

The Furnishings Digest Newsletter

First Quarter 2023
Volume 30, Issue #1

The latest news, views, and announcements

IN THIS ISSUE

Reading Time: 19 min

The Split in our Industry

Retailers are ok, but our vendors are suffering

Excess Inventory

Expected through 2023

Weaker U.S. Dollar

Raising our costs

Pricing at Retail

Cost is as confused as ever

Renew focus on Consumer Credit

Very important for sales

The Economy

Peak interest rates may be a boost

Mergers & Acquisitions

limited by rising interest rates, slower home sales and tepid bank lending

Latest quarterly imports

by country



ENJOY A GREAT NEW LAS VEGAS FURNITURE MARKET! How can you not enjoy your long weekend in Vegas?

HOW CAN YOU EXPLAIN HOW PART OF OUR INDUSTRY IS SUFFERING (many of our vendors) AND OTHERS ARE DOING OK (many of our retailers)?

When we had the tsunami of furnishings arrive so suddenly last April, May and June, furnishings retailers of all types went from being inventory starved as they had been for almost a year due to extreme shortages which had resulted from many causes: many COVID related including factory closings and labor deficits both here and overseas; raw materials confusion; major, unforeseen transportation complications involving truck, rail and overseas shipping and container problems; plus the accompanying price inflation. That's a mouthful.

In contrast, when this large wave of inventory arrived at the vendors here and abroad, they were forwarded to the long-suffering retailers to fill their demands, often overfilling thanks to many retailers double and triple ordering during the lengthy shortage.

The result of this unprecedented series of events left the retailer community massively overwhelmed with furnishings inventory and suddenly **NOT** in need of additional products so the level of orders to domestic and import vendors dropped dramatically.

THE NET IMPACT HAS BEEN THAT FACTORIES OF VENDORS HAVE BEEN IMPERILED AND/OR HARMED FROM A LACK OF INCOMING ORDERS FOR SIX MONTHS, while furnishings retailers' sales have ebbed and flowed with consumer demand which has been far from consistent. But this consumer activity has NOT been able to absorb the retailers' excess inventory so far in most cases.

This inventory imbalance which we had predicted would be largely resolved by mid-year 2023, now appears likely to last onto the second half of this year. **THIS IS A CHANGE IN OUR EXPECTATIONS.**

We still believe the consumer demand for home furnishings troughed in the "recession" quarters of the first half of 2022, and has shown mixed improvement since. Keep in mind that consumer demand is reflected in **RETAIL SALES**, not factory shipments. We expect that domestic and import factory shipments will continue to be negatively impacted by the retail inventory excesses that are still evident.

BUT THERE IS MORE! Since the October High Point Market, the U.S. DOLLAR HAS CONTINUED TO WEAKEN, NOW ABOUT 7%, MAKING IMPORTED FURNISHINGS AND RAW MATERIALS MORE EXPENSIVE!



Source: Board of Governors of the Federal Reserve System

PRICING?

Furniture and mattress pricing both at the factory/"wholesale" level and at retail is as confusing and illogical as it has been since the hyper-inflation years of 1980-1982. **THIS WILL BE AN IMPORTANT ISSUE IN LAS VEGAS!**

Consider all the reasons--you know them -and many have seen increases for much of the 2022 year then some rollbacks, then new increases like with the currency. The vendors have as much confusion as the retailers, too. **THIS WILL CREATE SOME COMPETITIVE OPPORTUNITIES ON ALMOST EVERY LEVEL--don't be complacent.**

CONSUMER CREDIT

After a decade of record low interest rates, we have apparently forgotten the importance of effective credit programs for durables sales (that's us!). Create a good program and advertise it! Look at the auto and truck ads--2.9% and 3.9% for the first time in years. Why? Look at credit card rates which are back well above 20% unless you aggressively shop for programs. For retailers, don't forget your associations and buying groups. Both offer programs for their members, sometimes as good or better than offered by our largest furniture store chains.

Commercial Bank Interest Rate on Credit Card Plans

Table 2.



Source: Board of Governors of the Federal Reserve System

Do not look now but the consumer credit programs that used to be dominated by large banks, now have been discovered by investor groups who sometimes focus on second and third-look consumers, i.e., sub-prime. We have more financing programs than ever today.

Another concern: who is real? Most of us get phished on our computers by hackers trying to get our \$\$\$. I do not answer texts, emails or calls that I do not recognize. Being able to finance furnishings with a well-recognized credible resource is important to everyone. Keep this in mind—be empathetic with your customer.

TAX RETURNS

We have read that this should be a good tax return year for our customers. Don't miss this important season.

THE STOCK MARKET

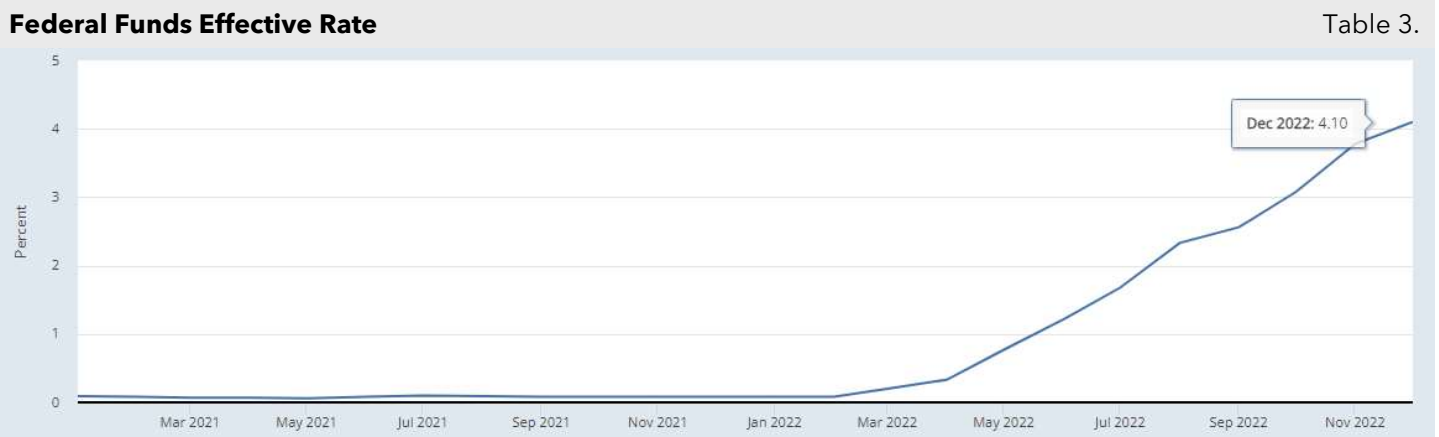
I learned early in my career that trying to use common sense and logic to understand the stock market would lead to an unhappy disappointed life. Today's stock market is especially confusing because so much money is being invested for safety and the COVID remains the great unknown globally.

In a way it makes me wonder if we are dinosaurs and the COVID is like today's meteors and asteroids. We don't know if they will stop or continue. How do we invest for the next decades? And much of today's investing—well over 50%—is done by computers that use algorithms to play one stock against another. These tend to discount (or give a premium) to stocks based on hundreds of factors. A silly example using a generic furniture stock: interest rates rising gets a 10% discount; being housing related/dependent gets a 15% discount; having a favorable demand scenario thanks to the Millennials gets a 15% premium and so forth. Our PERCEIVED DEPENDENCE ON HOUSING MAKES US A CYCLICAL INVESTMENT although I could argue that our better public companies are finding ways to lessen that appearance of housing reliance.

For today, buying deeply discounted furniture stocks as long as interest rates are rising and housing sales are trending down, is like running against a hurricane-scale wind. If you aren't concerned with the high winds, watch out for those flying mobile homes.

THE ECONOMY

Just when the economy begins to make sense to our economists, there is a U-turn. A +4% fourth quarter? The consensus was for 2.2% but now add in much lower inflation than was forecast.



Source: Board of Governors of the Federal Reserve System

The Fed raised its rate last time +50 basis points, below the expected +75.

Now some are expecting a +25 next and some are saying the Fed raising rates might STOP early this year, something unheard of a month ago!

Can you imagine the glee in the housing sector? Mortgage rates had already stopped rising for the most part. We may be seeing a rebound in housing in the second half of THIS YEAR! Maybe this is what the stock market is telling us.

If we have flat to declining interest rates, higher consumer incomes, lower rates of inflation and the prospect of a rebound in housing activity we have the path to HIGHER FURNISHINGS STOCK PRICES later this year. No, you may not be public but higher furniture and mattress prices raises the valuations on our universe of companies in the housing sector. (Yea US!).



MERGERS AND ACQUISITIONS

Even though in 2022 there were a number of very good companies for sale, as well as qualified and interested buyers and lenders, we discouraged many of these possible sellers while interest rates were rising, housing sales were weak, spending on durables was soft and lending was challenging because of the direction of interest rates. This resulted in fewer transactions and lower valuations.

Our clients are glad that they took our advice as it appears economic conditions and the merger/acquisition climate has started to improve. If you are contemplating a sale, now is the time to prepare. Please discuss this with us in the coming months! HOWARD ARMISTEAD FROM OUR FIRM (MANN, ARMISTEAD & EPPERSON) WILL BE AT THE LAS VEGAS THIS WEEKEND!

DON'T BE DISCOURAGED BY THE LAST THREE YEARS! We are becoming more comfortable that there is a clearer path to better business later this year, plus we are fortunate to be well positioned with ample consumers who NEED what we sell.

All Household Furniture Imports by Significant Countries

Table 4.

USD \$ (millions)

Country	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	1Q%Δ	2Q%Δ	3Q%Δ
China	3,355.2	3,496.1	3,336.3	4,077.6	3,904.5	2,868.6	21.5%	11.7%	-14.0%
Vietnam	2,713.0	2,891.8	2,947.3	2,591.9	3,181.2	2,599.2	-4.5%	10.0%	-11.8%
Mexico	532.2	630.9	731.2	841.1	890.4	872.4	58.0%	41.1%	19.3%
Canada	396.5	458.7	448.3	517.1	567.6	520.2	30.4%	23.7%	16.0%
Italy	270.7	353.6	341.6	337.9	431.6	410.8	24.8%	22.1%	20.2%
Indonesia	345.4	450.6	355.8	516.8	554.6	397.7	49.6%	23.1%	11.8%
Malaysia	471.0	494.8	294.7	466.6	493.6	393.9	-0.9%	-0.2%	33.7%
Thailand	152.6	178.7	166.1	194.3	214.7	205.7	27.3%	20.1%	23.8%
Taiwan	206.4	237.1	236.5	258.3	235.0	201.2	25.1%	-0.9%	-14.9%
India	178.6	184.4	186.3	223.4	255.6	192.0	25.1%	38.6%	3.1%

Wood Furniture Imports by Significant Countries

Table 5.

USD \$ (millions)

Country	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	1Q%Δ	2Q%Δ	3Q%Δ
Vietnam	1,582.4	1,639.4	1,725.2	1,517.9	1,919.8	1,744.8	-4.1%	17.1%	1.1%
China	709.7	648.6	635.9	726.7	647.9	530.1	2.4%	-0.1%	-16.6%
Malaysia	405.0	418.1	250.6	400.7	415.4	331.3	-1.1%	-0.7%	32.2%
Mexico	203.9	234.4	268.5	294.2	301.9	276.3	44.3%	28.8%	2.9%
Canada	209.3	230.5	224.0	251.4	274.6	258.9	20.1%	19.1%	15.6%
Indonesia	215.0	279.8	216.9	308.3	331.0	250.3	43.4%	18.3%	15.4%
Italy	155.1	197.2	186.0	186.3	242.9	237.7	20.1%	23.2%	27.8%
India	119.9	120.5	119.4	151.0	172.4	127.1	25.9%	43.0%	6.4%
Poland	70.3	91.8	85.2	66.9	106.7	110.3	-4.8%	16.3%	29.4%
Thailand	63.7	82.3	80.1	96.6	100.1	97.2	51.7%	21.7%	21.3%

Upholstered Furniture Imports by Significant Countries

Table 6.

USD \$ (millions)

Country	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	1Q%Δ	2Q%Δ	3Q%Δ
China	947.5	1,005.9	1,073.2	1,125.3	1,049.3	909.2	18.8%	4.3%	-15.3%
Vietnam	831.6	931.6	925.6	750.0	859.2	550.3	-9.8%	-7.8%	-40.5%
Mexico	152.6	183.1	219.4	253.9	256.7	242.9	66.4%	40.2%	10.7%
Italy	69.3	98.2	93.1	99.2	121.5	107.6	43.1%	23.8%	15.6%
Canada	62.9	71.2	60.9	83.0	85.7	67.2	32.0%	20.4%	10.3%
Malaysia	50.2	52.9	29.4	50.1	53.0	42.9	-0.3%	0.4%	46.1%
Thailand	31.3	38.2	33.9	37.4	44.7	34.1	19.2%	17.1%	0.6%
Cambodia	43.9	51.4	40.5	57.1	67.1	31.8	30.2%	30.5%	-21.5%
Indonesia	21.9	29.6	22.8	29.2	35.7	26.8	33.3%	20.7%	17.7%

Metal & Other Furniture Imports by Significant Countries

Table 7.

USD \$ (millions)

Country	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	1Q%Δ	2Q%Δ	3Q%Δ
China	1,697.1	1,840.9	1,625.6	2,221.7	2,205.1	1,428.6	30.9%	19.8%	-12.1%
Vietnam	286.1	310.0	287.7	303.0	390.0	299.2	5.9%	25.8%	4.0%
Mexico	128.4	147.6	160.0	202.9	249.3	255.3	58.1%	68.9%	59.6%
Canada	115.8	144.4	151.2	171.6	196.9	184.3	48.2%	36.3%	21.9%
Taiwan	132.4	151.5	134.3	147.9	142.2	117.1	11.7%	-6.1%	-12.8%
Thailand	57.6	58.2	50.6	60.1	69.7	74.4	4.4%	19.7%	47.1%
Italy	35.3	48.8	55.0	48.8	62.4	60.5	38.3%	27.7%	10.1%
India	48.0	50.7	47.4	52.7	64.1	51.5	9.7%	26.4%	8.6%
Indonesia	34.2	51.5	28.9	53.3	64.7	45.6	55.8%	25.6%	57.6%
Cambodia	15.6	15.0	16.2	19.4	26.1	41.0	24.6%	74.0%	152.3%
United Kingd	11.8	15.5	18.7	21.4	35.2	34.9	82.0%	127.3%	86.8%

Mattress Imports by Significant Countries

Table 8.

USD \$ (millions)

Country	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	1Q%Δ	2Q%Δ	3Q%Δ
Mexico	47.3	65.7	83.4	90.0	82.4	98.0	90.2%	25.4%	17.5%
Indonesia	74.2	89.8	87.2	125.9	123.3	75.0	69.6%	37.4%	-14.0%
Taiwan	24.2	29.5	44.4	48.2	39.6	36.3	99.7%	34.1%	-18.3%
Kosovo	12.6	28.1	21.6	40.1	48.1	26.1	218.4%	71.4%	20.8%
Spain	6.0	13.4	14.9	14.8	22.5	12.1	145.4%	67.9%	-18.8%
Canada	8.5	12.7	12.2	11.1	10.5	9.7	30.3%	-16.9%	-20.1%
Philippines	4.2	6.1	6.3	8.9	6.1	7.0	113.9%	0.5%	12.5%
Bosnia-Herze	0.0	0.0	0.0	6.1	6.5	7.0	N/M	N/M	N/M
Poland	1.6	2.6	3.3	4.0	14.2	7.0	144.4%	437.1%	114.7%
Italy	10.9	9.4	7.6	3.7	4.8	5.0	-66.6%	-49.1%	-34.3%
Vietnam	13.0	10.9	8.9	21.0	12.3	4.8	61.4%	N/M	-45.9%
India	0.7	3.4	10.4	8.7	7.2	4.3	1144.3%	111.4%	-58.7%
Burma	0.0	0.0	0.0	3.9	6.7	4.0	N/M	N/M	N/M

Furniture Imports by Category

Table 9.

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.

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 10.

% 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%	9.8%	8.4%	7.2%	6.3%	5.4%	N/A
Furniture stores sales (a)	(0.1%)	7.8%	1.3%	2.1%	2.2%	4.8%	(1.3%)	4.2%	1.5%	(0.1%)	(1.4%)	(0.7%)
Mattress factory shipments (b,d)	N/A	N/A	1.0%	N/A	N/A	(17.8%)	N/A	N/A	(15.5%)	N/A	N/A	N/A
Furniture factory shipments (c)	(3.0%)	(0.5%)	16.2%	12.5%	10.4%	6.8%	(6.0%)	9.0%	4.5%	2.0%	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.



has sold a majority ownership interest,
previously held by



to a wholly-owned subsidiary of



The undersigned acted as financial advisor to Sherwood Acquisitions Holdings, LLC in this transaction.

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 INVESTMENT BANKERS and ADVISORS



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.

The undersigned acted as financial advisor to Kingsdown, Incorporated in this transaction.

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 INVESTMENT BANKERS and ADVISORS




with its owners and management
have completed a
recapitalization in partnership
with an investment group led by



The undersigned served as financial advisor to Corsicana Bedding, Inc. 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.

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




has sold a majority ownership interest to

Healthcare Co., Ltd.
A public company registered on the Shanghai Stock Exchange
d/b/a




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

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 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



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.

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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.