

The Furnishings Digest

Fourth Quarter 2022
Volume 29, Issue #4

The latest news, views, and announcements

IN THIS ISSUE

Reading Time: 18 min

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2023

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by country



For more information on our firm www.maeltd.com

WELCOME TO EXCITING HIGH POINT: BE AMONG THE FIRST TO SEE 2023!

My High Point Program will be on Sunday morning, October 23, in the Retail Resource Center at 9 am. It is on the first floor of the Plaza Suites building on Main Street, near our friends at La-Z-Boy. Once again, because of a family issue, I will be presenting via a Zoom call.

IAN

It was the early 1980's and furniture and mattress sales STUNK. Of course, having unprecedented inflation and a prime lending rate of over 20%, near-record unemployment, a suffering housing market, a wacky stock market and a beat up, frustrated consumer base had a lot to do with it. Sound sort of familiar?

My family and I were vacationing in Myrtle Beach, South Carolina. One morning I left Kathy and our young kids playing on the white sand and drove to visit the nearby Heilig Meyers store. It was among the top performers in the hundreds of stores the huge furniture store chain operated.

Inside I saw that some of the top management were visiting as well. In a while, we were sitting on some wood-trimmed upholstery discussing business. Hyman Meyers, company chairman, pronounced from his decades of experience "WHAT WE NEED IS A HURRICANE!"

Sadly, he was correct. Hurricanes are tragic especially when there is loss of life as occurred in the recent powerful "IAN" which had property losses in the billions. In the coming year, Americans living in Florida, South Carolina, North Carolina, as well as smaller pieces of western Virginia and eastern Georgia and Tennessee will receive insurance and government assistance to repair damages. The opportunities for selling furniture, mattresses and anything home-related abound after this massive destruction. Don't forget the non-profits—they had damage too.

WOULD YOU BELIEVE?

Over the last decades, most of us making a furniture purchase could assume a freight charge of 5% or at most 8% (or about \$2,000 to \$5,000 per container). Last year and earlier this year some containers from Asia to our West Coast rose to \$25,000 or slightly more with the shipping cost sometimes exceeding the value of the contents. There were container shortages, space limitations in the ports, and back-ups in the larger ports relating to trucks, drivers, and rail yards.

Plus, beginning in April, many delayed, deferred or C.O.D. containers began to flood into the U. S. along the east, west and Gulf coasts, creating inventory excesses, and challenges to our logistics systems on all levels. And to ice the cake, consumer purchases of most home-related durables peaked late last year. We went from not being able to meet the demand to having too little demand in less than 45 days last spring.

THE MIRACLE OF THE CANS ON THE SEAS

In late September, I began to get calls and e-mails from friends who could hardly believe how quickly container costs had fallen and how quickly containers and space availability had improved. IT'S A MIRACLE! Please review the table.

POL	POD	Rates (40HQ)
SHANGHAI SHENZHEN NINGBO QINGDAO XIA MEN	USWC	\$2,300
	USEC	\$6,200
	HOUSTON, TX	\$6,600
	IPI (Like Chicago/Dallas/Kansas City)	\$7,500
	Toronto , ON/ MONTREAL	\$7,000
HO CHI MINH	USWC	\$2,600
	USEC	\$6,200

And many tell us the shippers will negotiate even lower prices. No doubt it will be a hot topic in High Point.

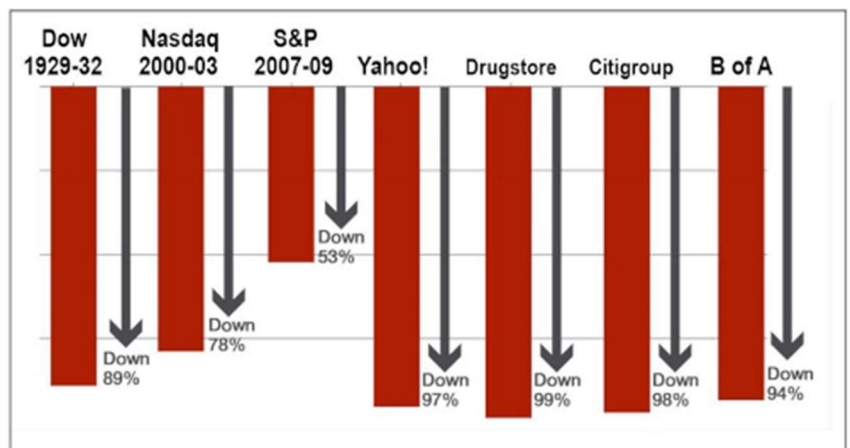
SO HOW IS BUSINESS?

This is a complicated question. We believe furniture and mattress sales have improved since early summer.

Memorial Day holiday sales were DISMAL with a few exceptions. Worse than we wanted to admit. But Independence Day improved in most parts of the country. In contrast, Labor Day reported improved sales almost everywhere but the west coast didn't do quite as well. Maybe the forest fires and declining water base are distracting. They would be to me.

I TOLD YOU SO!

Just before we released our third quarter Digest in July, we stated that we believed the U.S. was already in a recession showing a decline in GDP in both the first and second quarters.



Most simply, durable sales excelled over the 18-month period that ended on 12/31/21. This was true for most home-related merchandise, helped no doubt by the two generous government hand-outs in 2020 and 2021.

VERY EARLY IN 2022 CONSUMER PRIORITIES FLIP-FLOPPED WITH DURABLE EXPENDITURES DECLINING AND PERISHABLE AND NON-DURABLES GAINING IN FAVOR. This has remained true so far in 2022.

Using history as a guide, over the past several decades furniture has sold 52% to 55% of its annual volume in the second half of the calendar year. This is true for many consumer goods given the impact of Christmas and other holidays in the later months. For furniture and mattresses specifically, historic information shows that most homes are purchased in the first half of the year and moved into in the second half. Weather, school schedules, vacations and more enter into this trend

Housing Stats

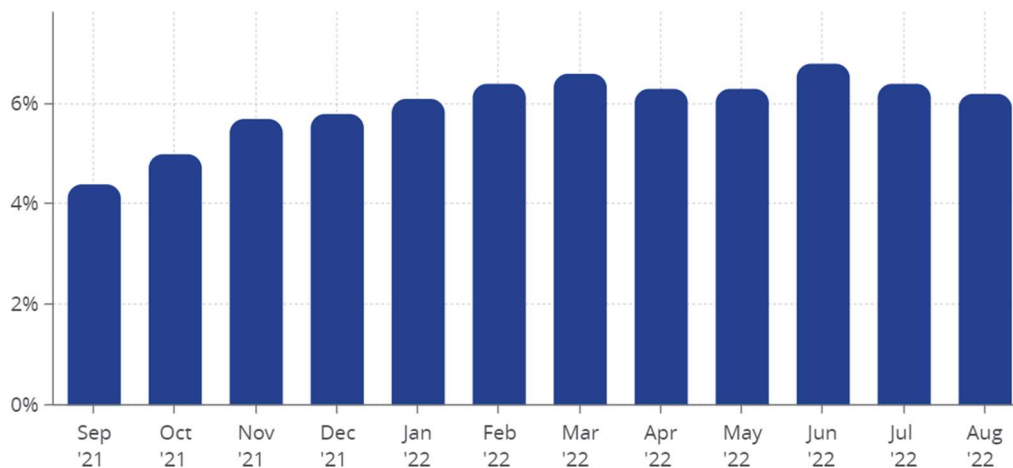
	Sept Year/Year
Housing Permits	(3.2%)
Housing Starts	(7.7%)
Single Family	(18.5%)
Multi-Family	16.5%
Housing Completions	15.7%
	Aug Year/Year
New Single Family Home Sales	(0.1%)
Existing Home Sales	(19.9%)
Existing Home Inventory	0.0%

Source:

U.S. Census Bureau & National Association of Realtors

Given this, we expected at least a modest furniture sales recovery in the second half of 2022, despite higher interest rates, inflation and other evidence of a slowing economy. In our opinion, the hellish environment for furniture retailers, manufacturers, importers and others from April into the summer had allowed many of these furniture companies to begin to correct inventories by October, and the important High Point. THIS MARKET IS NECESSARY FOR ALL RETAILERS TO PLAN AND IMPROVE THEIR PRODUCT. ASSORTMENTS AND DISPLAYS FOR 2023. FOR TOO MANY, THIS HIGH POINT MARKET IS THE FIRST TIME SINCE 2019 TO COMPLETELY REPLAN AND UPDATE THEIR RETAIL

Personal Consumption Expenditures (PCE) Price Index



Source: MarketWatch

PRODUCT MIX!

Will the coming months prove us correct?

1. Retail sales are trending better now than in the most disappointing summer months.
2. Home furnishings inflation is improving while prices in other products are still rising.
3. Home prices are declining, making the purchase still possible even with higher mortgage rates.
4. Time magazine and others are predicting major new rounds of COVID and other variants in the coming months that may make people return to their homes after going out and traveling in recent months.
5. More people are going back to work after experiencing a quitcation for a year or more. They are recognizing good jobs are available less and less in the declining economy.

By the way, YOU DO NOT HAVE TO HAVE A RECESSION FOR YOUR BUSINESS TO BE MISERABLE! You can do it all by yourself.

MERGERS AND ACQUISITIONS

There are funds available for loans or making acquisitions. Most companies have lowered expectations given the general belief a recession is coming. For most in our industry, we have our recession behind us, but travel, restaurants, and many other non-durable spending may be facing one soon. How often have you had a sound financial position and could have afforded to make the perfect acquisition for you but you delayed and lost the opportunity? Look ahead and don't believe the cable media!

A FEW THOUGHTS....

ONLINE SUCCESS is difficult to achieve for many reasons but one that cannot be denied is returns. In apparel (including shoes) online returns average 30%—can you imagine what kind of markup that must require? The number for returns in furniture is supposedly 23 % but is that for both for UPS-able smaller items and fully assembled or for what?

And the internet has created two huge issues for everyone in retailing: easy returns and free deliveries. Does any sober adult think that these are really free or are they structured into the price?

We are in the third decade of internet retailing and, as expected, the internet has captured a massive share of the consumer market but ———keep this just among us ——— (whisper "is anyone selling furniture online making a profit?"). Yes, furniture, mattresses, floor coverings and decorative are all perceived as high-margin businesses but can any of the dozens of retail channels survive unlimited returns and free deliveries?

This year has been tough on all home furnishings retailers for many legitimate reasons but it looks like the furniture internet retailers may have been damaged more severely. Why? Several have quietly failed, others have downsized or adapted their strategy to a smaller model. Take the time to go to a furniture e-tailer website and look through their assortment. We have found that while the assortment may seem large, many items are shown as unavailable or no longer manufactured.

It may be that the online business was so strong for 18 months that the shock of 2022 has been a huge challenge.

I still remember listening to a spokesperson for Amazon saying to my surprise that it did not have to cut prices if it had its “endless aisle” broad assortment, speed of delivery, and best convenience. Selling furniture and mattresses at full price? It blows my mind still today.

It appears to me that a combination of brick-and-mortar stores and an internet website has the highest possibility of profits. Look at “Room and Board” based in Minneapolis, as an example. It has relatively small design centers in many U.S. cities, a terrific website and a much-anticipated consumer catalog. It continues to be one of our most successful furniture retailers. Ethan Allen dropped its annual catalog years ago. Who else used to have an annual consumer “wish book” catalog? There were several. I still miss the Sears’ Christmas toy catalog!

All Household Furniture Imports by Significant Countries

Table 1.

USD \$ (millions)

Country	1Q21	2Q21	1Q22	2Q22	1Q%Δ	2Q%Δ
China	3,355.2	3,496.1	4,077.6	3,904.5	21.5%	11.7%
Vietnam	2,713.0	2,891.8	2,591.9	3,181.2	-4.5%	10.0%
Mexico	532.2	630.9	841.1	890.4	58.0%	41.1%
Canada	396.5	458.7	517.1	567.6	30.4%	23.7%
Indonesia	345.4	450.6	516.8	554.6	49.6%	23.1%
Malaysia	471.0	494.8	466.6	493.6	-0.9%	-0.2%
Italy	270.7	353.6	337.9	431.6	24.8%	22.1%
India	178.6	184.4	223.4	255.6	25.1%	38.6%
Taiwan	206.4	237.1	258.3	235.0	25.1%	-0.9%
Thailand	152.6	178.7	194.3	214.7	27.3%	20.1%

Wood Furniture Imports by Significant Countries

Table 2.

USD \$ (millions)

Country	1Q21	2Q21	1Q22	2Q22	1Q%Δ	2Q%Δ
Vietnam	1,582.4	1,639.4	1,517.9	1,919.8	-4.1%	17.1%
China	709.7	648.6	726.7	647.9	2.4%	-0.1%
Malaysia	405.0	418.1	400.7	415.4	-1.1%	-0.7%
Indonesia	215.0	279.8	308.3	331.0	43.4%	18.3%
Mexico	203.9	234.4	294.2	301.9	44.3%	28.8%
Canada	209.3	230.5	251.4	274.6	20.1%	19.1%
Italy	155.1	197.2	186.3	242.9	20.1%	23.2%
India	119.9	120.5	151.0	172.4	25.9%	43.0%
Poland	70.3	91.8	66.9	106.7	-4.8%	16.3%
Thailand	63.7	82.3	96.6	100.1	51.7%	21.7%

Upholstered Furniture Imports by Significant Countries

Table 3.

USD \$ (millions)

Country	1Q21	2Q21	1Q22	2Q22	1Q%Δ	2Q%Δ
China	947.5	1,005.9	1,125.3	1,049.3	18.8%	4.3%
Vietnam	831.6	931.6	750.0	859.2	-9.8%	-7.8%
Mexico	152.6	183.1	253.9	256.7	66.4%	40.2%
Italy	69.3	98.2	99.2	121.5	43.1%	23.8%
Canada	62.9	71.2	83.0	85.7	32.0%	20.4%
Cambodia	43.9	51.4	57.1	67.1	30.2%	30.5%
Malaysia	50.2	52.9	50.1	53.0	-0.3%	0.4%
Thailand	31.3	38.2	37.4	44.7	19.2%	17.1%
Indonesia	21.9	29.6	29.2	35.7	33.3%	20.7%

Metal & Other Furniture Imports by Significant Countries

Table 4.

USD \$ (millions)

Country	1Q21	2Q21	1Q22	2Q22	1Q%Δ	2Q%Δ
China	1,697.1	1,840.9	2,221.7	2,205.1	30.9%	19.8%
Vietnam	286.1	310.0	303.0	390.0	5.9%	25.8%
Mexico	128.4	147.6	202.9	249.3	58.1%	68.9%
Canada	115.8	144.4	171.6	196.9	48.2%	36.3%
Taiwan	132.4	151.5	147.9	142.2	11.7%	-6.1%
Thailand	57.6	58.2	60.1	69.7	4.4%	19.7%
Indonesia	34.2	51.5	53.3	64.7	55.8%	25.6%
India	48.0	50.7	52.7	64.1	9.7%	26.4%
Italy	35.3	48.8	48.8	62.4	38.3%	27.7%
United Kingdom	11.8	15.5	21.4	35.2	82.0%	127.3%
Cambodia	15.6	15.0	19.4	26.1	24.6%	74.0%

Mattress Imports by Significant Countries

Table 5.

USD \$ (millions)

Country	1Q21	2Q21	1Q22	2Q22	1Q%Δ	2Q%Δ
Indonesia	74.2	89.8	125.9	123.3	69.6%	37.4%
Mexico	47.3	65.7	90.0	82.4	90.2%	25.4%
Kosovo	12.6	28.1	40.1	48.1	218.4%	71.4%
Taiwan	24.2	29.5	48.2	39.6	99.7%	34.1%
Spain	6.0	13.4	14.8	22.5	145.4%	67.9%
Poland	1.6	2.6	4.0	14.2	144.4%	437.1%
Vietnam	13.0	10.9	21.0	12.3	61.4%	13.2%
Canada	8.5	12.7	11.1	10.5	30.3%	-16.9%
Slovenia	3.1	3.3	9.2	10.1	193.3%	205.5%
Bulgaria	4.5	8.7	9.0	7.4	98.4%	-15.0%
India	0.7	3.4	8.7	7.2	1144.3%	111.4%
Burma	0.0	0.0	3.9	6.7	N/M	N/M

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	2022											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	3.8%	9.9%	(0.5%)	3.6%	6.3%	8.5%	9.5%	7.1%	N/A			
Furniture stores sales (a)	(0.1%)	7.8%	1.3%	2.1%	2.2%	4.8%	(1.3%)	4.2%	1.5%			
Mattress factory shipments (b,d)	N/A	N/A	1.0%	N/A	N/A	(17.8%)	N/A	N/A	N/A			
Furniture factory shipments (c)	(3.0%)	(0.5%)	16.2%	12.5%	10.4%	6.8%	(6.0%)	N/A	N/A			
% Change y/y	2021											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	34.8%	28.3%	51.2%	76.1%	31.2%	13.5%	8.4%	9.9%	9.8%	11.7%	12.2%	10.3%
Furniture stores sales (a)	11.1%	6.1%	54.3%	210.3%	66.9%	20.8%	16.6%	12.1%	10.4%	10.9%	16.9%	7.5%
Mattress factory shipments (b,d)	N/A	N/A	18.9%	N/A	N/A	57.3%	N/A	N/A	13.5%	N/A	N/A	14.1%
Furniture factory shipments (c)	14.0%	18.4%	33.8%	154.9%	64.4%	37.5%	20.5%	10.4%	4.4%	(2.2%)	2.6%	(2.5%)

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.

The collage consists of seven framed images, each representing a different transaction or advisory service:

- Sherwood Bedding:** Has sold a majority ownership interest, previously held by Steinhoff International Holdings N.Y., to a wholly-owned subsidiary of Tempid + Sealy.
- Kingsdown:** Kingsdown, Incorporated has merged with Owen & Company USA Holdings, Inc., which is an affiliate of Owen & Company, Ltd., the owner of the rights to manufacture and sell products in Canada under the Kingsdown brands.
- Corsicana Bedding, Inc.:** With its owners and management have completed a recapitalization in partnership with an investment group led by Long Point Capital. The undersigned served as financial advisor to Corsicana Bedding, Inc.
- Badcock Home Furniture & more:** W. S. Badcock Corporation has been acquired by Franchise Group, Inc. (FRG Franchise Group, Inc.). The undersigned acted as financial advisor to W. S. Badcock Corporation in this transaction.
- 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.
- Mor Furniture for Less:** 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.
- 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.

All transactions were advised by **MANN, ARMISTEAD & EPPERSON, LTD.** INVESTMENT BANKERS and ADVISORS.

For more information on our firm www.maeltld.com



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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.