

Floor and Decor Holdings, Inc.

Lower ests to reflect sales weakness into 2024; See potential inflection in 2025

Reiterate Rating: BUY | PO: 125.00 USD | Price: 113.53 USD

4Q23 EPS ahead of Street on better-than-expected comp

Floor and Decor (FND) reported 4Q23 EPS of \$0.34 beat consensus of \$0.26 given a better-than-expected same-store sales (comp) decline of (9.4%) vs. the Street at (13.4%). A sequential improvement in traffic (to (4.9%) from (6.8%) reported in F3Q) was offset by a sequential deceleration in ticket (to (4.7%) from (2.8%) reported in F3Q). Average ticket continues to face mounting pressure from smaller project sizes, cycling previous retail price increases, and lower retail prices on select SKUs.

Lower 2024 estimates to reflect persistent 1H softness

We lower our 2024E EPS estimate to \$1.90 (was \$2.56) driven by a reduction in our comp forecast to (4.2%) from flat previously. We forecast comps to remain negative to start the year, with QTD comps trending down (LDD%), and reach flat / slight growth by 4Q24. While we expect the sales decline to drive expense deleverage overall, this is partially offset by an increase to our Gross Margin (GM) forecast to 42.5% (vs. 42.1% reported in 2023). GM should see support from lower supply chain costs, improving product cost, and sourcing diversification.

A return to industry growth creates important unlock

While we expect comps remain pressured through 3Q, our Homebuilders and Building Products team expects a reset in repair & remodel by the end of 2024, with a return to growth in 2025 (see [When will repair & remodel inflect?](#)). A return to positive comp would be an important unlock for FND to leverage expenses as the majority of FND's costs (~60%) are fixed. Importantly, FND appears to have taken a more conservative posture on its Existing Home Sales (EHS) expectations in 2024 (with the low end of guidance assuming EHS remain around 4mn units exiting '24), which could leave room for upside if we see a more robust recovery in EHS this year.

LT growth story in challenged near-term macro; Buy

We maintain our Buy rating and believe FND is a best-in-class retailer in a category that is poised for recovery. We expect growth long-term to see support from FND's merchandising growth initiatives (including design services, Pro investments, installation materials, etc), technology & digital enhancements, new & existing store growth, and continued growth in commercial. Our PO moves to \$125 (was \$112), based on 49x (up from 44x given rising peer & market multiples) our 2025E (was 2024E) EPS of \$2.55.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.76	2.28	1.90	2.55	2.82
GAAP EPS	2.78	2.28	1.90	2.55	2.82
EPS Change (YoY)	13.1%	-17.4%	-16.7%	34.2%	10.6%
Consensus EPS (Bloomberg)			2.14	2.76	3.48
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	41.1x	49.8x	59.8x	44.5x	40.3x
GAAP P/E	40.8x	49.8x	59.8x	44.5x	40.3x
EV / EBITDA*	24.8x	26.3x	28.1x	22.5x	21.2x
Free Cash Flow Yield*	-2.8%	1.6%	-0.3%	0.1%	-0.3%

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

23 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	112.00	125.00
2024E Rev (m)	4,853.4	4,688.5
2025E Rev (m)	5,561.1	5,285.0
2026E Rev (m)	6,284.0	5,841.9
2024E EPS	2.56	1.90
2025E EPS	3.21	2.55
2026E EPS	3.74	2.82

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Stock Data

Price	113.53 USD
Price Objective	125.00 USD
Date Established	23-Feb-2024
Investment Opinion	C-1-9
52-Week Range	76.30 USD - 116.70 USD
Mrkt Val (mn) / Shares Out (mn)	12,201 USD / 107.5
Free Float	93.9%
Average Daily Value (mn)	166.04 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 TM	Medium

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iQprofileSM Floor and Decor Holdings, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.8%	7.2%	5.6%	6.8%	6.3%
Return on Equity	19.9%	13.7%	9.8%	11.4%	10.1%
Operating Margin	9.4%	7.3%	5.9%	7.0%	6.6%
Free Cash Flow	(345)	190	(36)	7	(37)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.4x	3.0x	1.9x	1.7x	1.8x
Asset Replacement Ratio	2.9x	2.7x	2.0x	2.0x	2.1x
Tax Rate	23.9%	21.0%	21.5%	22.0%	24.5%
Net Debt-to-Equity Ratio	24.0%	8.4%	0.7%	-3.9%	-5.9%
Interest Cover	36.0x	32.5x	23.0x	29.7x	30.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,264	4,414	4,689	5,285	5,842
% Change	24.2%	3.5%	6.2%	12.7%	10.5%
Gross Profit	1,728	1,858	1,993	2,250	2,489
% Change	21.5%	7.6%	7.3%	12.9%	10.6%
EBITDA	556	523	490	612	651
% Change	19.1%	-5.9%	-6.4%	24.9%	6.4%
Net Interest & Other Income	(11)	(10)	(12)	(12)	(12)
Net Income (Adjusted)	297	246	207	279	280
% Change	13.2%	-17.1%	-16.0%	34.9%	0.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	297	246	207	279	280
Depreciation & Amortization	155	202	214	242	267
Change in Working Capital	(340)	290	(32)	(38)	(35)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(457)	(548)	(425)	(475)	(550)
Free Cash Flow	-345	190	-36	7	-37
% Change	-226.1%	NM	NM	NM	NM
Share / Issue Repurchase	37	28	132	61	61
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	210	(211)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	10	34	180	298	371
Trade Receivables	95	100	106	119	132
Other Current Assets	1,353	1,183	1,298	1,467	1,621
Property, Plant & Equipment	1,258	1,630	1,840	2,074	2,357
Other Non-Current Assets	1,636	1,716	1,716	1,716	1,716
Total Assets	4,351	4,663	5,141	5,673	6,197
Short-Term Debt	2	2	2	2	2
Other Current Liabilities	899	1,023	1,113	1,256	1,389
Long-Term Debt	406	195	195	195	195
Other Non-Current Liabilities	1,387	1,511	1,561	1,611	1,661
Total Liabilities	2,694	2,732	2,871	3,065	3,247
Total Equity	1,657	1,931	2,270	2,609	2,950
Total Equity & Liabilities	4,351	4,663	5,141	5,673	6,197

* 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 1,462,522

Quarterly Earnings Estimates

	2023	2024
Q1	0.66A	0.36E
Q2	0.66A	0.56E
Q3	0.61A	0.65E
Q4	0.34A	0.33E



Price objective basis & risk

Floor and Decor Holdings, Inc. (FND)

Our 12-month price objective of \$125 is based on 49x 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.

Analyst Certification

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US - Retail Hardline Coverage Cluster

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

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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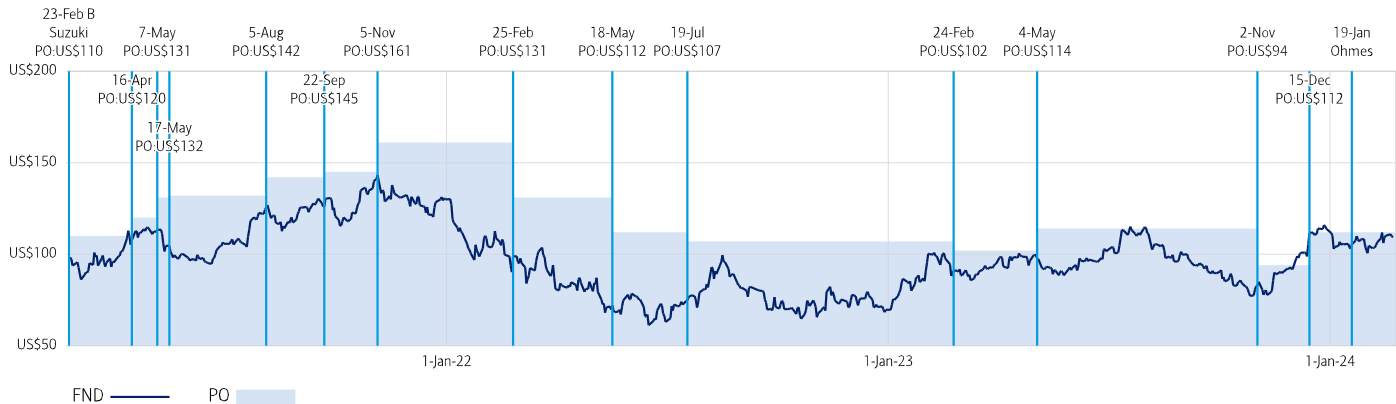
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Floor and Decor (FND) Price Chart



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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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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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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