# PrivateCompanyOverviews

HARBOR FREIGHT TOOLS
Quality Tools at Ridiculously Low Prices

## Private Company Overview

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**Analyst: Michael Infranco,** 800-789-0123 Ext. 126

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### Business Description

Harbor Freight Tools is a privately held discount tool and equipment retailer, based out of Calabasas, CA.

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## Analyst's Insight

**Analyst : Michael Infranco**

Harbor Freight Tools, a discount tool and equipment retailer selling predominately private label items, operates nearly 1,600 stores nationwide. The Company, whose stores average 15,000 to 16,500 square feet and are typically made up of 70% retail selling area and 30% warehouse space, has been expanding aggressively for several years, opening about two stores a week. The Company has experienced success in navigating the volatility experienced in its freight and supply chain costs which has led to improved profitability. Harbor Freight's strategy of direct sourcing proprietary brands has driven its ability to price merchandise at relatively lower price points versus its competitors. The Company also continues to reduce its reliance on China and has increased its range of products to include items that can meet not only the needs of the DIY customer but the professional contractor as well. As a result, we believe Harbor Freight is well positioned in a consumer environment where customers are focused on value. As a result, sales advanced about 17% in FY24 (ended in July) to $7.6 billion, compared to $6.5 billion in FY23. Going forward, Harbor Freight will likely continue to take market share by pricing competitively and increasing customer loyalty, as well as benefiting from the trade-down effect as consumers increasingly look for value. We also believe the Company will continue to maintain its new store growth trajectory in FY25 and beyond.

Harbor Freight's owners have a history of extracting dividends paid for by adding additional debt to the Company's balance sheet. However, the Company has demonstrated a track record of rapid growth and good operating performance and has recently committed to a more conservative financial policy including reducing outstanding debt and limiting the amount of discretionary dividend payments going forward. During FY24, the Company increased the size of its revolving credit facility to $1.60 billion from $1.275 billion and extended its maturity to 2029; its term loan maturity was extended to 2031 (see below for additional information). Also during FY24, Harbor Freight repaid about $450 million in revolver borrowings and, as a result, we estimate that debt to EBITDA, while still elevated, improved to the low-4x range compared with the low-6x range in FY23. We believe the Company continues to maintain adequate liquidity, supported by its revolver and an undisclosed amount of cash on hand. Free cash flow was estimated at about $650 million in FY24, which is expected to decline in FY25 as working capital normalizes. The Company will likely use a large portion of its free cash flow to open new stores, reduce debt, and make dividend payments.

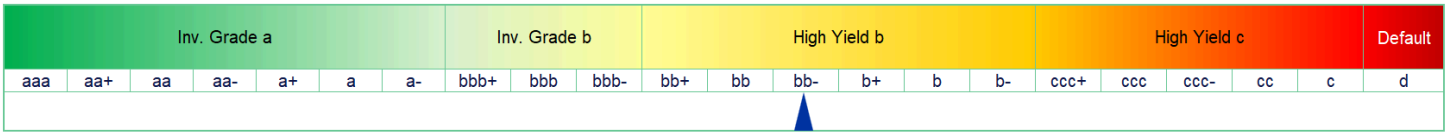
**Michael Infranco - 800-789-0123 Ext. 126**

## Credit Benchmark Consensus Rating (CBCR)

CBCR: bb-

Effective Date: 12.31.2024

6 Month Consensus Change: -3 notches




Credit Benchmark provides Credit Consensus Ratings (CCR) based on the internal risk views of over 40 major financial institutions with direct financial exposure to the underlying entities. The CCR is based on equally weighted Probability of Default estimates from at least three contributing banks for the same legal entity.

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# Background

Founded in Southern California in 1977 as a small family-owned business by Eric Smidt, Harbor Freight Tools operates as a discount tool seller. The Company, which opened its first store in 1980, currently has about 1,600 locations across the U.S., offering more than 7,500 tools and accessories at quality levels that match or exceed competing name brands but at prices that are up to 80% less.

# What's Happening

## Distribution Centers

In June 2022, Harbor Freight opened a new distribution center in Joliet, IL. The 1.6 million-square-foot facility allows the Company to deliver products to more than 300 stores in 16 states in the Midwest.

The Company's other DCs are in Moreno Valley, CA; Dillon, SC; and Ft. Worth, TX.

## Store Activity

In April 2024, Harbor Freight opened its 1,500th location. The Company's stores average 15,000 to 16,500 square feet and are typically 70% retail selling area and 30% warehouse space. For the past several years, the Company has been opening about two new stores a week.

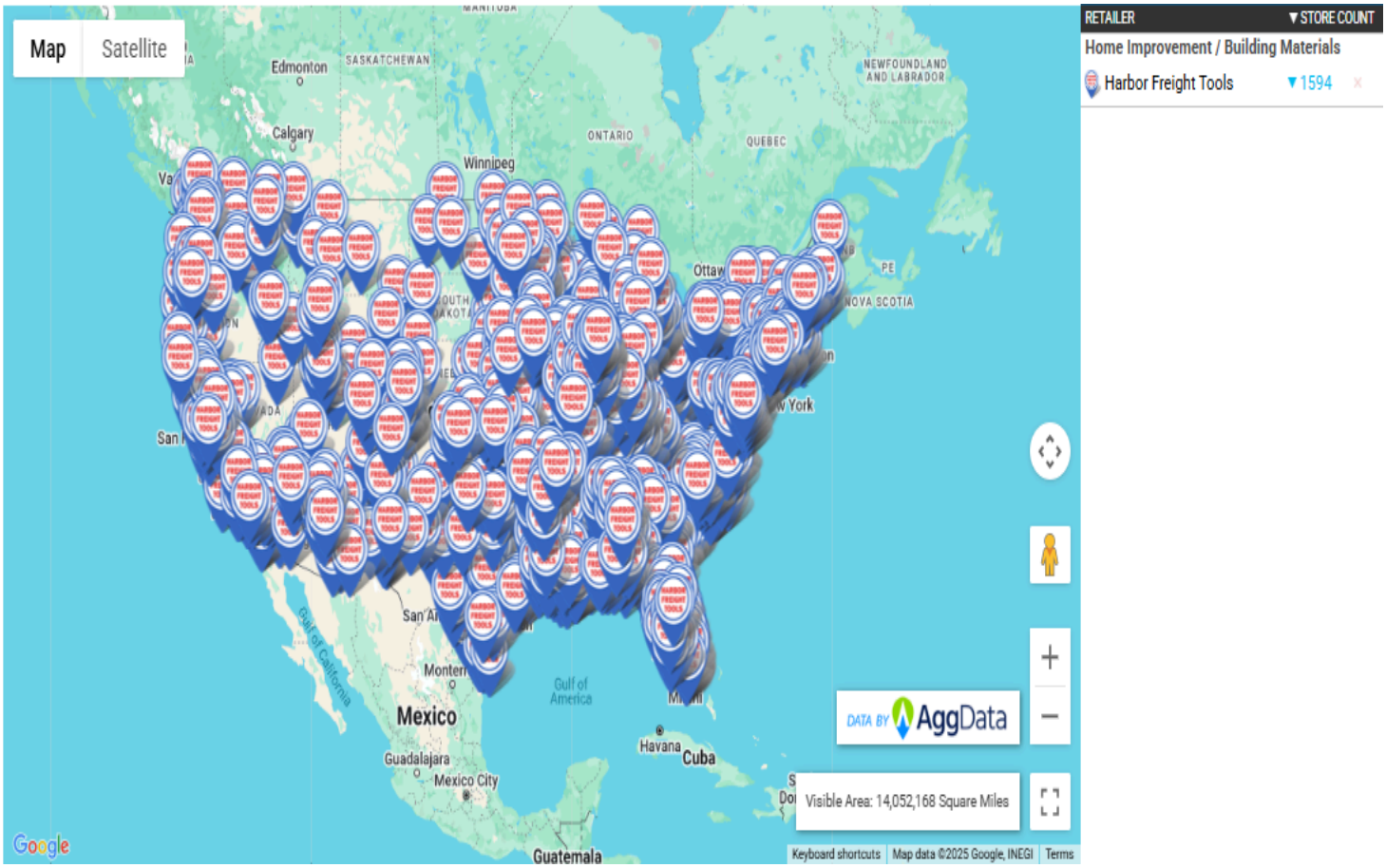
## Credit Facility / Other Debt

The Company maintains a $1.60 billion asset-based revolver with Wells Fargo that matures June 21, 2029; no additional information regarding outstanding borrowings, if any, was available.

On June 11, 2024, the Company entered into a new $2.85 billion senior secured term loan B with UBS Securities that matures June 11, 2031; interest is at one-month term SOFR plus 250 bps. As of December 31, 2024, $2.83 billion was outstanding.

# Store Trends

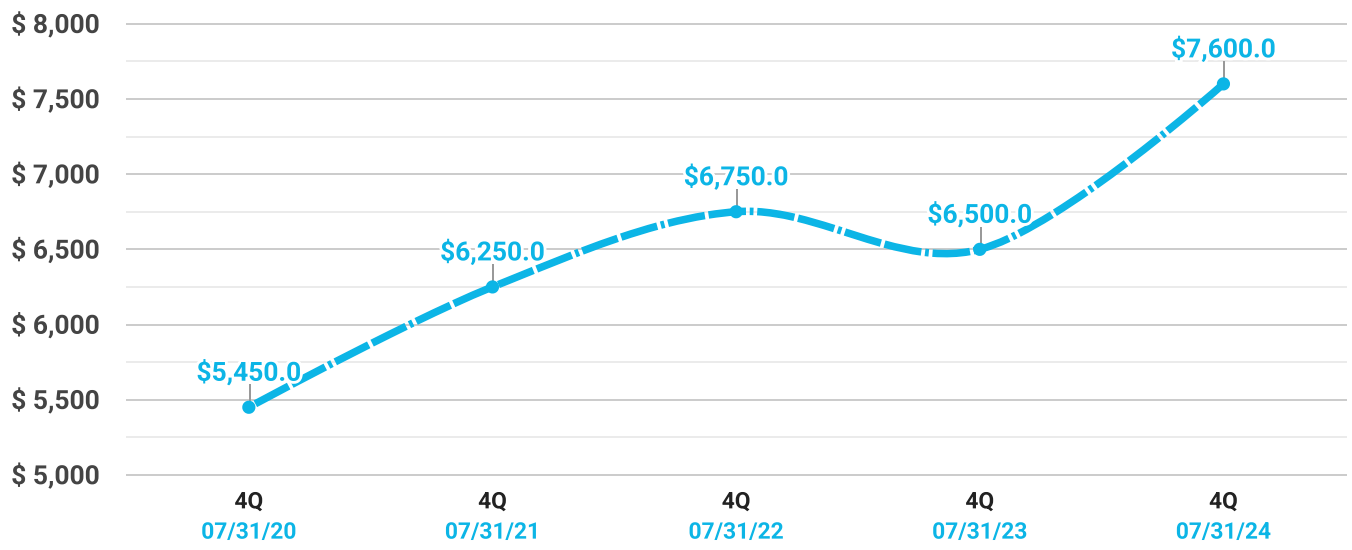
Harbor Freight operates about 1,600 stores throughout the U.S. Click on the picture to view a more interactive analysis of the Company's real estate:



# Performance Charts

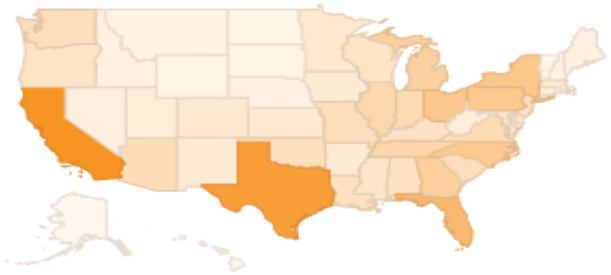
(U.S. Dollars in Millions unless otherwise noted)

## Estimated Annual Sales

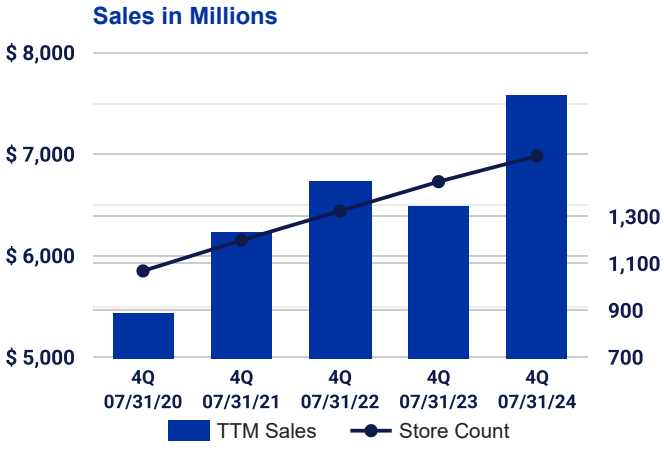



## StoreTrends Overview

### Harbor Freight Tools



## Sales and Store Count



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