

# Out of the Dip

Home furnishings vendors headed on the growth curve last year

By DAVID GILL

## MOST OF THE HOME-FURNISHINGS INDUSTRY'S TOP 20 PUBLICLY TRADED VENDORS

awoke from a two-year long nightmare last year.

Because of the Great Recession that began late in 2007 and stretched into 2009, most of the vendors saw slumps in their North American sales of varying sizes in 2009. Manufacturers such as Furniture Brands International, Hunter Douglas, Ethan Allen and Springs Global were hammered with double-digit decreases in the 20-to-40 percent range.

Last year brought a collective sigh of relief in the form of renewed sales growth. There were all-stars such as Tempur-Pedic, whose North American sales skyrocketed by 47 percent, and Ethan Allen, whose sales rebounded to a more than 16 percent increase.

Most of the other vendors on the list saw sales increases in the low to mid-single digits. Perhaps their performances weren't great—but after the prior two years, they'll take it.

As always, it was consumers who led the home-furnishings industry to rosier times last year, after the recession had driven consumers into virtual caves from the retailers. "In 2008 and 2009, there was a huge economic shock caused by the bursting of the housing bubble and the economic crisis," said Terry Oelschlaeger, southeast regional manager of CIT's trade-finance division. "People were scared very badly. You could no longer get your credit-card limit increased. You could no longer use your house as a bank because you and your spouse might lose your job."

Consumers slashed their spending in those times to their basic necessities. "You had to eat, you had to fill your tank," Oelschlaeger said. "But you didn't have to buy furniture or a new car or home furnishings."

The latter half of 2009 brought a glimmer of recovery. Joan Storms, senior vice president of equity research who follows the home industry for Wedbush Securities, said, "The recovery began in the third quarter of 2009. It was a nice resurgence that came from middle- and upper-income consumers, who were more confident about their jobs and who had all this desire to spend pent up."

The consumers' return to loosening their wallets extended into 2010, producing "a very

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Rank	Company (2009 rank*)	2010 Revenue†	2009 Revenue†	% Change	Products
1	Whirlpool (1)	\$9,734	\$9,404	3.5%	Housewares
2	AB Electrolux** (2)	\$4,696	\$4,698*	-0.4%	Housewares
3	Newell Rubbermaid (5)	\$2,018	\$2,017	0.4%	Housewares, window treatments
4	Jarden (7)	\$1,321	\$1,291	2.3%	Housewares
5	Furniture Brands International (8)	\$1,160	\$1,224*	-5.2%	Furniture
6	La-Z-Boy (9)	\$1,159	\$1,136*	2.0%	Furniture
7	Hunter Douglas** (12)	\$955	\$912	4.7%	Hard window coverings
8	Sealy (10)	\$951	\$917*	3.7%	Mattresses
9	Tempur-Pedic (25)	\$772	\$525	47.0	Mattresses, textiles
10	NACCO Housewares Group (15)	\$735	\$711	3.4%	Housewares
11	Techtronic Industries (16)	\$726	\$699	3.9%	Housewares
12	BSH (Bosch und Siemens)** (19)	\$709	\$609*	16.4%	Housewares
13	Springs Global** (18)	\$656	\$725*	-9.5%	Textiles
14	Ethan Allen (17)	\$649	\$558*	16.3%	Furniture, textiles, décor, floor covering
15	Select Comfort (24)	\$606	\$544	11.4%	Mattresses
16	Libbey (20)	\$600	\$568	5.6%	Tabletop
17	Mohawk (22)	\$550	\$552	-0.4%	Floor coverings
18	Helen of Troy (NR)	\$540	\$495	9.1%	Housewares
19	Groupe SEB** (NR)	\$533	\$496	7.5%	Housewares
20	Lifetime Brands (NR)	\$443	\$415	6.7%	Housewares, tabletop

\*REVISED. ONLY THE COMPANY'S NORTH AMERICAN RESULTS FOR FIVE HOME-FURNISHINGS CATEGORIES (FURNITURE, HOUSEWARES, HOME TEXTILES, FLOOR COVERINGS AND TABLETOP) FOR THE CALENDAR YEARS 2010 AND 2009 ARE INCLUDED. IN SOME CASES FOR HOUSEWARES MANUFACTURERS IN WHICH NUMBERS COULD NOT BE BROKEN OUT, SALES MAY INCLUDE MAJOR APPLIANCES, SALES TO INSTITUTIONAL AND COMMERCIAL MARKETS MAY BE INCLUDED AS WELL.

\*\*THESE COMPANIES REPORT THEIR ORIGINAL NUMBERS IN FOREIGN CURRENCIES, AND ANNUAL AVERAGE EXCHANGE RATES HAVE AFFECTED THEIR RESULTS AS REPORTED IN U.S. DOLLARS.

†IN MILLIONS

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good year,” in comparison to 2008 and 2009, Oelschlaeger said. “If you look at the sales growth at the major public retailers and then look at the major home-furnishings companies, you saw the consumer get back into the market.”

This happened for several “anecdotal” reasons, he said: “The recession was officially over. Credit, which had been tight in 2008 and 2009, was looser. People had paid down their debt. Looking at 2010, consumers felt good enough to spend again.”

A particularly strong indicator of the turnaround could be seen in the mattress industry. Reporting on the industry in a note issued in February, Brad Thomas, vice president of equity research in retail hardlines for Keybank Capital Markets, said, “Mattress unit shipments have posted positive growth in 15 of the last 16 months (through January of this year), with mattress dollar shipments increasing 13 of the last 15 months.”

This was an especially positive development for home furnishings as a whole, considering that the mattress manufacturers were particularly hard hit during the recessionary years. In the public domain, the beneficiaries in last year’s sales were Tempur-Pedic (whose 47 percent growth was far and away the best performance by any of the public companies, regardless of industry) and Sealy, whose North American sales edged up 3.7 percent.

The furniture sector’s 2010 uptick was less spectacular than that of the mattress industry. Furniture Brands experienced another sales decline last year, while both La-Z-Boy and Ethan Allen saw their sales curve upward. As Thomas noted, vendors spent much of last year bolstering their operations through greater efficiencies, inventory management and curtailing their promotional activities.

While consumer spending remained mostly positive throughout last year, serious storm clouds began to emerge as the third quarter moved into the fourth quarter in the form of higher raw-materials prices. At first, when prices for commodities such as oil and cotton began to rise, it had little impact. “Within the supply channel, there were raw-materials price increases working through the system in the second half of 2010, but there was a delay in the impact in price increases,” Oelschlaeger said. “Manufacturers were more efficient. Plus, retailers were holding the manufacturers to the prices they were given months before, saying, ‘I’ll go to another vendor if you try to raise prices on me.’”

As 2011 moves along, this price situation will play more of a role. “We believe inflationary pressure will remain an overhang, particularly for retailers with material exposure to China,” Thomas said.

The tepid recovery in housing could also provide a brake to overall growth. According to a report from Freddie Mac, the U.S. government’s mortgage agency, housing prices continued to decrease nationwide in the first quarter of this year and the rate of seriously delinquent mortgages “will continue to remain at extraordinarily high levels for an extended period,” the agency said.

Unemployment, which Freddie Mac predicted will hover between 8 percent and 9 percent, could also decelerate consumer spending. “Job creation has yet to get to a level where it will eat into the unemployment rate,” Oelschlaeger said. “The private sector will continue to add jobs, but the public sector will continue to lose jobs with all of these budgetary concerns.”

With all of this, the analysts still feel the outlook is upbeat for the rest of this year. “The good news is slow growth but growth,” Oelschlaeger said. “No double dip, no new recession, no major markets about to blow up. Most people accept that the economy will continue to grow, but at a much slower pace than in prior recoveries.” ■

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## METHODOLOGY

The HFN Top 20 Vendors rankings are based on data derived from public filings by the vendors, along with statements from the vendors on their quarterly financial data.