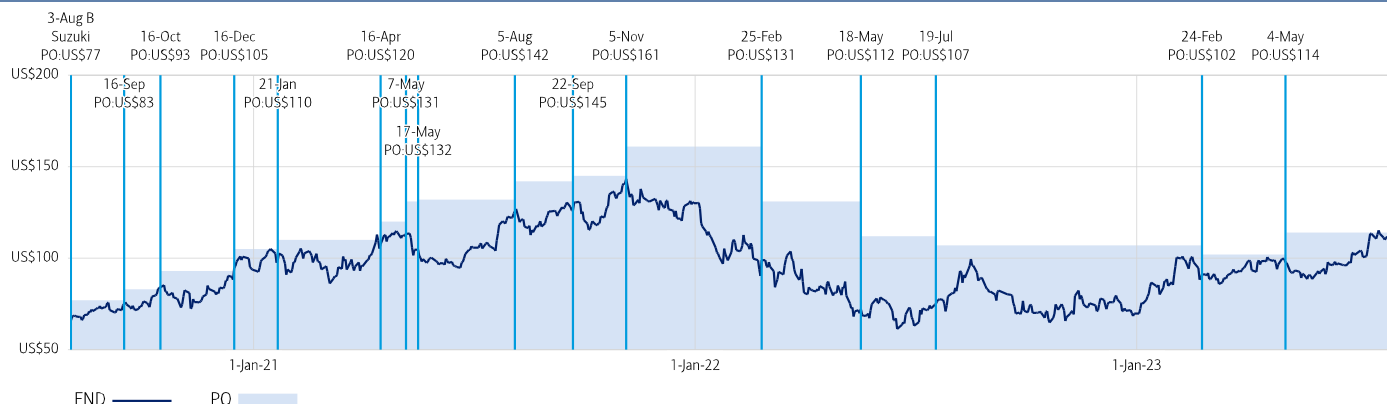
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Disclosures

Important Disclosures

Floor and Decor (FND) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 30 Jun 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 91 | 54.17% | Buy | 37 | 40.66% |
| Hold | 34 | 20.24% | Hold | 14 | 41.18% |
| Sell | 43 | 25.60% | Sell | 22 | 51.16% |

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1877 | 53.28% | Buy | 1040 | 55.41% |
| Hold | 815 | 23.13% | Hold | 464 | 56.93% |
| Sell | 831 | 23.59% | Sell | 385 | 46.33% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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