

SMARTER PERSPECTIVE: HOME FURNISHINGS

How Lenders Can Help Guide Home Furnishings Borrowers and Minimize Risk by Design

By Matt Perry

In this article we provide an update on the home furnishings industry with an emphasis on shifting consumer preferences, technology integration and a look at how lenders can best protect their interests while working to ensure that their borrowers can be as successful as possible in the current, challenging market.

MARKET TRENDS

Consumers at all price points continue to demonstrate an increasing preference for sustainable and eco-friendly home furnishings. This includes products made from recycled materials, ethically sourced wood, and those offerings designed for easy disassembly and recycling.

Technology

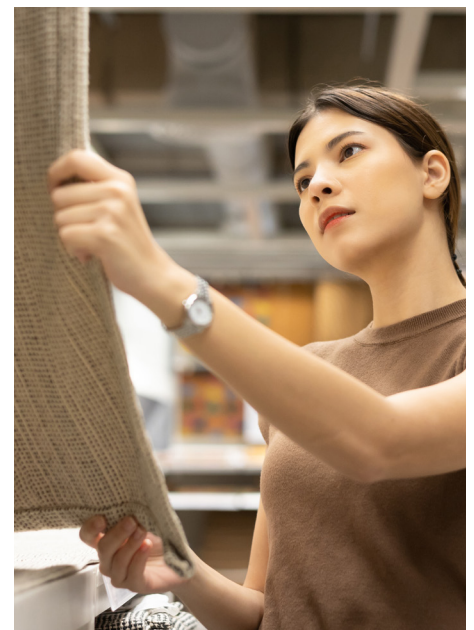
The integration of technology into home furnishings has also been on the rise over the past couple of years. Much of this technology was introduced pre-pandemic and many new homes have since incorporated related features into their build designs. The trend seems to have gained additional momentum post-pandemic, with many Americans staying in their low-interest mortgage homes rather than up-sizing, downsizing or relocating amid the recent multitude of interest rate hikes. With new homes now largely unaffordable to many others

than those able to pay cash, owners have been undertaking more renovations and furnishing makeovers, and technology upgrades are a part of that. In fact, according to the 2023 U.S. Houzz & Home renovation report released in March of this year and reflecting input from more than 46,000 respondents, nearly 3 in 5 homeowners remodeled or redecorated their homes in 2022. The report also found that more than half of homeowners (55%) plan to undertake renovation projects in the next year.

The types of furnishings we are seeing with integrated technology include furniture with built-in charging ports, wireless charging, and everything from IoT-enabled window treatments, lighting, reclinable couches, adjustable beds and small appliances; each of which are now able to be controlled through both voice assistants and handheld devices including smartphones and tablets.

Multi-Purpose Items

Another trend that is continuing to evolve and expand right now in home furnishings is furniture that can serve multiple purposes, such as murphy beds with built-in desks that can be used when the bed is in the closed position but then fold underneath the bed's frame when deployed to serve as support



base. Book shelves with built-in seating on top, storage pedestal seating, stylish chairs that unfold to serve as futons, and side tables that also act as a dog bed enclosure are among an increasing number of these versatile offerings hitting the market. With buyers and renters facing a seemingly endless rise in square footage cost, we expect to see more and more of these highly flexible and space-saving innovations hitting the market over the course of the next couple of years

With the residual impact of COVID supply chain backlogs on furniture production and shipments, some of the newest trends that the design community has been talking about arriving this year will likely be pushed to next. Many consumers, for example, purchased items such as sofas, sectionals, dining tables and breakfronts a year or more ago that they have still not received. Furthermore, the decisions about what consumers were going to purchase based on remodeling or other factors at the time may have been made two years ago. This means that the furnishings that will be delivered to their homes are, in some cases, two or more years behind the trend curve. While “classic modern farmhouse” may have been all the rage in 2020, by 2023 things have moved on.

Quiet Luxury & Soothing Palettes

The big, bold colors and patterns which made their way onto dining room wallpaper, kitchen backsplashes, master bath and shower floors have exhibited staying power, but are also being joined by a subdued, quiet luxury trend featuring forms and materials that feel sumptuous, timeless, natural and highly sophisticated. Heather Goerzen, Design Director at popular online interior design service, Havenly, was recently quoted in Harper’s Bazaar about the growing trend of sculptural tables and dramatic countertops made from materials such

as travertine and soapstone. “No matter what hue you choose,” she said, “these pieces act like a work of art in the home and command the style spotlight.”

In 2023, consumers are interested in personalized home furnishings that suit their unique preferences and needs. Customizable options for furniture and decor items have gained traction as a result. Outdoor room additions and makeovers featuring streamlined jute, rattan and other natural materials and soothing palettes are being seen with more and more frequency. Statement and oversized lighting seems to be everywhere and dining rooms used, once again, as actual dining rooms (rather than pool table and recreation rooms, or secondary sitting areas) are making a comeback after many home buyers and builders all but abandoned them.

PERFORMANCE

Retail Bankruptcies

Consumer enthusiasm for the latest trends in large and small home furnishings, tableware, small appliances and other items for the kitchen and bath were not enough to stave off bankruptcy for some of the best known and largest retailers this year, including Bed Bath and Beyond and Tuesday Morning. A number of transportation firms have also been impacted this year. North Carolina’s



FreightWorks Transport closed in March and Ryder Systems announced it was laying off over 800 employees in Texas. We also saw the highly notable and sudden business failures of both United/Lane and Klaussner, both top resources to the largest furniture retailers and both highly leveraged. Family owned furniture retailer NB Liebman also closed its doors, announcing its plans in March after more than 100 years in businesses.

DTC Momentum

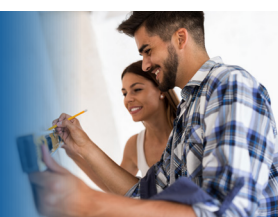
On the other end of the performance spectrum, direct-to-consumer (DTC) home good brands appear to be flourishing. 67 of the 464 DTC businesses from across all categories tracked via 2PM, Inc.’s Power List (that’s an impressive 14.4%) are part of the housewares or home furnishings category. The top 25 of these are ranked below.

Top 25 Direct-To-Consumer Home Goods



1. Article
2. Serena & Lily
3. Grove Collaborative
4. Ruggable
5. Nectar
6. BlueLand
7. Caraway
8. Lovevery
9. Made In
10. Our Place
11. FLOYD
12. Thuma
13. Yellowpop
14. Brentwood Home
15. Hill House Home
16. Koala Mattress
17. The Sill
18. Clare
19. GhostBed
20. Bloomscope
21. Brooklinen
22. Helix Sleep
23. Parachute Home
24. The Citizenry
25. Purple

Source: 2PM, Inc.





Related Developments

Over the past couple of years we have seen a trend of PE firms selling newly acquired company factories and real estate via sale/leaseback transactions, thereby reducing cash invested. This has had the tendency to result in company closure in place of restructuring because of the competing interests it often creates between these parties when distress occurs.

These and other circumstances are leading to more companies shuttering their facilities and liquidating quietly or selling off certain strategic assets to ensure continued solvency for the corporate entity. Points of inflection such as these, of course, present acquisition opportunities for competing and

complementary businesses that are in a more advantageous financial position.

LENDER GUIDANCE

Among other ongoing efforts that lenders are using to engage regularly with borrowers, help provide guidance and access to necessary expertise and resources, we also encourage those with – or considering the addition of – home furnishings businesses in their portfolios to consider the following as part of a continuous risk mitigation/ investment protection strategy:

- **Thorough Due Diligence**

Before providing financing, thoroughly evaluate the business’s financial health, market positioning, and growth prospects. Understand the company’s strategies for keeping up with industry trends, its adaptability to changing consumer preferences, and its historical performance during both up and down cycles.

- **Diversification of Product Range**

Encourage the businesses to maintain a diversified product range that includes items that align with current trends, such as sustainable designs and smart home integration. This can mitigate risks associated with shifts in consumer preferences.

- **Supplier Relationships**

Ensure that the business has or is developing strong and reliable

relationships with suppliers.

Disruptions in the supply chain can significantly impact production and delivery timelines.

- **Quality Control**

Emphasize the importance of maintaining high-quality standards. Poorly made products frequently lead to customer dissatisfaction and potential recalls, damaging a business’s reputation and financial stability.

- **Market Research**

Encourage businesses to conduct ongoing market research to stay informed about emerging trends and changing consumer demands. This will help them adapt their offerings accordingly.

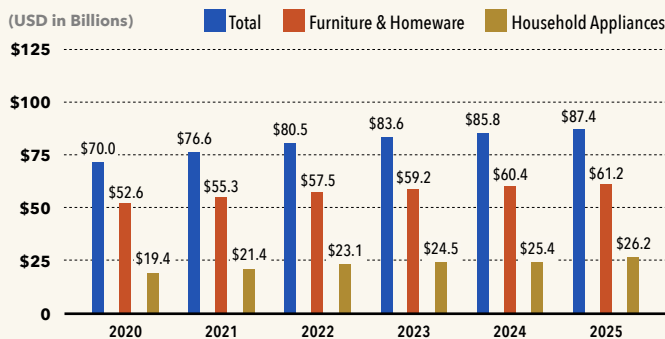
- **Flexibility in Financing**

Consider offering flexible financing options that align with the cyclical nature of the home furnishings industry. This could include adjusting repayment schedules during slower seasons or providing additional support during periods of rapid expansion.

- **Collateral and Guarantees**

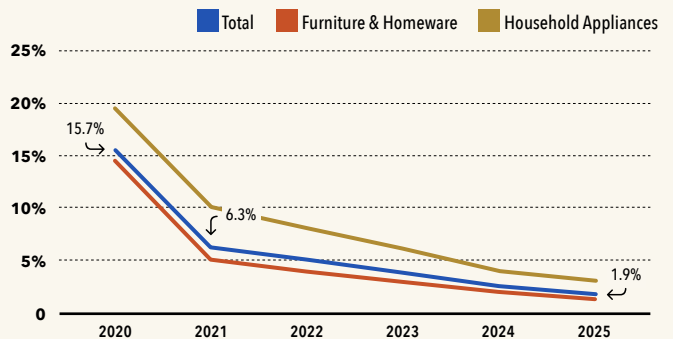
In the current environment, when structuring loan agreements, consider requiring collateral or personal guarantees to secure the lender’s investment. This can provide an important safety net in the event that the business experiences financial challenges.

U.S. Home Furnishings Industry Revenue by Segment



Source: Statista and eMarketer

U.S. Home Furnishings Industry Growth by Segment



While Home Furnishings revenue has increased, higher costs and lower margins have impacted U.S. growth over the past four years, and are expected to create continued challenges for industry operators moving ahead.



- **Proactive Risk Mitigation**

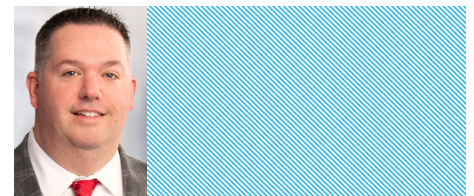
Work with businesses to develop risk mitigation strategies, such as having contingency plans for supply chain disruptions, economic downturns, or sudden shifts in consumer preferences.

As we have seen in recent years, the home furnishings market can be influenced by various external factors, including economic conditions, cultural shifts, unforeseen global health crises and other incidents. Lenders should remain well informed about industry and other developments that have the potential to disrupt a borrower's supply chain or erode margin, and keep a watchful eye on inventory mix and aging. As always, we advocate maintaining open and ongoing communications with multiple contacts within the businesses you lend to, as a means of best protecting your investments in the dynamic market landscape.

If you have current or evolving situation with one or more of your home furnishings portfolio businesses, or are looking at lending to any such business in the near future, our team has a wealth of knowledge and insights gained during recent engagements that we can share to help make you and your borrowers

more successful. We encourage you to reach out to us. We are here to help.

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