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Furniture & Home Renovations

Deep Dive Into a Potential Recovery in 2025; Upgrading Tempur Sealy to Outperform

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Introduction

Heading into 2024, the furniture and home improvement market was largely expected to return to a more normalized baseline by the midpoint of the year and deliver long-awaited growth in the second half. However, as planned interest rate cuts were pushed out by several months and existing home sales remained at 30-year lows, demand remained soft through the first three quarters of the year, which in turn pushed expectations for a recovery to mid-2025.

The industry seems to have found its footing in the fourth quarter, as demand for furniture and home renovations inflected positive and existing home sales increased for the first time in 13 quarters. From our conversations with private and public companies in the space, demand showed some slight improvements in October but notably accelerated after the election and has remained consistent through much of January. While the drivers of this turnaround are up for debate, we believe consumers are feeling emboldened by some much-needed visibility, as the overhang of an uncertain macro backdrop and interest rate environment created an era of deferral that was exacerbated by the pandemic-related pull-forward in demand. Consumers have seemingly reached the point where this is the new normal and are moving on with their lives. If consumers need to move, they are getting back into the market, and our survey indicates that over the past 9 months there has been a 1,000-basis-point increase in the percentage of people planning to move in the near to medium term. Those homeowners who cannot afford to move away from a sub-6% mortgage rate are instead taking steps to improve the functionality of their existing home, whether with a new sofa or dining room set or a long-awaited upgrade to their kitchen or floors. Obviously, there remains one significant wild card—tariffs. If trade wars heat up, we could see consumers return to a "defer and wait" mentality on fears about a reacceleration in inflation and rising interest rates.

We are incrementally bullish about a more meaningful inflection in the furniture and home improvement industry in the fourth quarter and 2025. We expect the industry to grow by 5.5% in 2025, assuming existing home sales increase by 3.7% year-over-year (in line with recent estimates from Fannie Mae and the Mortgage Bankers Association) and deflation stays in the 1% to 2% range on an elevated promotional environment. While we are encouraged by the recent green shoots in demand, we expect the recovery could be choppy over the next few quarters, particularly as promotion continue to be a key driver behind conversion across all levels of the price pyramid. Furthermore, we do not expect growth will be evenly spread across the broader industry as it was in the pandemic era, instead we believe share gains are most likely across scaled specialty brands, discount home stores, and big-box retailers, while regional and local independents most likely remain pressured. In our view, Lee Mayer, CEO of Havenly, said it best, "[It's] a tale of two cities that we've seen in our industry: You have companies going out of business or showing double-digit year-over-year declines, and then you have other companies that continue to grow and steal market share." Among the share winners, many of which we believe fall within our coverage, we expect a meaningful acceleration in sales that should in turn provide outsized earnings growth after years of top-line pressure have largely resulted in more efficient cost structures.

Given all the moving pieces and choppy comparisons, in this report we contextualize the current status of the furniture and home improvement industry ahead of what we believe will be a very important year. We provide: 1) our expectations for an inflection in the fourth quarter; 2) our outlook for 2025, including key themes such as the housing market; the potential for deflation, higher promotions, and tariffs; changes to the competitive field; shifting product trends; and recovery from natural disasters; 3) a proprietary consumer survey around planned spend and purchasing behaviors; and 4) updated stock thoughts across our relevant coverage, where, **in order of conviction, we are most bullish on Floor & Decor (our top pick for the 2025), Tempur Sealy (upgrading to Outperform), RH, Wayfair, and Arhaus.**

Wrapping Up 2024

Fourth-Quarter Results Will Likely Land Above Expectations

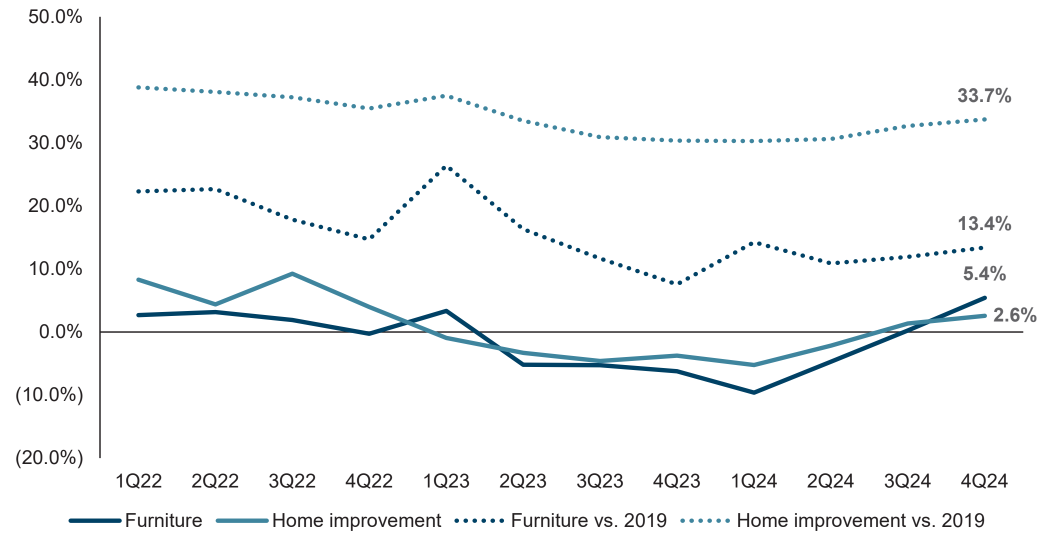
The furniture and home improvement industry's earnings cycle largely kicks off in mid-February when a slew of major players, including Floor & Decor, Home Depot, and Wayfair, report fourth-quarter results and provide their initial 2025 outlook. While the primary focus of the upcoming earnings season will likely be on the 2025 guide, we believe fourth-quarter results will play a bigger role than in years past. We largely expect the industry to exceed expectations in the fourth quarter on an improvement in underlying demand, which should help investors contextualize what we expect will be conservative guides across the board, given that management teams have been burned by back-to-back years of weak underlying demand and stubbornly high interest rates. As such, we believe a strong fourth quarter will help limit any potential trading volatility stemming from a conservative 2025 outlook and allow investors to see the forest through the trees, or in this case, the increasing potential for an inflection and strong multiyear growth on pent-up demand.

After sales landed softer than expected during the first three quarters of 2024, many industry players took a more conservative outlook for the fourth quarter, particularly against headwinds expected from election-related noise. Furniture and home improvement are typically some of the worst-performing categories, declining by an average of 2.5% during an election cycle compared to pre- and post-cycle trends, as consumers often shy away from higher-ticket, discretionary purchases. Despite the election-related concerns, we are incrementally bullish about the potential for upside to sales and earnings for the fourth quarter across the broader space, following our conversations with public and private companies in the industry, favorable intra-quarter traffic and sales trends, an uptick in existing home sales, and a sequential acceleration in demand during November and December recently announced by Arhaus and RH. In our view, the election served as a catalyst behind the inflection, where major industry players indicated an uptick in demand almost immediately after. We believe the election and peaceful transition provided much-needed visibility, as consumers have largely been in limbo over the past two years awaiting some clarity around the macro backdrop, inflation, and interest rates. From our coverage, and in order of our level of conviction, we believe Wayfair, Floor & Decor, RH, and Tempur Sealy have the most room for upside in the fourth quarter, while Arhaus's guidance revision in early January should provide little surprise on the print.

Retail sales continue to accelerate after a long-awaited inflection

Encouragingly, furniture and home improvement retail sales meaningfully accelerated during the fourth quarter, after breaking into positive territory in the third quarter following six consecutive quarters of year-over-year declines. Fourth-quarter furniture retail sales grew 5.4%, and the home improvement category grew 2.6% year-over-year. While this is against steep declines in 2023, we are encouraged by the upward trend in both categories and believe this should provide strong momentum throughout much of 2025, as easier comparisons continue through the first three quarters of the year.

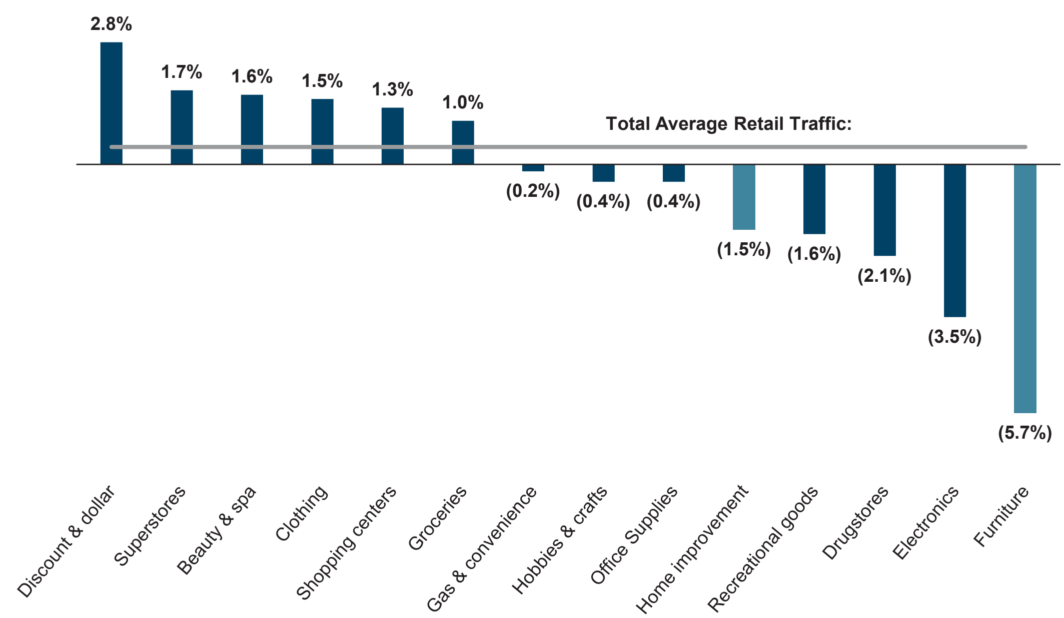
Exhibit 1
Deep Dive Into a Potential Recovery in 2025
Furniture and Home Improvement Quarterly Retail Sales



Sources: U.S. Census Bureau and William Blair Equity Research

In-store traffic for the furniture and home improvement space also inflected positive after experiencing some of the largest declines across the retail landscape throughout the first three quarters of the year. Full-year foot traffic for the home sector remained challenged, with the furniture category down 5.7% and home improvement down 1.5%, versus overall retail traffic growth of 0.4%, which was largely driven by discount stores and big-box retailers—as value and the convenience of a broad assortment were at the top of consumers' priorities in 2024.

Exhibit 2
Deep Dive Into a Potential Recovery in 2025
2024 Retail Traffic Year-Over-Year Percentage by Segment

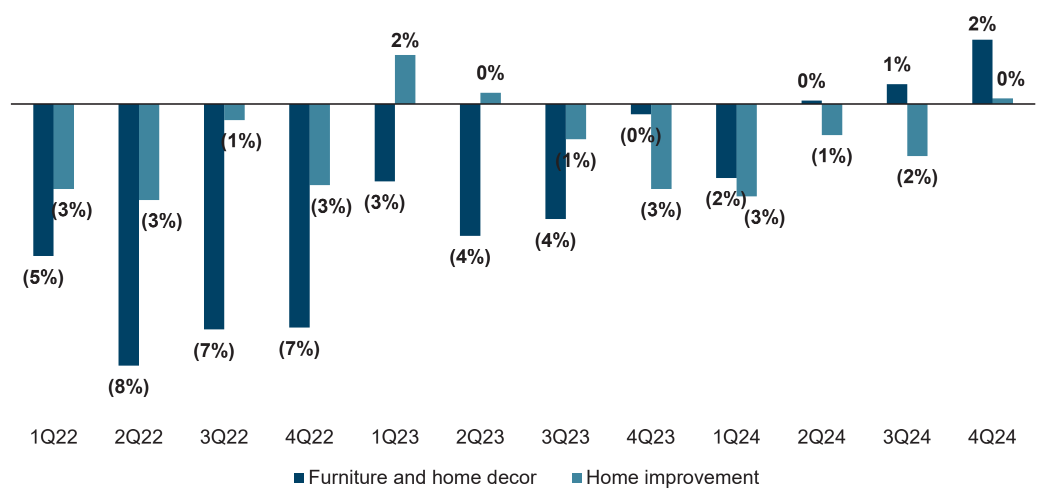


Sources: Furniture Today, Placer.ai, and William Blair Equity Research

Industry traffic shows significant improvement after landing at the bottom of the pack throughout much of the year

While the furniture category had the weakest performance relative to other sectors for the full year, we highlight that in-store visits rebounded in the second half, following a significant decline from January to July, and culminated in a 2% increase in the furniture and home decor space in the fourth quarter. Similarly, the home improvement category faced steep declines throughout much of 2024, where traffic decreased by an average of 2% in the first three quarters of the year, before inflecting in the fourth quarter with a 0.2% gain. In our view, the uptick in traffic trends signals a more promising outlook for 2025, particularly as the first half will benefit from easier comparisons.

Exhibit 3
Deep Dive Into a Potential Recovery in 2025
Furniture and Home Decor vs. Home Improvement Traffic by Quarter



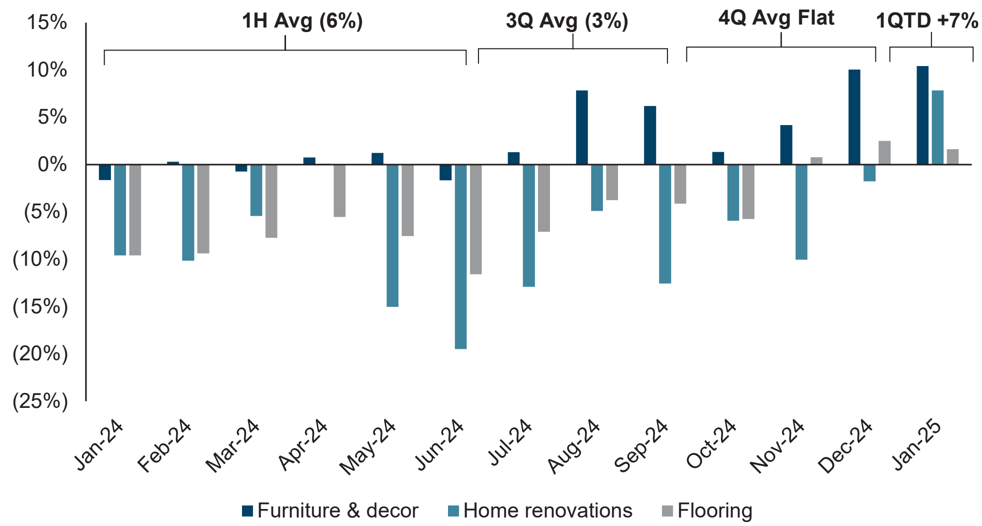
Note: Furniture and home is average of LZB, HomeGoods, Pottery Barn, IKEA, RH, West Elm, At Home, and Mattress Firm; Home improvement average is HD, LOW, Ace Hardware, TTSH, and FND

Sources: Bloomberg, Placer.ai and William Blair Equity Research

Digital demand trends return to positive territory, with momentum continuing through January

Digital search trends also support an inflection in the fourth quarter after steady declines since the second half of 2021. We analyzed online search demand across nearly 30 industry terms for furniture and home decor (e.g., furniture, couch, table, desk, rug, lamp, mirror), home improvement (e.g., renovation, general contractor, hardware store), and flooring (e.g., flooring, laminate vinyl, tile). Our analysis indicated that search demand was relatively flat in the fourth quarter, an improvement from the 3% decline in the third quarter and a 6% decline in the first half of the year. The acceleration was particularly notable in furniture and flooring categories, which increased sequentially throughout the quarter for an average gain of 5%, with the strongest growth across larger-ticket products like sofas, tables, beds, mattresses, and vinyl flooring. Even more encouraging, the momentum seems to have continued into January, where average search demand increased by 7% led by healthy growth across nearly all 30 categories in our analysis.

Exhibit 4
Deep Dive Into a Potential Recovery in 2025
Online Search Demand Year-Over-Year Percentage for Industry Terms



Note: Furniture and decor represents the average across 16 terms, such as "furniture," "table," "lamps," and "desks"
Home improvement and flooring each represent the average across 5 related terms
Sources: Google Trends and William Blair Equity Research

Outlook for 2025

We analyzed 2025 sales metrics across nine major players in the industry, including Arhaus, Floor & Decor, Home Depot, HomeGoods, Lowe's, RH, Tempur Sealy, Wayfair, and Williams Sonoma, which combined are expected to contribute nearly $300 billion in annual, domestic sales. Current expectations imply sales growth of 5.7% in 2025, including 5.2% growth in the first half of the year and 6.1% growth in the second half. This is largely in line with our expectations for the total industry (see page 13 for more details), although we believe this leaves plenty of room for upside across our sample, which we expect will be dominate market share gainers amid a slew of bankruptcies and store closures in the space. Our sample suggests comps will increase by an average of 2.2% in 2025, which we believe is conservative at this point given the fourth-quarter acceleration and continued stability in January. Average comps on a five-year stacked basis are expected to increase by 30% (excluding Arhaus given its abnormally elevated growth profile), of which we estimate roughly 15 percentage points are related to price taken across the broader industry, suggesting an increase in volumes by about 15%, or roughly 3% growth on an annual basis. We estimate volumes increased by roughly 2% year-over-year in 2024 amid the lowest existing home sales in roughly 30 years, underscoring the renewed importance of the home among consumers. As such, we believe current expectations for comps in 2025 leave room for potential upside in the range of 100 to 300 basis points, particularly on any additional improvement in existing home sales.

Exhibit 5
Deep Dive Into a Potential Recovery in 2025
Sales and Comparable Sales Estimates for Fiscal 2025 and Stacked Comparisons

		ARHAUS	FLOOR & DECOR	THE HOME DEPOT	HomeGoods	LOWE'S	RH	TEMPUR SEALY	wayfair	WILLIAMS SONOMA	AVERAGE
Net Sales 2025 vs. 2024	Q1	7.3%	7.9%	7.3%	6.8%	(0.4%)	16.0%	0.7%	(0.2%)	(0.7%)	5.0%
	Q2	7.9%	9.3%	5.1%	7.0%	0.8%	16.0%	2.3%	0.9%	0.3%	5.5%
	Q3	9.1%	10.9%	3.0%	6.9%	2.1%	15.7%	4.7%	2.8%	2.3%	6.4%
	Q4	9.0%	11.1%	(0.3%)	7.1%	3.1%	13.4%	4.9%	3.8%	(0.1%)	5.8%
	1H	7.6%	8.6%	6.1%	6.9%	0.2%	16.0%	1.5%	0.4%	(0.2%)	5.2%
	2H	9.0%	11.0%	1.4%	7.0%	2.6%	14.5%	4.8%	3.4%	1.0%	6.1%
	FY 2025 Estimate	**8.4%**	**9.8%**	**3.8%**	**7.0%**	**1.3%**	**15.2%**	**3.2%**	**1.9%**	**0.4%**	**5.7%**
U.S. Comparable Sales Expectations	Q1	(1.2%)	(1.0%)	(0.2%)	3.8%	(0.9%)	5.8%	0.7%	(0.2%)	(1.9%)	0.5%
	Q2	(0.1%)	1.1%	0.9%	3.9%	0.4%	4.3%	2.3%	0.9%	(0.4%)	1.5%
	Q3	2.8%	3.7%	2.3%	3.9%	1.7%	1.6%	4.7%	2.8%	2.2%	2.9%
	Q4	5.8%	4.8%	3.3%	4.0%	2.8%	(0.4%)	4.9%	3.8%	3.5%	3.6%
	1H	(0.7%)	0.0%	0.4%	3.8%	(0.2%)	5.1%	1.5%	0.4%	(1.2%)	1.0%
	2H	4.3%	4.3%	2.8%	3.9%	2.3%	0.6%	4.8%	3.4%	2.8%	3.2%
	FY 2025 Estimate	**2.4%**	**1.9%**	**1.6%**	**3.9%**	**1.0%**	**2.8%**	**3.2%**	**1.9%**	**1.1%**	**2.2%**
2025 U.S. Comps 5-year Stack	Q1	123.4%	29.8%	32.0%	32.8%	23.4%	1.0%	66.9%	40.1%	38.3%	43.1%
	Q2	109.3%	26.0%	30.5%	33.9%	23.5%	(3.7%)	70.1%	34.2%	35.4%	39.9%
	Q3	119.0%	29.0%	34.4%	40.9%	26.6%	(4.7%)	55.8%	28.6%	33.2%	40.3%
	Q4	125.0%	28.9%	30.6%	48.0%	25.0%	(5.9%)	28.9%	25.2%	29.9%	37.3%
	1H	116.4%	27.9%	31.2%	33.3%	23.5%	(1.3%)	68.5%	37.1%	36.9%	41.5%
	2H	122.0%	28.9%	32.5%	44.4%	25.8%	(5.3%)	42.3%	26.9%	31.6%	38.8%
	FY 2025 Estimate	**119.2%**	**28.4%**	**31.9%**	**38.9%**	**24.6%**	**(3.3%)**	**55.4%**	**32.0%**	**34.2%**	**40.1%**

Notes: Estimates reflect consensus, RH comparable sales is measured as sales per average selling square foot (including outlets) and as domestic net sales growth for TPX and W
Sources: FactSet, Visible Alpha, Company reports, and William Blair Equity Research

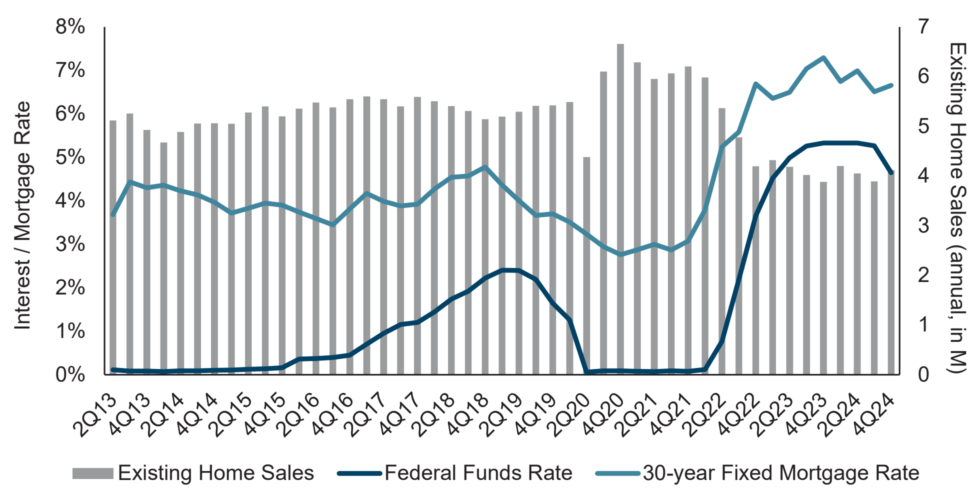
That said, there are plenty of uncertainties across the furniture and home improvement industry in 2025, namely the housing market, the promotional and pricing environment, shifting product trends, the recovery from natural disasters, and potential tariffs, all of which could further boost or disrupt a potential recovery already in the works. We outline our thoughts on these factors below, but broadly, we are bullish about the potential for a broader inflection in the space, and across our coverage, we see the highest potential for upside, in order of conviction, at Floor & Decor, Tempur Sealy, RH, Wayfair, and Arhaus. We outlined our stock thoughts on each starting on page 37.

The Housing Market Remains Uncertain, but the Industry Could Recover Without a Meaningful Improvement in Home Mobility

Heading into 2024, the Street largely expected interest rate cuts to begin by midyear with an inflection in the housing market and furniture and home improvement sales shortly thereafter. However, interest rate cuts were delayed until September, right before the housing market enters its seasonally slowest period amidst the hustle and bustle of the holidays, which pushed back expectations for an industry turnaround.

Since September, the Fed cut interest rates by 100 basis points; however, mortgage rates have remained stubbornly high as the 30-year fixed rate has been hovering just below 7% for much of 2024, albeit down about 75 basis points from its peak closer to 8% in late 2023. We have seen little reprieve in 2025 when the 30-year fixed mortgage rate ticked above 7% in mid-January, reaching highs last seen in May 2024 before the Fed kicked off the rate-cutting cycle, after strong employment data and uncertainties about potentially inflationary policies under the incoming Trump administration fueled concerns about the Fed's ability to even meet its scaled-back plans for two rate cuts in 2025. By the end of January, mortgage rates experienced their first decline in over six weeks, and the 30-year fixed rate dipped below the 7% mark where it has remained steady. The latest forecasts from Fannie Mae and the Mortgage Bankers Association (MBA) estimate the 30-year fixed rate will land at 6.5% by the end of 2025, suggesting just slight relief from current levels.

Exhibit 6
Deep Dive Into a Potential Recovery in 2025
Mortgage Rates vs. Federal Funds Rate vs. Existing Home Sales

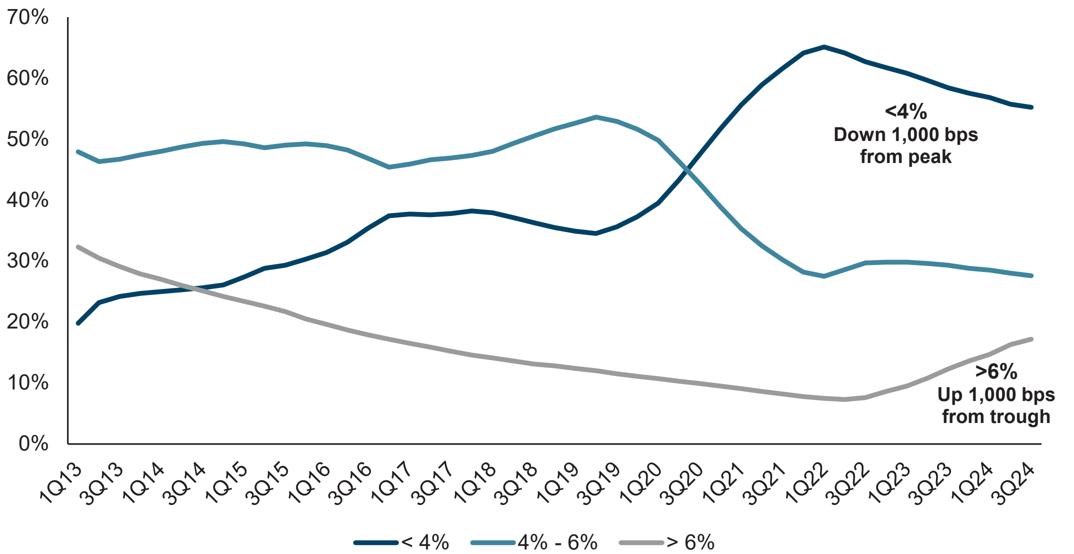


Sources: Federal Reserve Bank of St. Louis and William Blair Equity Research

Stubbornly high mortgage rates remain the primary headwind, despite interest rate relief

The biggest roadblock for a recovery in the housing market remains the 55% of U.S. homeowners with a mortgage below 4%, which is well above the segment's pre-pandemic average share in the mid-30% range. However, the share of U.S. homeowners with a sub-4% mortgage has steadily declined by nearly 1,000 basis points since early 2022 and should continue to deteriorate as we move farther away from the pandemic-era surge in existing home sales. On the flip side, the proportion of homeowners with a mortgage above 6% reached 17%, returning to levels from mid-2016, after increasing by 1,000 basis points since the trough in mid-2022. The relative share of homeowners with a 4% to 6% mortgage has largely held steady but more recently has started to show signs of erosion, primarily driven by those on the low end of the range.

Exhibit 7
Deep Dive Into a Potential Recovery in 2025
Share of Mortgages Outstanding by Rate Segment

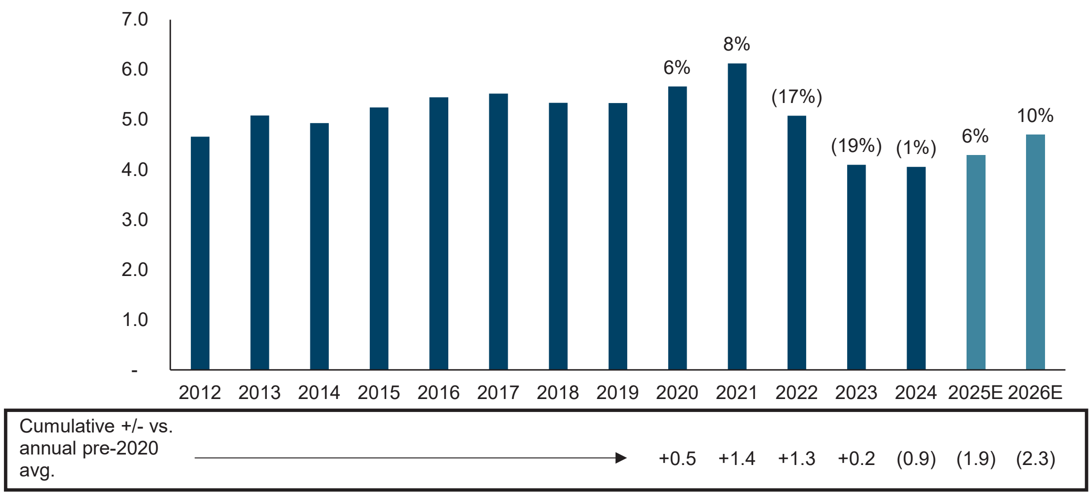


Sources: FHFA and William Blair Equity Research

Unsurprisingly, it has been a tough pill to swallow for the 82% of homeowners with mortgages below 6% to move and take on an interest rate closer to 7%. The biggest question remaining is whether the Fed's actions thus far and plans for two additional cuts in 2025 will be enough to thaw the housing market. The industry's consensus seems to be that an average 30-year fixed mortgage rate in the 5.5% to 6.0% range would be palatable enough to stimulate a more meaningful recovery, despite over 75% of existing homeowners currently holding a rate below these levels. However, that tipping point is still some 80 to 150 basis points away from current levels, well above the one or two 25-basis-point cuts in the second half of 2025 that are currently assumed in the market. However, Fed Governor Christopher Waller's recent comments suggested that three or four 25-basis-point cuts in 2025, starting as early as March, are still on the table depending on inflation. This along with some increased transparency into the Trump administration's policies could be enough to bring mortgage rates into the 5.5% to 6.0% recovery range. The market expects that there is roughly a 20% chance of a quarter-point cut in March, and these increased odds of an earlier cut will bode well for a recovery, given roughly 50% of existing home sale volumes are during the peak spring/summer season between April and August.

While mortgage rates remain stubbornly high, we are starting to see some early green shoots supporting an inflection in existing home sales in 2025. Annualized existing home sales reached 4.24 million in December 2024, increasing by 9% year-over-year, reflecting the third sequential month of growth after 38 consecutive months of declines. Annualized levels in December are some 4% above the prior two-year average, and 18% growth in housing inventory and an increase to roughly 4 months of unsold supply should support a more buyer-friendly market in 2025. If existing home sales remain at current levels throughout 2025, this would reflect 4.4% growth year-over-year, which is largely in line with the Mortgage Bankers Association's January forecast of 4.26 million sales, but above Fannie Mae's more-conservative outlook of 4.15 million. However, the National Association of Retailers (NAR) took a more bullish view during its December forecast. It expects 4.5 million existing home sales in 2025, reflecting growth of roughly 10% and assuming mortgage rates level off around 6%, although we expect NAR will likely take on a slightly more conservative view in its next outlook given the recent uptick in rates. That said, taking the current average across Fannie Mae, MBA, and NAR, existing home sales are expected to reach 4.29 million in 2025, representing growth of 5.7%, and reach 4.7 million in 2026, reflecting growth of 10% year-over-year. Compared to the average pre-pandemic volume of 5.2 million homes, current expectations would suggest existing home sales would be 2.3 million below normal levels by 2026 on a cumulative basis, even when considering the pull-forward during the pandemic. This suggests a significant level of pent-up demand that could be a meaningful catalyst for the industry once the housing market unlocks.

Exhibit 8
Deep Dive Into a Potential Recovery in 2025
Existing Home Sales by Year (in millions)

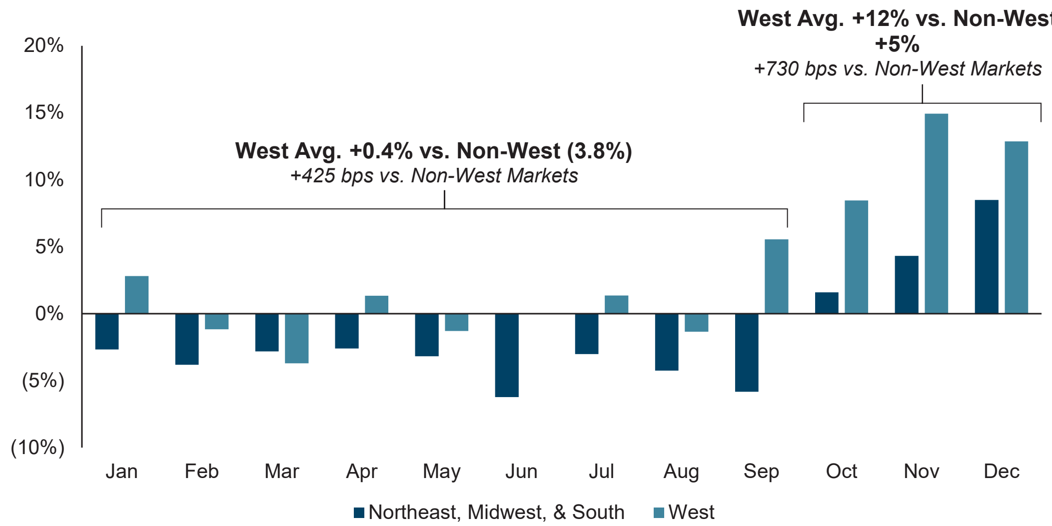


Sources: National Association of Realtors, Fannie Mae, Mortgage Bankers Association, and William Blair Equity Research

The inflection in the West region could be the blueprint for a broader recovery

While there is plenty of uncertainty about the 2025 housing market, we remain encouraged by the recent recovery in the West, particularly with the healthy growth in luxury home sales. Existing home sales in the West increased by 12% in the fourth quarter, outperforming other regions by 730 basis points and reflecting an acceleration from the 0.4% growth in first three quarters of the year, when it outperformed non-West markets by 425 basis points. The housing market in the West was first to face the post-pandemic pullback; existing home sales declined by 30% from mid-2021 to mid-2022, or 1,000 basis points faster than the national average. The recent recovery in the West could provide a blueprint for what an inflection could look like across the broader U.S. as comparisons normalize over the next quarter or two.

Exhibit 9
Deep Dive Into a Potential Recovery in 2025
2024 Monthly Existing Home Sales Year-Over-Year %



Sources: National Association of Realtors and William Blair Equity Research

In the near term, we expect retailers with a stronger relative exposure to the West to see a potential acceleration in comp sales, including RH, Williams Sonoma, and Home Depot—all of which maintain an above-industry-average store footprint in the region. We believe RH could be a notable outperformer over the next several quarters given its significant exposure to the West, particularly on the premium end, as evidenced by the recent acceleration in demand by an average of 27% between November and mid-December. We also expect Floor & Decor could be a beneficiary, with third-quarter comps in the West region roughly flat but some 700 basis points above other markets.

Exhibit 10
Deep Dive Into a Potential Recovery in 2025
Brick-and-Mortar Distribution by Region

	West	South	Northeast	Midwest
RH	36%	32%	16%	16%
Crate & Barrel	33%	26%	21%	20%
Williams Sonoma	30%	35%	20%	15%
IKEA	29%	33%	18%	20%
Home Depot	26%	38%	18%	19%
Arhaus	22%	37%	19%	21%
Floor & Decor	22%	49%	15%	14%
HomeGoods	20%	38%	23%	18%
Ethan Allen	20%	35%	27%	19%
Bob's Discount Furniture	19%	12%	42%	27%
Ashley	17%	44%	14%	25%
Lowe's	17%	50%	15%	18%
Average	**24%**	**36%**	**21%**	**19%**

Sources: Company reports and William Blair Equity Research

The industry should be well positioned for growth in 2025, even under a more stagnant housing market

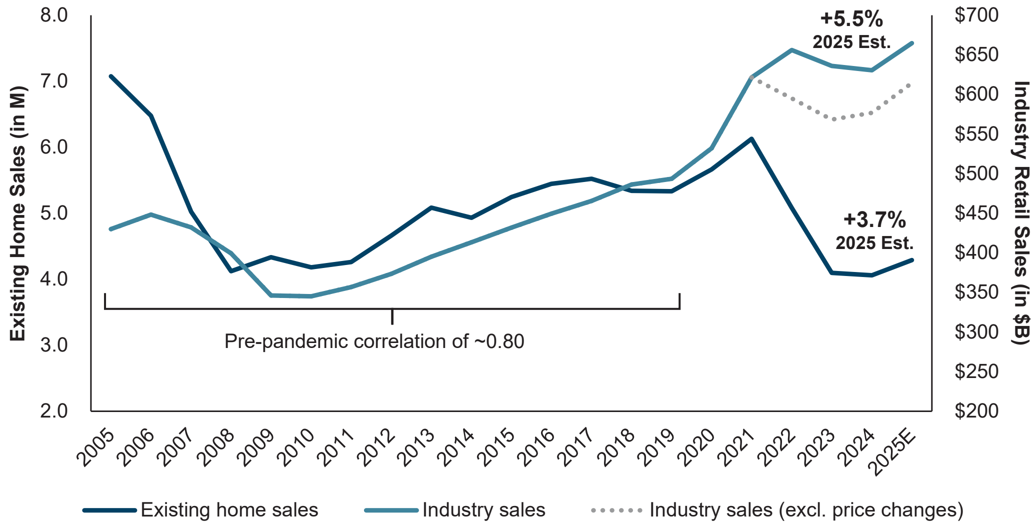
Can the furniture and home improvement industry still return to growth in 2025 even if interest rates stay higher for longer? In our view, yes, the industry reached the bottom in 2024 and is well positioned for growth in 2025 under the current interest rate environment; although, another increase in rates could likely disrupt the current momentum. We argue that the purgatory of an uncertain rate environment is worse than interest rates remaining slightly higher than expected for longer. Interest rate cuts were continuously delayed amid stubbornly high inflation, creating a perfect storm—consumers pulled back on large-ticket discretionary items to preserve liquidity, adopting a mindset of deferral until the macro-backdrop balanced out. Why buy a new sectional now when you might move in a year, and it may not work in the next place? Or why spend thousands of dollars more on a loan for a home renovation project or a mortgage when interest rates might come down in a year?

Today, the consumer seemingly has some visibility into the interest rate environment, and we believe the election was a key turning point in removing a lot of noise and providing some much-needed clarity on the forward outlook. By and large, consumers' hopes of returning to a 3% to 4% mortgage in a year or two are gone; however, they are now able to plan and make some decisions. For example, if a family has outgrown their current home, why should they wait another two to three years if mortgage rates will be the same. On the flip side, if a family cannot afford to move from a 3% to a 6%-plus mortgage, they can improve the functionality of their current home to meet their evolving needs with a new sofa or a kitchen renovation. Peter Dunham, interior designer and founder of Hollywood at Home, said it best about his outlook for the industry in 2025, "Barring any other seismic shocks, the era of the deferred plan is over. People are either resigned to the higher interest rates and housing costs or simply can't wait to get on with their lives."

We believe the improvement in existing home sales and inflection in furniture and home improvement demand in November and December post-election are two indicators that the consumer is at a turning point when it comes to interest rates. We believe two data points from our latest consumer survey (starting on page 21) further support our thesis. First, the correlation between moving and demand for furniture and home improvement projects seems to be deteriorating from our prior surveys (see exhibit 24 on page 25 and exhibit 33 on page 32 for more details); plans to purchase are increasing across those planning to stay in their existing home. In addition, the average consumer is taking on more debt to fund home renovations (see exhibit 35 on page 33). While this could be explained by dwindling savings following the cash injections during the pandemic, we believe the higher propensity among those with a higher household income is more indicative of a shift in the demographic's mentality toward current interest rates and an increasing appetite to take on larger ticket, discretionary projects.

To be clear, the housing market is still a big driver of demand in the furniture and home improvement market, with an 80% correlation between existing home sales and industry retail sales. Our more-conservative outlook is for 4.21 million existing home sales, reflecting the average of the latest forecasts between the MBA and Fannie Mae, and representing growth of 3.7%. We believe the slight uptick in home mobility can support industry growth of 5.5% in 2025, where we expect the furniture and decor segment to slightly outperform the home improvement space given the stronger appetite for furniture purchases among those not planning to move in our survey (see page 25 for more details).

Exhibit 11
Deep Dive Into a Potential Recovery in 2025
Existing Home Sales and the Impact on the Furniture and Home Improvement Market



Sources: U.S. Census Bureau, Fannie Mae, Mortgage Bankers Association, and William Blair Equity Research

Price Could Be Stabilizing, but the Promotional Environment Remains Competitive and Tariffs Remain a Wildcard

We estimate industry volumes increased by roughly 2% in 2024, which was more than offset by deflation of nearly 3% throughout the year. Historically, the industry has been deflationary, with prices decreasing by an average of over 1% annually in the 20 years leading up to the pandemic. However, deflation remains elevated in the current environment as the industry continues to normalize from steep price increases during 2020 through 2022. The industry's average price point still is some 14% above 2019, even after shedding some 6% over the past two years from its peak.

Deflation in the space seems to be leveling out

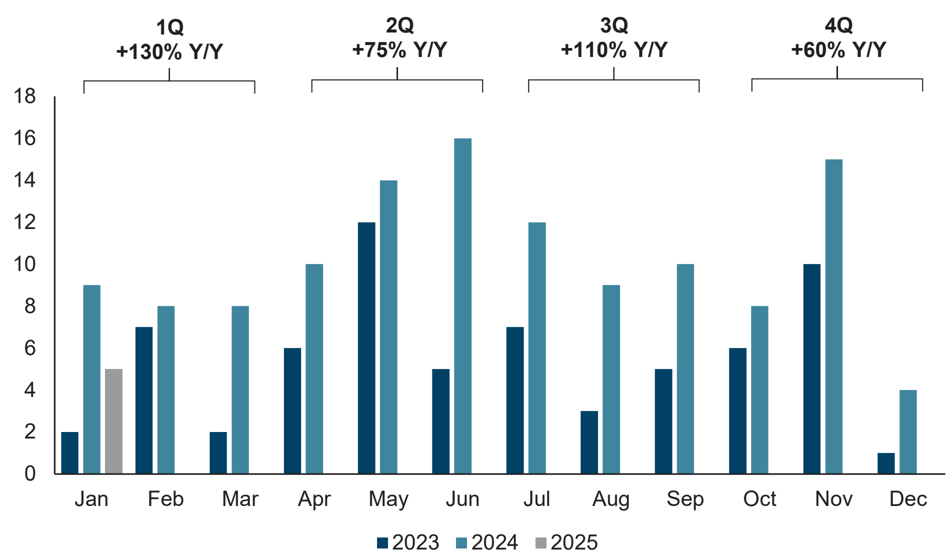
Recent deflationary trends seem to be driven by a mix of strategic price cuts and an increase in promotions and discounts from retailers across all levels of the value spectrum. The goal of the pricing and promotional actions seems to be twofold. First and foremost, retailers are trying to stimulate demand across a more selective, price-conscious consumer. Our survey suggests consumers are shopping for discounts and promotions in the category more than ever (see pages 28 and 36 for more details), and retailers are trying to stay top of mind ahead of any potential inflection. This is in line with our conversations with both public and private players in the industry about the uptick in sales in the fourth quarter; consumers are shopping more across all price points, but value is a top priority. At this early stage in the recovery cycle, consumers are looking for a deal and primarily converting on good and better products on a good, better, best tiered scale, and on clearance or discounted products. The second driver seems to be more around market share retention amid broader promotional campaigns from big-box, general retailers and e-commerce platforms. This was most notable in October, when Amazon's Prime Big Deals Days (2 days; October 8-9) sparked competing promotional events at other general retailers, such as Walmart's Holiday Deals (6 days; October 8-13) and Target's Circle Week (7 days; October 6-12). Industry players also followed suit in an effort to prevent promotionally charged share deterioration, with recurring events such as Wayfair's Way Day (3 days; October 5-7), Home Depot's Decor Days (5 days; October 3-7), and Lowe's inaugural My Lowe's Rewards Week (7 days; October 10-16). Notably, the elevated promotional environment does not seem to be driven by excess inventory, although we expect that could become a bigger driver in 2025 amid a broader push toward new product.

Deflation in the space has begun to level out more in line with its historical average as the larger-scale price adjustments are seemingly in the rearview mirror. IKEA, the world's largest furniture retailer, has been at the forefront of price cuts, with three major adjustments throughout 2024 for a total investment of €2.1 billion. This helped drive store traffic growth of over 3% and online visit growth of 28%. In late November 2024, Juvencio Maeztu, deputy CEO and CFO of IKEA's parent company Ingka Group, indicated that the company plans to keep prices at the current level. However, IKEA Canada recently announced plans to invest another C$50 million in price reductions across more than 550 products beginning in late January 2025, which could suggest potential for further pricing pressure across the industry throughout the remainder of the year.

Elevated promotional environment likely to continue in 2025, although comparisons should be more balanced

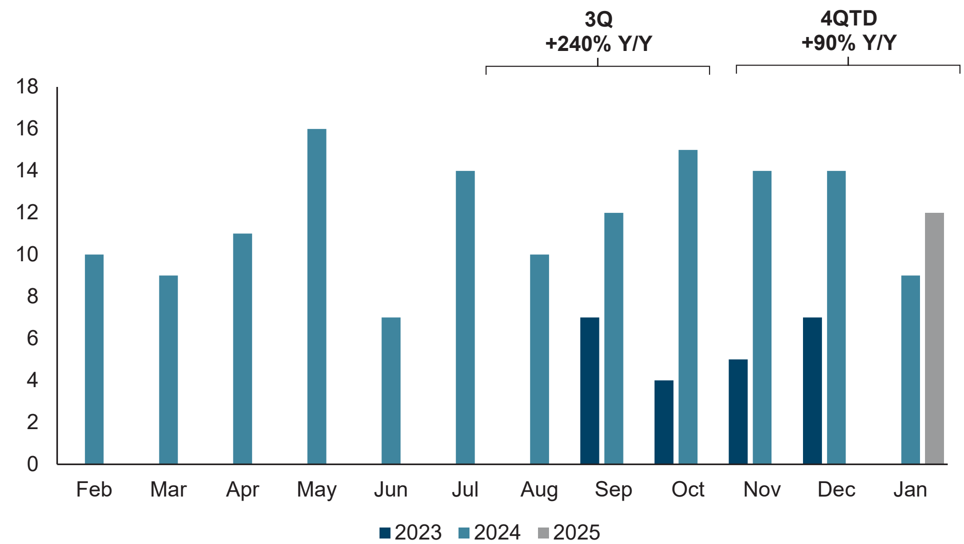
We analyzed promotionally led emails and clearance levels for both Arhaus and RH to provide color on recent trends and any potential slowdown as demand begins to inflect. Our analysis suggests that both Arhaus and RH are decelerating promotionally targeted email blasts on a year-over-year basis as comparisons begin to ease. In the fourth quarter, Arhaus's promotional emails were up nearly 60% year-over-year, a sequential deceleration from the 100% growth in the first three quarters of 2023. RH promotional emails were up 90% in the fiscal fourth quarter-to-date, down from the 240% increase in the third quarter. Encouragingly, Arhaus's promotional emails were down by 45% in January, while RH was up over 30% amid its annual clearance event.

Exhibit 12
Deep Dive Into a Potential Recovery in 2025
Arhaus Promotional Analysis - Number of Promotionally Targeted Emails



Sources: Arhaus and William Blair Equity Research

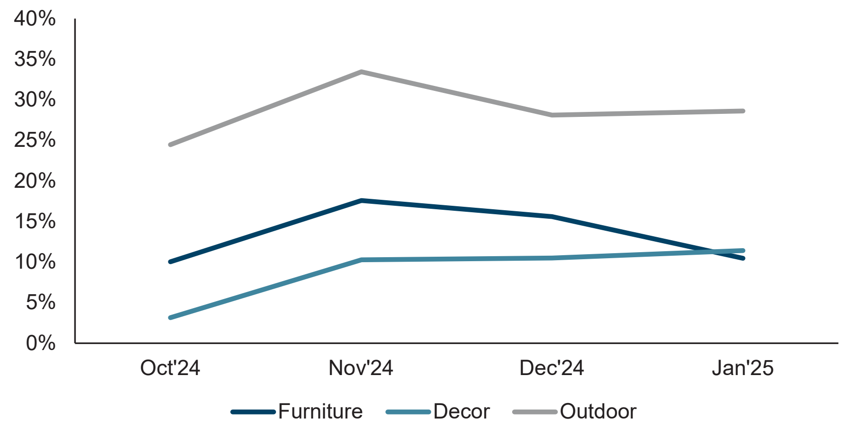
Exhibit 13
Deep Dive Into a Potential Recovery in 2025
RH Promotional Analysis - Number of Promotionally Targeted Emails



Sources: RH and William Blair Equity Research

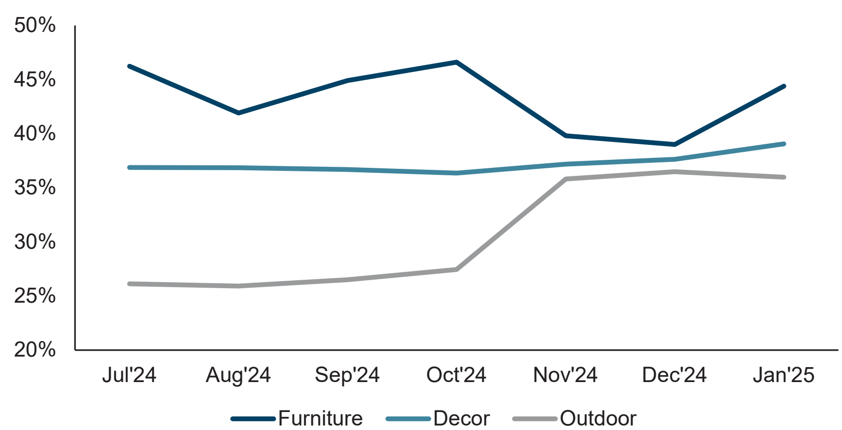
We also analyzed the percentage of product on clearance and compared the monthly averages from our weekly study. In January, roughly 17% of Arhaus's SKUs were on clearance, in line with its prior four-month average, although the furniture category (living, dining, and bedroom products, etc.) has started to trend down, which we view as a positive read-through into increasing demand for higher-ticket items that have been structurally challenged over the past few years. This is in line with management's most recent commentary about Arhaus exiting a promotional test-and-learn phase and developing a more refined discount strategy focused on volume-based promotions. RH maintained roughly 40% of SKUs on clearance in January, reflecting an acceleration from the 37% average over the past 6 months. However, we believe the uptick is largely driven by RH's annual winter clearance event in January and expect levels to normalize in line with its recent average in February. We view November and December's clearance levels as a proxy for what a more normalized cadence could be in 2025, where roughly 39% of RH's furniture SKUs were on clearance, a deceleration of 500 basis points from the trailing-four-month average, which could be a positive indicator for a recovery in higher-ticket categories.

Exhibit 14
Deep Dive Into a Potential Recovery in 2025
Arhaus Promotional Analysis - Percentage of Product on Sale



Sources: RH and William Blair Equity Research

Exhibit 15
Deep Dive Into a Potential Recovery in 2025
RH Promotional Analysis - Percentage of Product on Sale



Sources: RH and William Blair Equity Research

Broad strokes, we believe promotional activity will remain elevated in 2025, which will likely keep the industry in a deflationary environment. We estimate average prices to decline in the 1% to 2% range, in line or slightly above historical levels. We expect furniture could be toward the low end of the range, while home improvement could remain slightly more deflationary until a more meaningful inflection in existing home sales. However, if the recent uptick in demand is sustainable, we believe retailers will feel emboldened to start to pull back on discounts and promotions, particularly across the premium end of the value pyramid.

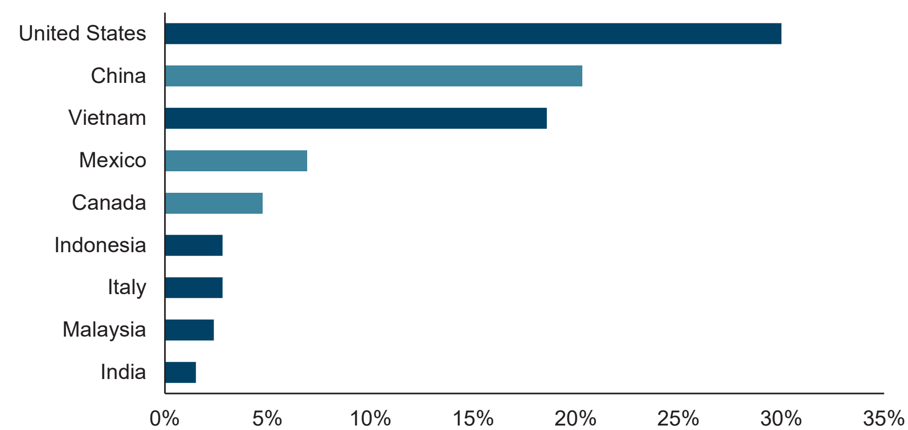
Tariffs remain a significant wild card

That said, tariffs are obviously a potential wild card that could drastically change our expectations for price in the industry. Unfortunately, furniture and home improvement stocks have double the impact on tariff-related announcements. Investors are not only concerned about the headwind to margins against what historically has been very little pricing power, particularly in the furniture category, but also about the potential reacceleration in inflation and resulting increase in interest rates and the impact on the housing market, which is particularly impactful to the home improvement space.

While concerns about overly aggressive tariffs seem to have abated a bit, there is still a lot of uncertainty about how policies will evolve longer term. Most companies in the industry have been proactive in diversifying supply chains and reducing exposure to China, largely a continuation of trends kicked off in 2018 after the first round of tariffs were imposed. We also expect some companies will build inventories in the first half of the year in anticipation of tariffs where investors should be prepared for outsized inventory growth compared to sales.

Trump's latest announcement of incremental tariffs on Canada, Mexico, and China will impact roughly 32% of the furniture market, with 20% sourced from China, 7% from Mexico, and 5% from Canada. The home improvement category is a bit more complex given the broad assortment, but we expect the category's higher domestic sourcing capabilities and stronger relative pricing power, particularly on commodities like lumber, will limit the segment's exposure below that of the furniture space.

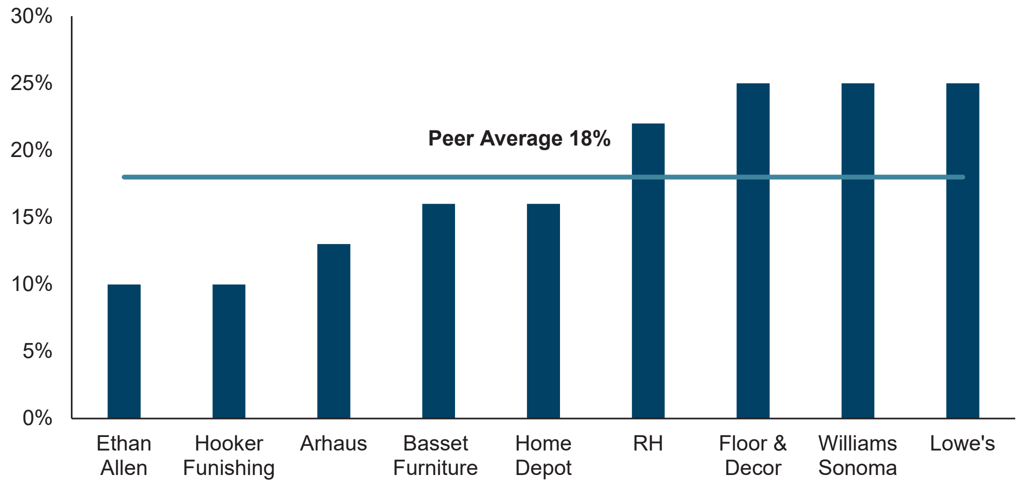
Exhibit 16
Deep Dive Into a Potential Recovery in 2025
Furniture Sourcing by Country



Sources: Home Furnishings Association and William Blair Equity Research

Given the higher relative exposure, tariffs on China seems to be the primary concern for investors. Across our coverage, Wayfair, Floor & Decor, and RH likely maintain the most exposure, where Floor & Decor and RH both sourced roughly 25% of products from China in 2023. Floor & Decor committed to sourcing "significantly below" those levels in 2024, and RH recently announced plans to exit suppliers in China by mid-2025—both of which should help ease tariff-related concerns. Wayfair is a bit more nuanced. We do not know Wayfair's exact sourcing exposure to China, but its inventory-light model of more than 20,000 suppliers should provide the company with enough flexibility to minimize its exposure by prioritizing product sourced outside of China, and any tariff-impacted product will likely be offset with higher prices and lose relevance on the platform.

Exhibit 17
Deep Dive Into a Potential Recovery in 2025
Chinese Sourcing by Company



Sources: Company report and William Blair Equity Research

The threat from tariffs on Canada and Mexico is less significant than China at this point. While the industry has been exiting China for the past 7 years or so, major players seem to be taking a "wait and see" approach around any efforts to move existing suppliers from Canada and Mexico. One exception is RH, the company is transitioning its products manufactured in Mexico, which we believe is largely isolated to its assortment of outdoor cushions. From our coverage, we do not believe any company maintains sourcing exposure to Canada or Mexico above 10% combined, which should provide some flexibility to share the cost through price and limit the risk for significant margin deterioration.

The shift from China has largely been redirected to countries in Southeast Asia, namely Vietnam, versus domestic reshoring, where roughly 30% of the furniture market and more than 50% of the home improvement space is manufactured in the U.S., although product inputs are often imported, which still leaves some tariff-related risk. Obviously, those with a higher proportion of domestic sourcing capabilities are better positioned in the event of widespread tariffs on all imports. From our coverage, Tempur Sealy domestically manufactures all mattresses sold in the U.S., Arhaus sources between 30% and 40% of goods from the U.S. and manufactures its upholstery in-house in North Carolina, and Floor & Decor sources nearly 25% of its products from the U.S.

Productivity Gains From a Thinning Competitive Field

Unsurprisingly, there have been several bankruptcies and related store closures across the industry over the past two years, including LL Flooring (closing 210-plus stores), Big Lots (950-plus stores), Badcock Home Furniture (380 stores) American Freight (328 stores), Conn's (170-plus stores), Kelly-Moore Paints (157 stores), Mitchell Gold + Bob Williams (30 stores), Z Gallerie (21 stores), and Klaussner Home Furnishings. There has also been an uptick in the closure of local independent stores, which still make up roughly one-quarter of the furniture market and maintain a more dominant share in specific home renovation categories like flooring.

We believe the share capture from the thinning competitive environment will be fairly nuanced. Floor & Decor should be the direct beneficiary of LL Flooring closures, as Floor & Decor maintains roughly a 50% overlap with LL Flooring's nearly $800 million product sales between shared categories and geographic markets. We believe the closure of American Freight, Big Lots, and Conn's will benefit scaled specialty players that offer strong value propositions, like TJX's HomeGoods, Bob's Discount Furniture, Mattress Firm, Home Depot, Lowe's, and Wayfair, as well as general retailers like Amazon, Walmart, and Costco. In our view, premium brands like Arhaus, RH, and Williams Sonoma are best positioned to take share from the local independents, given their similar offerings of a more-curated product assortment, inspiring showroom experience, and high-touch service levels like white-glove delivery, but with the added ease and convenience of a scaled omnichannel model. We also believe there is a significant opportunity for specialty brands to increasingly appeal to professional services providers in the space, many of which are loyal to local and regional brands given long-standing, personal relationships and some sort of profit-sharing agreement.

Shifting Trends and New Product Innovation Should Support an Inflection

While the pandemic certainly pulled forward several years of demand for furniture and home renovations, we believe recent shifts in interior design trends could help support renewed interest in the category and reduce the typical replacement cycle. Home trends are not like apparel, where the rise of social media has reduced cycles to months. Instead, home trends are much more enduring, typically lasting five-plus years. We believe we are at a major turning point in home design for the masses, where gray, cool tones, minimalist layouts, and sharp modern lines have dominated furniture and decor styles, flooring, and paint colors over much of the last decade. Over the past year or so, we have seen a distinct shift in interior designs toward warm tones, neutrals, natural materials, softer, curved shapes, and more maximalist, lived-in styles.

Exhibit 18
Deep Dive Into a Potential Recovery in 2025
2025 Could Be a Turning Point for a Major Shift in Interior Design Trends

Sources: RH and William Blair Equity Research

While the premium brands have been at the forefront of the trend, we believe a heightened focus on new and innovative products in 2025 across retailers of all price levels will extend its reach to the masses and drive broader adoption and an uptick in volume. We also believe the widening accessibility of interior design services—enabled by complimentary offerings at retailers like Floor & Decor and Arhaus, and more reasonable rates through online platforms like Havenly—should help boost demand for new trends and reduce the industry's replacement cycle.

Impact From Natural Disasters

After a string of major natural disasters have dominated the headlines over the past six months, including the Southern California wildfires and multiple hurricanes and related flooding, we have received an uptick in investor questions about the potential impact on demand for furniture and home improvement. The California fires may cause a slight short-term pullback amid temporary store closures and priority shifts, but we anticipate a tailwind to furniture demand longer term. With over 15,000 structures destroyed so far and the average cost to furnish a two- to three-bedroom house running at roughly $40,000, we estimate the furniture industry could experience an incremental lift of $600 million. We expect RH could be a primary beneficiary given the brand's strong presence in California, with 25% of locations in the state, compared to the industry's average closer to 14%, and the fires impact on higher-income households. However, retailers are unlikely to see any benefit in 2025 when the timing of the incremental sales lift is largely uncertain and could be drawn out over an extended, multiyear timeline minimizing the impact on annual growth.

As the fires will necessitate a full rebuild, we expect the recovery efforts to have a less meaningful impact to home improvement retailers. However, we believe the home improvement space will experience a healthy lift in demand stemming from Hurricanes Helene and Milton and the subsequent flooding throughout Florida, North Carolina, and the broader Southeast and mid-Atlantic regions in late September through mid-October. Other major hurricanes with significant flooding resulted in a demand acceleration for the home improvement space, such as Hurricane Harvey in 2017, which drove comp upside over a 12-month span of roughly 4.0% for Floor & Decor, 4.2% for Home Depot, and 3% for Lowe's. We expect the recent hurricanes could drive a 100-to-200-basis-point lift across the industry over the next year, with much of the benefit occurring during the fourth quarter of 2024 and first quarter of 2025. We expect Floor & Decor could be a primary beneficiary given its strong store presence in the impacted areas, with nearly 25% of its total footprint in the region, versus the industry average closer to 17%.

Proprietary Consumer Survey

Over the past two years, we conducted four separate surveys, each with around 600 to 700 respondents, in December 2024, June 2024, March 2024, and March 2023. Our goal was to understand the evolving consumer sentiment surrounding the housing market and its impact on demand and purchasing behaviors related to furniture and home improvement projects.

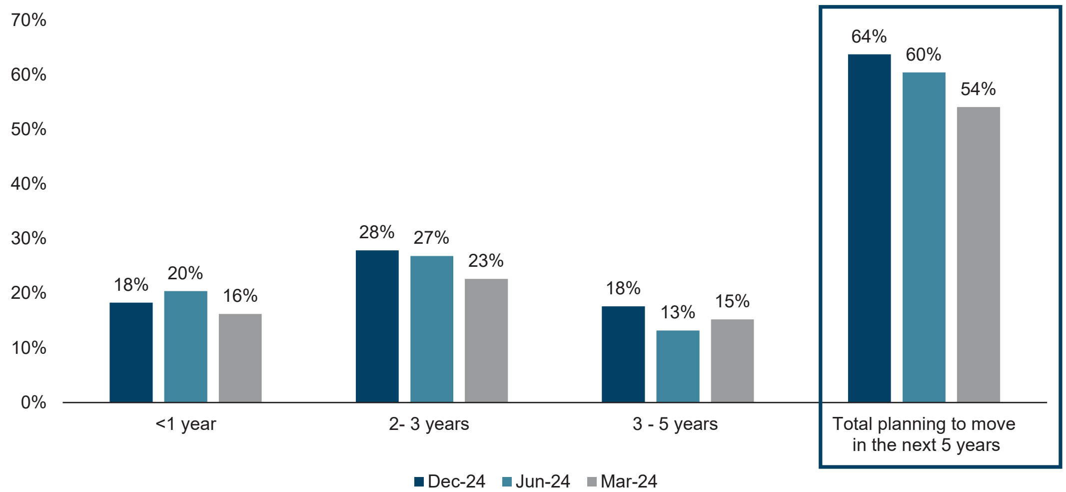
Our latest survey results largely support our thesis that the furniture and home improvement space reached its bottom in 2024 and is poised to inflect more meaningfully in 2025, although value remains at the top of the priority list for consumers looking to convert. Our survey also suggests that consumers have more visibility and are feeling emboldened to make bigger purchase decisions. As evidence, there has been a steady uptick in consumers planning to move in the near to medium term as well as an uptick in industry demand among those who do not plan to move. This suggests that an industry recovery does not completely rely on a turnaround in the housing market.

See below for highlights from our latest survey and comparisons with prior results.

Housing Market

- ***Despite stubbornly high mortgage rates, more consumers are planning to move in the near to medium term largely driven by younger generations and higher-income cohorts.*** Our survey indicated 64% of consumers plan to move over the next five years, an increase of 400 basis points since June 2024 and 1,000 basis points since March 2024, despite the average 30-year mortgage rate slightly increasing over similar time frames. The increase was largely driven by those expecting to move in the two- to five-year horizon. The percentage of respondents who plan to move in the next year remained similar to that over the prior two years, at about 20%. However, we expect an uptick in the near term as consumers gain further visibility about the interest rate environment and housing inventory continues to increase.

Exhibit 19
Deep Dive Into a Potential Recovery in 2025
"Do you plan on moving in the near to medium term? If so, when do you expect to move?"



Sources: Survey Monkey and William Blair Equity Research

- ***Younger generations and households with incomes above $150,000 continue to be the most likely to move over the next five years.*** However, older generations (60+) saw a significant acceleration from mid-June, with nearly 45% now planning to move in the near to medium term, up from just 29% with similar plans in our prior survey, suggesting the baby boomer generation is increasingly looking to downsize and this would be a huge inventory unlock for millennials and Gen Z looking for more space in suburban areas. By geographic region, homeowners in the Pacific and Mountain regions were most likely to plan to move, which is consistent with recent trends in existing home sales where the West was the first to inflect back into growth territory and has continued to outperform other markets. Compared to our prior survey, we saw the most significant increase in plans to move in the Mountain, Midwest, Central Plains, and South Central regions. This supports our thesis that the existing home sales improvement in the West, which was the first region to experience the post-pandemic correction, could be a blueprint for a recovery in other regions where initial declines lagged one to three quarters. We are encouraged by the increase in plans to move in the South Central region, which should help ease some investor concerns about a delayed recovery in markets like Texas that experienced some of the strongest increases in mobility during the pandemic-era.

Exhibit 20
Deep Dive Into a Potential Recovery in 2025
"Do you plan on moving in the near to medium term? If so, when do you expect to move?"

By Age				By Region				By Household Income			
	<1 year	2-5 years	Not moving		<1 year	2-5 years	Not moving		<1 year	2-5 years	Not moving
18-29	24%	55%	21%	Upper Midwest	23%	38%	38%	<$50,000	21%	42%	36%
30-44	19%	53%	28%	East South Central	15%	46%	38%	$50,000-75,000	11%	56%	33%
45-60	16%	44%	40%	New York Tristate	18%	53%	30%	$75,000-100,000	15%	47%	38%
> 60	14%	32%	55%	Mountain	15%	51%	33%	$100,000-150,000	18%	37%	45%
				New England	25%	25%	50%	$150,000-200,000	20%	51%	29%
				Pacific	23%	41%	36%	>$200,000	24%	50%	26%
				Southeast	8%	51%	41%				
				Upper Central	16%	44%	41%				
				South Central	20%	44%	36%				

Sources: Survey Monkey and William Blair Equity Research

- ***The need for more space continues to be the dominant factor behind plans to move, especially among those with a shorter time horizon.*** In addition, we continue to see an increase in moving plans driven by current renters looking to own and those wanting to downsize, underscoring the growing impact of shifting age demographics. Those planning to move in the near to medium term and looking for a smaller space or to own rather than rent increased by 300 basis points from our prior survey. This includes a 430-basis-point increase in those looking for a smaller space within the next year, while those primarily looking to own are more willing to wait with an increase of 670 basis points in the two- to three-year time frame. In our view, our survey results highlight the growing impact of shifting age demographics where baby boomers are increasingly looking to finally sell the suburban McMansions that are largely paid off, as well as the pent-up demand to buy among millennials and Gen Z after homeownership among younger generations has lagged that of prior generations at a similar age. Our deep dive into the home space offers more of a discussion on this potential tailwind.

Exhibit 21
Deep Dive Into a Potential Recovery in 2025
What is the primary reason you are planning to move?

	Plans to move over the next…		
	<1 year	2 - 3 years	3 - 5 years
More space	32%	34%	26%
Job / school location	13%	13%	10%
Less space	10%	14%	9%
Upgrade in quality	10%	7%	15%
Change of scenery / climate	5%	7%	16%
Buying vs. currently renting	6%	11%	5%
Housing costs	7%	7%	8%
Relationship changes	8%	2%	4%
Other	8%	5%	8%

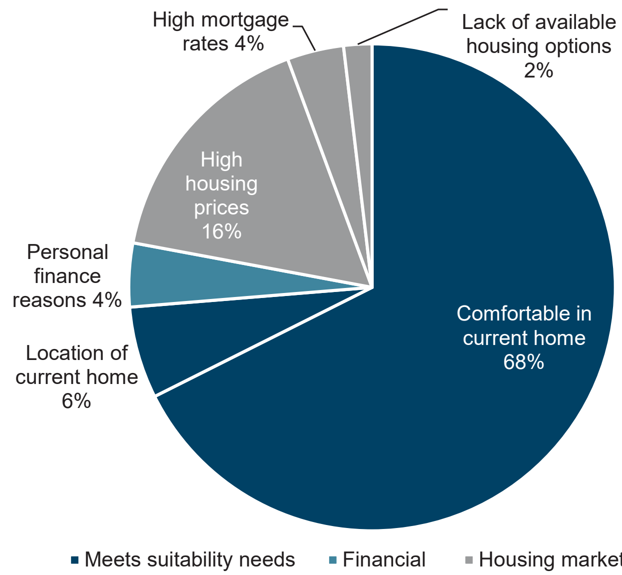
Sources: Survey Monkey and William Blair Equity Research

- ***Consumers remained fairly consistent on the primary reason why they do not plan to move over the next five years.*** About 74% cite the suitability of their current home, 22% call out headwinds in the housing market, and 4% name personal financial reasons. Within the housing market segment, roughly 16% of respondents cited high home prices as the primary driver behind a lack of plans to move, up 300 basis points from our June survey. This is well above high mortgage rates at just 4%, where the recent uptick in supply could help provide some competitive relief in the buyer pool.

Exhibit 22

Deep Dive Into a Potential Recovery in 2025

"What is the Primary Reason for Not Planning to Move?"



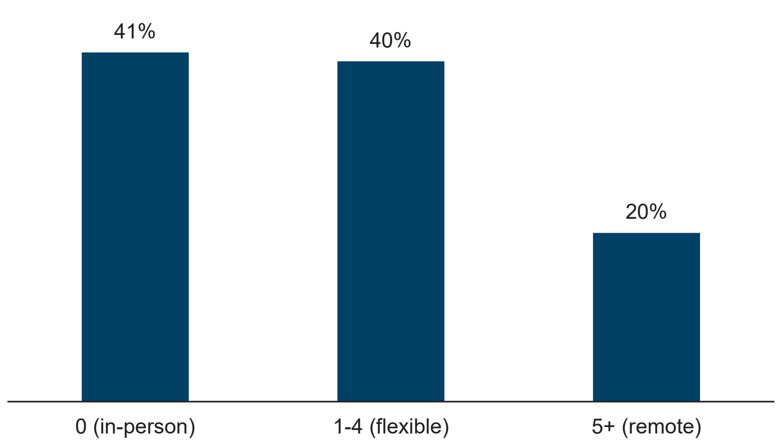
Sources: Survey Monkey and William Blair Equity Research

- ***Home life and functionality remain as important as ever. This is supported by the ongoing prevalence of flexible work schedules, although we could see some deterioration in 2025.*** Nearly 60% of respondents work from home at least one-day a week, with 20% working in a fully remote capacity, both consistent with our prior surveys. However, we believe there is potential for a shift toward more in-person schedules during our next survey, given Trump's recent executive order mandating a full-time return to in-office work for all federal employees and the increasing potential for similar policy shifts in the private sector.

Exhibit 23

Deep Dive Into a Potential Recovery in 2025

"How Many Days a Week Do You Work From Home?"

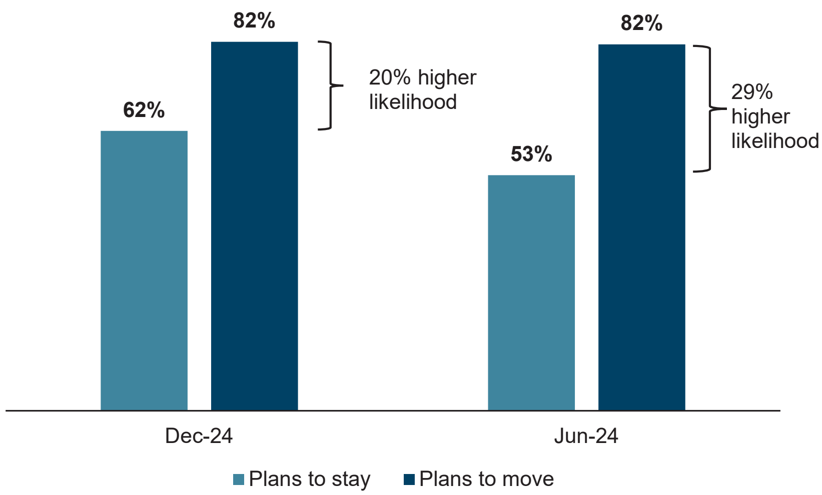


Sources: SurveyMonkey and William Blair Equity Research

Furniture and Home Decor

- ***Housing mobility continues to be a key driver of furniture and home decor purchases, but this relationship is deteriorating.*** This suggests that furniture demand may inflect more quickly regardless of interest rates and the housing market. Among respondents who have plans to move, 82% reported purchasing furniture in the past year (consistent with our prior survey), compared to 62% of those who have no plans to move. This 20% discrepancy suggests that housing mobility still plays a significant role in driving demand for these products. However, the percentage of respondents without plans to move that purchased furniture and home decor increased by 900 basis points from our prior survey, underscoring our thesis that demand for the category is improving on incremental visibility into interest rate movements even without a corresponding increase in existing home sales.

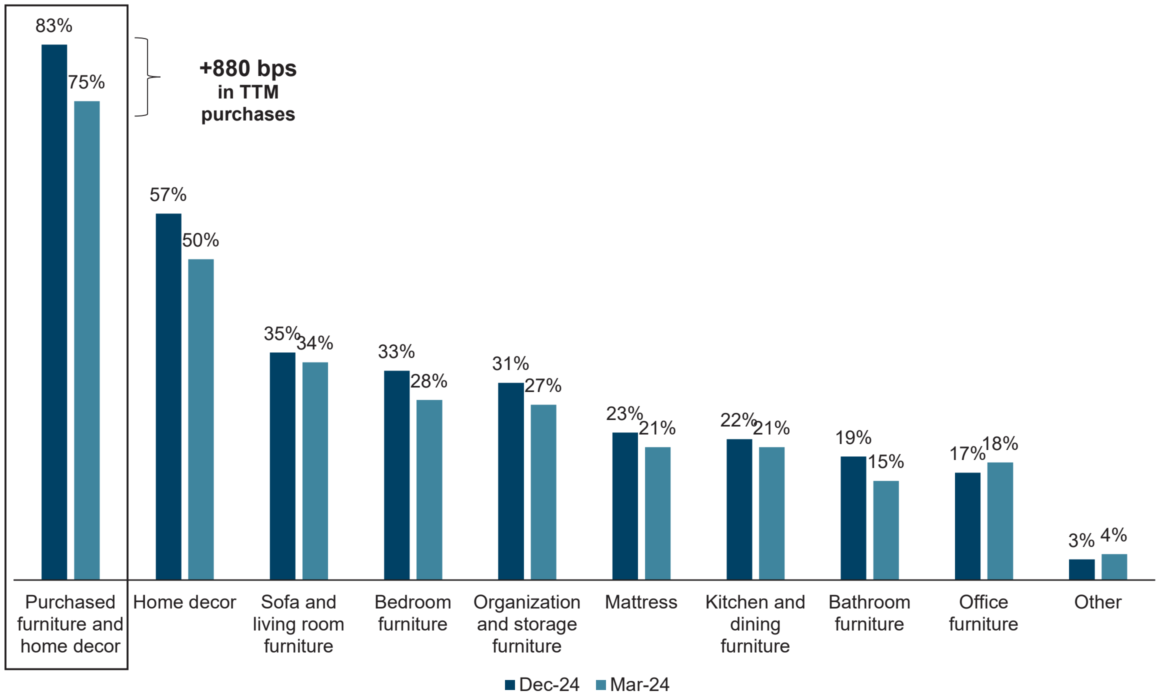
Exhibit 24
Deep Dive Into a Potential Recovery in 2025
"Yes" to Purchased Furniture and Home Decor Over the Past Year



Sources: Survey Monkey and William Blair Research

- ***Underlying demand in the category has improved, and the percentage of respondents that purchased furniture or home decor in the trailing 12 months increased by nearly 880 basis points from early 2024.*** Home decor remains the strongest category over the past year, surpassing levels from our March survey by over 700 basis points. This underscores recent trends of consumers leaning toward lower-ticket, smaller updates to their home. Other categories that saw the strongest growth included bedroom furniture (up 450 basis points), bathroom furniture (380 basis points), organization and storage (up 340 basis points), and mattress (up 225 basis points).

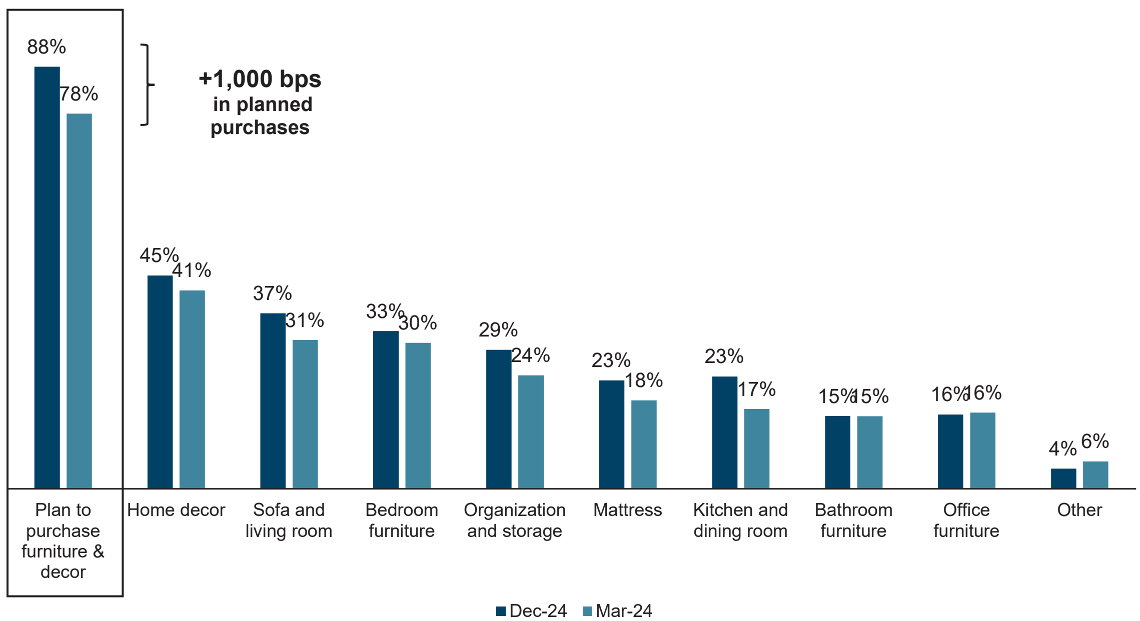
Exhibit 25
Deep Dive Into a Potential Recovery in 2025
"What furniture or home decor did you purchase over the past year?"



Sources: Survey Monkey and William Blair Equity Research

- ***Furniture demand shows signs of an acceleration, with 88% of respondents indicating plans to purchase in the next year, up 1,000 basis points from our March survey.*** Priorities for furniture spend in 2025 suggest growth is centered around higher-ticket categories that have been out of favor for the past few years, which should be an added benefit to comps. Categories with the strongest growth potential compared to our survey in March 2024 include organization and storage furniture (+1,300 basis points), kitchen and dining furniture (+830 basis points), dining room and kitchen furniture (+600 basis points), and sofas and living room furniture (+560 basis points). Office furniture remains one of the only categories where demand for planned spend remains below levels in our prior survey, underscoring the extended pull-forward effect in the category post-pandemic.

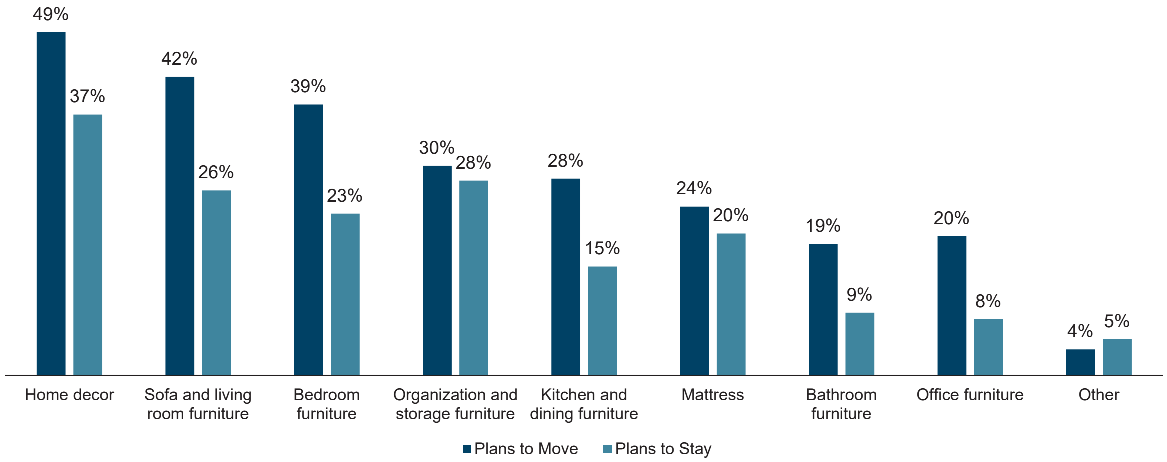
Exhibit 26
Deep Dive Into a Potential Recovery in 2025
"What furniture and home décor products do you plan to purchase in the next year?"



Source: William Blair and Survey Monkey

- ***Respondents with plans to move still maintain stronger demand for higher-ticket categories, underscoring the continued importance of mobility.*** Those with no plans to move indicated a healthy uptick in demand for higher-priced products compared to our March survey, which suggests a normalization of the industry's category mix regardless of the housing backdrop. The gap in demand between those with plans to move and those without plans to move in the near to medium term was most significant in sofas and living room furniture (1,620 basis points), bedroom furniture (1,550 basis points), and kitchen and dining room furniture (1,250 basis points). However, these were also the categories with the strongest uptick in demand among those with no plans to move over the near to medium term, compared to our March survey, including an 830-basis-point increase in bedroom furniture, 790-basis-point increase in sofas and living room furniture, and 760-basis-point increase in kitchen and dining room furniture. This underscores the potential for a more normalized category mix regardless of a recovery in the housing market. The categories with seemingly less correlation with home mobility include organization and storage, with a 210-basis-point differential between those planning to move and those who do not, and mattresses, with a 380-basis-point gap.

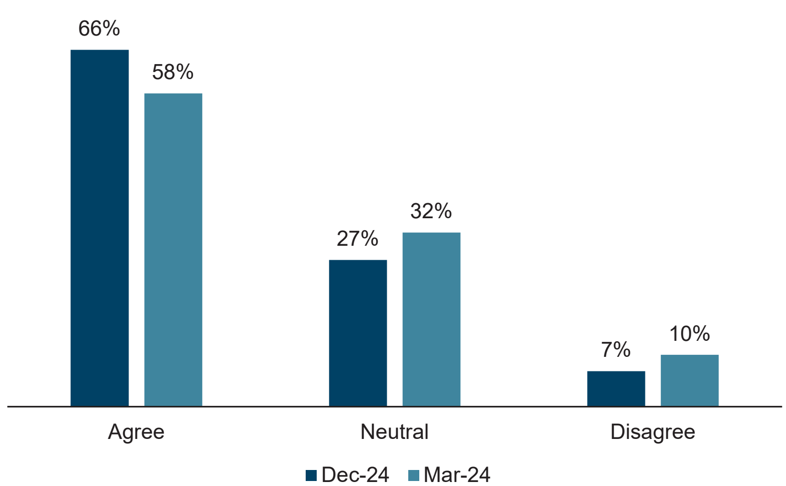
Exhibit 27
Deep Dive Into a Potential Recovery in 2025
"What furniture and home décor products do you plan to purchase in the next year?"



Sources: Survey Monkey and William Blair Equity Research

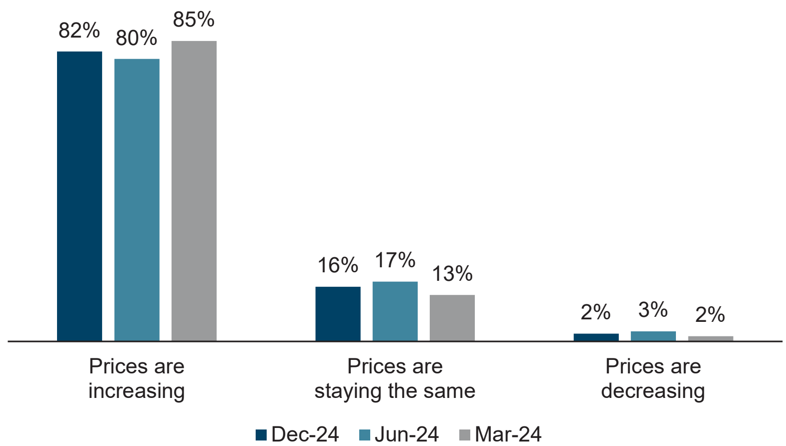
- ***Value and promotions are still a top driver of demand in the current environment.*** Roughly two-thirds of respondents indicated that they were shopping for more discounts year-over-year. This reflects an 800-basis-point increase from early 2024, as feelings about inflation in the category remain elevated. Roughly 82% of respondents believe that furniture prices are increasing, while just 2% believe that prices are decreasing—we note that the category remains deflationary since early 2023, with prices down nearly 10% since the peak in mid- to late 2022. In our view, the consumer's elevated perception of price could continue to weigh on the industry's ability to return to a more-normalized pricing and promotional strategy until there is a more significant recovery in demand, likely upon an unlock in the housing market.

Exhibit 28
Deep Dive Into a Potential Recovery in 2025
"When buying furniture, I shop more discounts compared to one year ago."



Sources: Survey Monkey and William Blair Equity Research

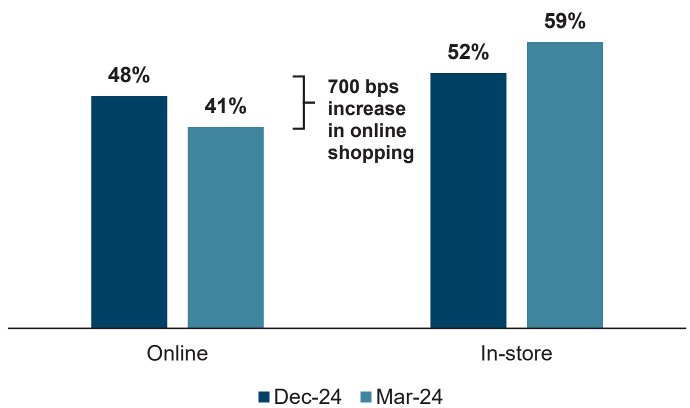
Exhibit 29
Deep Dive Into a Potential Recovery in 2025
Which of the following best describes your view on price changes of furniture and home decor in recent months?



Sources: Survey Monkey and William Blair Equity Research

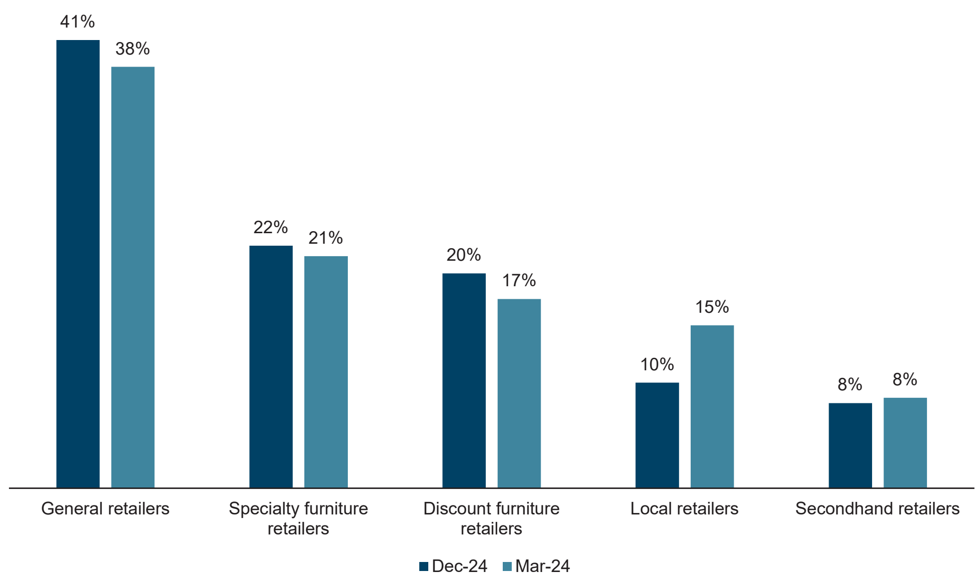
- ***An increasing number of consumers are turning to online channels to shop for furniture and home décor.*** Scaled general and specialty retailers with a strong omnichannel presence seem to be the primary beneficiaries to this trend. Discount retailers also continue to gain share on elevated demand for value, while local retailers remain structurally disadvantaged. Some 48% of respondents indicated that they typically shop online for furniture and home decor, a 700-basis-point increase from March 2024. While we expect actual digital penetration for the industry is likely closer to 35%, we believe our survey likely accounts for the higher proportion of consumers that begin their shopping journey online where the higher-ticket and more emotional nature of the purchase typically demands plenty of research during a one- to two-month consideration period. However, we expect online penetration for furniture could reach 50% longer term. The balanced demand for in-store and online is likely a key driver behind the 300-basis-point increase in consumers shopping for furniture at general retailers like Walmart, Amazon, and Costco, and the 100-basis-point increase across specialty furniture retailers like RH, Wayfair, and Williams Sonoma. The scale of these retailers provides consumers plenty of optionality around an omnichannel shopping experience, product breadth, and relative value. Discount retailers also saw a nice uptick in share, up some 300 basis points from our March survey, amid higher demand for value and promotions. Local retailers continue to struggle, losing some 500 basis points of share in our survey since early 2024, which is likely the driving force behind a flurry of mom-and-pop closures across the U.S., which we expect to largely continue.

Exhibit 30
Deep Dive Into a Potential Recovery in 2025
Where do you typically shop for furniture and home decor?



Sources: Survey Monkey and William Blair Equity Research

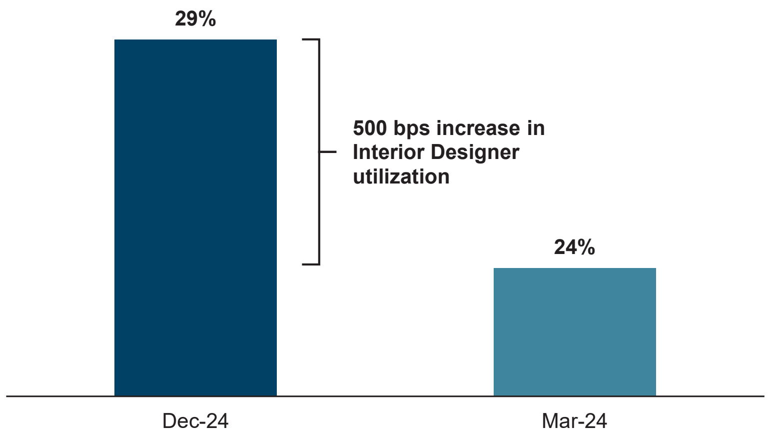
Exhibit 31
Deep Dive Into a Potential Recovery in 2025
"Where do you typically shop for furniture and home decor?"



Sources: Survey Monkey and William Blair Equity Research

- ***Nearly 30% of respondents reported using an interior designer, marking a 500-basis-point increase from early 2024.*** When asked if they would use an interior designer if services were offered free of charge, nearly 65% of respondents said yes, reflecting an 800-basis-point increase from early 2024. The increase in utilization is not necessarily surprising, as interior design services move from an offering only available to the ultra-wealthy to now being accessible to the masses through the rising popularity of online platforms like Havenly. In addition, retailers such as Arhaus, Williams Sonoma, and IKEA are competing on a more direct basis through complimentary in-store services and in-home consultations at hourly rates well below the market average. The increasing utilization of interior design services should continue to be a tailwind for industry growth where average order values typically run some two to three times larger.

Exhibit 32
Deep Dive Into a Potential Recovery in 2025
"Yes" to "Have you ever used an interior designer?"

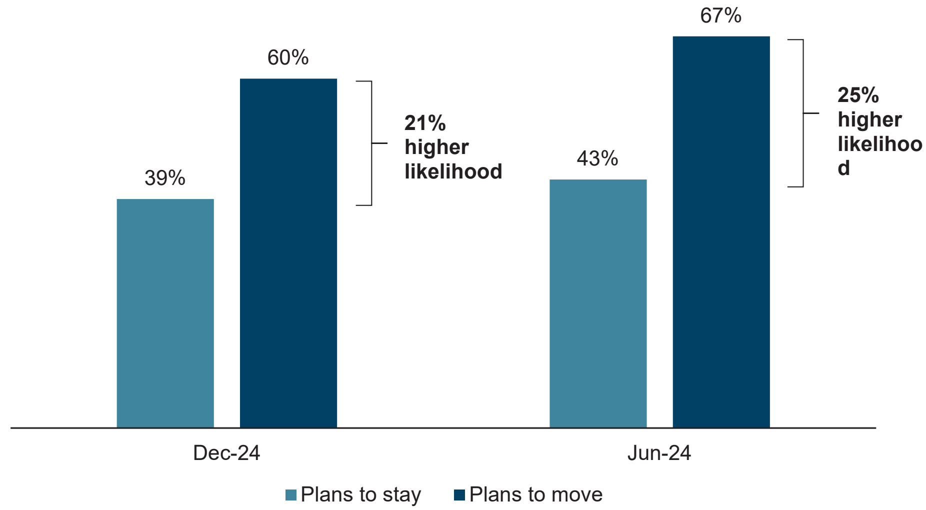


Sources: Survey Monkey and William Blair Equity Research

Home Renovations

- ***Similar to the furniture category, home improvement demand remains heavily influenced by the housing market.*** However, the correlation appears to be breaking down as we move further away from the pandemic-related surge in existing home sales and as visibility into the interest rate environment improves. Some 60% of respondents with plans to move in the near to medium term completed a home renovation project over the past year, compared to the only 39% who also completed a renovation but plan to stay in their current home. The gap between those who plan to move and those who plan to stay has softened by 400 basis points since our June survey, suggesting that plans for moving have less of an impact on decisions to renovate.

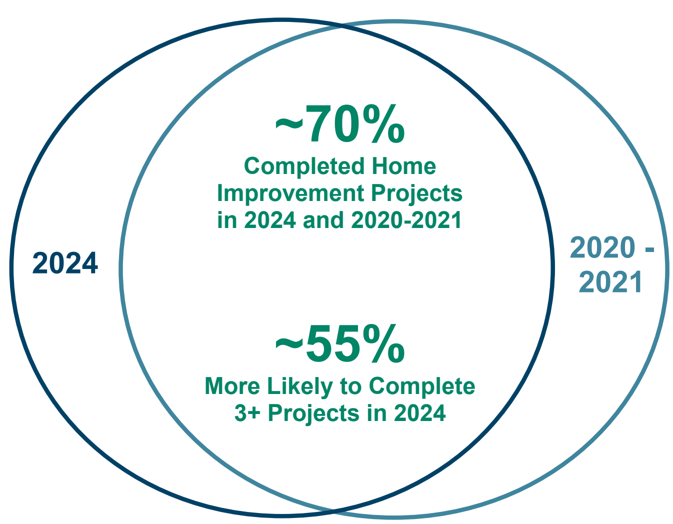
Exhibit 33
Deep Dive Into a Potential Recovery in 2025
"Yes" to completed a home reno project over the past year



Sources: Survey Monkey and William Blair Equity Research

- ***Nearly 70% of respondents who completed renovations in 2024, also completed a home improvement project in 2020-2021, which should ease concerns around an extended pull-forward impact.*** Notably, those who completed renovations during both the peak of the pandemic and 2024 were 55% more likely to complete three or more projects and skewed toward entire home renovations, bathrooms, flooring, seasonal rooms, and basements/recreational rooms. Only 18% of those who completed renovations in 2020-2021 did not complete a home improvement project in 2024.

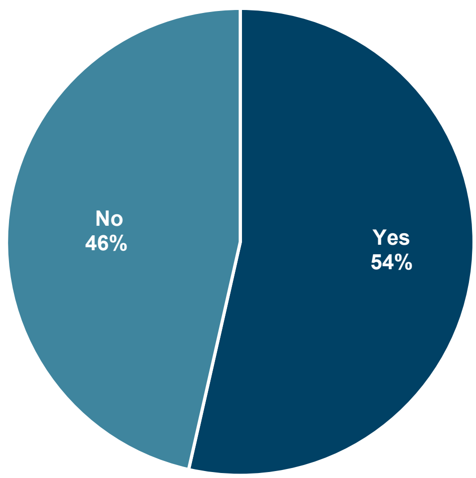
Exhibit 34
Deep Dive Into a Potential Recovery in 2025
"Yes" to Completed a Home Renovation Project Over the Past Year and in 2020-2021



Sources: SurveyMonkey and William Blair Equity Research

- ***More consumers are taking on debt to fund home renovation projects, particularly among higher-income households, which is consistent with recent trends.*** Our survey indicated that some 54% of respondents took on debt to fund recent home improvement projects, down slightly from 58% in June 2024, but above 46% in March 2024 and 38% in March 2023. The increase in debt levels is not necessarily surprising as the excess cash savings used to fund home improvement projects during the pandemic era continue to dwindle. The incurrence of debt was most frequent among higher-income households, again consistent with recent trends. This correlates with the cohort's higher appetite for moving and likelihood to take on larger, higher-ticket renovation projects, as well as their ability to absorb higher interest rate costs. We believe the increasing debt levels should continue to be a tailwind to growing project size.

Exhibit 35
Deep Dive Into a Potential Recovery in 2025
"Did you take on debt to complete the home renovation/improvement project?"



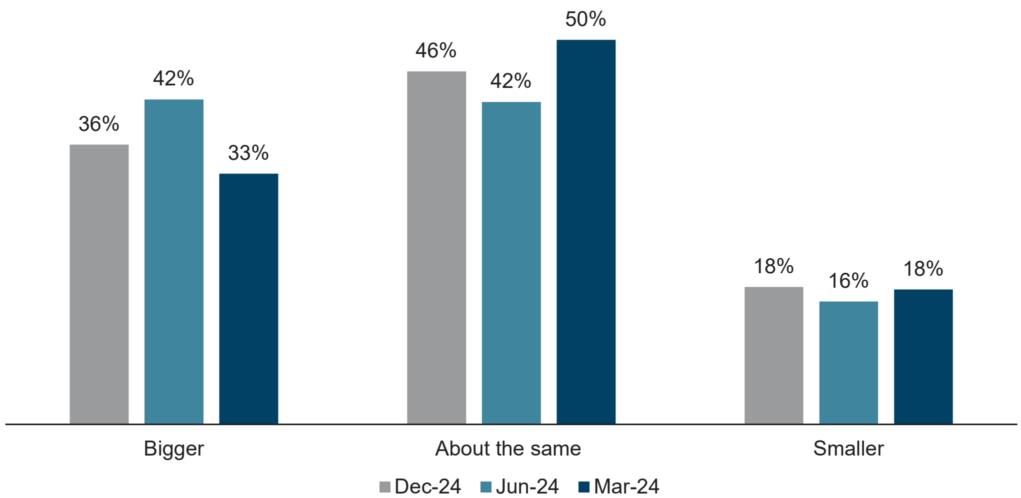
'Yes' by household income

	Dec-24	Jun-24	Mar-24	Mar-23
<$50,000	61%	56%	44%	44%
$50,000-75,000	37%	47%	27%	47%
$75,000-100,000	69%	56%	51%	17%
$100,000-150,000	66%	57%	46%	35%
$150,000-200,000	78%	79%	73%	60%
>$200,000	78%	56%	41%	25%
Overall	**54%**	**58%**	**46%**	**38%**

Sources: Survey Monkey and William Blair Equity Research

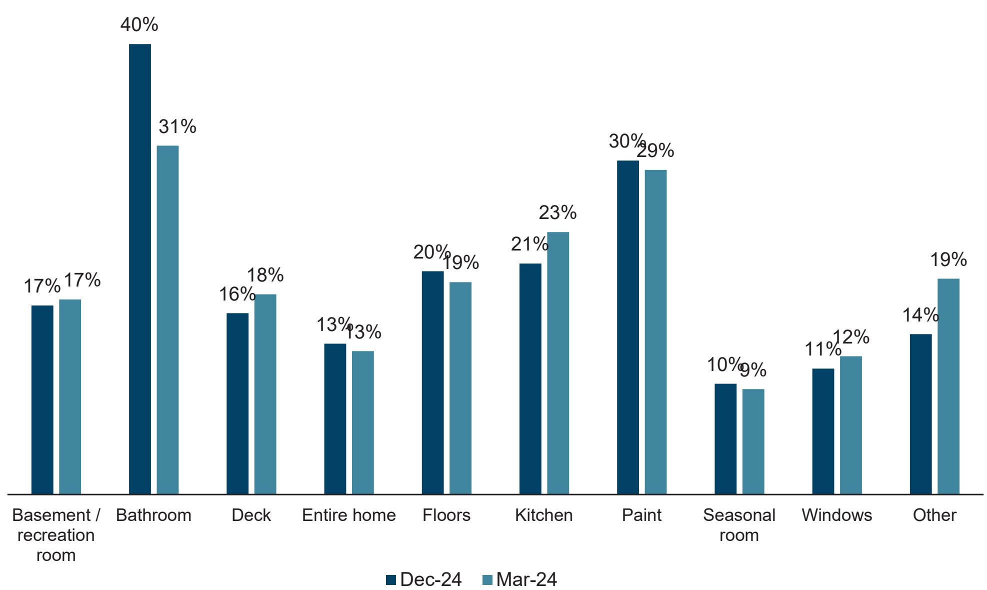
- ***Despite the uptick in debt, consumers largely expect home renovation plans to remain similar in size as our prior surveys.*** Roughly 36% of respondents indicated plans for bigger projects, down from 42% in June 2024, but up from 33% in March 2024. Those who expect to execute smaller projects have remained consistent in the high-teens range over our prior surveys. Plans for spend by category remained consistent from nearly a year ago, where only plans to renovate bathrooms increased by a wide margin, up some 900 basis points from March 2024, in line with commentary from retailers in the space highlighting an increased propensity to take on smaller projects like bathrooms.

Exhibit 36
Deep Dive Into a Potential Recovery in 2025
"I expect my home renovation/improvement projects to be _____ in size compared to last year."



Sources: Survey Monkey and William Blair Equity Research

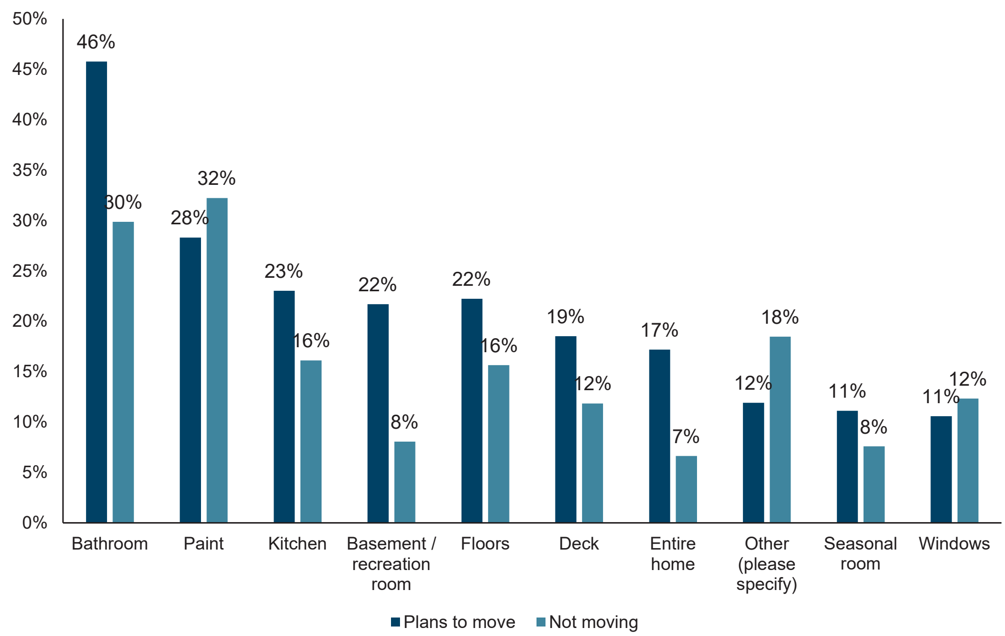
Exhibit 37
Deep Dive Into a Potential Recovery in 2025
"What home renovation/improvement projects do you plan to complete in the next year?"



Sources: Survey Monkey and William Blair Equity Research

- ***Housing mobility continues to be a significant driver for larger-scale renovations.*** Those planning to move in the near to medium term indicated a much higher demand for small- and large-scale projects with a high return. These included bathrooms (+1,600 basis points among those planning to move vs. stay), basements/recreation rooms (+1,400 basis points), entire home renovations (+1,100 basis points), kitchens (+700 basis points), decking (+670 basis points), and flooring (+660 basis points). In contrast, those not planning to move prioritize painting first, reinforcing the idea that mobility unlocks more spending in higher-ticket renovation categories.

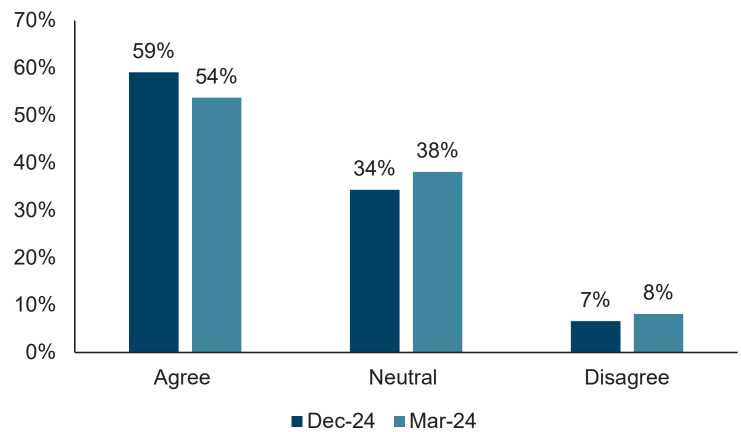
Exhibit 38
Deep Dive Into a Potential Recovery in 2025
"What home renovation/improvement projects do you plan to complete in the next year?"



Source: Survey Monkey and William Blair Equity Research

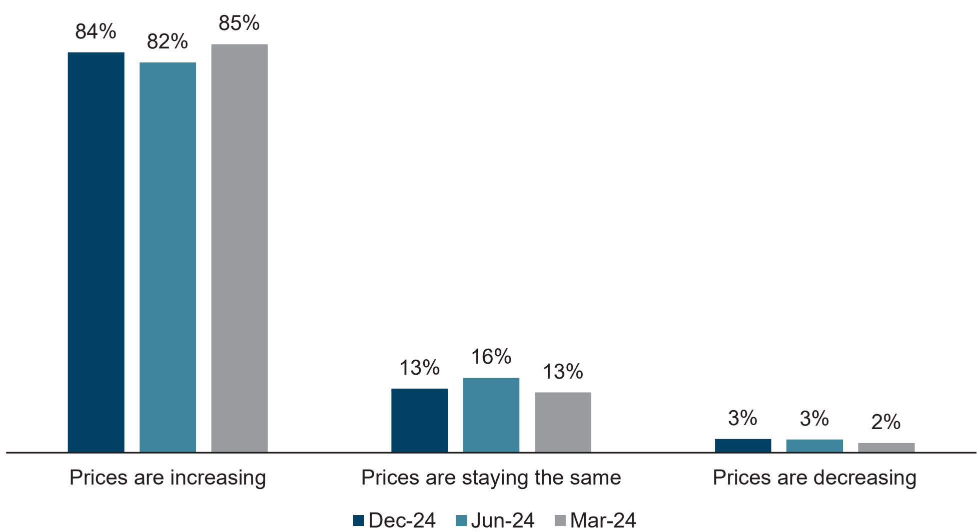
- ***After years of high inflation in the space, consumers continue to prioritize value.*** Roughly 84% of respondents believe prices of home renovation projects are increasing year-over-year, slightly up from 82% in June 2024, despite prices declining by an average of 3% per month since January 2024. Only 3% of consumers believe that prices in the home improvement space are declining, consistent with the prior year. Similar to the furniture category, the perception of continued inflation is driving higher demand for value; some 59% of respondents have been shopping for more discounts, up 500 basis points from March 2024. We expect an increase in organic demand stemming from an inflection in existing home sales will be the key driver behind stabilizing prices.

Exhibit 39
Deep Dive Into a Potential Recovery in 2025
"When shopping for home renovation/improvement supplies, I shop more discounts / promotional deals compared to one year ago."



Sources: Survey Monkey and William Blair Equity Research

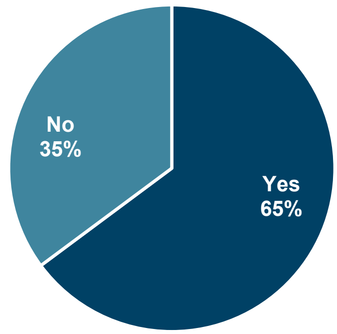
Exhibit 40
Deep Dive Into a Potential Recovery in 2025
"Which of the following best describes your view on price changes of home renovation/improvement projects, including materials, in recent months?"



Sources: Survey Monkey and William Blair Equity Research

- ***Roughly 65% of respondents used a professional contractor to complete their home improvement projects, with particularly strong utilization rates among higher-income households.*** This could suggest an increased appetite for larger, more complex projects. We also noted that utilization rates remain higher for younger generations, which should continue to serve as a tailwind for DIFM adoption, which is likely a core driver behind increased investments in loyalty programs for professionals from retailers like Floor & Decor, Home Depot, and Lowe's.

Exhibit 41
Deep Dive Into a Potential Recovery in 2025
"Did you use a professional contractor to complete your home renovation/improvement project?"



By Age	Yes	No
18-29	58%	42%
30-44	74%	26%
45-60	74%	26%
> 60	49%	51%

By HHI	Yes	No
<$50,000	54%	46%
$50,000-75,000	50%	50%
$75,000-100,000	81%	19%
$100,000-150,000	72%	28%
$150,000-200,000	89%	11%
>$200,000	85%	15%

Sources: Survey Monkey and William Blair Equity Research

Valuation and Stock Thoughts

Arhaus (ARHS; Market Cap $1.7 Billion; Outperform)
Fourth-quarter earnings: estimated early March

Arhaus preannounced fourth-quarter sales and comps on January 8, along with the announcement that long-time CFO Dawn Phillipson was leaving the company. See our recap for more details. We were particularly encouraged by the inflection in demand comps back to positive territory, as November and December likely increased by an average of nearly 10%, versus a low-single-digit decline in October and an 11.3% decline in the third quarter. While management did not provide a revised fourth-quarter earnings guide, we estimate adjusted EBITDA will land some 6% above the top end of its initial guide, which is in line with consensus.

Heading into fiscal 2025, Arhaus remains a bit of a wild card. The company saw a brief pullback when demand comps declined by an average of 7% during the second and third quarters of 2024. We believe this could be partly attributable to a change in its pricing architecture and promotional strategy at a time when competitors were heavily leaning into discounts and price adjustments. Otherwise, Arhaus has not seen the post-pandemic correction that the entire industry has felt over the prior two years, which has boosted its four-year stacked comp to roughly 90%, compared to the industry average closer to 30%. The primary investor concern remains intraquarter volatility against such difficult comparisons with the risk that the ball could finally drop as competition in the premium space heats up again. Management sounded optimistic that the momentum in the fourth quarter should be sustainable into 2025. Given some of the recent choppiness, we maintain a more conservative outlook; we expect comps to increase by 1.2%, below consensus of 2.4%, and our earnings estimate of $0.53 is relatively in line with the Street's expectations. Given the strong point of view from a product perspective, frequent investments in newness, and a more defined strategy for both pricing and promotions heading into 2025, we believe comps could reaccelerate back to normalized levels in the midsingle-digit range.

There is perhaps more visibility into sales than there has been in years as we move past a volatile industry demand backdrop and choppy backlog comparisons. At the same time, there is increasing uncertainty about earnings amid an era of heavy investments in tech and operations, such as planning and allocation software, a financial platform, and manufacturing ERP. The potential volatility around these major investments is exacerbated by a slew of recent management changes, including the CFO departure in early January and the COO departure in mid-December, both of whom were major players in the planning and implementation of these systems upgrades. We believe the lack of a permanent CFO and COO could cause a delay in some of these investments, where a further push and any additional drag on margins would likely wear on investors' already thin patience.

Arhaus trades at 23.6 times our 2025 EPS estimate, some 5 turns below the average across RH and Williams Sonoma, where we see room for multiple expansion in line with its peers, suggesting a stock price closer to $15, or some 20% above current levels. We believe the stock could remain choppy over the next two quarters until we have some visibility into a more sustainable demand comp and an update on the timing and cost of the infrastructure investments following the management departures. We expect investors to remain focused on top-line growth across the industry, but also believe Arhaus's margin structure may play a bigger role than others given widespread concerns about the extended timeline of the infrastructure investments and the lack of benefit on the ramp-up of earlier investments. Our 2025 earnings estimate assumes a fall-through on incremental sales of roughly 20%, where we expect an additional $5 million to $10 million in infrastructure related costs; this would imply a fall-through closer to 33%, in line with the company's historical average. We maintain some concern about additional deleverage here, particularly amid the various management changes, and an earnings guide significantly below consensus could likely be a headwind for shares. At this point, we are cautiously optimistic that shares will find continued support on upside to demand, but we will continue to monitor any potential disruptions, particularly on the client-facing side, that stem from planned upgrades to operations and IT.

Exhibit 42
Deep Dive Into a Potential Recovery in 2025
Arhaus Estimates

	FY 2024		FY 2025	
	Consensus	William Blair	Consensus	William Blair
Comparable sales growth	(9.8%)	(8.1%)	2.4%	1.2%
Net sales	1,272	1,277	1,380	1,360
Y/Y %	(1.2%)	(0.8%)	11.4%	6.5%
Gross margin	39.2%	39.0%	39.8%	40.2%
Adjusted EBITDA	129	127	154	152
Adjusted EBITDA margin	10.1%	10.0%	11.2%	11.2%
Adjusted EPS	$0.46	$0.45	$0.52	$0.53

Source: Arhaus, Factset, and William Blair Equity Research

In our view, the primary risks include disruptions following recent management changes, potential volatility in earnings stemming from major infrastructure investments, tough multiyear comparisons against a choppy demand environment, uncertainty in the housing market, and elevated competition around higher promotions and demand for real estate.

Floor & Decor (FND; Market Cap $10.4 Billion; Outperform)
Fourth-quarter print: February 20

Floor & Decor is our top pick for 2025. We believe the company is well positioned to be the dominant share gainer amid an inflection in home improvement demand. Based on encouraging demand trends and continued momentum in the West region, we believe the company could deliver strong upside in the fourth quarter. We estimate comps will decline by 2.5%, compared to the Street's expectations of nearly a 5% decrease, which should translate to roughly 10% to 15% upside to consensus EPS.

We believe a healthy fourth-quarter beat will help investors contextualize what we expect to be a conservative guide from management, particularly given the CFO's two-year tenure has been some of the most difficult for the industry, with several downward revisions, a relative first for the company. As such, we expect management will take an "underpromise and overdeliver" approach to 2025, and we would not be surprised by a comp guide between flat and 2% growth, with the top end of the range just above consensus of 1.9%. We are more bullish about 2025 and expect comps to increase by 3.0%, some 110 basis points ahead of the Street. Despite management likely taking on a more reserved initial outlook, we believe our 2025 comp estimate reflects a more realistic view on how results will materialize, assuming roughly 1% to 2% growth contribution related to an improvement in existing home sales of roughly 3.7%, to 4.2 million, in line with December levels; 1% growth related to share gains from competitive closures; and 1% growth related to natural disaster recovery.

We believe the model is well poised for outsized earnings growth in 2025, stemming from an inflection back to positive comps on top of structural gross margin improvements and efforts to streamline operating costs over the past few years amidst the downturn. We expect 2025 EPS growth of roughly 21%, some 6% above consensus, which conservatively implies a fall-through on incremental sales closer to 20%, versus more normalized levels at 40%, assuming some reinvestment back into store labor. However, we expect the company will have more flexibility as comps inflect, where a fall-through closer to its historical average would provide an incremental 100 basis points to operating margin and nearly $0.50 in additional EPS.

Exhibit 43
Deep Dive Into a Potential Recovery in 2025
Floor & Decor Estimates

	FY 2024		FY 2025	
	Consensus	William Blair	Consensus	William Blair
Comparable sales growth	(7.9%)	(7.5%)	1.9%	3.0%
Net sales	4,427	4,439	4,849	4,869
Y/Y %	0.3%	0.6%	9.5%	9.7%
Gross margin	43.3%	43.3%	43.2%	43.5%
EPS (adjusted)	$1.71	$1.74	$1.98	$2.10

Source: Floor & Decor, Factset, and William Blair Equity Research

Floor & Decor trades at 47.3 times our 2025 EPS estimate, at a premium compared to peers and its historical trading average closer to 40. However, we believe the risk/reward profile remains favorable. The stock seems to find support in the $90 range, while we put the upside closer to $150 over the next year, or nearly 50% above current levels; this assumes an earnings fall-through in line with its historical average along with a multiple contraction closer to 40 times as the company moves past trough earnings. Outside of any potential interest rate hikes, we believe the most significant risks to earnings are tariffs and rising freight costs; however, we expect the company could take price to offset most, if not all, of the potential impact given its steep price discount compared to its primary competitors, which will likely be up against similar headwinds at a greater magnitude, given the lack of scale.

RH (RH; Market Cap $7.5 Billion; Outperform)
Fourth-quarter print: estimated late March

RH came out of the third-quarter print in early December with a lot of momentum, and demand growth of roughly 27% in the fourth quarter-to-date more than offsets concerns about weaker earnings and a declining cash balance. We believe management's fourth-quarter expectation for demand growth in the 20% to 22% range was fairly conservative and that there is room for upside, given positive read-throughs into intraquarter traffic and sales trends; however, January could be weaker than expected given the heightened exposure to fire-related disruptions in California.

We expect reactions to the fourth-quarter print will rely heavily on management's full year 2025 guide, as CEO Gary Friedman is considered a bellwether for the industry. Our 2025 sales estimate implies growth of nearly 18%, or 300 basis points above consensus, which assumes comps of 5%, new store contribution of 9% on square-footage growth of 16%, and 4% related to the fulfillment of backlogged sales. We believe our comp estimate remains conservative against our 5.5% industry growth estimate. We believe comps could run closer to the 8% to 10% range, pushing total top-line growth above 20%, given several catalysts that should drive outsized share gains for RH, including a significant refresh to its product assortment and stores; more competitive pricing structure; source book expansion; and website upgrade, in addition to easier comparisons, with sales productivity relatively flat compared to pre-pandemic levels versus the industry, which is higher by an average of some 30%. We estimate EBIT margin to land at 15.3% in 2025, an increase of 365 basis points year-over-year, and some 20 basis points above the Street. While the margin structure is a bit of a wild card amid an elevated promotional environment and investments in new stores and international expansion, our estimate assumes a 35% profit fall-through on incremental sales. We believe this is appropriately conservative, particularly given that backlog sales typically carry a higher margin as certain expenses like catalog and store labor are recognized in prior periods.

Hunterbrook Capital released a short report on RH on January 24, which caused the stock to pull back some 7% over the following few days and could keep shares range-bound over the next month and a half until the company responds during its fourth-quarter print. While the short report highlighted a few key risks, we do not believe there was anything in it that was unknown. The company's increasing reliance on discounts and promotions, softer international ramp-up, and shaky balance sheet and cash position have been well documented over the past year or so and are some of the more frequent topics on the earnings calls. In our view, the state of the balance sheet and viability of the European expansion are two of the most significant risks. At this point, unless demand suddenly collapses, which we do not anticipate given the recent industry trends, RH should have enough liquidity with its revolver in the near term and a more meaningful opportunity to shore up its balance sheet with a significant acceleration in 2025, when we estimate almost $200 million in free cash flow. The international expansion is a bit more uncertain. The slow ramp-up of RH England, the planned closure of the Dusseldorf and Munich locations in 2027, and the disappearance of a Sydney location in the prepared remarks over the past few earnings calls have done little to ease investor concerns that the brand and scale of its products may not translate well outside of the U.S. In RH's defense, American luxury brands often face an uphill battle in Europe that typically requires a revised product strategy. That said, we believe investors will likely give RH another year or two to prove out the strategy once the company has a better read into the ramp-up of three high-traffic, brand immersive locations: Paris and London (opening in 2025) and Milan (opening in 2026).

Unsurprisingly, there has been an increase in inbound calls on RH over the past six months or so; the buy-side is prioritizing top-line performance and early winners in the industry that should benefit from a multiyear recovery. Given the easier comparisons and numerous catalysts ahead, we believe RH is best positioned to lead the pack in terms of sales growth, which should support strong share returns, as investors have admittedly been less concerned about earnings and the balance sheet, assuming both will course correct as sales ramp up. This is particularly evident over the past two quarters, as shares were up by an average of 21% on each print and are up some 70% since early September, despite generally lackluster results and a declining cash balance, but with an increasingly optimistic outlook about demand. We expect this dynamic to continue throughout much of 2025.

Exhibit 44
Deep Dive Into a Potential Recovery in 2025
RH Estimates

	FY 2024		FY 2025	
	Consensus	William Blair	Consensus	William Blair
Net sales	3,197	3,191	3,679	3,755
Y/Y %	5.5%	5.3%	15.1%	17.7%
Gross margin	44.4%	44.7%	46.0%	46.5%
Adjusted operating income	371	372	557	574
Operating margin	11.6%	11.7%	15.1%	15.3%
Adjusted EPS	$5.77	$5.62	$13.15	$13.65

Source: RH, Factset, and William Blair Equity Research

Shares trade at 13.5 times our 2025 EBITDA estimate, some three turns below that of Williams Sonoma. We believe there is room for upside to both earnings and the multiple, where we expect shares could trade above $550, with gains weighted toward the results for the first half of the year. In our view, the primary risks to our thesis include the company's high debt position and current cash flow constraints, sustained housing market pressures, an increasingly promotional competitive environment, and uncertainties around the ramp-up of international locations.

Tempur Sealy (TPX; Market Cap $11.5 Billion; Outperform)
Fourth-quarter earnings: February 20

There have been several encouraging signs for Tempur Sealy over the past few weeks. First, the federal court ruled that the company's planned acquisition of Mattress Firm can proceed, which will provide investors more clarity into the investment case after a nearly two-year battle with the FTC. The judge ruled that the transaction cannot close until Friday, February 7, before the deal's expiration date on February 9, giving the FTC time to appeal the decision, although it would be a rarity. Second, at our recent meeting at Winter Furniture Market, management sounded more positive than it has in a long time. Some recent green shoots in industry demand, momentum in international markets, and a wide assortment of new product are providing the company with more confidence about continued share gains and a strong performance in 2025.

We believe the company is well positioned to capitalize on an industry inflection, with several tangible catalysts supporting continued market share gains over the next few years and the added potential for outsized earnings growth on top-line leverage and increasingly efficient cost structure. Now that we have clarity around the acquisition of Mattress Firm, coupled with the rising potential for multiple years of healthy growth in the underlying business, we are upgrading shares of Tempur Sealy to Outperform.

We revised our sales and earnings estimates to reflect our more positive outlook on the underlying business, although we have not updated our forecast to reflect the Mattress Firm acquisition, preferring to wait until the deal closes. We increased our 2025 sales growth estimate to 7.0%, above consensus of 4.0%, which assumes 3% contribution from low-double-digit growth in the Sealy brand following its new product launch; 2% lift from international growth of 9%, in line with management's external target; and 2.0% benefit from 3% growth in North America, on the continued momentum from innovation in the Tempur brand and ongoing market share gains. Our estimate of 3% underlying growth in North America feels conservative at this point, considering our expectations for a midsingle-digit increase across the industry where market share gains over the past few years should make Tempur Sealy the primary beneficiary of a broader inflection. At our recent meeting at the Winter Furniture Market, management indicated it would be "surprised" if the industry did not return to growth in 2025. Furthermore, our survey suggests mattresses were one of the top categories for an increase in planned spend, up 500 basis points from early 2024, giving us further confidence around an acceleration in demand heading into 2025.

We believe our sales growth estimate still leaves room for upside in the 200- to 300-basis-point range, on the international segment reaching its internal growth target in the low-double-digit range, an outperformance following Sealy's new product launch against much easier comparisons, expanded shelf space at Walmart and Sam's Club, and an incremental tailwind from a potential improvement in the housing market. We believe growth is sustainable in this mid- to high-single-digit range over the next two to three years, given that many of these catalysts have a multiyear impact. However, we expect foreign exchange will remain a top-line headwind in 2025, and we embed a top-line drag of roughly 100 basis points, although there is certainly a risk for a further deceleration on a stronger dollar.

We increased our 2025 EPS estimate to $3.10, reflecting growth of 23% year-over-year, above consensus of 13%. Our estimate implies a profit fall-through on incremental sales of 35% for North America and 40% for international, which are in line with the company's historical averages, as well as interest savings on lower rates. We expect some headwinds on margin, including additional launch costs given the scale of the Sealy assortment compared to the Tempur launch in 2024 and unfavorable brand mix on the recovery of the lower-margin Sealy brand. However, we expect the impact of these headwinds will be limited to less than 50 basis points, which should be more than offset by top-line leverage, higher productivity from an increase in units on the Sealy recovery and ramp-up of OEM, slight favorability in product input costs, and efforts to streamline the cost structure.

Furthermore, Tempur Sealy's strong domestic manufacturing presence insulates the company from tariffs. The company's exposure on imported finished products is primarily limited to adjustable bases, which are sourced from Southeast Asia, but we believe the company could offset with price given the widespread impact across the broader industry. There is some potential exposure around tariffs on commodity-based product inputs, such as oil, lumber, and steel, but we expect the company's scale would provide enough flexibility to largely offset the impact, particularly compared to its peer group pressured by an earnings and cash flow crunch.

Exhibit 45
Deep Dive Into a Potential Recovery in 2025
Tempur Sealy Estimates

	FY 2024		FY 2025	
	Consensus	William Blair	Consensus	William Blair
Net sales	**4,902**	**4,905**	**5,101**	**5,247**
Y/Y %	(0.5%)	(0.4%)	4.0%	7.0%
Gross margin	**45.2%**	**44.8%**	**45.4%**	**45.3%**
Adjusted EBITDA	**935**	**921**	**1,010**	**1,055**
Adjusted EBITDA margin	19.1%	18.8%	19.8%	20.1%
Adjusted EPS	**$2.52**	**$2.52**	**$2.86**	**$3.10**

Sources: Tempur Sealy, Factset, and William Blair Equity Research

We believe Tempur Sealy could be a bit of a coiled spring, where an inflection in the industry after healthy share gains across the Tempur and Stearns & Foster brands should provide the model with steady growth, while a recovery in the Sealy brand after years of declines along with continued international momentum should support outsized sales and earnings gains over the next two to three years. After remaining largely range-bound over the past two years since announcing the Mattress Firm deal, we believe investors who have been on the sidelines will come back to the name, as the buy-side prioritizes top-line acceleration and market share gains ahead of an inflection in industry demand and the housing market. Tempur Sealy trades at 13.2 times our 2025 EBITDA estimate, and we see room for both earnings upside and multiple expansion that should support continued gains in the stock. We believe Tempur Sealy can trade at an EBITDA multiple in the mid- to high-teens range, in line with other furniture and home improvement companies with a similar earnings growth profile. This would suggest a stock price around $80, before considering the potential for additional sales and earnings upside.

We are encouraged by the approval of the Mattress Firm deal, which we believe has the potential to drive long-term sales and earnings upside. The timing is ideal; the combined company should be well positioned for accelerated share gains as the industry recovers. We believe the acquisition will provide an incremental $3.0 billion in sales, about $430 million in EBITDA, and $0.75 in EPS in 2025, assuming Mattress Firm sales remain flat and adjusted EBITDA growth in the high single digits, in line with the company's guidance. We believe our estimates remain conservative, given our expectations for an inflection back to growth in the industry where Mattress Firm's wide reach should make it a direct beneficiary following a flurry of closures between local independents and national and regional players like American Freight, Big Lots, and Conn's. Furthermore, we did not embed any synergies in the first year, where we expect there could be some low-hanging fruit, particularly ahead of Sealy's major product launch this summer. Based on recent conversations with management, much of the first year after the transaction's close will be focused on integration and optimization, rather than cross-functional efficiencies. As such, management does not expect to recognize any synergies until year two, with potential to reach $100 million by year four, although the increasing importance of scale and added efficiencies around product launches and advertising likely makes this estimate conservative. While management did not embed any revenue synergies in its rationale, we believe there are potential benefits that could be recognized early on, including an increase in slots allocated to Sealy and a shift in third-party brands in the premium segment that could benefit Tempur, Stearns & Foster, or its OEM offering.

In our view, the most significant risks include the integration of Mattress Firm, higher-for-longer interest rates pressuring large-ticket demand and housing turnover, elevated promotional and pricing pressures, international uncertainty, and general execution risk as the company is investing in several growth initiatives across its product assortment and operations.

Wayfair (W; Market Cap $5.9 Billion; Outperform)
Fourth-quarter earnings: February 20

We believe Wayfair could be a beneficiary of the industry inflection in the fourth quarter. We raised our fourth-quarter estimates to include relatively flat year-over-year sales, above consensus of a 2% decline. Intraquarter trends, including credit card and online search data, suggest demand sequentially improved from the third quarter (down 2%). Furthermore, management previously indicated that sales were relatively flat in October, when the industry's acceleration post-election should result in upside to the fourth quarter compared to the guide, which implied a 3% decline in November and December. Given the additional top-line leverage, coupled with the company's stable gross margins, we expect fourth-quarter adjusted EBITDA to land at $112 million, some 7% above consensus.

We expect 2025 sales to increase by 1.5%, slightly below consensus of 1.8% growth, although comparability remains hazy as we believe consensus has not fully embedded the impact of the company's recent exit of Germany, which we estimate will drive a 250-basis-point drag to growth. See our note for more details. Our 2025 sales estimate assumes the remainder of the international segment remains flat and domestic growth of roughly 4%, slightly below our expectations across the broader furniture industry, with plenty of upside potential stemming from management's plans to redeploy cost savings from the Germany exit into more productive growth drivers. Our 2025 adjusted EBITDA estimate of $512 million implies a margin of 4.3%, in line with Street expectations. Our estimate assumes a profit fall-through on incremental sales of nearly 25%, in line with Wayfair's historical average. However, we expect there could be material upside stemming from headcount savings related to the international restructuring that management allows to fall to the bottom line, which would be consistent with prior savings initiatives.

Exhibit 46
Deep Dive Into a Potential Recovery in 2025
Wayfair Estimates

	FY 2024		FY 2025	
	Consensus	William Blair	Consensus	William Blair
Net sales	**11,782**	**11,835**	**11,999**	**12,015**
Y/Y %	(1.8%)	(1.4%)	1.8%	1.5%
Gross profit	**3,559**	**3,581**	**3,651**	**3,653**
Gross margin	30.2%	30.3%	30.4%	30.4%
Adjusted EBITDA	**461**	**469**	**522**	**512**
Adjusted EBITDA margin	3.9%	4.0%	4.3%	4.3%

Source: Wayfair, Factset, and William Blair Equity Research

Wayfair trades at 14.8 times our 2025 adjusted EBITDA estimate. We believe a high-teens multiple is more appropriate, in line with other furniture and home improvement retailers with high growth potential. At current levels, we believe there is less risk in the stock, with shares usually finding a floor around $35, compared to the potential for significant upside on an inflection in the category with additional savings from a streamlined international presence, which would imply a stock price closer to $75, or nearly 60% above current levels.

In our view, the most significant risks include the execution of sustaining profitable adjusted EBITDA margins and positive free cash flow, international volatility, rising freight costs, potential impact of tariffs, and, more broadly, the potential impact of a recession and inactive housing market on demand for the company's core product assortment.

Exhibit 47
Deep Dive Into a Potential Recovery in 2025
Arhuas Quarterly and Annual Statement of Income

Fiscal year ending December *in $ millions*	2019 Dec-19	2020 Dec-20	2021 Dec-21	2022 Dec-22	2023 Dec-23	Q1A Mar-24	Q2A Jun-24	Q3A Sep-24	Q4E Dec-24	2024E Dec-24	Q1E Mar-25	Q2E Jun-25	Q3E Sep-25	Q4E Dec-25	2025E Dec-25
Net revenue	**494.5**	**507.4**	**796.9**	**1,228.9**	**1,287.7**	**295.2**	**309.8**	**319.1**	**353.0**	**1,277.1**	**301.1**	**333.7**	**344.3**	**380.9**	**1,359.9**
Y/Y %		2.6%	57.1%	54.2%	4.8%	(3.1%)	(1.0%)	(2.2%)	2.6%	(0.8%)	2.0%	7.7%	7.9%	7.9%	6.5%
Comparable growth	7.2%	0.9%	51.0%	51.6%	1.4%	(9.5%)	(7.1%)	(9.2%)	(6.8%)	(8.1%)	(5.0%)	1.5%	3.5%	4.0%	1.2%
Cost of goods sold	318.6	307.9	467.0	703.9	747.3	180.1	185.4	196.1	217.3	778.9	182.4	196.4	205.5	228.7	813.0
Gross profit	176.0	199.5	329.9	525.1	540.4	115.1	124.4	123.1	135.7	498.2	118.7	137.3	138.8	152.1	547.0
Gross margin	**35.6%**	**39.3%**	**41.4%**	**42.7%**	**42.0%**	**39.0%**	**40.1%**	**38.6%**	**38.4%**	**39.0%**	**39.4%**	**41.1%**	**40.3%**	**39.9%**	**40.2%**
Y/Y bps		373	208	132	(76)	(312)	(464)	(155)	(260)	(296)	45	100	175	150	121
Selling, general and administrative expenses	146.1	150.4	240.4	333.0	375.3	96.7	95.0	112.4	113.3	417.4	99.4	104.0	122.1	123.2	448.7
Y/Y %		3.0%	59.8%	38.5%	12.7%	17.4%	10.3%	5.6%	12.8%	11.2%	2.8%	9.5%	8.6%	8.7%	7.5%
% of sales	29.5%	29.6%	30.2%	27.1%	29.1%	32.8%	30.7%	35.2%	32.1%	32.7%	33.0%	31.2%	35.5%	32.3%	33.0%
Y/Y bps		11	53	(307)	205	572	314	260	290	353	25	50	25	25	31
Operating income	**29.9**	**49.1**	**89.5**	**192.1**	**165.1**	**18.4**	**29.4**	**10.7**	**22.4**	**80.9**	**19.3**	**33.3**	**16.7**	**29.0**	**98.3**
Operating margin	**6.1%**	**9.7%**	**11.2%**	**15.6%**	**12.8%**	**6.2%**	**9.5%**	**3.3%**	**6.4%**	**6.3%**	**6.4%**	**10.0%**	**4.8%**	**7.6%**	**7.2%**
Y/Y bps		362	156	440	(281)	(885)	(777)	(415)	(550)	(649)	20	50	150	125	90
Interest expense, net	12.9	12.6	5.4	3.4	(3.4)	(1.4)	(0.6)	(0.5)	(0.5)	(3.1)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)
Other expense / (income)	0.0	0.0	(0.3)	(1.3)	(1.0)	(0.1)	(0.1)	(0.3)	0.0	(0.4)	0.0	0.0	0.0	0.0	0.0
Income / (loss) before taxes	17.0	36.5	84.4	190.0	169.5	19.9	30.1	11.5	22.9	84.4	19.8	33.8	17.2	29.5	100.3
Income tax expense / (benefit)	0.4	0.8	1.1	47.9	43.7	4.8	7.8	1.5	6.4	20.6	5.2	8.8	4.5	7.7	26.1
Effective tax rate	2.1%	2.1%	1.3%	25.2%	25.8%	24.2%	26.0%	13.4%	28.0%	24.4%	26.0%	26.0%	26.0%	26.0%	26.0%
Adjusted net income / (loss)	**16.7**	**35.8**	**83.3**	**142.1**	**125.8**	**15.1**	**22.2**	**9.9**	**16.5**	**63.8**	**14.7**	**25.0**	**12.7**	**21.8**	**74.2**
Adjusted earnings per share	**$0.15**	**$0.32**	**$0.70**	**$1.02**	**$0.90**	**$0.11**	**$0.16**	**$0.07**	**$0.12**	**$0.45**	**$0.10**	**$0.18**	**$0.09**	**$0.15**	**$0.53**
Y/Y %		114.8%	118.3%	46.1%	(11.8%)	(56.3%)	(45.0%)	(51.0%)	(47.0%)	(49.6%)	(3.1%)	12.4%	27.6%	31.5%	16.0%
Adjustments to net income			46.3	5.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net income / (loss)			36.9	136.6	125.2	15.1	22.2	9.9	16.5	63.8	14.7	25.0	12.7	21.8	74.2
Reported earnings per share			$0.31	$0.98	$0.89	$0.11	$0.16	$0.07	$0.12	$0.45	$0.10	$0.18	$0.09	$0.15	$0.53
Diluted shares	112.1	112.1	119.5	139.6	140.1	140.6	140.9	140.7	140.9	140.8	141.0	141.1	141.3	141.4	141.2
Operating income	29.9	49.1	89.5	192.1	165.1	18.4	29.4	10.7	22.4	80.9	19.3	33.3	16.7	29.0	98.3
Depreciation & amortization	16.0	17.0	23.9	24.9	29.4	8.6	9.1	10.2	11.2	39.1	10.3	10.9	12.2	13.4	46.9
EBITDA	45.9	66.0	113.4	217.0	194.5	27.0	38.5	20.9	33.6	119.9	29.7	44.2	28.9	42.4	145.2
Stock-based compensation	0.3	0.4	9.1	4.3	7.9	2.0	1.3	2.0	1.3	6.7	2.1	1.4	2.2	1.4	7.1
Other adjustments	4.0	3.3	0.0	0.7	1.0	0.1	0.1	0.3	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Adjusted EBITDA	**50.2**	**69.7**	**122.6**	**222.5**	**203.5**	**29.1**	**39.9**	**23.1**	**35.0**	**127.1**	**31.7**	**45.7**	**31.1**	**43.9**	**152.3**
Y/Y %		38.9%	75.8%	81.6%	(8.6%)	(46.9%)	(37.4%)	(31.3%)	(31.7%)	(37.5%)	9.0%	14.5%	34.4%	25.4%	19.8%
Adjusted EBITDA margin	10.1%	13.7%	15.4%	18.1%	15.8%	9.9%	12.9%	7.2%	9.9%	10.0%	10.5%	13.7%	9.0%	11.5%	11.2%
Y/Y bps		359	164	273	(231)	(814)	(750)	(308)	(499)	(585)	67	81	178	161	125

Sources: Arhaus, and William Blair Equity Research

Exhibit 48
Deep Dive Into a Potential Recovery in 2025
Floor and Decor Quarterly and Annual Statement of Income

Fiscal year ending January in $ millions	**2019** Dec-19	**2020** Dec-20	**2021** Dec-21	**2022** Dec-22	**2023** Dec-23	**Q1A** Mar-24	**Q2A** Jun-24	**Q3A** Sep-24	**Q4E** Dec-24	**2024E** Dec-24	**Q1E** Mar-25	**Q2E** Jun-25	**Q3E** Sep-25	**Q4E** Dec-25	**2025E** Dec-25
Net revenue	**2,045.5**	**2,425.8**	**3,433.5**	**4,264.5**	**4,413.9**	**1,097.3**	**1,133.1**	**1,117.9**	**1,091.1**	**4,439.5**	**1,177.7**	**1,237.1**	**1,244.3**	**1,209.9**	**4,869.0**
Y/Y %	19.6%	18.6%	41.5%	24.2%	3.5%	(2.2%)	(0.2%)	0.9%	4.1%	0.6%	7.3%	9.2%	11.3%	10.9%	9.7%
Comparable sales Y/Y %	**4.0%**	**5.5%**	**27.4%**	**9.2%**	**(7.0%)**	**(11.6%)**	**(9.0%)**	**(6.4%)**	**(2.5%)**	**(7.5%)**	**1.0%**	**3.0%**	**4.0%**	**4.0%**	**3.0%**
Cost of goods sold	1,196.4	1,390.9	2,011.3	2,536.8	2,555.5	627.3	642.1	632.1	616.7	2,518.1	665.5	697.9	703.5	683.8	2,750.8
Gross profit	849.0	1,034.9	1,422.3	1,727.7	1,858.3	470.0	491.0	485.9	474.5	1,921.4	512.1	539.2	540.8	526.1	2,118.2
Gross margin	**41.5%**	**42.7%**	**41.4%**	**40.5%**	**42.1%**	**42.8%**	**43.3%**	**43.5%**	**43.5%**	**43.3%**	**43.5%**	**43.6%**	**43.5%**	**43.5%**	**43.5%**
Y/Y bps	44	115	(124)	(91)	159	103	111	127	130	118	65	25	0	0	22
										177.2					
Selling & store operating expenses	541.3	650.5	847.5	1,078.3	1,239.2	334.3	341.4	339.1	353.1	1,368.0	358.8	371.5	374.4	387.9	1,492.6
Y/Y %	23.2%	20.2%	30.3%	27.2%	14.9%	10.1%	9.6%	9.9%	11.9%	10.4%	7.3%	8.8%	10.4%	9.9%	9.1%
% of sales	26.5%	26.8%	24.7%	25.3%	28.1%	30.5%	30.1%	30.3%	32.4%	30.8%	30.5%	30.0%	30.1%	32.1%	30.7%
Y/Y bps	76	35	(213)	60	279	341	271	248	225	274	0	(10)	(25)	(30)	(16)
General & administrative expenses	119.7	147.2	191.2	209.4	252.7	66.8	67.7	67.7	71.5	273.7	71.1	72.0	72.9	73.3	289.2
Y/Y %	22.2%	23.0%	29.9%	9.5%	20.7%	7.9%	6.9%	13.1%	5.7%	8.3%	6.4%	6.4%	7.6%	2.4%	5.7%
% of sales	5.9%	6.1%	5.6%	4.9%	5.7%	6.1%	6.0%	6.1%	6.6%	6.2%	6.0%	5.8%	5.9%	6.1%	5.9%
Y/Y bps	12	22	(50)	(66)	82	57	40	65	10	44	(5)	(15)	(20)	(50)	(22)
				1.2	1.5					1.6					
Store startup expenses	24.6	21.5	34.4	38.6	45.0	9.6	10.6	12.7	12.0	45.0	12.0	12.0	12.0	12.0	48.0
Y/Y %	(5.9%)	(12.6%)	60.2%	12.2%	16.4%	19.6%	6.5%	(10.5%)	(5.9%)	(0.1%)	25.1%	12.9%	(5.7%)	0.0%	6.8%
% of sales	1.2%	0.9%	1.0%	0.9%	1.0%	0.9%	0.9%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Y/Y bps	(33)	(32)	12	(10)	11	16	6	(15)	(12)	(1)	14	3	(17)	(11)	(3)
Operating income	**163.4**	**215.7**	**349.1**	**401.4**	**321.4**	**59.3**	**71.3**	**66.3**	**37.9**	**234.8**	**70.2**	**83.7**	**81.6**	**53.0**	**288.4**
Operating margin	8.0%	8.9%	10.2%	9.4%	7.3%	5.4%	6.3%	5.9%	3.5%	5.3%	6.0%	6.8%	6.6%	4.4%	5.9%
Y/Y bps	(12)	90	128	(76)	(213)	(311)	(207)	(172)	(93)	(199)	56	47	62	91	63
Interest expense, net	8.8	8.4	4.9	11.1	9.9	2.0	0.7	0.2	0.7	3.5	0.5	0.5	0.5	0.5	2.0
Other expense / (income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income before taxes	154.6	207.3	344.2	390.2	311.5	57.4	70.7	66.1	37.2	231.3	69.7	83.2	81.1	52.5	286.4
Income tax expense / (benefit)	34.2	48.0	81.8	93.4	65.6	7.3	14.0	14.4	6.7	42.5	13.6	16.5	17.7	9.4	57.2
Effective tax rate	22.1%	23.1%	23.8%	23.9%	21.0%	12.8%	19.8%	21.8%	18.0%	18.4%	19.5%	19.8%	21.8%	18.0%	20.0%
Adjusted net income	**120.4**	**159.3**	**262.4**	**296.8**	**246.0**	**50.0**	**56.7**	**51.7**	**30.5**	**188.9**	**56.1**	**66.7**	**63.4**	**43.0**	**229.2**
Adjusted earnings per share	**$1.15**	**$1.50**	**$2.44**	**$2.76**	**$2.28**	**$0.46**	**$0.52**	**$0.48**	**$0.28**	**$1.74**	**$0.52**	**$0.61**	**$0.58**	**$0.39**	**$2.10**
Y/Y %	18.2%	30.8%	62.8%	13.1%	(17.4%)	(30.4%)	(21.0%)	(21.9%)	(18.2%)	(23.6%)	11.7%	17.0%	21.6%	40.0%	20.6%
Reported net income	150.6	195.0	283.2	298.2	246.0	50.0	56.7	51.7	30.5	188.9	56.1	66.7	63.4	43.0	229.2
Reported earnings per share	$1.44	$1.84	$2.64	$2.78	$2.28	$0.46	$0.52	$0.48	$0.28	$1.74	$0.52	$0.61	$0.58	$0.39	$2.10
Adjustments to earnings	($0.29)	($0.34)	($0.19)	($0.01)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Diluted shares	105.0	106.1	107.4	107.4	107.8	108.3	108.3	108.3	108.5	108.3	108.7	108.9	109.2	109.4	109.1
Q/Q %						0.4%	0.0%	0.0%	0.2%		0.2%	0.2%	0.2%	0.2%	
Net income	150.6	195.0	283.2	298.2	246.0	50.0	56.7	51.7	30.5	188.9	56.1	66.7	63.4	43.0	229.2
Depreciation & amortization	73.0	90.5	115.2	153.4	199.9	55.9	57.8	57.3	61.9	233.0	63.6	65.6	65.5	71.1	265.8
Interest expense	8.8	8.4	4.9	11.1	9.9	2.0	0.7	0.2	0.7	3.5	0.5	0.5	0.5	0.5	2.0
Loss on early extinguishment of debt	0.0	(1.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	(0.3)	12.2	50.8	87.4	65.6	7.3	14.0	14.4	6.7	42.5	13.6	16.5	17.7	9.4	57.2
EBITDA	232.2	305.1	454.2	550.2	521.3	115.2	129.2	123.6	99.8	467.8	133.8	149.3	147.1	124.1	554.2
Stock based compensation	8.7	16.1	20.5	22.2	27.2	7.3	8.4	10.0	8.3	34.0	7.9	9.1	11.2	9.2	37.3
Other	1.7	1.8	10.4	4.6	2.6	0.6	(0.7)	(0.8)	0.0	(0.9)	0.0	0.0	0.0	0.0	0.0
Adjusted EBITDA	**242.6**	**323.0**	**485.1**	**577.1**	**551.1**	**123.1**	**136.9**	**132.9**	**108.1**	**500.9**	**141.6**	**158.4**	**158.2**	**133.2**	**591.5**
Adjusted EBITDA margin	11.9%	13.3%	14.1%	13.5%	12.5%	11.2%	12.1%	11.9%	9.9%	11.3%	12.0%	12.8%	12.7%	11.0%	12.1%
Y/Y %	26.4%	33.1%	50.2%	19.0%	(4.5%)	(17.7%)	(10.4%)	(5.7%)	0.3%	(9.1%)	15.1%	15.7%	19.1%	23.3%	18.1%
Y/Y bps	64	145	81	(60)	(105)	(212)	(138)	(83)	(38)	(120)	81	73	83	111	87

Sources: Floor & Decor Holdings, and William Blair Equity Research

Exhibit 49
Deep Dive Into a Potential Recovery in 2025
RH Quarterly and Annual Statement of Income

Fiscal year ending January *in $ millions*	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Q1A Apr-24	Q2A Jul-24	Q3A Oct-24	Q4E Jan-25	FY 2024E	Q1E Apr-25	Q2E Jul-25	Q3E Oct-25	Q4E Jan-26	FY 2025E
Adjusted net revenues	**2,647.0**	**2,850.0**	**3,757.6**	**3,590.5**	**3,029.1**	**727.0**	**829.7**	**811.7**	**822.5**	**3,190.8**	**852.9**	**1,008.0**	**947.7**	**946.1**	**3,754.7**
Y/Y %	5.4%	7.7%	31.8%	(4.4%)	(15.6%)	(1.7%)	3.6%	8.1%	11.4%	5.3%	17.3%	21.5%	16.7%	15.0%	17.7%
Cost of goods sold	1,550.9	1,516.2	1,903.4	1,767.6	1,640.1	410.9	454.9	450.4	447.2	1,763.4	464.2	532.5	502.1	509.7	2,008.6
Gross profit	1,096.2	1,333.8	1,854.2	1,822.9	1,389.0	316.0	374.8	361.3	375.2	1,427.4	388.7	475.5	445.5	436.4	1,746.1
Gross margin	**41.4%**	**46.8%**	**49.3%**	**50.8%**	**45.9%**	**43.5%**	**45.2%**	**44.5%**	**45.6%**	**44.7%**	**45.6%**	**47.2%**	**47.0%**	**46.1%**	**46.5%**
Y/Y bps	190	539	255	143	(492)	(354)	(231)	(80)	215	(112)	210	200	250	50	177
Selling, general and administrative expenses	717.1	713.3	891.6	1,033.1	995.2	268.8	277.8	239.5	269.3	1,055.4	298.4	308.3	268.2	296.8	1,171.7
Y/Y %	1.8%	(0.5%)	25.0%	15.9%	(3.7%)	13.3%	27.0%	(16.1%)	6.0%	6.0%	11.0%	11.0%	12.0%	10.2%	11.0%
Q/Q %	-	-	-	-	-	5.8%	(72.1%)	(10.9%)	12.5%	-	10.8%	3.3%	(13.0%)	10.7%	-
% of sales	27.1%	25.0%	23.7%	28.8%	32.9%	37.0%	33.5%	29.5%	32.7%	33.1%	35.0%	30.6%	28.3%	31.4%	31.2%
Y/Y bps	(98)	(206)	(130)	505	408	489	616	(848)	(167)	22	(199)	(289)	(120)	(138)	(187)
									0.3	(507.7)					
Operating income	379.1	620.5	962.6	789.8	393.8	47.2	97.0	121.9	105.9	372.0	90.3	167.2	177.3	139.6	574.4
Operating margin	**14.3%**	**21.8%**	**25.6%**	**22.0%**	**13.0%**	**6.5%**	**11.7%**	**15.0%**	**12.9%**	**11.7%**	**10.6%**	**16.6%**	**18.7%**	**14.8%**	**15.3%**
Y/Y bps	288	745	384	(362)	(900)	(844)	(847)	767	382	(134)	409	489	370	188	364
Interest expense, net	44.6	32.2	49.2	117.8	198.3	56.8	59.3	57.6	56.7	230.3	54.0	52.6	53.4	53.0	213.1
Other expense / (income)				(2.8)	1.1	1.2	(0.7)	0.0	-	0.5	-	-	-	-	-
Income / (loss) before taxes	334.5	588.3	913.4	674.9	194.4	(10.7)	38.4	64.3	49.2	141.2	36.3	114.6	123.9	86.6	361.3
Income tax expense (benefit)	58.2	125.4	146.9	146.3	47.0	(3.4)	4.9	14.9	11.8	28.3	8.0	25.2	27.3	19.0	79.5
Tax rate	17.4%	21.3%	16.1%	21.7%	24.2%	31.5%	12.8%	23.2%	24.0%	20.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Adjusted net income / (loss)	276.3	462.9	766.5	528.5	147.4	(7.3)	33.5	49.3	37.4	112.9	28.3	89.4	96.7	67.5	281.9
Y/Y %	35.2%	67.5%	65.6%	(31.0%)	(72.1%)	(114.0%)	(62.3%)	(732.8%)	162.1%	(23.4%)	(486.2%)	167.0%	95.9%	80.5%	149.6%
Adjusted earnings per diluted share	**$11.66**	**$17.83**	**$26.12**	**$20.06**	**$6.82**	**($0.40)**	**$1.68**	**$2.48**	**$1.86**	**$5.62**	**$1.39**	**$4.36**	**$4.67**	**$3.23**	**$13.65**
Y/Y %	49.4%	52.9%	46.5%	(23.2%)	(66.0%)	(118.1%)	(57.3%)	(683.9%)	159.4%	(17.6%)	(448.4%)	159.8%	88.3%	73.6%	142.9%
Adjusted diluted shares outstanding	23.7	26.0	29.3	26.3	21.6	18.3	20.0	19.9	20.1	20.1	20.3	20.5	20.7	20.9	20.7
Total adjustments to revenue	0.4	(1.4)	1.2	-	-	-	-	-	-	-	-	-	-	-	-
Reported net revenues	2,647.4	2,848.6	3,758.8	3,590.5	3,029.1	727.0	829.7	811.7	822.5	3,190.8	852.9	1,008.0	947.7	946.1	3,754.7
Y/Y %	5.7%	7.6%	32.0%	(4.5%)	(15.6%)	(1.7%)	3.6%	8.1%	11.4%	5.3%	17.3%	21.5%	16.7%	15.0%	17.7%
Total adjustments to net income	(55.9)	(191.1)	(78.0)	0.1	(19.8)	3.7	(4.5)	(16.2)	(2.2)	(19.2)	(2.2)	(2.2)	(2.2)	(2.2)	(8.8)
Reported net income / (loss)	220.4	271.8	688.5	528.6	127.6	(3.6)	29.0	33.2	35.2	93.7	26.1	87.1	94.5	65.3	273.0
% of reported revenue	8.3%	9.5%	18.3%	14.7%	4.2%	(0.5%)	0.0	4.1%	4.3%	2.9%	3.1%	0.1	10.0%	6.9%	7.3%
Y/Y bps	291	122	878	(359)	(1,051)	(617)	(606)	438	274	(127)	356	516	588	262	433
Diluted shares outstanding	24.3	27.3	31.1	26.6	21.6	18.3	20.0	20.0	20.1	20.1	20.3	20.5	20.7	20.9	20.7
Reported earnings per diluted share	**$9.07**	**$9.96**	**$22.13**	**$19.90**	**$5.91**	**($0.20)**	**$1.45**	**$1.66**	**$1.75**	**$4.67**	**$1.29**	**$4.25**	**$4.56**	**$3.12**	**$13.22**
Adjusted EBITDA	**495.4**	**745.6**	**1,087.3**	**930.5**	**550.9**	**89.1**	**142.6**	**168.5**	**156.0**	**556.3**	**140.3**	**218.7**	**229.9**	**193.0**	**781.9**
Y/Y %	23.8%	50.5%	45.8%	(14.4%)	(40.8%)	(39.2%)	(28.0%)	80.2%	38.3%	1.0%	57.5%	53.4%	36.4%	23.7%	40.6%
% of sales	18.7%	26.2%	28.9%	25.9%	18.2%	12.3%	17.2%	20.8%	19.0%	17.4%	16.5%	21.7%	24.3%	20.4%	20.8%
Y/Y bps	278	745	277	(302)	(773)	(758)	(754)	831	369	(75)	419	451	350	143	339

Sources: RH, and William Blair Equity Research

Exhibit 50
Deep Dive Into a Potential Recovery in 2025
Tempur Sealy Quarterly and Annual Statement of Income

Fiscal year ending December *in $ millions*	**2020** Dec-20	**2021** Dec-21	**2022** Dec-22	**2023** Dec-23	**Q1A** Mar-24	**Q2A** Jun-24	**Q3A** Sep-24	**Q4E** Dec-24	**2024E** Dec-24	**Q1E** Mar-25	**Q2E** Jun-25	**Q3E** Sep-25	**Q4E** Dec-25	**2025E** Dec-25
Net sales	**3,676.9**	**4,930.8**	**4,921.2**	**4,925.4**	**1,189.4**	**1,233.6**	**1,300.0**	**1,182.2**	**4,905.2**	**1,245.4**	**1,313.5**	**1,407.9**	**1,279.8**	**5,246.6**
Y/Y %	18.4%	34.1%	(0.2%)	0.1%	(1.5%)	(2.8%)	1.8%	1.0%	(0.4%)	4.7%	6.5%	8.3%	8.3%	7.0%
Cost of sales	2,033.4	2,772.1	2,854.7	2,773.2	673.7	679.4	699.7	654.6	2,707.4	696.9	715.0	754.5	700.9	2,867.4
Gross profit	1,643.5	2,158.7	2,066.5	2,152.2	515.7	554.2	600.3	527.6	2,197.8	548.5	598.4	653.4	578.9	2,379.2
Gross margin	44.7%	43.8%	42.0%	43.7%	43.4%	44.9%	46.2%	44.6%	44.8%	44.0%	45.6%	46.4%	45.2%	45.3%
Y/Y bps	148	(92)	(179)	170	157	203	32	45	111	68	64	23	60	54
Selling and marketing expenses	740.2	923.1	992.5	1,063.4	265.0	276.2	272.0	263.6	1,076.8	273.4	284.9	280.5	272.0	1,110.8
Y/Y %	11.1%	24.7%	7.5%	7.1%	3.2%	2.2%	(0.3%)	(0.0%)	1.3%	3.2%	3.1%	3.1%	3.2%	3.2%
% of sales	20.1%	18.7%	20.2%	21.6%	22.3%	22.4%	20.9%	22.3%	22.0%	22.0%	21.7%	19.9%	21.3%	21.2%
Y/Y bps	(132)	(141)	145	142	103	111	(45)	(23)	36	(32)	(70)	(100)	(104)	(78)
General, administrative, and other expenses	302.0	347.7	383.1	416.7	106.2	100.5	107.1	107.9	421.7	112.6	106.5	113.5	114.4	447.0
Y/Y %	0.8%	15.1%	10.2%	8.8%	6.9%	(6.0%)	4.4%	0.0%	1.2%	6.0%	6.0%	6.0%	6.0%	6.0%
Q/Q %	-	-	-	-	(1.6%)	(5.4%)	6.6%	0.7%	-	4.3%	(5.4%)	6.6%	0.7%	-
% of sales	8.2%	7.1%	7.8%	8.5%	8.9%	8.1%	8.2%	9.1%	8.6%	9.0%	8.1%	8.1%	8.9%	8.5%
Y/Y bps	(143)	(116)	73	68	71	(27)	20	(9)	14	11	(4)	(18)	(19)	(8)
Equity income of unconsolidated affiliates	(16.4)	(30.6)	(21.1)	(23.0)	(4.9)	(3.1)	(2.5)	(9.7)	(20.2)	(5.1)	(3.3)	(2.7)	(10.5)	(21.6)
% of sales	(0.4%)	(0.6%)	(0.4%)	(0.5%)	(0.4%)	(0.3%)	(0.2%)	(0.8%)	(0.4%)	(0.4%)	(0.3%)	(0.2%)	(0.8%)	(0.4%)
Operating income	**617.7**	**918.5**	**712.0**	**695.1**	**149.4**	**180.6**	**223.7**	**165.9**	**719.6**	**167.6**	**210.3**	**262.1**	**203.0**	**843.0**
Operating margin	16.8%	18.6%	14.5%	14.1%	12.6%	14.6%	17.2%	14.0%	14.7%	13.5%	16.0%	18.6%	15.9%	16.1%
Y/Y bps	417	183	(416)	(36)	(14)	111	40	77	56	90	137	141	183	140
Interest expense	77.0	61.1	103.0	129.9	34.3	33.4	30.8	32.7	131.2	38.7	26.8	25.0	24.5	115.0
Other expense / (income)	0.1	(0.8)	0.4	0.0	(0.3)	(0.6)	0.4	0.0	(0.5)	0.0	0.0	0.0	0.0	0.0
Income before taxes	540.6	858.2	608.6	565.2	115.4	147.8	192.5	133.1	588.8	128.9	183.6	237.2	178.5	728.1
Income tax provision / (benefit)	134.1	206.3	139.2	136.8	25.2	35.7	46.2	32.0	139.1	28.1	44.3	56.9	42.8	172.2
Effective tax rate	24.8%	24.0%	22.9%	24.2%	21.8%	24.2%	24.0%	24.0%	23.6%	21.8%	24.2%	24.0%	24.0%	23.7%
Net income attributable to non-controlling interests	0.9	0.3	1.5	2.6	0.5	0.4	(0.2)	-	0.7	-	-	-	-	-
Adjusted net income	405.6	651.6	467.9	425.8	89.7	111.7	146.5	101.2	449.1	100.7	139.2	180.2	135.6	555.8
Adjusted earnings per share	**$1.91**	**$3.19**	**$2.60**	**$2.40**	**$0.50**	**$0.63**	**$0.82**	**$0.57**	**$2.52**	**$0.56**	**$0.78**	**$1.01**	**$0.76**	**$3.10**
Y/Y %	90.7%	66.9%	(18.6%)	(7.5%)	(4.1%)	8.8%	6.6%	7.4%	4.9%	11.9%	23.9%	22.3%	33.5%	23.1%
Seasonality %	-	-	-	-	20.0%	24.9%	32.6%	22.5%	-	18.2%	25.1%	32.4%	24.3%	-
Adjustments	56.8	27.1	12.2	57.5	13.4	5.6	16.5	-	(0.3)	-	-	-	-	-
Reported net income	348.8	624.5	455.7	368.3	76.3	106.1	130.0	101.2	449.4	100.7	139.2	180.2	135.6	555.8
Reported earnings per share	$1.64	$3.06	$2.53	$2.08	$0.43	$0.60	$0.73	$0.57	$2.52	$0.56	$0.78	$1.01	$0.76	$3.10
Diluted shares	212.3	204.3	180.3	177.3	178.0	178.0	178.2	178.8	178.2	178.7	179.0	179.3	179.6	179.2
Adjusted net income	405.6	651.6	467.9	425.8	89.7	111.7	146.5	101.2	449.1	100.7	139.2	180.2	135.6	555.8
Interest expense, net	77.0	61.1	103.0	129.9	34.3	33.4	30.8	32.7	131.2	38.7	26.8	25.0	24.5	115.0
Income tax provision / (benefit)	134.1	206.3	139.2	136.8	25.2	35.7	46.2	32.0	139.1	28.1	44.3	56.9	42.8	172.2
Depreciation & amortization	154.9	176.6	182.0	184.8	49.0	50.6	51.3	51.1	202.0	51.7	53.0	53.2	54.2	212.1
Adjusted EBITDA	**779.8**	**1,135.9**	**892.1**	**877.3**	**198.2**	**231.4**	**274.8**	**217.0**	**921.4**	**219.3**	**263.4**	**315.3**	**257.1**	**1,055.1**
Y/Y %	53.5%	45.7%	(21.5)%	(1.7)%	0.3%	6.4%	5.8%	7.2%	5.0%	10.7%	13.8%	14.7%	18.5%	14.5%
% of sales	21.2%	23.0%	18.1%	17.8%	16.7%	18.8%	21.1%	18.4%	18.8%	17.6%	20.1%	22.4%	20.1%	20.1%
Y/Y bps	485	183	(491)	(32)	30	163	80	106	97	95	129	126	174	133

Sources: Tempur Sealy International, and William Blair Equity Research

Exhibit 51
Deep Dive Into a Potential Recovery in 2025
Wayfair Quarterly and Annual Statement of Income

Fiscal year ending December	**FYE**	**FYE**	**FYE**	**FYE**	**FYE**	**1QA**	**2QA**	**3QA**	**4QE**	**FYE**	**1QE**	**2QE**	**3QE**	**4QE**	**FYE**
in $ millions	**2019**	**2020**	**2021**	**2022**	**2023**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**2024E**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**2025E**
Net revenue	**9,127**	**14,145**	**13,708**	**12,218**	**12,003**	**2,729**	**3,117**	**2,884**	**3,105**	**11,835**	**2,677**	**3,104**	**2,965**	**3,270**	**12,015**
Y/Y %	34.6%	55.0%	(3.1%)	(10.9%)	(1.8%)	(1.6%)	(1.7%)	(2.0%)	(0.3%)	(1.4%)	(1.9%)	(0.4%)	2.8%	5.3%	1.5%
Q/Q %	-	-	-	-	-	(12.4%)	14.2%	(7.5%)	7.7%	-	(13.8%)	15.9%	(4.5%)	10.3%	-
Cost of goods sold	6,974	10,023	9,801	8,791	8,326	1,907	2,173	2,009	2,166	8,255	1,865	2,157	2,062	2,278	8,362
Gross profit	2,153	4,122	3,907	3,427	3,677	822	944	875	940	3,581	812	946	902	993	3,653
Gross margin	**23.6%**	**29.1%**	**28.5%**	**28.0%**	**30.6%**	**30.1%**	**30.3%**	**30.3%**	**30.3%**	**30.3%**	**30.3%**	**30.5%**	**30.4%**	**30.4%**	**30.4%**
Y/Y bps	14	556	(64)	(45)	259	42	(84)	(88)	(15)	(38)	20	20	10	10	15
Customer service and merchant fees	347	493	557	598	528	111	116	108	115	450	99	115	110	121	445
Y/Y %	37%	42%	13%	7%	(12%)	(15%)	(15%)	(16%)	(13%)	(15%)	(11%)	(1%)	2%	5%	(1%)
% of sales	3.8%	3.5%	4.1%	4.9%	4.4%	4.1%	3.7%	3.7%	3.7%	3.8%	3.7%	3.7%	3.7%	3.7%	3.7%
Y/Y bps	6	(32)	57	83	(50)	(65)	(57)	(64)	(54)	(60)	(37)	(2)	(4)	0	(10)
Advertising	1,096	1,412	1,378	1,473	1,397	324	365	354	401	1,444	321	372	365	409	1,467
Y/Y %	42%	29%	(2%)	7%	(5%)	(1%)	4%	5%	5%	3%	(1%)	2%	3%	2%	2%
% of sales	12.0%	10.0%	10.0%	12.1%	11.6%	11.9%	11.7%	12.3%	12.9%	12.2%	12.0%	12.0%	12.3%	12.5%	12.2%
Y/Y bps	59	(202)	7	201	(42)	8	61	83	66	56	13	29	3	(40)	1
Selling, operations, technology, general & administrative	1,399	1,556	1,681	2,143	1,863	416	399	388	405	1,608	395	395	404	413	1,606
Y/Y %	56%	11%	8%	28%	(13%)	(14%)	(16%)	(15%)	(10%)	(14%)	(5%)	(1%)	4%	2%	(0%)
Q/Q %	-	-	-	-	-	(7%)	(4%)	(3%)	4%	-	(2%)	(0%)	2%	2%	-
% of sales	15.3%	11.0%	12.3%	17.5%	15.5%	15.2%	12.8%	13.5%	13.0%	13.6%	14.8%	12.7%	13.6%	12.6%	13.4%
Y/Y bps	208	(433)	126	528	(202)	(220)	(212)	(214)	(133)	(194)	(48)	(7)	16	(41)	(21)
Total operating expenses	2,842	3,461	3,615	4,214	3,788	851	880	850	920	3,501	815	882	878	942	3,518
Y/Y %	*48%*	*22%*	*4%*	*17%*	*(10%)*	*(10%)*	*(8%)*	*(8%)*	*(4%)*	*(8%)*	*(4%)*	*0%*	*3%*	*2%*	*0%*
% of sales	*31.1%*	*24.5%*	*26.4%*	*34.5%*	*31.6%*	*31.2%*	*28.2%*	*29.5%*	*29.6%*	*29.6%*	*30.5%*	*28.4%*	*29.6%*	*28.8%*	*29.3%*
Y/Y bps	272	(667)	190	812	(293)	(277)	(207)	(195)	(120)	(198)	(72)	20	14	(81)	(30)
Adjusted operating income / (loss)	**(689)**	**661**	**292**	**(787)**	**(111)**	**(29)**	**64**	**25**	**20**	**80**	**(4)**	**64**	**25**	**51**	**135**
Operating margin	(7.5%)	4.7%	2.1%	(6.4%)	(0.9%)	(1.1%)	2.1%	0.9%	0.6%	0.7%	(0.1%)	2.1%	0.8%	1.5%	1.1%
Y/Y bps	(258)	1,222	(255)	(857)	552	319	123	107	105	160	92	0	(4)	91	45
Equity-based compensation expense	241	297	374	527	623	127	98	98	102	425	88	93	92	98	371
Other	-	4	12	70	79	79	1	1	20	101	50	18	12	5	85
Reported operating income / (loss)	(930)	360	(94)	(1,384)	(813)	(235)	(35)	(74)	(103)	(447)	(142)	(47)	(79)	(53)	(321)
Interest expense / (income), net	55	146	32	27	17	6	4	5	14	29	14	14	14	14	56
Other expense / (income), net	(3)	9	5	(92)	(101)	4	1	(8)	-	(3)	-	-	-	-	-
Income / (loss) before income taxes	(982)	205	(131)	(1,319)	(729)	(245)	(40)	(71)	(117)	(473)	(156)	(61)	(93)	(67)	(377)
Provision / (benefit) for income taxes, net	3	20	1	12	9	3	2	3	3	11	3	3	3	3	12
Effective tax rate	-	10%	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported net income / (loss)	(985)	185	(131)	(1,331)	(738)	(248)	(42)	(74)	(120)	(484)	(159)	(64)	(96)	(70)	(389)
Reported earnings / (loss) per share	($10.68)	$2.11	($1.26)	($12.56)	($6.47)	($2.06)	($0.26)	($0.60)	($0.96)	($3.87)	($1.26)	($0.50)	($0.74)	($0.53)	($3.00)
Diluted weighted average shares outstanding	92	106	104	106	114	120	122	123	125	123	127	129	131	133	130
Q/Q %	-	-	-	-	-	2%	1%	1%	2%	-	2%	2%	2%	2%	-
Net income available to common stockholders after dilution	(985)	224	(131)	(1,331)	(738)	(248)	(32)	(74)	(120)	(474)	(159)	(64)	(96)	(70)	(389)
Total adjustments to reported net income / (loss)	244	344	407	513	611	209	101	102	125	537	141	114	107	106	468
Adjusted net income / (loss)	(741)	568	276	(818)	(127)	(39)	69	28	6	64	(18)	50	11	37	79
Adjusted earnings per share	**($8.03)**	**$5.16**	**$2.32**	**($7.71)**	**$1.13**	**($0.32)**	**$0.47**	**$0.22**	**$0.05**	**$0.50**	**($0.14)**	**$0.39**	**$0.08**	**$0.28**	**$0.61**
Adjusted diluted weighted average shares outstanding	92	110	119	106	114	120	144	123	125	128	127	129	131	133	130
Adjusted operating income / (loss)	(689)	661	292	(787)	(111)	(29)	64	25	20	80	(4)	64	25	51	135
Depreciation and amortization	192	286	322	371	417	104	99	94	92	389	92	95	95	95	377
Adjusted EBITDA	**(497)**	**947**	**614**	**(416)**	**306**	**75**	**163**	**119**	**112**	**469**	**88**	**159**	**120**	**146**	**512**
Adjusted EBITDA Margin	(5.4%)	6.7%	4.5%	(3.4%)	2.5%	2.7%	5.2%	4.1%	3.6%	4.0%	3.3%	5.1%	4.0%	4.5%	4.3%
Y/Y bps	(227)	1,213	(222)	(788)	595	325	119	73	65	141	53	(11)	(9)	85	30

Sources: Wayfair, and William Blair Equity Research

The prices of the common stock of other public companies mentioned in this report follow:

Amazon, Inc. (Outperform)	$242.06
Arhaus, Inc. (Outperform)	$12.41
Basset Furniture Industries, Inc.	$13.95
Costco Wholesale Corporation (Outperform)	$1,021.86
Ethan Allen Interiors, Inc.	$30.62
Floor & Decor Holdings, Inc. (Outperform)	$99.42
Home Depot, Inc.	$411.49
Hooker Furnishings Corporation	$13.00
Lowe’s Companies, Inc.	$257.23
RH (Outperform)	$406.08
Tempur Sealy International, Inc. (Outperform)	$64.79
TJX Companies, Inc. (Outperform)	$125.14
Walmart, Inc.	$100.77
Wayfair, Inc. (Outperform)	$47.39
Williams-Sonoma, Inc.	$208.19

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DOW JONES: 44873.30
S&P 500: 6061.48
NASDAQ: 19692.30

Additional information is available upon request.

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Outperform (Buy)	71	Outperform (Buy)	9
Market Perform (Hold)	28	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

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