

Recommendation: Long | Price Target: \$99 | Timeline: 18-24 Months

Investment Thesis: The market underestimates how a rare convergence of competitive consolidation and structural business model evolution is setting up FND for a multi-quarter beat-and-raise cycle. While consensus remains fixated on housing macro headwinds, FND is quietly expanding market share through strategic consolidation, deepening its high margin Pro customer relationships, and benefiting from structural aging housing tailwinds in its core geographies.

Key Return Drivers:

- **Immediate Future (0-2Y):** LL Flooring's collapse creates a growing \$418M+ specialty flooring and decor vacuum. Additionally, it signals problems from smaller independents.

The collapse of LL Flooring and broader consolidation among specialty home décor retailers opens a \$418M whitespace in hard-surface flooring. With 200+ overlapping markets, FND is positioned to recapture 25% of that share within the next 2-3Yrs in its core regions, driving an average comp lift of ~0.7% in the next 2-3Yrs. Early signs of cabinetry attach rates and bundled project sales suggest rising transaction values, expanding the effective TAM per customer beyond flooring.

- **Medium term (2-3Y):** "Pro" Business is evolving into a structural flywheel

The "Pro" segment is evolving into a flywheel of embedded growth. Enhanced services, such as jobsite delivery, design consultation, and flexible credit solutions, are improving retention and project throughput. As penetration deepens, the Pro business contributes to higher average order values, improved utilization of fixed costs, and structural margin expansion. This cohort, is also less price sensitive, further supporting durability of gross margin improvement.

- **Structural:** Aging Housing Stock Driving Predictable, Non-discretionary Flooring Demand

The U.S. housing stock is aging into a demographic replacement cycle with over 21M homes built between 1980-2000 are entering 25-45-year flooring lifespans, with FND's core markets (TX, FL, GA, CA) holding a disproportionate share. With 2.1M+ homes aging into replacement annually and flooring project spend averaging \$4,500-\$7,000, even a 3-4% share represent a 280M-580M recurring demand base. This demand is macro-insensitive, reinforcing long-term visibility and downside resilience. Supporting this, Google Trends shows search interest for "home renovations" at all-time highs, further validating the structural and replacement driven nature of this opportunity.

Bear/Bull Assumptions:

Bull Case(10% Weight) (PT: \$134.66): FND benefits from an accommodative rate environment that boosts home turnover and renovation activity. Pro customer penetration accelerates, driving outsized gross margin expansion (100bps YoY) and SG&A leverage (-50bps YoY) as fixed costs scale. Improve macro tariff relief enable faster realization of structural growth drivers, supporting bull case.

Bear Case (5% Weight) (PT: \$47.33): Persistently high rates suppress home sales and delay discretionary renovation projects. FND experiences 50bps annual gross margin compression due to heavier

promotional activity and delayed Pro mix benefits. SG&A deleverages (+25bps annually) amid labor inflation and softer revenue growth. Market share capture and margin expansion stall.

Note: In the broader valuation framework, the Bull and bear cases are weighted modestly at 10% and 5% due to the use of multiple valuation methods. However, relative to the base DCF alone, they carry heavier weights of 25% and 12.5% respectively. The weights reflect asymmetry in FND's risk-reward. Downside is more limited -FND's scale, Pro base, and value position offer protection even in weak macro. Upside, is more open-ended, with multiple structural levers that could drive outsized gains if macro improves.

Driver 1: Market Share Consolidation from LL Flooring Collapse

LL Flooring's Chapter 11 bankruptcy created a rare, structural supply-side reset in the specialty flooring category, permanently closing 211 stores (~49% of total stores) and removed ~\$418M in annual revenues from the market. FND, with over 63% geographic overlap (with closed stores) and a superior business model is positioned as the natural consolidator of this displaced demand.

Quantified Market Opportunity

- Total Closed Stores (from LL Sale to F9 Investments): 211 out of 430 total
- Estimated Displaced Revenue: ~\$418M
- Mapped Overlap: 57 of the 90 (mappable) closed LL (63%) have an FND within 15 miles
 - Extrapolated Overlap: 133 stores of the 211(63%) closed stores fall within FND's addressable areas. Leaving a growing TAM capture of ~264M per year.

Revenue Capture Scenarios: FND is uniquely positioned to absorb LL's vacated share through its warehouse model offering broader SKUs and sharper price points, a sticky Pro ecosystem with numerous perks, and high-ticket adjacencies like cabinetry that boost average ticket sales. FND's push into high-ticket adjacencies expands the average ticket size, effectively raising the monetizable TAM per customer. Additionally, management is actively converting LL's market exits into localized tailwinds by placing new stores directly in former LL trade areas (Out of the 10 latest stores, 9 are within an LL closing), accelerating capture and reinforcing market dominance.

Key Signal: LL's collapse is a signal into the wider industry. It reflects the growing vulnerability of subscale, fragmented independents struggling with inflation, supply chain strain, and lack of private-label margin buffers. As the industry consolidates, FND is positioned as the aggregating force.

Why the Market Misses This: Flooring purchases follow a long, high-consideration sales cycle spanning months. Additionally, most former LL customers haven't yet re-entered the market given how rarely these purchases occur, their eventual conversion is more likely to benefit FND directly. This creates a multi-quarter tailwind that's not reflected in consensus estimates.

Driver 2: “Pro” Business Flywheel – Margin Expansion Engine of the most critical customer segment

Floor and Décor’s Pro business has scaled from 30% to 50% of revenues, but the market underappreciates how this shift transforms the company from a seasonal retailer into a recurring, service oriented project platform.

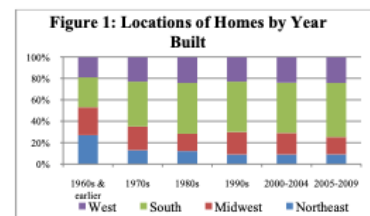
Pro Customers are FND’s most valuable cohort, transacting more frequently and at materially higher ticket sizes than DIY buyers. These customers bundle installation materials, purchase in job-sized volumes, and are less price sensitive which support a gross margin expansion story. FND embeds itself into contractor workflows through volume pricing, dedicated accounts reps, and credit programs creating real switching friction. This drives a Flywheel effect where rising Pro demands increases SKU velocity, improves unit economics, and enables further investment into Pro perks, attracting more Pro customers. Additionally, new categories like cabinets and countertops expand wallet share and project scope increasing the pro average ticket size and enabling higher market capture per customer.

Why the Market Misses This: The street still models FND as a pureplay flooring retailer driven by macro housing trends and foot traffic. But the “Pro” flywheel creates repeatable, margin accretive revenue with less sensitivity to rates or housing turnover. As the segment scales it changes the quality of the entire business model.

Driver 3: Housing Stock Replacement Cycle

The U.S. housing stock is aging into a flooring replacement Supercycle. [Over 21 million owner-occupied homes were built between 1980-2000 – the peak decades for U.S. suburban construction. These homes are now 25-45 years hold](#), well beyond the average life cycle of vinyl (15-20 years) and hardwood (20-25 years). This aging is inelastic and non-discretionary: old floors fail regardless of mortgage rates or macro sentiment, creating a structural base of demand independent from new housing starts. Flooring demand is now thus driven by necessity.

FND is geographically aligned with this replacement wave with [over 75% of homes built within the 1980-2000 interval](#) are located in the South and West as shown in the graph, regions where Floor and Décor has its strongest store density, around 38% of the firm’s stores are concentrated within Texas, California, and Florida.



Additionally, [Google Trends data](#) shows that search interest for “home renovations” is near all-time highs, reinforcing the structural demand underpinning FND’s housing stock replacement thesis.

Quantified Opportunity:

- ~21.5M homes built in 1980s-1990s now hitting replacement windows.
- Assuming 10% undergo flooring replacement annually leading to ~2.1M homes/year
- Average Flooring spend = \$4,500-7,000/home

- Resulting Market Opportunity ~9.5B (Conservative Estimate)
 - Even a 3-4% = \$280M recurring, structural demand

Why the Market Misses This: The Street anchors to housing starts and transaction volumes, overlooking the aging installed base. Flooring is failure-driven with long, deferred cycles, making demand appear slow-moving and less visible in near-term comps. Consequently, the structural tailwind from housing stock aging is under modeled, yet it supports multi-year revenue durability and re-rating potential.

Floor and Décor's Business Model: Specialty flooring and related products retailer operating in warehouse format stores. FND Generates ~80% of its revenue from core flooring products and ~20% from complementary verticals like tile, stone, and cabinetry. Its customer base is evenly split between Pro contractors and DIY consumers. The company is heavily concentrated in Sunbelt markets, where construction activity and renovation demand remain robust.

Industry Dynamics: The U.S. flooring market is estimated at \$20.56 Billion, growing at a 3.8% CAR, with hard surface flooring outpacing carpet due to shifting consumer preferences.

Competitive Landscape: Big-box retailers like Home Dept and Low's offer broad selection but lack the warehouse-style depth, in-stock availability, and Pro-focused services of FND. Regional specialty players may provide targeted expertise, but they lack the scale, supply chain efficiency, and pricing power to compete suitably. Meanwhile, e-commerce remains a limited channel in flooring due to the high-consideration nature of purchases.

Competitive Advantage:

- **Warehouse Format:** Higher SKU depth, faster turns and stronger in stock availability
- **Pro Flywheel:** Dedicated reps, job-site delivery credit terms, and loyalty incentives
- **Private Label Penetration:** Margin accretive, supports brand control and pricing power
- **Project Line Expansion:** Entry into cabinetry and design consultation increases average ticket and wallet share

Peer Benchmarking: FND trades at a discount to its comp set on revenue-based metrics despite stronger growth prospects. At 2.40x LTM EV/Sales and 2.16x NTM EV/Sales, FND screens below the peer median of 3.01X and 2.96x, respectively, despite delivering top-line growth and aggressive store expansions. While FND's EBITDA and EBIT appear elevated 20.61x and 42.6x vs. median 15.51x and 19.35x), this is a function of reinvestment heavy growth and early-stage margin ramp. Over time, margin expansion from the Pro flywheel and scale leverage should compress these multiples.

Note: I selected peers like Home Depot, Lowe's AutoZone, O'Reilly, etc. to reflect a mix of Pro-focused, specialty retail, and high velocity models While not ideal comps due to the lack of pure play competitors, these companies share key traits with FND: Pro exposure, scale driven leverage, and SKU depth.

Key Risks:

1. **Housing Market Deterioration:** A prolonged downturn in home transactions or renovations could dampen demand, this being a key revenue driver recognized by management makes this highest priority.
 - a. **Mitigant:** Core flooring replacement cycle is non-discretionary, and failure driven. Pro customers (now ~50% of mix) are less macro-sensitive and driven by project pipeline, not sentiment
2. **LL Capture:** Management may fail to convert displaced LL demand due to poor targeting or competitive encroachment
 - a. **Mitigant:** Internal store overlap data shows close proximity to former LL locations. FND is explicitly opening new stores in those trade areas, with ample dry powder/position to take on more debt for expansion
3. **“Pro” Customer Retention:** Pro relationships may prove less sticky than modeled, especially as competitors can replicate their own programs
 - a. **Mitigant:** FND’s integrated credit offerings, dedicated account reps, and fast jobsite fulfillment create high switching costs.

Event Path and Tracking:

	Near Term (0-6M)	Mid-Term (6-18M)	Structural (18-24M+)
Catalyst	Q2-Q3 2025 Earnings	Continued Pro penetration	Long-term comp resilience
What to Watch	Commentary on comp reacceleration in LL overlapped markets and failing independents	Change in avg. ticket size, transaction frequency, Pro sales mix	Outperformance in Sunbelt vs. national housing market, demand persistence in volatile macro
Tracking Method	Management guidance, , Store opening announcements, Foot traffic via placement.ai	Earnings call transcripts, sell-side revisions, survey data, or expert networks	Census housing stock reports and earnings commentary
Expectation	100-150bps in same store sales in overlapping markets	Pro mix reaches 55%+ supporting margin expansion and retention story	Aging housing stock drives steady volume, driving multi quarter sales durability

Building Conviction: To build further conviction, I plan to visit FND stores in former LL markets to validate local share capture, use alternative data (foot traffic, credit card spend) to monitor demand trends, speak with contractors to assess supplier loyalty and Pro value, and engage management on consolidation strategy and execution.