



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

SHORT**Floor & Decor**

Ticker	FND		2023A	2024E	2025E	2026E	2027E
Price	\$110	Hedgeye EPS	\$ 2.28	\$ 1.64	\$ 1.71	\$ 2.35	\$ 2.74
Market Cap	11.73 bn	Street EPS		\$ 1.91	\$ 2.67	\$ 3.51	\$ 4.64
Enterprise Value	11.98 bn	Variance		-14%	-36%	-33%	-41%
Short Interest	14.6%	P/E		67.0x	64.1x	46.7x	40.0x
Debt/EBITDA	0.6x	Target P/E		40.0x	35.0x	30.0x	28.0x
Sell Side Target	\$114	Implied Price		\$65	\$60	\$70	\$77
Return to SS Tgt	4%	Price Variance %		-40%	-45%	-36%	-30%

HEDGEYE EDGE | Business Won't Recover At Expected Pace, EPS #s Too High

Best Idea Short FND is often compared to an early unit growing Home Depot, and Bulls (for now) are certainly willing to pay a multiple that reflects that (and then some). We think demand will remain under pressure from low home turnover and the spending pressure applied by high mortgage payments for new buyers. Additionally, our analysis shows the company is now expanding into lower quality markets with incremental stores likely to see lower sales and profit potential. With the company recently running many stores on min hours, there is OPEX pressure as home turnover and sales eventually pickup (whenever that may be). We think capital intensity is rising for store buildouts, and the company is running lean on inventory, meaning more working capital is also needed to meet eventual rising demand. So whenever sales pick up, margins and returns flow through will disappoint. Our scenario analysis of home turnover suggests material EPS risk in our base case, and even in our bull scenario we struggle to see earnings upside that would suggest alpha being created vs these stock levels. Ultimately, we see 35% to 40% earnings risk over a TAIL duration and think the stock has 35% to 45% downside.

NEAR-TERM (TREND) | Brace For A Sustained Slump In Home Retail Demand

Existing Home Sales made a new cycle LTM low in the March release. Yet, the market looks to have its fingers crossed for a rapid recovery in home improvement from a rate cut, which is being repeatedly pushed out. Now inflation is back, rates are moving back up, and home prices are rising--further pressuring affordability. Turnover trend means further risk to underlying demand for FND, and higher rates with affordability problems means way less for consumers to be able to spend on home renovation. We think, barring a collapse in rates (recession), demand and earnings for FND will remain under pressure for the foreseeable future.

KEY RISKS TO THE CALL | Accelerated Rate Cuts, Irrational Multiple.

Rapid rate cuts would stimulate housing turnover and accelerated demand, which might drive the stock up, but bulls are looking at out year valuations on what we think are the wrong numbers... this could remain the case for some time. Ironically, the valuation framework might not change until the housing market improves and earnings still disappoint.

COMPANY DESCRIPTION

Floor & Decor is the premier retailer of hard surface floor coverings in the United States. Since 2016 it has grown from 70 to 220 stores, and believes it can reach 500 in total. Bulls are putting an incredibly high multiple on this perceived growth opportunity, but are not fully aware of the incremental store build setup and base unit economics.

KEY MODELING ASSUMPTIONS

	2023A	2024E	2025E	2026E	2027E
Revenue	\$ 4,414	\$ 4,600	\$ 5,180	\$ 6,011	\$ 6,711
YY % Change	3.5%	4.2%	12.6%	16.1%	11.6%
Gross Margin %	42.1%	41.9%	42.0%	42.2%	42.3%
EBIT Margin %	7.3%	5.2%	5.0%	5.8%	6.0%
EBITDA	\$ 551	\$ 519	\$ 582	\$ 702	\$ 806
Net Debt	\$ 163	\$ 335	\$ 414	\$ 471	\$ 458
Net Debt/EBITDA	0.3x	0.6x	0.7x	0.7x	0.6x
FCF/Share	\$ 2.37	\$ (1.59)	\$ (0.73)	\$ (0.52)	\$ 0.11