

Lumber Liquidators CEO: Co. Can Grow In Low-Growth Environment

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Shoppers are sharply focused on prices and are taking longer to commit to home-remodeling projects than a few months ago, but Lumber Liquidators Inc.'s (LL) top executive believes the discount-flooring retailer will nevertheless generate strong sales and earnings growth in coming quarters.

"We feel like we're in a very good position to compete because we buy directly from the mills," President and Chief Executive Jeffrey Griffiths said in an interview Thursday. "We can continue to perform the way we have in the last three years and continue to grow our business even in what's going to be a low-growth, challenging macro-environment."

Demand is in line with company expectations at the beginning of the year, even though stronger-than-expected store traffic and orders this spring raised some hopes that consumers might not be so cautious.

"Consumers are going to continue to be more cautious," Griffiths said. "I actually think that works to our benefit because we're viewed as the price leader in the hardwood flooring category. Still over 60% of the business is being done by independents who have a fairly high cost structure."

Lumber Liquidator shares recently fell 4 cents, or 0.2%, to \$23.65 and have fallen about 6% since Wednesday on worries that revenue and margin gains might be tougher to achieve given consumer spending and housing trends and cost-related pressures. Those worries were fueled by second-quarter earnings per share that increased 28% but fell 1 cent shy of Wall Street's forecasts, hurt by higher-than-expected transportation costs and inefficiencies tied to ramping up a program that ships Chinese-made product directly to some stores. Analysts also fretted that Lumber Liquidators' stock is pricey, especially if the retailer has to offer more discounts to generate sales.

On Thursday, Griffiths said the company's direct-ship program is back on track and said the promotional environment among retailers is "about the same as earlier this year."

"We're going to continue to have positive comp-store sales in the back half of the year," Griffiths said. "We feel very confident of that. And gross margin will be better than in the front half."

Pricing at Home Depot Inc. (HD) and Lowe's Cos. (LOW) is sharper than in recent years, but the home improvement giants have limited assortments and less project-ready flooring in stock than Lumber Liquidators, Griffiths told analysts during a conference call Wednesday. He also believes staffing at Lumber Liquidators is an advantage. "We have the same people on staff in the store everyday who can work with the customer on a regular basis," while the variety of products and number of employees at Home Depot and Lowe's make that more of a challenge for them, he said.

Representatives for both Lowe's and Home Depot declined to comment, citing their upcoming earnings reports later this month.

Keys to Lumber Liquidators' guidance for between 16% and 27% earnings growth this year and for continued strong growth after that: adding more stores and gaining market-share. Though many retailers have reined in store growth in recent years, Lumber Liquidators, which has 207 stores in the U.S., is adding 36 to 40 stores a year. Griffiths sees about 400 U.S. outlets in the long run, with another 40 or so in Canada, where the company is adding its first store by year's end. Entering Canada will help the company build its infrastructure and gain experience running an international business, Griffith said.

Areas of possible interest overseas are the British Isles, Nordic countries and German, "anywhere that has a large percentage of homeownership," he said. As for market share, Griffiths believes Lumber Liquidators' focus on value will continue to play well with shoppers, and store traffic is on the rise. New stores have taken some sales away from existing stores, but nothing unexpected or not already baked into the company's financial plans, he said. "We're the largest specialty retailer of hardwood flooring but only have 11% market share in hardwoods and 6% in laminates, so there's a lot of room for us to grow," Griffiths said.

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