

# FURNITURE INDUSTRY & CAPITAL MARKET ENVIRONMENT

HOWARD ARMISTEAD



AHFA Manufacturing Summit  
March 9, 2011

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## Introduction

## Howard Armistead

Co-founded Mann, Armistead & Epperson in 1991

Over 35 years in corporate finance and accounting

Former DMI board member

### Noteworthy deals



## Jerry says hello



## Mann, Armistead & Epperson, Ltd.

Investment banking and corporate advisory firm

Primarily advise on sale/acquisition of \$10 – \$500mm companies

Named partners draw on 100+ years combined experience

Started firm in belief that companies deserved dedicated, senior-level advice

Long-standing commitment to furniture industry (in times both good & bad)

## Top investment bank serving furniture industry

Aaron Rents, Inc.  
Adam Wuest, Inc.  
AFM Holdings, LLC  
American Home  
Barcalounger Corporation  
Bassett Furniture Industries, Inc.  
Bush Industries, Inc.  
Chromcraft-Revington, Inc.  
Consolidated Furniture Corporation  
Continental Engineering Group, Inc.  
Dixie Bedding Company  
DMI Furniture, Inc.  
Dreamwell, Ltd.  
Durham Furniture Industries, Inc.  
Florida Furniture Industries, Inc.  
Gallahans Home Furnishings  
Hellig-Meyers Company  
Hickory-White  
Hooker Furniture Corporation  
IBC Group, Inc.  
Kincaid Furniture Co., Inc.  
Kingsdown, Inc.  
Korn Industries (Sumter Cabinet Co.)

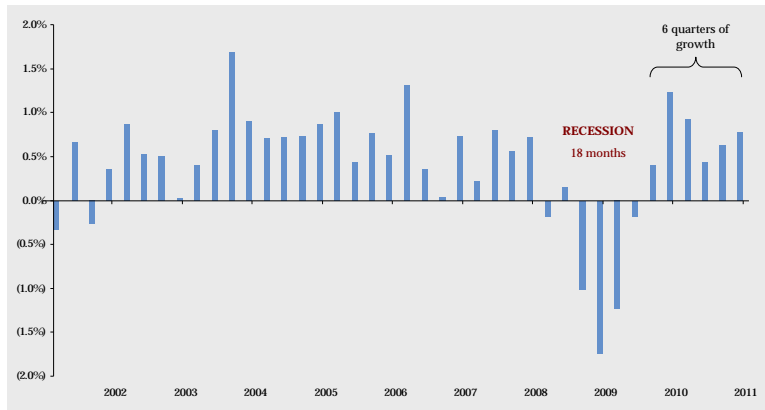
LADD Furniture, Inc.  
La-Z-Boy Incorporated  
Loewenstein Furniture Group  
Marlo Furniture  
Pulaski Furniture Corporation  
Reliable Stores, Inc.  
Rowe Furniture  
Samuel Lawrence, Inc. (Sealy)  
Sealy Mattress Company  
Singer Furniture Company  
Smith's Home Furnishings, Inc.  
Standard Furniture Company  
The Alan White Company, Inc.  
The Boling Company  
The Hammock Source  
The Wexford Collection  
VB/Williams Furniture Company  
W.S. Badcock Corporation  
Wildwood Lamps and Accents, Inc.  
WinsLoew Furniture, Inc.  
Winston Furniture Company, Inc.  
Wisconsin Furniture Industries, Inc.  
Wolf Furniture Enterprises, Inc.



## State of the Furniture Industry

## Recession ended June 2009, hangover subsiding

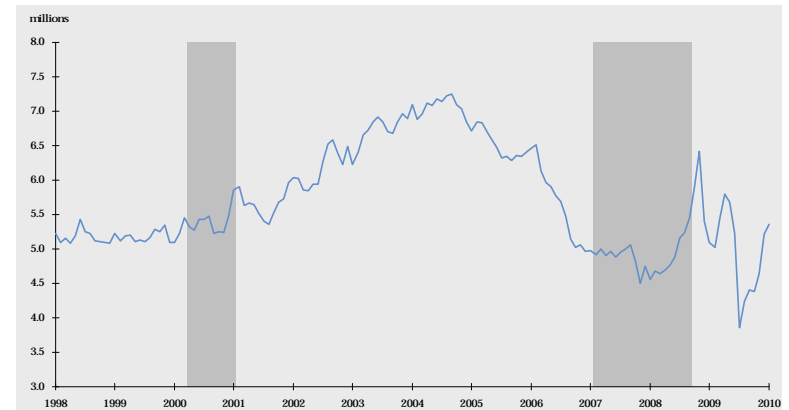
U.S. quarterly real GDP simple % growth rate



Source: Bureau of Economic Analysis

## Housing remains sluggish

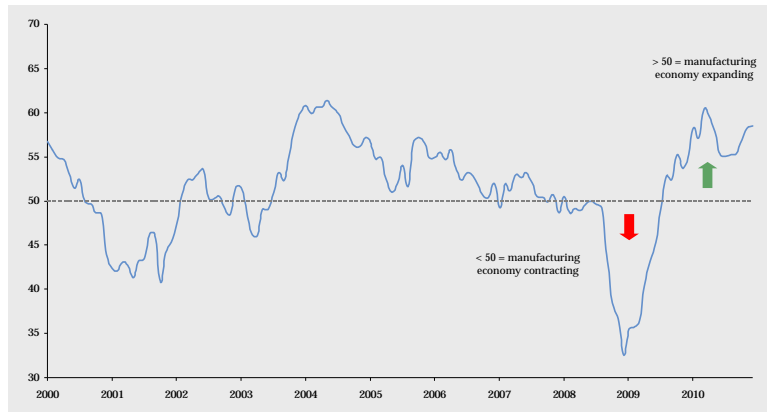
U.S. existing home sales offering glimmers of recovery



Source: U.S. Census Bureau

## Manufacturing regaining strength

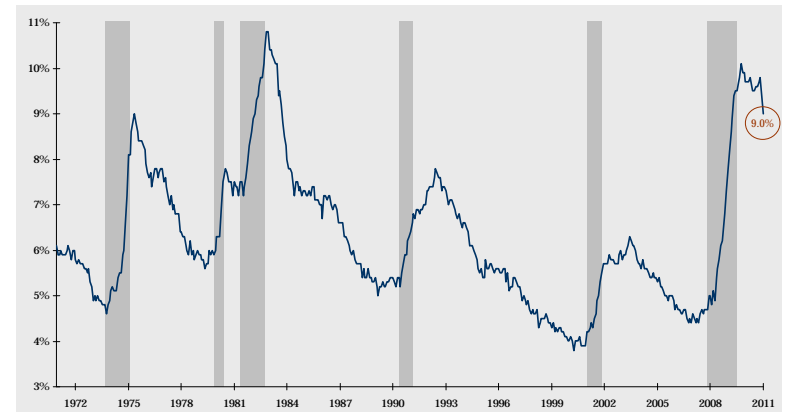
U.S. PMI manufacturing survey



Source: Institute for Supply Management

## Unemployment of 9.0%, trickling lower

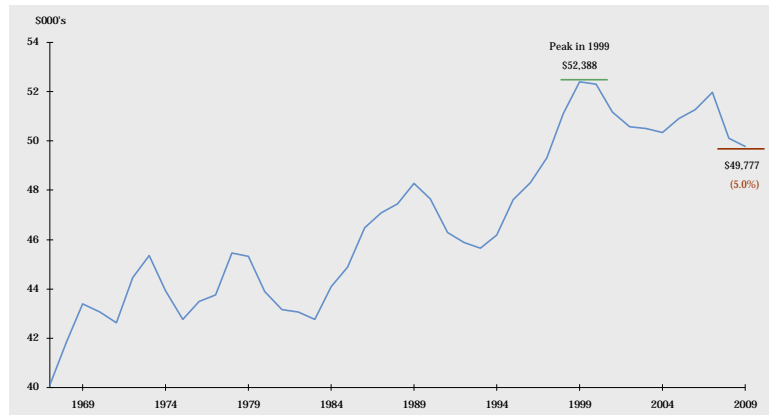
U.S. unemployment rate & recessionary periods



Source: U.S. Census Bureau

## Household income down 5% over 10 years

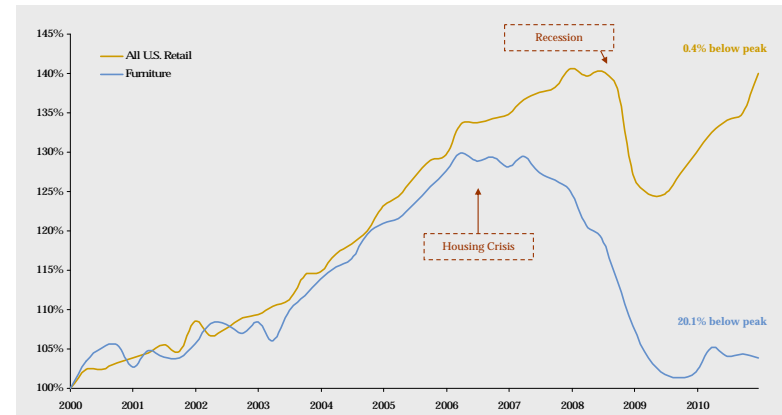
Median household income



Source: U.S. Census Bureau, 2009 constant dollars

## Furniture sales fell earlier and deeper

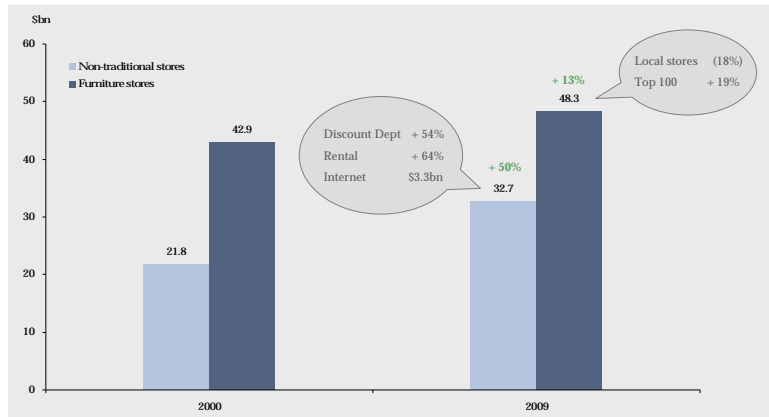
U.S. furniture and total retail sales indexed to 100%



Source: U.S. Census Bureau

## Decade in review: shifts at retail

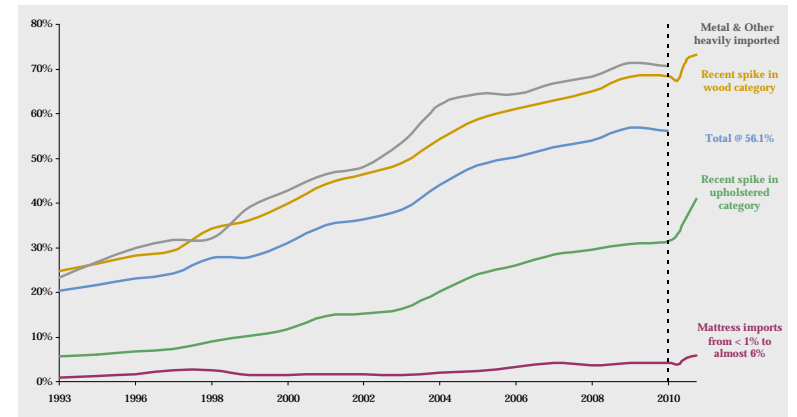
Furniture sales by retail channel



Sources: Furniture Today, Mann, Armistead & Epperson, Ltd.

## Decade in review: dramatic rise in imports

Percentage imported by product category

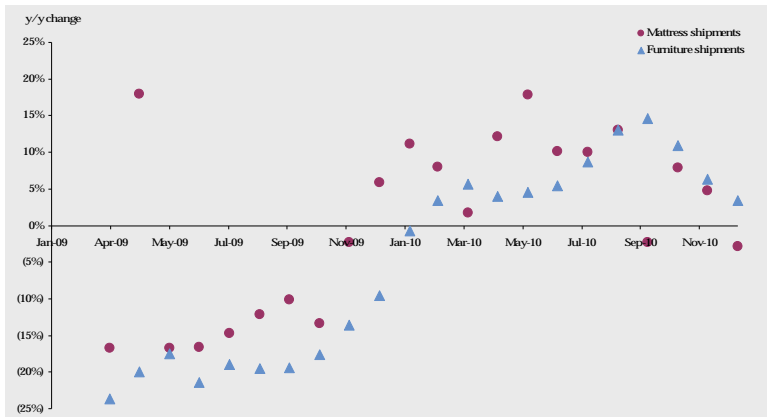


Sources: AHFA, ISPA, U.S. Dept of Commerce, ITA, Mann, Armistead & Epperson, Ltd.



## Latest twelve months

Factory shipments recovered in 2010



Sources: ISPA, "Furniture Insights" a monthly publication by Smith Leonard

## Jerry had to add his two cents!



Forecasting 5.5% top-line growth in 2011

IRS delays in processing claims = later refunds

Increased savings + deleveraging = promising consumer

Cutbacks during recession enable higher profitability on incremental volume

Higher commodity costs

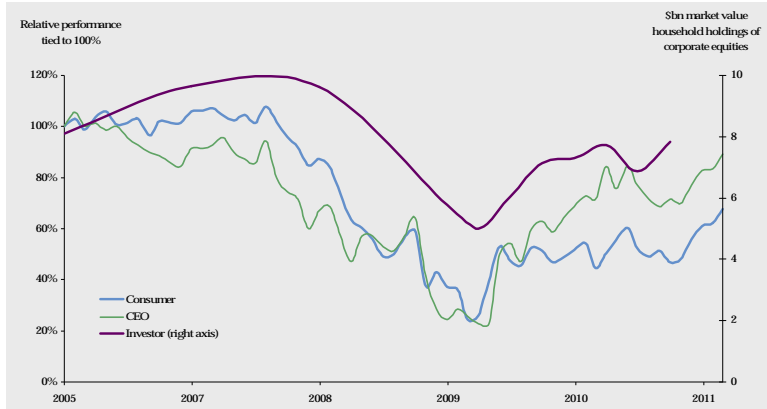
Currency issues

Higher interest rates

} Price increases to come

## Confidence returns with stabilization in economy

Consumers + Investors + CEOs regaining confidence

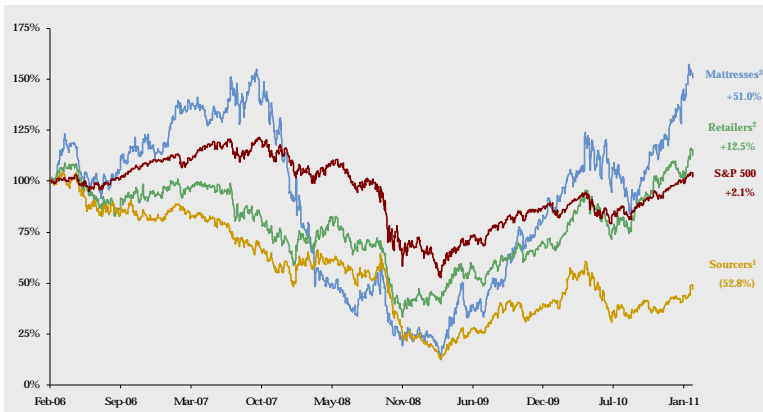


Sources: Conference Board, Federal Reserve

## Financial Market Overview

## Furniture sourcers' stocks have underperformed

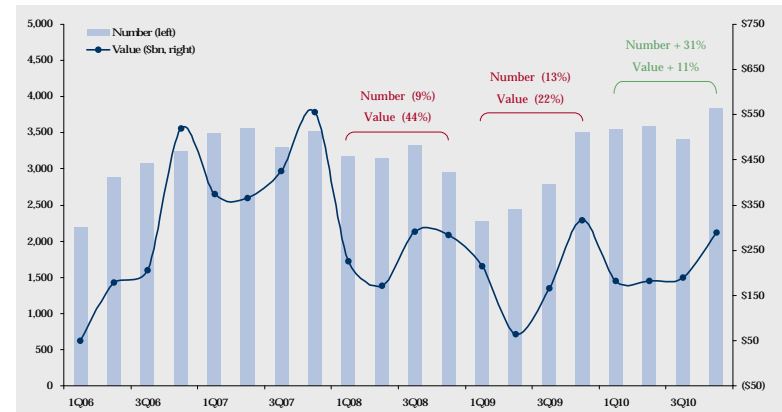
5-year share price performance indexed to 100%



Source: Capital IQ as of 2/22/11. <sup>1</sup> Sourcers include: ETH, LZB, FBN, NTZ, FLX, HOFT, BSET, STLY. <sup>2</sup> Retailers include: WSM, BCI, AAN, PIR, LNF, HVT, EH. <sup>3</sup> Mattress companies include: TPK, SCSS, ZZ.

## Transaction history

Deal volume was surprisingly strong in 2010 after a year and a half in decline



Source: Capital IQ, North American M&A deals

## Robust M&A outlook for 2011

### Drivers...

Investment quality

Liquidity

Valuation

## Investment quality improving

Scarcity of compelling acquisition candidates hurt deal flow in 2008 – 2009

Economy growing again, confidence to invest in new customers/products/etc.

Trailing twelve month results drastically better

Record corporate earnings in 3Q10

Organic prospects still limited for some who turn to acquisitions to grow

## Liquid capital available to finance transactions

Corporations  
 \$1.8 trillion

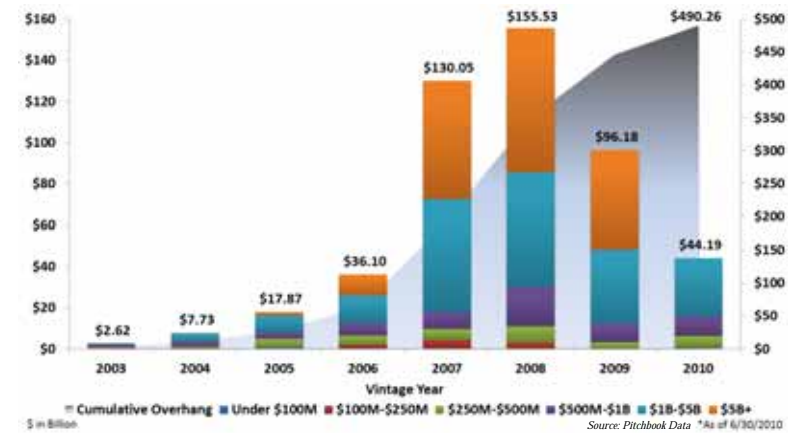
Private Equity  
 \$500 billion

Conservative cash hoarding  
 + unprecedented downsizing  
 during recession +  
 record earnings in 3Q10

Unprecedented fundraising  
 before recession + scarcity of  
 attractive investments led to...  
 massive capital overhang

## Excess liquidity among private equity firms

PE fund life cycles create pressure to put ~\$500bn in dry powder to work



## Private equity interest in furniture companies

Buyer universe (foreign, financial and strategic) evolved over last decade

MAE maintains extensive, proprietary database of furniture deals

Long-standing relationships and ongoing dialogue with PE owners

Catterton Partners (Restoration Hardware)

Clearview Capital (Hillsdale)

Compass Group (American Furniture)

Wingate Partners (Stein World)

## Credit markets thawing nicely

Increasing availability of debt

Abundance of new issue activity in private market in 2010

Very gradual improvement in banks' posture

Fewer regional commercial banks competing for non-asset based product

LBO debt multiples have recovered to 3.0x – 4.5x depending on EBITDA level

## Valuation gap closing

Scarcity premium: intense competition for few high-quality investments

Gap between buyer and seller expectations seems to be narrowing

With stock market resurgence, return of stock as acquisition currency

## Valuation amongst furniture companies

LTM as of February 22, 2011 Company Name	Ticker	Growth Estimate	Gross Margin	EBITDA Margin	Capex/ Revenue
<b>Manufacturers</b>					
<i>Furniture Brands International Inc.</i>	FBN	2.3%	24.9%	0.0%	1.9%
<i>La-Z-Boy Inc.</i>	LZB	6.5%	30.1%	4.8%	1.2%
<i>Ethan Allen Interiors Inc.</i>	ETH	6.6%	50.1%	7.5%	1.4%
<i>Natuzzi SpA</i>	NTZ	32.8%	38.1%	4.9%	1.6%
<i>Flexsteel Industries Inc.</i>	FLXS	4.0%	22.9%	6.5%	0.3%
<i>Bassett Furniture Industries Inc.</i>	BSET	n/a	47.9%	1.6%	0.9%
<i>Hooker Furniture Corp.</i>	HOFT	9.2%	24.1%	6.4%	0.5%
<i>Stanley Furniture Co. Inc.</i>	STLY	0.2%	(4.1%)	(12.3%)	0.6%
<b>Mean</b>		8.8%	29.3%	2.4%	1.0%
<b>Median</b>		6.5%	27.5%	4.8%	1.0%
<b>Retailers</b>					
<i>Williams-Sonoma Inc.</i>	WSM	5.9%	44.0%	13.2%	2.0%
<i>Rent-A-Center Inc.</i>	RCH	6.2%	16.6%	14.1%	0.0%
<i>Arain's Inc.</i>	AAN	9.1%	54.2%	13.1%	0.0%
<i>Pier 1 Imports Inc.</i>	PIR	5.8%	57.8%	9.5%	1.6%
<i>Levy's Furniture Ltd.</i>	LNF	n/a	41.1%	14.7%	1.9%
<i>Haverty Furniture Companies Inc.</i>	HVT	3.2%	51.9%	4.6%	1.3%
<i>oasysHome Ltd.</i>	EH	44.1%	56.9%	10.8%	5.8%
<b>Mean</b>		12.4%	46.1%	11.5%	1.8%
<b>Median</b>		6.0%	51.9%	13.1%	1.6%
<b>Mattress Companies</b>					
<i>Tempur Pedic International Inc.</i>	TPX	14.1%	50.2%	25.2%	1.6%
<i>Sealy Corporation</i>	ZZ	6.7%	41.8%	13.3%	1.4%
<i>Select Comfort Corporation</i>	SCSS	7.0%	62.5%	11.1%	1.2%
<b>Mean</b>		9.2%	51.5%	16.5%	1.4%
<b>Median</b>		7.0%	50.2%	13.3%	1.4%

## Time for Strategic Review

## Negative developments

Bankruptcy and financial distress stories continue...

- Robb & Stucky
- Robinson & Robinson (LeatherTrend)
- Lack's
- Boyles
- Roomfull Express



## Positive developments

Jennifer Convertibles recently completed reorganization

Plant expansions...

- Southern Motion
- Washington (Lane/Action plant)
- Barcalounger
- Home Line
- Max Home
- United

New market entrants...

- Sherwood Bedding

## Crucial opportunity to review strategic alternatives

Build for the future...

Buy a competitor, new product line, new customers

Merge with international powerhouse

Explore new retail channels

Ad hoc board member

Cash flow issues

Valuations

**Questions?**

**REFERENCE MATERIALS**  
*Investment Banking Credentials*

## Who we are

Mann, Armistead & Epperson, Ltd. is a privately owned investment banking and corporate advisory firm. Based in Richmond, Virginia, our firm assists public and private companies in maximizing shareholder and corporate wealth. We bring value to our clients by assisting them to initiate, structure and execute a diverse range of innovative corporate financial and shareholder-related transactions.

Our clients deal directly with the founding partners, who bring to the table over 100 years of aggregate investment banking experience. Our track record is undeniably strong - the result of having faced hundreds of deals, spent endless hours developing industry expertise and brought management teams advice they could trust at crucial moments in their firms' histories.

We are internally organized as a boutique investment bank, offering corporate finance execution supported by industry research capabilities. The professionals at Mann, Armistead & Epperson, Ltd. can provide:

- Merger, acquisition and sale advisory services and fairness opinions
- Corporate finance and strategic advisory services, such as performing business valuations and advising on capital formation and balance sheet restructurings
- Industry research and expertise, including demographic market analysis and exclusive data
- Litigation support and expert witness testimony services

Our clients generally range in enterprise value from \$10 million to \$300 million, but we have been engaged by companies with values in excess of \$1 billion. Over the last 18 years, we have advised and represented a diverse set of clients, including manufacturing and service-based companies, private equity sponsors and venture capital groups. Likewise, we have represented boards of directors, shareholders and management teams. Our client base is also geographically diverse. We have completed transactions in almost all of the contiguous United States and have advised clients located in Asia, Canada, Central and South America, Europe and Mexico. As corporations and economies continue to expand and diversify globally, so has our client and transaction base.

### a named Partner on every deal



## Our proven track record

Our partners and professionals have generated long-lasting client relationships across a broad universe of strategic and financial firms. The client-focus, execution and integrity we bring to each and every transaction are the factors that distinguish us from other financial advisory firms.

### Client-focus

Since our inception in 1991, we have generated long-term relationships by focusing on our clients' needs through the utilization of senior level and experienced professionals. Our commitment to putting our clients' objectives ahead of our own has allowed our firm to succeed in the face of changing climates and markets.

Too many investment banks exploit the reputation of their senior-level bankers in order to win business only to pass the majority of the work on to less experienced, junior members of their firm. You have highly specialized needs that deserve the attention of a seasoned professional. One or more of our named Partners will always be an integral part of the service we provide you.

### Execution

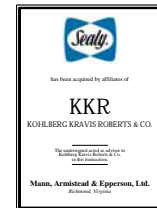
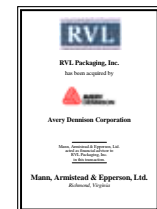
Our deal teams are highly focused, thorough and responsive. We view each client and transaction as unique and tailor our solutions accordingly. Mann, Armistead & Epperson, Ltd. believes in a team-oriented process that includes company management, legal council, and accountants.

Our clients have the utmost confidence that senior-level professionals are leveraging the entirety of our firm's resources to add value to their business. Over the last 18 years, our partners have represented hundreds of clients equating to billions of dollars in value. We've been honing our process and perfecting our execution for decades, resulting in one of the most professional, effective and tailored approaches in the business.

### Integrity

At Mann, Armistead & Epperson, Ltd. we focus on developing long-term relationships based on trust, candor and shared success. Our deep and long-standing client base reflects this strategy that is dedicated to integrity. We pride ourselves on bringing the highest level of integrity to our daily activities and research offerings, which are independent from investment banking activities within the firm. We want to be your partners for corporate growth.

Our proven track record of results and integrity-based client relationships are what set us apart.



## Services we offer our clients

As an investment banking and corporate advisory firm, we offer our clients a wide range of services. We are internally organized as a boutique investment bank, providing corporate finance execution supported by highly regarded industry research capabilities.

### Merger & Acquisition Services

Our firm specializes in merger and acquisition mandates and often serves clients in an advisory role prior to a transaction. Our merger and acquisition services include the representation of directors, shareholders, and managers considering or confronted with potential mergers, acquisitions, divestitures, buyouts and similar types of transactions.

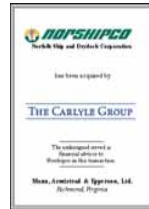
### Corporate Finance Advisory Services

Our corporate finance advisory services typically include advising on capital formation, re-engineering balance sheets, conducting valuations, restructuring bank facilities, providing strategic advice and/or participating at the board of directors level with select clients.

### Consulting & Research Services

The consulting and research side of our firm conducts industry analysis which focuses on consumer products companies. We publish various manufacturing, retail, distribution, strategy and demographic reports. In addition, we regularly consult company management teams and their investors and provide litigation and expert witness testimony services to a diverse set of clients.

Driven by Founding Partner Jerry Epperson's respected insight and long-term commitment to the furniture and mattress industries, our firm provides industry specific knowledge to clients involved with mergers, acquisitions, private placements, public offerings, debt refinancing and strategic planning. Our professionals enjoy close relationships across a broad spectrum of companies that uniquely enable us to add value in identifying buyers, citing industry trends and forecasting growth prospects.



## Merger & Acquisition Services

Our firm specializes in merger and acquisition mandates and often serves clients in an advisory role prior to a transaction.

### Sale Mandate

In a sale mandate, we assist in establishing client goals; valuing the business entity; preparing a sales memorandum that describes the business; identifying, researching and selecting qualified buyers; structuring and negotiating the transaction; anticipating obstacles and resolving issues so that transactions proceed smoothly; reviewing documents and working with attorneys and accountants through the final closing of the transaction.

### Acquisition Mandate

In an acquisition mandate, we develop acquisition criteria with the client, survey the marketplace, identify and initiate contact with suitable and approved candidates, negotiate transaction terms and conditions and oversee the transaction through closing, as required by the client. For tender offers, we help our clients develop acquisition strategies; we also assist clients in defending against either unfriendly or unsolicited takeover attempts or activity.

### Fairness Opinions

During many types of financial transactions, corporations, directors, special committees and management, and others with fiduciary responsibility often seek a fairness opinion from a qualified corporate advisor. Our firm provides these opinions and valuations which serve as important and prudent input for the formation of critical decisions faced by the directors, special committees, managers and shareholders.



### Corporate Finance Advisory Services

Our corporate finance advisory services typically include advising on capital formation, re-engineering balance sheets, restructuring bank facilities, conducting valuations, providing strategic advice and/or participating at the board of directors level with select clients.

#### Business Advisory Services

These services may include advice on strengthening the balance sheet, including refinancing of current debt and/or the solicitation of new financing sources; consultation on the disposition or acquisition of a division or separate corporate entity; determining the best time to prepare for and file an initial or secondary public offering; assisting a financial or corporate entity with long-range strategic planning as it relates to acquisitions and divestitures; and assisting senior management with overall long-term planning.

#### Valuations

We offer extensive experience in providing valuations of both public and private entities. Such valuations have been used for estate planning, minority interest transactions, pre-merger/acquisition planning, ESOPs, FASB 141/142 (Goodwill) analysis and a wide range of other corporate and personal uses.



### Research & Consulting Services

The consulting and research side of our firm conducts industry analysis which focuses on consumer products companies. We publish various manufacturing, retail, distribution, strategy and demographic reports. In addition, we regularly consult company management teams and their investors and provide litigation and expert witness testimony services to a diverse set of clients.

Driven by Founding Partner Jerry Epperson's respected insight and long-term commitment to the furniture and mattress industries, our firm provides industry specific knowledge to clients involved with mergers, acquisitions, private placements, public offerings, debt refinancing and strategic planning. Our professionals enjoy close relationships across a broad spectrum of companies that uniquely enable us to add value in identifying buyers, citing industry trends and forecasting growth prospects.

#### Research Publications

Mann, Armistead & Epperson, Ltd. publishes the Furnishings Digest, a monthly research piece dating back to 1974 that is distributed by paid subscription to furniture manufacturers, retailers, suppliers and other industry participants. Our research is also provided to various furniture associations, trade press organizations, and other interested parties such as the International Trade Administration and the Federal Reserve Bank's Board of Governors. A free monthly e-newsletter gives insight into industry trends and is received by hundreds worldwide.



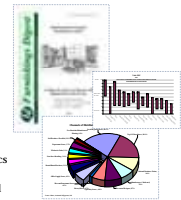
#### Consulting

Whereas many research analysts must initiate calls with companies, top management teams regularly seek us out to discuss industry issues and statistics that are not available elsewhere. Our distinctive approach to research has enabled us to provide an unparalleled quality of tailored strategic and financial consulting services to management teams and investors searching for a competitive advantage. We offer rare data points and a unique business perspective, shaped by over 125 years of aggregate experience.

We have known many of today's top executives on a personal level long before they gained their current positions at their respective companies. In many cases, we worked with the companies for years before they went public, and have known multiple generations of owners/managers of family-controlled firms. Committed to thinking about strategy and long range planning alongside numerous public and private companies, the partners at Mann, Armistead & Epperson, Ltd. have earned a strong reputation based on confidentiality, trust and professionalism.

#### Litigation Support & Expert Witness Testimony

We regularly provide advice and/or assistance in preparing and providing testimony for use by our clients and their attorneys as they prepare for and defend against actual or threatened corporate and personal litigation.



## Industries served

Although our partners and professionals are industry generalists, Mann, Armistead & Epperson, Ltd. has historically conducted half of its business assisting corporations in the consumer products sector. As a result of our research and associated corporate finance execution, we have developed a world-wide reputation in this sector. The other half of our business involves assisting a wide variety of manufacturing and service related industries located throughout the United States. Some of the most common industries we serve are listed below.

Apparel	Industrial Machinery & Supply
Building Products	Metal Fabrication
Business Services	Packaging
Chemicals	Plastics
Consumer Products	Printing
Contract and Office Furnishings	Recreational Vehicles
Engineering Services	Restaurants
Environmental Services	Retail
Financial Services & Insurance	Shipbuilding/Ship Repair
Food Manufacturing & Distribution	Technology
Health Care	Textiles
Home Furnishings	Wire Manufacturing



## Our Professionals

### James M. Mann

Jimm is one of our founders and a Managing Director of Mann, Armistead & Epperson, Ltd. Jimm brings over thirty years of investment banking/accounting experience to our client base and has advised clients on numerous exclusive sale assignments, buy-side transactions, public company defenses and a wide variety of strategic advisory situations. Although capable in many aspects of corporate finance, Jimm's focus is assisting clients through the merger and acquisition process and the related financial, legal and tax issues. Prior to forming our firm, Jimm spent thirteen years at Wheat, First Securities Inc. as a Senior Vice President where he was in charge of the Merger and Acquisition Group. He also spent time at the Department of Justice as a Special Agent for the Federal Bureau of Investigation and as a Certified Public Accountant with Ernst & Young.

Jimm earned a Bachelor of Science degree in Accounting from Virginia Commonwealth University.  
Contact Jimm at: [jmm@maeltd.com](mailto:jmm@maeltd.com)



### W. Howard Armistead

Howard is one of our founders and a Managing Director of Mann, Armistead & Epperson, Ltd. Howard has over thirty years of experience in assisting corporations and shareholders in a wide variety of transactions which focus on the transfer and transition of corporate ownership. Howard has significant experience in dealing with small and mid-cap public companies and related transactions such as "going private" tender offers, advising special committees, providing valuations and fairness opinions and structuring corporate sell-side mandate processes. Howard also spends significant time advising companies regarding transition of ownership of family businesses. Prior to forming our firm, Howard was a Senior Vice President at Wheat, First Securities Inc. and Craigie Incorporated. Howard started his career as a CPA with Ernst & Young rising to partner level and Director of Health Care Services in the Mid-Atlantic Region. Within his fifteen year tenure at Ernst & Young, Howard spent three years as a Medical Group Administrator at Duke University Medical Center.

Howard earned a Bachelor of Science degree in Accounting at Virginia Tech.  
Contact Howard at: [wha@maeltd.com](mailto:wha@maeltd.com)



### Our Professionals (cont.)

Wallace W. "Jerry" Epperson, Jr., CFA

Jerry is one of the founders of our firm and a Managing Director of Mann, Armistead & Epperson, Ltd. Jerry is the head of our research efforts and has in excess of thirty years of experience in the publication of hard/soft dollar research which focuses on demographics, consumer products, furnishings (residential and contract) and related issues. More specifically, Jerry's research in the furnishings industry is recognized on a world-wide basis for its in-depth coverage of suppliers, manufacturers and retailers. Jerry has also been acknowledged by several industry, research and Wall Street associations for his coverage. On several occasions, Jerry has been requested by the U.S. State Department to travel to the Pacific Rim and Europe to assist those countries in understanding the furnishings industry. Prior to founding our firm, Jerry spent fifteen years at Wheat, First Securities, Inc. and five years at Scott & Stringfellow, Inc.

Jerry earned a Bachelor of Science degree in Commerce from the University of Virginia and an MBA from the College of William & Mary. He is also a Chartered Financial Analyst.

Contact Jerry at: [wwe@maeltd.com](mailto:wwe@maeltd.com)

Jin S. Ko

Jin joined our firm in 2006 and is a financial analyst in our research department. More specifically, Jin is responsible for industry research publications produced by Mann, Armistead & Epperson, Ltd. Jin joined our firm after working at Wachovia Corporation in Richmond, VA.

Jin earned a Bachelor of Science degree in Financial Planning from Virginia Commonwealth University.

Contact Jin at: [jsk@maeltd.com](mailto:jsk@maeltd.com)




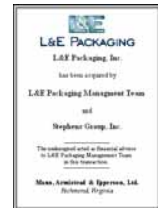
### Our Professionals (cont.)

Patrick F. Bisceglia

Patrick is a Senior Associate in our investment banking group. He assists the named partners with execution of merger and acquisition transactions. His primary responsibilities include business development, interacting with our clients for due diligence review, valuation modeling, offering memorandum preparation and conducting company and industry analysis. Prior to joining our firm in 2009, Patrick covered diversified media and small-cap companies while working in the U.S. Equity Division at T. Rowe Price Associates.

Patrick earned a Bachelor of Business Administration degree in Finance cum laude with an Accounting concentration and a minor in Economics from the Mason School of Business at the College of William and Mary.

Contact Patrick at: [ptb@maeltd.com](mailto:ptb@maeltd.com)



**Contact**

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a named Partner on every deal

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