

Furnishings Digest Newsletter

February 2018

Reading Time

13 minutes



Jerry Epperson
Managing Director

Celebrating 47 Years of Proprietary Furniture Research



Special Note: We have been contacted by a LOT of people who receive this newsletter saying that they did not receive *The Furnishings Digest Newsletter* in January, and some say they did not get December. As a result, after this February Digest has been distributed, we will once again send out the January issue, just in case. I suspect the January issue was sent out while many were in route to the Las Vegas market, and it got overlooked. Please never hesitate to contact us if you miss an issue. Is there a set publication date? Are you kidding?



See You There!

This will be an exciting Nationwide Marketing Group “Primetime” for me. This coming week in Orlando, I will be giving 5 presentations on 4 different topics for the 4,000+ retailers and vendors. In addition to teaching how to sell furniture and mattresses (Furniture 101 and Mattresses 101), I will be making a presentation for the larger furniture stores (Can We Talk?) and then a separate presentation for everyone attending the conference (A NEW ERA/ NEW CUSTOMERS/ NEW OPPORTUNITIES) that covers the exciting economic and demographic shifts that will impact all home related consumer durables: appliances, consumer electronics, floor coverings, lighting and wall décor, and, of course furniture and mattresses. Remember, this is the first “Primetime” since Nationwide and Mega merged so this will be a larger, even more powerful group. Imagine representing \$15 billion in sales.

A Sad Note: I have tried to not mention individuals who pass away in this newsletter, just because at my age and with all the folks I know, it could be an entire issue every month. Even so, I was deeply distressed to learn that Art Van Elslander had passed at age 87. Those of us who were blessed to know him, recognize how very special he was as a creative furniture retailer, a generous soul to so many charities and events, and a loving family man. I was fortunate enough to be able to assist him in selling the ultra- successful and rapidly growing Art Van Furniture and as an advisory board member before that, I learned just how creative he was. He also understood people. A key factor in him deciding to sell when he did was he felt he had assembled an extraordinarily talented management team, his best ever, that could carry the business forward. That plus his



successful expansion outside of Michigan put the company on a terrific growth track. "Mr. Van" as most of us called him, was not done, however, he was making plans to get back into business and stay active. We had lots of discussions on what he would like to do. Maybe that is why losing him was such a shock. I never thought of him as being 87. Our industry and our nation could use a LOT more Art Van Elslanders.

THE ECONOMY

The most frightening thing about today's economic outlook is the general consensus that the U.S. is on a steady, sustainable upward growth swing, with a possible gain in GDP of 3.0% or better. Even the economic forecasters that are not friendly to the Trump administration agree on the outlook (they just credit President Obama). Consensus among economists is rare and not necessarily comforting. The tough challenge is predicting the turns in the economy, not when it is either growing or declining steadily, but there are none of the historical clues to an upcoming economic downturn like spikes in inflation, sudden wage increases, or major changes in Fed policy. Instead, we are vulnerable to a sudden crisis like 9/11/2011 more so than to an economic imbalance.

And along this same topic, the global economic recovery is gaining momentum as well. As you might expect, growth in India and China is setting the pace, but the global economic outlook is very good. Trying to find points of weakness is a challenge, unless you want to include such ever-present threats as global strife or collapse.

Monthly Trends												Table 1.
% Change y/y	2017											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	3.4%	2.3%	4.7%	3.0%	2.7%	1.8%	3.9%	4.1%	2.3%	5.6%	6.5%	7.7%
Furniture stores sales (a)	3.8%	3.3%	5.5%	4.2%	4.8%	4.2%	4.3%	5.7%	3.3%	6.8%	7.5%	7.4%
Mattress factory shipments (b,d)	N/A	N/A	(0.1%)	N/A	N/A	(6.8%)	N/A	N/A	(6.4%)	N/A	N/A	N/A
Furniture factory shipments (c)	2.0%	3.0%	5.5%	2.4%	7.5%	6.5%	10.0%	5.4%	4.2%	8.4%	N/A	N/A
% Change y/y	2016											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	6.0%	8.1%	4.8%	5.7%	3.9%	6.0%	3.5%	2.1%	2.7%	2.3%	2.6%	1.0%
Furniture stores sales (a)	1.8%	9.8%	6.4%	4.0%	0.2%	5.3%	0.0%	4.0%	5.7%	(0.6%)	5.9%	1.4%
Mattress factory shipments (b,d)	N/A	N/A	0.2%	N/A	N/A	5.5%	N/A	N/A	(2.5%)	N/A	N/A	4.3%
Furniture factory shipments (c)	(1.5%)	2.5%	3.7%	(3.1%)	(0.7%)	1.6%	(9.5%)	6.2%	6.1%	(6.0%)	4.5%	15.0%

Sources:

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

Sadly, furniture and mattress sales are not robust so far in 2018, with no obvious explanation. The exception is the Southeast which is still benefiting from demand created by the hurricanes and floods last year. One reason we are surprised at this slowness at retail is the exciting and creative new credit options available to retailers today to close a higher percent of customers wanting to buy. Another is that housing turnover continues to gain momentum leading us to expect more consumer traffic in our stores. Finally, consumers are generally benefiting from the new tax bill, averaging about \$120 per monthly paycheck. One note on that: In order to get a decline in taxes and a higher paycheck, you need to be employed, getting a paycheck and paying taxes. If you are not paying any taxes, the tax bill did you no good---and that seems to be lost on some politicians.

Jan. Housing Stats		Table 2.
Year/Year		January
Housing Permits		7.4%
Housing Starts		7.3%
Single Family		7.6%
Multi-Family		3.1%
Housing Completions		7.7%
New Single Family Home Sales		(1.0%)
Existing Home Sales		(4.8%)
Existing Home Inventory		(5.6%)

Source:

U.S. Dept. of Commerce & N.A.R.

Yes, the internet is a factor, no doubt, but all is not rosy in e-tailerland either. They are having issues with meeting demand on time, traffic and of course, returns.

Despite a brisk Las Vegas market, especially in the mattress sector, we are facing some pricing increases that may not have been factored in. First, the currency issue with China is serious, reversing much of the positive swing a year ago. Second, raw material increases show no sign of lessening.

Vendors are receiving requests from retailers nationwide, particularly in the Northeast to delay shipments for sixty or ninety days, not a good sign.

For now, let's just blame the weather and Congress. They are always getting blamed anyway.

M&A

Mann, Armistead and Epperson is extremely active in helping furniture and mattress retailers, importers and manufacturers in various types of transactions, generally called "mergers and acquisitions" although they might involve a restructuring, ESOP, or a new investor.

Today, there is ample debt and equity capital to complete transactions of many types, and lots of potential investors including private equity, public companies, foreign companies and others. Between the mid-1990's until 2014, interest in the home furnishings sector was sparse, but it has come back with vigor.

Among the strategic acquisitions by public companies in the last 4 years were -in no order whatsoever:

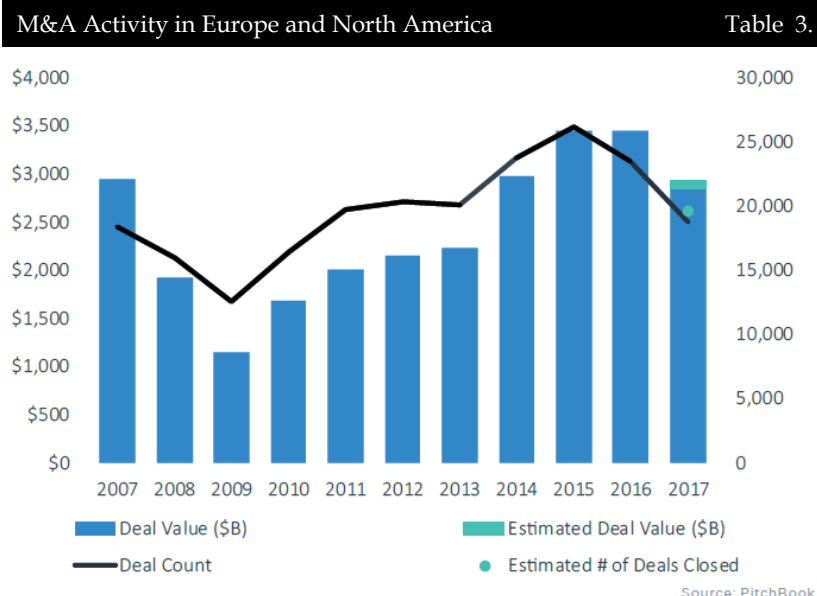
- | | |
|-----------------------------------|------------------------------------|
| -Bassett-Lane Venture | -Samson-Baker, McGuire |
| -Hooker-Home Meridian, Shenandoah | -Steinhoff-Mattress Firm, Sherwood |
| -Markor- Rowe, Jonathan Charles | -Global-Purple |

The listing of private equity acquisitions is longer, and we have divided them into manufacturers, retailers and importers. In this listing we show the private equity then what they acquired or invested in. And yes, there were some sales by private equity too. We keep a score card on all this!

<u>Manufacturers</u>		<u>Retailers</u>	
➤ Capital Partners	➤ American Leather, Lee, Brookline	➤ Bain Capital	➤ Bob's Discount
➤ Gainline	➤ Southern Motion	➤ Brentwood	➤ Z Gallery
➤ Monomoy	➤ Klaussner	➤ Castle Island	➤ Boston Interiors
➤ Stage Capital	➤ United, Jamison, Lane	➤ Freeman Spogli	➤ Arhaus
➤ Stephen's	➤ Mitchell Gold	➤ Interactive	➤ Relax the Back
➤ Aterian	➤ Standard	➤ Jordon Co's.	➤ American Freight
➤ KPS	➤ Thomasville, Broyhill, Drexel, Hickory Chair, Henredon Pearson	➤ Sun Capital	➤ Furniture Factory Outlet
		➤ Thomas H. Lee	➤ Furniture Liquidators
			➤ Art Van, Levin, Wolf
		<u>Importers</u>	
➤ Littlejohn	➤ Brown-Jordan	➤ Brookside Equity	➤ Hillsdale
➤ Long Point	➤ Corsicana Bedding	➤ Clearlake	➤ Abbyson
➤ New Water	➤ Pride Family Brands	➤ Creative Home	➤ Theodore Alexander
		➤ Hony Capital	➤ Whalen, True, Kenas
		➤ Yixing Capital	➤ Lexington
		➤ Z Capital	➤ Twin Star, Bell'O

As you can see in **Table 3**, M&A activity has had a pick up since 2014.

If you have somehow snoozed through all this activity, you missed an exciting period but it is continuing. Please call Howard Armistead, Jimm Mann or me to discuss this anytime. Our phone is 804-644-1200 here in Richmond, Virginia



Public Furniture Company Latest Quarter

Table 4.

	Q Ended	Sales	Net Income		Q Ended	Sales	Net Income
Furniture Manufacturers				Bedding Companies			
Bassett Furniture Industries	30-Nov-17	3.9%	(1.4%)	Select Comfort	31-Dec-17	15.9%	39.9%
Culp	31-Oct-17	7.1%	(11.2%)	Tempur Sealy International	31-Dec-17	(15.9%)	(6.0%)
Ethan Allen Interiors	31-Dec-17	2.0%	38.9%				
Flexsteel Industries	31-Dec-17	9.2%	15.4%	Foreign Companies			
Hooker Furniture	31-Oct-17	8.7%	11.5%	Coaster International Company	30-Sep-17	(1.2%)	(81.9%)
La-Z-Boy	31-Jan-18	(1.0%)	(48.0%)	Ekornes	30-Sep-17	(7.3%)	23.0%
Stanley Furniture	30-Sep-17	(6.8%)	Loss	Jason Furniture (Hangzhou) Company	30-Sep-17	15.9%	54.0%
				Leon's Furniture	30-Sep-17	7.6%	(1.8%)
Furniture Retailers				Lifestyle Global Enterprise	30-Sep-17	(12.9%)	19.1%
Aaron's	31-Dec-17	12.1%	361.2%	Markor	30-Sep-17	36.6%	20.3%
Conn's	31-Oct-17	(1.8%)	Profit	Man Wah	30-Sep-17	28.8%	(9.8%)
Haverty Furniture Companies	31-Dec-17	(2.6%)	(73.3%)	Natuzzi	30-Sep-17	(16.3%)	Loss
Pier 1 Imports	30-Nov-17	(1.4%)	(45.6%)	Samson Holding	30-Jun-17	8.6%	214.3%
Restoration Hardware	31-Oct-17	7.9%	422.5%				

Notes:

"Profit" is shown without a % for companies that showed a net loss a year ago
Man Wah & Samson are compared on a 6 month basis

Sources:

PitchBook as of February 25, 2018

Mann, Armistead & Epperson, Ltd.
119 Shockoe Slip
Richmond, VA 23219
1-804-644-1200
www.maeltd.com

Wallace "Jerry" W. Epperson, Jr., C.F.A.
Managing Director

Jin S. Ko
Financial Analyst

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 monthly Furnishings Digest Newsletter in addition to various manufacturing, retail, distribution, strategy and demographic reports that are available for purchase individually or by annual subscription. For more information, please email research@maeltd.com or call (804) 644-1200.