

Furnishings Digest Newsletter

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Reading Time

19 minutes



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Celebrating 46 Years of Proprietary Furniture Research



THE BEST LAS VEGAS MARKET EVER... is the feedback we have received several times about last month's furniture show. Yes, there was the rain opening day, but the market lasted well into Tuesday with strong traffic. That is long for the January show.

Of course, mattresses all seemed to have aggressive new product programs. What did we do before hybrids? And there are so many adjustable bed programs now.

But the upholstery vendors did well, too. Recliners and motion continue to outperform at retail, but fabric upholstery has picked up. Less noticeable, in our opinion, are the modest price increases being phased in.



Generally speaking, wood furniture remains challenged due to a lack of pricing power. There continues to be a race to the bottom. Entertainment furniture is doing better than many expected as are accent chairs.

Furniture Today's product analysis, released every year in its Retail Planning Guide, gives some "big picture" insight. Remember that wood furniture declined more sharply in the 2008-2009 recession than other categories.

Furniture & Mattress Retail Sales by Segment

Table 1.

(\$ in billions)

Wood	2010	2016	CAGR	Upholstery	2010	2016	CAGR	Mattresses/ Other	2010	2016	CAGR
Master Bedroom	\$8.6	\$10.9	4.0%	Stationary Sofas/Sleepers	12.4	16.0	4.3%	Mattresses	11.6	15.4	4.8%
Youth, Other Adult Bedroom	4.9	6.1	3.7%	Stationary Chairs	1.7	2.2	4.4%	Infant Furniture	1.0	1.3	4.5%
Casual Dining	4.0	5.3	4.8%	Reclining Chairs	3.8	4.8	4.0%	Outdoor Furniture	4.6	4.5	-0.4%
Formal Dining	5.6	6.8	3.3%	Swivel/ Glider Rockers	1.2	1.5	3.8%	Other	1.2	4.0	22.2%
Entertainment Furniture	5.4	6.9	4.2%	Motion Sofas	3.7	4.9	4.8%				
Occasional Tables	4.3	5.5	4.2%	Futons	1.8	2.2	3.4%				
Home Office	5.2	6.5	3.8%								
Totals	38.0	48.0	4.0%	Totals	24.6	31.6	4.3%	Totals	18.4	25.2	5.4%
Totals	\$82.5	\$104.8	4.1%								

Source : Furniture Today

Although not available yet for 2016, statistics from our import study also show changes (Table 2).

Growth in upholstery is not just because of modest price increases but because of lifestyle changes as Americans enjoy the growing electronic entertainment options, greater comfort and features. We suspect a faster repeat purchase cycle, too, but cannot document it.

Wood furniture is more complex. The ongoing movement to larger mattresses has reduced the space available for wood bedroom furniture in many homes, fewer homes have formal dining rooms, shifts from desk-top to lap-top computers or tablets lessened the need for specific work stations within homes, and lighter weight HDTV's reduced some of the need for entertainment furniture although audio and gaming systems require some furniture options. Finally, less expensive options in every category have replaced more expensive units more typical just years ago. This is not import replacing domestic in most cases, but less expensive imports. As of 2015, 86% of wood furniture was imported.

Some of this price decline is because of manufacturing technology, better raw material sources, different source nations and much improved logistics.

We have been encouraged by how many of the mid-priced domestic upholstery manufacturers are expanding their production capacity. Upholstery imports, 46% of U.S. sales, are growing too.

One last note on the Las Vegas market. It has become important in accessories, décor and of course, gifts, helping to broaden its appeal and bring in more retailers.

GOING TO BE ON EBAY... I will wait a few years, but I kept my January 29th Mattress Firm newspaper insert. The bi-fold four pager features 6 Tempur-Pedic units, 2 Sealy and one Stearns & Foster mattress. The rest were Beautyrest (3), Hampton & Rhodes (2) and Serta (1).

The shot heard around Lexington was a shock because of the size of the vendor and its customer, forced by Tempur-Sealy being public. It happens daily among all large vendors and their retail customers as each sees who has the biggest....clout. Add in that Mattress Firm's new owner, Steinhoff, has its own mattress manufacturing supplying its retailers in other countries, it was a very meaningful negotiation on both sides.

"Why doesn't Steinhoff acquire either Tempur-Sealy or its other large high-profile vendor, Serta-Simmons?" is asked frequently. I am not involved but I imagine that if Steinhoff acquired either, the massive mattress manufacturer would immediately lose hundreds if not thousands of other retail customers who would rather not buy from a large competitor. There are other considerations, of course, like price, debt that would have to be assumed or repaid, etc. , too.

In any case, a lot of Mattress Firm floor space will soon change and whatever fills that space will likely impact some other retailers' space. Picture mattresses standing on end, not dominoes, tipping over.

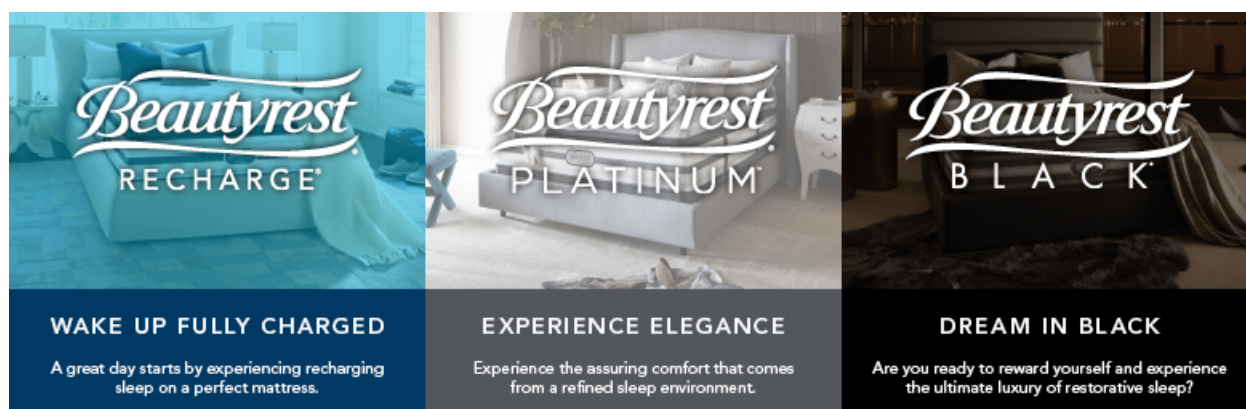
Mattresses are the soap opera of the home furnishings world. Who was seen flirting with whom? And in this case, what happens in Vegas doesn't stay in Vegas.

COULD THERE BE MORE MATTRESS NEWS?

If you can read, you could not miss the strong four-page Beautyrest insert "Live Life Fully Charged" introducing its Silver, Platinum and Black mattress lines. The insert was in the ever-present "Parade" Sunday supplement and many magazines. Now I just need to develop "elegantly orchestrated sleep" and "dream in black". (Don't you love mattress marketing?)



Factory Shipments by Category			Table 2.
(\$ in millions)	Shipments (domestic & imports)		
Category	2010	2015	CAGR
Wood	\$14,858	\$16,030	1.5%
Upholstery	11,436	15,088	5.7%
Metal & Other	7,551	10,210	6.2%
Mattresses	6,227	8,720	7.0%
Totals	\$40,072	\$50,048	



Guaranteed faithful? Smarttress is a new Spanish mattress that has 24 ultrasonic sensors that detect “rhythmic movements”. If hanky-panky occurs when the owner is away, a text message is sent saying that mattress is in use and how many people are on it! If you are over 60, have it text all your friends and brag. It only costs \$1,700!

Authorities in Westborough, Massachusetts, investigating an internet telecom company, found \$20 million in cash in a mattress. Maybe cash is being tested to replace coil springs, memory foam and gel.

MEDIA

Everything related to the internet is exaggerated. To hear some, it is the only way we can reach out to customers. **Table 3** is from the December 19th, 2016 Advertising Age “Marketing Fact Pack” with forecasts from Publicis Groupe’s Zenith data.

4K

Some of us are enjoying our 4K Smart HDTV’s for sporting events and new movies. The difference is obvious. Now we are reading more about 8K

coming soon. Japan may broadcast the 2020 Olympic Games in 8K. At the recent CES, Dell was rumored to be offering one later this year for only \$4,999. With this new technology, look for the next large mainstream 8K set to be 98” vs. today’s 65”. Wonder how large life-sized will be? Yes, I want one.

Year	Internet	TV	Radio	Magazine	Newspaper	Outdoor & Cinema
2007	8.2%	33.0%	11.9%	14.5%	28.1%	4.3%
2008	10.7	33.9	11.3	13.9	25.8	4.5
2009	14.0	35.4	11.1	12.5	22.2	4.9
2010	15.5	37.1	10.5	12.3	19.5	5.0
2011	17.2	37.5	10.6	12.0	17.5	5.2
2012	19.4	38.6	10.3	11.1	15.4	5.1
2013	22.0	38.3	10.2	10.7	13.7	5.2
2014	24.8	38.0	9.9	10.1	12.1	5.1
2015	28.3	36.5	9.6	9.5	10.9	5.2
2016	31.6	35.7	9.2	8.7	9.6	5.1
2017	34.9	34.6	8.9	8.0	8.4	5.2
2018	38.2	33.3	8.6	7.4	7.4	5.1
2019	41.2	32.0	8.3	6.8	6.6	5.1

CHANGE CONTINUES TO CHANGE... Except no one want change anymore...or even paper money. About 7% of all commerce today is done by cash – don’t know if that is \$ value or number of transactions.

Americans wrote 17.3 billion checks in 2015, down from 41.9 billion in 2000. They also made 69.5 billion debit card (not credit card) transactions in 2015. The Wall Street Journal has reported that at check-out, a check takes 67 seconds, vs. cash at 25 seconds, credit card at 24 seconds and debit cards at 20 seconds. I wish furniture stores had a problem with the velocity of buyers at our check-outs.

SO FAR... Home furnishings sales early in 2017 have done reasonably well, especially vis-à-vis the weak first quarter of 2016. Some vendors have strong backlogs – great to have this time of the year.

Tax returns are just beginning to come in, be ready.

Import Fear? There is huge speculation about the new administration's discussions about border taxes with Mexico and import taxes on Asian merchandise, especially from China.

Of the \$25.3 billion in imported residential furniture (not mattresses), \$1.2 billion or 4.8% came from Mexico, \$14.8 billion or 58.2% from China, \$3.2 billion or 12.4% from Vietnam. Except for Canada which is seldom mentioned in this regard, all other nations were the source for less than a billion dollars. All numbers are for 2015, by the way, the latest available.

If these tariffs and fees were implemented across the board, they would be very inflationary and we have been spoiled by a decade of 2% or less inflation.

This is all subject to a lot of brinkmanship, no doubt, but it seems more logical that these fees would be used to punish U.S. suppliers who move current production or build new production outside the U.S., instead of inside the U.S. That would make the point without adding much to inflation.



By the way, Korea's Samsung and LG have been found selling washing machines in the U.S. at below market value and anti-dumping penalty margins of 52.5% and 32.1%, respectively, are being imposed.

Public Companies				Table 4.			
	Q Ended	Sales	Net Income		Q Ended	Sales	Net Income
Furniture Manufacturers				Bedding Companies			
Bassett Furniture Industries	30-Nov-16	(1.5%)	(11.2%)	Select Comfort	31-Dec-16	46.0%	Profit
Culp	31-Oct-16	(4.0%)	(8.0%)	Tempur Sealy International	30-Sep-16	8.5%	Profit
Ethan Allen Interiors	31-Dec-16	(6.2%)	(35.3%)	Foreign Companies			
Flexsteel Industries	31-Dec-16	(5.5%)	0.4%	Ekornes	30-Sep-16	(4.6%)	241.6%
Hooker Furniture	31-Oct-16	139.9%	55.8%	Leon's Furniture	30-Sep-16	7.5%	18.2%
La-Z-Boy	31-Oct-16	(1.9%)	(4.9%)	Markor	30-Sep-16	7.6%	7.4%
Stanley Furniture	30-Sep-16	(20.0%)	Loss	Man Wah	30-Sep-16	(2.5%)	50.9%
Furniture Retailers				Natuzzi	30-Sep-16	(20.3%)	Loss
Aaron's	30-Sep-16	(6.4%)	35.6%	Samson Holding	30-Jun-16	2.2%	(32.1%)
Conn's	31-Oct-16	(17.5%)	Loss				
Haverty Furniture Companies	30-Sep-16	(2.0%)	(19.8%)				
Pier 1 Imports	30-Nov-16	(0.4%)	24.3%				
Restoration Hardware	31-Oct-16	(15.1%)	(92.4%)				

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:

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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 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.