December 2021

Warren Buffett (1961) – on Sanborn Map: *"Sanborn sold at $45 per share. Yet the value of the Sanborn investment portfolio had increased to $65 per share… This means, in effect, the buyer of the stock was unwilling to pay more than 70 cents on the dollar for the investment portfolio with the map business thrown in for nothing."*

Furniture

- GORA is invested in the Furniture sector because it offers one of the most compelling and asymmetric risk-rewards we've seen.
- Sales and earnings are entering a multi-year period of expansion thanks to accumulated order backlogs and sustainable increases in demand. Profit upside is high.
- Meanwhile, the sector trades incredibly cheaply due to the market misunderstanding the impact of supply-chain constraints on recent production and therefore revenue. Outsized demand growth has been overlooked.
- Fortress balance sheets holding surplus cash, inventories and property leave the implied market value of future profits as negligible, based on share prices today.

GORA is invested in this theme in various sizes through the six companies below:

GORA Furniture estimates and valuation summary

	BSET	**ETD**	**FLXS**	**HOFT**	**HVT**	**LZB**
	Bassett	Ethan Allen	Flexsteel	Hooker	Havertys	La-Z-Boy
Share price	$16.71	$25.14	$24.68	$23.63	$31.68	$36.20
Value of surplus assets	$12.33	$14.27	$18.08	$9.64	$20.22	$14.91
Current backlog vs. normal	336%	215%	340%	325%	345%	376%
EBITDA upside vs. consensus						
FY22	10.5%	10.1%	NA	3.0%	9.2%	2.5%
FY23	16.7%	19.2%	NA	27.5%	23.6%	24.5%
FY24	22.0%	26.5%	NA	30.0%	21.7%	24.9%
Current EBITDA multiple	2.4x	4.4x	5.2x	6.8x	2.8x	5.0x
Upside at historic multiple*	**141%**	**81%**	**123%**	**101%**	**106%**	**102%**

*Source: Company data, GORA estimates. *Calculated on pre-pandemic avg multiple using FY23 forecast EBITDA*

Executive Summary

Furniture companies record revenue at the time of product delivery, not when a customer places the order. Temporary limitations on production caused by the pandemic suppressed deliveries and therefore revenue despite strong, sustainable demand. Orders undelivered are not lost. They move onto backlogs and are recorded as revenue in future periods.

Furniture deliveries are inflecting higher. Production capacity is expanding, and supply-chain shortages are being resolved. Profitability will accelerate. The scale of order backlogs and sustainable ongoing demand will drive a multi-year cycle of higher earnings.

In contrast to this reality, the market perceives recent revenue as indicative of low demand. The market goes further by hypothesizing that demand will worsen because a pandemic-induced demand bubble will soon pop. It is ill equipped to appreciate the backlog of orders already placed by customers which underwrite future revenue, and that demand is being sustained by significant wage growth and wealth accumulation for US households. As a result of these misunderstandings, the sector has sold off to depressed valuations.

Amplifying the favorable skew are balance sheets holding large amounts of cash, inventories, and property. When market valuations are netted for these surplus assets, the implied value of future profits is almost non-existent.

In summary, industry profits will grow and the current market price for these earnings is virtually zero.

In this paper:

Orders, deliveries, and a very large backlog

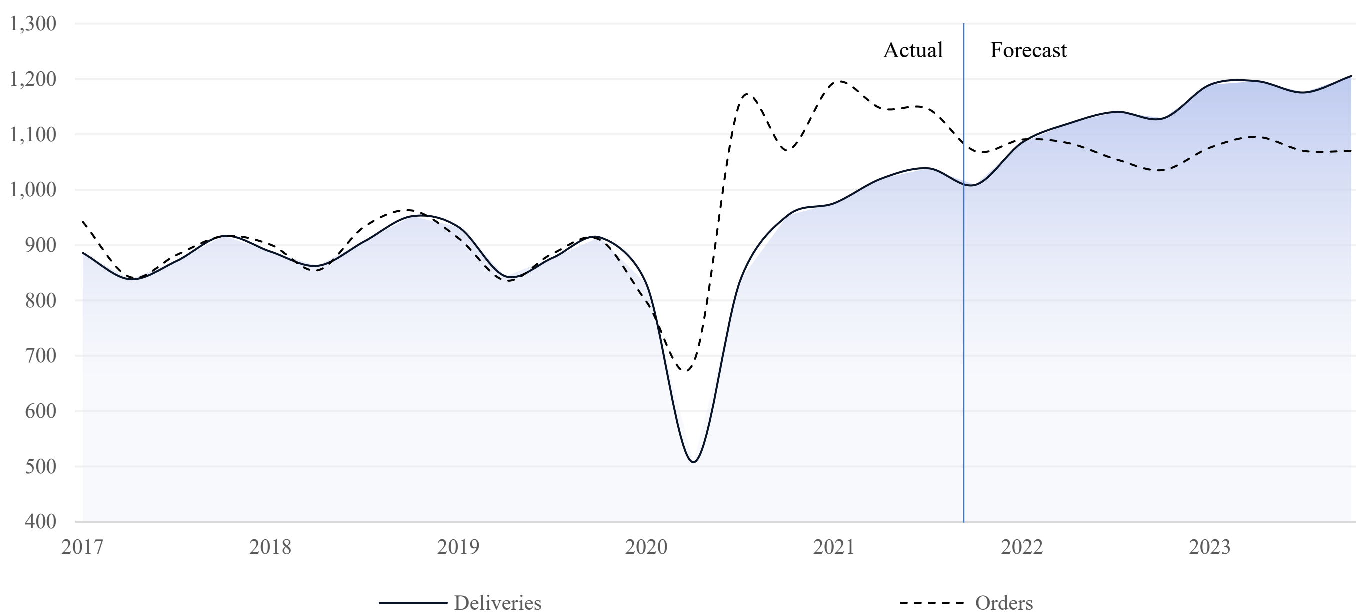
This opportunity exists because of accounting rules. A furniture company can only record revenue upon product delivery. However, furniture purchases involve a lag between customer order and delivery. A customer's payment is initially held as a deposit. The order sits on the company's backlog until delivery, at which time revenue is booked and the backlog reduced.

In a given quarter or year, orders (demand) may not match deliveries (revenue). In a period where orders are greater than deliveries, revenue is below demand, the order backlog grows, and future period revenue benefits.

Timing mismatches between orders and deliveries have existed forever. However, mismatches have historically been so immaterial as to barely affect financial performance. The pandemic changed this.

When the pandemic arrived consumer demand for home furnishings in the US boomed. Demand was in such abundance that furniture companies couldn't deliver all the incoming orders and accumulated very large backlogs. Financial performance was suppressed. Future financial performance will inflect higher as these backlogs are delivered.

Below we show the sum total of orders and deliveries, by period, for the companies featured in this paper.



Source: Company data, GORA estimates

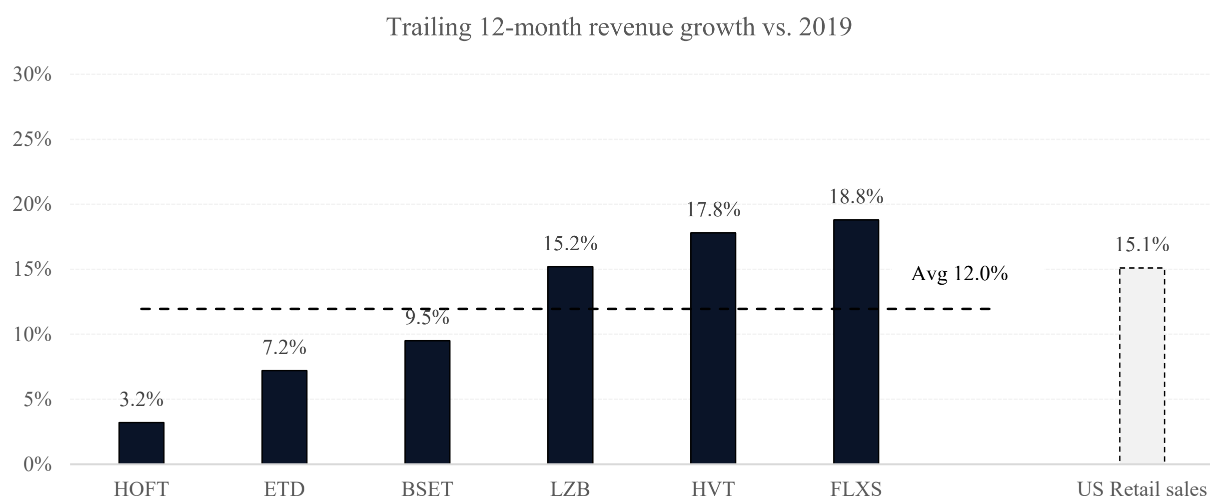
How the market got furniture stocks wrong, in two charts

The nuance of orders, deliveries and backlogs is extremely rare. A pizza chain does not have an order backlog of pizzas awaiting delivery some weeks or months ahead. For almost any consumer-facing business, production can always be quickly scaled to meet higher demand and an order not immediately filled is a lost sale. The market is trained to view revenue and demand as interchangeable.

When the pandemic began in early 2020, after an initial shock, a wave of consumer demand followed. The new demand was particularly concentrated on products for the home due to restrictions on movement and temporary removal of other spending options (restaurants, hotels etc.).

Most home products companies had no problem meeting the new demand. Homewares and electronics are sourced from suppliers based in Asia who could quickly scale up production. Their production is highly automated and there were few Covid restrictions at their factories. Furniture is the exception. It is one of the last manufacturing industries primarily based in the US. It is labor intensive and was therefore exposed to proximity restrictions for workers during the pandemic. As a result, furniture supply couldn't keep up with demand. Revenues for furniture companies grew less than for non-furniture peers.

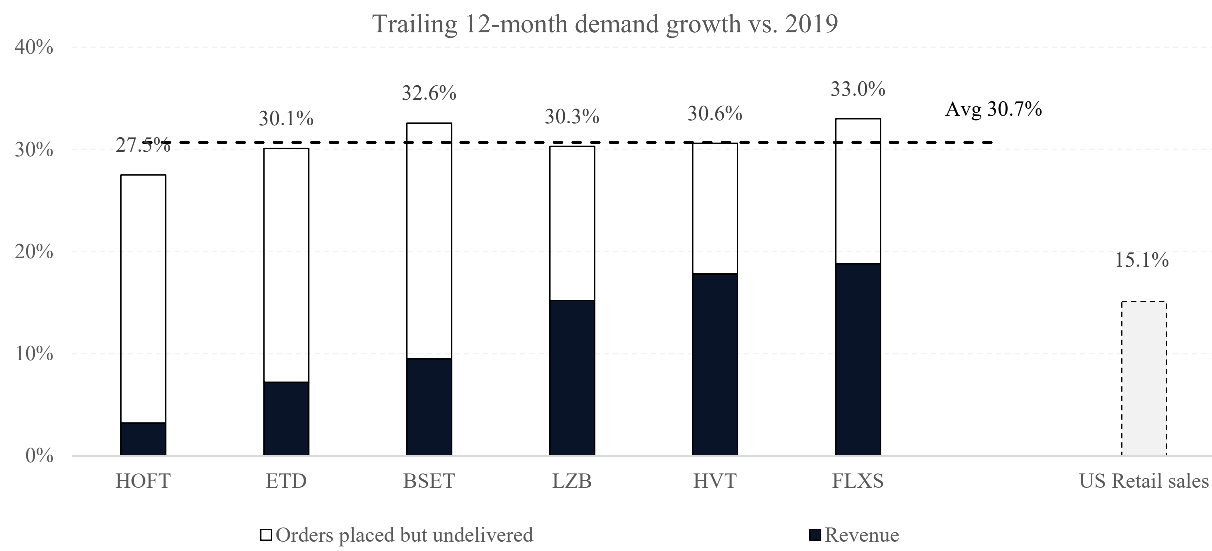
Below we show revenue growth for the six furniture companies featured in this paper. On average, revenue growth was below the total retail industry. The market thinks furniture companies missed the boom in home spending.



Source: Company data, US Census Bureau

However, look again with the inclusion of orders placed but undelivered due to production limitations. The six companies featured in this paper have all experienced demand growth significantly exceeding the broader US retail industry. For most, the majority of demand growth could not be delivered. Recent revenue growth therefore reflects only a small portion of the gains in demand relative to 2019.

The market is missing this.



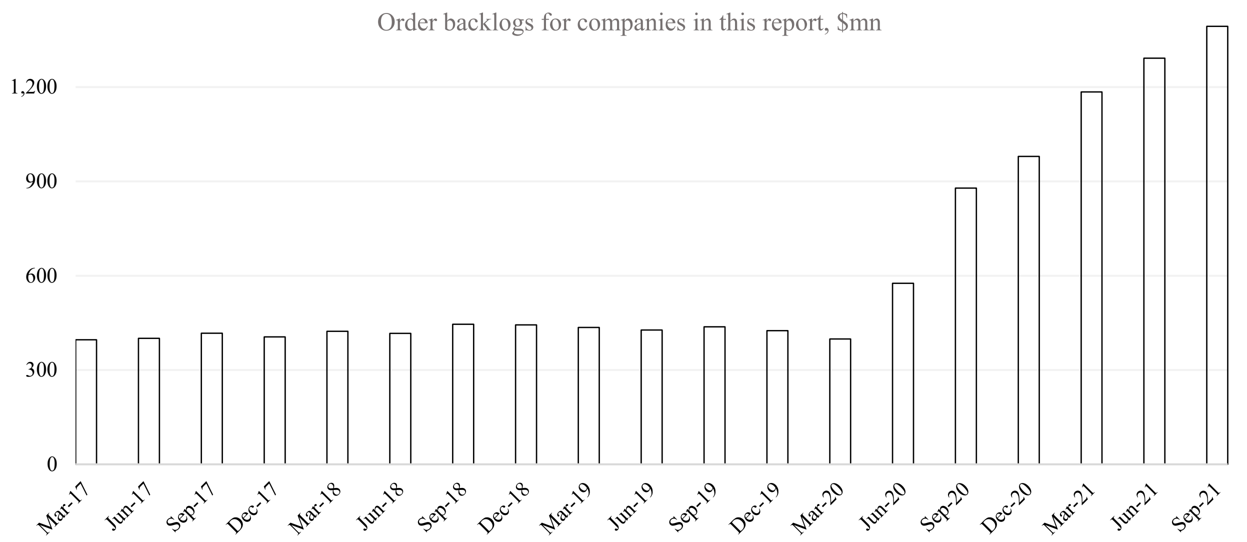
Source: Company data, US Census Bureau, GORA estimates

So where did all those orders go?

Backlogs. Furniture orders not quickly delivered are not lost; they move onto backlogs. Once backlogged orders have been produced and delivered, revenue is recorded, and profitability realized. The timing is affected but not the final value of revenue or profits.

There is no risk to backlogged revenue not being eventually realized. A contractual agreement exists between the furniture company and customer which secures the sale. In many cases, payment has been made by the customer at the time of order. The payment is sitting in the company's accounts long before revenue is booked, awaiting delivery. The build-up of order backlogs is revenue in-waiting.

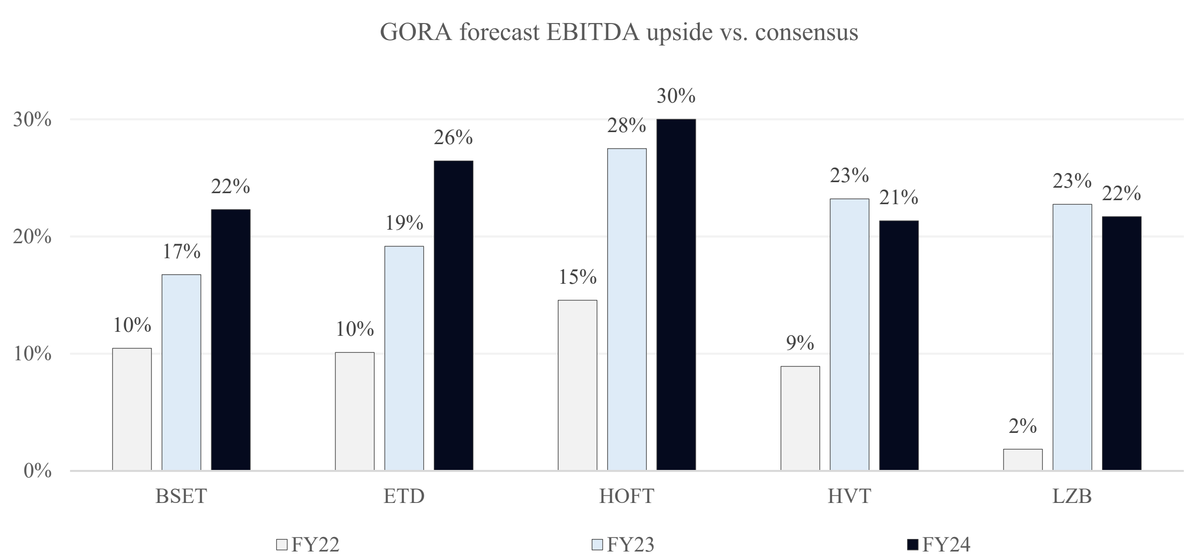
For these furniture companies, aggregate order backlogs have grown more than 350% since March 2020 and now represent almost a full year of pre-pandemic revenue.



Source: Company data, US Census Bureau, GORA estimates based on proxy measures for backlogs such as customer deposits and accrued sales bonuses where backlogs are not explicitly reported.

The substantial backlogs shown above will be delivered in coming periods. Their contribution underwrites revenue and earnings upside vs. consensus for the companies featured in this paper. The market is certainly missing this.

While we hold a positive long-term view on these businesses and future demand growth, earnings upside underwritten by order backlogs is the most important reason we are invested in furniture.



Source: Company data, GORA estimates. FLXS does not have analyst coverage so there is no consensus estimate to compare against.

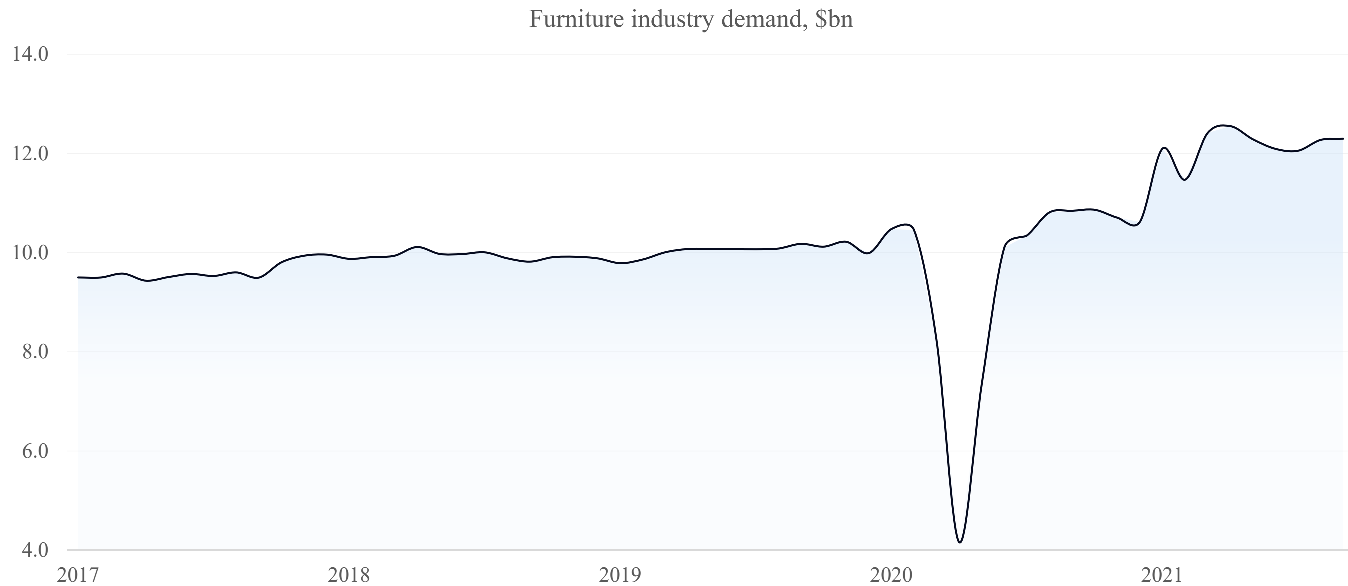
Strong, sustainable demand

There has been a permanent upward inflection in home furniture demand.

Initial demand growth was created by pandemic restrictions on movement and work-from-home (WFH), beginning in the Summer 2020. The consumer's universe of spending options narrowed with the home occupying its center. Elevated demand for furniture became a natural consequence.

Since restrictions were lifted, furniture demand has sustained. Its cause has shifted from limited consumer choice under WFH to permanent drivers of demand growth. The scale of demand has been masked within the performance of public furniture companies (discussed above).

The chart below shows furniture industry demand and illustrates a new normal 20% higher than pre-pandemic furniture demand.



Source: US Census Bureau

The market expects industry demand to soften and return to its pre-pandemic level. However, as of this report the pandemic is almost 24 months along, restrictions on movement have been relieved and with them any reflexive instinct for home spending. November 2021 furniture industry sales maintained all-time high levels.

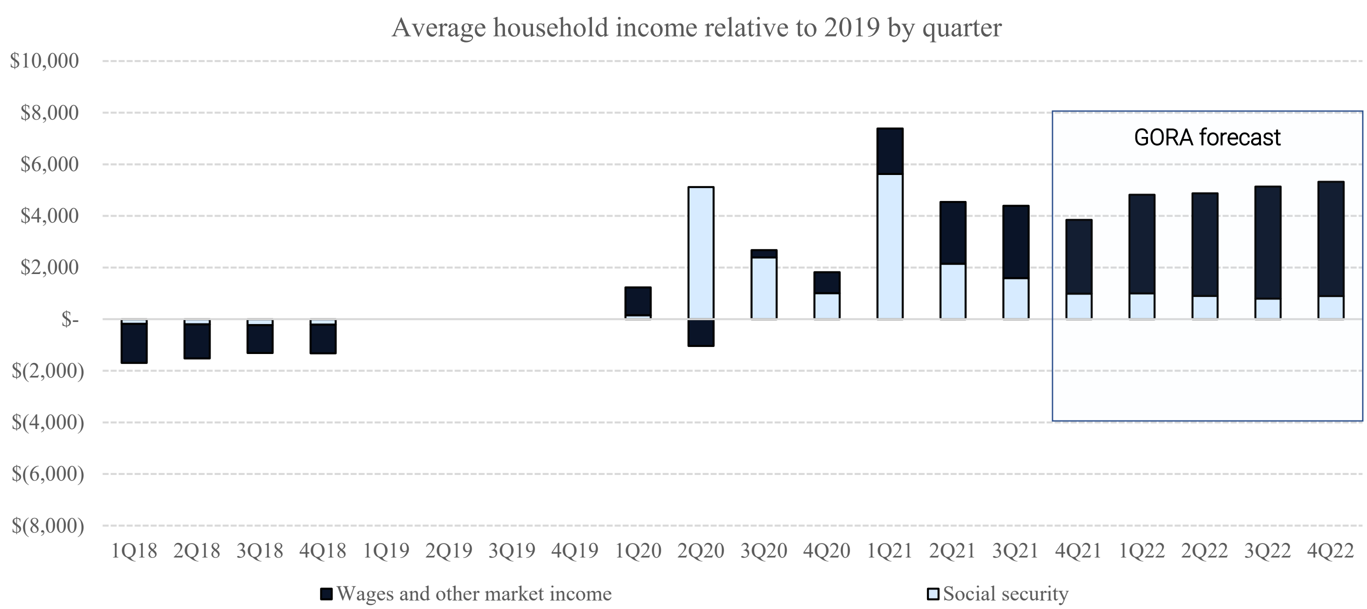
We are long-term investors and therefore look only for long-term drivers of business performance. Demand for furniture products will remain materially above its pre-pandemic level due to four paradigm shifts affecting US households post-pandemic: higher incomes, greater wealth, robust housing, and inflation in furniture prices.

Demand driver 1 of 4: Higher incomes

The pandemic accelerated US wage and income growth by many years. Today, average wages are approximately 10% higher than at the beginning of 2020. This wage growth is healthy - the result of rising consumer demand and hiring by firms to raise output to meet the new demand. Secondary sources of market income such as business income and interest/dividends are also growing with expanded economic activity. Rising incomes is the single biggest driver of rising demand for consumer discretionary products, such as furniture.

A counter-narrative weighing on many consumer companies is that withdrawal of pandemic stimulus will slow spending. We believe this narrative is false. Stimulus (social security) payments have never represented more than 15% of total US household income. Withdrawal of pandemic stimulus, while impactful, will be offset by the growth in wages and other market income discussed above. Wages and other market income represent 85%+ of total household income and is growing at its highest level in more than a decade. Finally, enhancements to the child tax credit instituted under President Biden add almost $1,000 per quarter to household income permanently, offsetting a piece of pandemic stimulus loss, which at its peak represented roughly $5,000 of additional quarterly income.

In summary, wages will offset lost stimulus and keep household income more than 10% above 2019 levels.



Source: Bureau of Economic Analysis, GORA forecasts

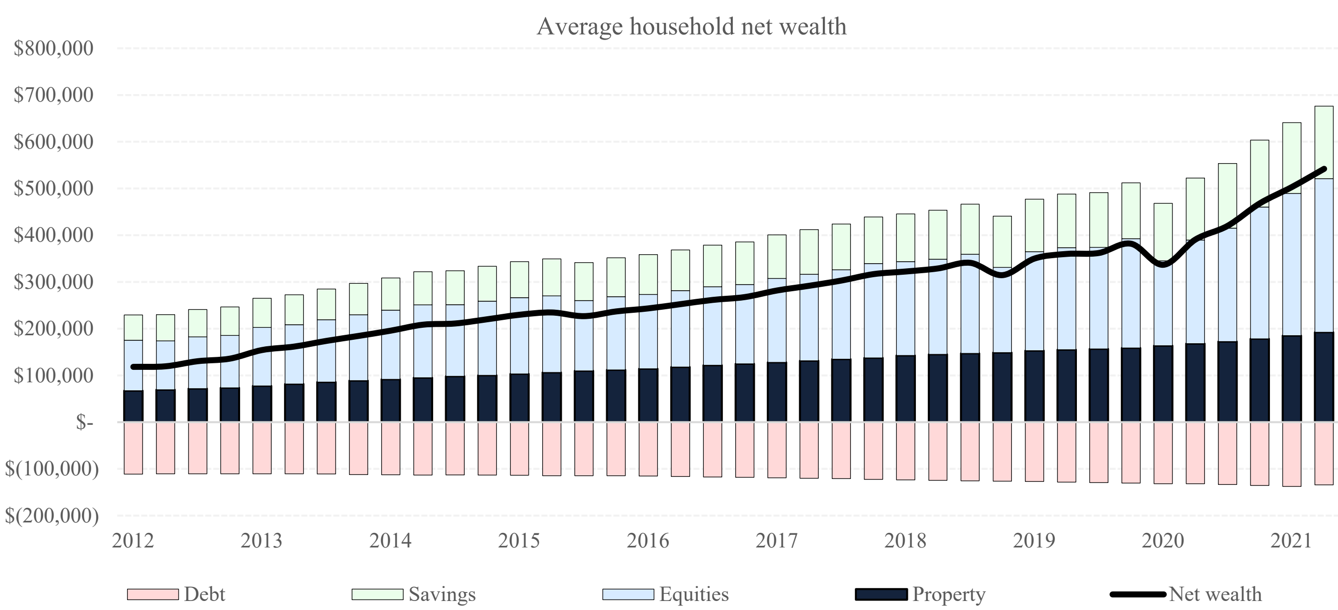
Demand driver 2 of 4: Greater wealth

US households have never been wealthier. Between March 2020 and September 2021:

- Average household home equity values increased +26% or $43,000
- Average household public equities portfolios increased +80% or $146,000
- Average household cumulative savings increased +29% or $35,000

Furniture's high-ticket price points make wealth, and recent changes in wealth, primary considerations in purchase decisions. The outsized cumulative appreciation in all major forms of household wealth add to the supportive backdrop for high-ticket spend.

Growth in savings is a particularly interesting source of wealth creation. Limitations on ability to spend have allowed the average US household to save the equivalent of four years' worth of expected savings under ordinary conditions. Between 2011 and 2020, the average household saved roughly $70,000. Savings account balances have swelled 1.5x vs. pre-pandemic. This large buffer of surplus savings buoys demand for furniture as families take advantage of the strong housing market to renovate and upgrade their homes.



Source: Bureau of Economic Analysis, St. Louis Fed, GORA forecasts

Demand driver 3 of 4: Robust housing

Tight housing supply and price appreciation adds a further layer to sustainable furniture demand on a long-term basis.

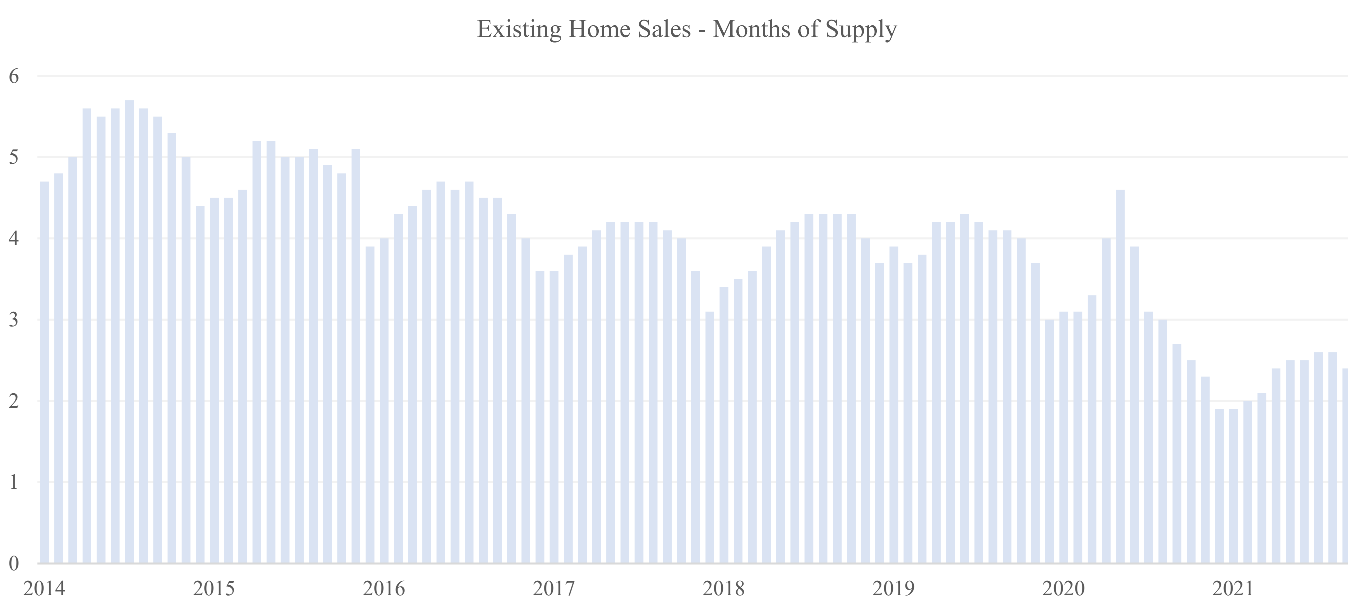
Furniture and housing are tightly linked, particularly so with housing turnover, where transfer of ownership necessitates furniture spend. Existing home sales, which prior to the pandemic had barley surpassed 55k units per month since 2006, have averaged more than 60k for the past year with surprising reliability. Prices are running +20% y/y nation-wide.

Within this strong housing backdrop, both high-end and suburban have led. These markets support greater furniture spend per location due to a higher average size of housing stock relative to mid-market and urban. More rooms, more sofas.

Anecdotally, renovation pros are booked through summer next year and Lowe's (LOW) reported last month 80% of its Pro customers have never been busier. With housing turnover, remodels and price appreciation all leading furniture spend, the cycle of housing-driven demand is set to continue for many years.

However, housing never offers a patchwork of data points harmoniously pointing in the same direction. We are closely watching how rapid price appreciation is affecting affordability. A recent creeping up of mortgage delinquencies paired with imminent interest rate increases suggests future year gains in housing are being compressed into a small window.

Existing Home Sales - Months of Supply on market is shown below. The tightness of availability is conducive for ongoing turnover and therefore furniture demand ahead.



Source: National Association of Realtors

Demand driver 4 of 4: Inflation in Furniture products

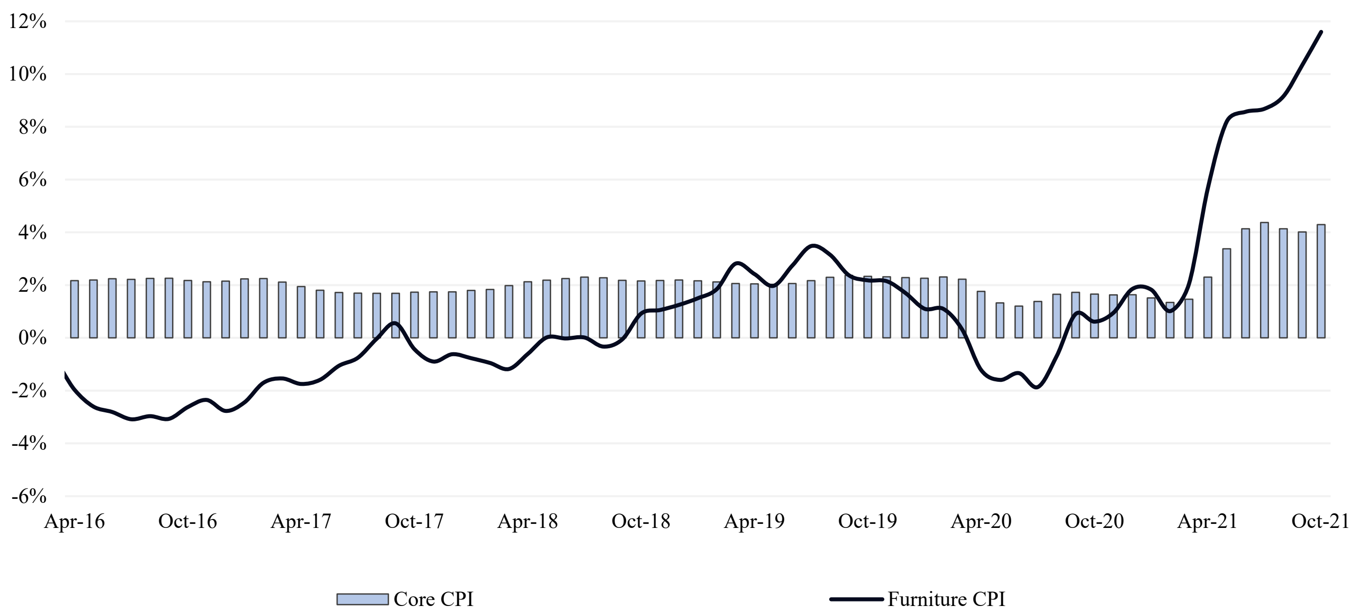
Inflation is the final demand driver and probably the most important. Of the 20% sustainable industry growth vs. pre-pandemic, inflation can account for more than half on its own.

Industry-wide, inflation is currently running above 10% y/y – the highest level on record. Outside of volatile energy and used car prices, furniture is now being recorded as the highest inflating category across all product and service groups measured by the Bureau of Labor Statistics.

Furniture inflation is good for furniture companies. Higher selling prices flow through to increased profitability far more so than selling more products, while holding prices constant. Higher selling prices also means sustainable elevated demand doesn't depend on more furniture items filling households.

Importantly, the recent burst in inflation reveals customers are accepting price increases on furniture products when buoyed by income growth and wealth appreciation. Other consumer categories, such as apparel and restaurants, are less successful passing on inflation costs to their customers.

Moreover, while initial price increases represented pass-through of input cost inflation being borne by furniture companies, these pressures are now abating (discussed below). Therefore, recent selling price increases will mean higher profit margins for the companies selling these products in the future.



Source: Bureau of Labor Statistics

Production expansion to meet the new demand

Furniture company production is increasing to meet the new demand. All companies featured in this report are investing to expand their delivery and service capabilities and grow their business.

Compared to most products, furniture production and distribution is difficult. It is not quickly scalable nor easily automated. A furniture artisan undergoes six months training before becoming proficient in assembly of large casegoods pieces. At least 12 months is needed to build and outfit an upholstery cut and sew plant. At the capital and labor stock levels in place entering the pandemic, the industry's production potential was insufficient to service the demand that followed and could not nimbly adapt.

The challenges of scaling furniture production are both an advantage and disadvantage for the companies in this report. Barriers to entry are formed by significant start-up costs, times and expertise required to produce furniture at scale. The industry's profit pool is protected by these barriers and will always accrue to existing players that long ago established their position. However, the long ramp to scaled production meant incumbents could not quickly respond to the demand inflection and realize the immediate revenue gains.

Investments were made to expand production beginning in the summer of 2020, but these investments are only now coming online. Below is a snapshot of major projects recently completed or soon to be completed, by the companies we are invested in. These projects will equip them to meet their new demand levels.

Company	Sqft growth	Employee growth	Projects
BSET	9%	8%	• **Newton, NC (manufacturing)**: New upholstery facility built sitting adjacent to company's existing Newton complex.
ETD	15%	18%	• **Maiden, NC (manufacturing)**: Expansion of cell count and capacity. • **Beecher Falls and Orleans, VT (manufacturing):** Expansion of cell count and capacity. • **Choloma, Honduras (manufacturing):** Investments in greater capabilities, cell count and production. • **Guanajuato, Mexico (manufacturing)**: Investments in greater capabilities, cell counts and production.
FLXS	25%	31%	• **Juarez, Mexico (manufacturing)**: Opened new plant in July 2021. Production currently ramping. • **Mexicali, Mexico (manufacturing):** Construction on third Mexican plant underway and scheduled for completion in July 2022. • **Greencastle, PA (warehouse):** New warehousing and distribution center measuring 242k sqft to handle increased inventory and growth.
HOFT	19%	10%	• **Liberty County, GA (distribution):** Construction completed on a new 800,000 sqft facility near the port of Savannah to handle inbound freight and service the Southern markets.
HVT	8%	-20%	• **Virginia, DC (warehouse):** Purchased as lessee earlier in the year with plans to expand the facility from a regional delivery center to full distribution center servicing the Atlantic Coast with reduced delivery times.
LZB	24%	33%	• **Dayton, TN (manufacturing and distribution):** Upgrades to capabilities and production levels. • **Neosho, MO (manufacturing and distribution):** Upgrades to capabilities and production levels.

			• **Parras, Mexico (manufacturing):** Opened a new sewing operating in July 2021. • **Ramos, Mexico (manufacturing):** Opened a new upholstery plant in September 2020. • **San Luis Rio Colorado, Mexico (manufacturing):** Opened a new upholstery plant in December 2020. • **Torreon, Mexico (manufacturing):** New upholstery manufacturing facility under construction with initial product deliveries expected at the beginning of 2022.

*Source: Company data, GORA estimates *HVT eliminated surplus layers from their workforce at the onset of the pandemic and chose to retain their slimmed-down operating model.*

A supply-chain mending

Exacerbating the challenge of insufficient production capacity is the burden of input shortages. Unlike the demand-driven inflation now emerging in consumer goods, input cost inflation was caused by supply-shortages and began impacting furniture profit margins in late 2020. The most well-known shortage is of shipping containers that freight goods made in Asia across the Pacific to the US. However, nearly every key input has been affected at one time or another, including lumber, steel, polyurethane foam, fabric coverings as well as transport.

These shortages are now mostly correcting. For every key input listed above, supply is normalizing, and prices have rolled off their most acute inflationary periods. For example, shipping containers coming from Asia to North America are now 22% below summer peaks. Lumber prices are down approximately 40%. There remain sources of high strain in the supply-chain, particularly in steel and domestic transport. However, supply-chain pressures are mending. Reflecting these improvements, the total input cost basket measured by the Bureau of Labor Statistics for Furniture producers is down 10% since the summer - albeit still 20% above pre-pandemic levels.

Positive jaws describes a business whose revenue is growing faster than its expenses. The furniture industry has weathered a period where cost inflation ran rampant. Although there's still a long way to normalization, that trend of input cost inflation will soon begin reversing. The sector is entering a period of outsized revenue growth at higher selling prices, while input costs normalize. Accelerating revenue growth with declining costs makes for very positive jaws.

Discounted valuations, surplus assets and accelerating repurchases

GORA's furniture thesis is not a value investment. Our case is not that these companies are trading cheap while fundamentals should continue to be okay. Rather, the sector is primed for a sustained acceleration in earnings caused by the inflection in home furnishings demand that until now has been concealed by supply-chain constraints.

However, the market's misunderstanding of the drag on delivered sales caused by transitory supply-chain issues has led to selling down of the furniture sector. Furniture stocks are currently available at an unprecedented discount to the broader retail group. This discount amplifies the investment's positive skew: valuations embed none of the earnings upside coming from backlog deliveries while downside is protected by fortress balance sheets.

We discuss three facets around furniture sector valuations below:

1. Discounted valuations – Furniture trades at its deepest discount to the Retail sector ever.

2. Surplus assets – Conservative balance sheets that include net cash, property and excess inventories mitigate downside and add optionality.

3. Accelerating share repurchases – Furniture company management are acutely aware of the discount to intrinsic value in their share prices. Share repurchases have accelerated in response.

Discounted valuations

Furniture has historically traded in line with the broader retail sector. Parity valuations over the long-term make sense given overlapping drivers of valuation: slightly-above-GDP growth, execution risk around fashion/taste, exposure to housing and consumer health.

Currently, furniture trades at its deepest ever discount to the broader retail sector. The cause is investor underappreciation of the nuance between furniture orders and deliveries (discussed above), leading investors to believe furniture companies missed the boom in demand for home spending. In aggregate the sector trades at just 3.9x EV/EBITDA.

In contrast, investor appetite for the broader retail sector remains healthy. Investors are focused on positive drivers such as rising incomes, high savings and strong reported revenue growth to push retail ex furniture to a near-high valuation of 11.8x EV/EBITDA.

In essence, furniture now trades very cheap, while its non-furniture retail peers look expensive.

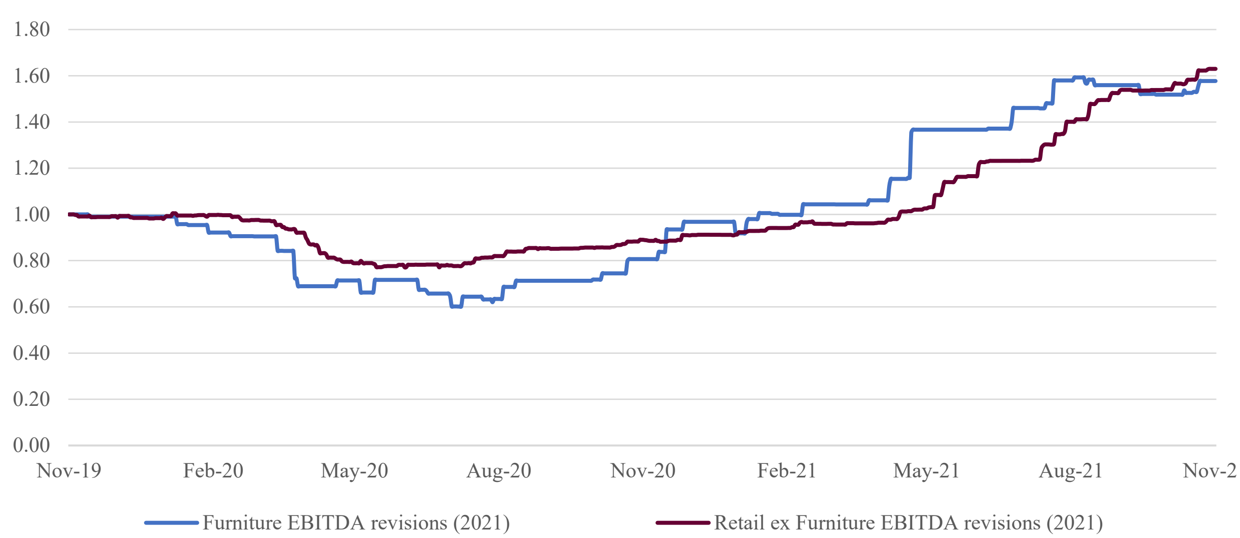
Source: FactSet

A consequence of this bifurcation in market sentiment leaves the furniture space sitting at a ~8x EBITDA discount to retail broadly, three standard deviations below its average discount of -0.4x prior to the pandemic.

Source: FactSet

Furniture's valuation discount to Retail stands out further when we compare 2021 EBITDA revisions for both groups beginning pre-pandemic through today. Furniture sector EBITDA revisions have kept pace with retail, despite furniture's greater relative exposure to supply-chain challenges.

We expect earnings revisions in the furniture sector to easily surpass retail going forward. Macro demand drivers shared by both remain positive: wage growth, a large build-up of savings/wealth, robust housing market. However, only Furniture will benefit from the build-up of order backlogs while Retail ex Furniture will need demand in 2022 to grow from 2021 in order to see improved earnings on top of 2021's year of rapid growth.



Surplus assets

All furniture companies in this report operate conservative balance sheets containing surplus assets we believe are not appropriately valued by the market.

The decision by furniture companies to operate without debt financing has its beginnings in 2007-08 when the housing crises threatened the industry. Recognizing the cyclical nature of furniture spending, management teams took its caution and have since eschewed debt financing, instead carrying large cash balances to weather unforeseen storms.

Furniture companies also own much of the real estate they operate. Property ownership includes manufacturing plants, distribution centers, corporate offices, and retail galleries. We recognize that property represents an operating asset and is often not easily monetized nor should be. We simply point out that there are large, tangible assets sitting on the balance sheets of these companies that are being overlooked by the broader market.

Finally, a number of management teams showed foresight in the face of supply-chain pressures, flexing their balance sheets to purchase large inventories ahead of any further disruptions. These excess inventories are above the ordinary requirements to operate the business and will be converted to revenue and cash flow in the coming 12-months.

Below we show, by company, our estimates of surplus assets expressed on a per share basis. We do so to illustrate how market valuations imply negligible value the core operating businesses relative to their future earnings power.

As a reminder, these companies operate strong business models defined by growth in demand, barriers to entry from competition and large order backlogs that underwrite outsized revenue growth over the coming years. All are forecast to have double-digit % EBITDA margins over the next 12 months.

GORA Furniture Industry Summary table
All values are $/share

Company	**Basset**	**Ethan Allen**	**Flexsteel**	**Hooker**	**Havertys**	**La-Z-Boy**
Ticker	BSET	ETD	FLXS	HOFT	HVT	LZB
Share price	$16.71	$25.14	$24.68	$23.63	$31.68	$36.20
Surplus assets:						
Cash and Investments	$5.75	$3.68	-$6.93	$3.12	$12.52	$6.69
Excess Inventories	$0.97	$0.59	$14.10	$0.42	$0.54	$1.69
Property	$5.61	$9.99	$10.90	$6.10	$7.17	$6.53
Value of surplus assets	$12.33	$14.27	$18.08	$9.64	$20.22	$14.91
Implied value for future earnings	$4.38	$10.87	$6.60	$13.99	$11.46	$21.29
Market value represented by assets	**74%**	**57%**	**73%**	**41%**	**64%**	**41%**
Market value represented by earnings	**26%**	**43%**	**27%**	**59%**	**36%**	**59%**

Source: Company data, GORA estimates.

Accelerating share repurchases

The market may not recognize that this small pocket of the retail sector is deeply undervalued, but the management teams of these companies do. The combination of healthy incoming customer orders, excess cash and the clear disconnect between market prices and intrinsic value has given them confidence to aggressively repurchase their stock on-market. In aggregate, the sector is repurchasing stock at a rate of more than 5% of total market value pa. September-quarter share repurchases eclipsed the pre-pandemic peak by more than 35%.

Since the close of the most quarter, Havertys (HVT) announced a fresh repurchase authorization. A good move we believe, with shares trading at just 2x EV/EBITDA and 6x EPS.

The combination of accelerating revenue, fortress balance sheets, deeply discounted market valuations and share repurchases is a recipe for material share price appreciation.

Source: Company data, GORA estimates

Basset Furniture (BSET)

Bassett

Bassett Furniture is a retailer, manufacturer, and marketer of home furnishings. Its wholesale segment designs, manufactures, sources and distributes furniture products. Its retail segment operates 110 Bassett branded furniture stores. Its Logistics segment, Zenith Freight Lines, provides shipping and warehousing services.

Share price	$16.71
Net cash	$5.75
Excess inventories	$0.97
Property	$5.61
Value for operations *(per share)*	$4.38
Backlog vs. historic average	336%
EBITDA multiple – current	2.4x
EBITDA multiple – historic avg	6.1x

Background and idiosyncratic view

BSET offers the most upside to this thematic investment. It is among the most affected by transitory supply-chain pressures due to its exposure to offshore production, while also being among the strongest performers in order growth relative to pre-pandemic. This means BSET's recent performance has experienced greater temporary headwinds while its future performance has greater potential for improvement.

When this setup is viewed within the context of a very small market cap, valuation below 2x EV/EBITDA, and with the company an active buyer of its own stock on the open market, the risk-reward becomes highly favorable.

Forecasts and catalysts

We forecast immediate earnings upside. Near-term forecasts are slightly tempered by BSET's small exposure to Vietnam through its casegoods products, where factory shutdowns will inhibit deliveries in the coming six months. Beyond this period, we earnings will materially accelerate owing to improved access to production. Further upside is offered by a return to profitability for BSET's logistics operations, Zenith Freight, which has sits at the focal point of supply-chain headwinds.

Click here for model

Bassett Furniture Industries (BSET)
Forecasts and valuation

	FY22	FY23	FY24
Consensus revenue growth	2.7%	1.0%	1.0%
GORA revenue growth	3.6%	6.5%	1.1%
Consensus EBITDA $m	$45.5	$47.4	$48.0
GORA EBITDA $m	$50.2	$55.3	$58.6
Consensus EBITDA multiple	2.4x	2.3x	2.2x
GORA EBITDA multiple	**2.1x**	**1.9x**	**1.8x**
Upside at historic valuation multiple	**122%**	**141%**	**153%**

Source: Company data, GORA estimates

Ethan Allen (ETD)

ETHAN ALLEN

Ethan Allen Interiors is a manufacturer and retailer of furniture. It is vertically integrated from design through delivery. The Company operates through a wholesale and retail segment. The wholesale segment develops Ethan Allen branded product and encompasses manufacturing, sourcing, marketing, sale. The retail segment operates 141 customer-facing design studios.

Share price	$25.14
Net cash	$3.68
Excess inventories	$0.59
Property	$9.99
Value for operations *(per share)*	$10.87
Backlog vs. historic average	215%
EBITDA multiple – current	4.4x
EBITDA multiple – historic avg	7.6x

Background and idiosyncratic view

ETD is one of the best positioned companies to take advantage of the current environment. It has full control of its supply-chain right down to owning the forests that provide its lumber. It is therefore insulated from supply-chain inflation. ETD is taking advantage of this favorable position by growing its production capabilities domestically, in Honduras and Mexico.

Beyond supplying its own design centers and independent galleries, ETD successfully supplies government agencies through large contract orders. Unlike retail demand, government orders were diminished by the pandemic but are now recovering.

Forecasts and catalysts

The company reinforced our investment thesis through its recently delivered earnings results which featured all-time record margins and beat consensus forecasts by more than 20%. We anticipate continued earnings beats driven by ongoing backlog deliveries and ETD's successful cost reduction program completed in 2020 which leaves a more efficient operating business.

Click here for model

Ethan Allen Interiors (ETD)
Forecasts and valuation

	FY22	FY23	FY24
Consensus revenue growth	9.8%	-1.1%	1.5%
GORA revenue growth	14.4%	7.6%	3.9%
Consensus EBITDA $m	$124.4	$117.3	$120.0
GORA EBITDA $m	$136.9	$139.8	$151.7
Consensus EBITDA multiple	4.4x	4.7x	4.6x
GORA EBITDA multiple	**4.0x**	**3.9x**	**3.6x**
Upside at historic valuation multiple	**77%**	**81%**	**95%**

Source: Company data, GORA estimates

Flexsteel Industries (FLXS)

FLEXSTEEL®

Flexsteel is a manufacturer, importer, and online marketer of residential furniture. It distributes its products through its e-commerce channel and dealer network. Flexsteel operates multiple manufacturing facilities in the United States and Mexico.

Share price	$24.68
Net cash	-$6.93
Excess inventories	$14.10
Property	$10.90
Value for operations *(per share)*	$6.60
Backlog vs. historic average	340%
EBITDA multiple – current	5.2x
EBITDA multiple – historic avg	10.1x

Background and idiosyncratic view

FLXS offers one of the most interesting long-term investment outlooks. An almost entirely new management team is determined to near double the business over the next five years. It is investing aggressively to ramp production to support its growth aspirations.

Concurrently, the company is an aggressive buyer of its shares given market valuations embed none of this future upside. FLXS is not the most oversold company featured in this paper but offers significant upside from execution given the high fixed-cost leverage in its business model.

Forecasts and catalysts

FLXS did an excellent job building its inventory position to assist service and delivery levels when input shortages began permeating through the economy. That said, it remains highly exposed to supply-chain cost inflation through its reliance on imports, making it a less preferred choice of ours for this investment theme. FLXS' order backlog at more than 3x its historic normal level underwrites continued revenue and profit improvements beyond this fiscal year. Longer-dated execution of management's growth plan adds further upside.

Click here for model

Flexsteel Industries (FLXS)
Forecasts and valuation

	FY22	FY23	FY24
Consensus revenue growth	NA	NA	NA
GORA revenue growth	17.7%	5.6%	2.0%
Consensus EBITDA $m	NA	NA	NA
GORA EBITDA $m	$33.8	$46.2	$47.6
Consensus EBITDA multiple	NA	NA	NA
GORA EBITDA multiple	**9.6x**	**5.2x**	**5.1x**
Upside at historic valuation multiple	**6%**	**123%**	**128%**

Source: Company data, GORA estimates

Hooker Furnishings (HOFT)

HOOKER® FURNISHINGS

Hooker Furnishings is a furnishings marketing, design and logistics company offering sourcing of residential casegoods and upholstery, as well as domestically produced leather and fabric-upholstered furniture. The Company operates three segments: casegoods furniture, upholstered furniture and all other.

Share price	$23.63
Net cash	$3.12
Excess inventories	$0.42
Property	$6.10
Value for operations *(per share)*	$13.99
Backlog vs. historic average	325%
EBITDA multiple – current	6.8x
EBITDA multiple – historic avg	9.0x

Background and idiosyncratic view

HOFT's full earnings potential has been masked by challenges that pre-date the pandemic. We believe management has a strong grasp of the root causes and the company will emerge with higher profitability.

More specifically, the HOFT umbrella of furniture brands includes highly recognized and profitable names such as the flagship Hooker Branded banner whose strong performance has been masked at the enterprise level but missteps at secondary brands either being exited or resolved. These isolated causes of recent financial performance are underappreciated by the market, explaining our relatively greater earnings upside forecasts vs. consensus compared to the other companies in this report.

Forecasts and catalysts

We forecast revenue and earnings beats beginning immediately but see some near-term risk given HOFT's high exposure to Vietnamese production shutdowns, whose impact is difficult to forecast. Any revenue shortfalls caused by a lack of product availability from Vietnam will be temporary. Vietnam's factories are already back up and running. Share price weakness caused by temporary supply shortfalls would encourage our further buying.

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Hooker Furnishings (HOFT)
Forecasts and valuation

	FY22	FY23	FY24
Consensus revenue growth	11.1%	7.2%	4.0%
GORA revenue growth	11.9%	14.6%	8.5%
Consensus EBITDA $m	$33.0	$46.4	$56.2
GORA EBITDA $m	$34.0	$59.2	$73.0
Consensus EBITDA multiple	7.5x	5.3x	4.4x
GORA EBITDA multiple	**7.2x**	**4.2x**	**3.4x**
Upside at historic valuation multiple	**21%**	**101%**	**145%**

Source: Company data, GORA estimates

Havertys (HVT)

HAVERTYS

Havertys is a retailer of residential furniture and accessories. The Company operates 120 stores serving 84 cities in 16 states with approximately 4.4 million retail square feet. All of its locations are operated using the Havertys name.

Share price	$31.68
Net cash	$12.52
Excess inventories	$0.54
Property	$7.17
Value for operations *(per share)*	$11.46
Backlog vs. historic average	345%
EBITDA multiple – current	2.8x
EBITDA multiple – historic avg	6.4x

Background and idiosyncratic view

We view HVT as one of the least well understood companies in the consumer landscape. It operates very successful stores, measured by sales density, in markets that are highly attractive – wealthy regions in southern states. Further, the company has one of the most favorable balance sheet positions on offer. 40% of its market cap is accounted for net cash on its balance sheet with no debt.

We believe HVT management agrees with our thesis. The company repurchased almost 5% of its shares outstanding last quarter and added a fresh authorization to keep buying. Additionally, the company undertook a difficult restructuring early in the pandemic that has left a leaner operation with structurally higher earnings margins than pre-pandemic. This is being overlooked by investors who expect a return to pre-pandemic lower sales and higher expenses. In contrast, the company is now permanently stronger and more profitable than ever before.

Forecasts and catalysts

We forecast a clean runway of revenue and earnings beats. The company does share exposure to Vietnam's production slowdown, but we find this more than fully embedded in consensus. HVT is also improving its alternate sourcing.

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Havertys Furniture Company (HVT)
Forecasts and valuation

	FY22	FY23	FY24
Consensus revenue growth	1.3%	1.1%	0.5%
GORA revenue growth	1.8%	7.4%	0.9%
Consensus EBITDA $m	$125.0	$123.5	$123.0
GORA EBITDA $m	$136.6	$152.6	$149.6
Consensus EBITDA multiple	2.8x	2.9x	2.9x
GORA EBITDA multiple	**2.6x**	**2.3x**	**2.4x**
Upside at historic valuation multiple	**88%**	**106%**	**102%**

Source: Company data, GORA estimates

La-Z-Boy (LZB)

La-Z-Boy is a manufacturer and retailer of residential furniture and is the world's largest producer of reclining chairs. The Company's Wholesale segment consists of five brands: La-Z-Boy, England, American Drew, Hammary and Kincaid. Its Retail segment consists of 159 Company-owned La-Z-Boy Furniture Galleries stores. The Company's Joybird brand sells products through www.joybird.com.

Share price	$36.20
Net cash	$6.69
Excess inventories	$1.69
Property	$6.53
Value for operations *(per share)*	$21.29
Backlog vs. historic average	376%
EBITDA multiple – current	5.0x
EBITDA multiple – historic avg	8.6x

Background and idiosyncratic view

Ably led by its new CEO, LZB is among the highest quality ways to invest in this thematic. With high ownership of its supply-chain, the company has done more than any other to invest in expanding product delivery potential while maintaining a flexible operating model should demand eventually wane. These investments are now bearing fruit. The company is setting fresh production records on a weekly basis.

Joybird, a digitally native furniture brand acquired in 2018, is performing exceptionally well and underwrites future market share gains for LZB. Joybird's sales under LZB's stewardship have nearly tripled. Management's proven ability to successfully manage the many facets of its business gives us confidence in it delivering long-term growth above GDP and above industry.

Forecasts and catalysts

We forecast sequentially increasing revenue and profitability every quarter for the balance of the fiscal year and into FY23. The current valuation multiple is unsustainable in the face of continual improvement in revenue and profitability.

Click here for model

La-Z-Boy Inc (LZB)
Forecasts and valuation

	FY22	FY23	FY24
Consensus revenue growth	31.4%	1.2%	3.5%
GORA revenue growth	34.4%	6.8%	3.3%
Consensus EBITDA $m	$262.8	$278.3	$280.0
GORA EBITDA $m	$269.3	$346.5	$349.6
Consensus EBITDA multiple	5.0x	4.7x	4.7x
GORA EBITDA multiple	**4.9x**	**3.8x**	**3.7x**
Upside at historic valuation multiple	**61%**	**102%**	**103%**

Source: Company data, GORA estimates

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