

## Floor and Decor Holdings, Inc.

## Recent data points remain challenged, but show improvement from trough levels

Maintain Rating: BUY | PO: 112.00 USD | Price: 103.15 USD

## Sequential improvement in flooring spending in 4Q

For the month of December, spending at floor covering stores declined (10.4%) y/y, down vs. (8.5%) in November and the 22<sup>nd</sup> consecutive month of y/y declines, per BAC aggregated credit and debit card data (BAC card data). On a quarterly basis, 4Q spending improved sequentially to (9%) vs. (11%) y/y in 3Q. This compares to FND's guidance of 4Q comps in the range of (12%) to (15%) vs. (9.3%) reported in 3Q. We maintain our Buy rating on FND. See our economists' latest [BofA on USA](#) report for an explanation of the methodology, disclaimers, and limitations related to BAC card data.

## RENO Barometer up in Nov., indicates sequential recovery

The BofA RENO Barometer for Nov. '23 ticked up MoM to a score of 0.2 vs. (0.5) in Oct. '23, flipping to "Fair" territory from "Cloudy" where the RENO Barometer had been stuck for 10 months (see [The BofA RENO Barometer](#) report). The RENO Barometer indicates sequential recovery in 4Q23 through 2Q24, continuing the longer-term trend of improvement from the March '23 trough.

## Existing Home Sales Indicator suggests muted '24 trends

The BofA US Existing Home Sales Indicator suggests existing home sales have troughed but will remain muted into 2024 (see [BofA US Home Sales Indicators](#) report). The flooring category is relatively more sensitive to housing turnover than the broader home improvement sector. Movers spent 2.3x as much on flooring as non-movers at the peak, but also spent more on flooring than non-movers for several months leading up to the move (see [Home Work report](#)).

## Moderation in mtge rates could support home turnover

Rising mortgage rates have negatively impacted existing home sales, as homeowners are reluctant to give up the low rates they have already locked in. However, average 30-yr mortgage rates in the US have dropped below 7% in January, a >100bps drop from October highs of 8%+, which could support existing home turnover.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.44	2.76	2.22	2.56	3.21
GAAP EPS	2.64	2.78	2.22	2.56	3.21
EPS Change (YoY)	62.7%	13.1%	-19.6%	15.3%	25.4%
Consensus EPS (Bloomberg)			2.21	2.15	2.84
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	42.3x	37.4x	46.5x	40.3x	32.1x
GAAP P/E	39.1x	37.1x	46.5x	40.3x	32.1x
EV / EBITDA*	27.2x	22.9x	25.1x	21.0x	17.1x
Free Cash Flow Yield*	-1.0%	-3.1%	2.6%	-0.5%	-0.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

16 January 2024

## Equity

**Elizabeth L. Suzuki**

Research Analyst

BofAS

+1 646 855 2547

[elizabeth.suzuki@bofa.com](mailto:elizabeth.suzuki@bofa.com)**Robert F. Ohmes, CFA**

Research Analyst

BofAS

+1 646 855 0078

[robert.ohmes@bofa.com](mailto:robert.ohmes@bofa.com)**Molly Baum**

Research Analyst

BofAS

+1 646 855 4904

[molly.baum@bofa.com](mailto:molly.baum@bofa.com)

## Stock Data

Price	103.15 USD
Price Objective	112.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-1-9
52-Week Range	76.30 USD - 116.70 USD
Mrkt Val (mn) / Shares Out (mn)	10,993 USD / 106.6
Free Float	93.9%
Average Daily Value (mn)	146.23 USD
BofA Ticker / Exchange	FND / NYS
Bloomberg / Reuters	FND US / FND.N
ROE (2023E)	13.4%
Net Dbt to Eqty (Dec-2022A)	104.5%
ESGMeter <sup>TM</sup>	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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Timestamp: 16 January 2024 12:59PM EST

# iQprofile<sup>SM</sup> Floor and Decor Holdings, Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	10.5%	9.8%	6.9%	7.2%	7.9%
Return on Equity	22.6%	19.9%	13.4%	13.5%	14.6%
Operating Margin	10.2%	9.4%	7.3%	7.7%	8.3%
Free Cash Flow	(106)	(344)	284	(54)	(30)

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.4x	3.5x	1.9x	1.6x
Asset Replacement Ratio	3.4x	2.9x	2.9x	2.5x	2.2x
Tax Rate	23.8%	23.9%	21.9%	24.0%	24.0%
Net Debt-to-Equity Ratio	97.0%	104.5%	87.6%	88.9%	83.7%
Interest Cover	NM	36.0x	28.9x	33.6x	41.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,434	4,264	4,372	4,897	5,680
% Change	41.5%	24.2%	2.5%	12.0%	16.0%
Gross Profit	1,424	1,728	1,839	2,057	2,388
% Change	38.2%	21.3%	6.4%	11.8%	16.1%
EBITDA	467	556	508	605	745
% Change	52.1%	19.1%	-8.8%	19.2%	23.1%
Net Interest & Other Income	(5)	(11)	(11)	(11)	(11)
<b>Net Income (Adjusted)</b>	<b>262</b>	<b>297</b>	<b>240</b>	<b>278</b>	<b>350</b>
<b>% Change</b>	<b>64.7%</b>	<b>13.1%</b>	<b>-19.3%</b>	<b>16.1%</b>	<b>25.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	262	297	240	278	350
Depreciation & Amortization	118	155	190	228	274
Change in Working Capital	(124)	(368)	375	(21)	(96)
Deferred Taxation Charge	3	3	0	0	0
Other Adjustments, Net	42	26	30	36	43
Capital Expenditure	(408)	(457)	(550)	(575)	(600)
<b>Free Cash Flow</b>	<b>-106</b>	<b>-344</b>	<b>284</b>	<b>-54</b>	<b>-30</b>
<b>% Change</b>	<b>NM</b>	<b>-223.7%</b>	<b>NM</b>	<b>NM</b>	<b>45.4%</b>
Share / Issue Repurchase	18	12	8	8	8
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(15)	204	(210)	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	139	10	91	45	22
Trade Receivables	81	95	97	109	126
Other Current Assets	1,052	1,353	1,156	1,296	1,567
Property, Plant & Equipment	929	1,258	1,618	1,965	2,291
Other Non-Current Assets	1,528	1,636	1,849	2,068	2,235
<b>Total Assets</b>	<b>3,731</b>	<b>4,351</b>	<b>4,811</b>	<b>5,483</b>	<b>6,242</b>
Short-Term Debt	107	108	126	146	160
Other Current Liabilities	925	899	1,079	1,210	1,402
Long-Term Debt	1,317	1,633	1,640	1,864	2,033
Other Non-Current Liabilities	59	54	54	54	54
<b>Total Liabilities</b>	<b>2,407</b>	<b>2,694</b>	<b>2,900</b>	<b>3,273</b>	<b>3,650</b>
<b>Total Equity</b>	<b>1,323</b>	<b>1,657</b>	<b>1,912</b>	<b>2,210</b>	<b>2,592</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,731</b>	<b>4,351</b>	<b>4,811</b>	<b>5,483</b>	<b>6,242</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## 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 1,417,599

## Quarterly Earnings Estimates

	2022	2023
Q1	0.67A	0.66A
Q2	0.76A	0.66A
Q3	0.70A	0.61A
Q4	0.64A	0.28E

### Exhibit 1: Monthly BAC aggregated card spending data at floor covering retailers (y/y % change)

December 2023 spending at floor covering retailers fell (10.4%) y/y, a sequential decel. vs. (8.5%) in November 2023

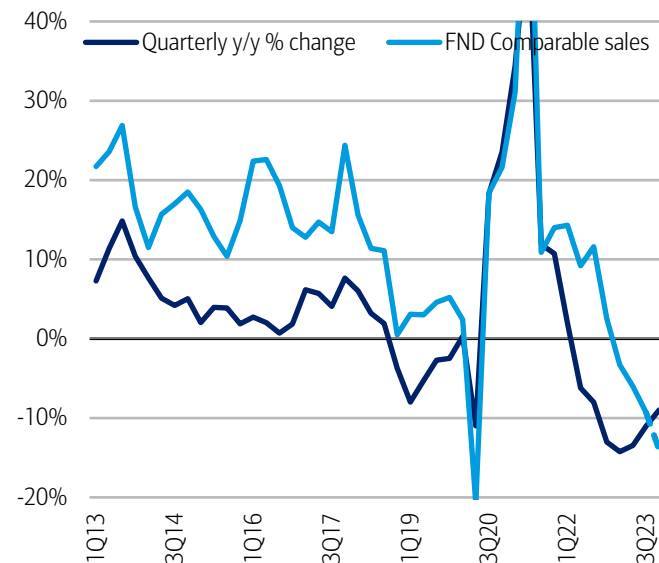


Source: BAC internal data  
Data through December 2023

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### Exhibit 2: Quarterly BAC aggregated card spending data at floor covering retailers vs. FND comparable sales (y/y % change)

4Q23 spending at floor covering retailers fell (9%) y/y, an improvement from (11%) in 3Q23. BAC floor covering spending has a 0.87 correlation with FND comparable sales growth



Source: Company filings, BofA Global Research, BAC Internal Data  
BAC data through December 2023

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### Exhibit 3: The BofA RENO Barometer is moving past the 1H23 trough

BofA RENO Barometer recent readings and forecasts

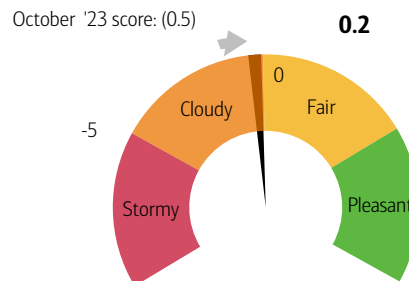


Source: BofA Global Research. The shaded area represents backtested results from Feb 2009-Sep 2018. The unshaded area represents actual performance since Oct 2018. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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### Exhibit 4: The BofA RENO Barometer for November '23 ticked up vs October into "Fair" territory

Most recent BofA RENO Barometer reading



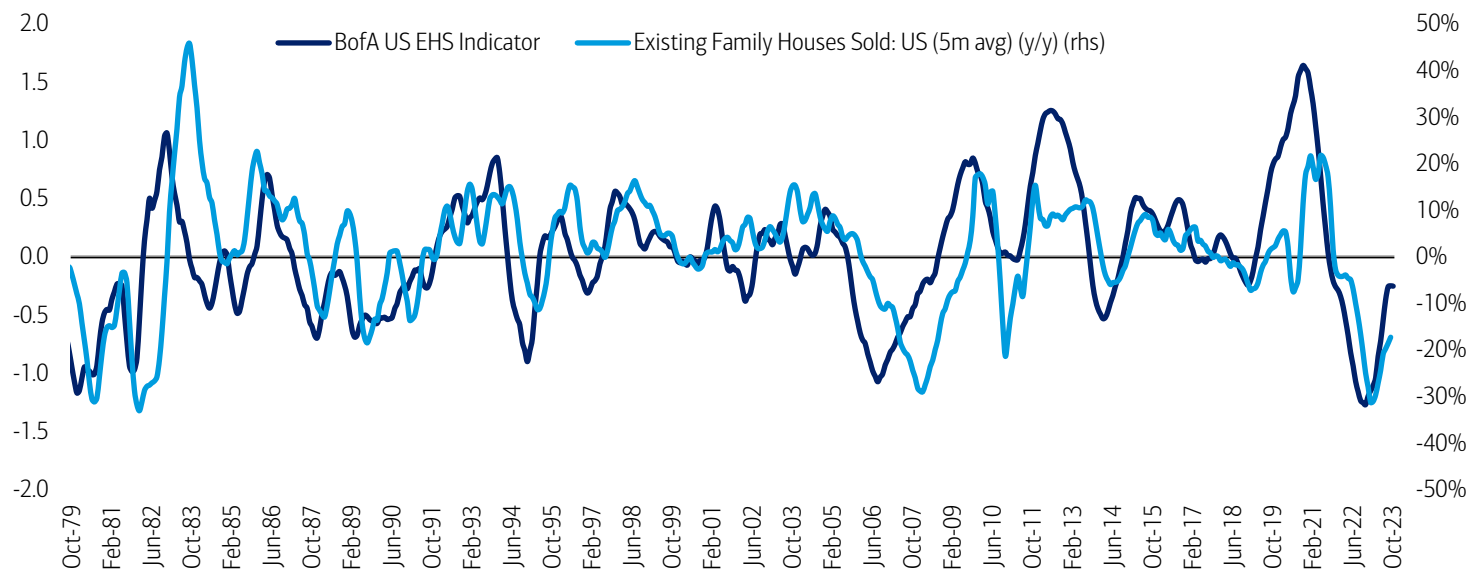
Source: BofA Global Research

The indicator identified above as the BofA RENO Barometer is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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**Exhibit 5: BofA US Existing Home Sales Indicator vs. existing family houses sold year over year (see [BofA US Home Sales Indicators](#) report)**

The EHS indicator leads existing home sales by five months with a positive correlation (0.69 since 1979)

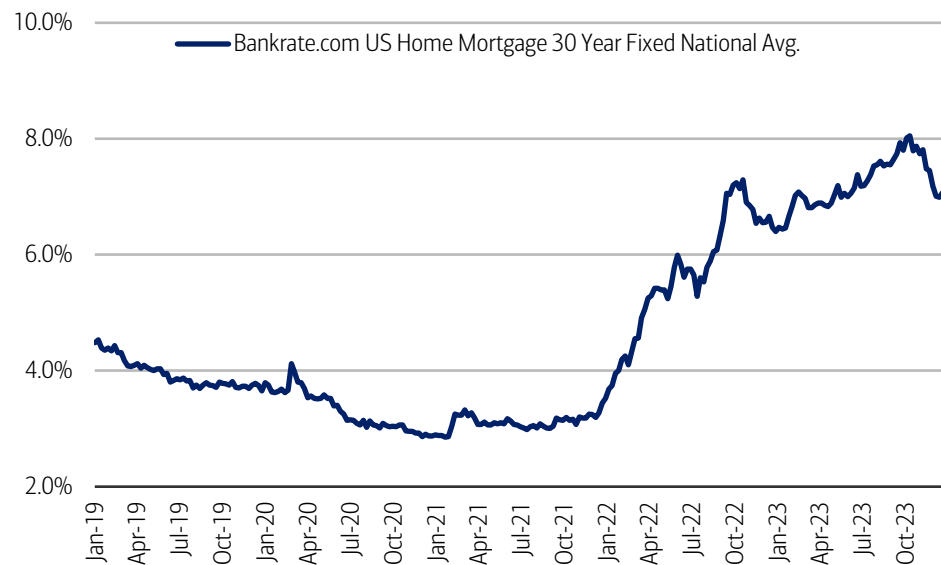


**Source:** BofA Global Research, National Association of Realtors. **Note:** The BofA US Existing Housing Indicator identified in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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**Exhibit 6: Bankrate.com US Home Mortgage 30-Year Fixed National Avg**

30-Year fixed mortgage rates have declined ~100bps+ from peak October levels



**Source:** Bloomberg, Bankrate.com

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**Disclaimer and Methodology regarding BAC internal data**

Selected Bank of America (“BAC”) transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of BAC data and may reflect a degree of selection bias and limitations on the data available.

**Methodology explained**

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Additional information about the methodology used to aggregate the data is available upon request.



## Price objective basis & risk

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

Our 12-month price objective of \$112 is based on 44x our 2024 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

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
<b>BUY</b>				
	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	Elizabeth L. Suzuki
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L. Suzuki
	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	Elizabeth L. Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

## iQmethod<sup>SM</sup> 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 &amp; 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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## Important Disclosures

Floor and Decor (FND) Price Chart



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 <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%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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