

The Furnishings Digest

Third Quarter 2023
Volume 30, Issue #3

The latest news, views, and announcements

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For more information on our firm www.maeltd.com

CONGRATULATIONS!

You have survived the first half of a miserable calendar year 2023. Historically, we have experienced 54-55% of our sales in the second half of the year so hopefully the worst has passed and the remainder of the year will be modestly better. As always, some locations have suffered worse than others. I just spoke to an eastern furniture retailer that expects to do 60% of its sales in the last six months of every year.

AMERICANS CHANGE HOMES FROM APRIL INTO OCTOBER and households move soon thereafter, and this creates the large portion of furniture and mattress sales in the second half of our year - USUALLY. The reported numbers on new and existing home sales are "seasonally adjusted" statistically to make them easier to compare year to year, but we do not sell furnishings into "adjusted sales" we sell furnishings for actual home sales. The adjusted housing sales are exaggerated upward in the winter months and compressed in the summer months to normalize them.

You need to also remember that there is no national housing market. Instead, we have hundreds of local markets of different sizes that often have their own driving factors that create or depress the local housing market like governmental factors, major corporate spending, important weather events, and more.

BY THE WAY: HOUSING IS SO IMPORTANT TO OUR INDUSTRY YOU SHOULD RECEIVE THE MONTHLY ANALYSIS DONE BY THE VIRGINIA TECH SCHOOL OF FORESTRY. IT IS \$\$\$FREE\$\$\$!

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The ELUSIVE RECESSION

An important recession has been over-discussed since the early COVID days.

Many respected economists made a big bet on 2023 and it has not occurred YET. The current thought is that we will have a bridge recession that will include the last quarter of 2023 and the first and/or second quarters of 2024. I am not sold on this ideabecause we should get some seasonal boost beginning in late August which should push the elusive recession later.

Coming Weeks ...

Should be exciting for furniture and mattress sectors with the upcoming Las Vegas market which is going to have more exhibitors, some returning from pre-COVID days.

The Casual/Outdoor Furniture segment has gained popularity and share of market over the last decade with many new vendors as the category has shown to be both fun and very profitable for all. The demand for the furniture has been augmented by exciting new cooking/grilling products, outdoor consumer electronics and more, and we think it will continue to grow, especially as home ownership recovers.

This month, the Casual Furniture industry moves to Atlanta with its first event there after decades in Chicago, and then in September the Annual Casual market will have its usual robust show only now in Atlanta. Look for more full line manufacturers and other vendors to open and expand their presence in Atlanta soon because it is such an attractive location with excellent facilities. Have you ever noticed how many of our most important furniture retailers are located in the southeast?

HOW ARE SALES?

How many ways can you say "horrible?" I have heard disappointing, miserable, and so many more. One favorite retailer said he told others in June that "it can't get worse than this!" but he was wrong. July was even worse.

In various surveys of July 4th weekend sales, the volume by category from the best (1) to worst (13) went this way:

1- power motion	8- master bedroom
2- stationary upholstery	9- floor coverings
3- mattresses	10- formal dining
4- outdoor	11- home entertainment
5- casual dining	12- massage chairs
6- home office	13- youth bedroom
7- manual motion	

Historically, Independence Day has been the start of our season and one of our most popular promotional weekends.



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The most common complaints from retailers:

- Traffic- Where are all the people? Government stats show consumer spending was still up modestly but on services, consumables and non-durables and not household durables. Restaurants and travel are doing especially well.
- Did we pre-sell in 2020 and 2021 when we experienced demand that exceeded our ability to fill? No, I don't see that.
- Consumers still need more home furnishings but their ability to buy is reduced.
- Is inflation still a problem? Yes, for the categories that are in demand but, sadly, not for us right now. Thanks to both weaker demand and much lower freight charges, we are not being punished that badly now.

THE PUBLIC COMPANIES

A look at the latest quarterly sales and earnings shows the shocking results the industry is experiencing today.

Recent Public Quarterly Results

Table 1.

(\$ in millions)	Q Ended	Latest Sales	Year Ago	% Change	Latest NI	Year Ago	Net Income
Furniture Manufacturers							
Bassett Furniture Ind.	27-May-23	\$ 100.50	\$ 128.70	(21.9%)	\$ 2.50	\$ 11.00	(77.3%)
Culp, Inc.	30-Apr-23	61.43	56.94	7.9%	(4.7)	(6.0)	Loss
Ethan Allen	31-Mar-23	186.32	197.66	(5.7%)	22.0	23.7	(7.2%)
Flexsteel Industries Inc.	31-Mar-23	99.05	140.41	(29.5%)	1.5	5.3	(72.3%)
Hooker Furniture Corp.	30-Apr-23	121.82	147.31	(17.3%)	1.5	3.2	(54.4%)
La-Z-Boy Inc.	29-Apr-23	561.29	684.57	(18.0%)	34.4	57.5	(40.2%)
Vaughn-Bassett	31-Mar-23	15.80	28.60	(44.8%)	0.1	1.7	(94.1%)
Furniture Retailers							
Aaron's Inc.	31-Mar-23	554.40	456.10	21.6%	12.8	21.5	(40.5%)
Arhaus, Inc.	31-Mar-23	304.57	246.30	23.7%	34.1	16.1	112.3%
Conn's Inc.	30-Apr-23	83.99	98.28	(14.5%)	(35.4)	6.2	Loss
Haverty Furniture Company	31-Mar-23	224.75	238.95	(5.9%)	12.4	19.4	(36.1%)
Restoration Hardware	29-Apr-23	736.16	957.29	(23.1%)	41.9	200.7	(79.1%)
The Lovesac Company	30-Apr-23	141.20	129.40	9.1%	(4.2)	1.9	Loss
Bedding Companies							
Purple Innovation, Inc.	31-Mar-23	109.37	143.18	(23.6%)	(23.4)	(13.6)	Loss
Sleep Number Corp.	01-Apr-23	526.53	527.13	(0.1%)	11.5	2.1	452.8%
Tempur Sealy International Inc.	01-Mar-23	1,208.10	1,239.50	(2.5%)	85.3	130.7	(34.7%)

Notes:

"Profit" is shown without a % for companies that showed a net loss a year ago

HOT NUMBERS!

U.S. GDP grew 2.4% in the recent June quarter, better than expected. Consumer expenditures dropped from a 4.1% increase early in the year to a 2.1% gain in the June quarter, a sharp and very obvious decline. But it was the sharper drop in spending in consumer durables that is so distressing to us.



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This slowing in demand will magnify the severe decline in freight costs (especially in overseas shipping and container costs) resulting in PRICE DECLINES IN LAS VEGAS THROUGHOUT THE FURNITURE SPECTRUM! Price reductions will be a great reason to attend the market. Another reason is new/returning exhibitors, most coming back for the first time since before the COVID outbreak.

INVENTORIES-TOO MUCH EVERYWHERE

For just over a year, retailers, domestic manufacturers and importers have been bumper to bumper with finished goods sourced through the prior 18 months often during severe shortages. Then in just a few weeks, it flooded in and filled almost every available spot. It has taken massive efforts to reduce and normalize these inventories.

Today, we believe over half of our furniture and mattress retailers have been able to reach some equilibrium and that should extend further by calendar year end (we hope!).

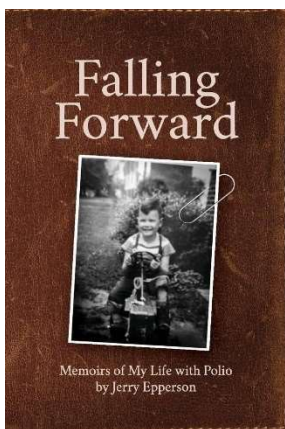


109 DEGREES!

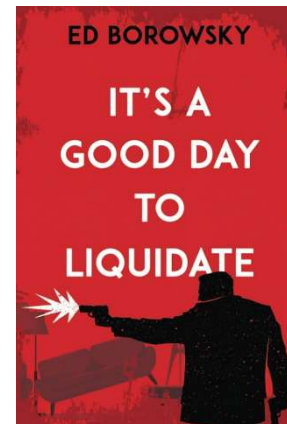
That is really hot, especially in Richmond, Virginia for a heat index but this is very typical this weekend in the mid-Atlantic so Las Vegas and its famous dry heat might be very pleasant.

GREAT READING

Many in the home furnishings industry know ED BOROWSKY who grew up in a furniture retailing family, was a rep, and then spent almost 30 years doing high profile furniture liquidations, a somewhat mysterious but important segment of our industry. Ed just published his latest book **"IT'S A GOOD DAY TO LIQUIDATE"**.



Of course, it teaches a lot about how retail liquidations work but instead of just teaching like a textbook, Ed creates very recognizable, realistic people that brings our industry to life. You will enjoy this as a quick and enjoyable read. Look for it on Amazon, where you will also find my book about growing up with polio in an extremely small town in Southside Virginia, **"FALLING FORWARD"**. It is a light hearted auto-biography that you should enjoy.



All Household Furniture Imports by Significant Countries

Table 2.

USD \$ (millions)

Country	4Q21	1Q22	4Q22	1Q23	4Q%Δ	1Q%Δ
China	3,697.4	4,077.6	2,497.5	2,470.7	-32.5%	-39.4%
Vietnam	1,448.6	2,591.9	2,314.8	1,903.1	59.8%	-26.6%
Mexico	787.4	841.1	854.6	871.6	8.5%	3.6%
Canada	485.9	517.1	546.0	547.0	12.4%	5.8%
Indonesia	423.5	516.8	380.3	378.5	-10.2%	-26.8%
Italy	288.0	337.9	354.0	302.7	22.9%	-10.4%
Malaysia	305.3	466.6	357.5	272.1	17.1%	-41.7%
India	233.2	223.4	182.1	164.4	-21.9%	-26.4%
Thailand	175.1	194.3	183.9	144.4	5.0%	-25.7%
Taiwan	270.9	258.3	180.5	141.9	-33.4%	-45.0%

Wood Furniture Imports by Significant Countries

Table 3.

USD \$ (millions)

Country	4Q21	1Q22	4Q22	1Q23	4Q%Δ	1Q%Δ
Vietnam	778.5	1,515.8	1,534.2	1,155.6	97.1%	-23.8%
China	691.3	732.1	468.2	425.9	-32.3%	-41.8%
Canada	245.0	251.4	268.2	260.2	9.5%	3.5%
Mexico	277.4	293.8	252.9	236.3	-8.8%	-19.6%
Indonesia	251.0	308.0	242.2	228.0	-3.5%	-26.0%
Malaysia	261.1	389.0	300.2	227.4	15.0%	-41.5%
Italy	160.3	186.3	190.4	167.3	18.8%	-10.2%
India	153.5	150.6	118.5	108.4	-22.8%	-28.0%
Thailand	78.7	96.4	101.7	75.5	29.2%	-21.7%
Poland	70.4	66.5	62.2	55.2	-11.7%	-17.0%

Upholstered Furniture Imports by Significant Countries

Table 4.

USD \$ (millions)

Country	4Q21	1Q22	4Q22	1Q23	4Q%Δ	1Q%Δ
China	1,204.4	1,126.3	711.7	592.6	-40.9%	-47.4%
Vietnam	469.5	750.6	536.2	501.7	14.2%	-33.2%
Mexico	247.7	253.8	240.4	228.0	-2.9%	-10.1%
Canada	65.5	82.9	71.5	87.9	9.2%	6.1%
Italy	88.0	99.1	94.6	82.7	7.6%	-16.5%
Cambodia	55.9	57.2	39.2	44.6	-30.0%	-22.2%
Malaysia	31.8	50.3	42.8	35.1	34.6%	-30.3%
Indonesia	26.4	29.2	24.4	22.5	-7.5%	-22.9%
Norway	1.4	64.8	10.7	19.2	677.4%	-70.4%

Metal & Other Furniture Imports by Significant Countries

Table 5.

USD \$ (millions)

Country	4Q21	1Q22	4Q22	1Q23	4Q%Δ	1Q%Δ
China	1,786.5	2,216.6	1,316.9	1,451.2	-26.3%	-34.5%
Vietnam	186.6	303.1	237.4	305.3	27.2%	0.7%
Mexico	175.8	202.8	263.1	236.6	49.6%	16.6%
Canada	159.6	171.5	196.8	191.9	23.3%	11.9%
Taiwan	153.7	147.8	107.9	90.5	-29.8%	-38.8%
Thailand	55.7	60.7	60.1	53.6	7.9%	-11.7%
Italy	43.2	48.9	64.9	49.9	50.5%	2.2%
India	52.2	52.4	51.3	42.7	-1.6%	-18.4%
Indonesia	41.0	53.4	37.0	40.0	-9.8%	-25.1%
Poland	6.2	16.7	10.4	29.7	68.1%	78.2%
Cambodia	22.5	19.4	37.8	25.5	68.0%	31.3%

Mattress Imports by Significant Countries

Table 6.

USD \$ (millions)

Country	4Q21	1Q22	4Q22	1Q23	4Q%Δ	1Q%Δ
Mexico	85.9	90.0	98.2	102.0	14.3%	13.3%
Indonesia	104.9	124.9	76.7	88.0	-26.9%	-29.5%
Kosovo	30.3	40.0	22.5	24.9	-25.8%	-37.8%
Taiwan	60.8	48.2	24.0	10.5	-60.5%	-78.2%
Burma	1.0	3.9	3.2	10.1	211.7%	159.2%
Vietnam	13.6	21.0	7.0	9.2	-48.3%	-56.0%
Canada	15.8	11.1	9.4	6.9	-40.1%	-37.8%
Spain	23.4	14.8	7.3	6.4	-68.9%	-57.1%
South Korea	2.5	3.4	3.5	3.1	37.2%	-7.1%
Philippines	11.9	8.9	7.8	3.1	-34.2%	-65.2%
India	10.8	8.7	4.7	3.0	-56.3%	-65.6%
Italy	3.4	3.6	4.1	2.7	19.8%	-24.1%

Furniture Imports by Category

Table 7.

USD \$ (millions)

Furniture Category	2020	2021	2022	21-20%Δ	22-21%Δ
Total Furniture	30,702.4	38,640.1	41,431.4	25.9%	7.2%
Wood Furniture	13,202.1	16,063.5	17,981.4	21.7%	11.9%
Upholstered Furniture	7,198.7	9,919.4	9,449.6	37.8%	-4.7%
Metal & Other	8,823.7	11,325.3	12,544.8	28.4%	10.8%
Mattresses	1,477.9	1,331.9	1,455.5	-9.9%	9.3%

* 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, mattresses 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 8.

% Change y/y	2023											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	8.1%	3.0%	2.3%	0.3%	(0.8%)	N/A						
Furniture stores sales (a)	6.8%	0.1%	(3.1%)	(11.6%)	(5.8%)	(3.6%)						
Mattress factory shipments (b,d)	N/A	N/A	(10.9%)	N/A	N/A	N/A						
Furniture factory shipments (c)	(3.5%)	(6.5%)	(16.5%)	(28.5%)	N/A	N/A						
% 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%	6.4%	6.2%	9.2%
Furniture stores sales (a)	(1.0%)	7.2%	0.6%	1.6%	1.4%	0.8%	(2.3%)	3.0%	0.4%	(0.1%)	(2.5%)	(2.1%)
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	(20.3%)
Furniture factory shipments (c)	(3.0%)	(0.5%)	16.2%	12.5%	10.4%	6.8%	(6.0%)	9.0%	4.5%	2.0%	(1.5%)	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**.

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- Furnishings industry research and extensive expertise accumulated in over five decades.

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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.