PETITIONER'S

EVIDENCE

“economic obsolescence” - the loss in value of property caused by factors external to the property. These may include things as the economics of the industry; availability of financing; loss of material/or labor sources; passage of new legislation; reduced demand for the product; increased competition; or similar factors (page 67).

Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets

ASSESSOR'S EXHIBIT B
95 PAGES

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 3, 2020.

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number: 001-14077

WILLIAMS-SONOMA, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-2203880** **(I.R.S. Employer Identification No.)**
3250 Van Ness Avenue, San Francisco, CA **(Address of principal executive offices)**	**94109** **(Zip Code)**

Registrant's telephone number, including area code: (415) 421-7900

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol(s):	Name of each exchange on which registered:
Common Stock, par value $.01 per share	**WSM**	**New York Stock Exchange, Inc.**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 31, 2020, 77,758,981 shares of the registrant's Common Stock were outstanding.

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MAY 3, 2020

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PART I. FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

In thousands, except per share amounts	Thirteen Weeks Ended May 3, 2020	Thirteen Weeks Ended May 5, 2019
Net revenues	$1,235,203	$1,241,132
Cost of goods sold	820,943	796,801
Gross profit	414,260	444,331
Selling, general and administrative expenses	365,615	370,199
Operating income	48,645	74,132
Interest expense, net	2,159	2,253
Earnings before income taxes	46,486	71,879
Income taxes	11,063	19,223
Net earnings	$ 35,423	$ 52,656
Basic earnings per share	$ 0.46	$ 0.67
Diluted earnings per share	$ 0.45	$ 0.66
Shares used in calculation of earnings per share:		
Basic	77,262	78,683
Diluted	78,399	79,867

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

In thousands	Thirteen Weeks Ended May 3, 2020	Thirteen Weeks Ended May 5, 2019
Net earnings	$ 35,423	$ 52,656
Other comprehensive income (loss):		
Foreign currency translation adjustments	(5,276)	(3,009)
Change in fair value of derivative financial instruments, net of tax of $196 and $74	549	204
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax of $13 and $24	(37)	(67)
Comprehensive income	$ 30,659	$ 49,784

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

In thousands, except per share amounts	May 3, 2020	February 2, 2020	May 5, 2019
ASSETS			
Current assets			
Cash and cash equivalents	$ 861,002	$ 432,162	$ 107,683
Accounts receivable, net	104,829	111,737	102,195
Merchandise inventories, net	1,070,681	1,100,544	1,155,427
Prepaid expenses	90,433	90,426	98,213
Other current assets	22,099	20,766	22,128
Total current assets	2,149,044	1,755,635	1,485,646
Property and equipment, net	907,219	929,038	916,030
Operating lease right-of-use assets	1,175,402	1,166,383	1,200,972
Deferred income taxes, net	33,320	47,977	34,215
Goodwill	85,335	85,343	85,357
Other long-term assets, net	67,795	69,666	66,145
Total assets	$4,418,115	$4,054,042	$3,788,365
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 423,375	$ 521,235	$ 385,646
Accrued expenses	137,495	175,003	109,169
Gift card and other deferred revenue	299,353	289,613	291,839
Income taxes payable	24,049	22,501	24,384
Current debt	487,823	299,818	—
Operating lease liabilities	224,541	227,923	227,427
Other current liabilities	85,458	73,462	75,750
Total current liabilities	1,682,094	1,609,555	1,114,215
Deferred rent and lease incentives	26,254	27,659	30,536
Long-term debt	299,868	—	299,670
Long-term operating lease liabilities	1,109,473	1,094,579	1,139,625
Other long-term liabilities	81,497	86,389	82,551
Total liabilities	3,199,186	2,818,182	2,666,597
Commitments and contingencies – See Note F			
Stockholders' equity			
Preferred stock: $.01 par value; 7,500 shares authorized; none issued	—	—	—
Common stock: $.01 par value; 253,125 shares authorized; 77,759, 77,137 and 78,808 shares issued and outstanding at May 3, 2020, February 2, 2020 and May 5, 2019, respectively	778	772	788
Additional paid-in capital	596,184	605,822	571,772
Retained earnings	641,917	644,794	564,127
Accumulated other comprehensive loss	(19,351)	(14,587)	(13,945)
Treasury stock, at cost: 8, 14 and 14 shares as of May 3, 2020, February 2, 2020 and May 5, 2019, respectively	(599)	(941)	(974)
Total stockholders' equity	1,218,929	1,235,860	1,121,768
Total liabilities and stockholders' equity	$4,418,115	$4,054,042	$3,788,365

See Notes to Condensed Consolidated Financial Statements.

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WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

In thousands	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at February 2, 2020	77,137	$ 772	$ 605,822	$644,794	$ (14,587)	$ (941)	$ 1,235,860
Net earnings	—	—	—	35,423	—	—	35,423
Foreign currency translation adjustments	—	—	—	—	(5,276)	—	(5,276)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	549	—	549
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax	—	—	—	—	(37)	—	(37)
Conversion/release of stock-based awards [1]	622	6	(28,747)	—	—	(171)	(28,912)
Reissuance of treasury stock under stock-based compensation plans [1]	—	—	(499)	(14)	—	513	—
Stock-based compensation expense	—	—	19,608	—	—	—	19,608
Dividends declared	—	—	—	(38,286)	—	—	(38,286)
Balance at May 3, 2020	77,759	$ 778	$ 596,184	$641,917	$ (19,351)	$ (599)	$ 1,218,929

In thousands	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at February 3, 2019	78,813	$ 789	$ 581,900	$584,333	$ (11,073)	$ (235)	$ 1,155,714
Net earnings	—	—	—	52,656	—	—	52,656
Foreign currency translation adjustments	—	—	—	—	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	204	—	204
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax	—	—	—	—	(67)	—	(67)
Conversion/release of stock-based awards [1]	571	5	(25,298)	—	—	(113)	(25,406)
Repurchases of common stock	(576)	(6)	(2,874)	(30,010)	—	(958)	(33,848)
Reissuance of treasury stock under stock-based compensation plans [1]	—	—	(332)	—	—	332	—
Stock-based compensation expense	—	—	18,376	—	—	—	18,376
Dividends declared	—	—	—	(39,549)	—	—	(39,549)
Adoption of accounting pronouncements [2]	—	—	—	(3,303)	—	—	(3,303)
Balance at May 5, 2019	78,808	$ 788	$ 571,772	$564,127	$ (13,945)	$ (974)	$ 1,121,768

[1] *Amounts are shown net of shares withheld for employee taxes.*
[2] *Relates to our adoption of ASU 2016-02, Leases, in fiscal 2019.*

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

In thousands	Thirteen Weeks Ended May 3, 2020	Thirteen Weeks Ended May 5, 2019
Cash flows from operating activities:		
Net earnings	$ 35,423	$ 52,656
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	46,224	46,838
(Gain) loss on disposal/impairment of assets	16,185	(323)
Amortization of deferred lease incentives	(1,405)	(2,306)
Non-cash lease expense	54,262	51,596
Deferred income taxes	(2,585)	(4,126)
Tax benefit related to stock-based awards	12,039	14,898
Stock-based compensation expense	19,703	18,529
Other	129	69
Changes in:		
Accounts receivable	8,950	4,684
Merchandise inventories	28,513	(31,460)
Prepaid expenses and other assets	(215)	(4,914)
Accounts payable	(92,871)	(144,399)
Accrued expenses and other liabilities	(29,050)	(49,196)
Gift card and other deferred revenue	9,960	1,558
Operating lease liabilities	(57,629)	(55,099)
Income taxes payable	6,240	2,915
Net cash provided by (used in) operating activities	53,873	(98,080)
Cash flows from investing activities:		
Purchases of property and equipment	(42,321)	(36,148)
Other	242	107
Net cash used in investing activities	(42,079)	(36,041)
Cash flows from financing activities:		
Borrowings under revolving line of credit	487,823	—
Payment of dividends	(39,391)	(36,868)
Tax withholdings related to stock-based awards	(28,912)	(25,406)
Repurchases of common stock	—	(33,848)
Net cash provided by (used in) financing activities	419,520	(96,122)
Effect of exchange rates on cash and cash equivalents	(2,474)	(1,028)
Net increase (decrease) in cash and cash equivalents	428,840	(231,271)
Cash and cash equivalents at beginning of period	432,162	338,954
Cash and cash equivalents at end of period	$861,002	$ 107,683

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc. and its wholly owned subsidiaries ("we," "us" or "our"). The Condensed Consolidated Balance Sheets as of May 3, 2020 and May 5, 2019, the Condensed Consolidated Statements of Earnings, the Condensed Consolidated Statements of Comprehensive Income, the Condensed Consolidated Statements of Stockholders' Equity and the Condensed Consolidated Statements of Cash Flows for the thirteen weeks then ended, have been prepared by us, without audit. In our opinion, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen weeks then ended. Intercompany transactions and accounts have been eliminated. The balance sheet as of February 2, 2020, presented herein, has been derived from our audited Consolidated Balance Sheet included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

The results of operations for the thirteen weeks ended May 3, 2020 are not necessarily indicative of the operating results of the full year.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

COVID-19
On March 11, 2020, the World Health Organization declared a novel strain of the coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. In March 2020, we announced the temporary closures of all of our retail store operations to protect our employees, customers and the communities in which we operate and to help contain the COVID-19 coronavirus pandemic. While subsequent to quarter end we have announced the reopening of over 350 stores, we have extended such closures in locations where retail restrictions have not been lifted. The preventative or protective actions that governments and businesses around the world have taken to contain the spread of COVID-19 have resulted in a period of disruption that has materially reduced customer store traffic, and thus our retail store revenues, which comprised approximately 44% of our net revenues in fiscal 2019. Throughout the first quarter, we continued to operate our e-commerce sites and distribution centers and continued to deliver products to our customers.

As a result of the COVID-19 pandemic and the resulting closure of all of our retail locations, we identified certain assets whose carrying value was now deemed to have been partially impaired. Given the material reductions in our retail store revenues and operating income during the first quarter of fiscal 2020, we evaluated our estimates and assumptions related to our stores' future sales and cash flows, and performed a comprehensive review of our stores' long-lived assets for impairment, including both property and equipment and operating lease right-of-use assets, at an individual store level. Key assumptions used in estimating fair value of our store assets in connection with our impairment analyses are sales growth, gross margin, employment costs, lease escalations, market rental rates, changes in local real estate markets in which we operate, inflation, and the overall economics of the retail industry. Our assumptions account for the estimated impact from the recent closure of all of our retail stores and reflect the re-opening of our retail stores throughout fiscal 2020 as allowed by the local governmental requirements in the states in which we operate. As a result, during the first quarter of fiscal 2020, we recorded store asset impairment charges within selling, general and administrative expenses of approximately $11,825,000 related to property and equipment and $3,795,000 related to operating lease right-of-use assets.

In addition, during the first quarter of fiscal 2020, we recorded charges of approximately $11,378,000 representing write - offs for inventory with minor damage that we could not liquidate through our outlets due to store closures resulting from COVID-19.

We test goodwill for impairment annually (on the first day of the fourth quarter), or between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. As of May 3, 2020 and May 5, 2019, we had goodwill of $85,335,000 and $85,357,000, respectively, primarily related to our fiscal 2017 acquisition of Outward and to our fiscal 2011 acquisition of Rejuvenation, Inc. As a result of the COVID-19 pandemic and the resulting closure of all of our retail locations during the quarter, we evaluated the need to test goodwill for potential impairment. Our most recently completed qualitative goodwill impairment assessment indicated that the fair values of our reporting units significantly exceeded their carrying values. Further, we currently do not expect the impact of COVID-19 to significantly affect the long-term estimates or assumptions of revenue and operating income growth, nor the long-term strategies of our brands, considered in our most recently completed goodwill assessment. Therefore, we currently do not consider the pandemic to be a triggering event requiring the testing of goodwill between annual tests, and accordingly, we have not recorded any goodwill impairment charges during the first quarter of fiscal 2020.

As of the end of the quarter, we had finalized rent concession negotiations on a limited portion of our stores and therefore any impact on our financials was immaterial for the first quarter of fiscal 2020. We expect most outstanding lease concession negotiations to be finalized during the second quarter of fiscal 2020.

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law on March 27, 2020. The CARES Act provides tax provisions and other stimulus measures to affected companies. The impact of the CARES Act was not material to our result of operations and financial position for the first quarter of fiscal 2020. We are continuing to assess the financial relief available to us under the CARES Act and expect to record any further impact during the second quarter of fiscal 2020.

These events and changes in circumstances, including a more prolonged and/or severe COVID-19 pandemic, may lead to increased impairment risk in the future; therefore, we will continue to monitor events and changes in circumstances that may indicate the need to test our long-lived assets, including goodwill, for potential impairment.

New Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard is intended to introduce a revised approach to the recognition and measurement of credit losses, emphasizing an updated model based on expected losses rather than incurred losses. This ASU was effective for us in the first quarter of fiscal 2020. The adoption of this ASU did not have a material impact on our financial condition, results of operations or cash flows.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the amendments require an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. This ASU was effective for us in the first quarter of fiscal 2020. The adoption of this ASU did not have a material impact on our financial condition, results of operations or cash flows.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* (Topic 740). This standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Accounting Standards Codification ("ASC") 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 202 0 , and early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our financial condition, results of operations or cash flow.

NOTE B. BORROWING ARRANGEMENTS

Credit Facility

We have a credit facility which provides for a $500,000,000 unsecured revolving line of credit ("revolver") and a $300,000,000 unsecured term loan facility ("term loan"). The revolver may be used to borrow revolving loans or request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders, at such lenders' option, to increase the revolver by up to $250,000,000 to provide for a total of $750,000,000 of unsecured revolving credit.

During the first quarter of fiscal 2020, we drew down $487,823,000 on the revolver (at a weighted average interest rate of 2.00%). Additionally, as of May 3, 2020, $12,177,000 in issued but undrawn standby letters of credit were outstanding under the revolver, for a total outstanding balance on the revolver of $500,000,000. The standby letters of credit were issued to secure the liabilities associated with workers' compensation and other insurance programs. During the first quarter of fiscal 2019, we had no borrowings under the revolver. The revolver matures on January 8, 2023, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be cash collateralized. We may, prior to the first and second anniversaries of the closing date of the amendment of the credit facility, elect to extend the maturity date for an additional year, subject to lender approval.

As of May 3, 2020, we had $300,000,000 outstanding under our term loan (at a weighted average interest rate of 2.55%).

On May 11, 2020, we entered into an amendment to our credit facility (the "Credit Facility Amendment"), which, among other changes, extends the maturity date and amends the interest rate of the term loan, modifies covenants under the credit facility, and maintains the maturity date and interest rate of the revolver. The term loan now matures on January 8, 2022, at which time all outstanding principal and any accrued interest must be repaid. Based on this Credit Facility Amendment, borrowings under our term loan have been presented as long-term debt in our Condensed Consolidated Balance Sheet as of May 3, 2020. Costs incurred in connection with the issuance of the term loan are presented as a reduction to the carrying value of the debt in our Condensed Consolidated Balance Sheet. Under the Credit Facility Amendment, the interest rate applicable to the credit facility is variable, and may be elected by us as: (i) the London Interbank Offer Rate ("LIBOR") plus an applicable margin based on our leverage ratio ranging from 0.91% to 1.775% for a revolver borrowing, and 1.75% to 2.5% for the term loan, or (ii) a base rate as defined in the credit facility, plus an applicable margin ranging from 0% to 0.775% for a revolver borrowing, and 0.75% to 1.5% for the term loan.

In addition to the Credit Facility Amendment, subsequent to quarter end, we entered into a new agreement (the "364-Day Credit Agreement") for an additional $200,000,000 unsecured revolving line of credit. Unde r the 364-Day Credit Agreement, the interest rate is variable and may be elected by us as: (i) LIBOR plus an applicable margin based on our leverage ratio ranging from 1.75% to 2.5% or (ii) a base rate as defined in the agreement, plus an applicable margin ranging from 0.75% to 1.5%. The 364-Day Credit Agreement matures on May 10, 2021.

The Credit Facility Amendment and the 364-Day Credit Agreement contain certain restrictive loan covenants, including, among others, a financial covenant requiring a maximum leverage ratio (funded debt adjusted for lease and rent expense to earnings before interest, income tax, depreciation, amortization and rent expense), and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. As of May 3, 2020, we were in compliance with our covenants under our credit facilities and based on current projections, we expect to remain in compliance throughout the next 12 months.

Letter of Credit Facilities
We have three unsecured letter of credit reimbursement facilities for a total of $70,000,000, each of which matures on August 23, 2020. The letter of credit facilities contain covenants that are consistent with our credit facility. Interest on unreimbursed amounts under the letter of credit facilities accrues at a base rate as defined in the credit facility plus an applicable margin based on our leverage ratio. As of May 3, 2020, an aggregate of $7,099,000 was outstanding under the letter of credit facilities, which represents only a future commitment to fund inventory purchases to which we had not taken legal title. The latest expiration possible for any future letters of credit issued under the facilities is January 21, 2021.

NOTE C. STOCK-BASED COMPENSATION

Equity Award Programs
Our Amended and Restated 2001 Long-Term Incentive Plan (the "Plan") provides for grants of incentive stock options, nonqualified stock options, stock-settled stock appreciation rights (collectively, "option awards"), restricted stock awards, restricted stock units (including those that are performance-based), deferred stock awards (collectively, "stock awards") and dividend equivalents up to an aggregate of 36,570,000 shares. As of May 3, 2020, there were approximately 2,479,000 shares available for future grant. Awards may be granted under the Plan to officers, employees and non-employee members of the board of directors of the company (the "Board") or any parent or subsidiary. Shares issued as a result of award exercises or releases are primarily funded with the issuance of new shares.

Option Awards
Annual grants of option awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. The exercise price of these option awards must not be less than 100% of the closing price of our stock on the day prior to the grant date. Option awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain option awards contain vesting acceleration clauses resulting from events including, but not limited to, retirement, merger or a similar corporate event.

Stock Awards
Annual grants of stock awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. Stock awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain performance-based awards, which have variable payout conditions based on predetermined financial targets, generally vest three years from the date of grant. Certain stock awards and other agreements contain vesting acceleration clauses resulting from events including, but not limited to, retirement, disability, death, merger or a similar corporate event. Stock awards granted to non-employee Board members generally vest in one year. Non-employee Board members automatically receive stock awards on the date of their initial election to the Board and annually thereafter on the date of the annual meeting of stockholders (so long as they continue to serve as a non-employee Board member).

Stock-Based Compensation Expense
During the thirteen weeks ended May 3, 2020 and May 5, 2019, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of $19,703,000 and $18,529,000, respectively.

Restricted Stock Units

The following table summarizes our restricted stock unit activity during the thirteen weeks ended May 3, 2020:

	Shares
Balance at February 2, 2020	2,884,194
Granted [1]	1,080,400
Released [2]	(954,419)
Cancelled	(53,699)
Balance at May 3, 2020	2,956,476
Vested plus expected to vest at May 3, 2020	2,390,537

[1] *Excludes 267,000 restricted stock units for which the accounting grant date has not yet been determined and consequently for which no expense has been recognized. These awards reduced the shares available for future grant under the Plan.*

[2] *Excludes 170,308 incremental shares released due to achievement of performance conditions above target.*

NOTE D. EARNINGS PER SHARE

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding and common stock equivalents outstanding for the period. Common stock equivalents consist of shares subject to stock-based awards with exercise prices less than or equal to the average market price of our common stock for the period, to the extent their inclusion would be dilutive.

The following is a reconciliation of net earnings and the number of shares used in the basic and diluted earnings per share computations:

In thousands, except per share amounts	Net Earnings	Weighted Average Shares	Earnings Per Share
Thirteen weeks ended May 3, 2020			
Basic	$ 35,423	77,262	$ 0.46
Effect of dilutive stock-based awards		1,137	
Diluted	$ 35,423	78,399	$ 0.45
Thirteen weeks ended May 5, 2019			
Basic	$ 52,656	78,683	$ 0.67
Effect of dilutive stock-based awards		1,184	
Diluted	$ 52,656	79,867	$ 0.66

Stock-based awards of 8,000 and 11,000 were excluded from the computation of diluted earnings per share for the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively, as their inclusion would be anti-dilutive.

NOTE E. SEGMENT REPORTING

We identify our operating segments according to how our business activities are managed and evaluated. Each of our brands are operating segments. Because they share similar economic and other qualitative characteristics, we have aggregated our operating segments into a single reportable segment.

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The following table summarizes our net revenues by brand for the thirteen weeks ended May 3, 2020 and May 5, 2019.

	Thirteen Weeks Ended	
In thousands	May 3, 2020	May 5, 2019
Pottery Barn	$ 479,615	$ 492,126
West Elm	315,430	309,483
Williams Sonoma	199,302	194,894
Pottery Barn Kids and Teen	188,552	177,046
Other [1]	52,304	67,583
Total [2]	$ 1,235,203	$ 1,241,132

[1] *Primarily consists of net revenues from our international franchise operations, Rejuvenation and Mark and Graham.*
[2] *Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately $55.2 million and $86.6 million for the thirteen weeks ended May 3, 2020 and May 5, 2019.*

Long-lived assets by geographic location are as follows:

In thousands	May 3, 2020	May 5, 2019
U.S.	$ 2,117,469	$ 2,136,000
International	151,602	166,719
Total	$ 2,269,071	$ 2,302,719

NOTE F. COMMITMENTS AND CONTINGENCIES

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. These disputes, which are not currently material, are increasing in number as our business expands and our company grows. We review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount of loss, if any, can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of these matters, it may not be possible to determine whether any loss is probable or to reasonably estimate the amount of the loss until the case is close to resolution, in which case no reserve is established until that time. Any claims against us, whether meritorious or not, could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our Condensed Consolidated Financial Statements taken as a whole.

NOTE G. STOCK REPURCHASE PROGRAM AND DIVIDENDS

Stock Repurchase Program
During the thirteen weeks ended May 3, 2020, we did not repurchase any shares of our common stock and as of May 3, 2020, there was $574,982,000 remaining under our current stock repurchase program. As of May 3, 2020, we held treasury stock of $599,000 that represents the cost of shares available for issuance intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

During the thirteen weeks ended May 5, 2019, we repurchased 593,096 shares of our common stock at an average cost of $57.07 per share and a total cost of approximately $33,848,000.

Stock repurchases under our program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions.

Dividends
We declared cash dividends of $0.48 per common share during the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively. Our quarterly cash dividend may be limited or terminated at any time.

NOTE H. DERIVATIVE FINANCIAL INSTRUMENTS

We have retail and e-commerce businesses in Canada, Australia and the United Kingdom, and operations throughout Asia and Europe, which expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies. We do not enter into such contracts for speculative purposes. The assets or liabilities associated with the derivative financial instruments are measured at fair value and recorded in either other current or long-term assets or other current or long-term liabilities. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on whether the derivative financial instrument is designated as a hedge and qualifies for hedge accounting in accordance with the Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging* .

Cash Flow Hedges
We enter into foreign currency forward contracts designated as cash flow hedges (to sell Canadian dollars and purchase U.S. dollars) for forecasted inventory purchases in U.S. dollars by our Canadian subsidiary. These hedges have terms of up to 18 months. All hedging relationships are formally documented, and the forward contracts are designed to mitigate foreign currency exchange risk on hedged transactions. We record the effective portion of changes in the fair value of our cash flow hedges in other comprehensive income ("OCI") until the earlier of when the hedged forecasted inventory purchase occurs or the respective contract reaches maturity. Subsequently, as the inventory is sold to the customer, we reclassify amounts previously recorded in OCI to cost of goods sold. Changes in the fair value of the forward contract related to interest charges (or forward points) are excluded from the assessment and measurement of hedge effectiveness and are recorded in cost of goods sold. Based on the rates in effect as of May 3, 2020, we expect to reclassify a net pre-tax gain of approximately $ 702,000 from OCI to cost of goods sold over the next 12 months.

We also enter into non-designated foreign currency forward contracts (to sell Australian dollars and British pounds and purchase U.S. dollars) to reduce the exchange risk associated with our assets and liabilities denominated in a foreign currency. Any foreign exchange gains or losses related to these contracts are recognized in selling, general and administrative expenses.

As of May 3, 2020 and May 5, 2019, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

In thousands	May 3, 2020	May 5, 2019
Contracts designated as cash flow hedges	$ 11,600	$ 10,800
Contracts not designated as cash flow hedges	$ —	$ —

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measurable ineffectiveness of the hedge is recorded in selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for the thirteen weeks ended May 3, 2020 and May 5, 2019.

The effect of derivative instruments in our Condensed Consolidated Financial Statements during the thirteen weeks ended May 3, 2020 and May 5, 2019, pre-tax, was as follows:

In thousands	May 3, 2020	May 5, 2019
Net gain recognized in OCI	$ 745	$ 278

	May 3, 2020		May 5, 2019	
In thousands	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses
Line items presented in the Condensed Consolidated Statement of Earnings in which the effects of derivatives are recorded	$ 820,943	$ 365,615	$ 796,801	$ 370,199
Gain (loss) recognized in income				
Derivatives designated as cash flow hedges	$ 50	$ —	$ 108	$ —
Derivatives not designated as hedging instruments	$ —	$ 2	$ —	$ (6)

The fair values of our derivative financial instruments are presented below according to their classification in our Condensed Consolidated Balance Sheets. All fair values were measured using Level 2 inputs as defined by the fair value hierarchy described in Note I.

In thousands	May 3, 2020	May 5, 2019
Derivatives designated as cash flow hedges:		
Other current assets	$ 698	$ 475

We record all derivative assets and liabilities on a gross basis. They do not meet the balance sheet netting criteria as discussed in ASC 210, *Balance Sheet* , because we do not have master netting agreements established with our derivative counterparties that would allow for net settlement.

NOTE I. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy established by ASC 820, *Fair Value Measurement* , which defines three levels of inputs that may be used to measure fair value, as follows:

- Level 1: inputs which include quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs which include observable inputs other than Level 1 inputs, such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and
- Level 3: inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

The fair values of our cash and cash equivalents are based on Level 1 inputs, which include quoted prices in active markets for identical assets.

Debt
As of May 3, 2020, the fair value of our debt, which consists of outstanding borrowings under our revolver and term loan, approximates its carrying value, as the instruments are relatively short-term in nature and the interest rate under the term loan is based on observable Level 2 inputs, which consist primarily of quoted market interest rates for instruments with similar maturities.

Foreign Currency Derivatives and Hedging Instruments
We use the income approach to value our derivatives using observable Level 2 market data at the measurement date and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the assets and liabilities, which include interest rates and credit risk ratings. We use mid-market pricing as a practical expedient for fair value measurements. Key inputs for foreign currency derivatives are the spot rates, forward rates, interest rates and credit derivative market rates.

The counterparties associated with our foreign currency forward contracts are large credit-worthy financial institutions, and the derivatives transacted with these entities are relatively short in duration, therefore, we do not consider counterparty concentration and non-performance to be material risks at this time. Both we and our counterparties are expected to perform under the contractual terms of the instruments. None of the derivative contracts we entered into are subject to credit risk-related contingent features or collateral requirements.

Long-lived Assets
We review the carrying value of all long-lived assets for impairment, primarily at an individual store level, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We measure property and equipment at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. We measure right-of-use assets on a nonrecurring basis using Level 2 inputs that are corroborated by market data. Where Level 2 inputs are not readily available, we use Level 3 inputs. Fair value of these long-lived assets is based on the present value of estimated future cash flows using a discount rate commensurate with the risk.

The significant unobservable inputs used in the fair value measurement of our store assets are sales growth, gross margin, employment costs, lease escalations, market rental rates, changes in local real estate markets in which we operate , inflation and the overall economics of the retail industry. Significant fluctuations in any of these inputs individually could significantly impact our measurement of fair value.

During the first quarter of fiscal 2020, we recognized impairment charges of $11,825,000 related to the impairment of property and equipment and $3,795,000 related to the impairment of operating lease right-of-use assets, due to the impact of COVID-19. During the first quarter of fiscal 2019, no impairment charges were recognized.

There were no transfers in and out of Level 3 categories during the thirteen weeks ended May 3, 2020 or May 5, 2019.

NOTE J. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income (loss) by component, net of tax, are as follows:

In thousands	Foreign Currency Translation	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at February 2, 2020	$ (14,593)	$ 6	$ (14,587)
Foreign currency translation adjustments	(5,276)	—	(5,276)
Change in fair value of derivative financial instruments	—	549	549
Reclassification adjustment for realized (gain) on derivative financial instruments [1]	—	(37)	(37)
Other comprehensive income (loss)	(5,276)	512	(4,764)
Balance at May 3, 2020	$ (19,869)	$ 518	$ (19,351)
Balance at February 3, 2019	$ (11,259)	$ 186	$ (11,073)
Foreign currency translation adjustments	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments	—	204	204
Reclassification adjustment for realized (gain) on derivative financial instruments [1]	—	(67)	(67)
Other comprehensive income (loss)	(3,009)	137	(2,872)
Balance at May 5, 2019	$ (14,268)	$ 323	$ (13,945)

[1] *Refer to Note H for additional disclosures about reclassifications out of accumulated other comprehensive income and their corresponding effects on the respective line items in the Condensed Consolidated Statements of Earnings.*

NOTE K. REVENUE

The majority of our revenues are generated from sales of merchandise to our customers through our e-commerce websites, our direct mail catalogs, or at our retail stores and include shipping fees received from customers for delivery of merchandise to their homes. The remainder of our revenues are primarily generated from sales to our franchisees and other wholesale transactions, breakage income related to stored-value cards, and incentives received from credit card issuers in connection with our private label and co-branded credit cards.

We recognize revenue as control of promised goods or services are transferred to our customers. We record a liability at each period end where we have an obligation to transfer goods or services for which we have received consideration or have a right to consideration. We exclude from revenue any taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and are concurrent with revenue-generating activities. Our payment terms are primarily at the point of sale for merchandise sales and for most services.

See Note E for a discussion of our net revenues by operating segment.

Merchandise Sales
Revenues from the sale of our merchandise through our e-commerce websites, at our retail stores, as well as to our franchisees and wholesale customers are, in each case, recognized at a point in time when control of merchandise is transferred to the customer. Merchandise can either be picked up in our stores or delivered to the customer. For merchandise picked up in the store, control is transferred at the time of the sale to the end customer. For merchandise delivered to the customer, control is transferred when either delivery has been completed, or we have a present right to payment which, for certain merchandise, occurs upon conveyance of the merchandise to the carrier for delivery. We exclude from revenue any taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and are concurrent with revenue-generating activities. Our payment terms are primarily at the point of sale for merchandise sales and for most services. We have elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation.

Revenue from the sale of merchandise is reported net of sales returns. We estimate future returns based on historical return trends together with current product sales performance. As of May 3, 2020 and May 5, 2019, we recorded a liability for expected sales returns of approximately $33,357,000 and $30,154,000 within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately $11,603,000 and $11,204,000 within other current assets in our Condensed Consolidated Balance Sheet.

Stored-value Cards
We issue stored-value cards that may be redeemed on future merchandise purchases. Our stored-value cards have no expiration dates. Revenue from stored-value cards is recognized at a point in time upon redemption of the card and as control of the merchandise is transferred to the customer. Revenue from estimated unredeemed stored-value cards (breakage) is recognized in a manner consistent with our historical redemption patterns over the estimated period of redemption of our cards of approximately four years, the majority of which is recognized within one year of the card issuance. Breakage revenue is not material to our Condensed Consolidated Financial Statements.

Credit Card Incentives
We enter into agreements with credit card issuers in connection with our private label and co-branded credit cards whereby we receive cash incentives in exchange for promised services, such as licensing our brand names and marketing the credit card program to customers. Services promised under these agreements are interrelated and are thus considered a single performance obligation. Revenue is recognized over time as we transfer promised services throughout the contract term.

Customer Loyalty Programs
We have customer loyalty programs which allow members to earn points for each qualifying purchase. Points earned enable members to receive certificates that may be redeemed on future merchandise purchases. This customer option is a material right and, accordingly, represents a separate performance obligation to the customer. The allocated consideration for the points earned by our loyalty program members is deferred based on the standalone selling price of the points and recorded within gift card and other deferred revenue within our Condensed Consolidated Balance Sheet. The measurement of standalone selling prices takes into consideration the discount the customer would receive in a separate transaction for the delivered item, as well as our estimate of certificates expected to be redeemed, based on historical redemption patterns. This measurement is applied to our portfolio of performance obligations for points earned, as all obligations have similar economic characteristics. We believe the impact to our Condensed Consolidated Financial Statements would not be materially different if this measurement was applied to each individual performance obligation. Revenue is recognized for these performance obligations at a point in time when certificates are redeemed by the customer. These obligations relate to contracts with terms less than one year, as our certificates generally expire within 6 months from issuance.

Deferred Revenue

We defer revenue when cash payments are received in advance of satisfying performance obligations, primarily associated with our stored-value cards, merchandise sales, and incentives received from credit card issuers. As of May 3, 2020 and May 5, 2019, we held $301,031,000 and $298,557,000 in gift card and other deferred revenue on our Condensed Consolidated Balance Sheet, substantially all of which will be recognized into revenue within the next 12 months.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or are proven incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include statements related to: the impact of the COVID-19 pandemic on our business, results of operations and financial condition, our strategic initiatives; our merchandise strategies; our growth strategies for our brands; our beliefs regarding the resolution of current lawsuits, claims and proceedings; our stock repurchase program; our expectations regarding our cash flow hedges and foreign currency risks; our planned use of cash; our future compliance with the financial covenants contained in our credit facilities; our belief that our cash on-hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months; our beliefs regarding our exposure to foreign currency exchange rate fluctuations; and our beliefs regarding seasonal patterns associated with our business, as well as statements of belief and statements of assumptions underlying any of the foregoing. You can identify these and other forward-looking statements by the use of words such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue,” or the negative of such terms, or other comparable terminology. The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under the heading “Risk Factors” in this document and our Annual Report on Form 10-K for the year ended February 2, 2020, and the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.

OVERVIEW

Williams-Sonoma, Inc. is a specialty retailer of high-quality products for the home. These products, representing distinct merchandise strategies – Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, Pottery Barn Teen, Williams Sonoma Home, Rejuvenation, and Mark and Graham – are marketed through e-commerce websites, direct-mail catalogs and 616 stores. These brands are also part of The Key Rewards, our free-to-join loyalty program that offers members exclusive benefits across the Williams-Sonoma family of brands. We operate in the U.S., Puerto Rico, Canada, Australia and the United Kingdom, offer international shipping to customers worldwide, and have unaffiliated franchisees that operate stores in the Middle East, the Philippines, Mexico and South Korea, as well as e-commerce websites in certain locations. In 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry.

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources for the thirteen weeks ended May 3, 2020 ("first quarter of fiscal 2020"), as compared to the thirteen weeks ended May 5, 2019 ("first quarter of fiscal 2019"), should be read in conjunction with our Condensed Consolidated Financial Statements and the notes thereto. All explanations of changes in operational results are discussed in order of magnitude.

COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of the coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. In March 2020, we announced the temporary closures of all of our retail store operations to protect our employees, customers and the communities in which we operate and to help contain the COVID-19 coronavirus pandemic. While subsequent to quarter end we have announced the reopening of over 350 stores, we have extended such closures in locations where retail restrictions have not been lifted. Throughout the first quarter, we continued to operate our e-commerce sites and distribution centers and continued to deliver products to our customers.

First Quarter of Fiscal 2020 Financial Results

Net revenues in the first quarter of fiscal 2020 decreased by $5,929,000, or 0.5%, compared to the first quarter of fiscal 2019, with comparable brand revenue growth of 2.6%. This slight decline was primarily driven by the temporary closure of all 616 of our retail stores throughout the back half of the quarter due to COVID-19, almost entirely offset by an increase in e-commerce revenues. The decrease in net revenues also included a 36.3% decrease in international revenues primarily related to our company-owned and franchise operations, driven by temporary retail store closures.

For the first quarter of fiscal 2020, we delivered positive comparable brand revenue growth in almost all of our brands. In the Williams Sonoma brand, we saw growth in nearly all merchandise categories, with particular strength in electrics, cookware, food and housewares. Growth in Pottery Barn Kids and Teen accelerated even further this quarter. As a business that generated the majority of its revenues in fiscal 2019 from online sales, we were primed to meet the surge in demand for children's home furnishings as schools and childcare centers closed nationwide, and parents turned to us for study and playroom solutions to keep their children occupied at home. In West Elm, furniture continued to lead our growth in the first quarter with strong demand for our expanded outdoor assortment, as well as home office furniture. In the Pottery Barn brand, despite a decline in comparable brand revenues for the quarter, we began the quarter with positive trends in all product divisions and our on-line growth initiatives continued to contribute incrementally to the brand.

Across the company, we implemented planned reductions in selling, general and administrative expenses, inventory and capital expenditures and we will continue to prioritize investments in strategic priorities. In order to further bolster our financial flexibility, we also increased our liquidity position. As of May 3, 2020, we now have over $860,000,000 in cash as a result of our performance and our decision to draw down on our existing revolving line of credit. Additionally, subsequent to quarter end, we also were able to obtain additional liquidity through the extension of our $300,000,000 term loan and an additional $200,000,000 in an unsecured 364-day revolving line of credit.

For the first quarter of fiscal 2020, diluted earnings per share was $0.45 (which included a $0.15 impact related to store asset impairments, an $0.11 impact related to inventory write-offs, and a $0.03 impact associated with the acquisition-related compensation expense and amortization of acquired intangibles of Outward, Inc.) versus $0.66 in the first quarter of fiscal 2019 (which included a $0.09 impact related to certain employment-related expenses and a $0.06 impact associated with acquisition-related compensation expense, amortization of acquired intangibles as well as the operations of Outward, Inc.).

Our ability to grow revenue during the COVID-19 pandemic speaks to the power of our omnichannel model, and our organizational agility rooted in a longstanding culture of innovation. We are particularly encouraged to see that our e-commerce growth has been fueled by new customers and previously retail-only customers. To maximize demand online, we have enhanced our digital experience and expanded our services, including Design Chat, Virtual Design Appointment and Ask the Expert, leveraging our Outward Inc. 3D visualization technology, and redeployed our retail associates to serve our customers in these new ways. A key part of our success is our omni services, including Buy Online Pick Up in Store and we have accelerated our speed to market in a number of digital innovations to enhance the convenience of shopping online. We have also redeployed more resources to digital content creation and are producing more live events to engage and interact with our customers in real time.

Looking Ahead

Throughout the remainder of fiscal 2020, we will continue to invest in strengthening our digital-first model, enhancing the convenience of our online business. We will also continue to prioritize the growth initiatives that we laid out at the beginning of last year, including West Elm and our cross-brand initiatives The Key and Business to Business.

The long-term impact of COVID-19 on our business, results of operations and financial condition remains uncertain. A prolonged pandemic could further interrupt our operations, our vendors' operations, the economy and overall consumer spending, which could have a material impact on our revenues, results of operations, and cash flows. For more information on risks associated with COVID-19, please see "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2020, as well as in Note A to our Condensed Consolidated Financial Statements and Part II, Item 1A of this Quarterly Report on Form 10-Q.

NET REVENUES

Net revenues primarily consist of sales of merchandise to our customers through our e-commerce websites, direct mail catalogs, and at our retail stores and include shipping fees received from customers for delivery of merchandise to their homes. Our revenues also include sales to our franchisees and wholesale customers, breakage income related to our stored-value cards, and incentives received from credit card issuers in connection with our private label and co-branded credit cards.

Net revenues in the first quarter of fiscal 2020 decreased by $5,929,000, or 0.5%, compared to the first quarter of fiscal 2019, with comparable brand revenue growth of 2.6%. This slight decline was primarily driven by the temporary closure of all 616 of our retail stores throughout the majority of the quarter due to COVID-19, almost entirely offset by an increase in e-commerce revenues. The decrease in net revenues also included a 36.3% decrease in international revenues primarily related to our company-owned and franchise operations, driven by temporary retail store closures.

Comparable Brand Revenue

Comparable brand revenue includes comparable store sales and e-commerce sales, including through our direct mail catalogs, as well as shipping fees, sales returns and other discounts associated with current period sales. Comparable stores are typically defined as permanent stores where gross square footage did not change by more than 20% in the previous 12 months and which have been open for at least 12 consecutive months without closure for seven or more consecutive days. Comparable stores that were temporarily closed on March 17, 2020 throughout the quarter due to COVID-19 were not excluded from the comparable stores calculation. Outlet comparable store net revenues are included in their respective brands. Sales to our international franchisees are excluded from comparable brand revenue as their stores and e-commerce websites are not operated by us. Sales from certain operations are also excluded until such time that we believe those sales are meaningful to evaluating their performance. Additionally, comparable brand revenue growth for newer concepts is not separately disclosed until such time that we believe those sales are meaningful to evaluating the performance of the brand.

	Thirteen Weeks Ended	
Comparable brand revenue growth (decline)	May 3, 2020	May 5, 2019
Pottery Barn	(1.1%)	1.5%
West Elm	3.3%	11.8%
Williams Sonoma	5.4%	(1.6%)
Pottery Barn Kids and Teen	8.5%	1.2%
Total [1]	2.6%	3.5%

[1] *Total comparable brand revenue growth includes the results of Rejuvenation and Mark and Graham.*

STORE DATA

	Store Count					Average Leased Square Footage Per Store	
	February 2, 2020	Openings	Closings	May 3, 2020 [1]	May 5, 2019	May 3, 2020	May 5, 2019
Williams Sonoma	211	1	—	212	219	6,900	6,800
Pottery Barn	201	—	—	201	205	14,400	14,100
West Elm	118	2	(1)	119	113	13,200	13,100
Pottery Barn Kids	74	—	—	74	78	7,700	7,500
Rejuvenation	10	—	—	10	10	8,500	8,500
Total	614	3	(1)	616	625	10,700	10,500
Store selling square footage at period-end						4,148,000	4,094,000
Store leased square footage at period-end						6,580,000	6,549,000

[1] *Store counts as of May 3,2020 do not reflect those stores temporarily closed due to COVID-19.*

COST OF GOODS SOLD

	Thirteen Weeks Ended			
In thousands	May 3, 2020	% Net Revenues	May 5, 2019	% Net Revenues
Cost of goods sold [1]	$820,943	66.5%	$796,801	64.2%

[1] *Includes total occupancy expenses of $174,873,000 and $173,853,000 for the first quarter of fiscal 2020 and the first quarter of fiscal 2019, respectively.*

Cost of goods sold includes cost of goods, occupancy expenses and shipping costs. Cost of goods consists of cost of merchandise, inbound freight expenses, freight-to-store expenses and other inventory related costs such as shrinkage, damages and replacements. Occupancy expenses consist of rent, depreciation and other occupancy costs, including common area maintenance, property taxes and utilities. Shipping costs consist of third-party delivery services and shipping materials.

Our classification of expenses in cost of goods sold may not be comparable to other public companies, as we do not include non-occupancy related costs associated with our distribution network in cost of goods sold. These costs, which include distribution network employment, third-party warehouse management and other distribution related administrative expenses, are recorded in selling, general and administrative expenses.

First Quarter of Fiscal 2020 vs. First Quarter of Fiscal 2019

Cost of goods sold increased by $24,142,000, or 3.0%, in the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019. Cost of goods sold as a percentage of net revenues increased to 66.5% in the first quarter of fiscal 2020 from 64.2% in the first quarter of fiscal 2019. This increase was primarily driven by increased shipping costs due to a significantly greater portion of our total revenues being generated from e-commerce, the year-over year impact from incremental China tariffs, expenses for inventory write-offs of approximately $11,378,000 due to the closure of our outlet stores in the first quarter of 2020, as well as the deleverage of occupancy costs due to the closure of all of our retail stores during the back half of the quarter. This increase was partially offset by higher product margins from less promotions during the first quarter of fiscal 2020.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Thirteen Weeks Ended			
In thousands	May 3, 2020	% Net Revenues	May 5, 2019	% Net Revenues
Selling, general and administrative expenses	$365,615	29.6%	$370,199	29.8%

Selling, general and administrative expenses consist of non-occupancy related costs associated with our retail stores, distribution and manufacturing facilities, customer care centers, supply chain operations (buying, receiving and inspection) and corporate administrative functions. These costs include employment, advertising, third party credit card processing and other general expenses.

First Quarter of Fiscal 2020 vs. First Quarter of Fiscal 2019

Selling, general and administrative expenses decreased by $4,584,000, or 1.2%, in the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019. Selling, general and administrative expenses as a percentage of net revenues decreased to 29.6% in the first quarter of fiscal 2020 from 29.8% in the first quarter of fiscal 2019. This decrease as a percentage of net revenues was driven by the leverage of advertising costs due to the ongoing shift in our advertising spend from catalog to more efficient digital initiatives, as well as stronger returns on our advertising investments, cost reductions across the business in response to the impact of COVID-19, as well as severance-related expenses recorded during the first quarter of fiscal 2019 that did not recur in fiscal 2020, partially offset by store asset impairment charges of approximately $15,620,000 due to the impact of COVID-19 on our retail stores.

INCOME TAXES

The effective tax rate was 23.8% for the first quarter of fiscal 2020, and 26.7% for the first quarter of fiscal 2019. The decrease in the tax rate is primarily due to an excess tax benefit from stock-based compensation in fiscal 2020 compared to a deficiency of the tax benefit in fiscal 2019.

LIQUIDITY AND CAPITAL RESOURCES

As of May 3, 2020, we held $861,002,000 in cash and cash equivalents, the majority of which was held in interest-bearing demand deposit accounts and money market funds, and of which $72,764,000 was held by our international subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

In fiscal 2020, we plan to use our cash resources to fund our inventory and inventory-related purchases, employment-related costs, advertising and marketing initiatives, property and equipment purchases and dividend payments. We have a credit facility which provides for a $500,000,000 unsecured revolving line of credit (“revolver”), and a $300,000,000 unsecured term loan facility (“term loan”). The revolver may be used to borrow revolving loans or to request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the revolver by up to $250,000,000, at such lenders’ option, to provide for a total of $750,000,000 of unsecured revolving credit. As a precautionary measure to maximize our liquidity and to increase our available cash on hand in the event of a protracted COVID-19 pandemic, during the first quarter of fiscal 2020, we drew down $487,823,000 on our revolving line of credit, for an outstanding balance on our revolver of $500,000,000 as of May 3, 2020. We had no borrowings under the revolver during the first quarter of fiscal 2019. As of May 3, 2020, we had $300,000,000 outstanding under our term loan. Additionally, as of May 3, 2020, a total of $12,177,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers’ compensation and other insurance programs

In order to further strengthen our liquidity position, maximize our balance sheet and maintain financial flexibility, in May 2020, we entered into an amendment to our credit facility which, among other changes, extends the maturity date and amends the interest rate of the term loan, modifies covenants under the credit facility, and maintains the maturity date and interest rate of the revolver. Under the credit facility amendment, the term loan now matures on January 8, 2022, at which time all outstanding principal and any accrued interest must be repaid. Additionally, subsequent to quarter end we entered into a new agreement for an additional $200,000,000 unsecured 364-day revolving line of credit.

As of May 3, 2020, we had three unsecured letter of credit reimbursement facilities for a total of $70,000,000, of which $7,099,000 was outstanding. These letter of credit facilities represent only a future commitment to fund inventory purchases to which we had not taken legal title.

The Credit Facility Amendment and the 364-Day Credit Agreement contain certain restrictive loan covenants, including, among others, a financial covenant requiring a maximum leverage ratio (funded debt adjusted for lease and rent expense to earnings before interest, income tax, depreciation, amortization and rent expense), and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. We are currently in compliance with our financial covenants under our credit facilities and, based on our current projections, we expect to remain in compliance throughout the next 12 months. We believe our cash on hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months.

Cash Flows from Operating Activities
For the first quarter of fiscal 2020, net cash provided by operating activities was $53,873,000 compared to net cash used in operating activities of $98,080,000 for the first quarter of fiscal 2019. For the first quarter of fiscal 2020, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items and a decrease in merchandise inventories, as well as, a decrease in accounts payable due to cost containment measures throughout the quarter. Net cash provided by operating activities in the first quarter of fiscal 2020 improved compared to net cash used in operating activities in the first quarter of fiscal 2019, primarily due to a year-over-year reduction in merchandise inventories and an increase in accounts payable and accrued expenses.

Cash Flows from Investing Activities
For the first quarter of fiscal 2020, net cash used in investing activities was $42,079,000 compared to $36,041,000 for the first quarter of fiscal 2019, and was primarily attributable to purchases of property and equipment.

Cash Flows from Financing Activities
For the first quarter of fiscal 2020, net cash provided by financing activities was $419,520,000 compared to net cash used in financing activities of $96,122,000 for the first quarter of fiscal 2019. For the first quarter of fiscal 2020, net cash provided by financing activities was primarily attributable to borrowings under our revolving line of credit partially offset by the payment of dividends, and tax withholdings related to stock-based awards. The increase in cash provided by financing activities in the first quarter of fiscal 2020 compared to the use of cash in the first quarter of fiscal 2019 was primarily attributable to borrowings under the revolving line of credit and a reduction in stock repurchases.

Stock Repurchase Program and Dividends
See Note G to our Condensed Consolidated Financial Statements, *Stock Repurchase Program and Dividends,* within Item 1 of this Quarterly Report on Form 10-Q for further information.

Critical Accounting Policies
Management’s Discussion and Analysis of Financial Condition and Results of Operations is based on our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates. During the first quarter of fiscal 2020, there have been no significant changes to the critical accounting policies discussed in our Annual Report on Form 10-K for the year ended February 2, 2020.

Seasonality
Our business is subject to substantial seasonal variations in demand. Historically, a significant portion of our revenues and net earnings have been realized during the period from October through January, and levels of net revenues and net earnings have typically been lower during the period from February through September. We believe this is the general pattern associated with the retail industry. In preparation for and during our holiday selling season, we hire a substantial number of additional temporary employees, primarily in our retail stores, customer care centers and distribution facilities, and incur significant fixed catalog production and mailing costs.

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Contractual Obligations, Commitments, Contingencies and Off-balance Sheet Arrangements
Except as described in Note B of Part I, Item 1, there were no material changes during the quarter to the Company's contractual obligations, commitments, contingencies and off-balance sheet arrangements that are described in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2020, which is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, which include significant deterioration of the U.S. and foreign markets, changes in U.S. interest rates, foreign currency exchange rate fluctuations, and the effects of economic uncertainty which may affect the prices we pay our vendors in the foreign countries in which we do business. We do not engage in financial transactions for trading or speculative purposes.

Interest Rate Risk
Our revolver and our term loan each have a variable interest rate which, when drawn upon, subjects us to risks associated with changes in that interest rate. During the first quarter of fiscal 2020, we drew down $487,823,000 on our revolving line of credit, for an outstanding balance on our revolver of $500,000,000. Additionally, we have $300,000,000 outstanding under our term loan and a new $200,000,000 unsecured revolving line of credit that has not been drawn upon. A hypothetical increase or decrease of one percentage point on our existing variable rate debt instruments would not materially affect our results of operations or cash flows.

In addition, we have fixed and variable income investments consisting of short-term investments classified as cash and cash equivalents, which are also affected by changes in market interest rates. As of May 3, 2020, our investments, made primarily in interest bearing demand deposit accounts and money market funds, are stated at cost and approximate their fair values.

Foreign Currency Risks
We purchase a significant amount of inventory from vendors outside of the U.S. in transactions that are denominated in U.S. dollars. Approximately 2% of our international purchase transactions are in currencies other than the U.S. dollar, primarily the euro. Any foreign currency impact related to these international purchase transactions was not significant to us during the first quarter of fiscal 2020 or the first quarter of fiscal 2019. Since we pay for the majority of our international purchases in U.S. dollars, however, a decline in the U.S. dollar relative to other foreign currencies would subject us to risks associated with increased purchasing costs from our vendors in their effort to offset any lost profits associated with any currency devaluation. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations.

In addition, our businesses in Canada, Australia and the United Kingdom, and our operations throughout Asia and Europe, expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. While the impact of foreign currency exchange rate fluctuations was not material to us in the first quarter of fiscal 2020 or the first quarter of fiscal 2019, we have continued to see volatility in the exchange rates in the countries in which we do business. As we continue to expand globally, the foreign currency exchange risk related to our foreign operations may increase. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies (see Note H to our Condensed Consolidated Financial Statements).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
As of May 3, 2020, an evaluation was performed by management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely discussions regarding required disclosures, and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting
There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is contained in Note F to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

ITEM 1A. RISK FACTORS

See Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2020 for a description of the risks and uncertainties associated with our business. We are providing the following information regarding changes that have occurred to the previously disclosed risk factors in our Form 10-K. Except for such additional information, we believe there have been no material changes from the risk factors previously disclosed in our Form 10-K.

Our business has been and may continue to be materially impacted by the COVID-19 pandemic, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

Our business has been and may continue to be materially impacted by the COVID-19 pandemic, which has negatively affected the U.S. and global economies, disrupted businesses and financial markets, and led to significant travel and transportation restrictions, mandatory closures of non-essential retailers and other businesses, and orders to "shelter-in-place".

The preventative or protective actions that governments and businesses around the world have taken to contain the spread of COVID-19 have resulted in a period of disruption that has and may continue to negatively impact our retail store revenues, which comprised approximately 44% of our net revenues in fiscal 2019. In March 2020, we temporarily closed all of our retail stores and have extended such closures in locations where retail restrictions had not been lifted. While we have begun to re-open stores in specific locations consistent with government guidelines, there is significant uncertainty around our customers' willingness to visit retail stores even after they are reopened. Further, while we have implemented strict safety protocols based on Center for Disease Control and Prevention and government recommendations in stores that we have re-opened, there is no guarantee that such protocols will be effective, and any virus-related illnesses linked or alleged to be linked to our stores, whether accurate or not, may negatively affect our reputation, operating results and/or financial condition.

Although to date, the impact of our store closures on our retail store revenues has been predominantly offset by growth in our e-commerce business, there is no guarantee that such growth will continue if the recent economic downturn continues or deteriorates further due to the COVID-19 pandemic, and results in decreased consumer spending in the markets in which we operate. Further, we have and may continue to record store asset impairment charges and write-offs due to store closures, which may affect our operating results.

We have also implemented work-from-home policies for certain employees, which continue to be in effect. While such policies have not significantly impacted productivity or disrupted our business to date, over a prolonged period time, such policies could adversely impact our ability to conduct our business in the ordinary course.

Governmental mandates, illness or the absence of a substantial number of distribution center employees may require that we temporarily close one or more of our distribution centers, or may prohibit or significantly limit us, or our third party logistics providers from delivering packages to our customers and our stores, which could complicate or prevent us from fulfilling e-commerce orders and, once some or all of our stores reopen, could complicate or prevent our ability to supply merchandise to our stores. As of the date of this report, all our distribution centers remain open and operational, and we are not experiencing material disruptions in the delivery of our products despite the temporary closure of one of our distribution centers in April 2020.

Further, COVID-19 related containment efforts and illnesses could also impact our vendors who manufacture or deliver our merchandise to us or our customers, which could adversely affect our ability to acquire and sell our merchandise, thus adversely affecting our results of operations, cash flows and liquidity.

While the extent of the economic impact of COVID-19 and the duration of that impact may be difficult to assess or predict, the widespread pandemic has resulted in significant disruption of global financial markets, which has impacted the value of our common stock. In addition, a recession or long-term market correction, resulting from the spread of COVID-19 could in the future materially impact the value of our common stock over the long-term, impact our access to capital and affect our business in the near and long-term.

We currently believe that our available cash, cash equivalents and cash flow from operations will be sufficient to finance our operations and expected capital requirements for at least the next 12 months unless we experience a material decline in revenue relating to the COVID-19 pandemic. However, we might experience periods during which we encounter additional cash needs, and we might need additional external funding to support our operations. To maximize our liquidity and increase our available cash on hand in the event of a protracted COVID-19 pandemic, as previously disclosed, on March 23, 2020 we drew down $488,000,000 on our revolving line of credit, for an outstanding balance of $500,000,000 as of the end of the first quarter of fiscal 2020. In addition, on May 11, 2020, we entered into an agreement to amend the Credit Facility for our $300,000,000 unsecured term loan facility to extend its maturity date by one year to and also entered into a 364-Day Credit Agreement for an additional $200,000,000 unsecured revolving line of credit. If we are unable to access additional credit at the levels we require, or the cost of credit is greater than expected, it could adversely affect our operating results. Further, additional borrowings on our revolving line of credit has resulted or will result in us incurring additional interest expense, which would negatively affect our earnings.

The COVID-19 pandemic continues to rapidly evolve. The ultimate impact of the COVID-19 pandemic on our results, financial position and liquidity will depend on future developments, which are highly uncertain and cannot be predicted, such as the severity and transmission rate of the disease, the extent and effectiveness of containment actions, particularly as areas are reopened, and the impact of these and other factors on our stores, offices, employees, distributors, vendors and customers. If we are not able to respond to and manage the impact of such events effectively, our business, operating results, financial condition and cash flows could be adversely affected.

Please see Note A to our Condensed Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information about the potential impact of the COVID-19 pandemic on our business, and the actual operational and financial impacts that we have experienced to date.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchases under our program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice. There were no repurchases of common stock in the first quarter of fiscal 2020. For additional information, please see Note G to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description
31.1*	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended May 3, 2020, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in the Interactive Data Files submitted under Exhibit 101).

* Filed herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WILLIAMS-SONOMA, INC.

By: /s/ Julie Whalen

Julie Whalen

Duly Authorized Officer and Chief Financial Officer

Date: June 5, 2020

Exhibit 31.1

CERTIFICATION

I, Laura Alber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2020

By: /s/ Laura Alber
Laura Alber
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Julie Whalen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2020

By: /s/ Julie Whalen
Julie Whalen
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended May 3, 2020 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laura Alber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /s/ Laura Alber
Laura Alber
Chief Executive Officer

Date: June 5, 2020

Exhibit 32.2

**CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended May 3, 2020 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Julie Whalen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /s/ Julie Whalen
Julie Whalen
Chief Financial Officer

Date: June 5, 2020

IBISWorld

WHERE KNOWLEDGE IS POWER

US INDUSTRY (NAICS) REPORT 44211

Furniture Stores in the US

Sit a spell: Rebounding disposable income is expected to drive furniture purchases

Claire O'Connor | August 2020

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About IBISWorld

IBISWorld specializes in industry research with coverage on thousands of global industries. Our comprehensive data and in-depth analysis help businesses of all types gain quick and actionable insights on industries around the world. Busy professionals can spend less time researching and preparing for meetings, and more time focused on making strategic business decisions that benefit you,your company and your clients. We offer research on industries in the US, Canada, Australia, New Zealand, Germany, the UK, Ireland, China and Mexico, as well as industries that are truly global in nature.

Covid-19

Coronavirus Impact Update

IBISWorld's analysts constantly monitor the industry impacts of current events in real-time – here is an update of how this industry is likely to be impacted as a result of the global COVID-19 pandemic:

· Revenue for the Furniture Stores industry has been adjusted to decline 6.8% in 2020 alone due to falling demand as a result of falling consumer spending and consumer confidence. For more detail, please see the Current Performance chapter.

· Since many upstream furniture products are manufactured in internationally, especially in China, the industry's purchase costs are expected to fluctuate, leading to unsteady profit.

· Demand is anticipated to remain relatively steady as all market segments, including both households and businesses, are anticipated to delay discretionary spending on new furniture. However, corporate profit is anticipated to fall at a faster rate than consumer spending, resulting in the business segment to decline at a faster rate. Additionally, since many offices have remained empty since March 2020, office furniture is not a necessary expenditure.

Note: The content in this report is currently being updated to reflect the trends outlined above.

About This Industry

Industry Definition

Operators in this industry primarily sell household, outdoor and office furniture, except those sold combined with office supplies and equipment. This industry predominantly markets and retails living room, dining room and bedroom furniture, upholstered and otherwise. Desks and home office goods, lamps, recliners, rugs and outdoor furniture make up the rest of sales.

Major Players

Inter IKEA Systems BV

Ashley Furniture Industries Inc.

Main Activities

The primary activities of this industry:

Retailing household furniture

Retailing outdoor furniture

Retailing office furniture

The major products and services in this industry:

Living room furniture

Dining room furniture

Bedroom furniture

Other furniture

Supply Chain

SIMILAR INDUSTRIES

Office Supply Stores in the US
Competitor

Used Goods Stores in the US
Competitor

E-Commerce & Online Auctions in the US
Competitor

Mail Order in the US
Competitor

RELATED INTERNATIONAL INDUSTRIES

Furniture Retailing in Australia

Furniture & Home Furnishings Repair in the UK

Furniture Stores in Canada

Industry at a Glance

Key Statistics

$58.9bn
Revenue

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-1.2%	3.3%	

$2.4bn
Profit

Annual Growth 2015-2020	Annual Growth 2015-2025
-4.8%	

4.0%
Profit Margin

Annual Growth 2015-2020	Annual Growth 2015-2025
-0.8%	

27,539
Businesses

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-1.4%	1.1%	

214k
Employment

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-0.4%	2.4%	

$8.1bn
Wages

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-0.4%	2.6%	

Key External Drivers

% = 2015-2020 Annual Growth

0.8%
Demand from warehouse clubs and supercenters

0.8%
Consumer Confidence Index

2.8%
Per capita disposable income

3.1%
Homeownership rate

3.0%
Price of sawmill lumber

Industry Structure

POSITIVE IMPACT

Capital Intensity
Low

Concentration
Low

Regulation
Light

Technology Change
Low

Globalization
Low

MIXED IMPACT

Life Cycle
Mature

Revenue Volatility
Medium

NEGATIVE IMPACT

Industry Assistance
None

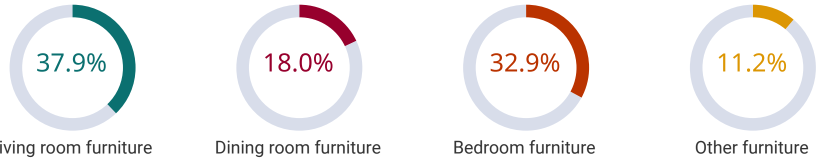
Barriers to Entry
Low

Competition
High

Key Trends

- The industry is positively affected by individuals purchasing homes and apartments rather than renting
- Online retailers have siphoned revenue away from the industry
- Furniture stores have shifted their business models to withstand changes in consumer spending
- Many operators have lowered prices to compete with mounting competition
- As consumer demand for furniture increases, external competitors is projected to intensify
- Companies are expected to focus on providing customer service and benefits
- Growing consumer spending during most of the during has spurred industry product sales

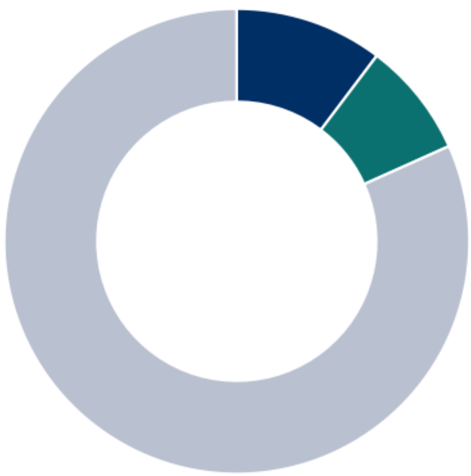
Products & Services Segmentation



Furniture Stores
Source: IBISWorld

Major Players

% = share of industry revenue



- 10.3% Inter IKEA Systems BV
- 8.0% Ashley Furniture Industries Inc.
- 81.7% Other

Furniture Stores
Source: IBISWorld

SWOT

S STRENGTHS

Low Imports
High Profit vs. Sector Average
Low Customer Class Concentration
Low Product/Service Concentration
Low Capital Requirements

W WEAKNESSES

Low & Steady Barriers to Entry
None & Steady Level of Assistance
High Competition
Low Revenue per Employee

O OPPORTUNITIES

High Revenue Growth (2020-2025)
High Performance Drivers
Demand from warehouse clubs and supercenters

T THREATS

Very Low Revenue Growth (2005-2020)
Low Revenue Growth (2015-2020)
Low Outlier Growth
Consumer Confidence Index

Executive Summary

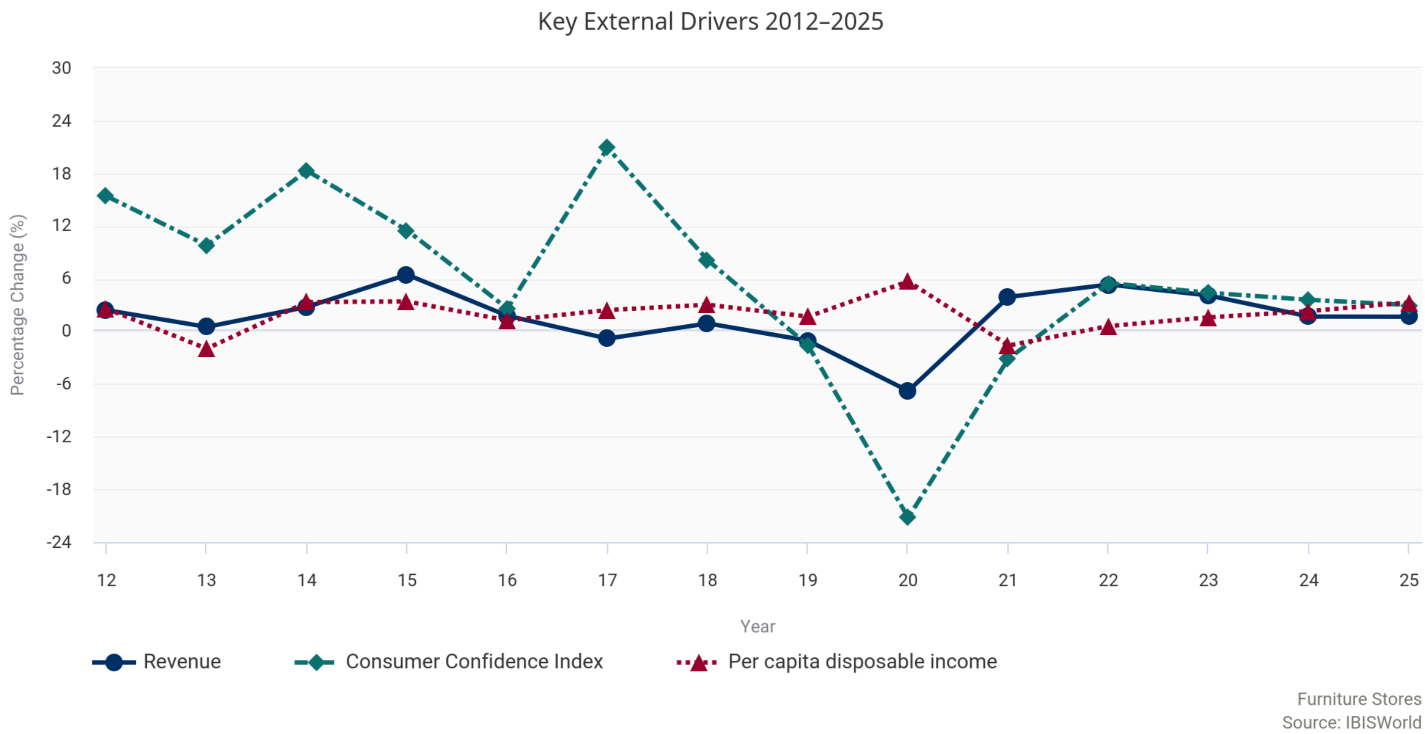
Revenue for the Furniture Stores industry has slightly decreased over the five years to 2020.

During most of the period, rising consumer sentiment and discretionary spending encouraged individuals to ramp up purchases of big-ticket home goods, including furniture. Additionally, slightly increasing homeownership rates and growing consumer spending have spurred industry product sales. However, decreasing value of residential construction during the latter half of the period, coupled with declining consumer spending and consumer confidence in 2020, has contributed to the slight contraction in revenue. As a result, industry revenue has fallen at an annualized rate of 1.2% to $58.9 billion over the five years to 2020, including a decrease of 6.8% in 2020 alone.

The industry is highly fragmented, with no single company controlling a large share of the market. As a result, companies engage in price-based competition. However, most operators are either small, privately run businesses with fewer than four employees or nonemployers. In 2020, nonemployers are estimated to account for 38.4% of industry establishments. Smaller, unprofitable establishments that cannot keep up with intense competition have either closed or have been acquired by larger companies over the past five years. As a result, many companies often have to slash prices, and therefore, their overall earnings are lower. Additionally, another way that companies attempt to set themselves apart from competitors is through their staff. Companies seek to hire knowledgeable, friendly staff to assist customers and help create a positive customer experience. Industry profit, measured as earnings before interest and taxes, has declined from accounting for 4.8% of revenue in 2015 to 4.0% in 2020.

Rebounding disposable income is expected to help drive some furniture purchases over the five years to 2025. Furthermore, stabilizing homeownership rates will likely encourage consumers to purchase more furniture to outfit homes initially. At the same time, competition from other outlets, such as department stores, mass merchandisers and online retailers, is projected to continue growing. While external competition will likely motivate many operators to improve customer service, brand awareness and financing capabilities to differentiate traditional furniture stores from their competitors, competition will also likely entice operators to keep prices low to retain customers, restraining revenue growth. However, growing consumer confidence will likely cause consumers to make large furniture purchases for existing homes, helping bolster industry revenue. Additionally, during the latter half of the period, as spending picks up, industry revenue is anticipated to experience a boost. Consequently, revenue is projected to grow an annualized 3.3% to $69.4 billion over the five years to 2025.

Industry Performance



Key External Drivers

Consumer Confidence Index

Consumer confidence reflects individuals' confidence in the wider economy. When consumer confidence is strong, people are more likely to make large purchases, such as furniture. If consumer confidence is weak, they are likely to refrain from making these large discretionary purchases. The Consumer Confidence Index is expected to decrease in 2020.

Per capita disposable income

Disposable income largely affects new furniture purchases. Growth or contraction in disposable income affects the ability of consumers to purchase new household goods. When disposable income is low or is declining, individuals are more likely to repair existing furniture or delay replacements. Per capita disposable income is expected to decrease in 2020, posing a potential threat to the industry.

Homeownership rate

The Furniture Stores industry is sensitive to the level of homeownership in the United States. When consumers purchase homes, they are more willing to purchase furniture and household goods to furnish the space. Therefore, as the homeownership rate rises, demand for furniture is likely to increase. The homeownership rate is expected to increase in 2020, representing a potential opportunity for the industry.

Demand from warehouse clubs and supercenters

Many warehouse clubs and supercenters have separate furniture sections that carry beds, chairs, tables and more. Due to the large size and diverse offerings of these retailers, operators may be able to offer furniture with greater discounts, enticing customers away from traditional furniture stores. Demand from warehouse clubs and supercenters is expected to increase in 2020.

Price of sawmill lumber

Changes in raw material prices affect the prices of household furniture items. When the prices of wood and other input materials increase, the cost of producing furniture rises. This boosts the purchase price of products for industry operators. Companies can often pass on cost increases to customers in the form of higher prices and revenue. However, when demand is low, many operators do not pass these price bumps on to customers completely and profit suffer. The price of sawmill lumber is expected to increase in 2020.

Industry Performance 2012–2025

Furniture Stores
Source: IBISWorld

Current Performance

Changes in disposable income, consumer sentiment and the rate of homeownership are major growth drivers for the Furniture Stores industry.

The more disposable income consumers earn, the more likely they are to be able to afford new furniture, which is largely a discretionary purchase. Higher consumer sentiment also means individuals are more likely to make purchases. A healthier homeownership rate broadens the industry's customer base to include consumers shopping for goods to furnish their new homes. However, a huge decline in consumer confidence has mitigated the positive effects from other drivers and has caused industry revenue to decline over the five years to 2020. IBISWorld estimates industry revenue to fall at an annualized rate of 1.2% to $58.9 billion over the five years to 2020, including a projected decline of 6.8% in 2020 alone.

Mixed performance from demand drivers

> **The industry has experienced revenue growth during most of the period as a strengthening economy has generally enabled consumers to purchase more furniture.**

Falling unemployment during most of the period has helped raise household disposable income levels and consumer confidence, providing individuals with more cash on hand to spend on furniture purchases and more confidence in their purchases.

Additionally, as access to credit increased during the period, many consumers found it easier to access the financing necessary to purchase new homes. Additionally, the industry is positively affected by individuals purchasing homes and apartments rather than renting these properties. Some of these rental properties come with furniture in them when they are rented, eliminating the need to purchase new furniture. The impermanence of renting also encourages renters to purchase less expensive furniture to meet basic necessities instead of higher-end alternatives, to the detriment of industry operators.

However, in 2020, both consumer spending and consumer confidence are anticipated to decrease amid the COVID-19 (coronavirus) pandemic and economic uncertainty that the pandemic has generated. Individuals are anticipated to dramatically cut back on discretionary spending, including purchasing new furniture. Additionally, the industry is tied to the housing market, and therefore, as consumer confidence drops, individuals are less likely to take risks by pushing new homes or investing in remodels. Both housing starts and the value of residential construction are anticipated to experience double-digit declines in 2020. As a result, the industry is anticipated to suffer amid falling demand for industry products. Not only is demand anticipated to fall, but most operators have been forced to temporary close all locations to remain in compliance with federal and local mandates. As a result, the ability to generate revenue through in-stores sales has been significantly affected for several months, since most stores that closed in March 2020 have begun to re-open in late May and early June.

External competition grows

> **Rising external competition has also negatively affected the industry.**

Mass merchandisers and warehouse clubs, such as Walmart Inc. and Costco Wholesale Corporation, compete with furniture stores, mostly on smaller items, such as desks, chairs and cabinets. Other department stores offer mattresses, living room sets and dining tables and chairs, which are also sold by industry operators. Due to their significant buying power, these larger stores are able to offer more competitive prices. With the convenience of a one-stop shop and lower prices, mass merchandisers and department stores have lured customers away from traditional furniture stores.

Online retailers have also siphoned revenue away from the industry. Websites, such as Wayfair.com, Overstock.com and Furniture.com, enable users to browse a wider selection of furniture and purchase products from the comfort of their own homes. These retailers benefit from lower costs because they do not have to pay for large showroom spaces. Instead, they store furniture in warehouses and use photographs to display stock, which tends to be more extensive in variety than traditional brick-and-mortar stores. The lower costs of selling furniture online enable these companies to offer competitively low prices to consumers. While concerns about how customers would respond to buying furniture that they could not view in person or test out before purchasing were expected to slow the rise of furniture e-tailers, online furniture sales have risen significantly in recent years. According to 2017 data from *Furniture Today*, online furniture sales have grown every year since 2015, with many industry operators shifting their focus to their e-commerce platform as consumers become more comfortable with making large purchases online (latest data available).

Profit trends

> **Industry profit has decreased slightly over the past five years.**

Many operators have been forced to lower prices to entice customers and compete with e-tailers and big-box stores. As a result, unprofitable businesses have closed locations. Therefore, the number of establishments has decreased at an annualized rate of 0.9% to 37,031 locations over the five years to 2020. Similarly, industry employment has decreased an annualized 0.4% to 213,754 workers during the same period. However, further declines in employment have been mitigated by successful companies expanding their staff to boost their customer service offerings. IBISWorld estimates that industry profit, measured as earnings before interest and taxes, has fallen from accounting for 4.8% of revenue in 2015 to 4.0% in 2020, mainly as a result of increasing wages and intense price-based competition within the industry. The coronavirus pandemic has further put pressure on profit as many operators have been unable to adjust their inventory as demand quickly declined.

A proliferation of business models

> **Furniture stores have shifted their business models to withstand changes in consumer spending and external competition.**

To compete with mass merchandisers and warehouse clubs, companies have lowered retail prices, while others have started their own discount retail chains. However, some companies are unwilling to lower prices and instead use alternative tactics to attract customers. For instance, to avoid devaluing the company's brand, many furniture stores have increased consumer financing options to enable more individuals to purchase furniture. In a survey conducted by TD Bank in February 2018 and published by Furniture Today, almost 7.0% of respondents said they would offer more financing options for consumers (latest data available).

Other companies have also started implementing and expanding their interior design segment to better help customers with furniture purchases. For example, Ethan Allen Interiors Inc. (Ethan Allen), a large high-end furniture store, has many in-house interior designers that visit customers' homes to help plan new rooms. The company also recently created a program that provides Ethan Allen designers the opportunity to work with independent interior design affiliates to increase its customer base. Additionally, major player Inter IKEA Systems BV has recently launched planning studios, which are essentially show rooms that give customers ideas, and a place where customers can receive interior decorating advice from professionals. Many companies across the industry have implemented virtual design consultations to attract potential buyers and retain existing clients as their stores remained closed due to the coronavirus pandemic.

Historical Performance Data

Year	Revenue ($m)	IVA ($m)	Estab. (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Consumer Confidence Index (Index)
2011	55,622	9,620	38,771	30,328	211,777	N/A	N/A	7,506	N/A	58.1
2012	56,973	10,353	38,995	30,010	209,771	N/A	N/A	7,561	N/A	67.1
2013	57,267	10,693	38,375	29,371	211,512	N/A	N/A	7,715	N/A	73.6
2014	58,867	11,096	39,025	29,684	213,678	N/A	N/A	7,917	N/A	87.1
2015	62,671	11,825	38,799	29,478	217,774	N/A	N/A	8,316	N/A	97.1
2016	63,790	11,978	38,198	28,869	225,349	N/A	N/A	8,661	N/A	99.6
2017	63,267	11,853	38,326	28,492	223,657	N/A	N/A	8,563	N/A	120
2018	63,844	11,854	38,334	28,458	224,993	N/A	N/A	8,620	N/A	130
2019	63,170	11,794	38,136	28,300	223,732	N/A	N/A	8,563	N/A	128
2020	58,888	11,009	37,031	27,539	213,754	N/A	N/A	8,141	N/A	111

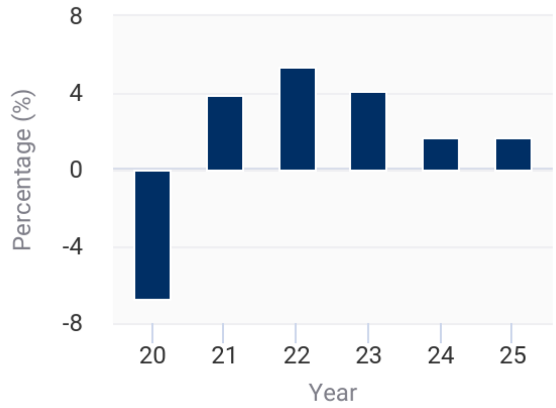
Industry Outlook

Outlook

IBISWorld expects revenue for the Furniture Stores industry to increase over the five years to 2025 as per capita disposable income rebounds.

Pent up demand for furniture will likely result in revenue growth, but increased competition may somewhat constrain revenue and margin expansion. When fewer consumers buy homes, industry operators suffer because homeowners do not need to purchase furniture to outfit the home. However, expected increases in consumer confidence over the next five years are expected to make consumers more willing to make big-ticket purchases, boosting revenue growth. Consequently, revenue is expected to rise at an annualized rate of 3.3% to $69.4 billion over the five years to 2025.

Industry Outlook 2020–2025



Furniture Stores
Source: IBISWorld

Mixed performance from demand drivers

Consumers are likely to make initial furniture purchases as the residential market grows over the next five years.

IBISWorld expects per capita disposable income to rebound and grow during the outlook period. With more money in their pockets at the outset of a home purchase, consumers are more likely to make furniture purchases. As interest rates remain relatively low and more consumers gain access to financing, an increasing number of individuals are expected to purchase homes. As a result, the housing market is anticipated to expand and IBISWorld expects housing starts to grow during the outlook period. Therefore, demand for furniture in the residential market will likely grow. Additionally, the Consumer Confidence Index is forecast to increase an annualized 4.0% over the five years to 2025, despite a decrease of 13.5% in 2020 amid the COVID-19 (coronavirus) pandemic. As a result, consumers that have pushed off discretionary purchases in 2020 and 2021 will likely opt to make those purchases during the latter half of the period.

Over the five years to 2020, many operators have lowered prices to compete with mounting competition. To motivate consumer spending over the coming years, companies will likely raise prices as demand is expected to increase as consumers purchase more industry products due to pent up demand. As a result, industry profit, measured as earnings before interest and taxes, are anticipated to increase to account for 4.3% of revenue in 2025. IBISWorld expects profit margin growth to be constrained as a result of strong external competition. The number of industry enterprises is expected to marginally increase, rising at an annualized rate of 1.1% to 29,049 operators over the five years to 2025. Industry employment is expected to increase at an annualized rate of 2.4% to 240,201 workers during the same period.

External competition grows

As consumer demand for furniture increases, pressure from external competitors is projected to intensify.

Department stores, mass merchandisers and warehouse clubs will likely continue to carry furniture at lower prices. Competition from mass merchandisers and warehouse clubs, such as Walmart Inc., will likely have a greater effect on low-end furniture stores, such as Inter IKEA Systems BV, since their furniture is similar in quality and price. Mid-level price stores, such as Ashley Furniture Industries Inc., will also likely experience increased pressure from department stores that provide furniture customization, such as JC Penney Company Inc. and Macy's Inc. Additionally, the boom in online furniture sales experienced over the past five years is likely to continue moving forward. As consumers become more comfortable purchasing furniture online, industry operators are expected to increasingly lose business to internet retailers.

As competition from retailers that are not industry-relevant strengthens, furniture stores are anticipated to alter their business models. Similar to the current period, companies are expected to focus on providing customer service and benefits that external competitors lack over the next five years, further indicated by the expansion of the industry's workforce. To provide such benefits to consumers, industry operators must ensure that their employees are extremely knowledgeable. Furniture stores will also likely offer more customizable fabrics and expand interior design services to include professional advice, as most external competitors lack these specialized services.

Companies are also anticipated to increase brand awareness because many furniture stores have failed to promote their products compared with other retail industries. As a result, many consumers purchase furniture based on price and perceived quality. To increase market share, operators will likely need to focus on promoting their brands and differentiating themselves from competitors through increased marketing and advertising. Additionally, operators are expected to expand in-house consumer financing offerings.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Estab. (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Consumer Confidence Index (Index)
2020	58,888	11,009	37,031	27,539	213,754	N/A	N/A	8,141	N/A	111
2021	61,198	11,394	37,501	27,828	219,403	N/A	N/A	8,377	N/A	120
2022	64,470	11,996	38,177	28,254	227,413	N/A	N/A	8,711	N/A	124
2023	67,110	12,454	38,752	28,621	233,984	N/A	N/A	8,984	N/A	128
2024	68,250	12,655	39,066	28,826	237,015	N/A	N/A	9,108	N/A	132
2025	69,391	12,845	39,394	29,049	240,201	N/A	N/A	9,236	N/A	135

Industry Life Cycle

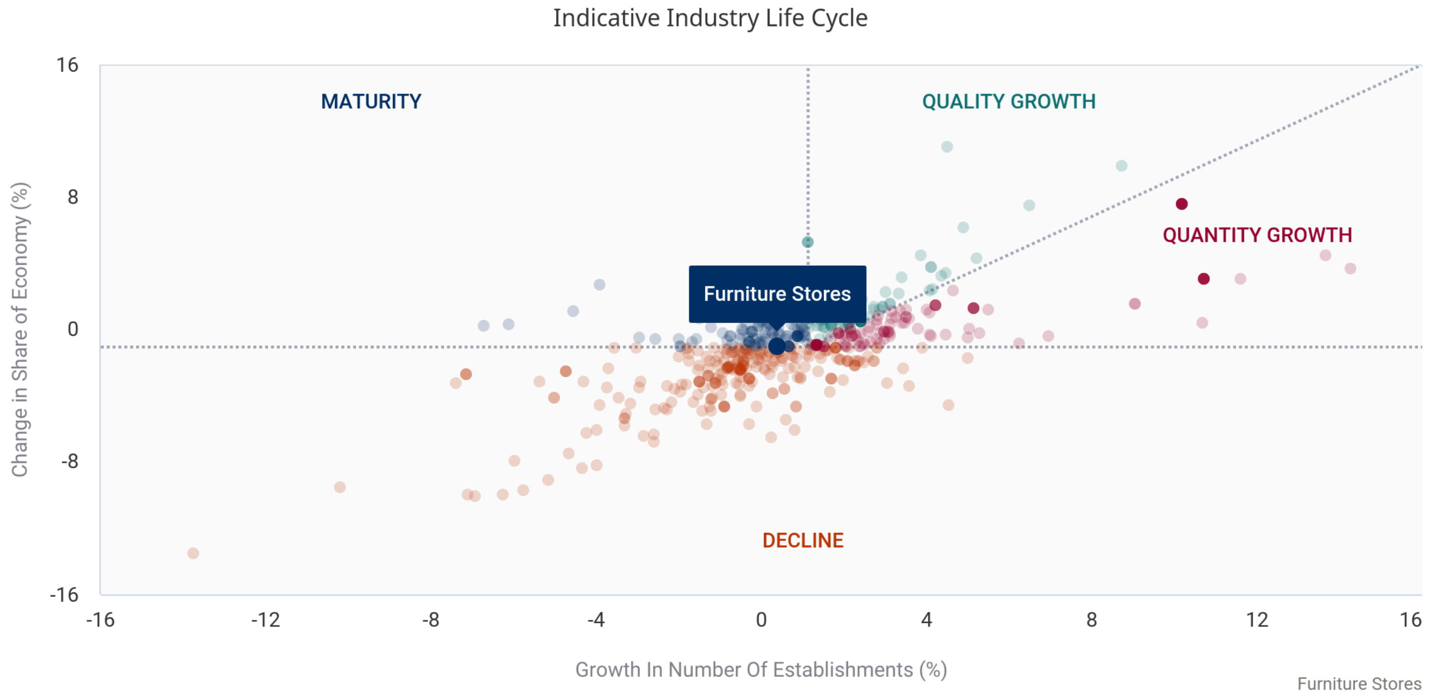
The life cycle stage of this industry is ⊖ Mature

LIFE CYCLE REASONS

IVA is expected to grow is expected to grow at a slower rate than the overall economy

This industry is characterized by stable downstream markets

The industry experiences little technological change



Furniture Stores
Source: IBISWorld

The Furniture Stores industry is in the mature phase of its life cycle due to its wholehearted market acceptance, product saturation and low rate of technological change. Industry value added (IVA), which measures of an industry's contribution to the overall economy, is estimated to increase at an annualized rate of 0.8% over the 10 years to 2025. Conversely, US GDP is expected to grow at an annualized rate of 1.5% during the same period.

Despite external competition, consumers have generally accepted furniture stores as the main source for purchasing furniture because they are able to offer a wide selection and range of quality, and most importantly, the opportunity to test a product before purchase. As consumers purchase houses, they tend to purchase items for decoration, home utility and cooking. Therefore, as long as consumers continue to purchase and live in homes, they will likely continue to need industry merchandise. In addition, product lifespan is between five and 10 years, so replacement purchases are frequently needed. Therefore, furniture demand will likely continue into the future, an important indication that the industry is in the mature phase of its life cycle.

Product saturation also affects the industry. While sofas and chairs can come in all shapes and sizes, the basic range of products continues to remain relatively static. Most stores offer living room, dining room and bedroom furniture. As a result, the industry's products and markets are well-defined and developed. This industry's technological changes occur at a slow rate. Over the five years to 2020, many stores have added point-of-sale systems and electronic data interchange systems. Many operators have built websites for promotion and sales, but these technological changes have occurred in many retail industries.

Products and Markets

Supply Chain

KEY BUYING INDUSTRIES

1st Tier

- Consumers in the US
- Property Management in the US
- Interior Designers in the US
- Hotels & Motels in the US
- Casino Hotels in the US
- Bed & Breakfast & Hostel Accommodations in the US

2nd Tier

- Consumers in the US

KEY SELLING INDUSTRIES

1st Tier

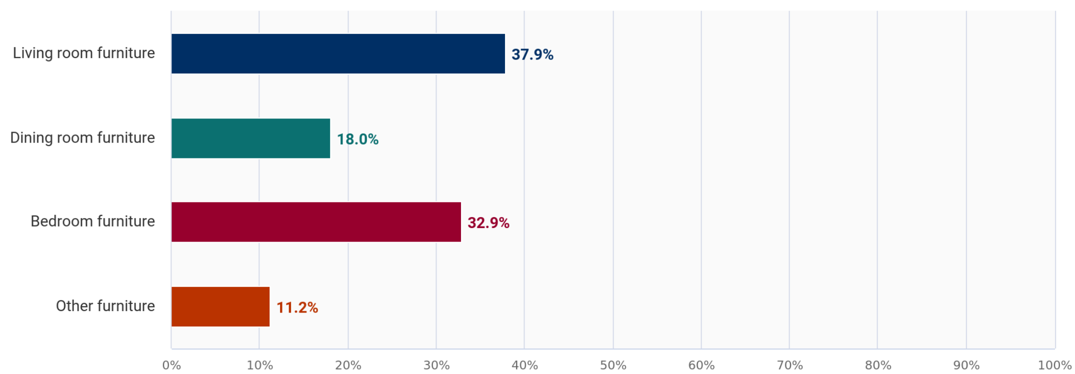
- Carpet Mills in the US
- Household Furniture Manufacturing in the US
- Office Furniture Manufacturing in the US
- Mattress Manufacturing in the US
- Furniture Wholesaling in the US

2nd Tier

- Wood Product Manufacturing in the US
- Timber Services in the US

Products and Services

Products and Services Segmentation



2020 INDUSTRY REVENUE

$58.9bn

Furniture Stores
Source: IBISWorld

Living room furniture

> **The largest product segment of the Furniture Stores industry is living room furniture, which accounts for 37.9% of revenue in 2020.**

This segment includes coffee tables, sofa tables, end tables, sofas, loveseats, chairs, bookshelves, ottomans, display cabinets, consoles and TV stands. Prices for products in this segment vary considerably depending on brand, style and materials, but tend to be more expensive than other furniture segments. This high per-unit price has driven growth for this segment, as growing per capita disposable income figures have enabled more consumers to afford products in this segment. Sofas are among the most expensive furniture items sold by industry operators. Upholstered furniture specifically, including sofas and overstuffed chairs, accounts for a large share of living room furniture.

This segment also includes dual-purpose furniture, such as sleep sofas, daybeds and futons. Sales from this subsegment have strongly increased over the five years to 2020. As more people have chosen to live together, such as adult children moving back in with parents, moving an older parent into the home or adults living with roommates, the need for multifunctional furniture has increased. Over the past five years, dual-purpose furniture demand increases and rising sales of high-priced sofas and other upholstered furniture products have boosted this segment's share of industry revenue during the period.

Bedroom furniture

> **Bedroom furniture includes beds, headboards, dressers, chests, armoires, bed benches, bookcases, chairs, vanities and nightstands.**

This segment is expected to account for 32.9% of revenue in 2020. Sleep equipment, including mattresses, box springs, cots and waters, accounts for the majority of this segment's revenue. Bedroom furniture has increased as a share of revenue over the past five years, as more consumers have turned to industry operators for a one-stop shopping experience for mattresses and bedroom furniture, such as headboards and dressers.

Dining room furniture

> **Dining room furniture includes dining sets, including tables and chairs.**

It also includes other items such as sideboard cabinets, serving carts, bar stools and wine storage units. This segment is expected to account for 18.0% of revenue in 2020, remaining a stable share of revenue during the period. Dining room furniture also varies dramatically in price depending on style, quality, materials and brand. Consumers aged 35 to 44 tend to place a high degree of attention on choosing formal dining room furniture that fits the style of their home. This group favors quality, craftsmanship and brand. Younger consumers favor price and practicality when choosing dining room furniture. As a result, many stores are working to employ a balance between high and low-quality furniture. Appealing to a wide range of consumers has become especially important as competition has increased. This segment's share of industry revenue is expected to remain flat or marginally decrease over the five years to 2025 due to consumers' focus on big-ticket purchases from other product segments.

Other furniture

> **The other furniture segment is estimated to account for 11.2% of industry revenue in 2020.**

This segment primarily includes office and computer-related furniture, infant furniture and outdoor furniture. Home office and computer-related furniture has risen significantly as a share of revenue over the past five years. As telecommuting has increased during the period, more customers have looked for home office furniture. This has driven growth for this segment. Office furniture sales have also expanded during the period, as corporate profit has grown and businesses have increased their capital expenditures, investing more in operational expansion and subsequent furniture purchases.

Outdoor furniture is also included in this segment. Outdoor furniture sales increased as a result of more consumers staying at home for “staycations” instead of taking vacations. Other furniture includes carpets, lamps, mirrors and other decorative goods. This segment's share of revenue has fluctuated over the past five years because many of these goods are considered discretionary products; therefore, consumers tend to purchase these products when they have significant amounts of disposable income. However, IBISWorld expects spending on these items to increase over the next five years as per capita discretionary rebounds from decreased levels in 2020.

Demand Determinants

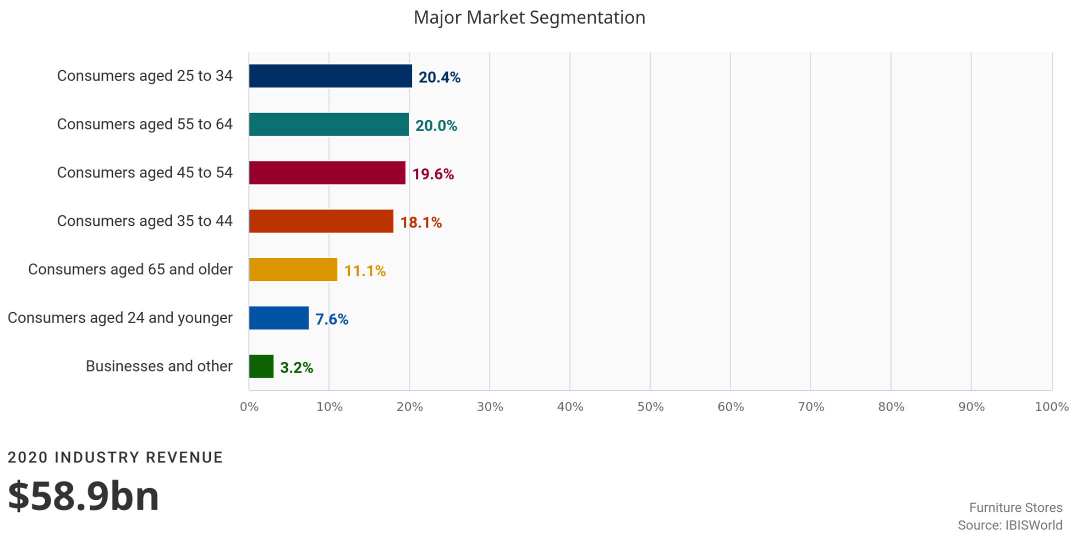
The main factors affecting demand for products from the Furniture Stores industry include the disposable income level, consumer confidence, the homeownership rate and price.

Since furniture is a durable, expensive good, consumer disposable income heavily influences demand for furniture. When disposable income is high, furniture sales generally increase. However, when income is low, consumers cut back on spending and refrain from purchasing expensive goods. If consumers are in extreme need of furniture, but their disposable income has declined, they are likely to purchase used furniture from used goods stores, garage sales or other outlets.

Consumer confidence affects consumers' perceptions of economic prosperity. When confidence is high, demand for new home furniture purchases increases. When it is low and consumers become pessimistic, retail sales tend to soften, particularly for more expensive, high-end items. When the economy is performing poorly, consumer confidence can become so low that many consumers refrain from purchasing new furniture altogether. Nevertheless, consumer confidence has grown steadily over most of the past five years as the employment rate, household incomes and the housing market recovered.

Consumers are more likely to engage in furniture purchases when they are moving into new houses or condominiums. This provides them with an opportunity to remodel or predicate which typically results in furniture sales. As more Americans move into houses or condominiums, they must purchase furniture to fill their homes, and therefore, become more likely to redecorate and remodel. In turn, the amount of merchandise bought at furniture stores increases. If the level of homeownership drops and more people rent, less furniture is purchased. Renters do not own the property they live on, and therefore, have less flexibility in what changes they can make to their living space. The industry is highly correlated with the housing market as a result.

Major Markets



Households and individual consumers

Households and individual consumers make up the vast majority of sales for the Furniture Stores industry, accounting for more than 95.0% in 2020. Households purchase almost all of the product varieties offered by furniture stores, including living room, bedroom, dining room and other furniture. Products sold by operators are considered staples in almost every domestic household. Individuals often consider chairs, couches, bed sets, dining room tables, coffee tables, home office and entertainment furniture to be vital expenditures that are bought when people move into a new home or apartment and replaced when broken or damaged.

Within the households and individual consumers segment, there are six subsegments that can be broken down by age. These categories include consumers aged 24 and younger; between 25 and 34; between 35 and 44; between 45 and 54; between 55 and 64; and consumers aged 65 and older. The level of disposable income and level of confidence in this market plays a pivotal role in the performance of the industry as a whole and the relative performance of these subsegments. Consumers under 24 years old accounts for the lowest share of revenue, accounting for an estimated 7.6% of revenue in 2020. These customers tend to have little disposable income and can spend the least amount of money at furniture stores, often opting for the least expensive items when shopping for dormitory furniture or outfitting an apartment, and therefore, have stagnated as a share of revenue over the five years to 2020. Thus, the other segments generally follow population and disposable income trends, with consumers aged 35 to 44 accounting for 18.1% of revenue in 2020. These consumers tend to have higher incomes and larger savings reserves and can afford more easily to purchase more expensive items at furniture stores and can replace products at a higher frequency, and thus, this segment has increased as a share of revenue during the period. Also, as the median age of the US population has grown, more individuals are 45 years old or older, which has pushed up sales from higher age subsegments. In 2020, consumers aged 45 to 54 account for 19.6% of revenue, increasing as a share of revenue during the period. Additionally, consumers aged 55 to 64 account for 20.0% of revenue in 2020, remaining a stable share of revenue over the past five years, while consumers aged 65 and older account for 11.1% of revenue in 2020, marginally declining as a share of revenue during the period. Overall, older customers tend to have more disposable income and larger reserve funds, which enables them to more easily afford industry products. Also, these customers are more likely to own homes, as opposed to renting, which generally gives them more space that needs to be furnished with more furniture. Renters also are more likely to have an apartment furnished upon move-in, which makes them less likely than homeowners to need to purchase new furniture.

Businesses and other

Businesses and other buyers make up a smaller share of revenue than households and individuals, but remain important customers, accounting for an estimated 3.2% of industry revenue in 2020. Corporate and business clients require chairs, tables and desks for their day-to-day operations and couches and chairs for their lobbies and waiting rooms. While many large- and medium-sized companies often turn to wholesalers for uniform products, smaller businesses are more likely to visit storefronts to place orders. For many businesses, a solid relationship with a furniture seller is important to their business. For example, restaurants generally require new tables and chairs on a regular basis because of wear and tear and to update the decor of their establishment. These businesses are likely to make up a small, but steady source of revenue for industry operators. The smaller these entities are, the more likely they are to visit a storefront. This segment is anticipated to fall as a share of revenue in 2020 because the COVID-19 (coronavirus) pandemic has negatively affected corporate profit, limiting the ability of new and existing companies to purchase furniture. Furthermore, with the majority of corporate offices working remotely, decorating the office has become of little importance since many offices have remained empty since March 2020.

International Trade

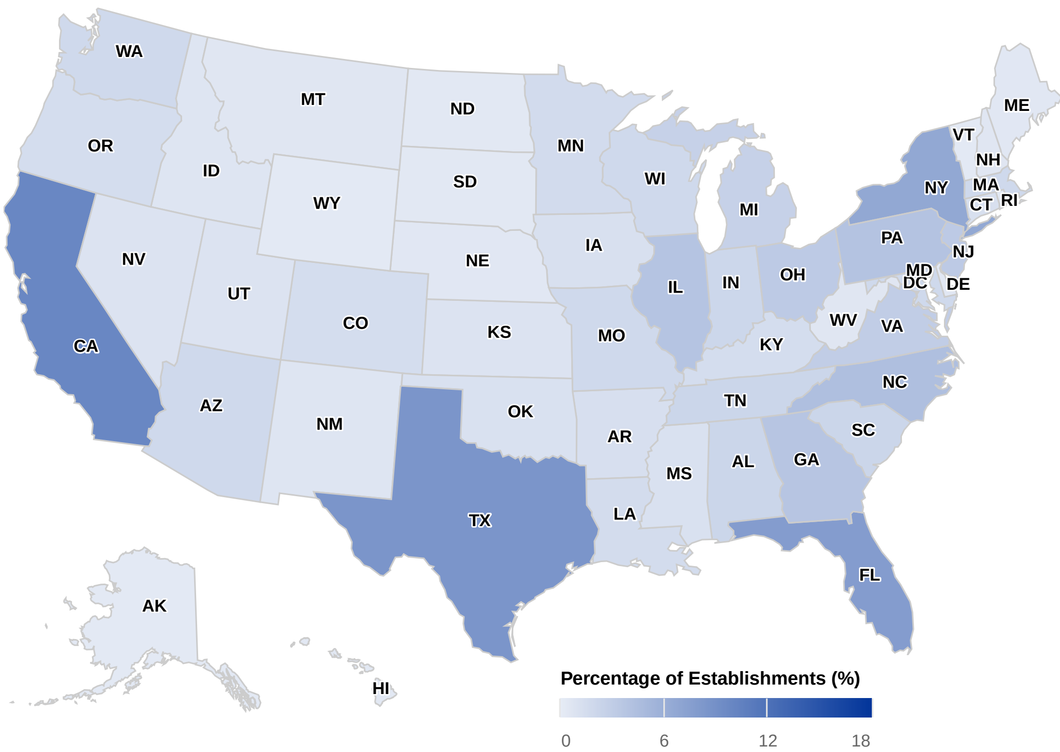
Exports in this industry are Low and Steady

Imports in this industry are Low and Steady

The value of imports and exports within the Furniture Stores industry are accounted for at the manufacturing level. Downstream manufacturing industries include the Household Furniture Manufacturing industry (IBISWorld report 33712), the Office Furniture Manufacturing industry (33721) and the Furniture Wholesaling industry (42321).

Business Locations

Business Concentration in the United States



Furniture Stores in the US
Source: IBISWorld

Establishment growth in the Furniture Stores industry has been relatively steady over the five years to 2020. Store share often falls in line with population and fluctuates slightly based on tourism. Since individuals account for more than 95.0% of this industry's customers, operators rely heavily on households and locate in areas with high population volumes. The regions with the highest share of industry establishments include the Southeast, Mid-Atlantic and West.

Southeast

Given the industry's heavy reliance on households as customers, it is understandable that the Southeast region is home to the highest share of industry establishments. The region is home to the highest share of the population and a high share of industry establishments, accounting for 30.4% of establishments in 2020. Many operators have chosen to locate in this region to service its very large customer base. Additionally, the large amount of timber land in the region benefit operators in several ways. If an operator chooses to manufacture its own furniture, it would save transportation costs by locating close to sawmills and wood producers, which are heavily located in this region as well. Similarly, furniture stores can also save on transportation costs if they are buying from furniture makers that have sourced their wood from a close source. This cuts down on transportation costs for the furniture maker, which, in turn, passes down price savings to the downstream furniture store. Overall, this region offers several benefits to operators and has grown as a share of industry establishments over the past five years. As the population of the region has grown, so has its share of establishments.

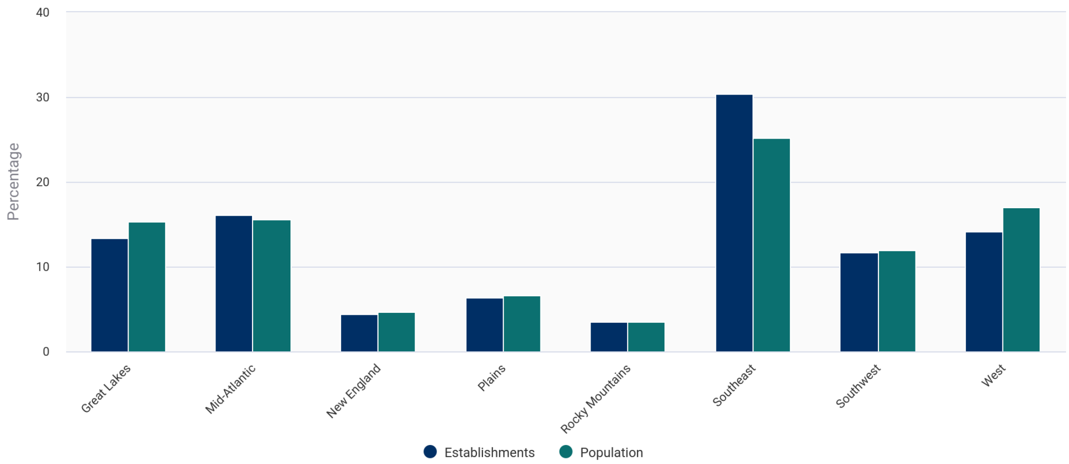
Mid-Atlantic and West

The Mid-Atlantic and West regions account for 16.1% and 14.2% of industry establishments, respectively, in 2020. These regions also account for high shares of the population. The Mid-Atlantic region benefits from its large population centers that are home to a large number of individuals and businesses. This creates a steady demand source that needs to be serviced by industry operators. The West region also accounts for a high share of industry establishments due to similar beneficial conditions. Overall, both regions have grown as a share of establishments over the past five years as these region's population has grown and the business environment in them has bettered.

Other

The Great Lakes region makes up 13.4% of industry establishments and the Southwest houses 11.7% of locations in 2020. The remaining regions house a low number of establishments. These regions have the lowest population density, and therefore, experience lower demand for industry products.

Distribution of Establishments vs Population



Furniture Stores
Source: IBISWorld

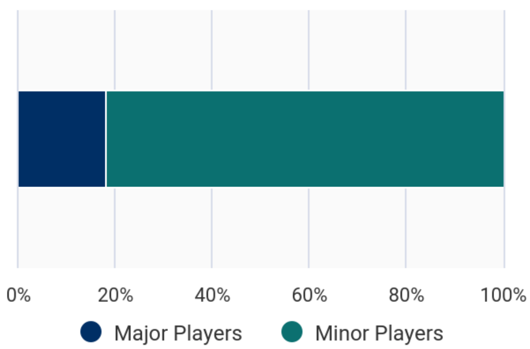
Competitive Landscape

Market Share Concentration

Concentration in this industry is Low

The Furniture Stores industry is highly fragmented. Most industry operators do not account for a significant share of market share. In fact, Inter IKEA Systems BV (IKEA) and Ashley Furniture Industries Inc. (Ashley) are the only two companies in the industry that account for more than 5.0% of industry revenue in 2020. Both companies have grown their market share by appealing to customers by offering deals and discounts that tend to undercut their smaller competitors. Ashley is a vertically integrated company that manufactures its own furniture, which permits for it to lower its prices. Likewise, IKEA sources its furniture from other countries at a lower price as a result of relatively low manufacturer wage costs, enabling them to keep prices low. Other larger operators in the industry include William-Sonoma Inc. and Rooms To Go Inc. The top four players are estimated to account for less than 30.0% of industry revenue in 2020.

Market Share Concentration



Furniture Stores
Source: IBISWorld

Market share concentration has increased over the five years to 2020. During the period, the number of enterprise has declined at a slightly faster rate than the number of establishments, indicating that large companies have increasingly been acquiring smaller operators to boost market share. Additionally, the major players in this industry have grown at much faster rates than the industry as a whole, bolstering the relative strength of the top players and market share concentration. However, the industry is still very fragmented. In general, furniture stores tend to be small in size, and thus, 38.4% of industry establishments are nonemployers in 2020. Due to their small size and the intense competition from external players, most stores in the industry will likely continue to maintain only one or two locations over the five years to 2025. The widespread market acceptance of these small furniture stores ensures low market share concentration for this industry. While the reach of the larger companies in this industry has grown, the market for these smaller companies has remained strong and market share concentration has remained low.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Experienced workforce: Operators should ensure staff are capable of addressing consumer queries and providing sound advice.

Attractive product presentation: Operators should have a clear and well-presented store layout. Consumers often need to see furniture in an environment similar to that of a home.

Production of goods currently favored by the market: Operators should keep up with changing consumer trends and fads in furniture styles.

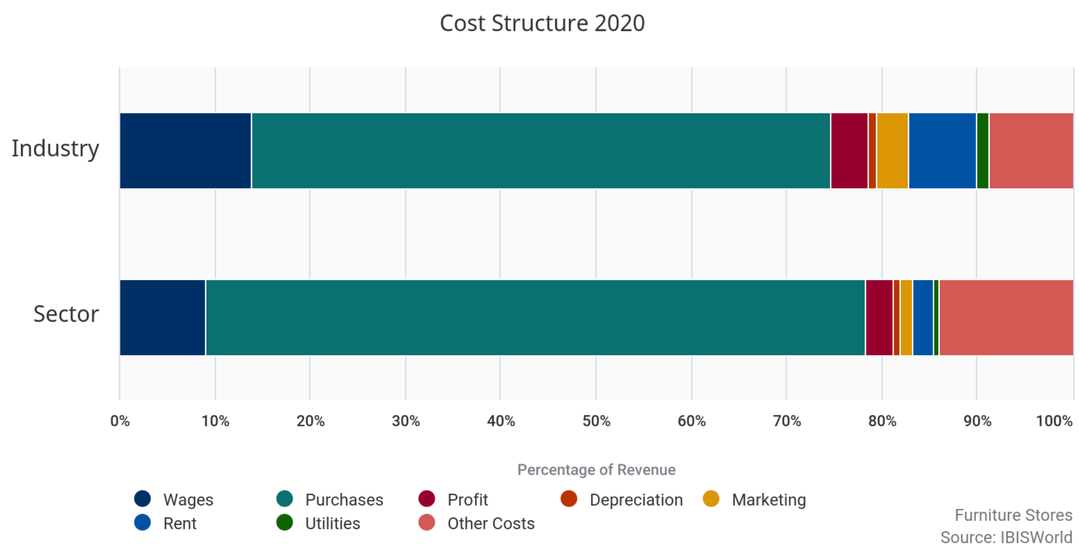
Having a clear market position: Operators should portray a clear image of the company. Consumers need to be aware of the type of products a company offers and the segment of the market they target.

Establishment of brand names: Operators should stock brands that consumers can readily recognize as high quality. Since furniture is expensive, consumers tend to purchase brands they are familiar with.

Proximity to key markets: Stores should be located where there is a high volume of passing traffic as to maximize store exposure to prospective consumers. Locations in areas with many homeowners will likely increase success.

Strong cash reserves: Many operators will likely experience a dip in revenue due to the temporary closure of stores across the industry, and therefore, operators must have enough cash on hand to keep the business afloat.

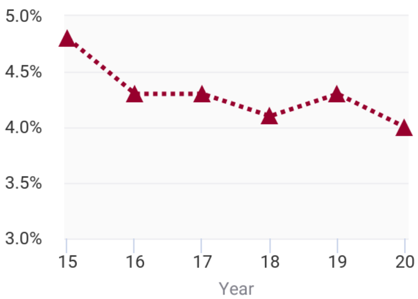
Cost Structure Benchmarks



Profit

Profit, measured as earnings before interest and taxes, has declined slightly over the five years to 2020, accounting for 4.0% of revenue in 2020, down from 4.8% in 2015. Intense competition within the industry has led to price-based competition within the industry. To set themselves apart and attract customers, operators slash prices and host sales, lowering overall profit. Furthermore, companies have bolstered wage spending, further hurting industry profit. The COVID-19 (coronavirus) pandemic has put further pressure on profit in 2020 as operators have been unable to adjust their normal inventory levels to meet the decreased demand.

Profit as a Share of Revenue 2015-2020

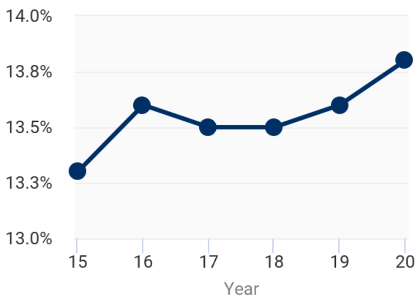


Furniture Stores
Source: IBISWorld

Wages

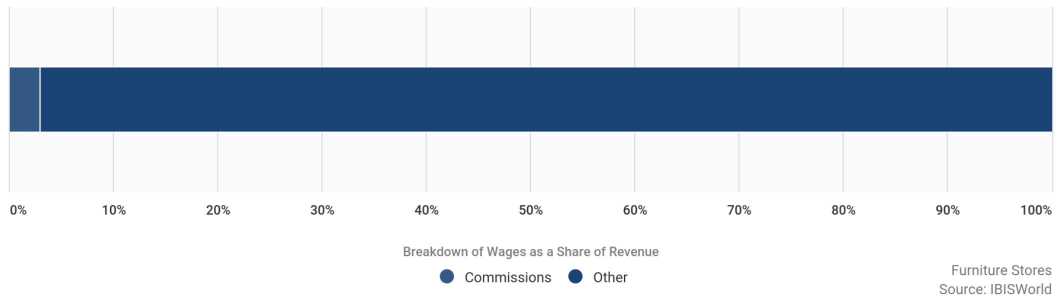
Wage costs account for 13.8% of revenue in 2020 because the industry is fairly labor-intensive. Industry employees perform a variety of tasks including floor selling, merchandising, warehousing and display work, as well as office and administrative management. For example, larger industry players arrange furniture pieces to create mock rooms, which incorporate furniture pieces and accessories to show the value of the products when they are all together. This requires considerable manual labor from staff employees. As a result, the number of industry employees has declined at a slower rate than both establishments and enterprises during the period. In turn, wage costs have increased. Overall, wage costs have decreased at a slower rate than revenue, causing wages' share of revenue to increase from accounting for 13.3% of revenue in 2015.

Wages as a Share of Revenue 2015-2020



Furniture Stores
Source: IBISWorld

Wages Breakdown (% of Total Wages in 2020)

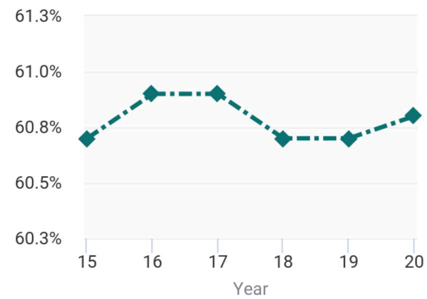


Furniture Stores
Source: IBISWorld

Purchases

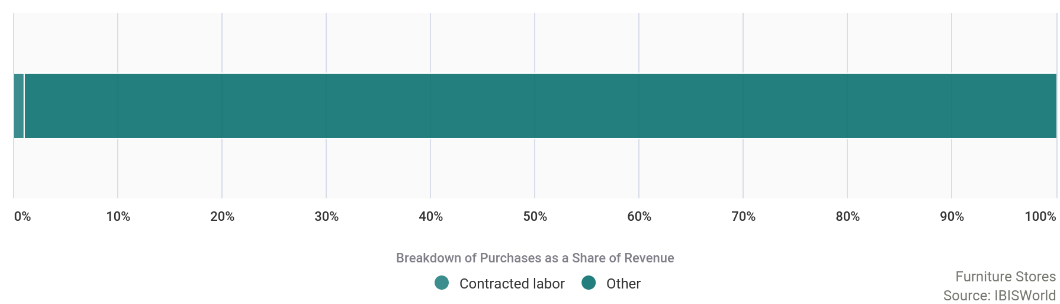
Purchases are the largest cost for industry operators, accounting for an estimated 60.8% of industry revenue in 2020. Purchase costs include all pieces of furniture for sale, among others. While the purchasing of the actual furniture to be sold accounts for the vast majority of this segment, industry operators also tend to purchase materials to decorate and enhance the display of their merchandise. This may include pieces of art and enhanced lighting. Purchasing costs have marginally increased over the past five years, as the price of many woods and plastics from which furniture is made has risen. When furniture becomes more expensive to make for furniture producers, it often becomes more expensive for operators to purchase. However, purchase costs are expected to fall moving forward as more upstream manufacturers begin to source their inputs from low-priced overseas producers in an attempt to reduce costs.

Purchases as a Share of Revenue 2015-2020



Furniture Stores
Source: IBISWorld

Purchases Breakdown (% of Total Purchases in 2020)



Furniture Stores
Source: IBISWorld

Depreciation

Depreciation can cover buildings for those that are not leased, fixtures and fittings and inventory management software. The cost of depreciation fluctuates among operators depending on size and the number of assets involved. In 2020, these expenses are expected to account for 0.9% of revenue.

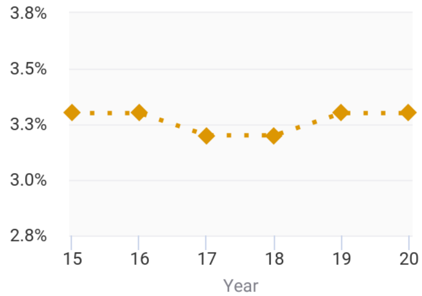
Depreciation as a Share of Revenue 2015-2020

Furniture Stores
Source: IBISWorld

Marketing

Marketing is necessary to ensure brand exposure is high and can be used to promote quality. Many operators release full-color circulars and mailing pieces as their primary medium of advertising. Direct marketing strategies, along with TV, direct mail, newspapers and radio, are other mediums companies employ. Marketing accounts for 3.3% of industry revenue in 2020.

Marketing as a Share of Revenue 2015-2020

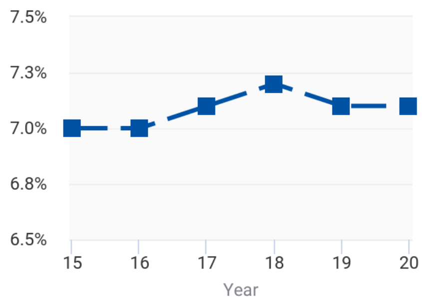


Furniture Stores
Source: IBISWorld

Rent

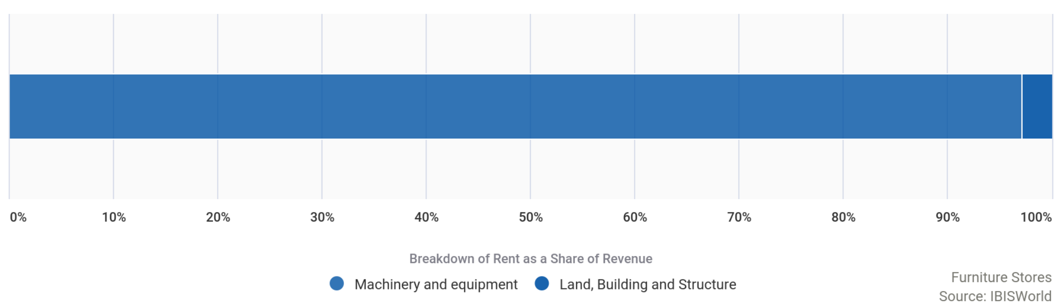
Rental costs account for 7.1% of industry revenue in 2020. Rent is relatively high because many furniture stores need large spaces for their showrooms and need to be in high-traffic areas such as shopping malls. This segment has grown slightly over the past five years as electricity and real estate prices have grown.

Rent as a Share of Revenue 2015-2020



Furniture Stores
Source: IBISWorld

Rent Breakdown (% of Total Rent in 2020)

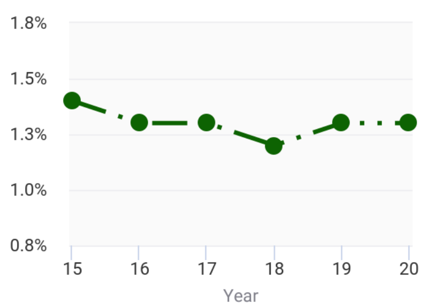


Furniture Stores
Source: IBISWorld

Utilities

Utility costs are anticipated to account for 1.3% of industry revenue in 2020. This segment has remained relatively steady as a share of revenue over the past five years, as operators must continually ensure that their retail stores and warehouses are up and running.

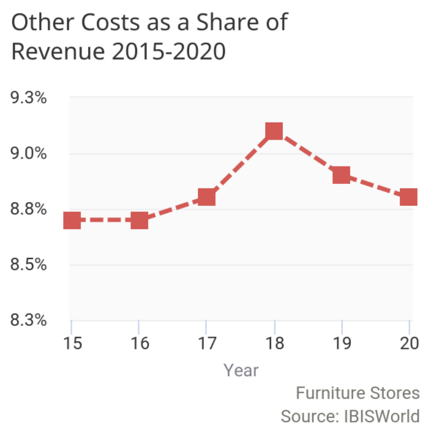
Utilities as a Share of Revenue 2015-2020

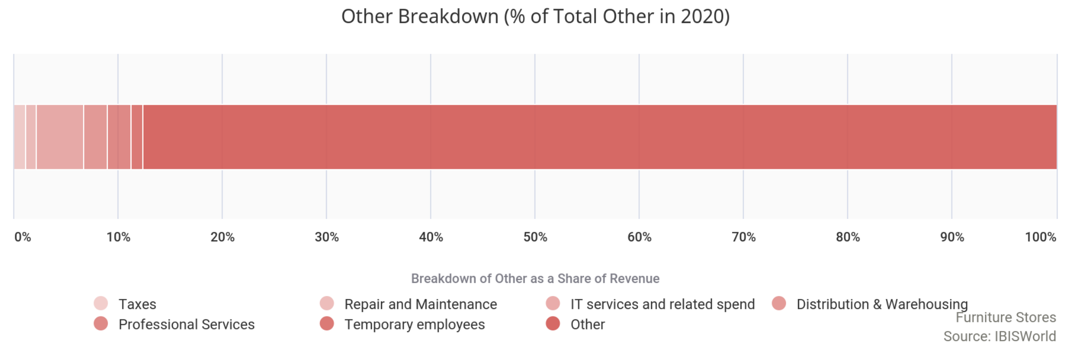


Furniture Stores
Source: IBISWorld

Other Costs

Other expenses include general administrative costs and accrued interest. These costs are anticipated to account for 8.8% of industry revenue in 2020.





Basis of Competition

Competition in this industry is High and Steady

The Furniture Stores industry is highly competitive.

Industry operators have to contend with high levels of internal and external competitors.

Internal competition

Industry operators compete on the basis of customer service, delivery time, quality and price.

To compete with other retailers, operators need to provide excellent service to their customers. This is achieved through having extensive knowledge of the product and selling furniture at a fair price. For customers to be willing to purchase a big-ticket item, they need to believe that the retailer is providing accurate information. In addition, having efficient and short delivery times can make an operator differentiate itself among the rest. Many companies take weeks or even months to deliver furniture. Operators, such as Rooms To Go Inc., have made it their priority to deliver products in a timely manner, differentiating themselves from other competitors. Similarly, Ashley Furniture Industries Inc. introduced Ashley Express in 2014, which guarantees next-day delivery, but aims for same-day delivery. Along with customer service, buyers also seek out quality. Consumers are concerned with furniture's craftsmanship and durability since many buyers hope to have their new furniture for an extensive amount of time. Some retailers have furniture at all ranges of quality to attract a larger customer base. Companies also compete on the basis of price. Consumers are continuously looking for value in their furniture purchases, and since furniture items are often more expensive than other household purchases, consumers will likely shop multiple outlets to get the best price possible. Deep discounting, which is the practice of slashing retail prices by more than normal, has become a common method of luring customers into stores during periods of lower demand. The COVID-19 (coronavirus) pandemic has created a new basis of competition between retailers, such as ensuring extra cleaning precautions and the ability to safely distance within the store from other shoppers and employees. Additionally, operators will likely compete on the basis of customer service and their ability to provide services, such as consultations and design help, virtually to their customers.

External competition

> **A level of rivalry also exists between furniture retailers and other retailers outside of the industry, such as department stores, mass merchandisers and warehouse stores.**

These competitors include department stores, mass merchandisers, warehouse clubs and supercenters, such as Walmart Inc., Target Corporation and Costco Wholesale Corporation. These retailers can offer merchandise at a lower price due to their economies of scale. Over the five years to 2020, brick-and-mortar furniture stores have lost some of their revenue to these retailers. Online retailers, such as Wayfair Inc., are also growing in popularity because they can offer lower markups on prices, as they are able to save money by not having to pay for physical inventory or a lease. Furthermore, as nonessential brick-and-mortar stores have been temporarily closed due to the coronavirus pandemic, many consumers were forced to transition their shopping online and have become increasingly more comfortable with making big-ticket purchases through e-commerce sites because they did not have another option.

Barriers to Entry

Barriers to entry in this industry are ⚠ Low and Steady

Barriers to entry checklist

Competition	High	⚠
Concentration	Low	✓
Life Cycle Stage	Mature	⊖
Technology Change	Low	✓
Regulation & Policy	Light	✓
Industry Assistance	None	⚠

Companies planning to enter the Furniture Stores industry contend with relatively low barriers to entry. The top four furniture stores in the United States represent less than 30.0% of industry revenue in 2020. While these retailers have built strong brands, there are ample market opportunities for new entrants, as exemplified by the large number of small and independent furniture stores generate. For example, nonemployers and operators employing less than four workers represent most industry establishments. Additionally, regulation is light and steady and technological change has been low over the five years to 2020, with the exception of the rollout of company websites. The main barriers for new entrants are start-up costs, product saturation and established distribution networks.

Operators planning to enter this industry should take into account the considerable capital investments and costs associated with opening a furniture store. New entrants must also either seek out new land to build on or vacant property to open a new store. Additionally, operators benefit from being located in buildings in high-traffic areas, which can be expensive to purchase or lease. Store sizes range depending on the player and are mostly dependent on the range of merchandise offered by each player and how much storage space they have available. Additionally, operators often need to design mock rooms and install cash registers, fixtures and fittings. Initial starting costs are likely to be high and may present a considerable barrier to entering the industry.

Product saturation can also deter operators from entering the industry. The industry's level of product differentiation is fairly low, so it is often difficult for new companies to attract customers. Retailers attempt to overcome this problem by offering customers a variety of styles, colors and materials and building brand recognition. Branding itself can also be a formidable hurdle for new entrants. Furniture is an expensive investment, so many consumers only visit stores where they feel they can trust the brands and the sales staff. It may be difficult for new entrants to attract customers if their brand is unfamiliar.

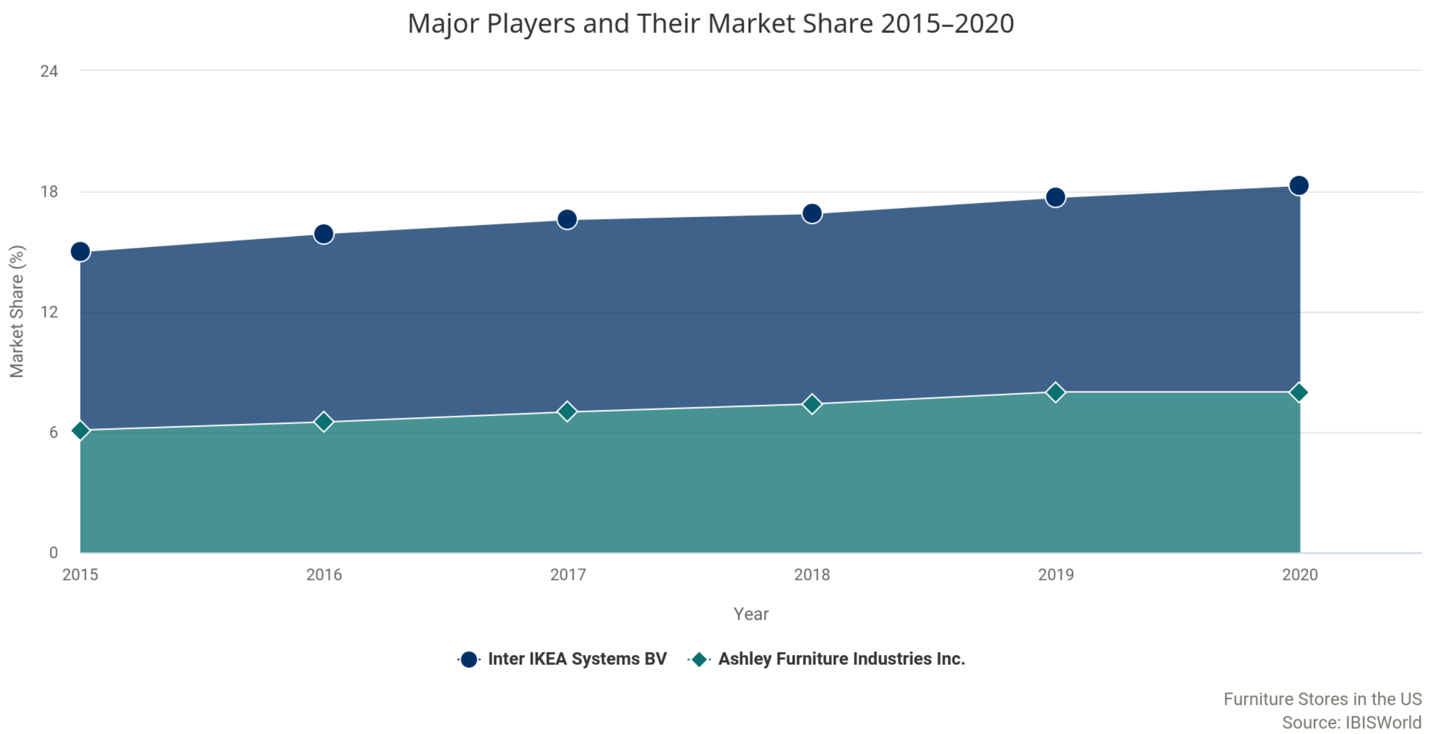
Limited access to distribution channels presents another significant barrier to prospective operators. Distribution networks between buyers and sellers take time to develop. Most prominent industry players have already established supply networks with the industry's largest wholesalers. It may be difficult for new entrants to find or build similar relationships with suppliers. New companies should also be wary of integrated operators that manufacture and retail their furniture. Those stores have a competitive advantage and can offer their own furniture at a lower price than their competitors.

Industry Globalization

Globalization in this industry Low and Steady

Globalization measures the extent of foreign activity by domestic operators in the Furniture Stores industry and the dominance of foreign operators in the domestic market. Globalization is low because most participants are US-owned and gain their revenue from domestic operations. Although there are many imports and exports of furniture, foreign trade is accounted for at the manufacturing level. Inter IKEA Systems BV (IKEA), which is foreign-owned, does have a substantial market presence in the United States. Based in the Netherlands, IKEA operates most its stores outside the United States and is continuing to grow its global and US presence. This has bolstered overall industry globalization, but the level of globalization has remained low because of the localized and fragmented nature of this industry.

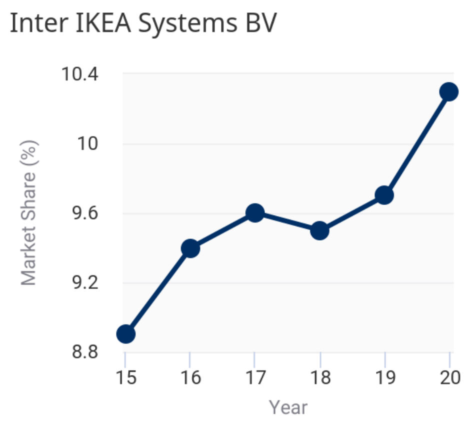
Major Companies



Major Players

INTER IKEA SYSTEMS BV

Market Share: 10.3%



Inter IKEA Systems BV (IKEA), a Scandinavian retailer of modern furniture, is the largest participant in the Furniture Stores industry. Founded in Sweden in 1943, IKEA is an international furniture retailer that made the jump to the US market in 1985. Since the company's inception, it has expanded its reach to more than 433 stores in about 30 countries. In 2019, the company had 30 store distribution centers in 18 countries and 51 customer distribution centers in 16 countries (latest data available). In fiscal 2019 (year-end August), IKEA added seven new stores and 11 small stores and planning studios and generated $46.3 billion in total revenue. The company employs an estimated 211,000 workers.

IKEA sells a variety of ready-to-assemble furniture, appliances, small motor vehicles and home accessories, of which the company has more than 9,500 varieties in its product rotation. The company also uses flat packing, which enables it to cut transportation costs and keep merchandise prices competitively low. In addition to furniture, IKEA also offers amenities that have enticed a variety of consumers. For example, the company generates an estimated 5.0% of revenue through its food operations, selling items such as Swedish meatballs, which are served in the company's in-store cafeterias. IKEA also offers free wireless internet for all of its customers, encouraging buyers to eat, spend time online and lengthen their stay in IKEA stores.

However, IKEA recently has shifted some of its focus away from physical stores and toward its online business. This effort has rapidly bolstered online engagement for the company, and visits to its website reached 2.6 billion in fiscal 2019, compared with 839.0 million physical store visits that same year (latest data available). While most sales are still done in store, this focus on electronic presence has benefited company performance. In the United States alone, e-commerce sales have increased 25.0% between fiscal 2018 and fiscal 2019.

Financial performance

IKEA has experienced fairly stable sales in the United States over the five years to fiscal 2020, as consumers have increasingly opted for the low-cost furniture that the company is known for. The company's products also enable do-it-yourself assembly, cutting costs for consumers and enabling company revenue to increase during periods of slow economic growth. Additionally, the company has recently partnered with TaskRabbit, enabling customers to schedule convenient and easy assembly help through IKEA at a competitive price. IKEA has succeeded in achieving strong year-over-year revenue growth during the period. IBISWorld estimates that IKEA's industry-relevant revenue has grown at an annualized rate of 3.6% to $6.1 billion over the five years to fiscal 2020. The company's industry-relevant operating income has declined during the period, with a sharp decline occurring in 2020. Comparable store sales, online visits and in-store visits have all grown strongly; however, exchange rate trends could have a detrimental effect on revenue performance. However, the company is anticipated to experience subdued growth in 2020 as a result the COVID-19 (coronavirus) pandemic, which has forced IKEA stores across the United States to temporarily close beginning in March 2020. Select stores have reopened beginning June 3, 2020.

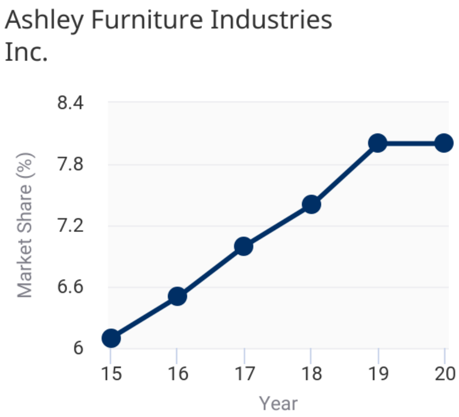
Inter IKEA Systems BV (US industry-specific segment) - financial performance*

Year**	Revenue ($m)	Growth (% change)	Operating Income ($m)	Growth (% change)
2014-15	5077.1	N/A	697.2	N/A
2015-16	5527.7	8.9	770.4	10.5
2016-17	5731.0	3.7	539.2	-30.0
2017-18	5828.6	1.7	468.4	-13.1
2018-19	6013.2	3.2	353.2	-24.6
2019-20	6066.3	0.9	225.2	-36.2

Source: Annual report and IBISWorld

Note: *Estimates (Figures converted from EUR to USD); **Year-end August

ASHLEY FURNITURE INDUSTRIES INC.



Market Share: 8%

Ashley Furniture Industries Inc. (Ashley Furniture) is the largest furniture manufacturer and retailer in the United States. The company was founded in 1945 as Ashley Furniture Corporation and merged with Arcadia Furniture in 1982, moving its headquarters to Arcadia, WI, and changing its name to its current iteration. Ashley Furniture is a vertically integrated furniture company that operates worldwide; however, most of its operations occur domestically. The company generated $5.0 billion in total revenue in 2019 (latest data available).

The company makes or imports furniture and then retails upholstered furniture, leather and hardwood pieces, mattresses and other furniture. Ashley Furniture segments its products into living room furniture, bedroom furniture, home accents, dining room furniture, home office furniture and mattresses. Its product portfolio contains more than 7,000 items in more than 22 different categories. The company has its own manufacturing plants and retail stores and sells its merchandise through other furniture retailers. It owns 10 manufacturing plants and distribution centers across the United States and four centers overseas. Overall, Ashley Furniture operates more than 300.0 acres of manufacturing and distribution space, and a large transportation fleet that distributes sold products to consumers. The company recently opened their 1000th store in 2019. These stores are independently owned and sell only Ashley Furniture-branded products. Generally, these stores specialize in living room, dining room and bedroom furniture.

Over the five years to 2020, the company has sought ways to cut costs and bolster profit. Prior to the five years to 2020, Ashley Furniture began operations on 300 lower-cost franchise stores. This strategy is designed to help Ashley Furniture compete with the low prices offered by mass merchandisers or large competitors, such as Walmart Inc. or IKEA. Recently, Ashley Furniture purchased Homestar Corporation's North America's facility in North Carolina. This facility is able to produce more than 500 products a day, permitting the company to better compete with mass merchandisers. However, the company has decided to close down its outlet stores and plans to sell discontinued furniture at monthly tent sales. This strategy, coupled with increasing investment in its e-commerce program, was an attempt to bring back some business lost to other online furniture retailers.

Financial performance

Since Ashley Furniture is a private company, its financial information is not publicly available. The company's furniture sales have grown each year over most of the past five years as rising consumer sentiment and general economic recovery enticed more people to buy. Additionally, since Ashley Furniture has a large range of high-end products and low-cost alternatives, the company has been able to appeal to many customers. As a result, the company's industry-relevant revenue has increased at an annualized rate of 6.0% to $4.7 billion over the five years to 2020.

However, company revenue is anticipated to decline in 2020 due to temporary store closures amid the COVID-19 (coronavirus) pandemic, limiting the ability to generate revenue through in-store sales. The company's industry-relevant operating income has also increased during the period as it invests more in computer-integrated manufacturing and inventory control systems. Ashley Furniture's plans to trim inventory to reflect consumer buying trends will likely increase its operating income over the coming years.

Ashley Furniture Industries Inc. (US industry-specific segment) - financial performance*

Year	Revenue ($m)	Growth (% change)	Operating Income ($m)	Growth (% change)
2015	3524.4	N/A	169.2	N/A
2016	3835.1	8.8	164.9	-2.5
2017	4160.0	8.5	178.9	8.5
2018	4540.0	9.1	186.1	4.1
2019	4960.0	9.3	212.3	14.0
2020	4726.0	-4.7	192.9	-9.1

Source: IBISWorld

Note: *Estimates

Other Players

The Furniture Stores industry is characterized by a large number of small operators, with the top four players accounting for less than 30.0% of industry revenue in 2020. Operators experience strong competition in a fragmented industry that also contends with several mass merchandisers and warehouse clubs (IBISWorld report 45291). Some larger, vertically integrated companies in the industry have generated the highest amount of industry-relevant revenue, and others operate nationally or regionally without vertical integration and capture a significant share of the industry as well.

ROOMS TO GO INC.

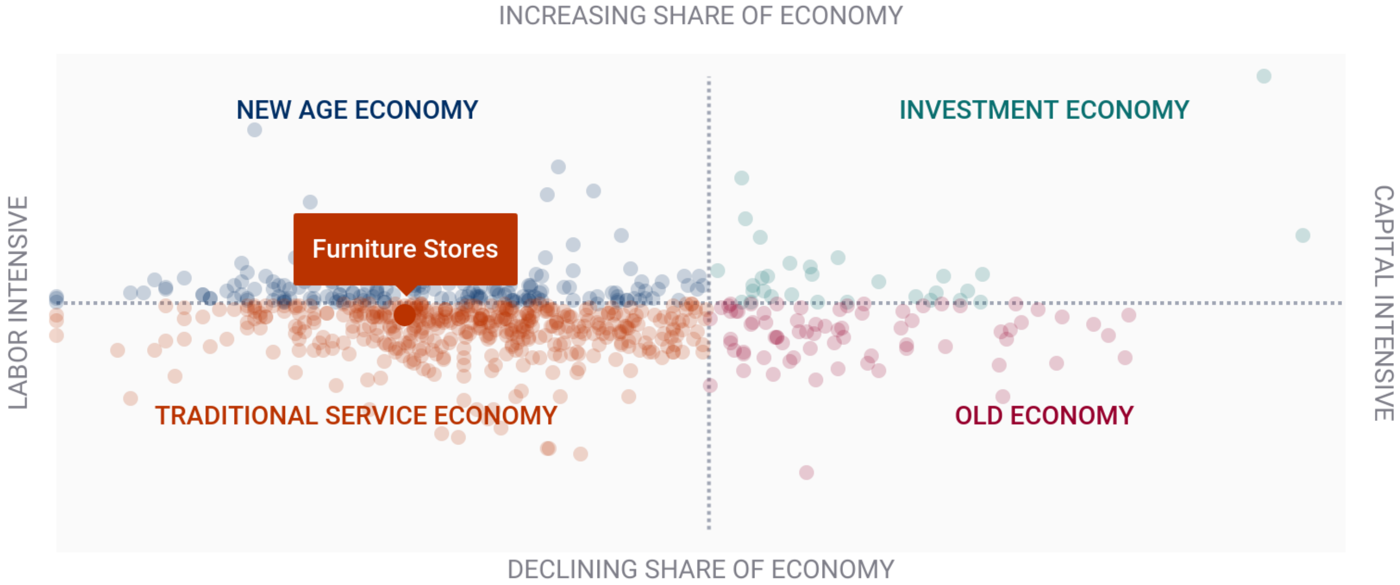
Established in 1990, Rooms To Go Inc. (Rooms to Go) employs over 7,000 individuals and operates more than 150 retail furniture and outlet stores in the Southeast region of the United States. While the company has a limited product range, it appeals to brand-conscious, time-stressed customers, often offering discounts for individuals that wish to purchase entire rooms of furniture. The company's stores specialize in furniture for bedrooms, including beds, daybeds, armoires, chests, dressers and nightstands. In addition, stores sell sofas, loveseats, sleepers, chairs and tables for living rooms. Most furniture is in the low to medium price range. Since the company is private, financial information is not publicly available. Rooms to Go is expected to generate an estimated $2.4 billion in industry-relevant revenue in 2020, declining over the five years to 2020 as demand for new furniture wanes due to the COVID-19 (coronavirus) pandemic, which has spurred an economic downturn.

WILLIAMS-SONOMA INC.

Founded in Sonoma, CA, in 1956, Williams-Sonoma Inc. (Williams-Sonoma) is a publicly held, multichannel, multibrand specialty retailer of high-end furniture and furnishing that sells a range of kitchenware, furniture and linens along with a variety of specialty foods, soaps and lotions. The company is headquartered in San Francisco and operates more than 572 retail stores across the United States and e-commerce websites. Its products are sold through its stores such as Pottery Barn, Pottery Barn Kids, PBteen, West Elm, Williams-Sonoma, Rejuvenation and Mark and Graham. The company experienced strong revenue growth over most of the five years to 2020, benefiting from improving economic conditions, such as rising per capita disposable income and consumer confidence. In turn, the company has focused on investing in many long-term growth strategies including strengthening the company brand, laying the foundation for global expansion and new business development and investing in its supply chain and e-commerce, which has grown rapidly over the past five years. IBISWorld estimates that Williams-Sonoma will generate $2.4 billion in revenue in industry-relevant revenue in 2020. Williams-Sonoma has increasingly focused on closing down unprofitable retail stores and expanding its online platform, especially as stores were temporarily closed amid the COVID-19 (coronavirus) pandemic to remain in compliance with federal and local guidelines.

Operating Conditions

Costs of Growth: Targeting Capital vs. Labor



Furniture Stores in the US
Source: IBISWorld

Capital Intensity

The level of capital intensity is Low

Capital intensity in the Furniture Stores industry is low, with the average operator spending an estimated $0.06 on capital for every $1.00 spent on labor in 2020. This industry is relatively labor-intensive, with wage costs accounting for 13.8% of revenue in 2020. Machinery is far from prevalent in this industry, as stores use their employees to set up show rooms and assist customers. However, stores that have warehouses typically invest in forklifts and other vehicles capable of moving the large products the industry retails. Many of the smaller stores in the industry may have a few trucks for delivery purposes. Some larger stores may have larger fleets of trucks to deliver products to customers, leading them to have higher capital intensity. However, the industry is dominated by smaller companies, which are less likely to have the resources necessary to make large capital investments. This composition leads to low capital intensity. However, as the industry has become more top heavy and concentrated, the share of companies with the ability to make large capital purchases has increased. As a result of this trend, capital intensity has increased slightly over the five years to 2020.

The industry's largest company, Inter IKEA Systems BV (IKEA), has notably exemplified this trend, investing more than $1.7 billion since 2009 in energy-efficient and sustainable technologies to reduce the environmental impact of their operations and operating costs. Furthermore, by 2020, IKEA hopes to source 100.0% of its wood and paper from sustainable sources and source 90% of its home furnishing products through more sustainable processes. Additionally, in June 2018, the company launched its People and Planet Positive sustainable strategy, outlining the company's sustainability plan for their entire supply chain through 2030. This strategy is beneficial for the company because it operates large warehouse locations with massive square footage counts, which leads to high energy costs. Implementing cost-saving technologies helps the company cut into burdensome energy costs that are associated with large warehouses and show floors. Most other operators have smaller warehouses, which makes similar investments less necessary and often do not have the resources necessary to make such investments. However, larger operators have come to account for a higher share of revenue during the period, and the prevalence of companies making these investments has risen concurrently.

Technology And Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

Level	Factor	Disruption	Description
High	Ease of Entry	Likely	A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use.
Low	Rate of Innovation	Unlikely	A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring.
Low	Rate of Entry	Unlikely	Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors.
Very Low	Innovation Concentration	Very Unlikely	A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators.
Very Low	Market Concentration	Very Unlikely	A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share.

The industry is experiencing a low level of both the rate of new patents and the concentration of patents in the industry. This creates an environment where the threat of new technologies driving disruption is low.

The technological factors supporting the disruptive innovation potential are connected to an industry structure that is accommodative to new entrants. The relative ease of entry into the industry magnifies the threat of disruption regardless of other factors as one-off occurrences are more likely to succeed. However, the current rate of new entrants is low, suggesting that there is a limited number of new companies that are potential innovators within the industry.

Major market segments for industry operators are relatively diversified. The spread of market segments suggests that there are limited entry points other than those already served my incumbent operators.

> **The most relevant disruptive force in the Furniture Stores industry is the resale of furniture through various online platforms.**

Resale websites have taken away from purchases of new furniture because they enable customers to scroll through a variety of listings to find exactly what they want for a specific cost. For example, AptDeco Inc. provides a platform to buy and sell furniture in the New York City metro area and enables consumers to filter by brand, wear and tear, cost, color and type of furniture. The company provides professional disassembly, pick-up and delivery. Various marketplaces, such as eBay Inc., also provide this service on a large scale and have been in operation for a longer period of time. While this technological advancement may not take away for purchasing new furniture at furniture stores, it has the potential to offer customers new ways to shop for furniture, which could affect the industry's landscape.

The level of technology change is Low

Similar to most industries in the retail sector, technological advances that have affected the Furniture Stores industry include computerized cash registers and automated warehouse equipment.

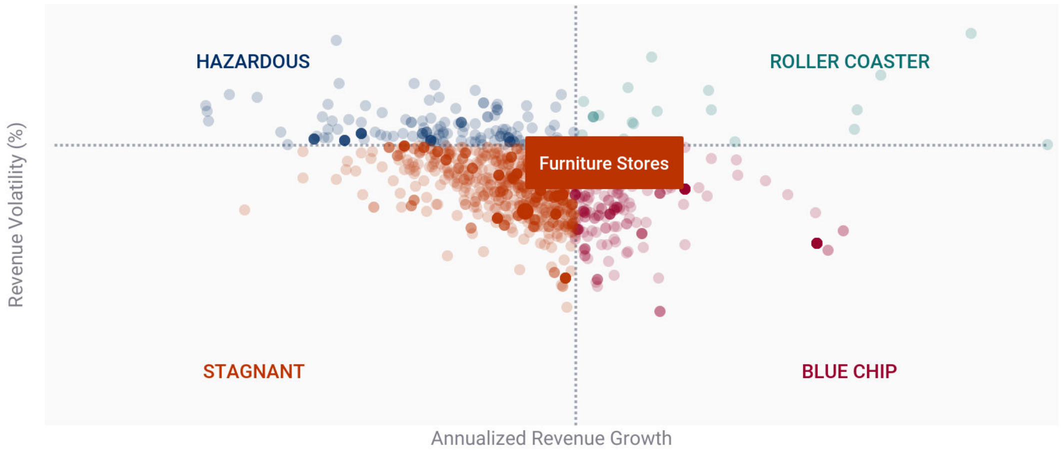
The introduction of scanning and electronic data interchange systems is estimated to have improved management and distribution logistics.

The most prominent technological trend has been internet sales. Many operators have built websites as a means to market and sell products to a wider audience. While there remain some barriers to success for online furniture retailers, this represents a booming market for buyers. Consumers may be apprehensive about purchasing furniture off websites due to their bulky nature, and customers are also unable to test out furniture online. In addition, the issue of practicality when purchasing a big-ticket item electronically and the safety concerns with doing so also affects operators. Nevertheless, online furniture sales continue to increase. According to a 2018 study by *Furniture Today*, 15.8% of industry respondents said their primary goal for 2018 was to upgrade their online presence and shopping experience (latest data available). The same source also states that by 2021, it is projected that an estimated 27.0% of all home furnishing revenue will be generated online. Online purchases, however, appear to be quite limited in scope. While online purchases have increased over the five years to 2020, many consumers conduct research online, but prefer to buy big-ticket items, such as mattresses, couches and other large furniture, in-store where they can feel and test out the product. This suggests that consumers are buying more online, but electronic sales have mainly been relegated to smaller, less expensive items. However, to combat this trend, many operators have launched online design tools that enable consumers to upload a picture of their space and see how the furniture would fit in. Additionally, some operators offer free interior design services to help consumers pick the right furniture for their space and needs. This trend has taken off amid the COVID-19 (coronavirus) pandemic, which has inhibited consumers from being able to go in and shop for furniture in-person. As a result, many companies have used tools, such as Zoom and Google Hangouts, to provide live chat and virtual consultations.

Revenue Volatility

The level of volatility is ⊖ Medium

Volatility vs. Growth



Furniture Stores
Source: IBISWorld

Note: Revenue growth and decline reflective of 5-year annualized trend. Y-axis is in logarithmic scale. Y-axis crosses at long-run GDP. X-axis crosses at high volatility threshold.

> **The Furniture Stores industry is sensitive to changes in economic activity and housing market trends.**

In particular, changes in level of disposable income can cause consumers to defer purchasing furniture if their income is currently lower than it was in prior years. The level of homeownership and residential construction trends can also alter revenue. Consumers are more likely to redecorate and remodel if they own their property. Changes in fashions and tastes also have an effect on the types of products demanded from this industry.

Over the five years to 2020, revenue has exhibited a low to moderate level of volatility. Fluctuations in consumer confidence and housing market activity have contributed to minor swings in industry revenue. Industry revenue has decreased as much as 6.8% in 2020 and increased as much as 6.5% in 2015. Volatility is usually low because housing activity sputtering can be easily counteracted by increased consumer spending. Furniture is often a discretionary purchase and consumers with deeper pockets often spend on new furniture, bolstering revenue and offering a counterweight to relatively depressed housing activity.

Regulation & Policy

The level of regulation is ✓ Light and is Steady

> **Retailers in the Furniture Stores industry are subject to regulation at the state and federal levels.**

Congress and individual state legislatures have enacted many relevant regulations to ensure the industry maintains a competitive state. Congress passed the

Sherman Act (1890), the Wilson Act (1895), the Clayton Act (1914) and the Robinson-Patman Act (1936) regarding unfair competition. Together, these regulations make up US federal antitrust law. The Sherman Act prohibits the formation of monopolies that hinder competition. The Wilson Act prohibits conspiracies that restrain import trade. The Clayton Act bans certain forms of price discrimination. Finally, the Robinson-Patman Act provides some protection to small independent retailers and their suppliers from unfair competition from vertically integrated, multilocation chain stores. States have enacted their own antitrust laws to ensure that the public is provided with the best prices, quality and competition among businesses, including furniture stores.

The laws that affect credit programs offered by retailers include the Federal Consumer Credit Protection Act, also known as Truth in Lending, which specifies written disclosure of information relating to financing. The Federal Fair Credit Reporting Act specifies that certain disclosures to potential customers concerning credit information can be used to deny credit. Also, the Federal Equal Credit Opportunity Act prohibits discriminating against any credit applicants based on certain grounds and the Fair Debt Collection Practices Act that regulates how payments are collected on credit accounts. Participants are also subject to environmental regulations imposed by federal, state and local authorities in relation to the generation, handling, storage, transportation and disposal of waste and biohazardous materials and the sale and distribution of products.

Industry Assistance

The level of industry assistance is ⚠ None and is Steady

Products supplied by the Furniture Stores industry are subject to a range of tariffs.

However, while tariffs are applicable to goods supplied by this industry, they do little to directly affect furniture sales at the retail level. Retail operators purchase goods from importers or wholesalers after tariffs have been applied. A change in the tariff rate of a particular good will alter not only where the good is purchased from, but also change the purchase price. For example, a decline in tariffs on goods will likely result in falling purchasing costs, which can be passed on to consumers. This factor enables the retailer to remain price competitive.

Industry operators also benefit from several industry associations, such as the National Furniture Association (NFA) and the Home Furnishings Association (HFA). The HFA is the largest nonprofit organization devoted specifically to home furnishing retailers, with more than 1,200 retail members. The NFA focuses on promoting, connecting, communicating with and improving the furniture manufacturing, wholesaling and retailing industries.

Additionally, as a result of the COVID-19 (coronavirus) pandemic, the federal government passed the Coronavirus Aid, Relief and Economic Security (CARES) Act to provide funding to individuals and businesses. The Paycheck Protection Program is part of the CARES act and aims to provide relief for small businesses with 500 or less employees by providing funding for payroll, rent, utilities and other expenses. As of June 20, 2020, retail trade operators accounted for more than 7.7% of all loans approved. Since many operators in the industry are small in size, it is likely many furniture stores will receive some sort of funding.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Estab. (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Consumer Confidence Index (Index)
2011	55,622	9,620	38,771	30,328	211,777	N/A	N/A	7,506	N/A	58.1
2012	56,973	10,353	38,995	30,010	209,771	N/A	N/A	7,561	N/A	67.1
2013	57,267	10,693	38,375	29,371	211,512	N/A	N/A	7,715	N/A	73.6
2014	58,867	11,096	39,025	29,684	213,678	N/A	N/A	7,917	N/A	87.1
2015	62,671	11,825	38,799	29,478	217,774	N/A	N/A	8,316	N/A	97.1
2016	63,790	11,978	38,198	28,869	225,349	N/A	N/A	8,661	N/A	99.6
2017	63,267	11,853	38,326	28,492	223,657	N/A	N/A	8,563	N/A	120
2018	63,844	11,854	38,334	28,458	224,993	N/A	N/A	8,620	N/A	130
2019	63,170	11,794	38,136	28,300	223,732	N/A	N/A	8,563	N/A	128
2020	58,888	11,009	37,031	27,539	213,754	N/A	N/A	8,141	N/A	111
2021	61,198	11,394	37,501	27,828	219,403	N/A	N/A	8,377	N/A	120
2022	64,470	11,996	38,177	28,254	227,413	N/A	N/A	8,711	N/A	124
2023	67,110	12,454	38,752	28,621	233,984	N/A	N/A	8,984	N/A	128
2024	68,250	12,655	39,066	28,826	237,015	N/A	N/A	9,108	N/A	132
2025	69,391	12,845	39,394	29,049	240,201	N/A	N/A	9,236	N/A	135

Annual Change

Year	Revenue (%)	IVA (%)	Estab. (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Consumer Confidence Index (%)
2011	0.04	1.05	-3	-4	-4	N/A	N/A	-3.02	N/A	6.62
2012	2.42	7.61	1	-1	-1	N/A	N/A	0.72	N/A	15.4
2013	0.51	3.28	-2	-2	1	N/A	N/A	2.03	N/A	9.83
2014	2.79	3.76	2	1	1	N/A	N/A	2.61	N/A	18.3
2015	6.46	6.57	-1	-1	2	N/A	N/A	5.03	N/A	11.5
2016	1.78	1.29	-2	-2	3	N/A	N/A	4.15	N/A	2.60
2017	-0.82	-1.05	0	-1	-1	N/A	N/A	-1.13	N/A	20.9
2018	0.91	0.01	0	-0	1	N/A	N/A	0.65	N/A	8.09
2019	-1.06	-0.51	-1	-1	-1	N/A	N/A	-0.66	N/A	-1.62
2020	-6.78	-6.66	-3	-3	-4	N/A	N/A	-4.93	N/A	-13.5
2021	3.92	3.50	1	1	3	N/A	N/A	2.89	N/A	8.07
2022	5.34	5.28	2	2	4	N/A	N/A	3.98	N/A	3.88
2023	4.09	3.81	2	1	3	N/A	N/A	3.13	N/A	3.22
2024	1.69	1.61	1	1	1	N/A	N/A	1.37	N/A	2.69
2025	1.67	1.49	1	1	1	N/A	N/A	1.40	N/A	2.26

Key Ratios

Year	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per estab.	Average Wage
2011	17.3	N/A	N/A	263	13.5	5.46	35,445
2012	18.2	N/A	N/A	272	13.3	5.38	36,045
2013	18.7	N/A	N/A	271	13.5	5.51	36,475
2014	18.8	N/A	N/A	275	13.4	5.48	37,050
2015	18.9	N/A	N/A	288	13.3	5.61	38,184
2016	18.8	N/A	N/A	283	13.6	5.90	38,432
2017	18.7	N/A	N/A	283	13.5	5.84	38,286
2018	18.6	N/A	N/A	284	13.5	5.87	38,310
2019	18.7	N/A	N/A	282	13.6	5.87	38,272
2020	18.7	N/A	N/A	275	13.8	5.77	38,086
2021	18.6	N/A	N/A	279	13.7	5.85	38,181
2022	18.6	N/A	N/A	283	13.5	5.96	38,306
2023	18.6	N/A	N/A	287	13.4	6.04	38,396
2024	18.5	N/A	N/A	288	13.3	6.07	38,427
2025	18.5	N/A	N/A	289	13.3	6.10	38,451

Industry Financial Ratios

Liquidity Ratios	April 2016 - March 2017	April 2017 - March 2018	April 2018 - March 2019	April 2019 - March 2020	April 2019 - March 2020 by company revenue: Small (< $10m)	Medium ($10m-50m)	Large (> $50m)
Current Ratio	1.7	1.6	1.5	1.7	2.0	1.6	1.4
Quick Ratio	0.4	0.4	0.5	0.5	0.4	0.5	0.5
Sales / Receivables (Trade Receivables Turnover)	137.2	162.2	136.9	134.9	268.9	122.5	83.2
Days' Receivables	2.7	2.3	2.7	2.7	1.4	3.0	4.4
Cost of Sales / Inventory (Inventory Turnover)	3.5	3.5	3.4	3.2	2.8	3.5	3.5
Days' Inventory	104.3	104.3	107.4	114.1	130.4	104.3	104.3
Cost of Sales / Payables (Payables Turnover)	13.4	12.4	13.8	13.1	14.1	14.5	10.7
Days' Payables	27.2	29.4	26.4	27.9	25.9	25.2	34.1
Sales / Working Capital	11.2	12.6	13.3	10.4	8.9	10.8	15.4
Coverage Ratios							
Earnings Before Interest & Taxes (EBIT) / Interest	7.6	6.5	5.2	5.7	4.1	10.4	4.9
Net Profit + Dep., Depletion, Amort. / Current Maturities LT Debt	3.3	3.4	3.4	2.6	1.5		4.4
Leverage Ratios							
Fixed Assets / Net Worth	0.5	0.5	0.6	0.5	0.4	0.4	0.6
Debt / Net Worth	1.6	1.9	1.6	1.5	1.4	1.5	1.6
Tangible Net Worth	29.6	26.0	29.5	34.3	33.7	31.8	39.8
Operating Ratios							
Profit before Taxes / Net Worth, %	29.6	26.6	24.5	21.4	16.5	30.1	21.1
Profit before Taxes / Total Assets, %	9.0	8.9	7.9	7.6	6.7	9.4	8.3
Sales / Net Fixed Assets	20.7	22.3	19.3	4.7	4.8	4.7	4.5
Sales / Total Assets (Asset Turnover)	2.8	2.8	2.6	19.7	22.3	23.2	13.5
Cash Flow & Debt Service Ratios (% of sales)							
Cash from Trading	45.3	45.5	45.5	2.6	2.4	2.6	3.0
Cash after Operations	4.4	4.0	4.5	45.5	45.3	44.7	47.5
Net Cash after Operations	4.8	4.8	4.8	3.9	3.1	4.0	5.7
Cash after Debt Amortization	1.6	1.8	0.9	4.3	3.1	4.4	5.6
Debt Service P&I Coverage	4.5	3.1	3.2	0.9	0.4	1.6	1.6
Interest Coverage (Operating Cash)	8.8	6.7	5.7	2.7	1.6	4.9	3.6
Assets, %							
Cash & Equivalents	12.2	12.5	12.6	22.1	11.7	43.3	21.9
Trade Receivables (net)	10.2	9.6	10.1	5.1	3.5	12.8	5.2
Inventory	45.5	44.5	42.3	0.0	0.0	1.5	1.0
All Other Current Assets	3.0	3.0	2.6	12.9	12.3	16.2	9.2
Total Current Assets	70.8	69.6	67.6	9.6	7.3	10.5	14.8
Fixed Assets (net)	20.4	20.9	22.5	43.3	47.7	40.0	36.3
Intangibles (net)	3.5	4.0	3.4	3.2	3.1	3.0	3.6
All Other Non-Current Assets	5.3	5.5	6.5	69.0	70.4	69.7	63.9
Total Assets	100.0	100.0	100.0	22.1	21.8	21.0	24.8
Total Assets ($m)	7,339.6	6,536.4	6,726.0	2.6	1.9	2.4	4.6
Liabilities, %							
Notes Payable-Short Term	8.5	8.6	7.4	6.4	5.9	6.9	6.7
Current Maturities L/T/D	2.2	1.9	2.5	100.0	100.0	100.0	100.0
Trade Payables	14.1	16.3	13.9	5,108,510,000.0	316,004,000.0	1,018,759,000.0	3,773,747,000.0
Income Taxes Payable	0.3	0.2	0.1	6.4	6.2	6.4	7.4
All Other Current Liabilities	19.3	20.1	20.9	2.0	1.9	2.5	1.6
Total Current Liabilities	44.4	47.0	44.7	14.8	13.7	16.5	15.3
Long Term Debt	13.4	15.2	15.3	0.1	0.2	0.0	0.1
Deferred Taxes	0.1	0.0	0.1	20.2	18.6	23.6	18.9
All Other Non-Current Liabilities	9.1	7.8	6.9	43.6	40.5	49.0	43.3
Net Worth	33.1	30.0	32.9	15.1	18.5	11.6	11.7
Total Liabilities & Net Worth ($m)	7,339.6	6,536.4	6,726.0	7.0	7.3	7.5	5.2
Maximum No. of Statements Used	439.0	476.0	385.0	100.0	100.0	100.0	100.0

Source: RMA Annual Statement Studies, rmahq.org. RMA data for all industries is derived directly from more than 260,000 statements of member financial institution's borrowers and prospects.

rma THE RISK MANAGEMENT ASSOCIATION

Additional Resources

Additional Resources

US Census Bureau

http://www.census.gov

Furniture Today

http://www.furnituretoday.com

National Retail Federation

http://www.nrf.com

Industry Jargon

BIG-BOX STORE

A retail store that is differentiated by its size and large range of products, including electronics, household goods and other consumer products.

BRICK-AND-MORTAR

A store that has a physical presence and location, opposed to an online retailer.

ELECTRONIC DATA INTERCHANGE

The transmission of electronic documents between businesses from one computer system to another.

UPHOLSTERED FURNITURE

Furniture with leather or fabric covers, springs, webbing or padding, primarily in the form of chairs and sofas.

Glossary Terms

BARRIERS TO ENTRY

High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY

Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

CONSTANT PRICES

The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the "real" growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the US Bureau of Economic Analysis' implicit GDP price deflator.

DOMESTIC DEMAND

Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT

The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE

A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT

The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS

Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS

Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION

An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE

The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)

The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE

The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE

All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT

Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT

IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

REGIONS

West | CA, NV, OR, WA, HI, AK

Great Lakes | OH, IN, IL, WI, MI

Mid-Atlantic | NY, NJ, PA, DE, MD

New England | ME, NH, VT, MA, CT, RI

Plains | MN, IA, MO, KS, NE, SD, ND

Rocky Mountains | CO, UT, WY, ID, MT

Southeast | VA, WV, KY, TN, AR, LA, MS, AL, GA, FL, SC, NC

Southwest | OK, TX, NM, AZ

VOLATILITY

The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES

The gross total wages and salaries of all employees in the industry.

IBISWorld
Where knowledge is power

IBISWorld helps you find the industry information you need – fast

With our trusted research covering thousands of global industries, you'll get a quick and intelligent overview of any industry so you can get up to speed in minutes. In every report, you'll find actionable insights, comprehensive data and in-depth analysis to help you make smarter, faster business decisions.If you're not yet a member of IBISWorld, contact us at +1-800-330-3772 or info@IBISWorld.com to learn more.

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NEVADA HEALTH RESPONSE

CURRENT STATUS: MITIGATION MEASURES

View all of the most recent information regarding COVID-19 mitigation measures.

Click here for more information.

Governor Directives and Declarations

Reopening/Stay At Home/Social Distancing/Stop the Spread

- **Directive 036**
  - Directive 036 – Guidance
  - Lease Addendum Promissory Note
  - Tenant Declaration
- **Declaration of Emergency Directive 035**
  Emergency directive 35 formalizes additional restrictions implemented to help slow the spread of COVID-19 in Nevada. This measures informed by public health experts, business and economic leaders.

- **Declaration of Emergency Directive 034 – Youth Sports**
  - Nevada Guidance for Adult & Youth Sports **(Updated 10/16/2020)**
  - COVID Screening Guide – Sports
  - COVID Screening Check In – Sports
- **Declaration of Emergency Directive 033 – Updated Guidance for Safe Gatherings**
  - Nevada Guidance for Safe Gatherings – Celebrations, Ceremonies, and Events **(Updated 10/15/2020)**
  - Large Gathering Venue COVID-19 Preparedness & Safety Plan Submission Guide
  - Nevada Places of Worship, Life-Rites Ceremonies and Gatherings – Celebrations, Ceremonies, and Events **(Updated 12/15/2020)**
  - Nevada COVID-19 Guidance for Gatherings at Private Residences
  - Open House/Showings Guidance
  - Comprehensive List of Screening Documents
    - COVID-19 Screening for Employees Guide
    - COVID-19 Screening for Employees Guide (Spanish)
    - COVID-19 Screening for Employees – Sign In Sheet
    - COVID-19 Screening for Employees – Sign In Sheet (Spanish)
    - COVID-19 Screening for Visitors Guide
    - COVID-19 Screening for Visitors Guide (Spanish)
    - COVID-19 Screening for Visitors – Sign In Sheet
    - COVID-19 Screening for Visitors – Sign In Sheet (Spanish)
  - Comprehensive List of Signage Documents
    - Capacity Signage – Landscape

        - Capacidad Limitada Signage – Landscape
        - Capacity Signage – Portrait
        - Capacidad Limitada Signage – Portrait
- **Directive 031 – Extension of Residential Evictions Moratorium (Updated 08/31/2020)**
    - Guidance for Tenants and Landlords Under Directive 031 – FAQs
    - Orientación para inquilinos y propietarios según la Directiva 031 – Preguntas frecuentes
- **Declaration of Emergency Directive 030 (Updated 8/14/2020)**
    - COVID-19 County Tracker **(Updated 8/13/2020)**
- Road to Recovery: Moving to a New Normal **(Updated 8/3/2020)**
- **Declaration of Emergency Directive 029 (Updated 7/31/2020)**
- **Declaration of Emergency Directive 028 (Updated 7/28/2020)**
- **Declaration of Emergency Directive 027 (Updated 7/10/2020)**
    - Guidance on Directive 027: Elevated Disease Transmission Criteria
    - Nevada's County COVID-19 Elevated Disease Transmission Tracker
    - Food Establishments **(Updated 7/17/2020)**
    - Bar Update **(Updated 9/17/2020)**
    - Bar Guidance **(Updated 9/17/2020)**
- **Declaration of Emergency Directive 026 (Updated 6/29/2020)**
- **Directive 025 – Gradual Lift of Evictions Moratorium (Updated 06-25-2020)**
    - Guidance for Tenants under Directive 025 – FAQs
    - Guidance for Landlords and Tenants – General FAQs
    - Guidance for Landlords under Directive 025 – FAQs
    - Lease Addendum and Promissory Note for Rental Arrearages Due to COVID-19
    - Guidance for Commercial Properties under Directive 025 – FAQs
    - Directive 025 Reference Chart
- **Declaration of Emergency Directive 024 (Updated 6/24/2020)**
    - Guidance on Directive 024: Face Coverings **(Updated 6/24/2020)**
    - Fact Sheet: What does the science say about face coverings?

- Hoja de hechos: ¿Qué es lo que dice la ciencia sobre las cubiertas faciales?
- 'No Shirt. No Shoes. No Mask. No Service.' printable sign
    - 'No Shirt. No Shoes. No Mask. No Service.' flier for Nevada businesses. – white-only background – English and Spanish
    - 'No Shirt. No Shoes. No Mask. No Service.' flier for Nevada businesses. – white-only background – English only
    - 'No Shirt. No Shoes. No Mask. No Service.' flier for Nevada businesses. – white-only background – Spanish
- Guidance on Directive 024: Face Coverings **(Updated 4/23/2020)**

- **Declaration of Emergency Directive 023 (Updated 6/10/2020)**
    - Organized Youth Sports Practice Only **(Updated 8/11/2020)**
    - Baseball and Softball Practice Only **(Updated 8/11/2020)**
    - Soccer Practice Only **(Updated 8/11/2020)**
- Nevada COVID-19 Disease Outbreak Management Strategy and Concept of Operations **(Updated 6/22/2020)**
- **Directive 019 – Dept. of Employment, Training and Rehabilitation Allowed to Hire Non-Merit Staff to Assist with Unemployment Claims (Updated 5/11/2020)**
    - Guidance on Grocery Store Personnel – from Nevada Health Response **(Updated 4/14/2020)**
    - Guidance on Protecting Grocery Store Personnel – from Nevada Dept. of Health and Human Services **(Updated 4/8/2020)**
- **Professional Medical Licensing – Declaration of Emergency Directive 011 (Updated 4/1/2020)**
    - Directive 011 guidance **(Updated 1/15/2021)**
- **Legal Actions and Business License Expiration – Declaration of Emergency Directive 009 (Updated 4/2/2020)**
- **Declaration of Emergency Directive 008 (Updated 3/29/2020)**
    - Eviction Relief for Nevadans **(Updated 4/07/2020)**
    - Governor Sisolak Guidance: Directive 008 – Evictions **(Updated 3/29/2020)**

        - Gobernador Sisolak Directiva 008 – Desalojos de Viviendas **(Updated 3/29/2020)**
    - Mortgage assistance during COVID-19 outbreak **(Updated 4/20/2020)**
    - Governor Sisolak, Attorney General Ford, State Treasurer Conine announced housing stability measures amid COVID-19 public health crisis **(Updated 3/29/2020)**
- **Declaration of Emergency Directive 003 (Updated 3/20/2020)**
    - Governor Sisolak Guidance: Directive 003 – Essential & Non-Essential Businesses **(Updated 4/16/2020)**
    - All Guidance Issued on Directives 003 and 013 – Essential and Non-Essential Businesses **(Updated 4/16/2020)**
    - Governor Sisolak Guidance: Directive 003 – Essential Status Clarification for Funeral Homes **(Updated 4/6/2020)**
    - Gobernador Sisolak Directiva 003 – Las Empresas Esenciales **(Updated 3/27/2020)**
    - Declaration of Emergency Directive 003- Beer, Wine, and Liquor Stores **(Updated 3/22/2020)**
    - Essential/Non-Essential Business Emergency Regulations **(Updated 3/20/2020)**
    - Child Care is 'Essential Business' in Nevada
- **Closure of Casinos, Gaming – Declaration of Emergency Directive 002 (Updated 3/18/2020)**
- Nevada State Board of Pharmacy Prescription Medications during COVID-19
- Nevada State Board of Pharmacy COVID-19 Information

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