

Furniture and Home Furnishings

INDUSTRY OVERVIEW

The furniture and home furnishings industry continues to trend in a positive direction. Strength has been seen particularly through e-commerce channels. In general, the industry continues to benefit from strength in the housing and remodeling markets, as new home buyers have been purchasing new furniture, and existing homeowners have been updating décor. Recent trends include rustic pieces, which incorporate wood and leather, as well as lanterns and statement pieces.



TREND TRACKER

Three month NOLVs	Increasing ↑
Sales Trends	Increasing ↑
Gross Margin	Increasing ↑
Discounting	Consistent

NOLVs: NOLVs have generally been increasing by up to 1.0 percentage point within the industry, although there have been some outliers that have not fared as well. Increases have been driven by increasing sales and in some cases, an increase in product sold through the direct channel.

Sales Trends: Sales continue to be primarily positive throughout the industry, with many retailers experiencing sales increases due to compelling merchandise mixes, online growth, an improving housing market and remodeling sector, and enhanced focus on customer service.

Gross Margin and Discounting: Gross margin performance for the industry has generally been increasing. Retailers have kept inventory levels in line with sales, to avoid having to discount to sell through excess inventory, to the benefit of gross margin. In addition, companies continue to improve sourcing and reduce costs where possible.

KEY INDUSTRY DRIVERS

- **E-commerce growth:** The furniture and home décor industry continues to see a shift toward online purchasing as customers become more comfortable making bulky or expensive purchases online. Brick-and-mortar locations are increasingly becoming more of a showroom or gallery for many players within the industry. Customers will often try out certain furniture pieces before purchasing, such as sofas, recliners, and chairs in person, but may opt to make the purchase online once the final decision has been made. E-commerce growth has also been significant for home décor and home furnishings. Items such as area rugs, bedding, curtains, lamps, lighting, and patio and outdoor furniture continue to be popular online purchases. Online-only players, such as overstock.com, etsy.com, wayfair.com, and jossandmain.com, which offer home furnishings, furniture, and accent pieces for the home, continue to benefit from this trend.
- **Home décor:** Many companies have been focused on home décor items, both in stores and online. Companies tend to offer items such as throw pillows, blankets, curtains, and candles that continually change in style and color, to encourage customers to make small changes to update their décor more frequently, such as seasonally.
- **Bedding:** Mattresses remain a strong driver of customer traffic for furniture retailers, as they are often purchased on a replacement basis. Retailers promote these categories, as mattresses and bedding often get customers into the door, thereby allowing customers to see other products that are available. There has also been growth in mattress-only retailers. Many retailers have also been offering complementary products, such as bed linens.

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	0.7%	2.2%	3.7%	1.7%
Pier 1 Imports	2.5%	2.0%	5.7%	2.5%
Williams Sonoma	6.3%	4.6%	5.1%	8.7%
Kirkland's	6.7%	3.0%	8.2%	6.3%
La-Z-Boy	5.3%	4.6%	6.5%	3.4%
Restoration Hardware	16.0%	15.0%	24.0%	22.0%

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, & Beyond and Pier 1 Imports ended August 29, 2015; Williams Sonoma ended August 2, 2015; Kirkland's and Restoration Hardware ended August 1, 2015; La-Z-Boy ended July 25, 2015.

OUTLOOK

In 2015, continued e-commerce growth within the furniture industry is expected to be seen. Retailers will work to increase customer traffic both in stores and online by continually updating the merchandise mix. Retailers will also manage inventory levels to avoid having to discount.

Monitor Information

GA's Retail Monitor highlights key industry drivers within the retail sector and how they relate to GA's valuation process and current trends in recovery values. As the retail industry is impacted by consumer spending patterns and various macro and microeconomic factors, timely and accurate information is essential. GA strives to contextualize important indicators to provide a curated perspective of the market for our clients' needs. Such indicators include general industry trends, comparable store sales trends, gross margin changes, and discounting activity. Any comparable store sales illustrated in this monitor reflect figures as they have been reported by public retailers. The methodology for calculating comparable store sales may vary by company.

GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer using the contact information shown in this and all *Retail Monitor* issues.

GA's *Retail Monitor* provides a brief overview highlighting specific sectors of the retail industry. The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

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:

Target Canada	Cache	Office Depot/Max	Circuit City
Macy's	Fashion Bug	Mervyns	Tower Records
Fortunoff	Frederick's of Hollywood	Eddie Bauer	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders
Jo-Ann Fabrics	Boot Town	A&P	Movie Gallery

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 71 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 upwards of 800 and net sales in excess of \$10.0 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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