

SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP

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

Furnishings Digest Newsletter
August/September 2020

Reading Time
16 minutes

Mann, Armistead & Epperson, Ltd. is pleased to release the latest monthly edition of its Furnishings Digest Newsletter. We trust that you will find it helpful and informative.

In This Issue

- A two-week pre-market? Why not?
- Housing sales are one of this economy's strongpoints
- Where are mass produced mattresses coming from next?
- 2021 is becoming clearer.
- Buying furniture or mattress company? You are not alone.
- Business is good. Don't you dare complain.



The LARGEST AND MOST IMPORTANT HIGH POINT MARKET (ever held in September!)
Pre-markets have always been important, even back in the 1970s when they were effectively done at the state and spring regional furniture markets in Atlanta, Dallas and San Francisco. In the next two weeks we will experience a pre-market like none other. A two-week pre-market? Yes, retail majors are now looking their appointments well BEFORE the "official" pre-market dates and AFTER the official dates as well. Some exhibitors are accepting appointments for the entire month of September. Why? There are many reasons as there are reasons for the Q4s.

1. Some doubt we will have the major international October High Point market, not because of any action by the furniture and mattress industries, but because of governmental restrictions. This market is the largest event the state of North Carolina hosts twice every year with attendance in the range of 80,000. The Market Authority has made changes to reflect the pandemic like spreading the market over nine days to allow time for appointments to be spaced out and to avoid crowds but having the market in not in our control.
2. The large spring High Point market was canceled and the furniture industry is still feeling the repercussions from that. Many in our industry complain about the market but this last April we learned just how valuable they are to everyone, and not just for placing orders and seeing what is new. Interaction among retailers and sources is only one element.
3. A major reason for spreading the premarket is to avoid any possible congestion and unnecessary interface. Retailers who have never attended a pre-market are coming this time because they are having good business and they need merchandise and assistance. Face it, many of these larger retailers never pay attention to the dates anyway. Even in past years, it was very common to arrive in High Point a couple of days early and see some retailers already going home, having finished getting what they needed to do. Does coming early assure anyone of getting the best, exciting new merchandise? No. That is due to the expectations of the vendor. In every market, there is the dominant retailer that you want to pick up your great new idea. If he does not buy it, you hope for number 2 and so forth. Some of us can judge the success of a market not by the orders written but by what retailers have obligated to pick it up.
4. Retail sales have been strong since mid-May, catching some stores with their points and inventories down and not much ordered. Why? With the governmental dictated closings and regulations in February, March, April and early May (and even today), not many expected the surge of the consumer spending on the home that we have experienced. Let's face it. Looking back at recent recessions, furniture and mattresses were not early experiences for most consumers in the recovery years 2003, 2002 or 1992 for many reasons, some different every cycle.



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Additional Research

Mann, Armistead & Epperson, Ltd. publishes numerous in-depth studies throughout the year that are available individually or by annual subscription, including but not limited to:

<u>Publication</u>	<u>Frequency</u>
5-Year Economic Forecast	Twice annually
Import Study	Annually
Distribution Study	Every two years

Annual subscriptions to the Collection of research publications listed above, in addition to numerous special studies throughout the year, can be purchased for \$1,000.

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 individually or by annual subscription. We are proud to note that this monthly publication has been in constant production by Jerry Epperson and his staff since 1974.



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About Mann, Armistead & Epperson, Ltd.

Mann, Armistead & Epperson, Ltd. is a boutique investment banking firm offering a wide range of corporate finance, research and advisory services focused on mergers and acquisitions, divestures, capital formation, restructuring and strategic planning. Our firm also offers business valuations, fairness opinions, expert witness and litigation support services along with exclusive industry data. Clients deal directly with the founding partners, who bring to the table over 100 years of aggregate investment banking experience.

LEARN MORE

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Jerry Epperson
Managing Director

Celebrating 49 Years of Proprietary Furniture Research



The LARGEST AND MOST IMPORTANT HIGH POINT MARKET (ever held in September)!

Pre-markets have always been important, even back in the 1970's when they were effectively done at the winter and spring regional furniture markets in Atlanta, Dallas and San Francisco. In the next two weeks we will experience a pre-market like none other. A two -week pre-market? Yes, retail majors are now booking their appointments well BEFORE the "official" premarket dates and AFTER the official dates as well. Some exhibitors are accepting appointments for the entire month of September. Why? There are as many reasons as there are recipes for Bar-B-Que.

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Monthly Numbers

Table 1.

% Change y/y	2020											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	8.1%	7.9%	(3.9%)	(23.0%)	1.2%	15.9%	15.4%					
Furniture stores sales (a)	7.5%	9.7%	(20.0%)	(58.7%)	(28.7%)	1.0%	0.5%					
Mattress factory shipments (b,d)	N/A	N/A	0.6%	N/A	N/A	(11.7%)	N/A					
Furniture factory shipments (c)	(3.0%)	4.0%	(11.0%)	(50.5%)	(30.6%)	(7.5%)	N/A					
% Change y/y	2019											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	3.7%	2.9%	3.3%	3.5%	6.0%	5.7%	5.7%	5.6%	6.8%	6.6%	4.1%	7.7%
Furniture stores sales (a)	(1.4%)	(1.4%)	(1.7%)	2.0%	0.9%	(1.8%)	2.5%	1.0%	2.6%	2.3%	1.9%	0.5%
Mattress factory shipments (b,d)	N/A	N/A	(3.5%)	N/A	N/A	(5.0%)	N/A	N/A	(2.3%)	N/A	N/A	9.8%
Furniture factory shipments (c)	14.2%	(2.6%)	(1.5%)	(2.5%)	(2.6%)	(4.0%)	1.0%	(5.7%)	6.4%	1.5%	(2.6%)	2.3%

Sources:

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

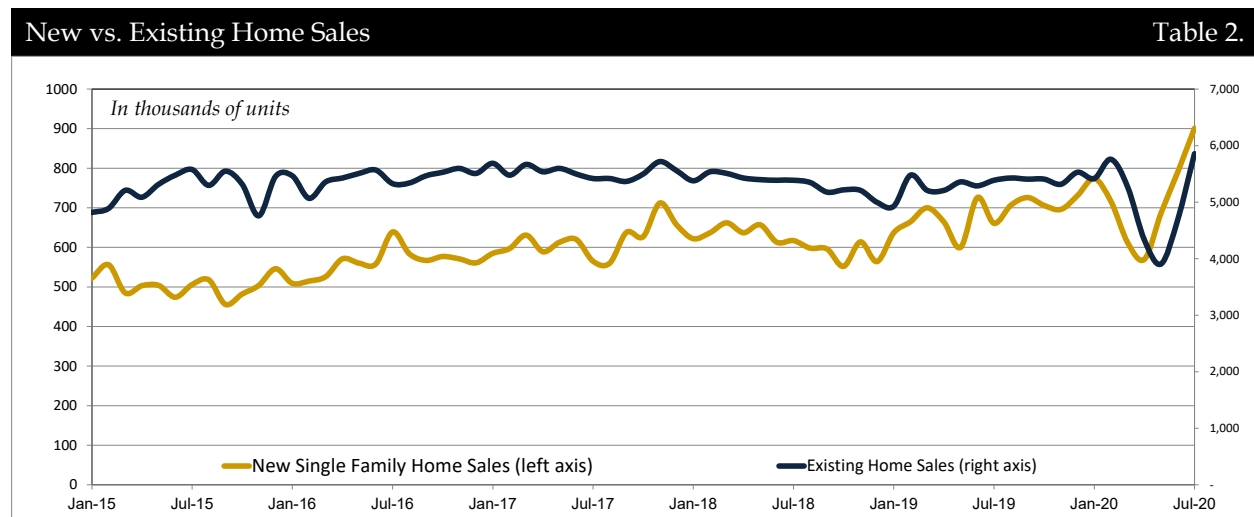
- Some have experienced strong sales week after week, although as always it varies by region, price point and other factors. Even so, some complained about a mediocre July Fourth holiday weekend. FOR DECADES WE AND OTHER BIG TICKET RETAILERS HAVE BEEN TEACHING THE AMERICAN CONSUMER TO WAIT FOR THE BIG HOLIDAY WEEKENDS TO GET THE BEST DEALS! NOW WITH GOOD BUSINESS EVERY WEEK, OUR CONSUMERS ARE RECOGNIZING A NEED FOR HOME FURNISHINGS AND GIVING IT A HIGHER SPENDING PRIORITY AND NOT WAITING FOR THE NEXT BIG PROMOTION. KEEP THIS IN MIND FOR LABOR DAY! Please do not cut margins to the bones and give away valuable inventory at losses during these days of good consumer demand! Sometimes I think we price by past experience and not by current market conditions. The smart furniture stores are making solid sales gains but larger profit gains.
- Today we have logistical and financial issues few have experienced before. Not getting merchandise on time? Are you paying your bills on time? One hand washes the other, and with the pandemic, we have to wash our hands frequently.
- Over and over, I have heard smart retailers say they want to attend market not to visit the existing line-up (usually old friends and comfortable business partners) but to go to new vendors to see if they are missing any opportunities. This is why the list of those exhibiting at this pre-market continues to grow daily. It is now well over 200 and normally it is less than 100---sometimes a lot less. And the people attending includes more of the decision makers too.
- Should you attend this pre-market? That involves a lot, including how concerned you and your employees are about the COVID-19 and how much you need to find merchandise and ideas. Safety is most important.
- Some continue to say that this is a temporary blip and that home related spending will collapse once the government giveaways and other support are removed. It will change no doubt and it might change with whoever is elected President, but have you looked at the housing sector recently? It is showing growth most of us have never experienced before. Think about a 2.7% 30-year mortgage. Seriously, think about a 2.7% 30-year mortgage. It is not a 20 or 30 year low. It is the lowest ever and some regions have mortgage rates slightly lower. If you wait for a better rate, I would suggest you not wait long. You can benefit from refinancing even if you refinanced only a couple of years ago.

DON'T MISS SOME GREAT HOUSING NEWS!

I did a study years ago on the impact of housing turnover on furniture and mattress sales. It showed that over a long period of time, housing activity accounted for approximately 20% of our sales directly. The government had released a study that showed how much money was spent on average on a variety of things including home furnishings when a household changed its residence. The data showed by age and income. When we were suffering through the recession of 2008 and 2009, with its mortgage foreclosures, bank failures, high unemployment and poor consumer confidence, our furniture sales were down 18% at one time. But great housing activity also means mortgage refinancing which puts money into the consumers' hands every month and rising home values too, which, just like a strong stock market, makes Americans feel wealthier. The household growth cycle of rental to rental to first home to next home to ultimate home is the driving force that makes the furniture industry cycle work.

There is a lot of bull written about how young people today do not want to own a home. The latest information shows that 40.6% of the households 35 or younger now own a home, the highest in 12 years. And overall homeownership is now 67.9% up from only 65.3% at year end and the best level since 2008. If you look at the most recent monthly housing statistics you can see why we are excited about this and its implications for the furniture and mattress industries.

As I have stated repeatedly, the current 30-year mortgage rate is 2.7% which may be the lowest on record. Think about that. A record stock market and the lowest mortgage rates ever, with home values strong and rising. Despite the COVID-10 and all its complications, most Americans should feel as wealthy as they have in a long time.



Please remember that all housing activity is local. National numbers may not apply where you live so watch housing turnover carefully so you can take advantage when home sales are strong near your store locations.

NO REST IN MATTRESSVILLE

The final determination on the possible anti-dumping penalties on mattresses coming in from seven nations will be released in late November, we believe. The preliminary determination by the ITA was a unanimous agreement that the anti-dumping petitions should be pursued so most agree it is likely to be confirmed. Remember this petition, if successful, has a 90-day claw back provision meaning that the penalties will have to be paid on any mattresses brought in from these nations during the 90 days BEFORE the final determination.

July Housing Stats

Table 3.

	July Year/Year
Housing Permits	9.4%
Housing Starts	23.4%
Single Family	7.4%
Multi-Family	67.8%
Housing Completions	1.7%
New Single Family Home Sales	36.3%
Existing Home Sales	9.8%
Existing Home Inventory	(22.2%)

Source:

U.S. Census Bureau & National Association of Realtors

So where will mattress production move to after being forced out of China and these 7 nations? There are only 131 other countries that do not have anti-dumping penalties on mattresses.

LOOKING FORWARD TO 2021

Currently we are considering if Congress can pass another spending bill to assist consumers, businesses and government agencies through the various pandemic issues. And then there is the ELECTION.

Economists are saying the third quarter and fourth quarter of this year will have large gains (versus the second quarter, not versus last year), and incomes are actually up this year. The unemployment rate at 8% is much less than expected and in many areas, companies cannot find enough workers.

I have furniture retailers and manufacturers saying that despite being closed for months, they are likely to have revenues that will exceed 2019 levels. Could you imagine that in mid-April?

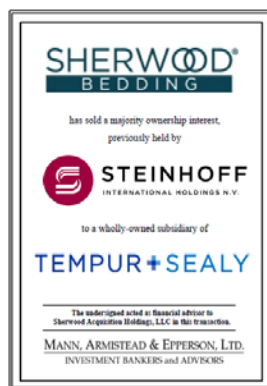
Looking at 2021, it will benefit from the housing turnover that is rebounding this year in terms of creating demand for home furnishings, higher employment, and hopefully progress toward the elimination of COVID-19, the pandemic, and all of the restrictions that now dictate how America lives. Many of the consumer spending items that have been so damaged this year like dining out, vacation travel, attending sporting events and theater, etc. will be returning to availability but that does not mean our consumers will want to participate. Many may want to avoid airplane travel, dining out and other crowded places for years to come. Want to stop wearing a mask? STAY HOME. Want to avoid crowds? STAY HOME

Will America return to normal in 2022? I am not sure what that means any more.

MERGER AND ACQUISITION ACTIVITY

The interest we are seeing in acquiring furniture or mattress companies remains strong as most long-term investors see the growth thanks to the housing outlook and demographics. Strategic acquirers are looking at growing, gaining market share and leveraging their existing businesses. Foreign strategic acquirers still see opportunities in having operations in North America, especially after the tariffs and anti-dumping petitions. Private equity and family investor groups still have a lot of money that needs to be invested. Remember, the people that run these funds do not earn their fees if the money is not invested.

ONE FINAL THOUGHT: The home furnishings industry is in its fifth month of vigorous business where most other industries have not yet seen a recovery. We are looking GOOD!



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