

SECTOR PLAYERS CONTINUE TO PURSUE INORGANIC GROWTH THROUGH 2023

HOME GOODS SECTOR UPDATE | DECEMBER 2023



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Home Goods

Sector Players Continue to Pursue Inorganic Growth Through 2023

KEY SECTOR TAKEAWAYS

Capstone Partners' Consumer Investment Banking Group is pleased to share its Home Goods report. The resilience of the consumer has continued to defy market forecasts, contributing to steady sector demand. However, leading public players have experienced challenges to revenue growth through year-to-date (YTD) 2023. Several key report takeaways are outlined below.

1. Home Goods sector spending has continued at a healthy pace, although big-ticket items have seen softening consumer demand.
2. Supply chains have continued to improve as retailers have sought to offload excess inventory through much of 2023.
3. Merger and acquisition (M&A) activity in the sector has remained robust, driven by strategic buyers seeking to expand product offerings, enhance scale, or drive cost synergies.
4. Financial buyers have largely remained on the sidelines as an elevated cost of debt and uncertainty surrounding the persistence of consumer spending have facilitated caution.

Capstone Partners has developed a full suite of corporate finance solutions, including, financial advisory services, merger and acquisition advisory, debt advisory, and equity capital financing to help privately-owned businesses and private equity firms navigate through each stage of a company's lifecycle.

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CONSUMER RESILIENCE HELPS OFFSET SECTOR CHALLENGES

Moderating inflation and continued consumer resilience have helped drive optimism for an improved Home Goods market in 2024. Consumer spending through September has defied many economic forecasts, with personal consumption expenditures rising 0.7% month-over-month (MoM), according to the Bureau of Economic Analysis.¹ While the Home Goods space has witnessed healthy demand, sector spending has trailed the broader market with expenditures on furnishings and durable household equipment rising a modest 0.3% MoM. Sustained disinflation will continue to be a tailwind for sector participants—particularly as consumer wage growth has outpaced inflation and select Home Goods categories have recently experienced deflation. Notably, prices for window and floor coverings and other linens and furniture and bedding fell 3.6% and 2.9% year-over-year (YOY) in October, respectively, according to the Bureau of Labor Statistics.² A moderating pricing environment and supply chain normalization will continue to prove pivotal for sector revenue growth in the near-term.

Pandemic-driven inventory shortages scarred many retailers, leading to excess product on shelves that sector participants have continued to offload, often through promotional activity. As more stringent inventory strategies and [destocking](#) have been employed by retailers, sales among household products brands have been strained. Leading branded consumer products and home essentials provider, Spectrum Brands (NYSE:SPB) recorded a 10.1% net sales decline YOY in its fiscal Q3 2023, largely attributed to retailer inventory management strategies, according to its earnings release.³ However, early signs point to retailers beginning to record more normalized inventory positions. Through September, inventories for Furniture, Home Furnishing, Electronics, and Appliances retailers fell 11.6% YOY, marking the seventh consecutive month of declines, according to the Census Bureau.⁴ Upon a return to more robust sector spending, retailer inventory levels will likely need replenishing—fueling healthy demand for sector participants.

Leading sector players have faced a difficult operating environment with sales moderating for many brands and retailers. Newell Brands (Nasdaq:NWL) recorded a 9.1% YOY decline in net sales in Q3 with revenue in its Home & Commercial



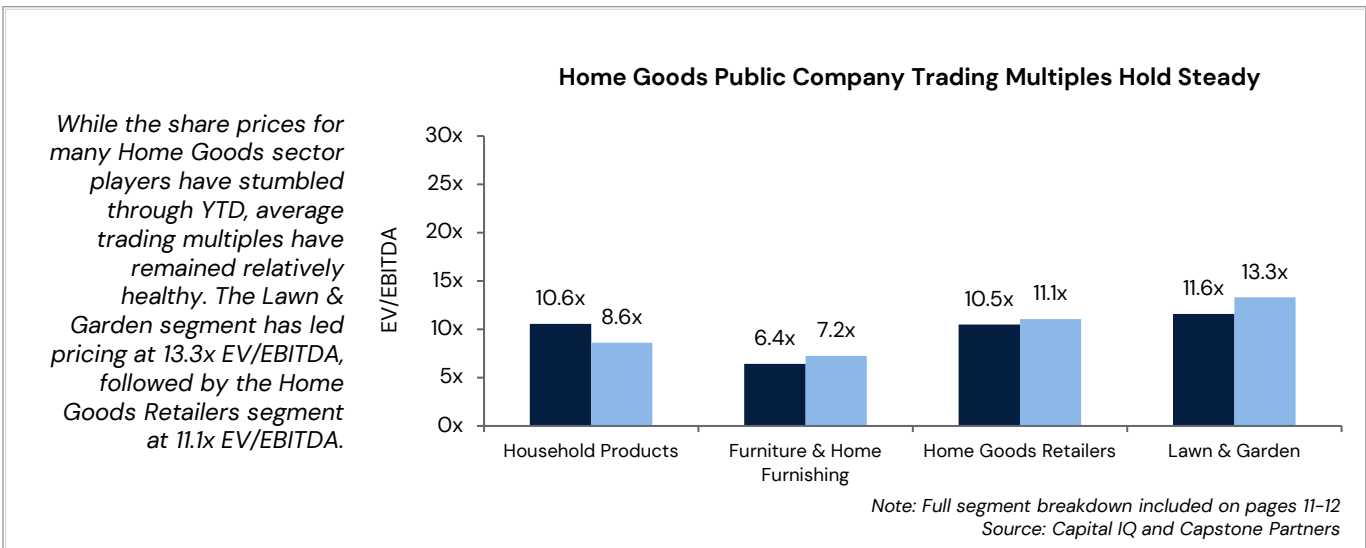
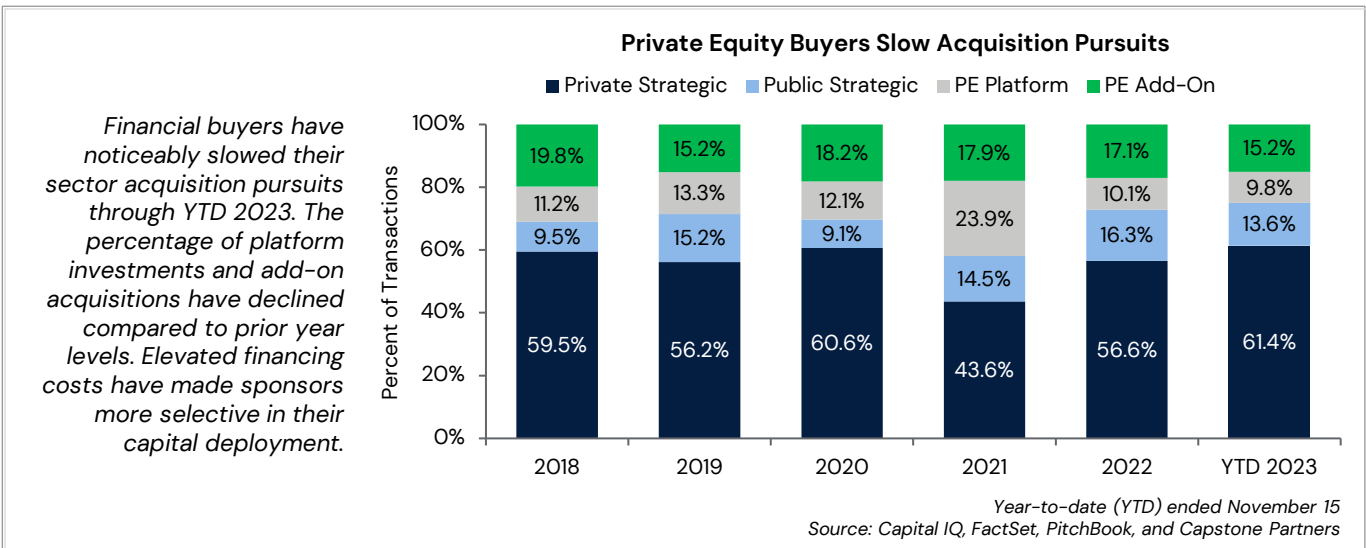
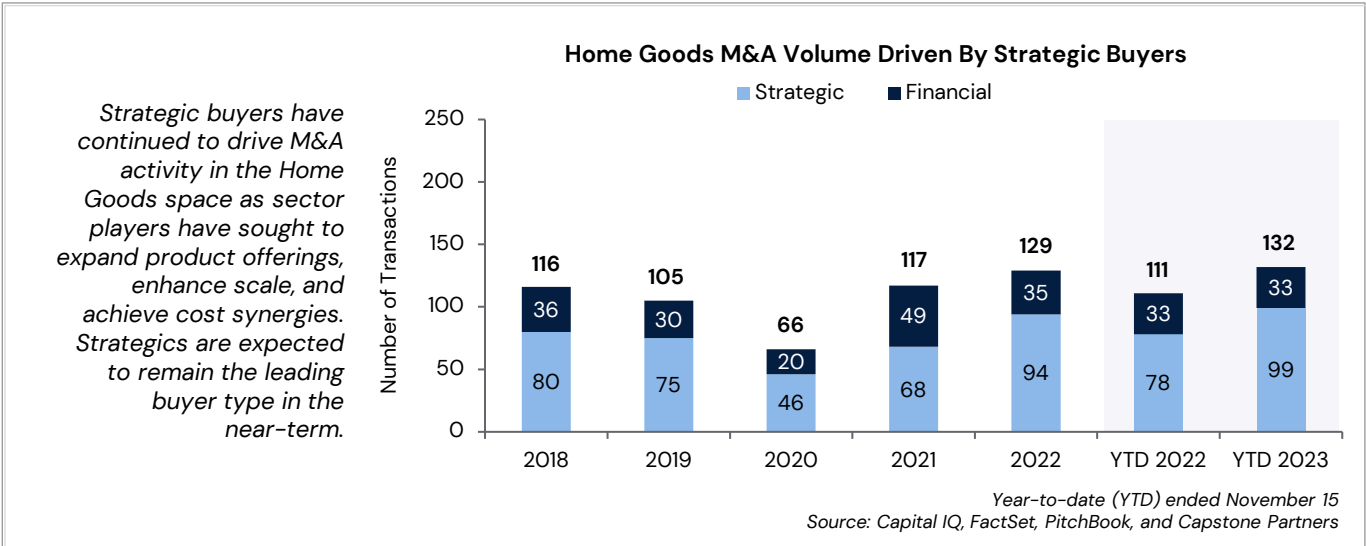
Ken Wasik
Managing Director,
Head of Consumer Investment Banking

“The Home Goods sector has been surprisingly stable given everything that has been thrown at it. Valuations have largely held up. The predominant M&A volume has been driven by strategic companies buying private middle market companies. This remains a good time for well performing, privately-owned home goods companies to consider selling. The key question is, will the market improve in 2024? It would appear we are heading in that direction.”

segment falling 7.1% YOY, according to its earnings release.⁵ Much of the moderation in spending seems to be in large-ticket discretionary items. This has been evidenced by Home Depot’s (NYSE:HD) Q3 results, which revealed a 5.2% YOY decline in big-ticket comparable transactions, noting softening demand for flooring, countertops, and cabinets, according to its earnings release.⁶ While top-line growth has been challenged across the space, public company valuations have held relatively steady. Notably, average EBITDA multiples in Capstone’s Furniture & Home Furnishing, Home Goods Retailers, and Lawn & Garden segments have improved YOY.

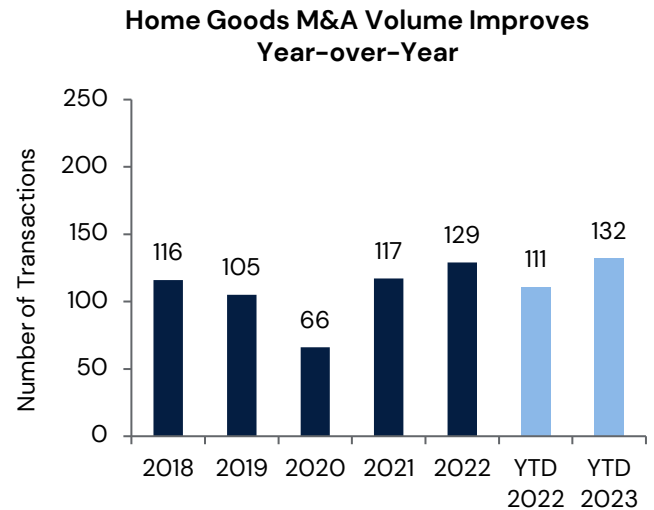
Moving through year end and into 2024, sector demand will continue to be dictated by the strength and resilience of the consumer. Through YTD, consumer spending has remained robust and inflation has trended downwards which has provided optimism for market participants. Sector players are expected to continue to eye consolidation opportunities, with strategic buyers driving the vast majority of M&A volume through YTD. Privately-owned companies with defensible revenues, strong gross margins, and healthy supply chains are poised to attract robust acquirer appetite. Consumer industry M&A activity is likely to improve in 2024, providing additional tailwinds to the Home Goods space.

M&A DATA AND PUBLIC COMPANY VALUATIONS



STRATEGIC BUYERS DRIVE RESILIENT M&A MARKET

M&A volume in the Home Goods segment has accelerated compared to the prior year, rising 18.9% YOY to 132 transactions announced or completed. The outperformance of the space in the M&A market is in sharp contrast to public markets where average YTD returns in the Furniture and Home Furnishing, Household Products, and Lawn & Garden segments have fallen 15.6%, 18.8%, and 0.51%, respectively. Strategic buyers have driven the strong level of sector transaction volume, comprising 75% of YTD dealmaking. The majority of these buyers are privately owned companies (61.4%), indicating that many smaller acquirers are seeking expansion opportunities. Anecdotally, M&A valuations have declined but remain at healthy levels with strategics paying premiums for businesses offering synergies, product expansion, or diversification of revenues. Notably, Spin Master (TSX:TOY) acquired Melissa & Doug, a leading children’s toys brand, for an enterprise value of \$1.1 billion and equivalent to 12.2x EV/EBITDA (October).



Year-to-date (YTD) ended November 15
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

While M&A volume has remained healthy, several distressed transactions in YTD 2023 have showcased the challenges select sector players have faced. Notably, Instant Brands, maker of brands including Instant Pot®, Corelle®, and Pyrex® filed for Chapter 11 bankruptcy protection in June 2023. In October, U.S. Bankruptcy Court for the Southern District of Texas approved its sale to Centre Lane Partners for an enterprise value of \$351 million. Acquisitions of embattled businesses have also provided significant opportunity for well-capitalized strategics. In May, leading mattress provider Tempur Sealy (NYSE:TPX) agreed to acquire Mattress Firm for an enterprise value of \$4 billion, equivalent to 9.3x EV/EBITDA. Mattress Firm scrapped its initial public offering (IPO) plans in January and its parent company, Steinhoff International has been involved in an accounting scandal in recent years. The acquisition significantly expands Tempur Sealy’s consumer reach and accelerates its omnichannel strategy.

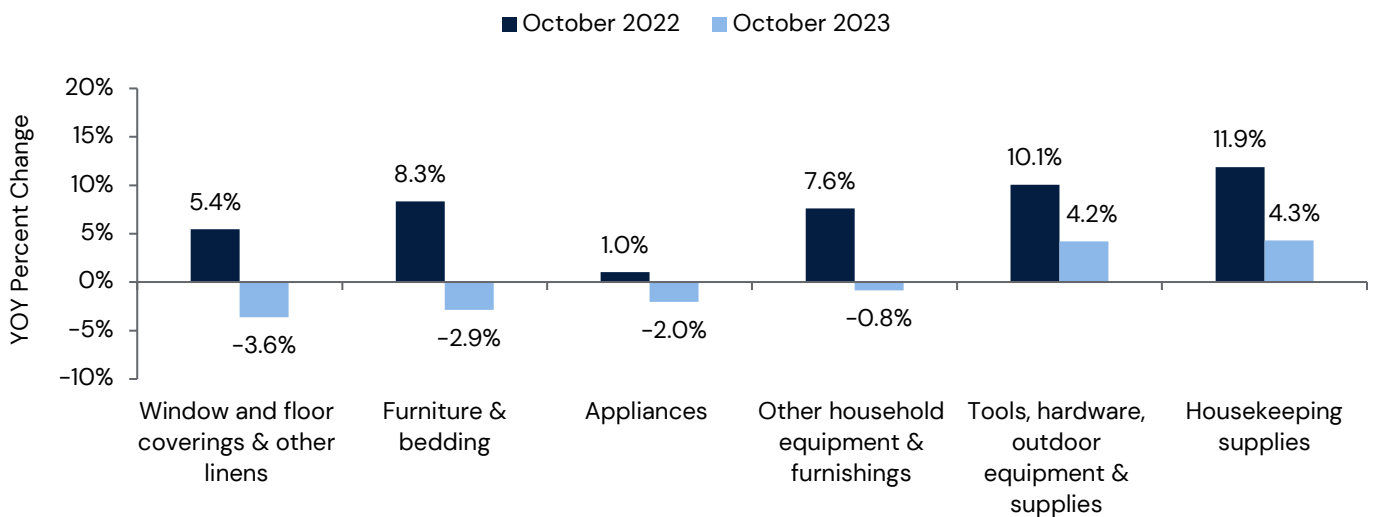
Financial buyers have been increasingly hesitant to deploy capital to the Home Goods sector throughout 2023, comprising 25% of YTD transactions. This marks a notable decline from the 33.1% average from 2020 through 2022. Elevated financing costs and uncertainty surrounding consumer spending have facilitated caution among private equity firms. In addition, debt multiples declined to 3.5x Total Debt/EBITDA in Q3 from 3.7x in the prior year quarter, according to GF Data⁷. As a result, sponsors have been required to put forth greater equity to close transactions, with middle market private equity platform deals averaging 57.9% equity contribution through YTD Q3. In assessing the value of a target company, sponsors are also increasingly considering how less debt utilization will affect internal rates of return. However, select private equity firms have pursued sector targets, largely acting through add-on acquisitions. Notably, HCI Equity Partners-backed WF Cabinetry, a provider of semi-custom wood kitchen and bath cabinetry, acquired Woodharbor Molding & Millworks in October. Terms of the transaction were not disclosed.

Consumer prices have demonstrated steady disinflation, with inflation easing to 3.2% in October (U.S. Bureau of Labor Statistics), which may halt further interest rates hikes by the Federal Reserve. However, many market participants expect borrowing costs to remain elevated for the foreseeable future. Strategics are expected to continue to drive the M&A market in the near term, with 2024 expected to provide a more favorable operating backdrop for many sector players. The Home Goods segment has not seen the same drastic decline in dealmaking that many other pockets of the Consumer space have encountered—which may provide further tailwinds for a surge in transaction activity upon a more conducive dealmaking environment.

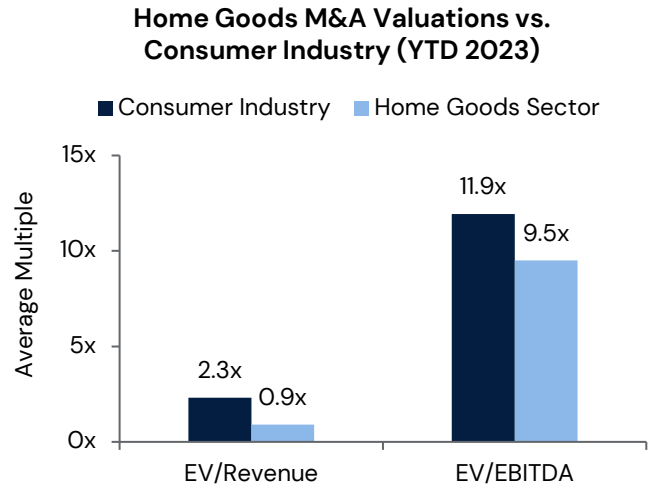
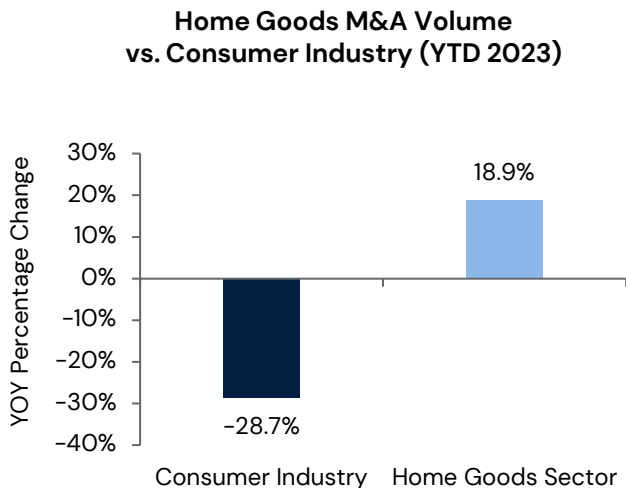
MIDDLE MARKET M&A SIGNALS

1. Pricing for home goods products has moderated significantly over the past year, with select categories experiencing deflation through October 2023.
2. The broader Consumer industry has encountered severe headwinds to dealmaking; however, the Home Goods space has remained resilient with transaction volume rising 18.9% YOY.
3. M&A valuations have remained robust across the Home Goods space, while anecdotally pricing has fallen from the peak of prior years. Through YTD 2023, average M&A EBITDA multiples in the sector have amounted to 9.5x, trailing the broader Consumer industry average of 11.9x.

Home Goods Inflation Moderates, Select Categories Experience Deflation



Home Goods M&A Volume Growth Outpaces Broader Consumer Space



Source: U.S. Bureau of Labor Statistics, Capital IQ, FactSet, PitchBook, and Capstone Partners
 Year-to-date (YTD) ended November 15



SELECT TRANSACTIONS

| Date | Target | Acquirer | Target Business Description | Enterprise | EV/LTM | |
|----------|---------------------------------|------------------------------|---|------------|---------|--------|
| | | | | Value (mm) | Revenue | EBITDA |
| 11/08/23 | Bedding Industries of America | Saatva | Designs, develops, and manufactures mattresses. | - | - | - |
| 11/07/23 | Revere Ware Brand | Full Sail IP Partners | Provides copper-clad stainless-steel kitchenware. | - | - | - |
| 10/17/23 | Avera Products | Syndicate Sales | Distributes lawn and garden products. | - | - | - |
| 10/11/23 | Melissa & Doug | Spin Master (TSX:TOY) | Manufactures and sells toys for children. | \$1,100.0 | - | 12.2x |
| 10/09/23 | WallsThatSpeak | Craig Frames | Provides retailing of wall décor products. | - | - | - |
| 10/04/23 | Woodharbor | WF Cabinetry | Offers wood cabinets and doors. | - | - | - |
| 10/01/23 | Nightside | Everest Group | Provides electric bed lamps. | - | - | - |
| 09/14/23 | RST Brands | Surya Carpet | Designs, manufactures, and sells furniture. | - | - | - |
| 09/13/23 | Brookside Equipment | King Ranch Turfgrass | Operates lawn and garden equipment stores. | - | - | - |
| 09/05/23 | The Fulham Group | Conair | Provides outdoor grills, grilling tools, and home environment products. | - | - | - |
| 08/31/23 | Pegasus Home Fashions | Blue Torch Capital | Manufactures and distributes bedding and home products. | - | - | - |
| 08/25/23 | Earthway Products | Monument MicroCap | Designs, engineers, and manufactures lawn and garden products for homeowners and professionals. | - | - | - |
| 08/24/23 | Green Sprouts | O2COOL | Manufactures and sells baby products including bottles, dishes, and cutlery. | - | - | - |
| 08/21/23 | Annie Selke | RugsUSA | Offers quilts, bedding, sheeting, robes, curtains, furniture, and pajamas. | - | - | - |
| 08/14/23 | Ogden Lawn & Garden | Mountainland Supply | Supplies lawn, garden, and ground equipment. | - | - | - |
| 07/14/23 | Mansfield Engineered Components | Sabaf Group (BIT:SAB) | Manufactures hinges for household appliances. | \$20.6 | 0.6x | 8.2x |
| 06/02/23 | Sunburst Shutters | Springs Window Fashions | Manufactures custom window treatments and coverings. | - | - | - |
| 05/23/23 | Southside Garden Supply | GrowGeneration (Nasdaq:GRWG) | Provides indoor gardening supplies. | - | - | - |
| 05/13/23 | Royal Custom Designs | Makers & Craftsmen | Manufactures furniture products. | - | - | - |
| 05/09/23 | Mattress Firm | Tempur Sealy (NYSE:TPX) | Provides mattress retailing, bed linens, pillows, and other sleep products. | \$4,001.6 | - | 9.3x |
| 05/04/23 | Terra Flame | Solo Brands (NYSE:DTC) | Designs portable fireplaces for offices, apartments, condos, and lofts. | \$13.2 | - | - |
| 04/18/23 | Global Views | Surya | Provides furniture, decorative items, art class, mirrors, and wall décor. | - | - | - |
| 04/18/23 | Old Time Pottery | Gabe's | Retails decorative home furnishing including home décor products, kitchen tools, and bedding accessories. | - | - | - |

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners



PUBLIC COMPANY DATA

FURNITURE & HOME FURNISHINGS

| Company | Price | % 52 Wk | Market | Enterprise | LTM | | | EV/LTM | |
|----------------------------------|----------|---------|-----------|------------|-----------|---------|--------|---------|--------|
| | 11/22/23 | High | Cap | Value | Revenue | EBITDA | Margin | Revenue | EBITDA |
| Ethan Allen Interiors Inc. | \$27.37 | 75.6% | \$695.0 | \$663.9 | \$740.7 | \$170.8 | 23.1% | 0.9x | 3.9x |
| La-Z-Boy Incorporated | \$31.52 | 92.9% | \$1,357.0 | \$1,460.1 | \$2,227.0 | \$316.1 | 14.2% | 0.7x | 4.6x |
| Purple Innovation, Inc. | \$0.79 | 11.7% | \$83.8 | \$212.8 | \$511.4 | NM | NA | 0.4x | NM |
| Sleep Number Corporation | \$11.20 | 26.9% | \$249.0 | \$1,175.8 | \$1,955.5 | \$114.9 | 5.9% | 0.6x | 10.2x |
| Tempur Sealy International, Inc. | \$39.64 | 83.1% | \$6,829.0 | \$9,996.0 | \$4,942.3 | \$979.5 | 19.8% | 2.0x | 10.2x |
| Mean | | | | | | | 15.7% | 0.9x | 7.2x |
| Median | | | | | | | 17.0% | 0.7x | 7.4x |
| Harmonic Mean | | | | | | | 12.0% | 0.7x | 6.0x |

EV = enterprise value; LTM = last twelve months
\$ in millions, except per share data
NM = Not Meaningful

HOME GOODS RETAILERS

| Company | Price | % 52 Wk | Market | Enterprise | LTM | | | EV/LTM | |
|-----------------------|----------|---------|---------------|---------------|-------------|------------|--------|---------|--------|
| | 11/22/23 | High | Cap | Value | Revenue | EBITDA | Margin | Revenue | EBITDA |
| Amazon.com, Inc. | \$143.90 | 97.7% | \$1,487,067.0 | \$1,588,963.0 | \$554,028.0 | \$86,182.0 | 15.6% | 2.9x | 18.4x |
| RH | \$268.60 | 66.1% | \$4,942.3 | \$8,261.8 | \$3,181.2 | \$774.9 | 24.4% | 2.6x | 10.7x |
| Target Corporation | \$130.80 | 72.0% | \$60,384.0 | \$77,820.0 | \$106,888.0 | \$8,388.3 | 7.8% | 0.7x | 9.3x |
| Walmart Inc. | \$155.86 | 91.7% | \$419,507.1 | \$483,447.1 | \$638,785.0 | \$44,252.0 | 6.9% | 0.8x | 10.9x |
| Wayfair Inc. | \$48.19 | 53.1% | \$5,683.9 | \$8,436.9 | \$11,990.0 | NM | NA | 0.7x | NM |
| Williams-Sonoma, Inc. | \$179.94 | 98.9% | \$11,540.5 | \$12,236.5 | \$7,924.8 | \$1,955.1 | 24.7% | 1.5x | 6.3x |
| Mean | | | | | | | 15.9% | 1.5x | 11.1x |
| Median | | | | | | | 15.6% | 1.2x | 10.7x |
| Harmonic Mean | | | | | | | 12.0% | 1.1x | 9.9x |

LAWN & GARDEN

| Company | Price | % 52 Wk | Market | Enterprise | LTM | | | EV/LTM | |
|--------------------------------|----------|---------|-----------|------------|-----------|---------|--------|---------|--------|
| | 11/22/23 | High | Cap | Value | Revenue | EBITDA | Margin | Revenue | EBITDA |
| Central Garden & Pet Company | \$39.52 | 81.5% | \$1,969.6 | \$2,856.7 | \$3,310.1 | \$370.2 | 11.2% | 0.9x | 7.7x |
| The Scotts Miracle-Gro Company | \$55.30 | 62.4% | \$3,105.4 | \$5,683.2 | \$3,551.3 | \$283.2 | 8.0% | 1.6x | 20.1x |
| The Toro Company | \$83.98 | 71.4% | \$8,720.8 | \$9,753.3 | \$4,741.9 | \$799.8 | 16.9% | 2.1x | 12.2x |
| Mean | | | | | | | 12.0% | 1.5x | 13.3x |
| Median | | | | | | | 11.2% | 1.6x | 12.2x |
| Harmonic Mean | | | | | | | 10.9% | 1.3x | 11.5x |

Source: Capital IQ and Capstone Partners as of November 22, 2023

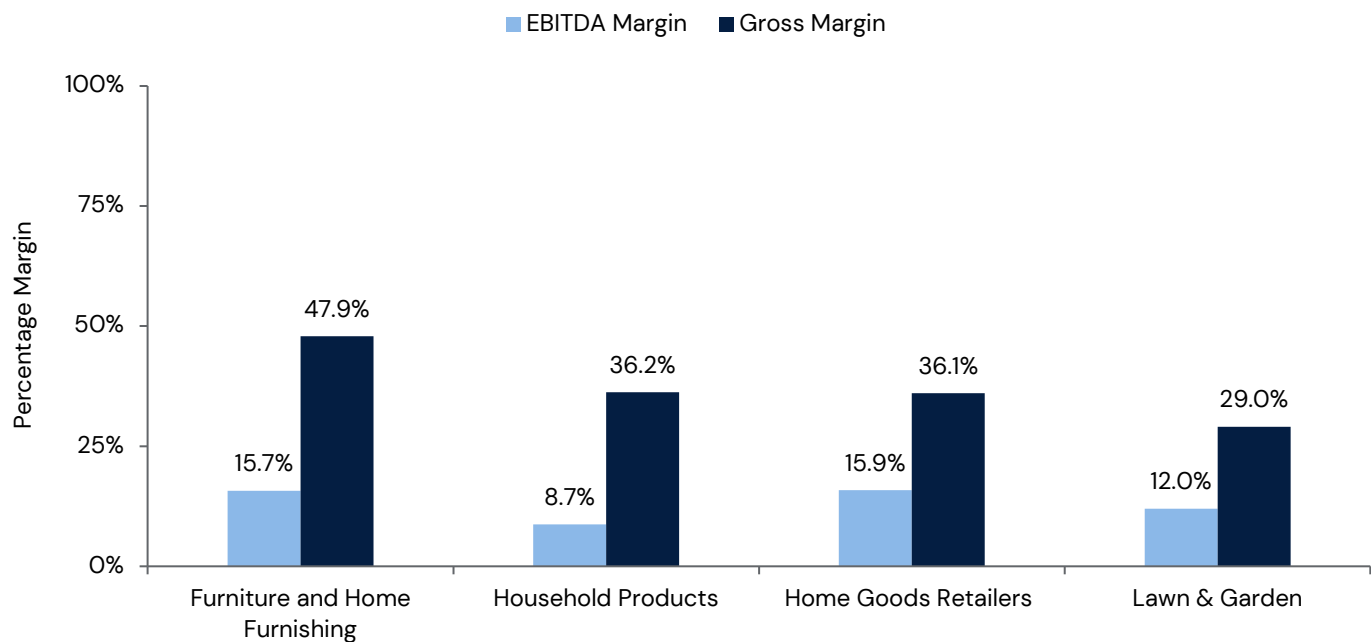


PUBLIC COMPANY DATA (CONTINUED)

HOUSEHOLD PRODUCTS

| Company | Price | % 52 Wk | Market | Enterprise | LTM | | | EV/LTM | |
|---------------------------------------|----------|---------|-----------|------------|-----------|---------|--------|---------|--------|
| | 11/22/23 | High | Cap | Value | Revenue | EBITDA | Margin | Revenue | EBITDA |
| Hamilton Beach Brands Holding Company | \$13.98 | 93.6% | \$195.6 | \$293.8 | \$615.2 | \$35.3 | 5.7% | 0.5x | 8.3x |
| Lifetime Brands, Inc. | \$6.78 | 66.1% | \$147.9 | \$454.4 | \$690.6 | \$65.3 | 9.5% | 0.7x | 7.0x |
| Newell Brands Inc. | \$7.35 | 43.9% | \$3,044.3 | \$8,454.3 | \$8,342.0 | \$904.0 | 10.8% | 1.0x | 9.4x |
| Spectrum Brands Holdings, Inc. | \$65.84 | 77.2% | \$2,324.7 | \$2,119.3 | \$2,918.8 | \$153.0 | 5.2% | 0.7x | 13.9x |
| Tupperware Brands Corporation | \$1.70 | 28.8% | \$78.7 | \$753.8 | \$1,304.0 | \$162.5 | 12.5% | 0.6x | 4.6x |
| Mean | | | | | | | 8.7% | 0.7x | 8.6x |
| Median | | | | | | | 9.5% | 0.7x | 8.3x |
| Harmonic Mean | | | | | | | 7.8% | 0.6x | 7.6x |

Home Goods Sector Margin Performance



Source: Capital IQ and Capstone Partners as of November 22, 2023

HOME GOODS REPORT CONTRIBUTORS



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Ken joined Capstone to lead the Consumer Investment Banking practice. He brings nearly 25 years of investment banking experience including domestic and international mergers & acquisitions, initial and secondary offerings of public companies, debt raises and private placements for his clients. He has helped raise over \$10 billion in capital for clients during his career. Ken regularly presents at consumer industry conferences and has testified twice as an expert witness on consumer brands. He joins Capstone Partners from Stephens Investment Bank, where he started and led the Consumer Products Group. Ken is a Series 79 Registered Investment Banking Representative and holds an MBA in Finance from Columbia University and a BS in Accounting from St. Joseph’s University.



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Connor currently serves as Vice President of Market Intelligence at Capstone Partners. Connor provides M&A insights, capital markets analysis, and macroeconomic updates for C-suite middle market executives. He specializes in the coverage of the Consumer industry. Prior to joining the Market Intelligence Team at Capstone, Connor was a specialist with the Investor Services team at BlackRock. Connor holds a BA in Economics from Bates College. He is also a Series 7 Registered Securities Representative and a CFA® charterholder.



FIRM TRACK RECORD

Capstone's Consumer Investment Banking Group maintains an active presence in the Home Goods sector with in-depth knowledge of the buyer universe and business characteristics that drive premium valuations in an M&A process. Our frequent conversations with industry participants provide us with increased transparency into market trends and buyer preferences. A sampling of Capstone's closed deals is outlined below.

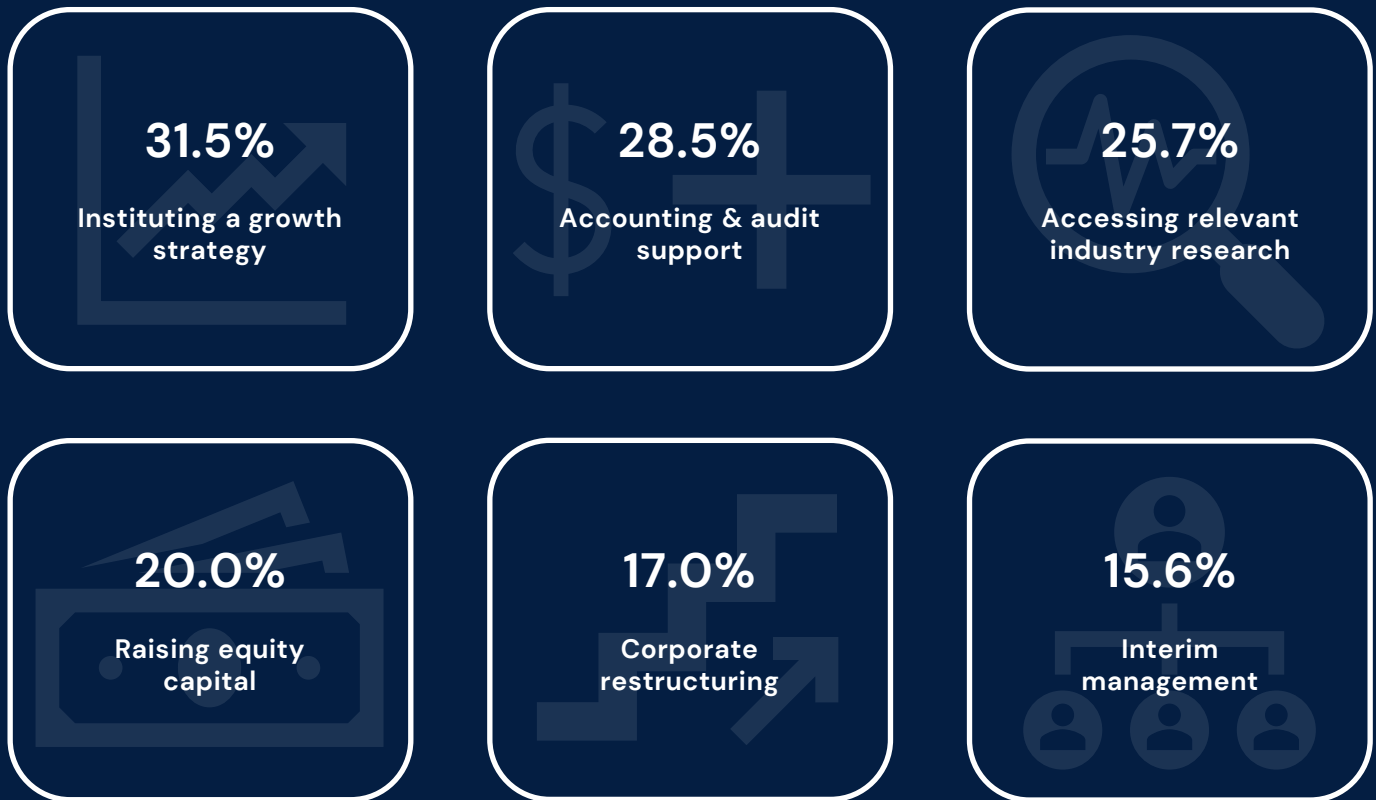
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|---|---|---|---|
|  <p>HAS RECAPITALIZED WITH</p>  |  <p>HAS SECURED \$142.5 MILLION IN SENIOR CREDIT FACILITIES FOR THE ACQUISITION OF</p>  <p>Your life, your mattress</p> |  <p>HAS DIVESTED</p>  |  <p>HAS SECURED FINANCING FROM</p>  |
|  <p>HAS RECAPITALIZED WITH</p>  |  <p>HAS BEEN ACQUIRED BY</p>  |  <p>HAS PARTNERED WITH</p>  |  <p>HAS BEEN ACQUIRED BY</p>  |
|  <p>HAS BEEN ACQUIRED BY</p>  |  <p>HAS BEEN ACQUIRED BY</p>  |  <p>HAS MERGED WITH</p>  |  <p>HAS BEEN ACQUIRED BY</p>  |

CAPSTONE'S PROPRIETARY RESEARCH REVEALS TOP SERVICES IN DEMAND

The current stage and initiatives of a business often dictates which financial services are in demand. As the majority of CEOs polled in Capstone's 2023 Middle Market Business Owners Survey indicated growth strategies are a priority for 2024, the lion's share (31.5%) of owners anticipate a need for growth strategy support services. Similarly, 28.5% of owners require accounting and audit support to shore-up cash flows and establish financial stability. In addition, more than one-fourth of CEOs demonstrated an interest in accessing relevant industry research to keep up with emerging industry trends, complete competitor analyses, and track capital markets activity in their space.

Capstone has developed a full suite of [corporate finance solutions](#) to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction. In addition, we developed a specialty consulting practice to provide financial advisory services to companies experiencing distress or performance challenges. All of these capabilities are supported by 16 industry groups, an active sponsor coverage group, and a dedicated market intelligence team.

Top Financial Services Required by Business Owners in 2024



Question: Have you ever had, or do you anticipate having, a need for any of the following services?
Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 435



ENDNOTES

1. U.S. Bureau of Economic Analysis, "Consumer Spending," <https://www.bea.gov/data/consumer-spending/main>, accessed November 16, 2023.
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4. U.S. Census Bureau, "Monthly Retail Trade Inventories Report," <https://www.census.gov/retail/mrtsinv/inventories.html>, accessed November 16, 2023.
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6. Home Depot, "HD – Q3'23 Home Depot Earnings Call," <https://ir.homedepot.com/financial-reports/quarterly-earnings/2023>, accessed November 16, 2023.
7. GF Data, "Leverage Report," <https://gfddata.com/>, accessed November 16, 2023.



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Disclosure

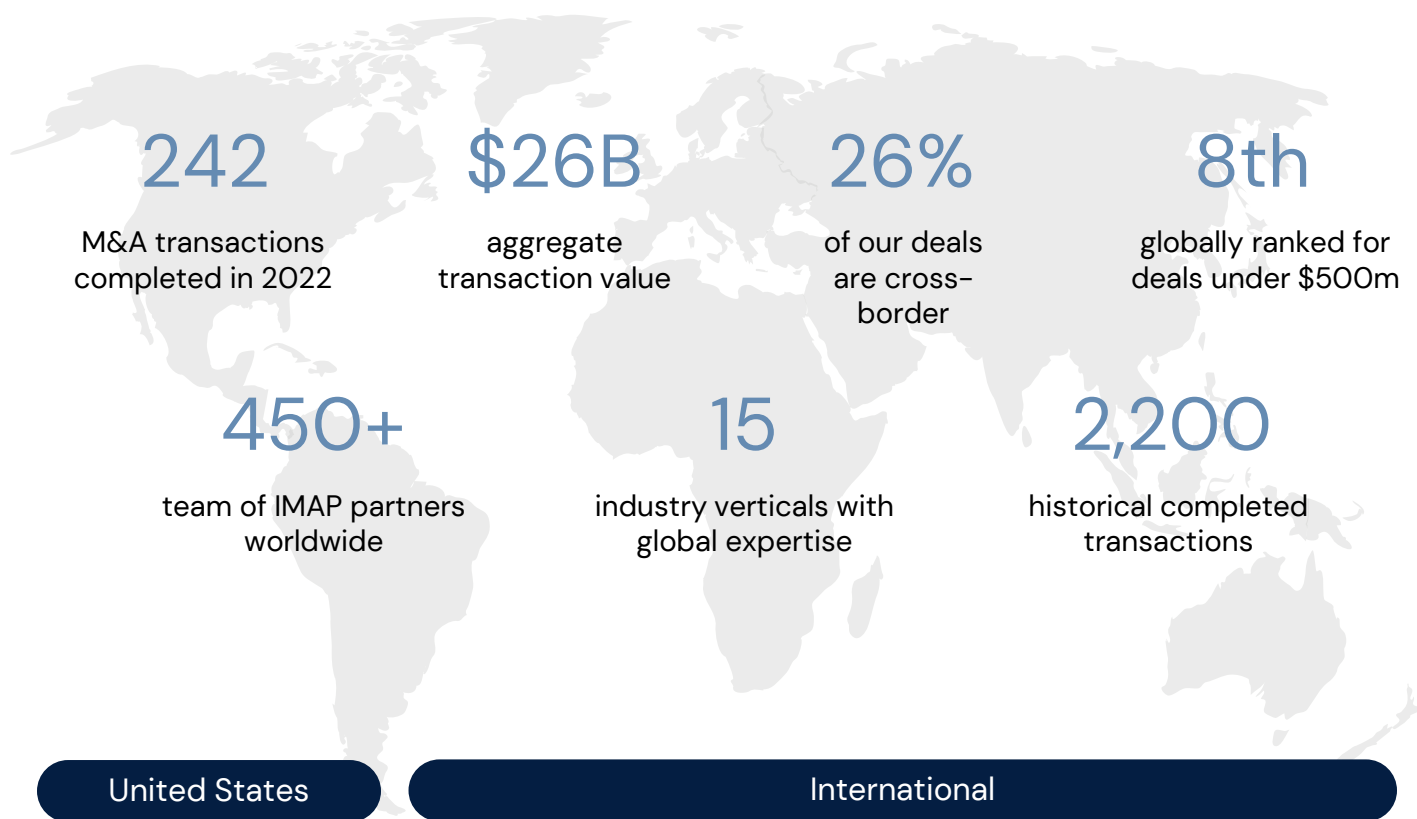
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