



**AUGUST 2019**  
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**Life Alert: Great people do more than lead. They inspire.**

**Flooring Flashes:**

1. The **FCIF (Floor Covering Industry Foundation)** a non-profit institution stands ready to help those in the flooring industry who have suffered a major illness and need financial assistance. Contact Andrea Blackbourn ([ablackbourn@fcif.org](mailto:ablackbourn@fcif.org)) if you need assistance with medical bills, prescriptions, housing, food, etc. due to a life changing event that occurred because of a medical misfortune.
2. The Dixie group announced it has entered into a letter of intent to sell and lease its Santa Ana for approximately \$40M, which will generate an after tax gain of \$20M.
3. A class action lawsuit has been filed against Floor & Décor.

## Corporate Results-Flooring Manufacturers & Retailers

- 1. Mohawk** reported a 0.3% sales gain for their 2<sup>nd</sup> quarter and an increase in sales for the six month period of 0.8%. Excluding acquisitions total sales were down 0.3% for their 2<sup>nd</sup> quarter. EPS were up 6% for the quarter, but down for the six month period 17.3%. Net income was down 20% for the six month period. For the six month period sales were up for Global Ceramic 2.8%, for Flooring NA sales were down 5.1%, and for Flooring ROW sales were up 7.6%. Their stock is currently selling 40% below their 52 week high.
- 2. Interface** reported sales gains for their 2<sup>nd</sup> quarter and six month period of 26% and 25% respectively. Net income for both periods was up 43% and 2.4%. Their stock is selling 52% below their 52 week high.
- 3. Dixie** reported sales drops for their 2<sup>nd</sup> quarter and six month period of 5.7% and 7.9% respectively. They suffered net income losses for both periods of \$1.2M and \$7.9M. Their stock is selling 74% below their 52 week high.
- 4. Armstrong Flooring** reported a 2<sup>nd</sup> quarter sales drop of 11.7%. Net income increased by 40%. Sales for their six month period dropped 12.6%. They experienced a modest net loss for their six month period compared to a small net income a year ago. Their stock is currently selling 64% below their 52 week high.
- 5. Floor & Décor** reported a 19.8% sales gain in their 2<sup>nd</sup> quarter compared to last year. Comp sales were up 3%. Net income for the quarter was up 9.4%. For their six month period sales were up 19.1% and comp sales were up 3.1%. Net income was up 3.6%. They expect to have 120 locations at the end of 2019. Their stock is currently selling 14% below their 52 week high.

6. **Lumber Liquidators** reported a 2<sup>nd</sup> quarter sales gain of 1.8%. Comp sales were down 0.1%. Total sales for the six month period were up 1%. Comp sales were down 0.4%. Net loss for the quarter was \$2.9M compared to last year's loss of \$1.5M. For the six month period the loss was \$7.8M compared to \$3.4M last year. They have 415 locations at the end of their six month period. Their stock is currently selling at 63% below their 52 week high.
7. **Tile Shop Holdings** reported sales drops for their 2<sup>nd</sup> quarter and six month periods of 4.3% and 4.5% respectively. Net loss for the quarter was \$154,000 compared to net income of \$5M a year ago. For the six month period net income was \$1.2M compared to \$9M a year ago. This company has a very tough competitive disadvantage operating with a 70% gross margin. They now have 140 locations. Their stock is currently selling at 70% below their 52 week high.

### Corporate Results/Builders, Home Centers:

1. **NVR** reported a 2<sup>nd</sup> quarter sales gain of 1% and a six month gain of 4.9%. Net income for both periods was up 3.5% and 8% respectively. Average selling price was down 3.8%, Backlog in units was down 6
2. **Beazer Homes** reported sales drops for their 3<sup>rd</sup> quarter and nine month period of 5.6% and 2.5% respectively. Net income for the 3<sup>rd</sup> quarter was down 13.5%. For the nine month period the loss was \$82M compared to the loss a year ago of \$106M. The backlog in units and dollars were down 4.5% and 4.2% respectively. Their average selling price was up 5.9%.

## **Positives Observations:**

1. The stock market continues its positive trend. In July the DJIA was up 1%, the S&P was up 1.3% and the NASDAQ was up 2.1%. **See Exhibit IV** for YTD results.
2. New home sales were up in June 4.5% compared to last year and better than May by 7%. **See Exhibit II.**
3. \*Employer's added 164,000 jobs in July. The unemployment rate held steady at 3.7%. **See Exhibit III.**
4. The median existing home price for all housing types reached an all-time high of \$285,700 in June. June's price increases marked the 88<sup>th</sup> straight month of year over year gains.
5. 56% of existing home sold in June were on the market for less than a month.
6. Current 30-year fixed mortgage rates are approximately between 3.8% and 4%. Lowest rates since 2016.

### **Neutral Observations:**

1. The FRB cut its key interest rate, at the end of July, by a quarter of a point.
2. Facebook was fined \$5 billion dollars by the FTC for privacy violations.
3. Researchers are suggesting that learning a foreign language could help delay the onset of dementia.
4. 25% of Americans say they do not plan to ever retire.
5. Jimmy Carter, the 39<sup>th</sup> President of the U.S., has been married to Rosalynn for 73 years.
6. Jeff Bezos, founder and CEO of Amazon, is less rich now. After his divorce settlement he will have only \$110 billion. His wife will only have \$37 billion!
7. German government bonds bought by investors in Germany pay a negative yield. If you invest \$102,000 for a ten year period you will receive \$100.000 back. No interest paid during the ten years.

### **Negative Observations:**

1. Existing home sales in June were down for the 16<sup>th</sup> consecutive month. Compared to May they were down 2.2% compared to last year. **See Exhibit I.**
2. Overall housing data for June was surprisingly negative, with existing home sales accelerating lower, weak permit data, and housing starts remaining down. Housing starts have been declining since October 2018.
3. The following retailers may file final bankruptcy proceedings before the end of 2019: Bebe, Office Depot, Land's End, Petsmart, Payless Shoe, Sears, J.C. Penney, Neiman Marcus, Cole Hahn, Pier 1, Steinmart, Rockport, Toys r Us.
4. The U.S. budget deficit will exceed \$1 trillion in 2020.
5. The GDP grew at 2.1% in the 2<sup>nd</sup> quarter. In all of 2018 the GDP was 2.5%, also below expectations.
6. More than 820 million people worldwide are still going hungry. That number represents 11% of the world's population.
7. Lowe's announced they were eliminating thousands of jobs as they were planning to outsource positions that handle assembling grills, and janitorial services.
8. Customer service today via technology is lousy.
9. Economists are saying that the U.S. and China are in a trade war.

## **PREDICTION**

I am changing my forecast for total flooring sales for 2019. I now estimate that the industry may not have an overall increase for 2019. Negative existing home sales are having a stronger negative affect on sales than I originally estimated. Even though mortgage rates are lower the increase in the pricing of homes continues to dampen sales. Also, it is now evident to me that because hard surfacing increases in market share have reduced dramatically how often consumers change floors.

## **SUMMARY**

Steady U. S. hiring growth has extended into the 2<sup>nd</sup> half of 2019. Also wages for private sector workers advanced in July 3.2% from a year earlier. The stock market indexes performed strongly in July, and the economic expansion became the longest on record in July as well. Hopefully, these facts will offset, trade tensions, 16 consecutive months of negative existing home sales, retailer real estate closings and bankruptcies.

**Exhibit I-\*will now include all existing home sales  
condos, etc.-as of October 2017**

**Existing Single Family Home Sales**

**Annual Averages Based on Monthly Sales**

	Adjusted Number	Year/Year % Change	Month/Month % Change
Jan 18	5380	-6.7	-3.2
Feb 18	5540	13.7	3.0
Mar 18	5600	-1.1	1.0
Apr 18	5460	-1.4	-2.5
May 18	5430	-3.0	-0.4
Jun 18	5380	-2.2	-0.6
Jul 18	5340	-1.5	-0.7
Aug 18	5340	-1.5	Flat
Sep 18	5150	-4.1	-3.4
Oct 18	5222	-4.7	1.4
Nov 18	5333	-7.0	1.9
Dec 18	4999	-10.3	-6.4
Jan 19	4940	-8.5	-1.2
Feb 19	5510	-1.8	11.8
Mar 19	5210	-5.4	-4.9
Apr 19	5190	-4.9	-0.4
May 19	5340	-1.1	2.7
Jun 19	5270	-2.2	-1.7
For 2014	4334	-3.3	
For 2015	4627	6.7	
For 2016	4828	4.3	
For 2017	5510	1.2	
For 2018	5340	-3.1	

**EXHIBIT II-\*WILL NOW INCLUDE ALL  
HOUSING, INCLUDING CONDOS, ETC.**

**New Single Family Home Sales**

**Averages Based on Monthly Sales**

	Adjusted Number	Year/Year % Change	Month/Month % Change
Jan 18	657	Flat	-7.8
Feb 18	663	1.0	-0.6
Mar 18	694	8.8	12.3
Apr 18	636	11.6	-1.5
May 18	666	8.9	3.6
Jun 18	631	2.4	-5.3
Jul 18	608	2.8	-1.7
Aug 18	585	4.5	-3.8
Sep 18	597	-14.3	-5.8
Oct 18	544	-12.0	-8.9
Nov 18	657	-7.1	16.9
Dec 18	621	-9.1	-4.8
Jan 19	644	-3.3	1.5
Feb 19	669	0.6	4.9
Mar 19	693	3.2	4.5
Apr 19	658	1.6	-6.7
May 19	604	3.5	6.7
Jun 19	646	7.0	4.5
For 2014	440	2.3	
For 2015	502	14.2	
For 2016	561	11.3	
For 2017	613	8.3	
For 2018	622	1.5	



**EXHIBIT III*****Unemployment Percentages-Month End***

	<u>2017</u>	<u>2018</u>	<u>2019</u>
January	4.7	4.1	4.0
February	4.7	4.1	3.8
March	4.5	4.1	3.8
April	4.4	3.9	3.6
May	4.3	3.8	3.6
June	4.4	4.0	3.7
July	4.4	3.9	3.7
August	4.2	3.7	
September	4.2	3.7	
October	4.1	3.7	
November	4.1	3.7	
December	4.1	3.9	

**EXHIBIT IV-Stock Market Analysis YTD  
(Percentages) At the End of the Month**

	<u>DJIA</u>	<u>S&amp;P</u>	<u>NASDAQ</u>
Jan 18	+5.7	+5.6	+7.4
Feb 18	+1.2	+1.5	+5.4
Mar 18	-2.2	-1.2	+2.4
Apr 18	-1.3	-0.2	+2.9
May 18	-1.2	1.3	7.9
Jun 18	-1.8	1.7	8.0
Jul 18	3.0	5.5	11.0
Aug 18	5.0	8.5	17.5
Sep 18	7.0	9.0	16.5
Oct 18	1.6	1.4	5.8
Nov 18	3.3	3.2	6.2
Dec 18	-5.6	-6.2	-3.9
Jan 19	7.2	7.8	9.7
Feb 19	11.1	11.0	13.5
Mar 19	11.2	13.1	16.5
Apr 19	18.0	18.0	22.0
May 19	7.5	10.7	13.1
Jun 19	14.0	17.4	20.1
Jul 19	15.2	18.9	23.2

**EXHIBIT VI As of 8/9/19**  
**Flooring-Furniture Public Companies**

	Symbol	*Current Price	52 week range
Armstrong	AWI	\$95.01	54.34-104.50
Armstrong	AFI	\$7.70	7.00-20.46
Dixie	DXYN	\$.63	.034-2.15
Ethan Allen	ETH	\$17.80	16.90-23.75
QEP	QEPC	\$23.50	19.50-29.40
Interface	Tile	\$11.28	11.26-24.50
Lumber Liquidators	LL	\$8.10	6.59-19.36
Mohawk	MHK	\$116.77	109.35-196.30
Stanley Furn.	STLY	NA	NA
Tile Stores	TTS	\$2.41	2.42-8.23
Floor & Decor	FND	\$42.00	23.30-48.72

\*Approx.-changes daily

**EXHIBIT VII As of 8/9/19**  
**Builders-Retailers-Public Companies**

	Symbol	*Current Price	52 Week Range
Beazer	BZH	\$11.61	8.16-14.37
DR Horton	DHI	\$47.23	32.39-48.38
Home Depot	HD	\$210.02	158.09-219.30
Hovnanian	HOV	\$5.43	5.21-43.25
KB	KBH	\$26.30	16.82-27.65
Lennar	LEN	\$50.01	37.29-54.50
Lowes	LOW	\$98.55	84.75-118.23
NVR	NVR	\$3525	2041-3582
Pulte	PHM	\$32.07	20.64-34.03
Toll Bros	TOL	\$35.96	28.68-39.80

\*Approx.-changes daily

**BIBLIOGRAPHY/SOURCES: CATALINA RESEARCH, WSJ, NYT, FORBES, FORTUNE, NEWSWEEK, TIME, BUSINESS WEEK, SUN-SENTINEL, GOLF POETRY, VARIOUS INVESTMENT STRATEGY REPORTS, CNN, USA TODAY, U.S. NEWS, INVESTORS BUSINESS DAILY, U.S. COMMERCE DEPT., FLOOR COVERING NEWS, FLOOR COVERING WEEKLY, TALKFLOOR, BLOOMBERG BUSINESSWEEK, OXFORD DICTIONARY OF QUOTATIONS**

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