

The Furnishings Digest

Fourth Quarter 2023
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The latest news, views, and announcements

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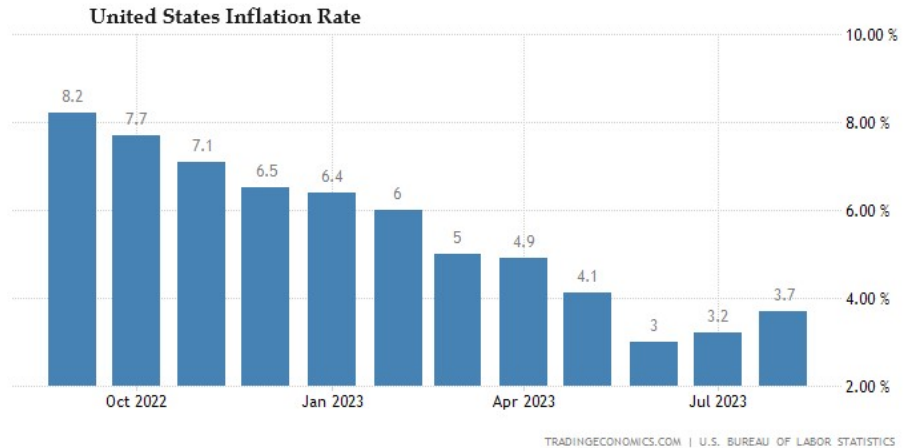
WELCOME TO HIGH POINT!

Although I cannot attend, both of my LONG-TERM PARTNERS (35+ years) will be there and would enjoy the opportunity to visit and discuss what is really happening in the MERGER & ACQUISITION and FINANCE SECTORS: JIMM MANN jmm@maeltld.com; HOWARD ARMISTEAD wha@maeltld.com. Talk to us, please. There is so much false information out there today!

YES, as it has been true for decades, I will be speaking to the HOME FURNISHINGS ASSOCIATION (HFA) at 9:00 am on **Sunday** morning, the 15th, at the Retail Resource Center on the first floor of the Plaza Suites Building. If you have questions after my presentation, call my cell 804-363-1695 or email wwe@maeltld.com PLEASE HAVE A GREAT WORKING MARKET, learning from pros and peers, and visiting more than just your existing suppliers.

You will not find my opinions here very encouraging; I am not pleased to write them now. I feel disgusted and angry with the many ongoing challenges our industry has been forced to endure in 2023; many created by our own government actions.

1. **INFLATION** which showed signs of improving has now become a larger problem AGAIN. You see it everywhere! Food, travel, vehicles, and almost every single thing you can name. Gas prices are out of control AGAIN. In parts of California, gas is selling for \$7 per gallon and higher. And if you have not read about California's new regulations on its ports to reduce carbon emissions – do it sitting down and with pain medicine or booze nearby. The costs of all the new vehicles or retrofitting some equipment is astronomical and this can only escalate our import prices beyond what seems possible.



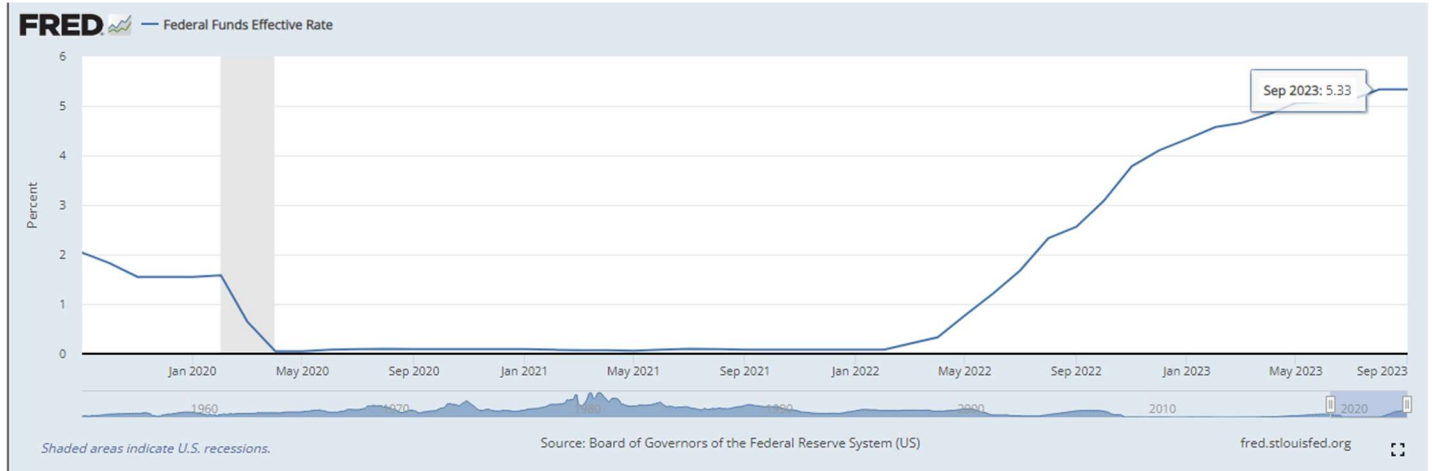
2. **LABOR COSTS** are driving the inflation without question and 2023 seems to be the year that unions have chosen to make up for years of watching an odd-paced economy with no clear direction go by. Recognize that I am not a good labor-rate indicator. My first job was as a county police dispatcher, operating in the basement of my hometown's volunteer fire department was for \$0.65 per hour which was below minimum wage because it was a government job. At college, my job as a night auditor/ desk clerk got a much more generous wage of \$1.05/hour. Funny, I still remember standing next to the time clock with other employees waiting for the next 6-minute click so I would get the extra 10% in pay at the end of my shift—yes, for another \$0.105.

3. **MINIMUM WAGE = PROGRAMMED INFLATION** In Washington, D.C. and 20 states, either the current minimum wage is \$15/ hour or legislation is in place to raise it to \$15 incrementally in a couple of years. This is already in the books and will occur so this is inevitable on top of whatever other inflation might occur through other means. Wage inflation is the most difficult to control because once it starts, it tends to gain momentum and passes throughout our population. It was one key reason our inflation in the 1975-1985 period was so extreme. Do you remember when our prime lending rate was 22%? I do (1982).

4. **LENDING RATES** Consumer credit card debt just returned to over ONE TRILLION DOLLARS for the first time since before COVID developed and the large COVID-related payouts from our government gave our consumers unprecedented liquidity. In addition, the interest rates on that debt have returned to more than 20%. When the Federal Reserve kept its key bank lending rate in the low single digit level, lenders were forced to drop rates to low double-digit levels but that is all a memory now. These higher lending rates- once kept so low by the Fed – are now out of control and adding to INFLATION!



5. **LOAN STANDARDS** Most states have a usury rate (the highest rate allowed by law to charge consumers) of 22% to 28%, so that is getting within sight and may keep these costly and business slowing rates from rising much more.



Even so, look at how rapidly interest rates have risen in just the last two years!

But there is another element to consider here: bank lending standards. Every loan the lender makes is evaluated regularly and considers more than the borrower's sales, earnings and debt levels; the geographic region and type of business is also considered carefully.

THE FURNITURE INDUSTRY IS PERCEIVED AS BEING HOUSING RELATED (at best) or DEPENDENT (at worst) and therefore is evaluated along with housing sales and turnover. This not only affects the interest charged on each loan, it also is a key factor on if the borrower is even qualified to receive the loan!

NOTE: I remember a well-known family-owned furniture retail chain that during a furniture and housing downward cycle was notified by its bank that all family owners would be required to co-sign the bank loan, putting their personal homes and other assets at risk if the furniture store chain could not meet its debt requirements. The family recognized that if they liquidated the company assets including some well appreciated real estate, they would all receive a meaningful payout and not be on the hook for the bank debt. As a result, a respected and well-known profitable furniture store chain was liquidated and closed. NOT ALL FURNITURE STORE CLOSINGS WERE FAILURES!

6. **HIGHLY RECOGNIZED CLOSINGS** This past weekend as I returned home from my two-year-old grandson's birthday party, I noticed that on the 15 mile drive I saw three "going out of business sales" for different independent retail furniture stores. All were less than a decade old, I believe.

But as a long time, FURNITURE TODAY reader, I have found the number of articles recently that discuss furniture store closings disturbing. Some are members of the top 100 furniture stores by sales, some were decades old community leaders and others were multi-generation businesses. I knew several of these chains and management members.

Not all of these were in financial distress or failures except that they may not have someone to acquire the business or someone to take over daily management.

In addition, in the last twelve months we have lost some high-profile vendors, all of which were unexpected, at least to outsiders. Last Thanksgiving, Lane/United closed abruptly although several top officers had resigned months earlier, months ago Klausner Furniture closed without notice, followed by a small Hickory-based specialty upholstery manufacturer Cox, and more recently by a high-profile designer line Mitchell Gold and Bob Williams that closed leaving minimal notice. Unlike the others, Mitchell Gold and Bob Williams operated 18 of its own retail stores.



I cannot recall a time when we have lost as many retailers and vendors in a short period of time— one year. In addition, in most of the vendors (Lane/United, Klausner, and Mitchell Gold and Bob Williams) all mentioned that banks were involved in the closings and all were owned by private equity firms, (Stage Capital, Monomoy, and Stevens Group, respectively). Each is its own story and have different circumstances.

MANN, ARMISTEAD & EPPERSON has worked with hundreds of private equity firms, and continue to do so. We believe our relationships with these investors helps us when completing transactions because we know these entities' strengths and weaknesses, the types of transactions they prefer, and the people involved.

But in the home furnishings industry we know the strategic buyers too and that is a huge advantage. There are also some family investment firms that are well run and take a longer-term perspective.

There are more retailer and vendor closings coming, no doubt, because of the extremely difficult operating environment we are now experiencing.

SO WHY AM I UPSET? ANGRY? DISGUSTED? DISAPPOINTED?

Yes, we were fortunate to have two unusually strong years in terms of consumer purchases of home furnishings in 2020 and 2021. It was a shame we did not have sufficient supplies to meet the demand but it was exciting to see consumers fulfilling furniture and mattress needs, long delayed.

The first two quarters of 2022 showed weak economic growth which many agree was a mild recession, primarily in home-related consumer durables like home furnishings, while other consumer expenditures that had suffered when home related spending did well like dining out, sporting events, travel and other non-durable consumer purchases bounced back, and continued to fare better through the remainder of 2022 relative to home furnishings largely due to lackluster housing sales.

BUT through the last half of 2022 and the early months of 2023, there was evidence that the actions of the Federal Reserve were having the intended effect of reducing inflation, holding interest rates at a level that was allowing some housing activity and employment to grow. It was encouraging for most of the first half of 2023 but then the effectiveness of the Fed's actions appeared to fail, causing (as discussed earlier) unleashed inflation, which drove interest rates much higher, and mortgage rates and mortgage lending were hard hit—which, in turn, negatively impacted already weak home furnishings sales.

MY ANGER has been disappointment that a possible “soft landing” in this economy is now unlikely, that inflation and interest rates will limit housing activity through the remainder of 2023 and well into 2024, a year already a doomed by the upcoming presidential election. Add to these wars in Israel and the Ukraine, higher petroleum costs, and so much ongoing disagreement here and abroad, and I am not seeing much good news soon. Nuts!

2024

Our conversations with furniture retailers nationwide have shown a sharp decline in year-to-year 2023/2022 sales of 14% to 21% which cannot be blamed on last year’s inventory imbalances or logistics issues that have plagued us this decade. Truthfully, I cannot remember retail sales declining to this degree in any year but I have only been studying the home furnishings sector for 52 years. And keep in mind that these sales decline at retail are including ongoing inflation.

HIGH POINT becomes more important during times of stress, when we can share ideas and strategies. It is one of our most important assets as an industry. Have a safe, productive market!

All Household Furniture Imports by Significant Countries

Table 1.

USD \$ (millions)

Country	1Q22	2Q22	1Q23	2Q23	1Q%Δ	2Q%Δ
China	4,076.9	3,907.4	2,470.7	2,433.8	-39.4%	-37.7%
Vietnam	2,590.5	3,179.0	1,903.1	2,205.3	-26.5%	-30.6%
Mexico	840.4	890.3	871.6	808.3	3.7%	-9.2%
Canada	516.9	567.5	547.0	558.3	5.8%	-1.6%
Italy	337.9	431.0	302.7	338.5	-10.4%	-21.5%
Indonesia	515.4	551.0	378.5	294.9	-26.6%	-46.5%
Malaysia	455.0	488.2	272.1	247.4	-40.2%	-49.3%
Taiwan	257.9	234.6	141.9	174.3	-45.0%	-25.7%
India	222.8	255.3	164.4	162.1	-26.2%	-36.5%
Thailand	194.7	214.4	144.4	138.8	-25.8%	-35.3%

Wood Furniture Imports by Significant Countries

Table 2.

USD \$ (millions)

Country	1Q22	2Q22	1Q23	2Q23	1Q%Δ	2Q%Δ
Vietnam	1,515.8	1,918.3	1,155.6	1,288.6	-23.8%	-32.8%
China	732.1	653.2	425.9	423.9	-41.8%	-35.1%
Canada	251.4	274.6	260.2	271.0	3.5%	-1.3%
Malaysia	389.0	410.0	227.4	209.1	-41.5%	-49.0%
Mexico	293.8	301.9	236.3	200.6	-19.6%	-33.6%
Italy	186.3	242.7	167.3	191.2	-10.2%	-21.2%
Indonesia	308.0	330.3	228.0	179.9	-26.0%	-45.5%
India	150.6	172.3	108.4	109.2	-28.0%	-36.6%
Thailand	96.4	99.7	75.5	83.5	-21.7%	-16.2%
Poland	66.5	105.9	55.2	63.5	-17.0%	-40.0%

Upholstered Furniture Imports by Significant Countries

Table 3.

USD \$ (millions)

Country	1Q22	2Q22	1Q23	2Q23	1Q%Δ	2Q%Δ
China	1,126.3	1,048.7	592.6	698.6	-47.4%	-33.4%
Vietnam	750.6	859.1	501.7	626.2	-33.2%	-27.1%
Mexico	253.8	256.7	228.0	217.8	-10.1%	-15.2%
Italy	99.1	121.4	82.7	93.1	-16.5%	-23.3%
Canada	82.9	85.6	87.9	76.0	6.1%	-11.2%
Cambodia	57.2	67.0	44.6	48.0	-22.2%	-28.4%
Malaysia	50.3	53.0	35.1	29.9	-30.3%	-43.5%
Indonesia	29.2	35.5	22.5	21.2	-22.9%	-40.3%
Thailand	37.4	44.7	15.3	14.7	-59.0%	-67.1%

Metal & Other Furniture Imports by Significant Countries

Table 4.

USD \$ (millions)

Country	1Q22	2Q22	1Q23	2Q23	1Q%Δ	2Q%Δ
China	2,216.6	2,203.9	1,451.2	1,310.1	-34.5%	-40.6%
Mexico	202.8	249.3	305.3	279.6	50.5%	12.2%
Vietnam	303.1	389.4	236.6	277.0	-22.0%	-28.9%
Canada	171.5	196.8	191.9	203.5	11.9%	3.4%
Taiwan	147.8	142.0	90.5	119.0	-38.8%	-16.2%
Italy	48.9	62.1	49.9	52.9	2.2%	-14.8%
Thailand	60.7	69.9	53.6	40.5	-11.7%	-42.1%
India	52.4	64.0	42.7	40.1	-18.4%	-37.4%
United Kingdom	21.4	35.2	22.5	27.2	5.1%	-22.7%
Indonesia	53.4	64.6	40.0	25.6	-25.1%	-60.5%
Germany	18.9	22.0	15.6	23.3	-17.3%	5.7%

Mattress Imports by Significant Countries

Table 5.

USD \$ (millions)

Country	1Q22	2Q22	1Q23	2Q23	1Q%Δ	2Q%Δ
Mexico	90.0	82.4	102.0	110.4	13.3%	34.0%
Indonesia	124.9	120.5	88.0	68.3	-29.5%	-43.3%
Burma	3.9	6.7	10.1	24.3	159.2%	264.9%
Kosovo	40.0	48.1	24.9	23.7	-37.8%	-50.6%
Taiwan	48.2	39.6	10.5	21.6	-78.2%	-45.3%
Vietnam	21.0	12.2	9.2	13.5	-56.0%	10.5%
South Korea	3.4	4.4	3.1	11.1	-7.1%	154.3%
Canada	11.1	10.5	6.9	7.9	-37.8%	-24.8%
Philippines	8.9	6.1	3.1	7.1	-65.2%	17.1%
Spain	14.8	22.5	6.4	6.0	-57.1%	-73.4%
Singapore	1.7	1.2	0.4	4.6	-74.3%	296.5%
India	8.7	7.2	3.0	4.2	-65.6%	-42.2%

Furniture Imports by Category

Table 6.

USD \$ (millions)					
Furniture Category	2020	2021	2022	21-20%Δ	22-21%Δ
Total Furniture	30,656.7	38,623.2	41,362.3	26.0%	7.1%
Wood Furniture	13,203.0	16,072.9	17,959.3	21.7%	11.7%
Upholstered Furniture	7,162.3	9,912.5	9,448.6	38.4%	-4.7%
Metal & Other	8,816.6	11,308.4	12,507.7	28.3%	10.6%
Mattresses	1,474.8	1,329.4	1,446.7	-9.9%	8.8%

* 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 7.

% Change y/y	2023											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	8.2%	1.9%	(0.1%)	(3.6%)	(2.7%)	(1.0%)	(0.9%)	(1.6%)				
Furniture stores sales (a)	6.8%	0.1%	(3.1%)	(11.6%)	(5.8%)	(3.4%)	(7.3%)	(7.6%)				
Mattress factory shipments (b,d)	N/A	N/A	(10.9%)	N/A	N/A	1.6%	N/A	N/A				
Furniture factory shipments (c)	(3.5%)	(6.5%)	(16.5%)	(28.5%)	(18.1%)	(28.5%)	(20.6%)	N/A				

% Change y/y	2022											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	2.3%	10.2%	2.0%	3.1%	5.9%	7.0%	8.9%	5.9%	6.0%	4.5%	3.3%	3.7%
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.