



Bears Pile into Lumber Liquidator Puts

Ticker/Price: LL (\$11.45)

Analysis:

Lumber Liquidators (LL) buyers active today for 6,200 May \$12 puts up to \$1.55 where 3,000 were bought earlier this week. LL has also seen buyers in the May \$11 puts over 4,000X and the January \$13 puts remain in OI from late last year. Shares have been weak for the last couple years and forming a big weekly bear flag above \$10 with a breakout targeting under \$7.50. LL shares have rebounded since mid-March back to cloud resistance and just below downtrend resistance from the November highs. The \$310M company trades 16X earnings, 0.29X sales, and 26.5X cash. LL sees double-digit EPS growth and low-single digit revenue growth through 2021 although estimates have come down significantly since early 2018. The company has struggled with litigation overhangs and competitive pressures from peers like Home Depot (HD) and Floor & Décor (FND). Margins have been flat since late 2017 and any sign the company is pushing towards a more promotional environment to drive transaction volumes could add pressure in Q1. They announced the departure of their CFO in March which is also limiting visibility. Analysts have an average target for shares of \$13.50 with no buy ratings and 13 hold ratings. Short interest is 23.3% and up from around 18% in March and 12% in early 2018. Evercore starting at Neutral in March with a \$10 base case but noting it's a long road to recovery and still unclear what the 'new normal' is for the company. Institutional ownership rose 10% last quarter.

Hawk Vision:



Trading Strategy: LL is the worst name in the group and could see weak Q1 numbers overall, so the puts make a lot of sense.

Confidence Ranking: \$\$