

November 22, 2021

## Specialty Retail: Hardlines

### ***Big-Ticket Consumer Spending Intentions Positive for Hardlines***

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**The Wedbush View:** We recently surveyed 500 mid-upper income consumers to understand their big-ticket durables purchase intentions over the next 18 months relative to their spending over the prior 18 months during the pandemic. We found that 42% of respondents expect to increase spending on these products while only 21% anticipate spending less—a very significant difference. Moreover, those who plan to spend more plan to spend significantly more, on average, than those who plan to spend less, with 28% of respondents planning at least 10% higher spending vs. 14% planning to spend at least 10% less. The mix of respondents planning more spending was highest in consumer electronics (19%), followed by furniture (17%) and appliances (10%), and net positive spending intentions were highest in these categories. On the other hand, a net 6% more respondents plan to decrease spending on recreational/powersports equipment. Our survey found that upgrade/replacement cycles are the leading explanation for those expecting to spend more on big-ticket purchases, comprising 60%+ of reasons given for expecting to make a purchase for any given category. Notably, ~12% of respondents indicated they expect to spend more when there is better product availability, suggesting that the current supply chain crunch has delayed a considerable portion of big-ticket spending. About 10% of respondents expect to spend more due to higher income expectations, pointing to economic tailwinds. We also found that recent homebuyers' plan to spend more than non-recent homebuyers to a limited extent (4% gap). We infer that many of those who purchased a home in the past 18 months have already completed the majority of their home-related durables purchases, and as housing turnover slows, so will related durables purchases and home improvement projects, contributing to our Neutral ratings on Home Depot (HD) and Lowe's (LOW). We further infer that housing turnover is not the most important driver of durables spending relative to home price appreciation, income and replacement needs. At the same time, neither inflation nor eliminated fiscal stimulus appears to be a material barrier to spending intentions. These survey results are positive for big-ticket spending forecasts and suggest growth will continue for many discretionary hardlines categories in the next 18 months. Retailers most poised to benefit from these spending intentions include Best Buy (BBY-N) in consumer electronics and appliances, and Williams-Sonoma (WSM-O), RH (RH-O) and Wayfair (W-O) in furniture. The results are less favorable—indicating immaterial increases or decreases in spending intentions—for flooring retailer Floor & Décor (FND-O); sporting goods retailers Dick's Sporting Goods (DKS-O) and Academy Sports (ASO-O); mattress companies Tempur-Sealy (TPX-O), Purple Innovation (PRPL-O) and Sleep Number (SNBR-N); and powersports omnichannel player RumbleOn (RMBL-O). That said, we note that investors have muted 2022 growth expectations for most of these retailers, and many have company-specific drivers, leaving us comfortable with our ratings. If there are two standouts, however, they are BBY, where we lean more positive based on these survey findings and expected strong near-term results, and WSM, a member of Wedbush's Best Ideas List, with a much stronger outlook than appreciated by investors (see [3Q21 Review: Another Beat & Raise; Outlook Still Underappreciated](#)).

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## Strong Big-Ticket Spending During the Pandemic

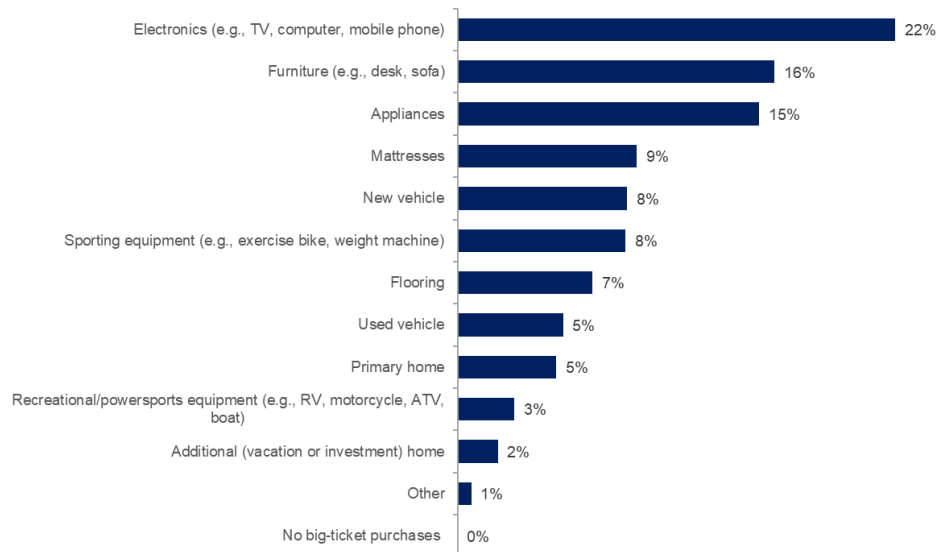
Our survey indicates that consumers showed a high willingness to spend on big-ticket purchases (purchases costing \$200+) over the course of the pandemic with all of our respondents reporting making at least one such purchase. This doesn't come as a surprise given the strong consumer spending data we have seen over this period, the higher-than-average minimum household incomes in our sample (\$75K+ vs. the \$56K national median), and given the length of the questioned period (previous 18 months).

Also unsurprisingly, electronics came in as the leading category with 22% of respondents reporting that they made at least one big-ticket electronics purchase over the last 18 months. We note that electronics is one of the broadest categories we specifically asked about in terms of the number of items available across different price points.

Furniture came in as the next most popular category at 16%, followed by appliances in third at 15%. No more than 10% of respondents made purchases in any other big-ticket category—typically higher costing items such as used vehicles, homes (primary and secondary) and powersports equipment came in near the bottom with low-single-digit purchase rates across the board.

Notably, purchases of new cars came in at 8% of all big-ticket purchases, slightly higher than the 5% for used vehicles despite the historically much larger (>2x in USD) market for the latter. We believe the over-indexing of new car buyers is due to the above-average income in our sample group (see figure 17).

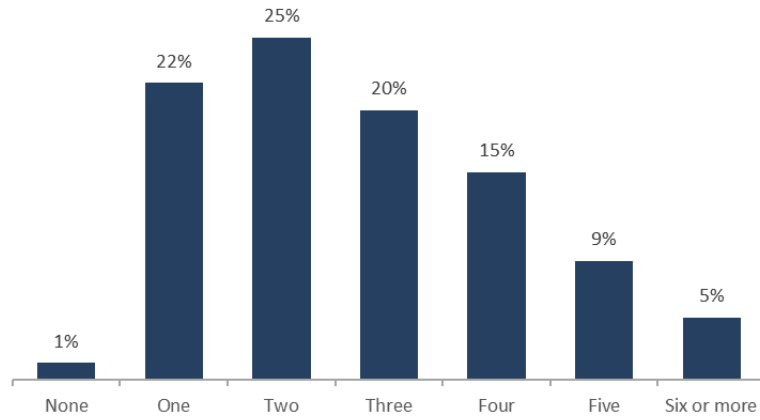
**Figure 1: Which of the following big-ticket (\$200+) items have you purchased in the past 18 months (since the COVID-19 pandemic began)?**



Source: Wedbush proprietary survey

Not only did our respondents demonstrate a willingness to make big-ticket purchases during the pandemic, but most also made at least one such purchase in three categories, on average. This was generally consistent across household income levels, while younger demographics (ages 25-44) tended to spend across more categories (3.4 on average) than older groups (2.5 on average).

Figure 2: Number of categories respondents purchased items in the previous 18 months



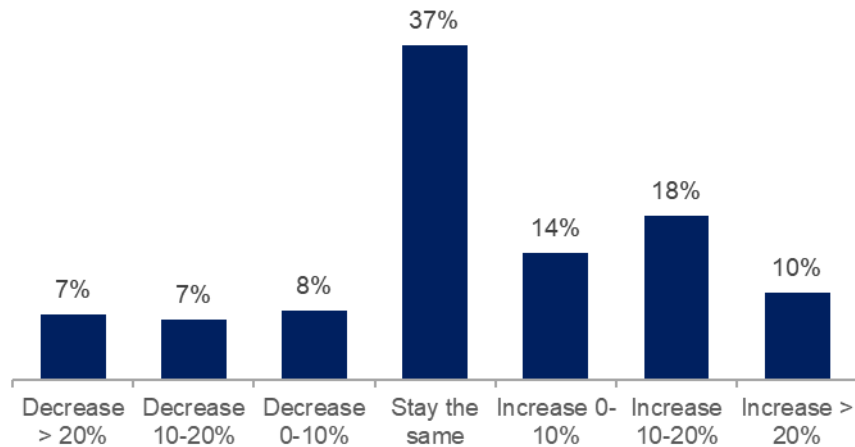
Source: Wedbush proprietary survey

### Even Stronger Spending Expected Going Forward

Looking out to the next 18 months, our survey indicates that many consumers expect to accelerate spending on big-ticket items (ex-cars and houses), on average. **While 37% of consumers expect to maintain their spending on such products, 42% expect it to increase over the next year and a half while only 21% anticipate spending less than they did in the previous 18 months.**

More specifically, 14% expect to spend up to 10% more on big-ticket items, 18% anticipate spending between 10-20% more than the last 18 months, while an impressive 10% of survey participants expect their spending on big-ticket products to increase by 20%+. Those expecting to spend less on these items over the next 18 months were largely evenly split between expecting a decrease of less than 10% (8%), a decrease of 10-20% (7%), and a decrease of more than 20% (7%). In other words, those who plan to spend more plan to spend significantly more, on average, than those who plan to spend less.

**Figure 3: Do you expect your spending on all big-ticket durable items (excluding houses and vehicles) to increase, decrease or stay the same in the next 18 months compared to the past 18 months?**

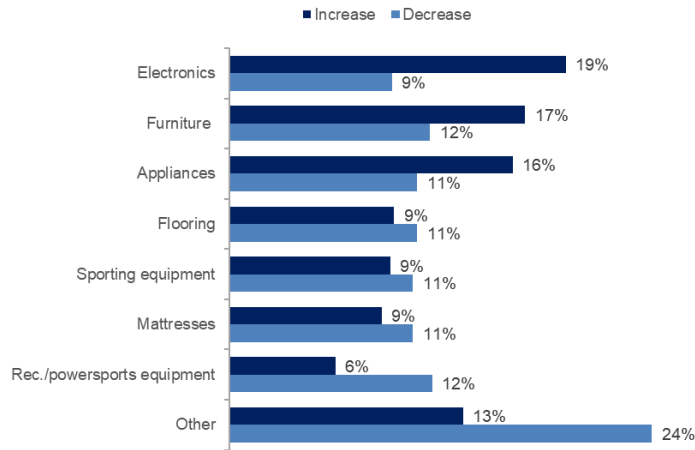


Source: Wedbush proprietary survey

### Consumer Electronics, Furniture and Appliances Lead Category Spending Plans

As to what our survey respondents plan on spending more on during the next 18 months, the composition was broadly similar to spending patterns in the previous 18 months. Once again, **electronics was the leading category with 19% of respondents expecting to spend more on these products. This was followed by furniture at 17% and appliances at 16% with all other categories comprising less than 10% of answers. Further, the skew of expectations of increased spending to decreased spending category intentions was highest in consumer electronics at 10% (19% increase – 9% decrease), followed by furniture (5%) and appliances (5%).** On the other hand, slightly more respondents (2%) expected to decrease spending slightly more than the number who expected to increase their spending on flooring, sporting equipment and mattresses, results that we deem insignificant. We note, however, that 6% more respondents plan to decrease spending than increase it in recreational/powersports equipment while 11% more plan to decrease spending than increase spending in other categories.

**Figure 4: In which categories do you expect your spending to increase or decrease in the next 18 months?**

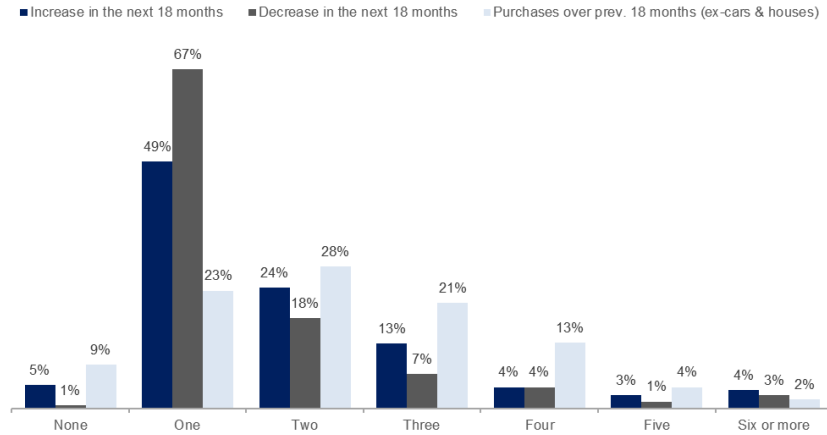


Source: Wedbush proprietary survey

## Category Spending Intentions Are More Concentrated

Notably, while most participants stated they plan on spending more on big-ticket items in the next 18 months, they plan on doing so in fewer categories than in the past 18 months. Our study indicated that 49% of participants that expect to spend more expect to do so in just one category. Even more significantly (and perhaps more positively), 67% of those planning lower levels of spending on big-ticket purchases expect to cut back in just one category.

**Figure 5: Number of categories respondents expect to *increase* or *decrease* their spending in the next 18 months compared to the past 18 months**



Source: Wedbush proprietary survey

## Upgrades and Replacements Drive Spending Plans

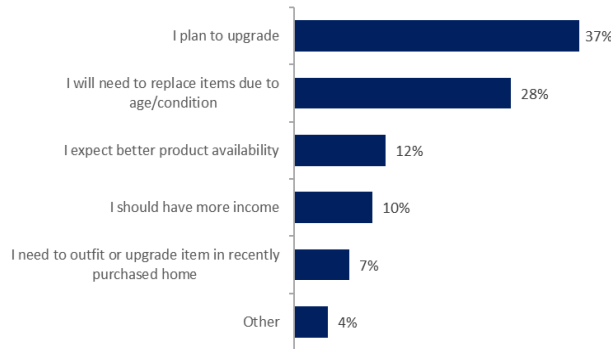
Our survey found that upgrade/replacement cycles are the leading explanation for those expecting to spend more on big-ticket purchases, comprising a combined 60%+ of reasons given for expecting to make a purchase for any given category. This is not entirely surprising given the categories (e.g. electronics and appliances) and the infrequent nature of these purchases.

Notably, ~12% of respondents indicated they expect to spend more when there is better product availability. This suggests that the current supply chain crunch has delayed a considerable portion of big-ticket spending.

Approximately 10% of respondents expect to spend more in specific categories due to expectations for higher income, pointing to economic tailwinds.

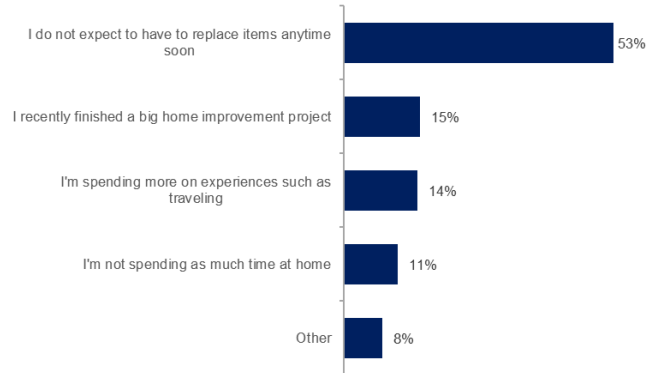
Similarly, those who plan to decrease spending most frequently plan to do so because they do not expect to have to replace items in specific categories anytime soon. We also note that as many as 24% plan to decrease spending in certain categories such as flooring because they recently finished a big home improvement project, meaning a significant number of people have already done upgrades/replacements. As many as 16% expect to cut spending in certain categories as they shift spending to experiences such as traveling, while as many as 12% plan to decrease spending in certain categories because they aren't spending as much time at home.

**Figure 6: Why do you expect your spending to *increase* in the next 18 months compared to the past 18 months for the categories you indicated?**



Source: Wedbush proprietary survey

**Figure 7: Why do you expect your spending to *decrease* in the next 18 months compared to the past 18 months for the categories you indicated?**

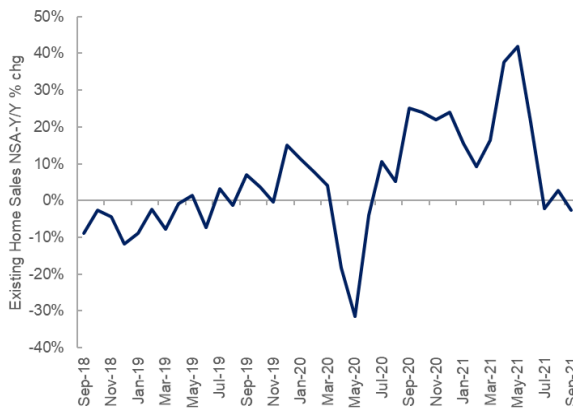


Source: Wedbush proprietary survey

## Recent Homebuyers' Spending Intentions Only Modestly Different than Non-Homebuyers

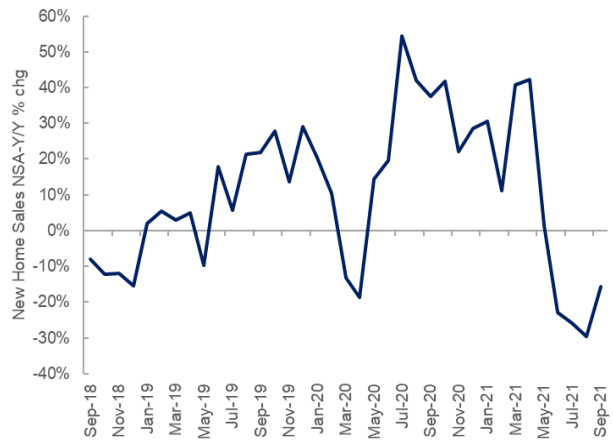
New and existing home sales have surged over the last 18 months, up 27% and 20%, respectively vs. the prior 18 months. This is driving an increase in home-related purchases as consumers upgrade their new houses and outfit them with goods like appliances, furniture, and electronics. Indeed, homebuyers tend to spend multiples more than non-homebuyers on these items, on average, and their elevated spending tends to last at least 18 months after purchasing a home. In our survey, 17% of respondents purchased a first or second home in the past 18 months, above the national average new and existing housing turnover of ~15% of households in the past 18 months. The over-indexing to home purchasers is likely due to the higher-than-average income of our survey respondents.

**Figure 8: Existing Home Sales Have Surged Over the Past 18 Months**



Source: National Association of Realtors

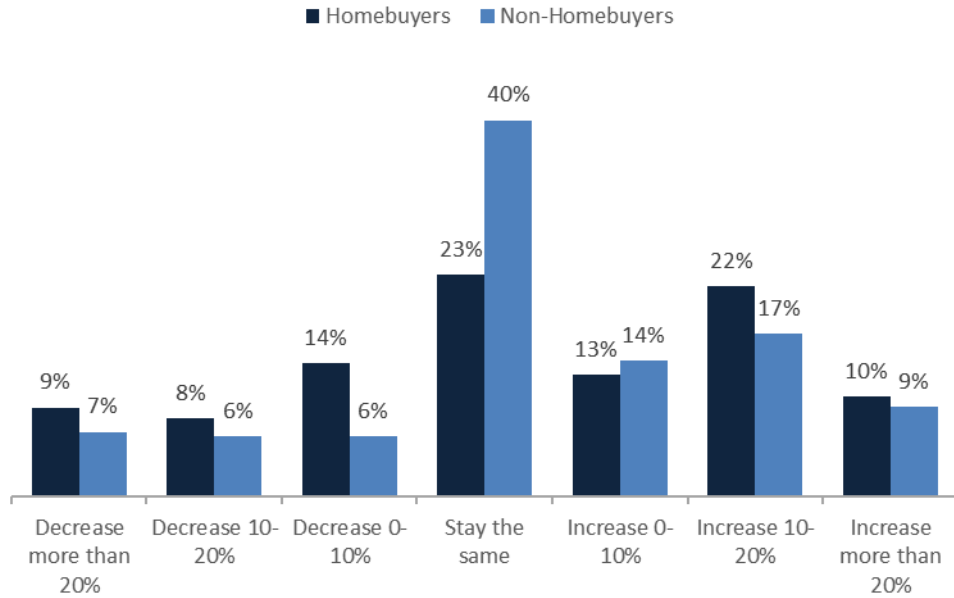
**Figure 9: ...As Have New Home Purchases**



Source: U.S. Census Bureau

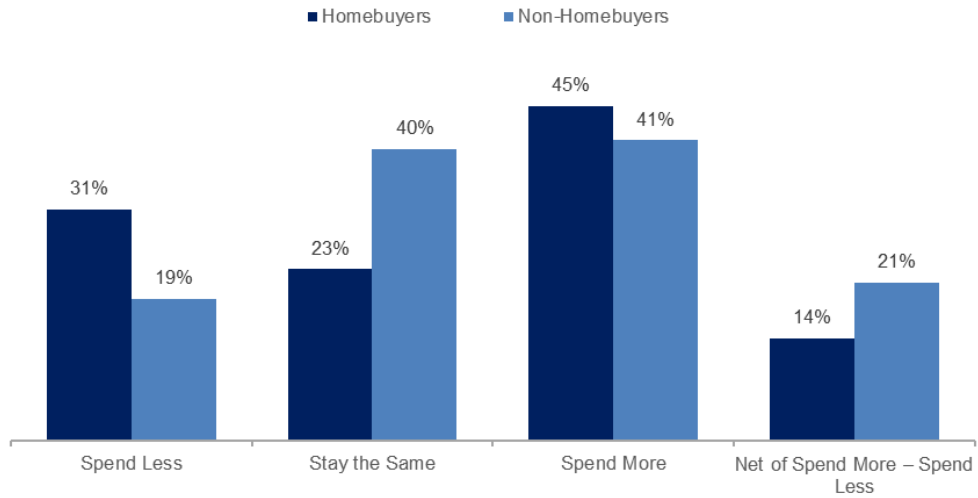
Despite historical patterns of homebuyers spending significantly more than non-homebuyers on durable goods, our survey indicated only minor differences. **Indeed, 45% of recent homebuyers plan on spending more on big-ticket purchases over the coming 18 months compared to 41% of non-homebuyers. However, when subtracting those who plan on spending less, a net 21% of non-homebuyers plan on spending more versus 14% for recent homebuyers.** Positively, those that plan on increasing their spending by more than 10% over the same period was higher for homebuyers by six percentage points (33% for homebuyers vs. 27% for non-homebuyers). Again, on the flip side, recent homebuyers noted larger expected declines in spending than non-homebuyers at 17% compared to 13% for the non-home buyer group. **We infer that many of those who purchased a home in the past 18 months have already completed the majority of their home-related durables purchases, and as housing turnover slows, so will related durables purchases and home improvement projects.** We further infer that housing turnover is not the most important driver of durables spending relative to home price appreciation, income and replacement needs. More time spent at home is leading to shorter appliance replacement cycles, for example.

**Figure 10: Big-ticket Spending Expectations: Recent Homebuyers vs. Non-Buyers**



Source: Wedbush proprietary survey

**Figure 11: Only a Small Percentage More of Recent Homebuyers Plan to Spend More than Non-Homebuyers, and the Net Percentage of Those Planning to Spend More vs. Those Planning to Spend Less Was Lower for Recent Homebuyers than Non-homebuyers**



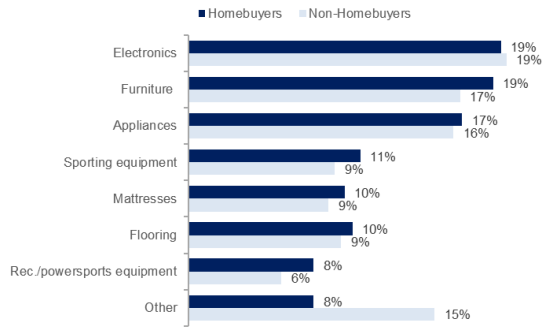
Source: Wedbush proprietary survey

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Looking at the categories of planned spending for recent homebuyers vs. non-homebuyers, there were no significant differences for respondents planning to spend more. Indeed, while a net +2% of homebuyers plan on spending more on furniture than non-homebuyers, non-home-related goods such as recreational and sporting equipment were each also 2% higher for the recent home buying group. Appliances, mattresses, and flooring had a net +1% edge for homebuyers.

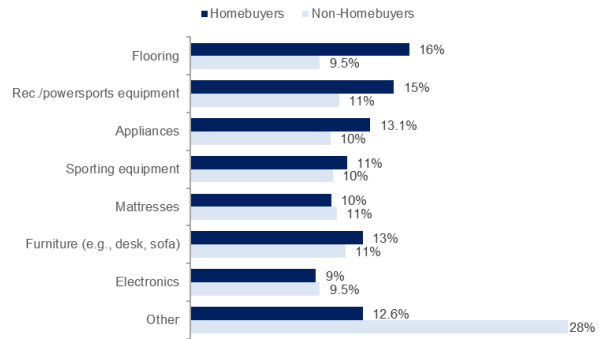
On the other hand, of recent homebuyers planning to spend less, they plan to do so to a more significant degree than non-recent homebuyers in categories such as flooring (6% difference), powersports (4%) and appliances (3%), but the differences were smaller in other categories. It is notable that the difference between the groups is small but is not just coming from home-related purchase plans. We note, however, that the sample size of recent homebuyers is small, so we cannot draw firm conclusions from these comparisons.

**Figure 12: In which categories do you expect your spending to increase in the next 18 months compared to the past 18 months (Recent Homebuyers vs. Non-Buyers)**



Source: Wedbush proprietary survey

**Figure 13: In which categories do you expect your spending to decrease in the next 18 months compared to the past 18 months? (Recent Homebuyers vs. Non-Buyers)**

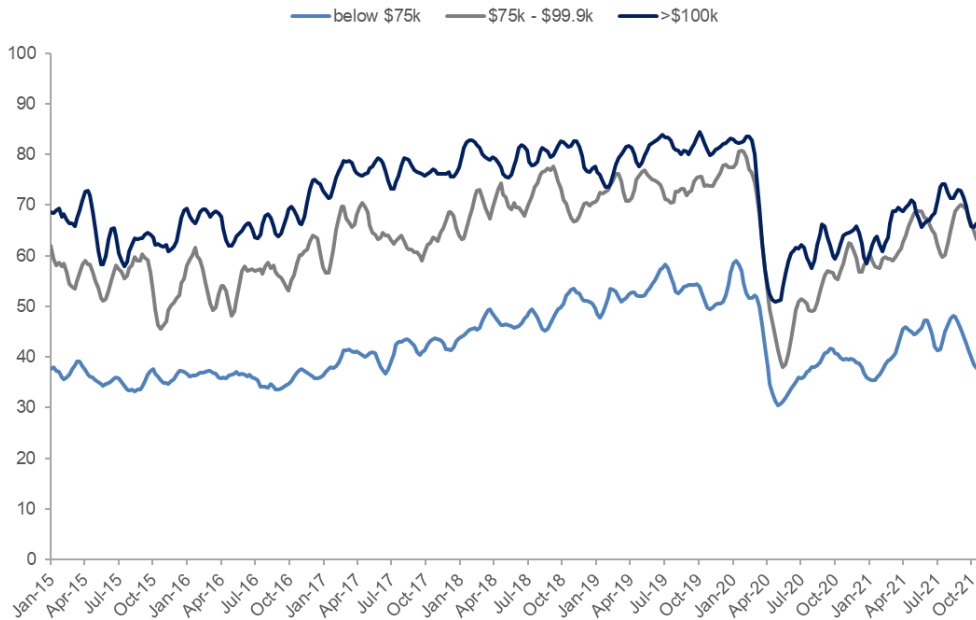


Source: Wedbush proprietary survey

### Appendix: Consumer Confidence by Income Tier

Higher-earners (>\$99K in household income), which comprised approximately two-thirds of our survey respondents, have typically reported above-average consumer sentiment relative to the general population, especially compared to those at lower income thresholds (<\$75K household income). While the gap in consumer confidence between these groups sharply narrowed during the onset of the pandemic, higher-earning group sentiment rapidly rebounded off its low points in late-May/mid-June 2020. Further, sentiment for the middle-income threshold (\$75K-\$99K), which comprised 34% of our study respondents, has been in line or better than the higher-income group throughout most of 2021. Indeed, low-income consumer confidence has not bounced back as sharply as mid-high income confidence, and low-income consumer confidence took a bigger step back in the last month with increasing inflation concerns. Given that our survey focused on consumers earning \$75k+, there could be some bias in our results when reading through to the general population. We note, however, that households earning more than \$75k drive the majority of discretionary consumer spending.

**Figure 14: Consumer Sentiment by Income Tier (Trailing 4-week Average)**



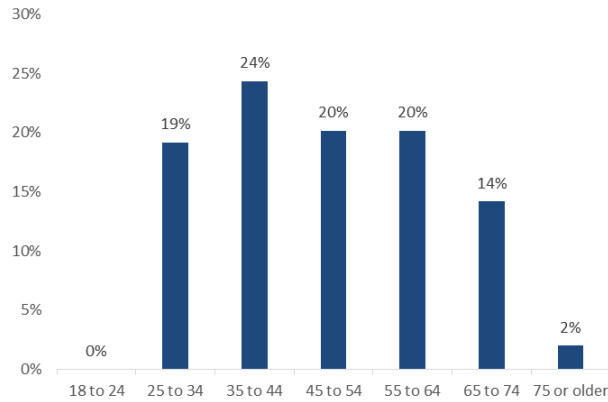
Source: Bloomberg Consumer Comfort Index

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## Appendix: Respondent Demographics and Information

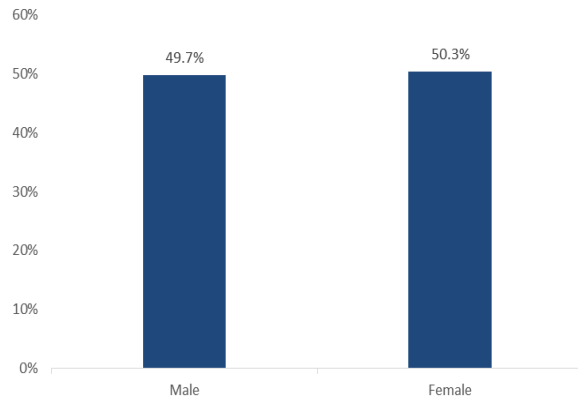
We completed our primary survey of 500 consumers in November, 2021. Demographics of survey respondents are below.

**Figure 15: Survey respondents by age**



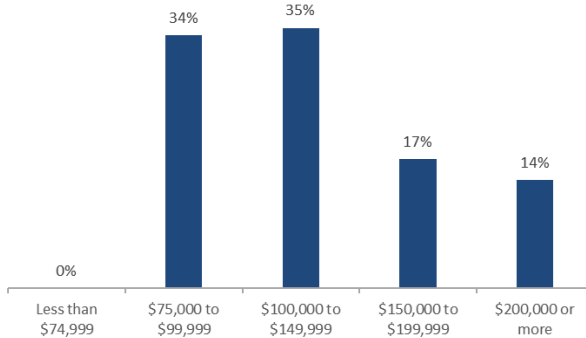
Source: Wedbush proprietary survey

**Figure 16: Survey respondents by gender**



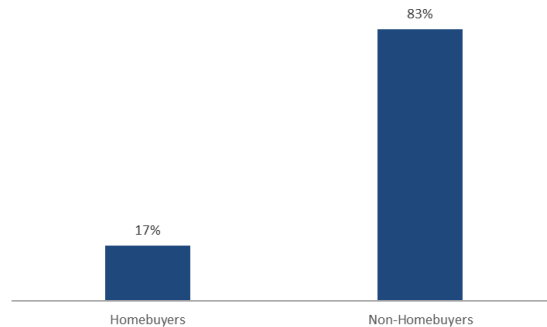
Source: Wedbush proprietary survey

**Figure 17: Survey respondents by household income**



Source: Wedbush proprietary survey

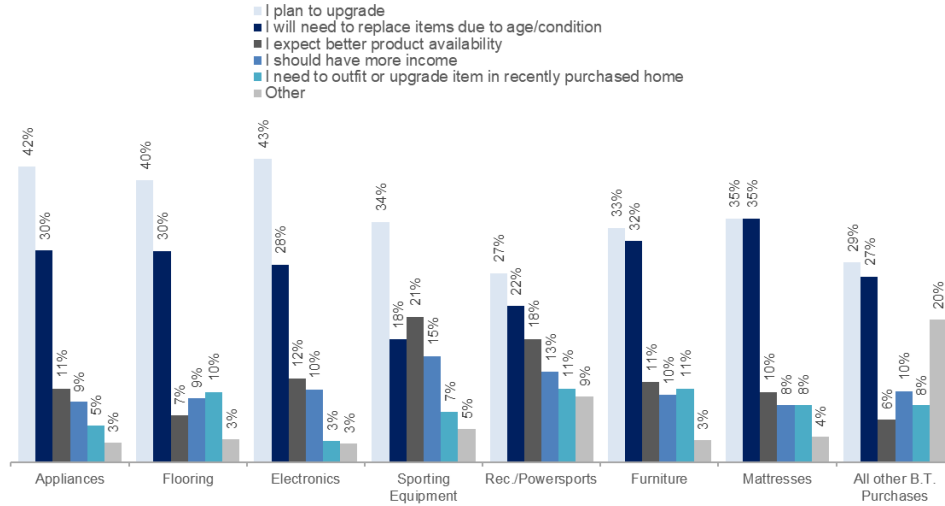
**Figure 18: Survey respondents who bought a primary or secondary home in the previous 18 months**



Source: Wedbush proprietary survey

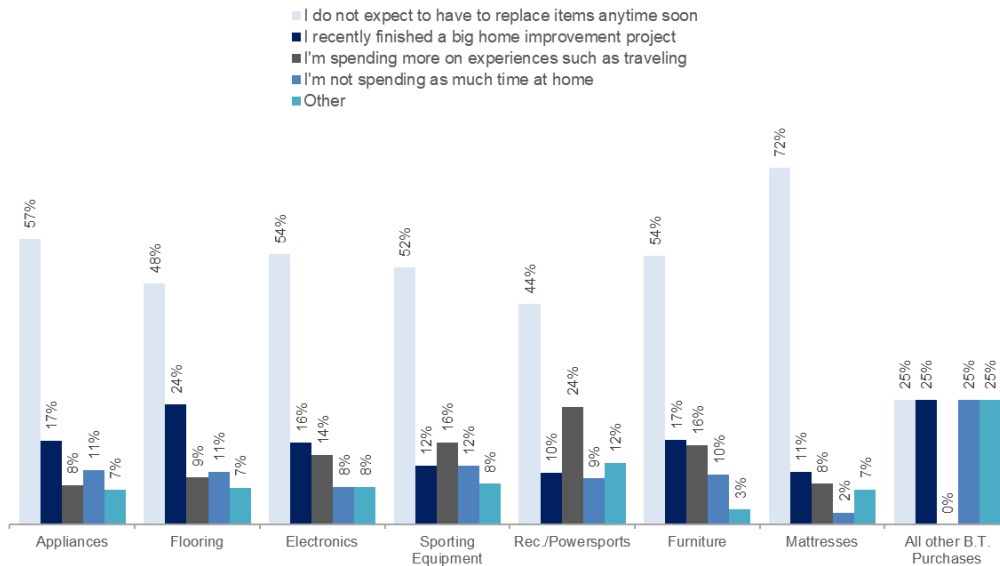
## Appendix: Category-Level Detail on Spending Intentions Drivers

**Figure 19: Why do you expect your spending to decrease in the next 18 months compared to the past 18 months for the categories you indicated?**



Source: Wedbush proprietary survey

**Figure 20: Why do you expect your spending to decrease in the next 18 months compared to the past 18 months for the categories you indicated?**



Source: Wedbush proprietary survey

**Risks to the Attainment of Our Price Targets and Ratings: Specialty Retail: Hardlines**

Risks include interest rate fluctuations, the state of the housing market, consumer spending levels, the ability to execute on company-specific initiatives, adverse weather and stock valuation above/below historical levels.

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**Positive (+):** Proprietary data set with correlation to a given historical company-reported metric indicates that the respective current/mid-quarter company-reported metric trends are better than consensus and/or better than management guidance.

**Negative (-):** Proprietary data set with correlation to a given historical company-reported metric indicates that the respective current/mid-quarter company-reported metric trends are below consensus and/or lower than management guidance.

**Non-Conclusive/No Call (NC):** Proprietary data set does not have a strong enough correlation to be **Positive** or **Negative**.

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We, Seth Basham, Nathan Friedman and Matthew McCartney, certify that the views expressed in this report accurately reflect our personal opinions and that we have not and will not, directly or indirectly, receive compensation or other payments in connection with our specific recommendations or views contained in this report.

**Mentioned Companies**

Company	Rating	Price	Target
Academy Sports and Outdoors, Inc.	OUTPERFORM	\$50.14	\$54.00
Best Buy	NEUTRAL	\$136.13	\$130.00
Dick's Sporting Goods	OUTPERFORM	\$138.59	\$150.00
Floor & Decor Holdings, Inc.	OUTPERFORM	\$131.70	\$150.00
Home Depot	NEUTRAL	\$408.69	\$410.00
Lowe's Companies	NEUTRAL	\$249.52	\$260.00
Purple Innovation	OUTPERFORM	\$12.20	\$20.00
Restoration Hardware Inc.	OUTPERFORM	\$644.89	\$760.00
RumbleOn	OUTPERFORM	\$41.44	\$55.00
Sleep Number Corp.	NEUTRAL	\$77.87	\$105.00
Tempur Sealy International	OUTPERFORM	\$43.98	\$55.00
Wayfair	OUTPERFORM	\$274.81	\$290.00
Williams-Sonoma	OUTPERFORM	\$215.65	\$250.00

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**OUTPERFORM:** Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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**UNDERPERFORM:** Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe of the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).\*

Rating distribution (as of November 22, 2021)	Investment Banking Relationships (as of November 22, 2021)
OUTPERFORM: 67.61%	OUTPERFORM: 19.77%
NEUTRAL: 29.82%	NEUTRAL: 9.48%
UNDERPERFORM: 2.57%	UNDERPERFORM: 0.00%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

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3. WS co-managed a public offering of securities for Purple Innovation and RumbleOn within the last 12 months.
4. WS has received compensation for investment banking services from Purple Innovation and RumbleOn within the last 12 months.
5. WS provided Purple Innovation with investment banking services within the last 12 months.
6. WS is acting as a financial advisor for RumbleOn.
7. WS expects to receive or intends to seek compensation for investment banking services from RumbleOn and Wayfair in the next three months.

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Disclosure information regarding historical ratings and price targets is available: [Research Disclosures](#)

\*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009.

Applicable disclosure information is also available upon request by contacting the Research Department at (212) 833-1375, by email to [leslie.lippai@wedbush.com](mailto:leslie.lippai@wedbush.com). You may also submit a written request to the following: Wedbush Securities, Attn: Research Department, 142 W 57th Street, New York, NY 10019.

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