

The Furnishings Digest

Third Quarter 2022
Volume 29, Issue #3

The latest news, views, and announcements

IN THIS ISSUE

Reading Time: 18 min

CHAOS!

The worst is coming this summer, with a sales recovery in the autumn

From OK to KO'd

We were needy in March and overstocked in April!

COVID is Back

..and so is MONKEYPOX!

Remember profits?

The New 2022:
bankruptcies, lay-offs and factory closings

Dying to go to Mexico?

Data from Allstate

Latest quarterly imports

by country

Returns

are a HUGE problem!



For more information on our firm www.maeltd.com

CHAOS! Can you think of a better word to describe the furniture and mattress industry today? I believe we are in the trough of this economic downturn which corresponds to the peak of the misery. Yes, since the beginning of 2022, consumer spending, consumer confidence, and consumer attitudes have declined month by month. In my opinion, this recession, already seven months old, will hit bottom this summer and begin a slow but visible recovery beginning in September.

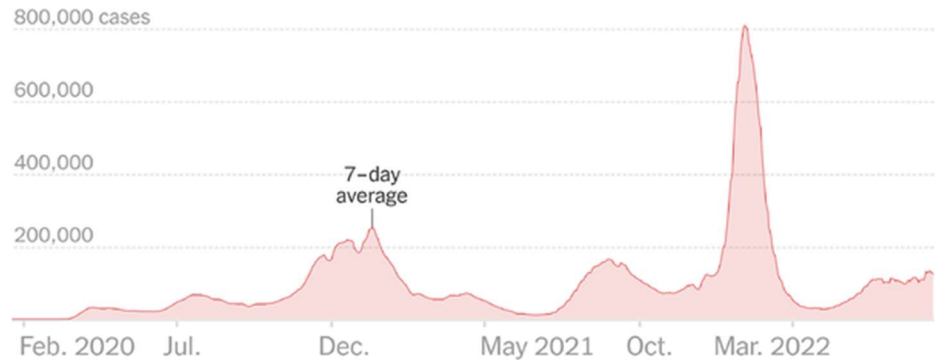
The Fed has been trying and failed at a "soft landing". Disagree? Look around you at the suffering in home furnishings that began in mid-April and brought our industry to its knees in weeks, not months.

-Retailers, domestic factories, importers and foreign factories were all aggressively hiring, then were laying off workers in just weeks!

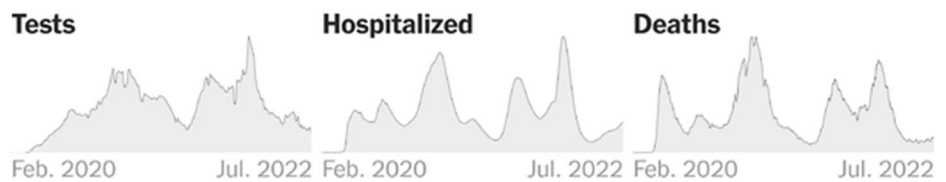
-The mattress and furniture industry went from record profitability in the second half of 2020 and 2021 to losses, store and factory closings, bankruptcies, layoffs and more in 2022. If this isn't a hard landing, heaven help us if one is coming. In mattress terms, we have gone from a "plush" business environment to "extra firm".

-Our all-important consumers cannot find good news. COVID? You don't hear much from our administration (wonder why?) but the summer has brought back the epidemic and new strains are lasting longer (weeks not days) and testing our medical capabilities. As a senior citizen, I am aware of more serious cases now than ever before since this pandemic began in March, 2020. This is impacting our consumers in a big way. The costs of necessities are encouraging if not forcing consumers to delay any expenditure they can.

New reported U.S. cases by day



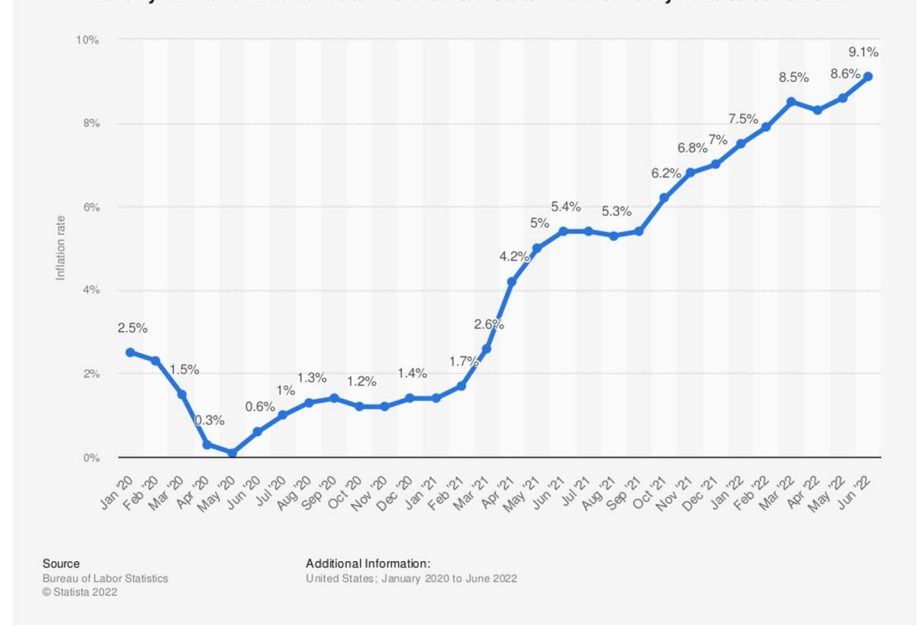
-The "high end" of the retail furniture industry usually charges a 50% or more deposit on furniture custom ordered for a particular customer. Backlogs got stretched out to record levels over the last year, sometimes out to a year. When furniture purchasing was obviously slowing in March, I was told by several high-end retailers and manufacturers that they weren't seeing any slowdown. This was likely because they had a healthy sold-order backlog. Today that sold-to-customer backlog has declined not just as merchandise has finally arrived but as some furniture buyers decided to put off the purchase, even to the point of canceling their deposits. Backlogs have shriveled even at the high-end. This is a very democratic, non-partisan recession with almost everyone impacted.



-But we are not seeing all the bad news yet! Many of the recently announced quarterly statements from public companies have been very upbeat and positive like Bassett, La-Z-Boy and RH. That's because those earnings were mostly before the April collapse when we saw another wave of consumers putting off spending, while containers seemed to arrive at a faster rate and domestic manufacturers began to catch up. Reports on public companies will generally be poor relative to 12 months earlier until year-end, in our opinion.

-Like the public company quarterly numbers, much of the government data is slow to appear. Do you disagree that the second quarter was down from a year ago? We will see soon but it already looks like, smells like and feels like a recession. The stock market is bouncing around and has fallen thousands of points on the Dow Jones Average, anticipating a recession.

Monthly 12-month inflation rate in the United States from January 2020 to June 2022



-This administration and Federal Reserve have been denying inflation since the massive cash- giveaways of 2020 and 2021 and now they look uneducated and foolish for trying to deny an unstoppable force. These most recent numbers of +9.1% year-to-year inflation, the worst in 41 years, is punishing every consumer and us.

-Have you noticed an increase in returns? This is very typical in a weak economy. Some businesses would rather find a reason to return something than pay for it, and often there is fraud involved. Watch for it on all levels!

-Since sales bounced up post-COVID in the spring of 2020 sales of almost any products home-related have done extremely well and furniture and mattresses have exceeded everyone's expectations. Folks asked, "how long will this good business last?". Now we know! The next question is usually "did we fulfill a lot of future furniture and mattress demand in the great sales period from May, 2020 to December, 2021"? Yes, we sold at a strong pace, but the actual store/website traffic never rose above average. Instead, we had a higher close rate because the people knew what they wanted and when they reached the store/website, they were buyers, not lookers.

A RECOVERY BEGINNING IN SEPTEMBER? WHY?

As of now, I am expecting a 9-to-12-month recession beginning to show some signs of our normal seasonal recovery this autumn. Even in weak sales times, we never see a 100% sales decline; this time the decline has ranged from 10 to 30% each month beginning in February. There will be two slow inventory replacement cycles before year-end. Thus, the inventory continues to adjust although more slowly than we would want.

We expect a modest strengthening at first that will allow the 2023 monthly sales numbers to show positive comparisons.

Feeling Miserable

For many, it's already starting to feel like a recession

US misery index UK euro area



BY PRODUCT?

In the last two holiday weekends, Memorial Day and July 4th, the strongest product by our sample on both holidays was mattresses. On the Memorial Day long weekend, the weaker of the two holidays, stationary upholstery was second behind mattresses and third was power motion. The stronger holiday weekend, July 4th, saw the opposite with power motion outselling stationary upholstery.

Generally, the southeast was the strongest region so far this year.

SOME OBSERVATIONS

-On its holiday flyers, Ashley showed which upholstery groupings were available for next-day delivery, an excellent idea in a period when so many products have extended delivery times.

- Ashley was also advertising Groupon coupons for 40% off select purchases.

-J.P. Morgan says that if Russia cuts back on its oil production, oil prices could rise 300%.

-Since the sudden business weakness in April, we have already seen bankruptcies by mattress maker Corsicana; corporate closing by online furniture source Mody; factory closings by Lane, Corsicana, Serta/Simmons; layoffs by Lane, Southern Motion, Corsicana and some delayed real estate openings.

-A July issue of the Economist noted that crime and cartels remain problems in Mexico with more than 100,000 people missing and more than 52,000 unidentified bodies.

-There have been no final agreements in the West Coast Longshoreman contract at this time but negotiations have been promising.

WHAT CAN YOU DO IN THIS CHAOS?

First, COMMUNICATE with your vendors, customers, employees and lenders about your plans.

Second, GO TO LAS VEGAS NEXT WEEK and have face-to-face visits with your vendors. You probably need to cull down your list of vendors and be more important to fewer.

Third, the OCTOBER HIGH POINT MARKET will be the most important in a decade. By then inventories will have corrected somewhat and you must plan for a stronger 2023! Do it in person and be glad we have the markets back after the COVID closings.

FURNITURE FAUX PAS (From Allstate Protection Plans)

In its Furniture Faux Pas Study, SquareTrade finds more than 242 million people have damaged furniture in their lifetime and 37% of damaged items were less than a year old! The survey explores the types of furniture people damage, the most common causes, and what lengths and expenses people go to repair, replace or hide damage. Digging deeper, SquareTrade finds:

●**The Damaged Furniture Financial Hit:** An estimated \$23.5 billion has been spent by 82million Americans replacing and repairing damaged items. The average cost of furniture repairs run at \$287. Almost half (49%) of damaged furniture originally cost more than \$500 and nearly a quarter (21%) cost more than\$1,000. Thirty-seven percent of furniture was less than a year old when it was damaged. The majority of people who damaged furniture (51%) say they spent additional money repairing or replacing it.

●**Household Hot Seats and Danger Zones:** Sofas are by far the most damaged item (34%), followed by dining room tables or chairs (11%), kitchen table or chairs (9%), and lastly, recliners or other living room seating (8%). Most furniture (57%) was damaged in the living room, with 15% of incidents happening in the dining room, 9% in the master bedroom and6% in the kitchen.

●**No Thrills from Spills.** The leading cause of damage is spills accounting for 54% of furniture damage. Other top causes are breaks (20%), dents and scratches (18%), rips or tears (17%) and burns (6%). Beverages are the dominant offenders for spills (48%) followed by ink/paint/marker (16%) and food (10%). Juice is the main drink culprit (31%), followed by alcohol (28%) and coffee (27%). Red wine is nearly four times more likely to stain furniture than white wine.

●**The Cover Up:** Almost half (46%) of people who have damaged furniture reported that they tried to fix or clean the items themselves. However, only 56% of those who took a DIY approach say their efforts were successful. Sixty-one percent of Americans have tried to hide or cover up damage. They have done this by: flipping the item over (56%), covering it with a cloth (40%), turning the item around (38%), putting another piece of furniture in front of/over the damage (34%) or moving the item against a wall (26%).

●**Don't Blame the Kids or Your Cat:** Adults in the household are the most likely to cause damage, with children only accounting for 26% of incidents. When it comes to our four-legged friends, dogs are also 2.4x more likely to have damaged furniture than cats.

●**Prevention and Cure:** Americans employ a variety of methods to prevent damage including applying pre-stain treatments (37%), putting towels or sheets over furniture (36%) and placing slipcovers or plastic sheeting on furniture (28%). When the worst occurs, the majority of people say they are most likely to turn to their homeowner's or renter's insurance for help. Only 16% of respondents said their furniture was covered by a protection plan and fewer than half (48%) were aware such plans were available for furniture.

BUY ON-SCREEN

NBC-Universal will be offering shoppable TV beginning in August with the show "Love Island USA". You can click on to on-screen QR codes to make purchases. What shows will be next? The home decorating shows? What happens with re-runs?

Be afraid, be VERY afraid!

We show tables on the latest COVID statistics nearby and they are getting worse. The latest variations, BA.4 and BA.5, are more infectious and lasts weeks, not days, and is very dangerous for our older population. Local authorities may be requiring masks and other precautions in schools and elsewhere soon. Don't be surprised-be prepared!

MONKEYPOX, unrelated to COVID, has now 1,800 cases in 43 states and is in 65 countries. Yes, it has exploded on the scene faster than anyone could imagine.

Two diseases, record inflation, an ongoing war in Europe with saber rattling elsewhere, oil shortages, logistical problems continuing on all levels: NO WONDER OUR CONSUMERS ARE ANXIOUS!

Men’s Health (the magazine)

For reasons unknown, Men’s Health had an article “the 20 Best Furniture Brands” chosen by designers! Think about that for a few moments, please. Who would YOU choose? They chose these, in no order:

Modloft	Artifox	Anthropologie	Blu Dot	Burrow
Thuma	Saatva	BDI	Vaughan Bassett	Novogantz
Outer	Castlery	Floyd	Interior Define	Sabai

Do you agree? How many do you recognize?

A HUGE Problem: RETURNS

A company, Narvr, surveyed thousands of UK and US retailers of all types and concluded:

-online retailers lose 21% of sales volume on returns; -“wardrobing” is consumers using what they have purchased once or twice and then returning it as new for a full refund. This costs retailers 25% of its sales amount.

-“policy returns” are those that take advantage of your corporate policy, hoping to keep customers happy. Instead, some customers use your policy to either save money for themselves or to make money improperly. People can be surprisingly creative, especially when they believe they are taking advantage of a big company. “Policy returns” also cost retailers about 25%.

We may be wise to take a digital photo of every piece of furniture we sell once it is delivered and in place.

WHO DECIDES WHAT IS FASHIONABLE?

We recently read an article quoting a spokesperson for Cartier saying that it had discovered how to successfully sell to today’s young couples. I was eager to learn and read that they found these consumers demanded “timeless designs and creativity”. “Wow! How did they think of that!”

All Household Furniture Imports by Significant Countries Table 1.

USD \$ (millions)						
Country	4Q20	1Q21	4Q21	1Q22	4Q%Δ	1Q%Δ
China	3,324.3	3,355.2	3,697.4	4,077.6	11.2%	21.5%
Vietnam	2,739.2	2,713.0	1,448.6	2,591.9	-47.1%	-4.5%
Mexico	481.9	532.2	787.4	841.1	63.4%	58.0%
Canada	373.2	396.5	485.9	517.1	30.2%	30.4%
Indonesia	332.0	345.4	423.5	516.8	27.5%	49.6%
Malaysia	529.6	471.0	305.3	466.6	-42.4%	-0.9%
Italy	264.7	270.7	288.0	337.9	8.8%	24.8%
Taiwan	227.5	206.4	270.9	258.3	19.1%	25.1%
India	163.5	178.6	233.2	223.4	42.7%	25.1%
Thailand	160.8	152.6	175.1	194.3	8.9%	27.3%

Wood Furniture Imports by Significant Countries

Table 2.

USD \$ (millions)

Country	4Q20	1Q21	4Q21	1Q22	4Q%Δ	1Q%Δ
Vietnam	1,608.6	1,582.4	778.5	1,517.9	-51.6%	-4.1%
China	718.5	709.7	691.3	726.7	-3.8%	2.4%
Malaysia	426.4	405.0	261.1	400.7	-38.8%	-1.1%
Indonesia	200.7	215.0	251.0	308.3	25.1%	43.4%
Mexico	200.0	203.9	277.4	294.2	38.7%	44.3%
Canada	197.7	209.3	245.0	251.4	24.0%	20.1%
Italy	151.5	119.9	160.3	186.3	5.8%	55.4%
India	112.3	155.1	153.5	151.0	36.7%	-2.7%
Thailand	68.4	63.7	78.7	96.6	15.2%	51.7%
Brazil	78.7	68.6	90.9	74.7	15.4%	8.9%

Upholstered Furniture Imports by Significant Countries

Table 3.

USD \$ (millions)

Country	4Q20	1Q21	4Q21	1Q22	4Q%Δ	1Q%Δ
China	1,081.0	947.5	1,209.5	1,125.3	11.9%	18.8%
Vietnam	817.2	831.6	469.8	750.0	-42.5%	-9.8%
Mexico	135.2	152.6	248.1	253.9	83.5%	66.4%
Italy	67.3	69.3	88.0	99.2	30.7%	43.1%
Canada	52.5	62.9	65.5	83.0	24.8%	32.0%
Norway	1.9	59.2	1.4	64.8	-28.6%	9.4%
Cambodia	39.8	43.9	55.9	57.1	40.5%	30.2%
Malaysia	53.9	50.2	31.8	50.1	-41.0%	-0.3%
Thailand	28.3	31.3	39.7	37.4	40.2%	19.2%

Metal & Other Furniture Imports by Significant Countries

Table 4.

USD \$ (millions)

Country	4Q20	1Q21	4Q21	1Q22	4Q%Δ	1Q%Δ
China	1,522.2	1,697.1	1,795.9	2,221.7	18.0%	30.9%
Vietnam	250.5	286.1	186.8	303.0	-25.4%	5.9%
Mexico	113.4	128.4	175.9	202.9	55.1%	58.1%
Canada	117.0	115.8	159.6	171.6	36.4%	48.2%
Taiwan	157.8	132.4	153.6	147.9	-2.7%	11.7%
Thailand	51.0	57.6	55.8	60.1	9.5%	4.4%
Indonesia	23.9	34.2	41.0	53.3	71.8%	55.8%
India	42.4	48.0	52.0	52.7	22.6%	9.7%
Italy	38.4	35.3	43.2	48.8	12.3%	38.3%
United Kingdom	15.7	11.8	22.0	21.4	40.0%	82.0%
Cambodia	13.2	15.6	22.5	19.4	71.2%	24.6%

Mattress Imports by Significant Countries

Table 5.

USD \$ (millions)

Country	4Q20	1Q21	4Q21	1Q22	4Q%Δ	1Q%Δ
Indonesia	86.0	74.2	105.1	125.9	22.2%	69.6%
Mexico	33.4	47.3	86.1	90.0	158.0%	90.2%
Taiwan	11.3	24.2	60.8	48.2	439.1%	99.7%
Kosovo	2.7	12.6	30.3	40.1	1019.6%	218.4%
Vietnam	63.0	13.0	13.6	21.0	-78.5%	61.4%
Spain	1.7	6.0	23.4	14.8	1274.1%	145.4%
Canada	6.0	8.5	15.8	11.1	162.9%	30.3%
Slovenia	7.4	3.1	8.4	9.2	14.0%	193.3%
Bulgaria	1.3	4.5	14.4	9.0	1025.8%	98.4%
Philippines	2.3	4.2	11.9	8.9	417.5%	113.9%
India	0.1	0.7	10.8	8.7	8916.7%	1144.3%
Turkey	16.2	13.3	14.5	7.6	-10.6%	-42.8%

Furniture Imports by Category

Table 6.

USD \$ (millions)

Furniture Category	2019	2020	2021	20-19%Δ	21-20%Δ
Total Furniture	29,936.5	30,702.4	38,685.6	2.6%	26.0%
Wood Furniture	12,878.0	13,202.1	16,088.5	2.5%	21.9%
Upholstered Furniture	7,077.3	7,198.7	9,942.7	1.7%	38.1%
Metal & Other	8,805.9	8,823.7	11,323.3	0.2%	28.3%
Mattresses	1,175.3	1,477.9	1,331.1	25.8%	-9.9%

* All import data is from the United States International Trade Commission

INVESTING IN HOME FURNISHINGS COMPANIES TODAY: MERGERS AND ACQUISITIONS

In the universe of acquirers of home furnishings businesses today, there are strategic buyers already in home furnishings, foreign buyers looking to establish a stronger presence in North America, wealthy families who make long-term investments for stability and growth, and investment funds that buy companies to improve and grow them usually with the expectation to sell these investments in five to seven years, often called “private equity investors”. There are thousands of these funds of all sizes, various interests and expertise, and with different preferences. It is an important part of our business to be aware of and have contacts with these possible acquirers.

Our home furnishings universe is furniture, mattress and accessory manufacturers, importers, retailers and suppliers. A key to acquirers’ interest in home furnishings is the encouraging outlook for our population mix, the increasing demand for residential housing, and the growing importance of the home in everyone’s lives with new technology that allows more people to work, study, shop, be entertained and to communicate from their homes. Today, there is an abundance of both money to make acquisitions, and debt to finance them.

Mann, Armistead and Epperson would like to meet with companies that wish to learn more about the current market and demand for home furnishings companies.

Monthly Numbers

Table 7.

% Change y/y	2021							2022				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Total consumption of furniture & bedding (a)	13.3%	9.2%	12.9%	11.8%	13.8%	15.3%	11.2%	1.0%	9.2%	(0.1%)	0.1%	2.0%
Furniture stores sales (a)	20.8%	16.6%	12.1%	10.4%	10.9%	16.9%	7.5%	(0.1%)	7.8%	1.3%	2.1%	2.2%
Mattress factory shipments (b,d)	57.3%	N/A	N/A	13.5%	N/A	N/A	14.1%	N/A	N/A	1.0%	N/A	N/A
Furniture factory shipments (c)	37.5%	16.0%	10.4%	4.4%	(2.2%)	2.6%	(2.5%)	(3.0%)	(0.5%)	16.2%	12.5%	N/A

Sources:


(a) U.S. Department of Commerce (b) International Sleep Products Assoc. (c) "Furniture Insights" a monthly publication by Smith Leonard (d) quarterly shipments

About Mann, Armistead & Epperson, Ltd.


Mann, Armistead & Epperson, Ltd. is a privately owned investment banking and corporate advisory firm. Our clients deal directly with the founding partners, who bring to the table over 120 years of aggregate investment banking experience. While possessing specialized professional experience in the furnishings industry, the firm has extensive experience in a wide range of industries. Please see our website at **MAELTD.com**.

The professionals at Mann, Armistead & Epperson, Ltd. specialize in the following services:

- Merger, acquisition, sell-side and buy-side advisory services including fairness opinions where appropriate.
- Corporate finance and strategic advisory services, such as advising on capital formation, balance sheet and bank debt restructurings, valuations and other specialized professional services.
- Furnishings industry research and extensive expertise accumulated in over five decades.




W. S. Badcock Corporation
has been acquired by
Franchise Group, Inc.




The undersigned acted as financial advisor to W. S. Badcock Corporation in this transaction.

MANN, ARMISTEAD & EPPERSON, LTD.
INVESTMENT BANKERS and ADVISORS



Symbol Mattress
formerly known as
Eastern Sleep Products Company, Inc., and
Therford Leasing, LLC,
has sold all of its stock and membership interests
to
Corsicana Bedding, LLC



The undersigned acted as financial advisor to Eastern Sleep Products Company, Inc., and Therford Leasing, LLC in this transaction.


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has sold a majority ownership interest to
Healthcare Co., Ltd.
A public company registered on the Shanghai Stock Exchange
d/b/a
MLILY

The undersigned acted as financial advisor to Mor Furniture For Less, Inc. in this transaction.

MANN, ARMISTEAD & EPPERSON, LTD.
INVESTMENT BANKERS and ADVISORS



Rent-A-Center, Inc.
has acquired substantially all of the assets of
C/C Financial Corp.
d/b/a
Merchants Preferred



The undersigned acted as financial advisor to Rent-A-Center, Inc. in this transaction.

MANN, ARMISTEAD & EPPERSON, LTD.
INVESTMENT BANKERS and ADVISORS

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About the Furnishings Digest Newsletter

Driven by founding partner Jerry Epperson's respected insight and long-term commitment to the furniture and mattress industries, Mann, Armistead & Epperson, Ltd. publishes the Furnishings Digest Newsletter. For more information, please email research@maeltld.com or call (804) 644-1200.