

FLOOR DECOR

Q1 2025

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Recommendation	Price Target	Current Price (4/22/2025)	Implied Downside
SHORT	\$47.14	\$68.30	(30.98%)

Investment Thesis

Floor & Decor (FND) is a specialty retailer of hard surface flooring products, operating a rapidly growing national store base. Despite its growth trajectory, I believe the current valuation overstates the durability of FND's business model in a weakening housing and macroeconomic environment.

While FND has delivered impressive topline growth over the past decade by capitalizing on a fragmented flooring market, I believe the company is entering a more challenging phase. I recommend a short position in FND, based on deteriorating macroeconomic conditions, aggressive store growth that hides declining same-store sales, and an increasingly competitive landscape that compresses margin potential. My base case suggests a fair value of \$39.89/share, implying downside of 40.5% from current levels.

Why short FND:

- *Over-reliance on cyclical, big ticket spending* | FND is vulnerable to a pullback in discretionary remodeling spend which is being squeezed by high mortgage rates, slowdown in home sales, and post-COVID normalization.
- *Aggressive footprint expansion is diluting quality* | Management plans to double store count in five years, but store-level returns are already declining as FND saturates Tier 2 and 3 markets, creating long-term margin risk and rising fixed-cost leverage.
- *"Pro" segment growth may be overestimated* | FND has leaned into Pro customer strategy to diversify away from homeowners. While early results by FND's account are positive, this segment is more competitive and price sensitive. Loyalty takes time to build, and switching costs are low. Any increase in Pro ultimately compresses margins.
- *Commercial business may be dilutive* | Spartan Surfaces acquisition exposes FND to slower B2B cycles with less visibility and lower margins. Execution and integration risk are likely being underpriced.
- *Valuation is disconnected from fundamentals* | Despite a weakening demand backdrop, FND trades at heavy premium (~20x NTM EBITDA) to peers like Lowe's (~11x) and Home Depot (~13x). FND trailing P/E sits at ~37x compared to ~18x and ~24x, for Lowe's and Home Depot respectively.

Key Drivers of Thesis

- *Housing Market Weakness Will Pressure FND's Core Customer* | FND is over-indexed to large-scale, discretionary renovation projects which are among the first to get postponed in a rising rate/inflationary environment. Home turnover remains near decade lows, and mortgage rates near 7% lock homeowners into existing properties. Exhibits 1.1 – 1.3 show how we are past the COVID bump in new/existing home sales and housing starts. Further, a longer-term downtrend is observed.
- *Aggressive Expansion Risks Store-level Returns* | FND's store count has grown at 20% CAGR over the last five years, and management plans to double its footprint again by 2028. While this fuels top-line growth, it hides deteriorating same-store sales trends and creates increasing margin pressures. As new stores either enter less densely populated regions or encroach on an existing FND location, traffic per store declines and fixed costs rise. While management cites strong sales for stores 5+ years old, they have not provided clear evidence that new unit economics are as compelling as earlier stores.

- *Competitive Moat is Narrowing* | FND built its edge on price, SKU depth, and in-stock availability. Big-box retailers like Lowe's and Home Depot are catching up by leveraging their national supply chains, enhanced "Pro" loyalty programs, and same-day pickup on flooring SKUs. With an uncertain tariff environment and supply chain that spans over 25 countries, FND will face increased COGS across their entire product line with less flexibility due to less scale economics than its larger rivals. Lowe's acquisition of Artisan Design Group directly competes with FND's design services and shows a strong commitment to capitalize on higher-spend customers.
- *Pro & Commercial Segments Lack Proven Scale* | Management has pointed to growth in Pro and commercial segments as key to the next phase of expansion, but both are nascent and unproven. While Pro customers can boost sales volume, they are more cost-conscious and service-sensitive than retail customers and FND lacks the robust loyalty infrastructure that competitors like Lowe's and Home Depot have built over years. Further, the 2021 acquisition of Spartan Surfaces exposes the business to a slower-turning commercial cycle. So far, the company has provided little transparency around Spartan's contribution, and integration risk remains high.
- *Valuation Premium is Unjustified* | At a ~20x NTM EBITDA, FND trades at a premium to Lowe's (11x) and Home Depot (13x), despite being smaller, more volatile, and more cyclical. The market is pricing in continued high-teens revenue growth and stable margins, which is increasingly difficult to justify in the current macro and competitive context. Sales growth in 2023 and 2024 were each <5%. If sales growth normalizes to ~5% and margins remain stable, multiple compression alone could drive 15-30% downside. Exhibit 1.4 illustrates a declining trend in analyst estimates, suggesting regular overoptimism by the street.

Risks to Thesis

- *Interest Rate Relief or Housing Policy Intervention* | The clearest counter to the macro element of my thesis is a meaningful drop in mortgage rates or government stimulus to support the housing market. If the Fed pivots more dovish due to labor market softening, lower borrowing costs could revive home transactions and discretionary renovation projects, thus reigniting demand for big-ticket flooring. Even a modest improvement in historically low home turnover could drive an upside surprise to traffic trends in FND's stores.
- *Operating Leverage Surprise* | FND may demonstrate greater-than-expected control over SG&A and COGS, particularly as newer stores mature and economies of scale kick in. If the company can stabilize gross margins and grow revenue modestly, incremental margin leverage could lead to upside surprise in EBITDA and FCF. FND's lean staffing model and centralized inventory system allow for some flex that might not be fully appreciated by the market.
- *Execution on Commercial and Pro Segments* | Though still early, FND could begin to scale Pro and commercial businesses more quickly than anticipated. If the company can successfully convert contractors through targeted incentives and increase share of wallet, these verticals could offset retail softness. Upside would likely come in the form of more stable volume growth and incremental margin accretion from larger order sizes.
- *Resilience of Renovation Demand* | My broad assumption that flooring is highly discretionary may prove too bearish. Some flooring projects, especially among aging households or in rental turnover, may be "non-deferable," even in a softer economy. Additionally, wealthier homeowners who are less rate-sensitive may continue to spend on high-end remodels, keeping demand afloat in certain geographies and categories.

- *Strategic Activity or Capital Markets Events* | FND has been mentioned periodically as a potential take-private candidate due to its real estate assets, cash flow profile, and private equity interest in specialty retail. An activist investor could emerge to pressure management on capital allocation, store expansion pacing, or transparency. Any credible LBO chatter or real strategic interest could materially re-rate the stock in the short term and squeeze out bearish positioning.
- *Undervaluing FND's Long-Term Potential* | It's possible that my thesis is overly focused on the 12–18-month cyclical picture and undervalues the company's long-term strategic position. FND has a strong balance sheet, growing national brand equity, and a differentiated merchandising strategy that could accelerate once macro conditions stabilize. If investors begin to look past near-term softness, the stock may hold its premium valuation despite weaker near-term KPIs.

Event Path & Catalysts (Exhibit 2.1)

To effectively track my short thesis on FND, I identified several near- and medium-term events that could validate or challenge this view. These span earnings events, competitive disclosures, internal company developments, and macroeconomic data releases. These events will provide critical signals around SSS trends and margin sustainability which are the primary levers in my thesis.

Valuation & Upside/Downside

The market currently prices FND as a growth compounder with room for continued margin expansion, but I believe the embedded assumptions are overly optimistic and increasingly vulnerable in today's macro and industry environments. My analysis looks at three key value lenses: DCF based on 20-quarter UFCF model, scenario-weighted outcomes under different KPI assumptions, and multiples relative to peers. Revenue growth is the largest lever of the model, followed by COGS, then SG&A.

My base case assumes revenue growth decelerates to mid-single digits (~6% CAGR over the 5-year modelling period, settling to the long-term growth rate of 3%), a stabilization of COGS, and minor SG&A margin improvements. Under this scenario I determine a fair value of \$40.23/share, or a 41.09% downside from current levels.

My upside case assumes sustained revenue growth (~10% CAGR over the modeling period) and margin expansion from both COGS and SG&A. This produces a price target of \$112.05/share, but this scenario requires near flawless execution from management and strong macro tailwinds.

My downside case assumes modest sales growth (~4% CAGR over the modeling period, more quickly decelerating to long-term growth) as well as margin deleverage in both COGS and SG&A. This scenario results in a price target of just \$2.96/share.

Base Case (Exhibit 3.1)

Starting with my revenue assumptions, I take management's low-end of guidance for 2025 as given. I am confident in taking the low-end as management has already signaled softer expectations in the beginning of Q1. From here, I do a straight-line decrease over the 5-year modeling period to the long-term growth rate of 3 percent. Revenue growth for FND over the last two years has been near flat with declining SSS increasing year over year. The historical trend suggests that as FND continues expanding its store footprint and saturates markets my expectation is that the increase in stores will continue to result in declining SSS and a smaller than anticipated effect on top-line growth. COGS are decreased at ~100bps/year during my

historical analysis. FND sources products from 25+ countries with over 50 percent of now being sourced from the United States—products which carry a higher average cost. Tariff pressure will require FND to adjust sourcing and my base case assumptions that COGS will remain flat accordingly. SG&A has increased steadily directly tied to footprint expansion. As FND continues to optimize its store operations and invest in technology, my base case assumption is that SG&A will steadily decrease toward its 3-yr average to account for this improved efficiency.

Upside (Exhibit 3.2)

In my upside case, the primary differences are revenue and COGS assumptions. Still starting with 2025 guidance, my full year number is on the high-end of guidance. My 5-year modeling period uses a revenue growth CAGR of ~10 percent, closer to FND's historical success. Following the historical trend of COGS declining as a percent of revenue, I carry forward this same assumption. SG&A assumptions remain the same with a steady decline toward the 3-yr average.

(Downside Exhibit 3.3)

Leaning on macroeconomic expectations, in my downside scenario FND will grow slower than expected and experience margin compression. Revenue CAGR over the forecasting period is ~4 percent and I assume that COGS and SG&A will remain persistent at their most recent levels to reflect difficulty in adjusting currently supply chains and increased store operating expenses driven by high labor and lease costs.

Exhibit 3.4 provides a summary of the weights assigned to each scenario, rationale, and blended valuation.

Business/Industry Overview

FND operates as a specialty retailer focused on hard surface flooring and related installation products. The company generates revenue by selling directly to consumers (mainly DIY homeowners) and professionals (contractors and remodelers). Product categories include tile, wood, laminate, vinyl, natural stone, and decorative accessories, as well as setting materials and tools.

FND's revenue is driven by product volume and private-label markup. Over 60 percent of its offerings are private-label SKUs which support gross margins around 38 percent, around 8 percent higher than competitors. The company's large-format warehouse model (~78,000 sq. ft. per store) enables it to stock more inventory than specialty retailers, helping drive higher average basket size and reduced delivery time compared to smaller players.

The business is highly sensitive to renovation demand and housing turnover and is exposed to shifts in discretionary income and interest rate cycles.

Industry dynamics and competitive landscape

The U.S. flooring industry is estimated to be \$25 billion, with hard surface categories growing faster than carpet. Key drivers of the industry include:

- Home sales and renovations
- Consumer Confidence (Exhibit 4.1), disposable income, and interest rates
- Design trends
- Commercial construction cycles

The market is fragmented, with specialty stores, regional distributors, and national big-box players competing across price, selection, and service. FND has been a market share gainer within specialty flooring but competes with larger players in the broader home improvement ecosystem. Exhibit 4.2 shows main peers, their primary revenue stream, and key differentiators.

Most players generate revenue by marking up finished goods and accessories, with margin compression being continually driven by competitive pricing and freight costs. Big-box players benefit from scale economics, while specialty players like FND rely on private label, design service, and in-stock availability to differentiate.

FND vs Peers

Detailed peer analysis can be found in the “Comps” worksheet of the accompanying model. When comparing FND to 6 public peers, the company largely underperforms for its size and positioning. On margins, FND has the 2nd highest gross margin of the set due to its pricing power in private-label offerings. Having the highest SG&A expense due to higher store operating expenses results in below the line margins significantly underperforming. As previously mentioned, when it comes to trading multiples, FND trades at a significant premium to competitors like Lowe’s and Home Depot.

Outstanding Diligence and Increased Conviction

To further validate the short thesis and assess the durability of Floor & Decor’s growth model, additional diligence should focus on *store-level performance metrics* and *early traction in the Pro and commercial segments*. A deeper dive into historical *store productivity curves*, *ROI by store cohort*, and *average payback periods* would help test the sustainability of FND’s aggressive expansion strategy. If newer stores in Tier 2 and 3 markets are generating weaker returns or slower traffic ramp-up, it would provide strong support for the saturation and margin compression angle of the thesis.

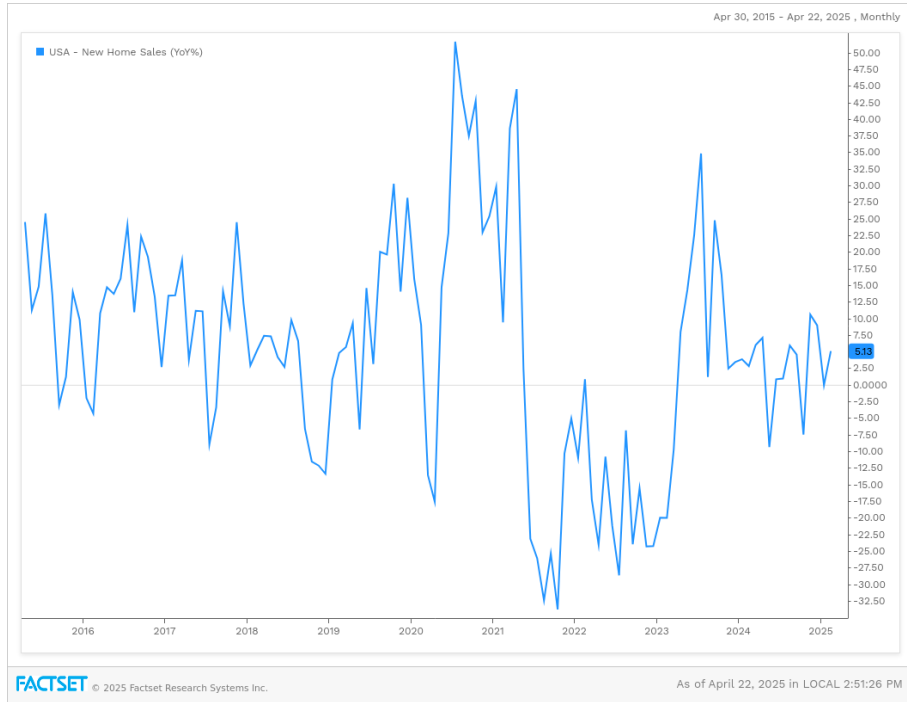
Supplementing quantitative analysis, *expert interviews* (e.g., former FND employees, contractors, and commercial buyers) could shed light on operational execution, supply chain bottlenecks, and contractor satisfaction—especially compared to peers like Lowe’s and Home Depot. Additionally, *monitoring alternative data sources* such as Placer.ai for store traffic, SimilarWeb for digital engagement, and LinkedIn hiring trends could offer real-time insight into demand patterns and internal priorities. If these signals show flatlining visits, limited contractor retention, or internal hiring pullbacks, they would materially increase confidence in downside scenarios.

Conclusion

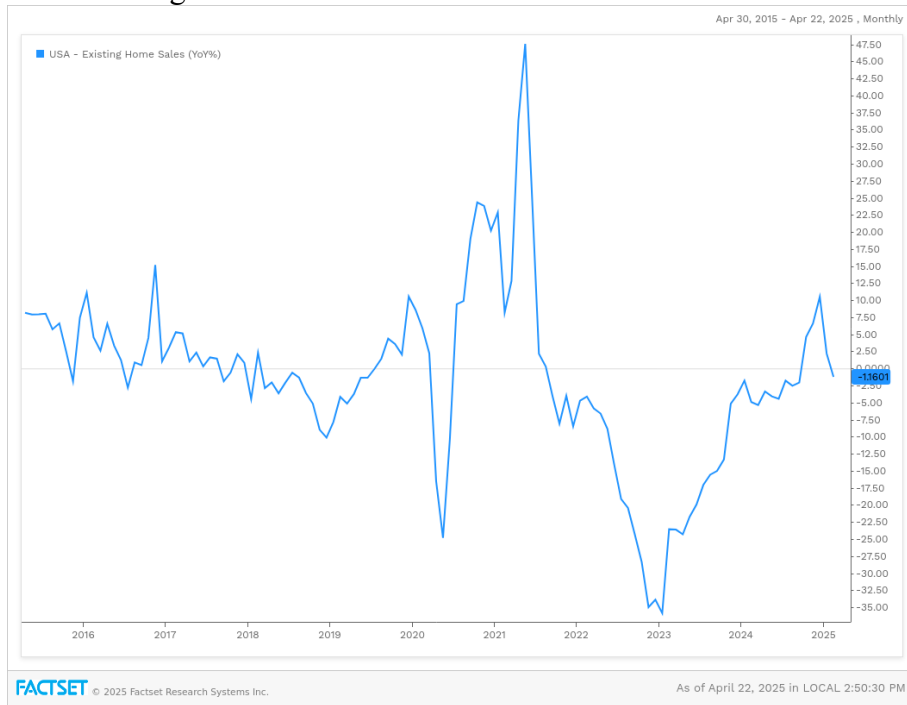
In summary, while Floor & Decor has been a standout growth story in specialty retail, I believe the company is now entering a more challenging phase marked by slowing demand, compressed margins, and an increasingly competitive landscape. The current valuation embeds overly optimistic assumptions that leave little room for execution missteps or macro softness. With a probability-weighted downside of over 30%, I reiterate a short position in FND. While not the focus of this thesis, I believe Lowe’s (LOW) offers a more resilient and attractively valued way to gain exposure to the home improvement space and merits further exploration as a complementary long position. Unlike FND, Lowe’s offers broad category diversification, a well-established Pro business, and strong free cash flow generation, all of which position it better to weather macro volatility. The company has shown commitment to expanding its upmarket presence through its acquisition of Artisan Design Group. Its scale advantage enables more pricing power and supply chain efficiency, while its ongoing share repurchase program provides a built-in return catalyst. Importantly, Lowe’s exposure to essential maintenance and repair spending makes it less dependent on big-ticket remodels, offering greater downside protection without giving up long-term upside.

Exhibits

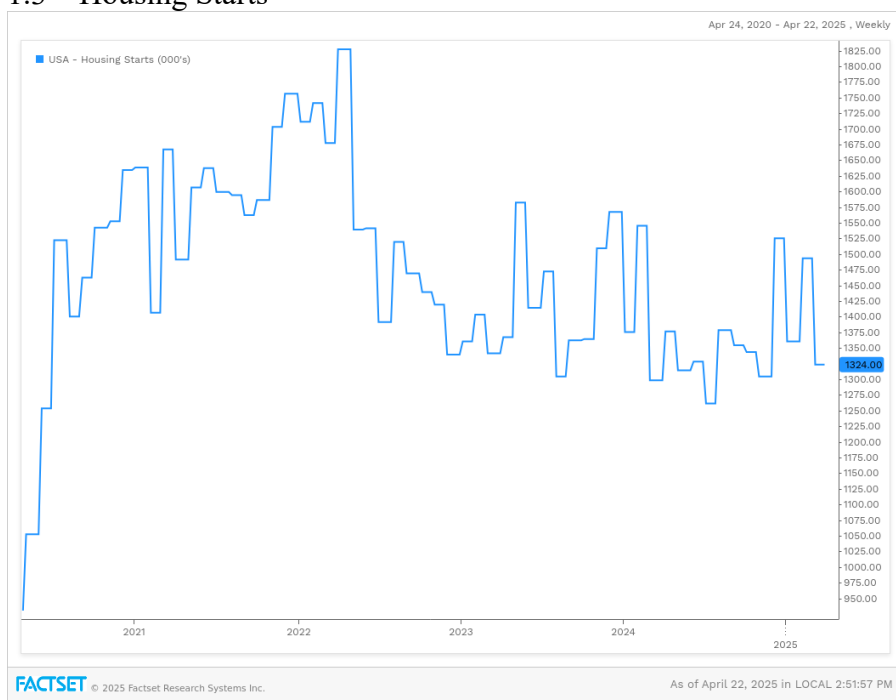
1.1 – New Home Sales



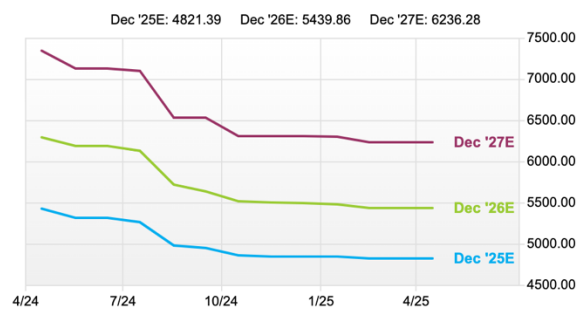
1.2 – Existing Home Sales



1.3 – Housing Starts

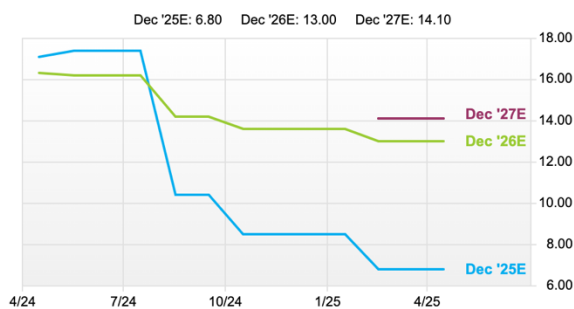


1.4 – Sell side revisions to FY25, '26, and '27 estimates over the past year



Fiscal Year Trend

Dates	Dec '25E	Dec '26E	Dec '27E	Dec '28E
23 Apr '25	4,821.4	5,439.9	6,236.3	-
31 Mar '25	4,821.4	5,439.9	6,236.3	-
28 Feb '25	4,825.0	5,436.9	6,236.3	-
31 Jan '25	4,849.3	5,480.3	6,305.8	-
31 Dec '24	4,847.4	5,499.5	6,306.7	-
29 Nov '24	4,848.3	5,502.2	6,306.7	-
31 Oct '24	4,862.9	5,519.2	6,306.7	-
30 Sep '24	4,953.1	5,640.2	6,534.9	-
30 Aug '24	4,977.7	5,720.3	6,534.9	-
31 Jul '24	5,262.0	6,132.9	7,097.8	-
28 Jun '24	5,319.4	6,188.6	7,132.0	-
31 May '24	5,319.4	6,188.6	7,132.0	-
30 Apr '24	5,432.3	6,296.1	7,348.8	-



Fiscal Year Trend

Dates	Dec '25E	Dec '26E	Dec '27E	Dec '28E
23 Apr '25	6.8	13.0	14.1	-
31 Mar '25	6.8	13.0	14.1	-
28 Feb '25	6.8	13.0	14.1	-
31 Jan '25	8.5	13.6	-	-
31 Dec '24	8.5	13.6	-	-
29 Nov '24	8.5	13.6	-	-
31 Oct '24	8.5	13.6	-	-
30 Sep '24	10.4	14.2	-	-
30 Aug '24	10.4	14.2	-	-
31 Jul '24	17.4	16.2	-	-
28 Jun '24	17.4	16.2	-	-
31 May '24	17.4	16.2	-	-
30 Apr '24	17.1	16.3	-	-

2.1 – Event Path and Expectations

Catalyst/Event	Timing	Expected Outcome
Q1 2025 Earnings	May 2025	Flat-to-down SSS, margin pressure, weak traffic
Q2 2025 Earnings	August 2025	Reaffirm/slightly lower FY guidance
Commercial KPIs Disclosure	10-Qs/Calls	Mixed results from Spartan Surfaces
Mortgage Rate / Home Sales Trends	Ongoing	Continued demand pressure from high rates

3.1 – Base Case Valuation Summary

Valuation Summary		Base
	Probability	60%
Enterprise value	\$ 5,698,843	
Debt	\$ 194,527	
Lease Liabilities	\$ 1,351,282	
Cash & Cash Equivalents	\$ 209,404	
Equity Value	\$ 4,362,438	
Shares outstanding	108,431	Implied Return
Equity value per share	\$ 40.23	-41.09%

3.2 – Upside Valuation Summary

Valuation Summary		Upside
	Probability	20%
Enterprise value	\$ 13,486,260	
Debt	\$ 194,527	
Lease Liabilities	\$ 1,351,282	
Cash & Cash Equivalents	\$ 209,404	
Equity Value	\$ 12,149,855	
Shares outstanding	108,431	Implied Return
Equity value per share	\$ 112.05	64.06%

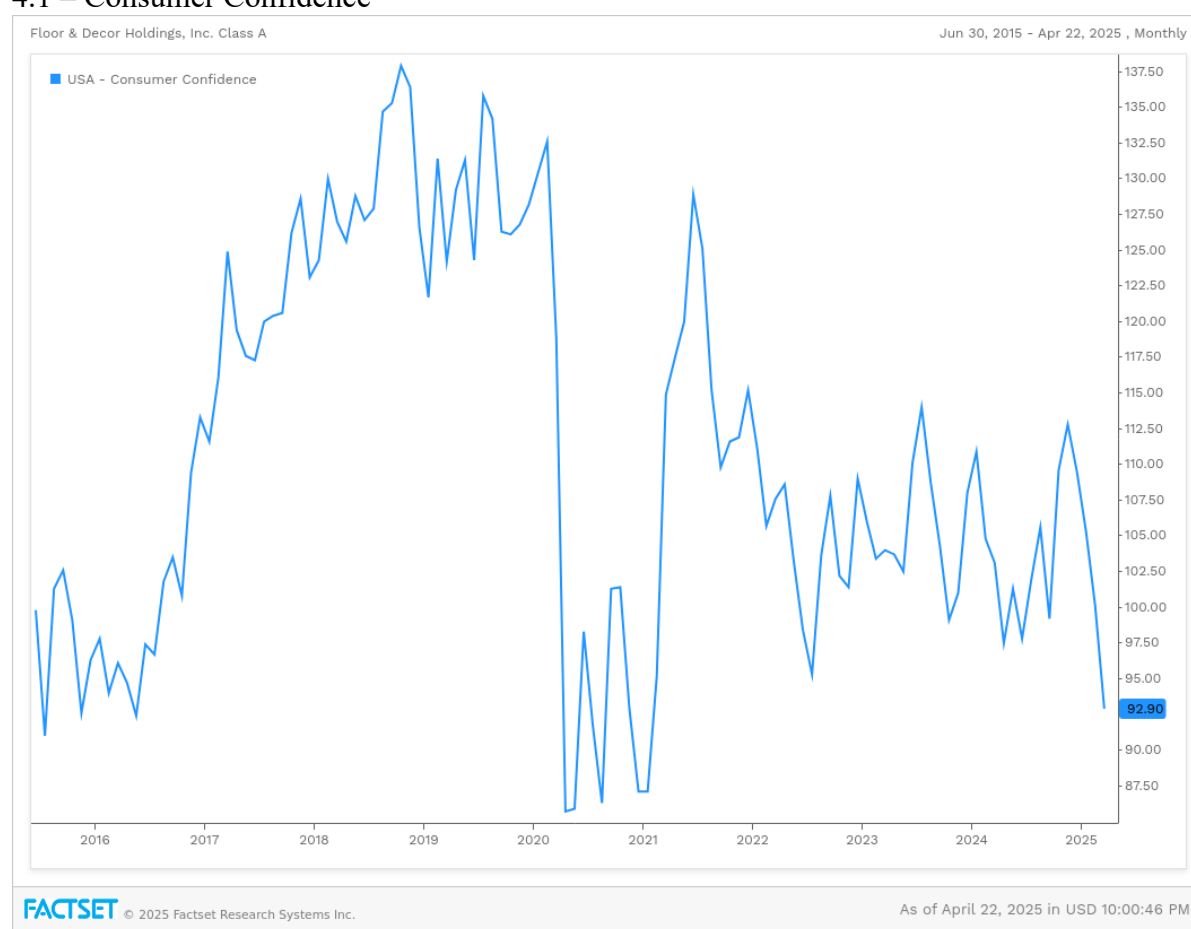
3.3 – Downside Valuation Summary

Valuation Summary		Downside
	Probability	20%
Enterprise value	\$ 1,657,022	
Debt	\$ 194,527	
Lease Liabilities	\$ 1,351,282	
Cash & Cash Equivalents	\$ 209,404	
Equity Value	\$ 320,617	
Shares outstanding	108,431	Implied Return
Equity value per share	\$ 2.96	-95.67%

3.4 – Scenario and Probability Weight Rationale

Scenario	Weight	Rationale
Base	60%	Reflects consensus view: slow recovery, cautious consumer, solid execution. Management has guided conservatively and is executing consistently even in a tough market.
Upside	20%	Housing recovery is plausible but not yet evident in transaction volumes. There's optionality from newer product lines and footprint expansion, but still early.
Downside	20%	Structural risks from DIY shift, margin compression, and a potential broader consumer pullback. Also reflects recent volatility in home improvement peers.

4.1 – Consumer Confidence



4.2 – Select Peers

Company	Primary Revenue Stream	Differentiator
FND	Hard-surface flooring (retail & Pro)	Depth of assortment, private label
Lowe's (LOW)	Broad home improvement products	Pro loyalty, scale, omnichannel
Home Depot	Broad home improvement products	Scale, Pro services, contractor base
LL Flooring	Mid-tier flooring (mostly DIY)	Value-oriented, limited scale
Tile Shop	Specialty tile and stone	Design-driven, boutique approach

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