

LA-Z-BOY, Inc.

LZB: NYSE

BUY

Analyst: Mark Papizza
Sector: Consumer Discretionary

Price Target: \$33.47

Key Statistics as of 11/18/15

Market Price:	\$25.89
Industry:	Home Furnishings
Market Cap:	\$1.3 B
52-Week Range:	\$22.40-29.34
Beta:	.52

Thesis Points:

- 4-4-5 Strategy
- Home Furnishings Industry Outlook
- Financials –Value Creation, Negative Net Debt

Company Description:

La-Z-Boy Incorporated manufactures, markets, imports, distributes, and retails upholstery furniture products, accessories, and casegoods furniture products in the United States, Canada, and internationally. It operates in three segments: Upholstery, Casegoods, and Retail. La-Z-Boy Incorporated sells its products through a network of 325 La-Z-Boy Furniture Galleries stores and 576 Comfort Studio locations, as well as in-store gallery programs for its Kincaid and England operating units. The company was formerly known as La-Z-Boy Chair Company and changed its name to La-Z-Boy Incorporated in 1996. La-Z-Boy Incorporated was founded in 1927 and is based in Monroe, Michigan.



Thesis

La-Z-Boy, Inc. strives to be the leading global provider of comfortable, stylish home furnishings. The furniture industry is growing, and the outlook is strong for the years to come. Combined with La-Z-Boy's success in implementing the 4-4-5 Strategy and strong balance sheet, the company will continue to create value and increase the price of their stock.

4-4-5 Strategy

La-Z-Boy is one of the most recognizable names in the furniture industry. The company is the second largest manufacturer/distributor of residential furniture in the U.S., is the third largest retailer of single-source home furnishings networks, and is the largest manufacturer of reclining chairs worldwide. La-Z-Boy operates in three segments; Upholstery, Retail and Casegoods. The Upholstery segment is the largest, accounting for 72% of the company's \$1.43 billion dollars in sales in 2015. This segment is responsible for manufacturing, importing and exporting furniture that includes recliners, motion furniture, sofas, loveseats, chairs, sectionals, ottomans, sleeper sofas and more. The Retail segment follows Upholstery with 21% of sales. This segment includes 110 company owned La-Z-Boy Furniture Galleries stores, and predominantly sells upholstered furniture along with numerous accessories. The final segment, Casegoods, accounts for 7% of sales. This segment is responsible for importing, marketing and distributing wood furniture that includes bedroom sets, dining room sets, entertainment centers and more.

Two years ago, La-Z-Boy implemented an expansion plan to put themselves in markets they have never been before. The plan for the company was to open up 400 new stores and bring in an average of \$4 million per store in the next five years. Named after this goal, the plan is called the 4-4-5 Strategy. The company envisioned a potential \$1.6 billion retail store network with the success of this plan. Other goals of this strategy included maximizing the power of the brand name and fully penetrating the North American market. To date, 330 La-Z-Boy Furniture Gallery stores have been opened. The plan is very ahead of schedule, as the company now estimates they will

achieve their goal of \$4 million average revenue per store in calendar year 2015, two years ahead of what they were aiming for. With the early completion of this target, the company can begin to develop new plans to continue pushing La-Z-Boy further. With an estimated free cash flow of \$54 million to work with in 2016, the company plans to implement more than 30 projects, including 15 net new stores and 14 remodels to their newest concept design format. Redesigning stores to the new format is key at this point for the company, as the new format has proven to perform at a higher level than the old format.

Industry Outlook

The \$100 billion dollar home furnishing industry currently has a very positive outlook. The housing market is on the rise, and furniture sales are up from the past few years. Sales of new homes hit a seven-year high this year, which is a solid indicator that the demand for furniture will continue to increase. Most analysts estimate the industry to grow at 5%.

To assess the home furnishings industry, we will take a look at Porter's Five Forces of competition, threat of new entrants, threat of substitutes, buyer power, and supplier power.

Competition: High

The competitiveness in the furniture industry is high, as there are numerous big name companies fighting for higher market share. It is essential that companies have a competitive advantage to survive, and La-Z-Boy has several. The company is optimistic about their position in the market, as they are confident in their products, merchandising and branded distribution channel. La-Z-Boy is currently the second largest manufacturer/distributor of home furniture in the U.S. La-Z-Boy focuses on highlighting the value and quality of their brand, the comfort of their products and the styling of their products. The company strives to innovate and provide the best customer service possible in order to further separate themselves from the pack of competitors.

Threat of New Entrants: Medium

Being that there will always be a demand for furniture, many businesses will have an interest in joining the industry. There are no significant barriers to enter, so it is possible for these businesses to enter the industry. However, it would be very expensive and tough to compete with respected and dependable companies that have been around for a long time, such as La-Z-Boy.

Threat of Substitutes: Low

There are no substitutes for furniture. Furniture is a key component in houses all around the world, and is known to turn a house into a home. As long as people buy houses, furniture will be needed and there is no other substitutes to replace that.

Buyer Power: Medium

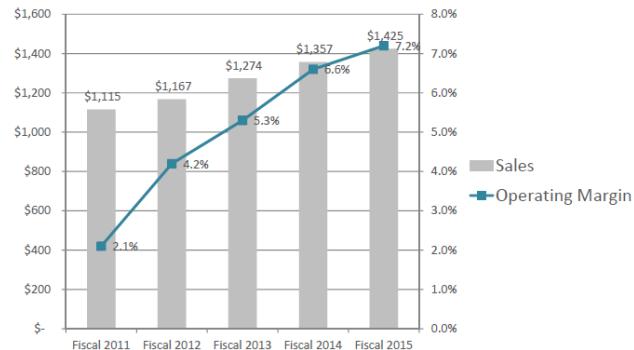
Relating back to the competition in this industry, buyers have the power to compare La-Z-Boy furniture prices with many other home furniture stores. That is why companies in this industry need solid pricing and quality products to have a competitive advantage in the field, and sway buyers to come purchase from them.

Power of Suppliers: Low

In this industry, there is a wide range of raw materials that can be used in making furniture. Materials such as wood, plastic or metal can be used, making the power of suppliers relatively low.

Financials – Value Creation

In La-Z-Boy's most recent quarter, the company posted their highest operating margin in over twelve years at 8.7%. This proves the company is making the most money per sale than they have in over a decade. As illustrated in the graph below, the company has continued to increase their operating margin over the past five years, and will work to continue this trend.



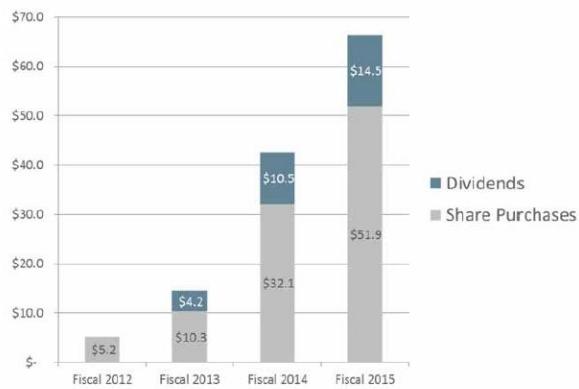
One of the most notable aspects on La-Z-Boy's balance sheet is the EBITDA margins. The company's EBITDA margins have grown year over year, and consistently outgrow their revenue growth. This trend is estimated to continue in the upcoming years as well. This demonstrates that the company is creating value, and eliminating expenses that are eating into their bottom line. Another key piece of evidence to show that the company is creating value is to look at their ROIC/WACC ratio, which is currently a solid 1.82.

Another notable aspect of the company is their negative debt. La-Z-Boy's net debt is currently -\$130 million. This is not uncommon, as the company has consistently had more cash on hand than debt since 2010, which should be very encouraging to investors.



Lastly, it is essential to note the company's dividends and share repurchases. As the company creates value, it is important to them to return value to their shareholders. This past quarter, the company decided to increase their quarterly dividend 25% to \$0.10. La-Z-Boy has also

consistently repurchased shares from the market. With the amount of shares the company has repurchased in 2015 as illustrated below, it is evident that they believe the shares are currently undervalued.



Conclusion

I am recommending a buy on La-Z-Boy, Inc. because they will continue to grow financially as a result of being one of the leaders in a growing industry, and their continued penetration into the U.S. furniture industry. The company will continue to keep up with trends in the market, and continue to create value and return that value to their shareholders. The one year target value for this company is \$33.47 based on my valuation, and the assumptions used can be viewed in the pro forma below.

CENTER FOR GLOBAL FINANCIAL STUDIES											
La-Z-Boy Incorporated	LZB	Analyst Mark Papuzza	Current Price \$26.03	Intrinsic Value \$32.08	Target Value \$33.47	Dividend 1%	1-y Return: 29.81%	NEUTRAL			
General Info		Peers	Market Cap.	Professional	Title	Management		Comp. FY2013	Comp. FY2014		
Sector	Consumer Discretionary	Ethan Allen Interiors Inc.	\$774.87	Darrow, Kurt	Chairman, Chief Executive Officer and	\$3,532,340	\$4,681,860	\$4,208,626			
Industry	Household Durables	Tempur Sealy International Inc.	\$4,901.61	Piccio, Louis	Chief Financial Officer and Senior Vice	\$1,187,393	\$1,484,264	\$1,317,173			
Last Guidance	November 18, 2015	Natuzzi SpA	\$34.30	Collier, J.	Chief Marketing Officer, Senior Vice F	\$0	\$0	\$1,003,306			
Next earnings date	February 17, 2016	Flexsteel Industries Inc.	\$344.44	Bacon, Mark	Senior Vice President and President o	\$1,584,156	\$1,675,316	\$1,507,761			
		Hooker Furniture Corp.	\$265.79	Edwards, Darrell	Chief Supply Chain Officer and Senior	\$0	\$0	\$1,033,435			
				Mueller, Margaret	Chief Accounting Officer, Vice Preside	\$0	\$0	\$0			
Market Data											
Enterprise value	\$1,243.23	Leggett & Platt, Incorporated	\$6,041.30								
Market Capitalization	\$4,838.67	Stanley Furniture Company, Inc.	\$42.94								
Daily volume	4.47	#REF!	#REF!								
Shares outstanding	50.19										
Diluted shares outstanding	51.55										
% shares held by institution	72.39%										
% shares held by insiders	1.91%	Total debt/Common Equity (LTM)	0.29	Last Quarter	-1.34%	2.22%	0.00%	1.04%			
Short interest	2.20%	Cost of Borrowing (LTM)	18.17%	Last Quarter-1	0.08%	3.70%	28.51%	8.37%			
Days to cover short interest	0.00	Estimated Cost of new Borrowing	3.65%	Last Quarter-2	-1.04%	-8.28%	0.00%	2.60%			
52 week high	\$29.34	Altman's Z	NA	Last Quarter-3	-2.78%	-14.00%	-13.16%	3.61%			
52-week low	\$22.62	Estimated Debt Rating	AA	Last Quarter-4	-1.48%	6.80%	5.88%	2.62%			
5y Beta	1.44	Current levered Beta	0.83	Standard error	0.5%	4.5%	6.8%	2.62%			
6-month volatility	24.47%	LTM WACC	6.56%	Standard Error of Revenues prediction	0.5%						
				Imputed Standard Error of Op. Cost predict	4.5%						
				Imputed Standard Error of Non Op. Cost pr	5.1%						
Convergence Assumption	General Assumptions		Items' Forecast Assumptions		Other Assumptions						
All base year ratios	Money market rate (as of today)		0.41%		Tobin's Q						
linearly converge	Risk-Free rate (long term estimate)		3.07%		Excess cash reinvestment						
towards the Sub-	Annual increase (decrease) in interest rates		0.1%		Money market rate						
industry ratios over	Marginal Tax Rate		37.5%		\$0.00						
an explicit period of	Country Risk Premium		6.0%		Other claims on the firm's assets						
10 years					\$0.00						
Forecast Year	Revenue Growth Forecast	Revenue (\$ Forecast									
LTM		\$1,457.13									
FY2016	4.3%	\$1,528.53			Excess cash reinvestment						
FY2017	4.3%	\$1,594.25			Money market rate						
FY2018	5.6%	\$1,666.72			\$0.00						
FY2019	5.2%	\$1,774.43			Other claims on the firm's assets						
FY2020	4.4%	\$1,852.51			\$0.00						
FY2021	3.7%	\$1,921.05									
FY2022	3.4%	\$1,985.40									
FY2023	3.2%	\$2,048.44									
FY2024	3.1%	\$2,111.68									
FY2025	3.0%	\$2,175.96									
Continuing Period	3.0%	\$2,241.24									
Valuation											
Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Claims on Assets and Dilution	Shares Outstanding	Price per Share	Monte Carlo Simulation Results			
LTM	11.3%	6.6%	\$865.86	\$1,366.20	\$392.13	50.19	\$31.93				
FY2016	12.3%	6.7%	\$948.68	\$2,051.38	\$395.53	50.19	\$33.34				
FY2017	11.1%	6.8%	\$1,012.07	\$2,149.61	\$389.44	50.19	\$35.15				
FY2018	11.1%	6.9%	\$1,095.54	\$2,270.36	\$389.36	50.19	\$36.84				
FY2019	10.6%	7.1%	\$1,179.30	\$2,395.51	\$406.01	50.19	\$38.60				
FY2020	10.6%	7.2%	\$1,259.63	\$2,522.44	\$406.02	50.19	\$40.47				
FY2021	10.3%	7.3%	\$1,336.01	\$2,651.65	\$399.23	50.19	\$42.48				
FY2022	10.2%	7.4%	\$1,411.63	\$2,787.10	\$389.06	50.19	\$44.63				
FY2023	10.0%	7.5%	\$1,488.50	\$2,931.42	\$358.25	50.19	\$47.11				
FY2024	9.8%	7.6%	\$1,567.48	\$3,086.53	\$346.28	50.19	\$49.54				
FY2025	9.7%	7.7%	\$1,643.25	\$3,254.02	\$334.08	50.19	\$52.23				
Continuing Period	15.4%	7.8%	\$369.79								
Sensitivity Analysis											
Revenue growth variations account for 35.3% of total variance											
Risk premium's variations account for 2.5% of total variance											
Operating expenses' variations account for 1.4% of total variance											
Continuing period growth variations account for 0.2% of total variance											
The 3σ(z)-adjusted intrinsic value is \$32.08; the 3$\sigma$(z)-adjusted target price is \$33.47; and the analysts' median target price is \$31.4											