

## Hardlines & Leisure

### Q3 Furniture Retailer by PSC/HFA - Q3 Trends Solid; Q4 Expected to Accelerate

#### CONCLUSION

Upon the completion of our Piper Sandler / Home Furnishings Association (HFA) Q3 Furniture Retailer survey, Q3 sales trends (which were +8% y/y overall on avg) appeared to show consistent HSD% growth through the qtr (adjusting for a late Labor Day). Importantly, retailers have a very positive forecast for Q4 with sales growth estimates averaging 15%. Online growth in Q3 remained very strong, accelerating slightly to >200% y/y, and Online trends have remained steady in early Q4. Delivery delays and out-of-stocks appear to be getting more pronounced, and are now expected to last until at least Q1. For stock call-outs, we believe the survey readings are favorable for W, OSTK, and BIG (based on the Q4 outlook, and continued strength in online trends).

- **Q3 Furniture Retailer Survey Shows +MSD-HSD% Sales Increases; 15%+ Growth Expected for Q4**

- **Q3 sales growth** was +8% and +4% y/y on both a mean and median basis. Responses ranged from -6% to +27%.
- **Monthly Trends Generally Consistent Through Q3.** On average, July sales were +9% y/y, August was +3% y/y, and Sept was +19% y/y. Normalizing for a late Labor Day (which hurt Aug and helped Sept y/y), trends appear to have been steadily +HSD% through Q3. **Conclusion: Following an abnormally strong June (+30-40%), trends leveled out to a solid +HSD% rate in Q3.**
- **Q4 Sales Estimates Positive:** Looking ahead, retailers expect +15% y/y sales growth in Q4 on both a mean/median basis. **Conclusion: Bullish Q4 sales outlook based on steady/strong demand trends; Some written orders from Q3 are getting pushed to Q4 due to supply chain delays.**
- **Online Sales Remain Strong:** Online sales grew 230% and 200% on a mean and median basis, accelerating slightly from the 180-210% range in Q2. Online sales represented 5-6% of total sales in Q3 (vs. 10-11% in Q2). Overall online trends in Q3 and early Q4 have generally held steady (or slightly strengthened) compared to Q2. **Conclusion: Online sales remain strong and are poised to remain quite elevated in Q4. This is a positive for platforms that over-index to e-com sales (W & OSTK).**
- **Category Trends Improve in Q3.** Sales trends for Upholstered Products, Case Goods, and Home Decor/Other all accelerated from Q2, with Upholstered Products +14%/+8% on mean/median, Case Goods +11%/+4% on mean/median, and Home Decor/Other +11% on mean/median.
- **Length of Delivery Time & Out-of-Stocks.** The current length of time for delivery to home following a consumer purchase is 38 days and 30 days on a mean/median basis, up significantly from 11 and 5 days in Q2. 86% of retailers said Upholstered Products are seeing the most delivery delays and/or out-of-stock issues. **Conclusion: Delivery/Out-of-Stock issues are becoming more pronounced in 2H.**

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Related Companies:	Share Price:
BIG	49.80
OSTK	71.88
W	265.85

#### INDUSTRY RISKS

Risks include macroeconomic factors, commodity inflation/deflation, weather, store expansion strategy, and competition.

# Q3 '20 Furniture Retailer Survey

Completed in partnership by Piper  
Sandler & the Home Furnishings  
Association

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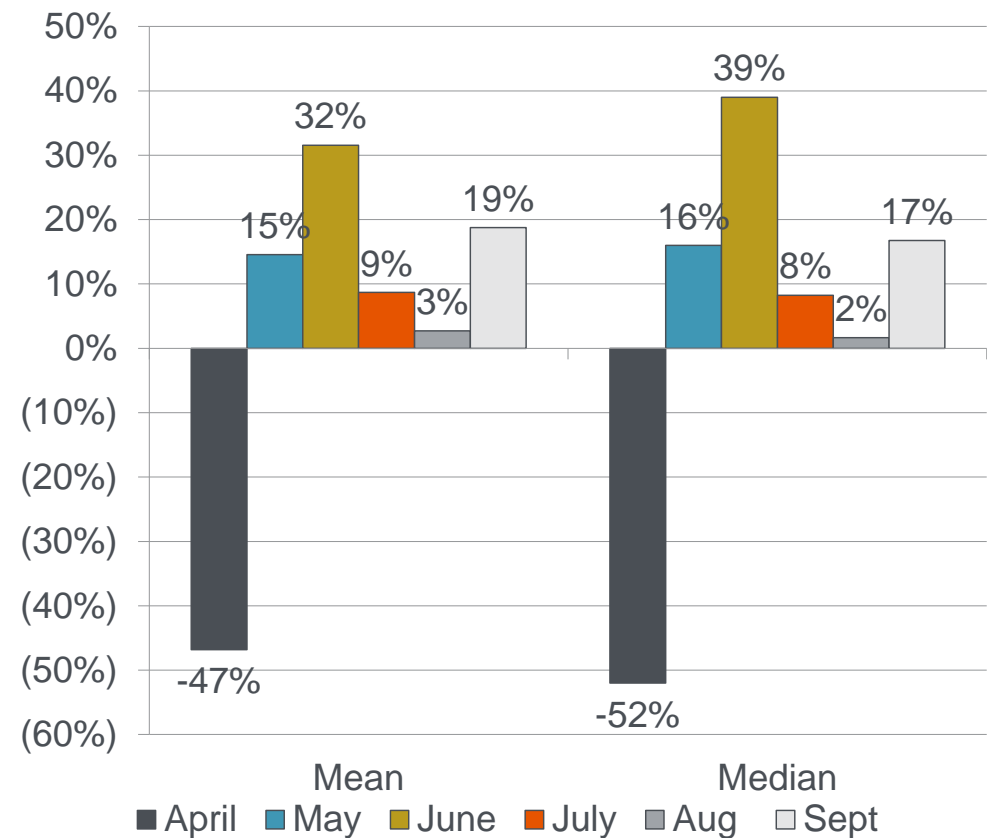
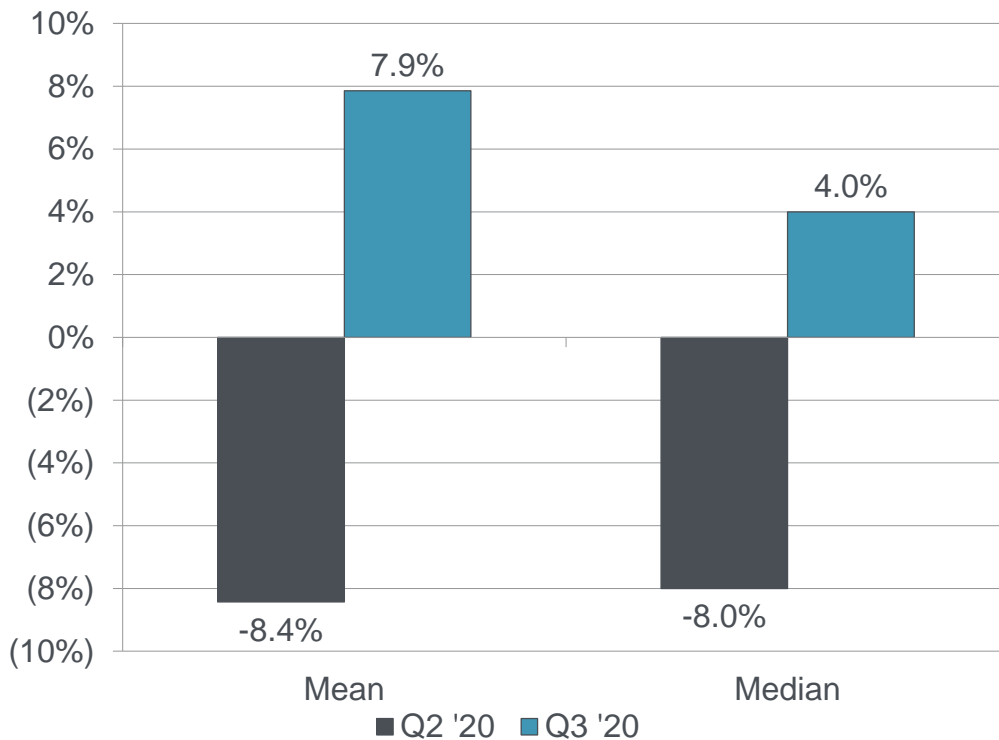
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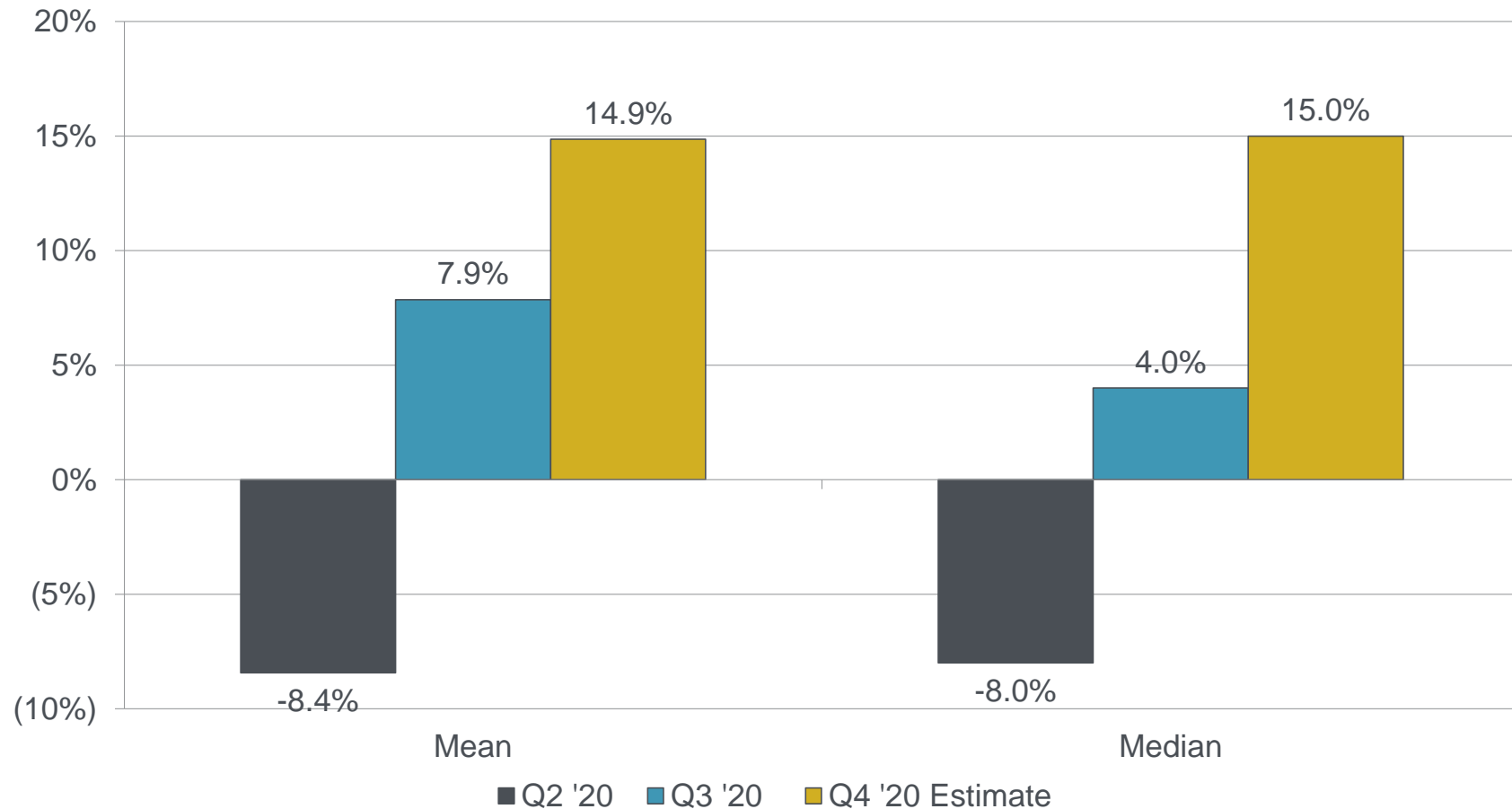
## Q3 Sales Results: What was your Q3 (July-Sept) total home furnishings sales (delivered only, not written) growth y/y?

- Q3 sales growth was down +8% and +4% on a mean/median basis
- Adjusting for a late Labor Day (which shifted sales from Aug into Sept), sales growth trends appear to have consistently been in the +HSD% range through Q3



## Q4 Sales Outlook: What do you estimate your total home furnishings sales growth will be in Q4 (Oct-Dec)?

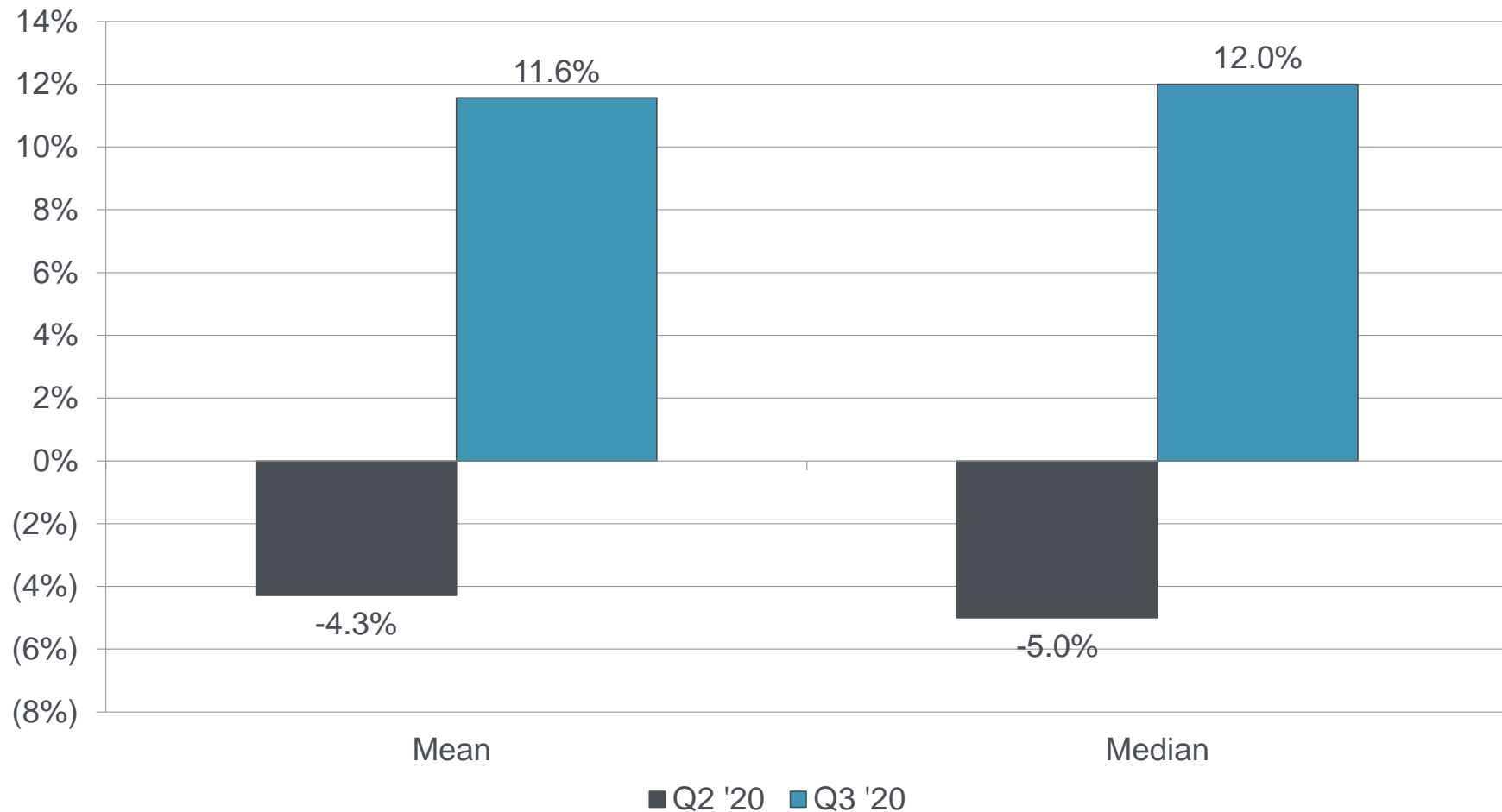
- For Q4, retailers estimate sales growth of +15% y/y on a mean/median basis, suggesting solid acceleration from Q3 at +4-8% -- and potential for an exceptionally strong quarter y/y
- We note written orders for Sept/Oct appear to be quite strong, but the supply chain delays are pushing delivered sales (when revenue is recognized) into Q4.



Source: Piper Sandler Furniture Retailer Survey

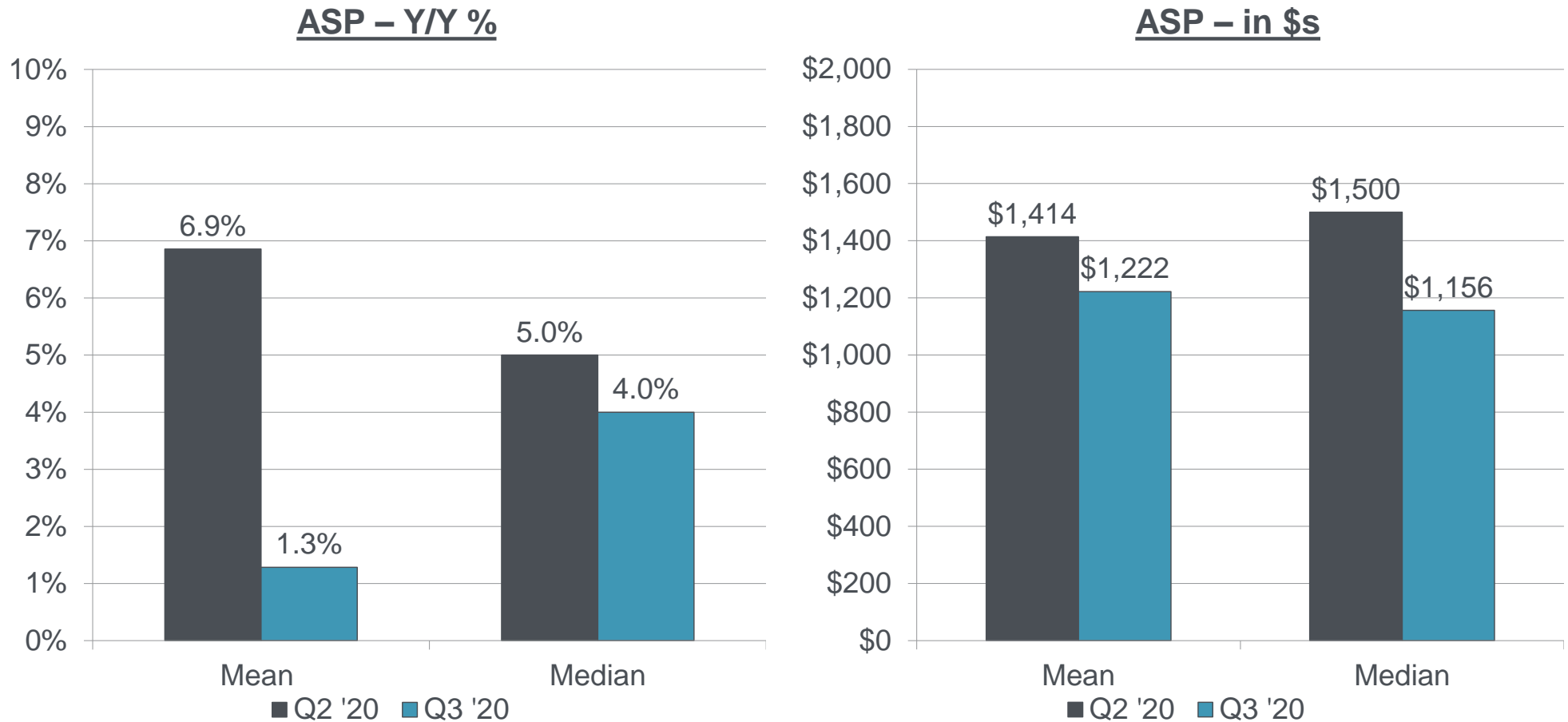
## Q3 Transactions: What was your Q3 (July-Sept) total home furnishings transactions (delivered only, not written) growth y/y?

- Q3 transactions growth was +12% y/y on a mean/median basis, a strong acceleration from Q2



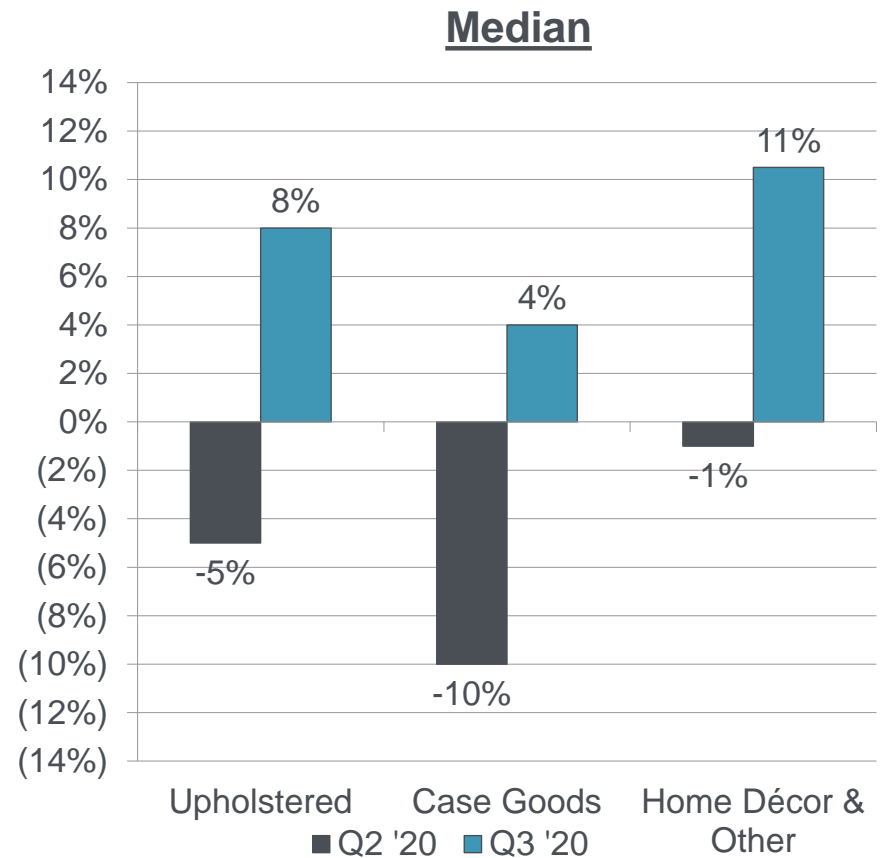
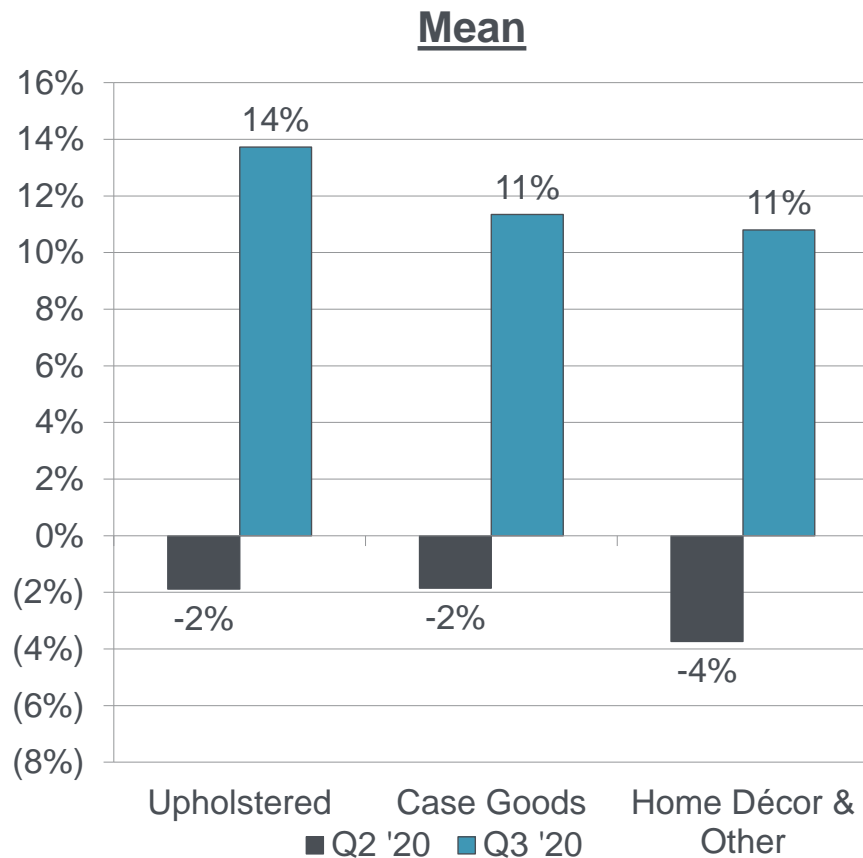
## Q3 Average Selling Price (ASP): What was your Q3 (July-Sept) total home furnishings ASP growth y/y?; What was the size of your ASP?

- Q3 ASP growth was up 1% and 4% y/y on a mean/median basis, below Q2
- Q3 ASP size was \$1,222 and \$1,156 on a mean/median basis, down from Q2



## Q3 Category Growth: What was your Q3 total dollar growth y/y (delivered only, not written) of your Upholstered Products, Case Goods, and Home Décor/Other categories?

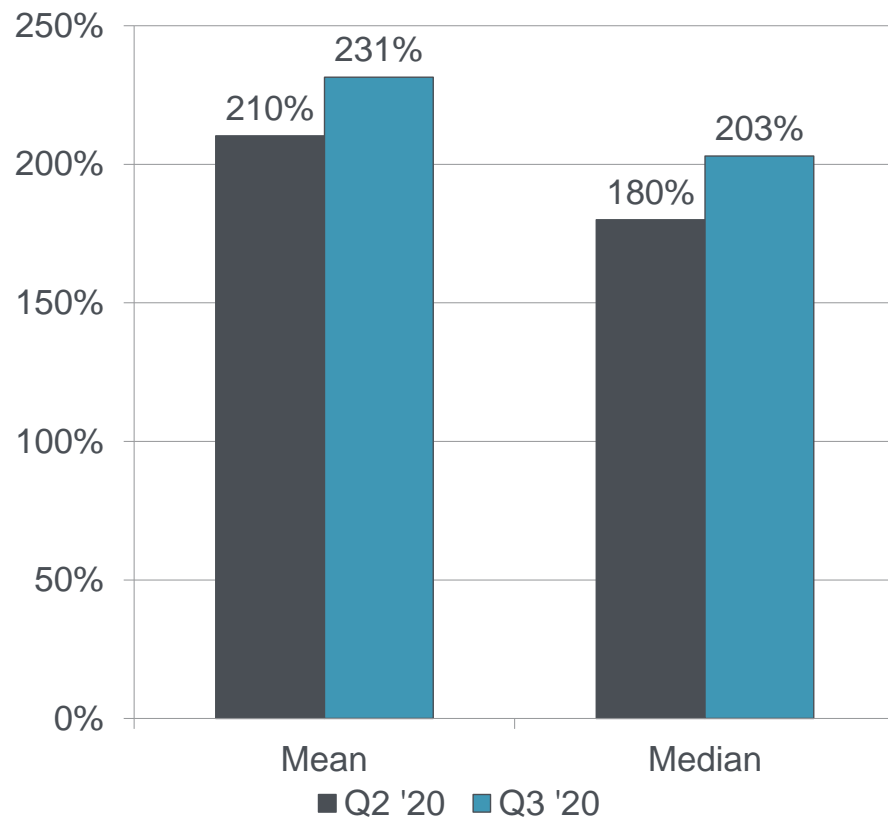
- Upholstered Products were up +14% and +8% on a mean/median basis
- Case Goods were up +11% and +4% on a mean/median basis
- Home Décor/Other was up +11% on a mean/median basis



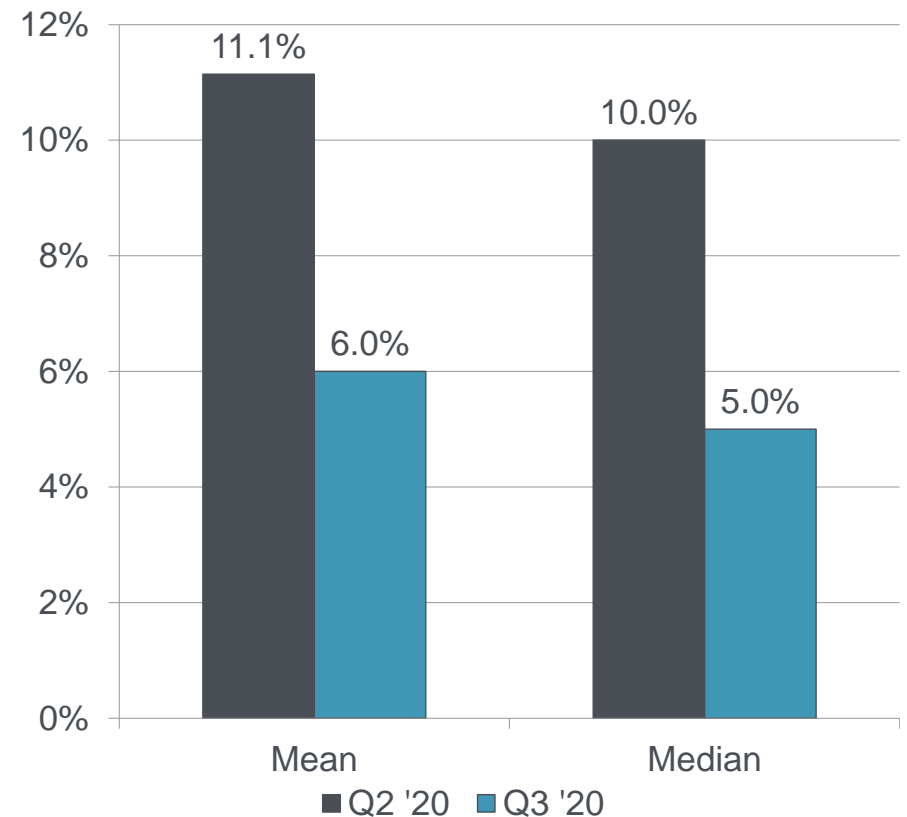
## Q3 Online Sales: What was your Q3 Online sales growth y/y?; What did Online sales represent as a % of total sales in Q3?

- For Q3, Online sales grew 231% and 203% on a mean/median basis, similar to Q2
- For Q3, Online sales represented 6% and 5% of total sales on a mean/median basis, down from Q2

**Online – Y/Y % Growth**



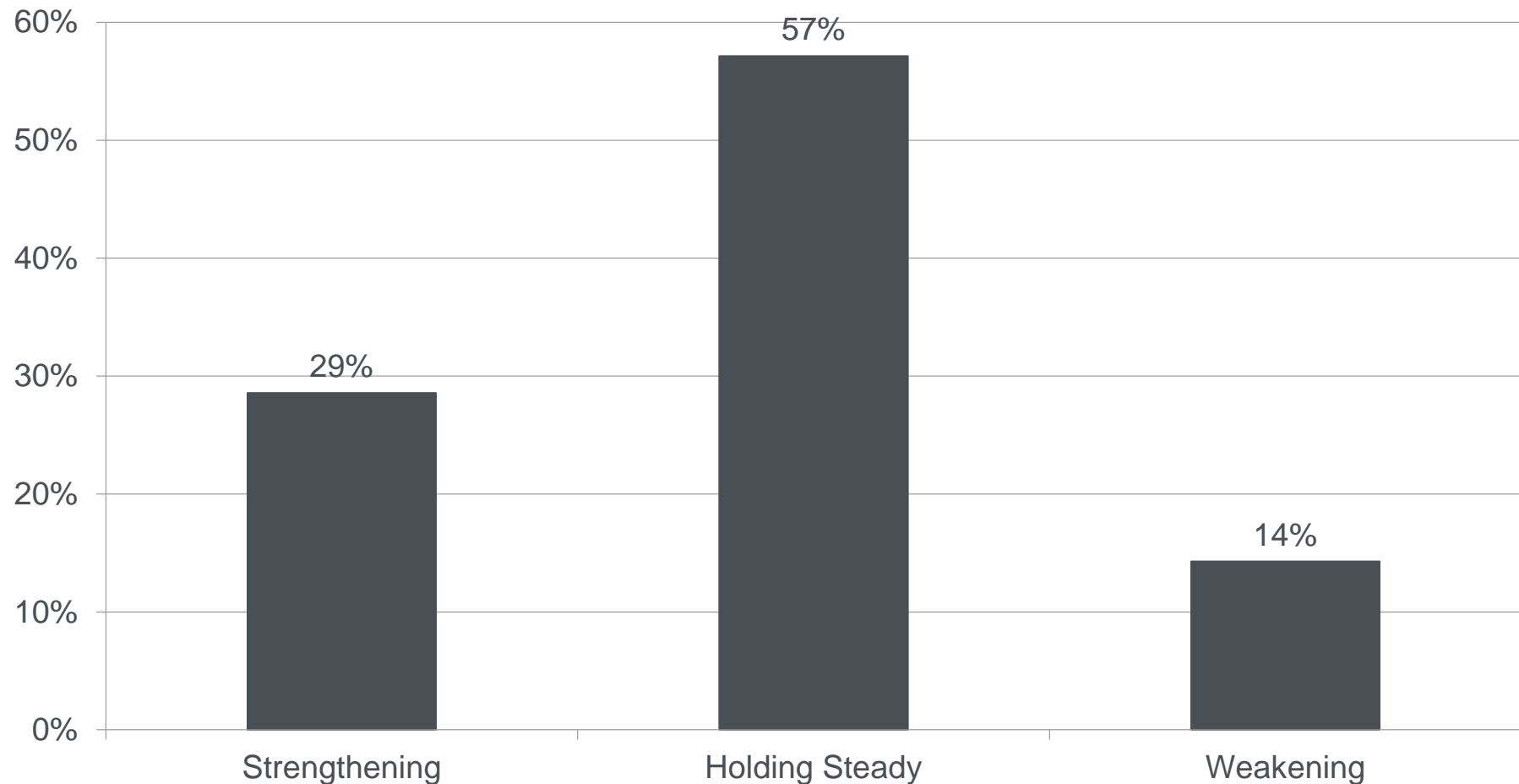
**Online – as % of total sales**





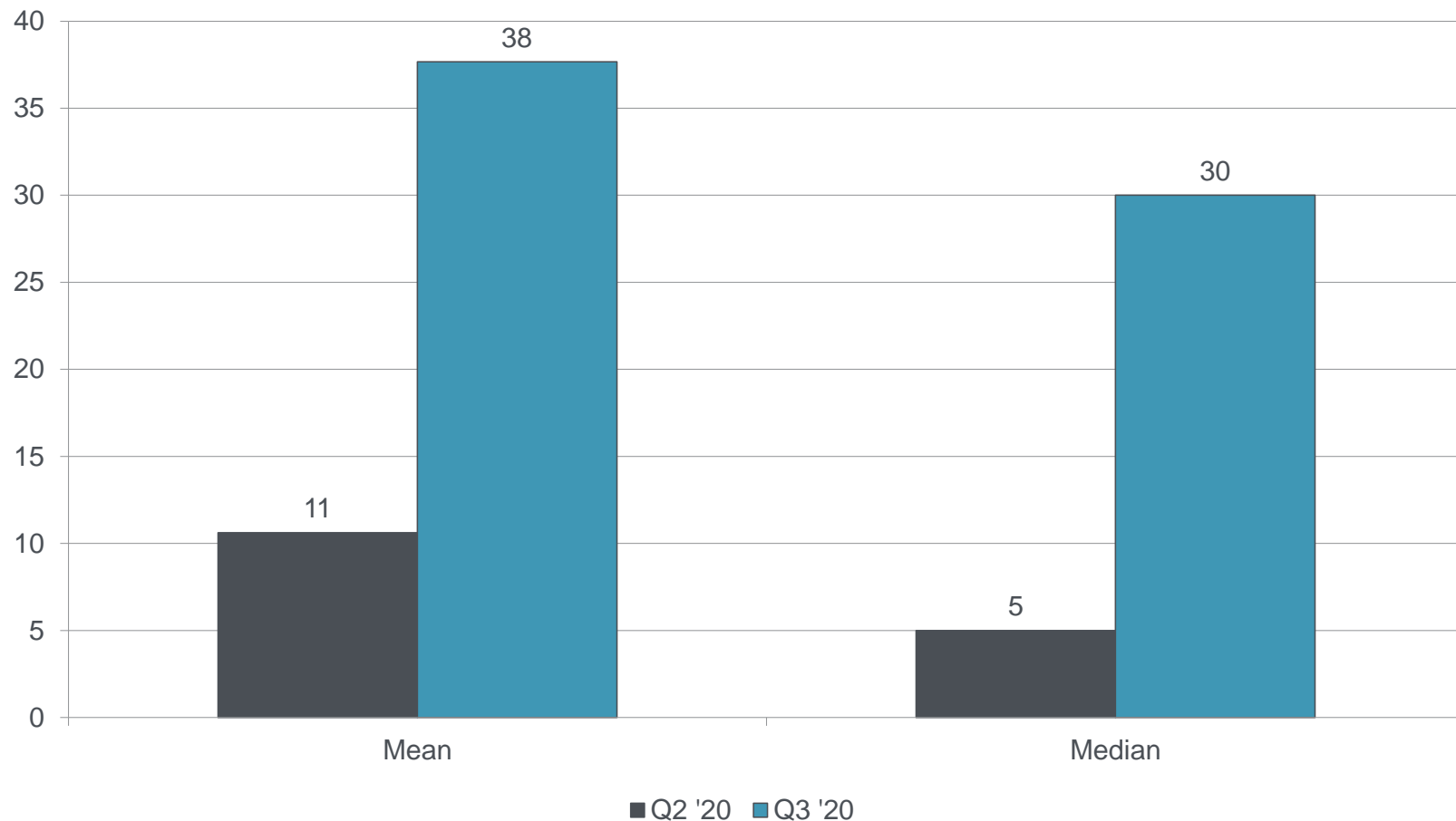
## Online Trends: How is overall online sales growth trending in Q3 and early Q4 vs. the online growth trend in Q2?

- A majority of retailers noted that online sales growth in Q3 and early Q4 has been holding steady



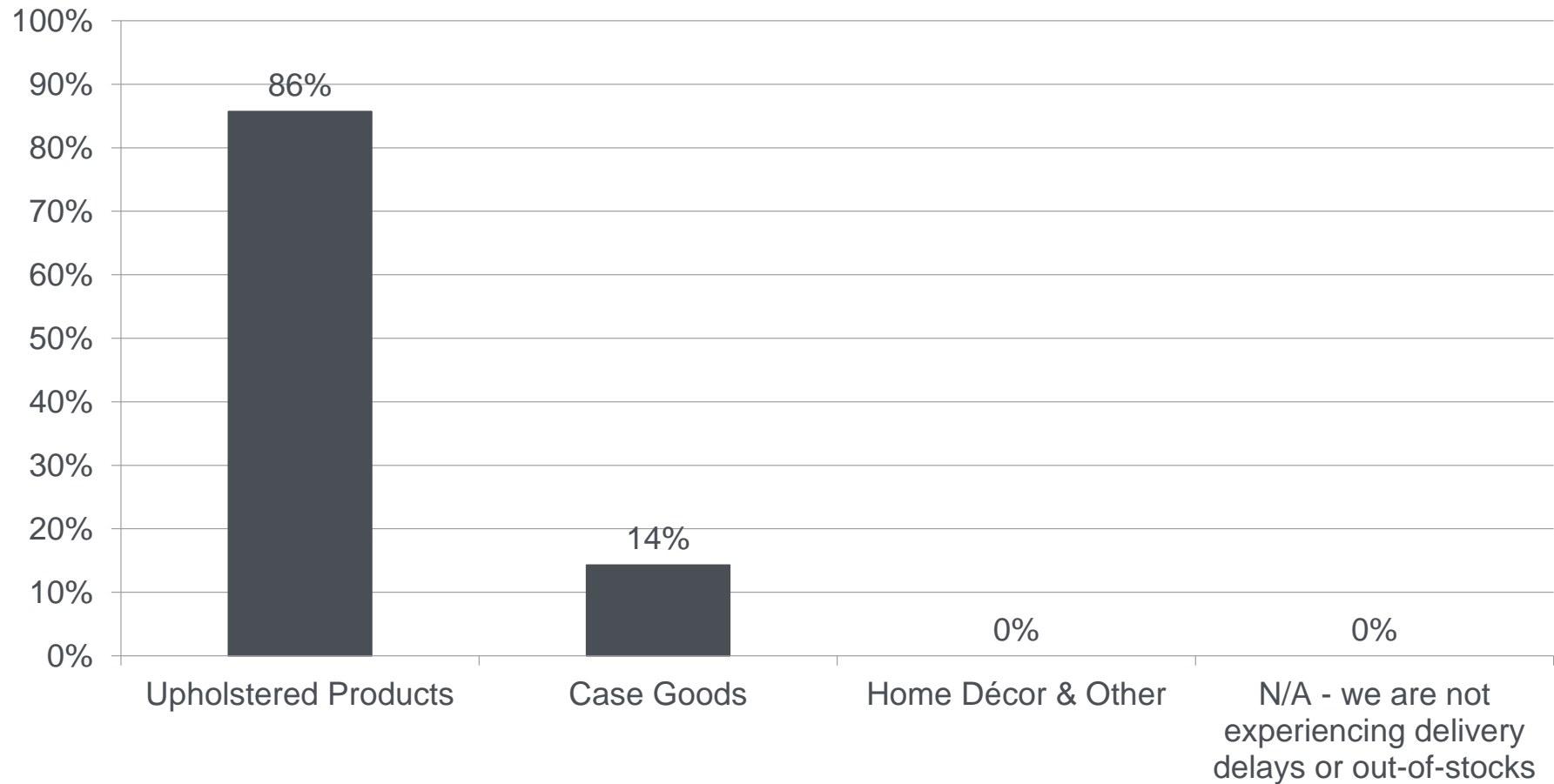
## Length of Delivery Time: What is your current average length of time for delivery to home following a consumer purchase (average lead time) in total days?

- Current average lead time is 38 days and 30 days on a mean/median basis, up significantly from Q2. Our industry conversations suggest supply chains have continued to get more constrained as 2020 has progressed.



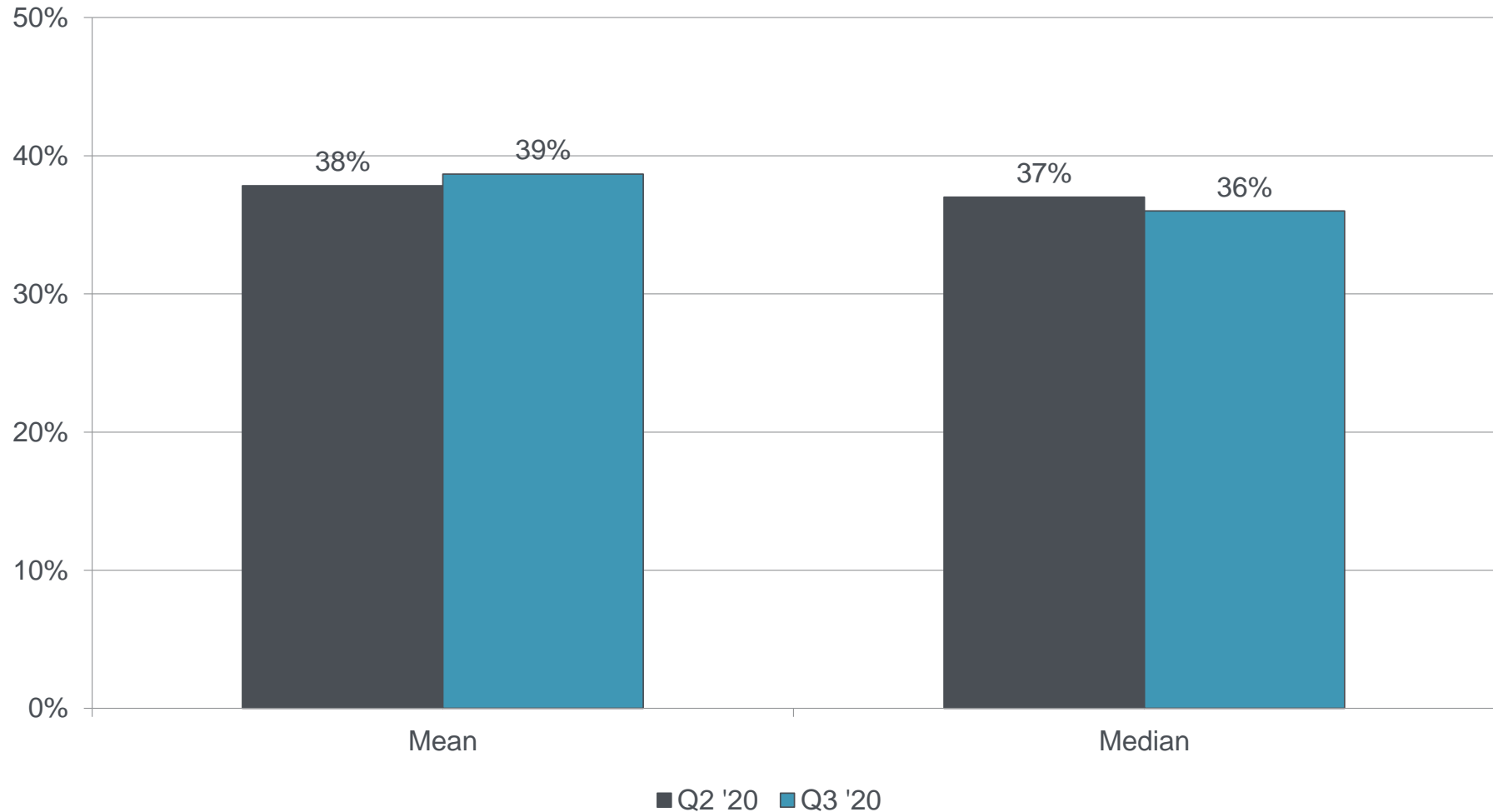
## Delays/Out-of-Stocks: What category are you currently experiencing the most delivery delays and/or out-of-stock issues?

- Upholstered Products is clearly having the most delays / out-of-stock issues



## % of Sales Financed: What percentage of your dollar sales utilized financing in Q3?

- Financing was utilized for 39% and 36% of sales on a mean and median basis in Q3



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## Ratings, Price Targets and Risks

- We rate BIG Overweight with a \$75 price target based on 10x 2021E EPS. Risks: Competition, weather, and general economic conditions.
- We rate OSTK Overweight with a \$140 price target based on 2.0x 2021E EV/Sales; EV is based on \$410M of net cash and a diluted share count of 43.7M shares. Risks: Economy, competition, site disruption, reliance on key management.
- We rate W Overweight with a \$370 price target based on 2.5x 2021E EV/Sales; EV based on \$2.37B of net cash and a fully diluted share count of 113M (assuming full conversion of the outstanding convertible notes). Risks: Economy, competition, site disruption, reliance on key top management.

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- T: Transferring Coverage
- D: Discontinuing Coverage
- S: Suspending Coverage
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- N: Neutral
- UW: Underweight
- NA: Not Available
- UR: Under Review

Distribution of Ratings/IB Services Piper Sandler				
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			Count	Percent
BUY [OW]	557	62.03	192	34.47
HOLD [N]	329	36.64	62	18.84
SELL [UW]	12	1.34	1	8.33

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**Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.

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