



MAY 2019
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Life Alert: The happiest people do not have the best of everything, they just make the best of everything.

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 Blackburn (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. **Milliken** was named by Forbes as one the best mid-size employers in the U.S.
3. **Dixie** has been notified that they will be delisted by NASDAQ. They have 60 days to rectify the issue of their stock selling below \$1 for more than 30 days.

Corporate Results-Flooring Manufacturers & Retailers

1. **Interface** reported a first quarter sales increase of 23.7%. Comp sales were up 2%. Overall sales were up due to an acquisition. Net income was down 53%.
2. **Mohawk** reported a first quarter sales increase of 1.2%. Net income was down 42%. Their ceramic sales were up 2.5%, their North America sales were down 2.9%, and their flooring sales in the rest of the world weres up 6%.
3. **Dixie** reported a first quarter sales drop of 10.4%.Net loss for the quarter was \$6.7M compared to last year's loss of \$2.9M.
4. **Armstrong Flooring** reported a first quarter sales drop of 13.8%. Net loss for the quarter was \$16.7M compared to a loss last year of \$10.4M.
5. **Floor & Decor** reported a first quarter sales increase of 18.4%. Comp store sales increased 3.1%. Net income decreased 3.6%. They forecast that comp sales will increase 1% to 3% in the 2nd quarter. For the year 2019 they forecast that comp sales will increase 3% to 5%.
6. **Tile Shop Holdings** reported a first quarter sales drop of 4.6%. Comp sales dropped 4.2%. Net income dropped 67% to \$1.3M from \$4.0M last year. They have at the end of the quarter 140 locations, the same as last year.
7. **Lumber Liquidators** reported a first quarter sales increase of 1.7%.Comp sales were down 0.8%. Net loss for the quarter was \$4.9M compared to last year's loss of \$2M. They forecast comp sales for the year will be flat to low single digits up. They have 413 locations and plan to open 10 to 15 more in 2019.

Corporate Results/Builders, Home Centers:

1. **NVR** reported a 10.3% sales increase for their first quarter. Net income increased 13.5%. New orders in units and dollars were down 8%.
2. **Pulte** reported a 1% sales increase for their first quarter. Net income was down 2.3%. Their backlog in units and dollars were down 6.2% and 6.8% respectively.
3. **D.R. Horton** reported sales increases for their 2nd quarter and six month periods of 8.9% 7.3% respectively. Net income was flat in their 2nd quarter but up for the six months by 18%. At the end of the six month period the backlog in units and dollars was 6.6% and 3.4% respectively.
4. **Beazer** reported sales drop for their 2nd quarter and six month periods of 7.5% and 1% respectively. Net loss for the quarter was \$101M compared to a profit a year earlier of \$12M. For the six month period the loss was \$94M compared to a loss last year of \$119M. Their backlog in dollars were down 11.5%, and in units 14%.

Positives Observations:

1. The three major stock indexes had a strong April. The DJIA was up 2.6%, the S&P was up 3.9% and the NASDAQ was up 4.7%. The DJIA finished April with a 14% gain year to date. The S&P was up 18% and the NASDAQ was up 22%, both year-to-date numbers. We are in the 10th year of a bull market. **See Exhibit IV.**
2. The GDP grew at 3.2% rate in the first quarter.
3. On April 23rd, the S&P 500 and the NASDAQ closed at new record highs.
4. New home sales were up in March 3% compared to last year and 4.5% better than February. **See Exhibit II.**
5. Consumer spending still represents more than two-thirds of economic activity in the U.S.
6. Consumer spending leapt in March by the most in almost ten years.
7. Employer's added 253,000 jobs in April, and the unemployment rate dropped to 3.6%. This was the 103rd straight month that U.S. employers added jobs. **See Exhibit III.**
8. U.S. consumer sentiment surged to a 15-year high in early May according to a University of Michigan survey.

Neutral Observations:

1. Online supermarket purchases account for only 5% of the roughly \$12 trillion U.S. food and consumer product market. However, online supermarket sales are growing 40% annually.

2. The percentage of teens with a driver's license has tumbled and more young people are delaying purchasing their first car-if buying one at all.
3. There are only three companies in the U.S. that have a market cap that exceeds \$1 trillion. They are Amazon, Microsoft and Apple.
4. The IRS awarded a record \$312M to tipsters last year. The previous high was \$125M. So far this year the agency has paid out \$115M.
5. Median pay reached \$12.4M for CEO's of the biggest U.S. companies in 2018.
6. The U.S. Chamber of Commerce, is the largest and most powerful lobbying group in Washington. The NRA is number 2.
7. The euro is trading at a nearly two-year low against the dollar, due to business confidence being low in Germany and France.

Negative Observations:

1. Existing home sales in March were down compared to February January by 4.9% and down compared to last year 5.4%. This was the 13th consecutive month that sales were less than a year ago. **See Exhibit I.**
2. Overall retail sales fell in the U.S. in April compared to March by .02%.
3. The U.S. home ownership rate fell for the first time in more than two years during the first quarter of 2019.
4. Social security program's costs will exceed its income in 2020 for the first time since 1982. Trustees of the program are predicting that the trust fund will be depleted in 2035.
5. Interest rates on 30-year mortgages rose at the end of April to 4.17%.
6. In 2018 Subway closed 1,100 stores in the U.S.
7. In the past 10 years Quiznos (restaurant sandwich chain) has closed over 4,000 stores.

8. Divorce rates for married couples over 50 years of age has doubled and tripled for those over 65 in the past 25 years.
9. The number of U.S. births fell in 2018 to a 32-year low.

PREDICTION

I expect that the balance of 2019 will be challenging for flooring manufacturers and retailers. Wood, laminates and carpet will have a difficult year meeting last year's level of sales. Luxury vinyl tile will be the catalyst that should put the total flooring industry up approximately 3% to 4% for the entire year. Total sales will be difficult due to continued poor results in existing housing sales, and longer years that consumers are taking to replace their floors due to the market share switch from soft flooring to hard surface floors.

SUMMARY

The stock market took a major hit on May 13. All the public flooring stocks took a beating. Mohawk, Floor & Decor, The Tile Shops, Armstrong Flooring, Interface, Dixie, etc., all dropped 2% to 6.5%. I estimate that most flooring stocks will not do well in 2019, due to the decline in carpet sales and the cannibalization of luxury vinyl tile on all other flooring products.

**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
Feb19	5510	-1.8	11.8
Mar 19	5210	-5.4	-4.9
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	636	-3.3	1.5
Feb19	667	0.6	4.9
Mar 19	692	3.2	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	
June	4.4	4.0	
July	4.3	3.9	
August	4.4	3.9	
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&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

Stanley Furn.	STLY	NA	NA
Tile Stores	TTS	\$4.56	4.34-9.50
Floor & Decor	FND	\$40.90	23.30-55.86
*Approx.-changes daily			

EXHIBIT VI As of 5/17/19
Flooring-Furniture Public Companies

	Symbol	*Current Price	52 week range
Armstrong	AWI	\$87.95	54.34-89.44
Armstrong	AFI	\$11.52	10.40-20.46
Dixie	DXYN	\$.63	.60-2.65
Ethan Allen	ETH	\$22.64	16.90-25.55
QEP	QEP	\$24.49	22.10-36.00
Interface	Tile	\$16.03	13.45-24.55
Lumber Liquidators	LL	\$11.33	8.81-26.92
Mohawk	MHK	\$138.69	109.35-228.49

EXHIBIT VII As of 5/17/19
Builders-Retailers-Public Companies

	Symbol	*Current Price	52 Week Range
Beazer	BZH	\$9.71	8.16-16.08
DR Horton	DHI	\$44.54	32.39-47.02
Home Depot	HD	\$192.58	158.09-215.43
Hovnanian	HOV	\$14.16	10.58-51.25
KB	KBH	\$26.95	16.82-28.34
Lennar	LEN	\$53.13	37.29-57.57
Lowe's	LOW	\$109.02	84.75-118.23
NVR	NVR	\$33.20	20.41-33.82
Pulte	PHM	\$32.42	20.64-33.04
Toll Bros	TOL	\$38.42	28.68-43.83
*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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