

Furniture and Home Furnishings

INDUSTRY OVERVIEW

While home prices and mortgage rates have ticked up in 2014 compared to record lows in the prior few years, the housing market remains relatively stable. As consumers have become increasingly confident in purchasing or remodeling homes, the furniture and home furnishings industry has benefited. In addition to traditional furniture pieces, many retailers have been successful in selling accessory pieces and lighting, as consumers become more comfortable spending money to slightly refresh their homes, particularly if they are not able to commit to a full remodel or larger-scale projects.



TREND TRACKER

Three month NOLVs	Mixed ↕
Sales Trends	Mixed ↕
Gross Margin	Mixed ↕
Discounting	Mixed ↕

NOLVs: NOLVs range between decreasing 1.0 percentage point to increasing up to 1.0 percentage point, due to varying sales and gross margin trends.

Sales Trends: Sales performance has been primarily positive throughout the industry, with most retailers experiencing sales increases due to compelling merchandise mixes, an improving housing market and remodeling sector, and enhanced focus on customer service. However, certain furniture wholesalers have not performed as well, and some retailers experienced a slow down in sales earlier in 2014 due to severe weather that kept customers out of the stores.

Gross Margin and Discounting: Gross margin performance for the industry has been mixed. Some retailers have been able to elevate margin by shifting their product mix, while in certain cases, increased competitive pressure and aged inventory required increased discounting to the detriment of gross margin.

KEY INDUSTRY DRIVERS

- Online channel:** While brick and mortar stores remain pivotal to furniture retailers that offer pieces that customers typically wish to try out before purchasing, such as sofas, recliners, and chairs, the Internet continues to permeate the furniture and home furnishings industry. Many furniture retailers have been improving and expanding their Internet presence. Within the home décor and home furnishings sector in particular, however, e-commerce has been booming. Consumers are more frequently going online to purchase items such as area rugs, bedding, curtains, lamps, lighting, and patio and outdoor furniture. Whereas discount websites such as Overstock.com have been offering such wares for discounted prices, over the past few years companies such as Wayfair have stormed onto the scene. Wayfair, which includes a variety of websites such as wayfair.com and jossandmain.com, offers an array of home furnishings, furniture, and accent pieces for the home. Its business has been growing significantly, and it recently went public in a very successful introduction.
- Bedding:** Furniture retailers continue to capitalize on products purchased on a replacement basis. Many furniture retailers continue to promote mattresses and bedding to drive sales. Categories such as these often get customers into the door, thereby allowing customers to see other products that are available. In addition to mattresses and bedframes, many retailers also promote bedding products, such as linens and accessories.

SALES TRENDS

The following table illustrates comparable store sales trends for major public furniture and home furnishings retailers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Bed, Bath, & Beyond	3.4%	0.4%	1.7%	1.3%
Pier 1 Imports	4.5%	6.3%	0.6%	6.9%
Williams Sonoma	5.7%	10.0%	10.4%	8.2%
Kirkland's	3.6%	5.0%	0.0%	4.9%
La-Z-Boy	1.0%	(0.9%)	3.6%	9.8%

Note(s): Trends for Williams Sonoma include the Williams Sonoma stores, as well as Pottery Barn, Pottery Barn Kids, West Elm, PBteen, and e-commerce revenue. The most recent quarter for Bed, Bath, and Beyond and Pier1 Imports ended August 30, 2014; the most recent quarter for Williams Sonoma ended August 3, 2014; the most recent quarter for Kirkland's ended August 2, 2014; the most recent quarter for La-Z-Boy ended July 26, 2014. Kirkland's includes e-commerce sales.

OUTLOOK

Going forward, furniture retailers will continue to refresh merchandise lines to keep up with popular trends. Metal furniture, as well as leather items, have been popular recently, as have modern lines.

Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

Pierre Deux	Fortunoff	Circuit City	Tower Records
Linens 'N Things	Fashion Bug	Mervyns	Payless Shoe Source
Movie Gallery	Borders	Whitehall Jewelers	A&P
Ritz Camera	Jo-Ann Fabrics	Eddie Bauer	Macy's

These experiences, in addition to numerous others, provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers within these industries. In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Several retailers of furniture, as well as retailers of home décor and furnishings, ranging from larger chain stores to small regional retailers and luxury brand retailers. GA has also liquidated some stores for well-known retailers in this industry.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 73 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Major regional grocery store chains including one with a store base of close to 400 and net sales of nearly \$8.0 billion, as well as smaller local grocery store retailers and pharmacies.

In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.

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About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

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