

Lumber Liquidators Holdings, Inc.

NYSE:LL

Analyst: Jacky Cheng

Sector: Services

SHORT

Price Target: \$17.50

Key Statistics as of 3/12/2015

Market Price:	\$36.08
Industry:	Home Improvement Stores
Market Cap:	\$976.70 M
52-Week Range:	\$27.79-108.40
Beta:	1.57

Thesis Points:

- Ruined reputation from “60 Minute” report
- Lawsuits
- Bad future outlook resulting from current events
- Inventory problems

Company Description:

Lumber Liquidators Holdings, Inc., operates as a multi-channel specialty retailer of hardwood flooring, and hardwood flooring enhancements and accessories. It primarily offers solid and engineered hardwood products; laminate floorings; bamboo floor products, cork floorings, and vinyl plank flooring; wood flooring moldings; butcher block kitchen countertops, and staircase treads and risers; and accessories, such as sealers, adhesives, and underlayment, as well as flooring tools and floor cleaning supplies. The company offers its products primarily under the Bellwood and Morning Star Bamboo brands. It operates through various sales channels, such as stores, call center, and catalogs, as well as through its Website, lumberliquidators.com. The company primarily serves the homeowner, or a contractor on behalf of a homeowner. As of December 31, 2014, it operated 352 stores in 46 states in the United States and Canada. The company was founded in 1994 and is headquartered in Toano, Virginia and is currently the largest specialty retailer of hardwood flooring in North America.



Thesis

Currently, Lumber Liquidators is being speculated based on a 60 Minute segment that reported on high levels of formaldehyde found in tested samples of laminate flooring made in China that was sold by Lumber Liquidators. As a result, the stock price plummeted by over 1/3 of its original price. With the bad reputation Lumber Liquidators is taking, their sales are going to take a huge hit which will decrease the bottom line. Currently, there are 31 lawsuits from different states and counting. If these allegations were to be found true, then essentially the company will be worthless. Besides the noise “60 Minutes” is making, the company is well overloaded in inventory, especially their obsolete products that they discontinued and are still trying to sell at clearance prices. For these reasons, Lumber Liquidators, Inc. is a SHORT.

Bad Reputation

On February 24, 2015, the company announced during their earnings call that “60 Minutes” was going to air an unfavorable story on Lumber Liquidators. The story was about how Lumber Liquidators has been selling flooring with excessive amounts of formaldehyde, with its emission that can lead to cancer. “60 Minutes” tested Lumber Liquidators' flooring in Virginia, Florida, Texas, Illinois, and New York, and found that only one in 31 samples of Chinese-made laminate flooring was compliant with formaldehyde emissions standards. At one instance, some of the products were 13 times over the California regulations. The piece, relying in part on undercover reporters and hidden cameras, showed managers at three Chinese factories admitting to false labeling that made it look like the products met CARB2 test regulations. The stock dropped 14% after it was mentioned during the earnings announcement. After airing the segment on CBS Sunday, March 1st, the stock dropped again over 22% the following day.



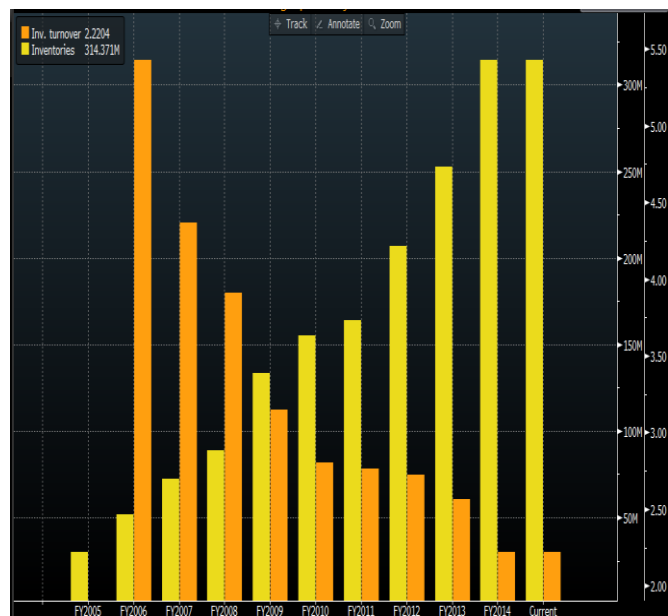
**Image shows “false” labeling of CARB2 compliant on “60 Minutes” broadcasted on March 1st.*

Inventory Overload/Obsolete

Lumber Liquidators not only offers a variety of wood selections compared to Home Depot and Lowes, they sell them at the lowest price possible. They are able to sell them at the lowest prices in the market due to the fact that the products come directly from the mills, often buying a significant portion of their mill-partners' capacity. This gives them the greatest price advantages in premium products of each merchandise category. Lumber Liquidators carries the broadest assortment of 25 wood species and over 350 varieties, where the quality is heavily invested in their products. Unlike Home Depot and Lowes, Lumber Liquidators has highly skilled flooring experts with training to better serve their customers.

Bellwood is Lumber Liquidators flagship collection representing best-in-class quality to the customers. It is offered in a range of solid hardwood, engineered hardwood and bamboo, each with complementary moldings and accessories. This brand is one of the most recognizable brands in all of flooring being recognized by 40% of the general population. It represents approximately 12% of Lumber Liquidators net sales in 2013. The product was discontinued and has now been re-launched in September 2014 with improved finish that is scratch and abrasion resistance, stain and scuffs resistance, and gloss retention. Unfortunately, there are plenty of old Bellwood products Lumber Liquidators is still trying to get rid of selling them at super marked down prices.

With inventories going up at a linear rate, the inventory turnover is going down at the same rate over the past several years. The situation got worse with the potential dangerous products. The outlook for this trend to reverse is not going to end anytime soon in the future.



*Graph shows Inventory Turnover decreases as Inventories increases.

Lawsuits

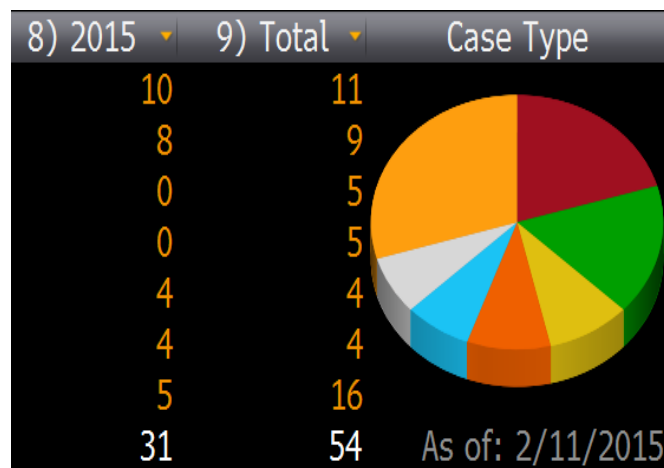
Currently there are over 30 lawsuits and possibly more to come in the future. Most of these lawsuits relates to the investigation after the “60 Minutes” report came out alleged Lumber Liquidators sold and installed Chinese-made laminate flooring that contains far higher-than-accepted levels of formaldehyde, a chemical known to cause cancer. There are still a myriad of firms still investigating the situation.

Company Name	Filed Date
Ryan & Maniskas LLP	12-Mar-15
Robertson & Associates, LLP	11-Mar-15
Hagens Berman Sobol Shaprio LLP	9-Mar-15
Keller Rohrback LLP	9-Mar-15
Shareholders Foundation, Inc	9-Mar-15
Johnson & Weaver, LLP	7-Mar-15
Andrews & Springer LLC	5-Mar-15

*Above shows several law firms who currently filed a class action lawsuit against Lumber Liquidators, Inc.

This was not the only time Lumber Liquidators had a problem with their products. On September 27, 2013, federal authorities from the U.S. Justice Department and

Department of Homeland Security executed search warrants and raided two of the Company's facilities in Virginia. As a result of the raids, Lumber Liquidators revealed to the public that the Department of Justice was taking into consideration filing criminal charges against Lumber Liquidators for violating certain provisions of the Lacey Act which bans the import and trade of illegally sourced wood products.



*Above shows the amount of litigations Lumber Liquidators has accumulated. In respected order from top to bottom: Fraud, General Contract, Labor – General, Other Statutory Actions, Product Liability – Personal Property, Product Liability – Real Property, All Other Types.

Financials

Without a doubt, the sales are going to decrease due to the bad reports on their products. During the conference call today, it was reported that in the nine day time frame since the broadcast on “60 Minutes”, net sales went down 7.5% which is a result in 10.4% decrease in customer invoices and a 2.3% decrease in average sales. In a rough conservative estimate, the CFO predicted the outlook for the rest of March is projected to fall below 27% below 2014. He also stated that at this point it was impossible to predict the rest of fiscal year 2015.

Conclusion

There is no foreseeable upside sadly for this company in the short-term future. It is unfortunate that the reputation has been tarnished by one “60 Minute” report so quickly when it took years and years to build up a reputation. With the current events and the financial situation this company is in at the moment, this all equals a recipe for disaster which is the reason Lumber Liquidators, Inc. is a SHORT.

