

WESTPEAK RESEARCH ASSOCIATION

La-Z-Boy Inc. (NYSE:LZB)

Household Furniture Manufacturing

Far From Lazy

February 23rd, 2019

La-Z-Boy Inc. is the leading global producer of reclining chairs and the second largest manufacturer & distributor of residential furniture in the United States. La-Z-Boy sells its products to furniture retailers, distributors and directly to consumers in the United States, Canada and approximately 60 other countries.

Thesis

La-Z-Boy is the second largest household furniture manufacturer in the United States. The company's current growth strategy is to expand its store network, both organically and inorganically, and invest in new innovative product lines. Although the American household furnishings industry is declining, we believe that through new growth initiatives and La-Z-Boy's shift towards e-commerce, the company has long term growth potential, even though it is fairly valued by the market.

Drivers

La-Z-Boy currently holds 4.8% of the market share in the American household furniture manufacturing industry. Its recent acquisition of Joybird, a fast-growing e-commerce household furniture retail and manufacturing business, nine new store acquisitions in the vibrant state of Arizona and one in Massachusetts as well as its new state-of-the-art innovation centre are the central drivers for La-Z-Boy's future growth.

Valuation

Our target share price is \$36.30 based on the EV/EBITDA exit multiple and the Perpetuity Growth multiple from our DCF as well as the PE/EBITDA multiple and the EV/EBITDA multiple from our comps, all weighted at 25%. With this, we initiate a hold rating.

Analyst: Piero Ferrando, BCom. '22
contact@westpeakresearch.com

Equity Research	United States
Price Target	\$36.30
Rating	Hold
Share Price (Feb. 23 Close)	USD \$34.59
Total Return	5.0%

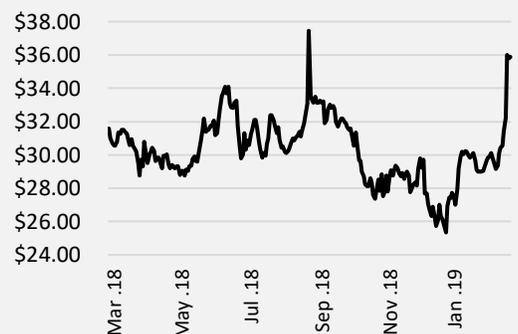
Key Statistics

52 Week H/L	\$39.15/\$25.30
Market Capitalization	\$1.61B
Average Daily Trading Volume	409.6k
Net Debt	\$20.3M
Enterprise Value	\$1.5B
Net Debt/EBITDA	0.22x
Diluted Shares Outstanding	46.7M
Free Float	95.3%
Dividend Yield	1.42%

WestPeak's Forecast

	2018E	2019E	2020E
Revenue	\$1.75B	\$1.92B	\$2.04B
EBITDA	\$186M	\$195M	\$208M
Net Income	\$99M	\$126M	\$135M
EPS	\$2.09	\$2.68	\$2.89
P/E	17.2x	13.4x	12.5x
EV/EBITDA	8.7x	8.2x	7.4x

1-Year Price Performance



Business Overview/Fundamentals

Company Overview

La-Z-Boy Inc. is a Monroe, Michigan based furniture company that manufactures, markets, distributes and retails upholstery furniture products. The company is most famously known for their recliner chairs. Founded in 1927 as Floral City Furniture by Edward M. Knabusch and Edwin J. Shoemaker and incorporated in Michigan as La-Z-Boy Chair Company in 1941, La-Z-Boy quickly became one of the most recognized brands in furniture history. With approximately 12.1 million square feet of proprietary square space worldwide, which includes 352 La-Z-Boy Furniture Galleries® stores and 541 La-Z-Boy Comfort Studio® locations, La-Z-Boy is the leading global producer of reclining chairs and the second largest manufacturer/distributor of residential furniture in the United States. La-Z-Boy began over-the-counter trading in 1972 and began trading on the New York Stock Exchange in 1987.

Segments

Upholstery Segment

La-Z-Boy principally sells its products through its upholstery segment. This segment mainly manufactures, but also imports from suppliers, upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas. This segment sells La-Z-Boy and England branded furniture through retailers as well as franchised and company-owned stores. La-Z-Boy Furniture Galleries® stores sell La-Z-Boy branded products and England Custom Comfort Center locations sell England branded furniture.



Source: [Company Website](#)

Casegoods Segment

The casegoods segment consists of three brands: American Drew, Hammary, and Kincaid. It is an importer, marketer, and distributor of casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces. It sells directly to major dealers, independent retailers and La-Z-Boy Furniture Galleries® stores. La-Z-Boy uses an all-import model by importing their wood furniture from other suppliers, with 55% of casegoods being imported from three suppliers. The casegoods segment is more sensitive to economic conditions than the upholstery segment due to longer lifecycles that result in a larger up-front cost to the consumer.



Source: [Company Website](#)

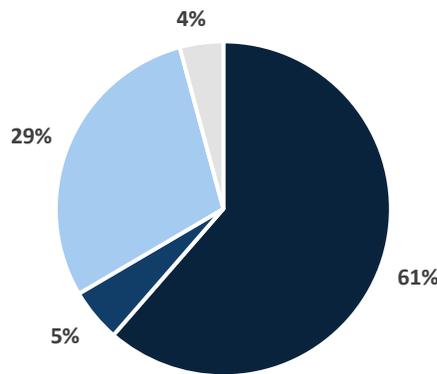
Retail Segment

The retail segment sells upholstered furniture and some casegoods directly to consumers through the 155 company-owned La-Z-Boy Furniture Galleries® stores.

Corporate Segment

The corporate segment includes the costs for corporate functions as well as revenue from royalty agreements. The largest revenue source in this segment is the Joybird brand, a strictly e-commerce household furniture retailer that sells both upholstered furniture and casegoods.

Revenue by Segments and Brands



- Upholstery segment (La-Z-Boy® and England® Brands)
- Casegoods segment (American Drew®, Hammary® and Kincaid® brands)
- Retail segment (Company-owned La-Z-Boy Furniture Galleries® stores)
- Corporate segment (Joybird® Brand and Corporate Functions)

Source: [Company Filings](#)

Brands

La-Z-Boy

Founded in 1927, La-Z-Boy is the company’s largest brand as well as one of the most recognized brands in the furniture industry. La-Z-Boy branded products are strictly upholstery furniture such as recliners, sofas, loveseats, chairs, ottomans etc.



Source: [Company Website](#)

England Furniture

Founded in 1964, England Inc. is a manufacturer of upholstered furniture based in New Tazewell, Tennessee. Its competitive advantage revolves around their pioneering of the rapid delivery method of custom furniture where, in 1984, England was the first to offer 2-week delivery where most other companies could only offer delivery in 6–12 weeks. They continue to be a delivery champion through a fantastic distribution and sophisticated transportation system. England sells furniture throughout the United States and Canada.



Source: [Company Website](#)

American Drew

Founded in 1927, American Drew is a manufacturer of mid-priced bedroom, dining room and living room furniture. Its product collections include traditional, transitional and contemporary styles of furniture.



Source: [Company Website](#)

Hammary

Founded in 1943, is a manufacturer of living room furnishings such as room tables, chairside tables, home office furniture, home entertainment furnishings and other household furnishings.



H A M M A R Y

STYLE | VALUE | SERVICE

Source: [Company Website](#)

Kincaid

Kincaid is a manufacturer of wood furniture and custom upholstery. They manufacturer cabinets, stools, chairs, tables as well as upholstery products such as ottomans, sectionals, accent chairs and sofas.



Source: [Company Website](#)

Joybird

Founded in 2014, Joybird is La-Z-Boy's newest acquisition. With a strictly e-commerce-based retail approach, the company sells household upholstery furniture and has rapidly grown in the past 4 years having reached \$55 million in revenue last year. The company was purchased with guaranteed cash payments of \$75 million, \$37.5 million in cash payment, \$7.5 million in prepaid compensation and \$5 million of liabilities to be paid over the next two years. The remaining \$25 million is to be paid annually in \$5 million installments over the next five years. Markets responded favorably to the acquisition, with La-Z-Boy's share price rising 8.18% in the three days following the announcement of the acquisition. Management has expressed that the integration of Joybird has been a success so far, as it has already contributed \$18.5 million in sales, increasing the corporate segment by 671% from Q1 to Q2 FY19.



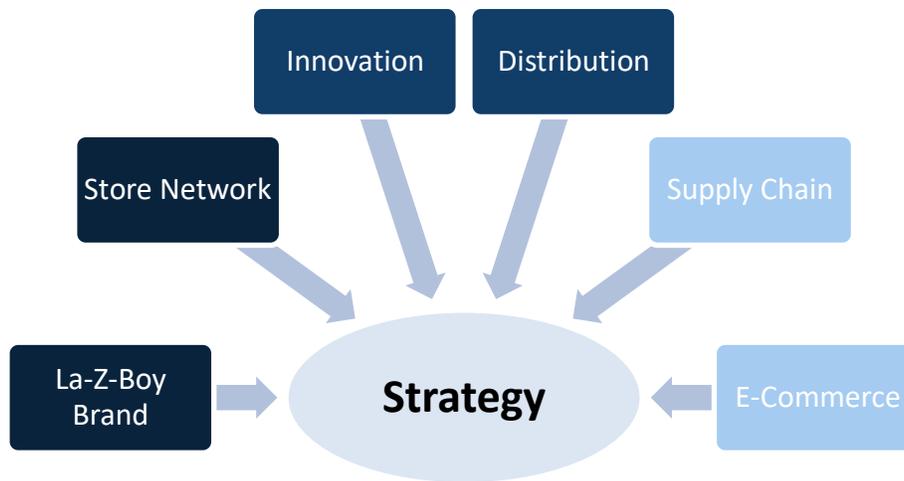
Source: [Company Website](#)

How These Brands Work Together

These brands were strategically acquired as to not directly compete with one another through either geographic distinction, different products or a unique competitive advantage. Although these brands might share one of these characteristics, they do not share more than one. Below is a graph illustrating each brands uniqueness.

Brand	Type of Product	Competitive Advantage	Main Markets
La-Z-Boy	Upholstered Furniture	Custom Furniture	International
England	Upholstered Furniture	Delivery	Southeast US
American Drew	Casegoods	Price	East US
Hammary	Casegoods	Living Room Focus	Mid-West US
Kincaid	Casegoods	Build Your Own	Mid-West US
JoyBird	Upholstered Furniture	E-Commerce	International

Company Strategy



Management defines La-Z-Boy’s strategy as a “Dual-Growth Strategy” in which various parts of the business complement each other and grow simultaneously. This includes (1) La-Z-Boy Brand (2) Furniture Galleries® Store Network, (3) Distribution (4) Innovation and (5) Supply Chain and (6) E-Commerce.

La-Z-Boy Brand

La-Z-Boy’s brand is its core asset and critical in a fragmented industry. The La-Z-Boy Furniture Galleries® stores retail network is the third largest retailer of single-branded furniture in the United States. Comfort, quality, craftsmanship and integrity are La-Z-Boy’s key tenants as well as making sure that their furniture is stylish and on trend. Its “Live Life Comfortably®” marketing campaign is a prime example of this strategy in action. By featuring a mix of celebrity style, humor and unexpected La-Z-Boy furniture, the campaign was able to educate consumers that La-Z-Boy makes far more than just the iconic recliner. The upholstery segment reflects the growth of the La-Z-Boy brand that has grown at a healthy annualized rate of 2.8% since 2014.

Furniture Galleries® Network

La-Z-Boy’s Furniture Galleries® Network has 353 stores of which 157 are company owned. This represents approximately 55% of the La-Z-Boy branded distribution, with the rest being in store boutiques within larger retailers. La-Z-Boy finds that its stores provide a more “Flagship Experience,” thus ten La-Z-Boy Furniture Galleries® stores were acquired from franchisees in Q1 FY19. A key initiative La-Z-Boy is taking to further grow this brand and network is a vast conversion of stores into the New Concept Design form which has a more modern look and feel. These stores are projected to have increased average ticket sales (average amount of sales by a given customer per visit) as well as higher revenue per square foot. Mark Bacon, president, La-Z-Boy Branded Business expressed how due to the appealing design, these new stores “keep customers engaged in the store longer, helping improve sales.”



From clutter to...

A cleaner and sleeker customer experience

Source: [Company Website](#)

Innovation

La-Z-Boy's objective is to remain one of the most innovative manufacturers in the industry. La-Z-Boy's most recent innovation is "duo™," a revolutionary new product line that combines style and function. Introduced at the April 2017 High Point Furniture Market, the largest home furnishings industry trade show in the world, the duo™ is a stylish and sleek reclining couch. It reached retail floors across North America in the fall of 2017 and was an immediate success. A brand-new research and development centre in Dayton, Tennessee is set to be completed in FY19 in which the engineering and manufacturing team will work together to test and create new innovative product lines.



The Duo™

Source: [Company Filings](#)

Distribution

La-Z-Boy's dual distribution strategy is at the core its transportation strategy. This means that La-Z-Boy's products are sold in company owned stores (Furniture Galleries®) and within dealers and wholesalers worldwide. There are 2,400 dealers worldwide selling La-Z-Boy products, with 1,400 of those dealers being in North America. With six regional distribution centers in the United States and two facilities in Mexico, La-Z-Boy plans to deliver approximately 640,000 pieces of furniture and accessories in FY19. La-Z-Boy products are distributed amongst the best-known outlets in the industry, such as Art Van, Nebraska Furniture Mart as well as Sumberland, which also distribute La-Z-Boy's other brands (England, American Drew, Hammary, and Kincaid).



Supply Chain

La-Z-Boy has five U.S. branded upholstery plants as well as a Mexican based Cut-and-Sew centre and an on-the-ground team in Asia procuring. This, along with the in-built company personalized ERP system, allows La-Z-Boy to quickly manufacture and distribute its products worldwide. This allows La-Z-Boy to have its iconic promise "custom furniture in four weeks or less". These manufacturing locations, as well as the six regional distribution centres, give La-Z-Boy favorable economies of scale, allowing La-Z-Boy to fulfill their iconic promise. This is specifically thanks to the Mexican-based cut-and-sew centre which is a dedicated facility that customizes client furniture, while keeping costs down thanks to lower Mexican wages. La-Z-Boy also holds the United States safety record: 13 million hours no lost time, meaning no major employee injuries across facilities. Management is currently leveraging contracts and licenses from manufacturers in various markets, including China, Chile, South Africa and Eastern Europe to provide efficient access to international markets. These contracts are still in early stages and strategy is currently not built out.

E-Commerce

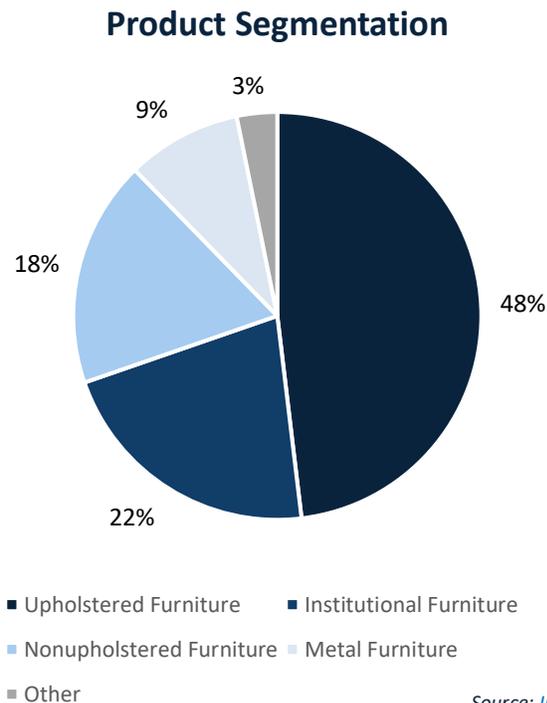
La-Z-Boy plans to increase penetration of the millennial and Gen X consumer base. Management is approaching this in three ways:

- 1) By partnering with E-Commerce giants such as Amazon and Wayfair.
- 2) By increasing online sales through the La-Z-Boy brand website.
- 3) By growing beyond the La-Z-Boy brand through inorganic growth such as the acquisition of Joybird, a strictly e-commerce household furniture manufacturing business that targets millennials and Gen X consumers.

So far, strategy one and two have grown quite significantly. La-Z-Boy products can be found at all major e-commerce retailers and La-Z-Boy's acquired Joybird to expand its e-commerce reach. However, there is no mention of any major accomplishments regarding increasing online sales through the La-Z-Boy brand website.

Industry Analysis

American Household Furniture Manufacturing Market



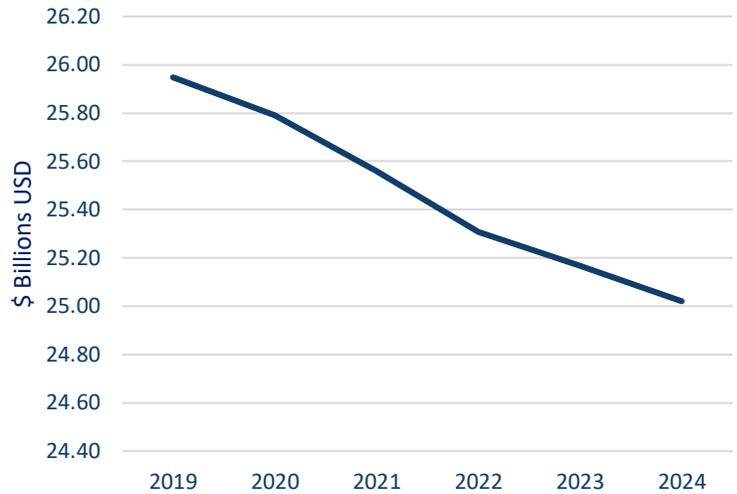
Source: [IBIS World](#)

The American household furniture manufacturing market focuses on four primary categories of products: (1) Upholstered household furniture, (2) Metal household furniture, (3) Institutional furniture and (4) Non-upholstered wood household furniture. La-Z-Boy focuses primarily on upholstered household furniture but also on non-upholstered wood household furniture. While larger firms such as Costco, Home Depot and IKEA encompass the four main categories and target younger generations, smaller firms specializing in each one of the four sections dominate the smaller markets and target older demographics. However, should La-Z-Boy continue to branch out and accelerate acquisitions, it will soon indirectly compete with these larger firms, as seen with La-Z-Boy's Joybird acquisition, which targets Gen X and Millennial consumers.

American Household Furniture Manufacturing Market

Over the next five years, US demand for household furniture is expected to slow considerably. From 2019 to 2023, revenue for the Household Furniture Manufacturing industry is projected to fall at an annualized rate of 0.7% to \$25.02 billion. This is mainly due to millennials shifting towards apartment rentals, causing them to look for simpler, low-cost furnishings. We are unsure what managements plans are to combat this ever-increasing risk. On one hand, its recent acquisition of Joybird shows a push towards younger demographics and an expansion of the e-commerce strategy. However, shifting from its traditional demographics could prove deadly for the company, risking losing their main customer segment.

Industry Revenue Forecast



Source: [IBIS World](#)

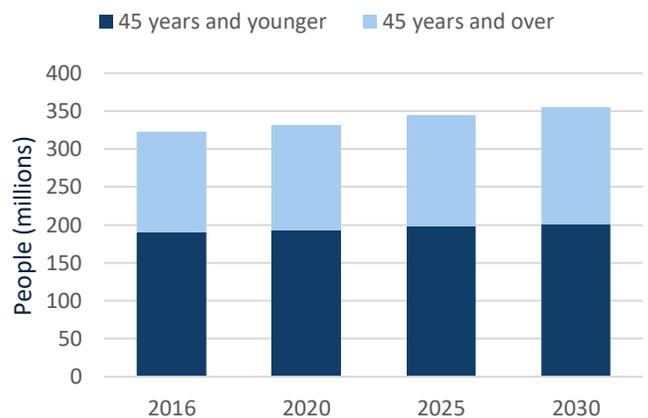
Competitive Landscape

Market share concentration in the American Household Furniture Manufacturing industry is relatively low. Ashley Furniture Industries Inc. holds the largest market share at 9.1%, while La-Z-Boy comes in second at 4.8%. Thus, competition is high in the industry. The large fragmentation of the industry, with several similar companies that offer similar products, creates a very competitive landscape. This is accompanied by the fact that furniture purchases are big ticket items where consumers look for the lowest cost possible, thus increasing competition between firms to offer best quality for lowest price. Existing and well-established distribution networks among companies and suppliers, such as that of La-Z-Boy, as well as some initial outlay and cost of equipment can pose certain barriers to entry that can slightly slow competition. However, due to price competition and little room for innovation, the competitive landscape remains fragmented, even with some barriers to entry.

Aging Population

According to the United States Census Bureau, the population of people aged 45 or older is expected to increase at an average rate of 5.01% every five years between 2016 and 2030. This number is much higher than the projected population of people aged 45 or lower which is expected to increase at 1.89% every five years during the same time frame. This means the US will face an increasingly aging population, benefiting La-Z-Boy as the company's main customer segment is adults aged 36 and over.

US Projected Population Growth



Source: [US Census Bureau](#)

Catalysts

Joybird Acquisition

La-Z-Boy acquired Joybird, an e-commerce commercial retailer that targets millennials with an affinity for mid-century modern furnishings. We believe Joybird, which had annual revenue of \$55 million last year after only four years of its existence, will drive growth by diversifying La-Z-Boy's brand concentration. Joybird will also further provide La-Z-Boy with a greater online presence and allow the company to more easily and effectively reach millennial and Gen X consumers. The Joybird acquisition has brought immediate results to La-Z-Boy's top line. The corporate segment in which Joybird earnings are reported, grew by 670% from Q1 to Q2 FY19 and aggregate sales grew by 11.2%, the largest in years. La-Z-Boy's bottom line remained largely unaffected, mostly, however, due to a large realization of depreciation. By combining Joybird's online presence and young consumer following with La-Z-Boy's world-class supply chain including nationwide delivering capabilities, we believe the Joybird brand will quickly grow and add long term value to shareholders as La-Z-Boy diversifies from the traditional brick-and-mortar store business model.

Ten New Store Acquisitions

La-Z-Boy acquired ten new stores during Q1 2018, nine of which are located in Arizona and one of which in Massachusetts. The nine stores in Arizona, originally operated as franchises, are located in a prime geographic location, with Arizona having the highest population growth rate in the US as well as a high number of retirees, a key age demographic that La-Z-Boy targets. Now under company control, the stores will immediately add value to the company. Four of the stores have the highest sales volume out of the entire 351 Furniture Galleries® store network. The acquisition comes after the retirement of the independent dealer who has said "La-Z-Boy will have an excellent team of leaders to continue the management of day-to-day operations". The stores will continue to run under the same store management team and employees; La-Z-Boy simply acquired the stores from the previous owners, EBCO Inc. Management expects the stores to add approximately \$40 million annually in sales volume within the retail segment. We are confident that these new stores will effectively yield revenue and net income growth both in the short and long term.

New Innovation Centre

La-Z-Boy is also building a new innovation centre at its Dayton, Tennessee campus which is expected to be completed by the end of FY19. The new state-of-the-art facility will attract additional engineering talent to the company as well as boosting R&D. Innovation is one of the key components in La-Z-Boy's growth strategy. This new facility will replace the existing structure and include a new model shop, technology center, test lab, and a three-dimensional printing lab. The new center will help the company to continue to develop new innovative products to stay one step ahead of competitor product lines. We believe this new facility will prove beneficial to the firm as it sets the example of innovation throughout the industry.

Management Team

Kurt L. Darrow - Chairman, President & Chief Executive Officer

Mr. Darrow is President and Chief Executive Officer at La-Z-Boy Inc. Prior to his position at the firm, he was President of La-Z-Boy Residential, the flagship brand and largest division of La-Z-Boy Inc. from 2001 to 2003. He was also Senior Vice President of Sales & Marketing at La-Z-Boy and served as the Vice President of Sales for nearly 12 years. Mr. Darrow played a pivotal role in the successful introduction and evolution of La-Z-Boy's proprietary distribution system and pioneered the "New Look of Comfort" marketing campaign that included new furniture designs and efforts to expand brand exposure. He holds a BA from Adrian College. Mr. Darrow's compensation for FY 2018 included \$9.9 million as base salary, \$1.3 million in stock awards, \$1.2 in option awards, \$478 thousand in incentive plan compensation and \$444 thousand in all other compensation coming to a grand total of \$4.4 million for FY2018. Bonuses are based 40% on operating margin growth, 40% on net sales growth and 20% on relative total shareholder return for the period. He owns 192,348 shares of La-Z-Boy common stock which translates to 0.43% ownership of the company.



Source: [Company Website](#)

Melinda D. Whittington - Chief Financial Officer & Senior Vice President

Ms. Whittington is Chief Financial Officer & Senior Vice President of La-Z-Boy, Inc. Prior to joining in June 2018, she held the position of CFO & Principal Accounting Officer at Allscripts Healthcare Solutions, Inc. (which provides electronic health record technology solutions for physician practices, hospitals, and other healthcare providers), Finance Director of North America Home Care at Procter & Gamble Co. and Chief Accounting Officer, VP & Controller of Kraft Foods Group, Inc. Compensation for Ms. Whittington has not yet been released due to her recent arrival to the company, however she owns 20,000 shares of common stock valued at \$556 thousand.



Source: [Company Website](#)

Shareholder Base, Liquidity, Market Depth

La-Z-Boy currently has 46.83 million shares outstanding. Its largest 5 shareholders are listed in the table below. Insider ownership makes up 3.93% of ownership.

Ownership Breakdown

Shareholder	Shares Owned	% Of Shares Outstanding
Blackrock Inc.	6,812,974	14.50%
Vanguard Group, Inc. (The)	4,667,726	9.93%
Wellington Management Company, LLP	4,136,521	8.80%
Dimensional Fund Advisors LP	3,037,145	6.46%
Silvercrest Asset Management Group LLC	2,624,401	5.58%
Top 5 Shareholders	21,278,767	45.27%

Source: [Yahoo Finance](#)

The table below shows the share turnover ratio, number of shares traded by average number of shares outstanding, for La-Z-Boy and its main competitors. As shown, La-Z-Boy has a share turnover ratio of 108.84, well below the industry mean. This indicates low liquidity for La-Z-Boy stock when compared to competitors.

Industry Share Turnover Ratios

Company	Average 3 Month Volume (mm)	Shares Outstanding (mm)	Turnover Ratio
Hooker Furniture Corporation	0.04	11.80	295.00
Ethan Allen Interiors Inc.	0.36	26.60	73.89
Basset Furniture Industries	0.03	10.50	350.00
Haverty Furniture Companies Inc.	0.10	20.70	207.00
Herman Miller Inc.	0.38	58.90	155.00
La-Z-Boy Inc.	0.43	46.80	108.84
Industry Mean (based on comparables)	0.22	29.22	198.29

Source: [Capital IQ](#)

Valuation

Comparable Company Analysis

The companies listed below have a comparable business model. They share similar operating activities including upholstery furniture, casegoods and non-upholstered furnishings. Their primary end consumer markets are in the United States and all companies share similarly sized market capitalizations.

Hooker Furniture Corporation

Hooker Furniture Corporation designs, manufactures, imports and markets residential household furniture products in the United States. Hooker offers various design categories including home entertainment, home office, accent, dining, and bedroom furniture under the Hooker Furniture brand name as well as imported upholstered furniture from subsidiary brands.

Ethan Allen Interiors Inc.

Ethan Allen Interiors Inc. is a manufacturer and retailer of home furnishings in North America, Asia, the Middle East, and Europe. The company operates in both the wholesale and retail segments. Its products include case goods items, upholstery items and home accent items.

Basset Furniture Industries

Basset Furniture Industries operates in three segments: Wholesale, Retail and Logistical Services. It sells directly to consumers thru Basset Home Furnishing Stores as well as through independent furniture retailers.

Haverty Furniture Companies Inc.

Haverty Furniture Companies, Inc. operates as a specialty retailer of residential furniture and accessories in the United States. The company sells upholstered products, mattress product lines and other home furnishings.

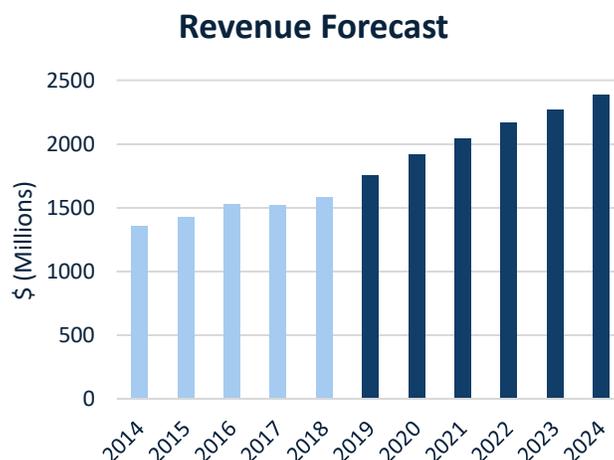
Herman Miller Inc.

Herman Miller, Inc. manufactures and distributes office furniture, equipment and home furnishings. Based in Zeeland, Michigan, Herman Miller is credited with the invention of the office cubicle (originally known as the "Action Office II").

Discounted Cash Flow

Revenue

We expect La-Z-Boy’s revenue to gradually increase overtime, as they expand their store network, continue to acquire new brands as well as develop new innovative product lines. We have driven the upholstery segment’s growth through square footage growth in which we project an expansion of approximately 100,000 square feet of proprietary square footage per year as well as an average increase of \$8 million in sales per one million square feet. This will be realized through the expansion of proprietary square footage such as the new 10 store acquisitions in Arizona and Massachusetts. In addition, we have driven the retail segment’s growth through store growth in which we project La-Z-Boy to open or acquire approximately 10 stores per



Source: WPRA Analysis

year with sales per store increasing at an approximate \$40 thousand per year. This will be realized primarily through the opening of new stores as well as the acquisition of existing franchised stores.

Costs

La-Z-Boy's COGS have historically ranged between 58-62% of revenue which includes expenditure on raw materials such as leather, fabric, foam, and lumber. Although COGS has decreased to 54% of revenue in the past quarter, we have decided to conservatively maintain the level at 59% due to management's concerns over rising manufacturing costs, mainly due to global inflationary pressures as well as trade uncertainties. Additionally, we have forecasted SG&A as 30% of revenue due to the range being historically between 29-31%. We assume SG&A will remain relatively similar in the years to come as management expresses no interest in pursuing a large-scale operation that would significantly impact wages or administration costs. Furthermore, although R&D costs have historically been 0.5% of revenue, we have decided to increase this to 0.8% due to La-Z-Boy's opening of the new Innovation Centre.

Capital Expenditures

We believe La-Z-Boy will continue to acquire brands in the future, as it continues to grow its e-commerce platform and presence. We also believe store growth will continue in the future as La-Z-Boy expands its Furniture Galleries® Store Network. Thus, we have forecasted CAPEX to be 25% of plant, property and equipment in the upcoming years. This slightly higher number than the historical average is in place due to our belief that La-Z-Boy will push towards targeting younger demographics to penetrate the millennial and Gen X consumer base.

Weighted Average Cost of Capital

In determining the cost of equity, the U.S. 5-Year Treasury Bill was used to determine the risk free rate of 2.48%. The expected market return of 11.6% from the annualized 10 year S&P 500 return. A beta of 1.02 was obtained from Bloomberg, leading to a cost of equity of 11.8%. In determining the cost of debt, a pre-tax cost of debt of 3.0% was used as per the interest rate the firm currently has on their long-term debt. The effective tax rate of 21.0% was used according to the US statutory rate, concluding a cost of debt of 2.4%. In total, our weighted average cost of capital came up to 11.6%.

Dividend Policy

La-Z-Boy has increased its dividends per share by 6 cents over the past 4 years. We believe this rapid increase over the past few years is not sustainable. Furthermore, management has expressed a desire to increase spending on R&D and acquisitions. Thus, we have increased dividends at smaller rate compared to historicals over the next five years, ultimately reaching one cent increases by 2024.

Tax Rate

We have assumed an effective tax rate of 21.0% in accordance with the US statutory rate.

Weighted Price Target

We have chosen to weigh our implied share price based on the EV/EBITDA basis multiple and the Perpetuity Growth multiple from our DCF as well as the PE/EBITDA multiple and the EV/EBITDA multiple from our comps, all weighted at 25%. This results in a share price of \$36.18/share. Hence, we believe LZB is fairly valued by the market and initiate a **hold** rating.

Recommendation

We believe that La-Z-Boy is currently fairly value by the market. However, we believe LZB has long term growth potential. Although the American Household Furniture Manufacturing Industry is currently declining, we believe that La-Z-Boy's solid growth, new acquisition of Joybird, taking the company towards a more e-commerce-based business model, nine new store acquisitions in the vibrant and fast growing state of Arizona and their new state-of-the-art innovation centre, will give it a long-term growth potential. It's dominant force in the industry, long-standing reputation and brand recognition as well as its world-class supply chain gives it a competitive edge amongst competitors, even in a declining industry.

Based on our Discounted Cash Flow model and our Comparable Companies Analysis, we determined a fair share price of \$36.18. We initiate a hold rating on La-Z-Boy Inc.

Risks

Supplier Concentration

La-Z-Boy purchases 50% of our polyurethane foam from one supplier, cut-and-sewn leather and fabric products from six primary suppliers, over 95% of the leather cut-and-sewn sets from 4 suppliers from China and 90% of fabric products from three other suppliers from China. If any of these suppliers experienced financial, political and/or unforeseen difficulties, La-Z-Boy could experience temporary disruptions in their manufacturing process. This concentration of suppliers, although simplifying La-Z-Boy's supply chain, also means La-Z-Boy relies heavily on its suppliers.

Rising Manufacturing Costs

During fiscal 2018, the prices of materials La-Z-Boy used in their upholstery manufacturing process increased moderately compared with fiscal 2017. Management expects an increase in raw material costs, specially in their three core raw material components: Steel, polyurethane foam and wood. According to Ibis World and Business Wire, the world price of steel, polyurethane foam and wood are all expected to increase by 3.0%, 8.0% and 0.7%, respectively, mainly due to inflationary pressures. In an effort to offset these projected increases, management has increased their selling prices. This poses a potential risk for demand of La-Z-Boy products, since the household furniture manufacturing industry is very competitive, and smaller increments in price can drive consumers away from La-Z-Boy products.

Retaliatory Duties and Tariffs

Rising tensions between the US and foreign countries brings along uncertainty on how La-Z-Boy will deal with these new regulatory duties and tariffs. La-Z-Boy's Casegoods segment mainly imports products manufactured in China and Vietnam, and its upholstery segment purchases cut-and-sewn fabric and leather sets amongst other materials from four main suppliers, all located in China. Furthermore, one of La-Z-Boy's main manufacturing plants is located in Mexico. Both China

and Mexico play a critical role in La-Z-Boy's supply chain, thus increasing risks relating to increased tariffs on U.S. imports, changes in the US Mexico Canada Agreement, and other changes affecting imports can pose a considerable threat to La-Z-Boy's manufacturing process.

Change in Consumer Preferences

As outlined in the Industry Analysis section, the American Household Furniture Manufacturing Industry is currently declining, with revenue for the industry projected to fall at an annualized rate of 0.3% to \$26.4 billion between 2019 and 2023. This is mainly due to furniture becoming less important as the size of houses and apartments declines. Moreover, E-Commerce companies such as Amazon and Wayfair as well as wholesalers such as Costco and IKEA dominate the industry, and La-Z-Boy will have to find ways to innovate and stay one step ahead from competitors.

Exhibit 1: Model Summary

	Apr-14	Apr-15	Apr-16	Apr-17	Apr-18	Apr-19	Apr-20	Apr-21	Apr-22	Apr-23	Apr-24
(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Income Statement											
Revenue	1,357.3	1,425.4	1,525.4	1,520.1	1,583.9	1,751.4	1,914.9	2,041.9	2,162.8	2,267.6	2,383.9
EBITDA	112.5	125.4	151.8	162.5	161.1	185.7	195.3	208.3	220.6	231.3	243.2
Net Income	56.4	72.0	81.0	87.0	81.6	98.7	126.4	135.9	143.3	149.1	155.0
Earnings Per Share	\$ 1.05	\$ 1.37	\$ 1.59	\$ 1.76	\$ 1.70	\$ 2.09	\$ 2.68	\$ 2.89	\$ 3.04	\$ 3.17	\$ 3.29
Cash Flow Statement											
Capital Expenditures	(33.7)	(70.3)	(24.7)	(20.3)	(36.3)	(42.8)	(28.0)	(28.0)	(28.0)	(28.0)	(28.0)
Acquisitions	(0.8)	(1.8)	(23.3)	(35.9)	(16.5)	(82.6)	(16.0)	(25.0)	(30.0)	(40.0)	(40.0)
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(10.5)	(14.5)	(18.1)	(20.7)	(22.0)	(23.5)	(24.3)	(24.8)	(25.3)	(25.8)	(26.2)
Dividend Per Share	\$ 0.20	\$ 0.28	\$ 0.36	\$ 0.42	\$ 0.46	\$ 0.50	\$ 0.52	\$ 0.53	\$ 0.54	\$ 0.55	\$ 0.56
Dividend Payout to Earnings	18.6%	20.2%	22.4%	23.7%	27.0%	23.8%	19.3%	18.3%	17.6%	17.3%	16.9%
Dividend Payout to Core FCF	8.2%	8.6%	13.2%	14.5%	13.0%	13.2%	12.8%	12.4%	12.0%	11.7%	11.4%
Dividend Yield	0.8%	1.2%	1.5%	1.5%	1.6%	1.4%	1.4%	1.5%	1.5%	1.5%	1.6%
Balance Sheet											
Current Assets	522.7	476.5	482.0	517.4	518.2	564.5	604.1	668.6	741.2	810.7	891.2
Non-Current Assets	248.6	298.2	318.1	371.4	374.7	516.5	525.1	541.9	560.6	586.1	607.2
Assets	771.3	774.6	800.0	888.9	893.0	1,081.0	1,129.3	1,210.5	1,301.8	1,396.8	1,498.4
Current Liabilities	167.4	154.9	157.4	198.7	181.3	269.2	235.5	245.6	259.0	270.5	283.4
Non-Current Liabilities	74.2	86.6	85.4	89.1	86.4	120.8	120.8	120.8	120.8	120.8	120.8
Liabilities	241.6	241.5	242.8	287.8	267.8	390.0	356.2	366.4	379.7	391.3	404.2
Shareholders' Equity	529.7	533.1	557.2	601.1	625.2	691.0	773.1	844.1	922.1	1,005.5	1,094.2
Cash	149.7	98.3	112.4	141.9	134.5	101.2	117.6	162.7	209.9	257.4	313.5
Debt	241.6	241.5	242.8	287.8	267.8	390.0	356.2	366.4	379.7	391.3	404.2
Net Debt	91.9	143.2	130.5	145.9	133.2	288.8	238.7	203.7	169.8	133.9	90.6
Minority Interests	7.8	9.0	10.1	11.2	13.0	14.5	14.5	14.5	14.5	14.5	14.5
Debt/EBITDA	0.8 x	1.1 x	0.9 x	0.9 x	0.8 x	1.6 x	1.2 x	1.0 x	0.8 x	0.6 x	0.4 x
Operating Metrics											
Return on Equity (ROE)	4.7%	14.5%	1.9%	3.0%	4.0%	16.1%	16.3%	16.1%	15.5%	14.8%	14.2%
Return on Assets (ROA)	3.2%	9.8%	1.4%	2.1%	2.7%	11.2%	11.2%	11.2%	11.0%	10.7%	10.3%
Return on Invested Capital (ROIC)	7.2%	20.8%	2.0%	4.0%	7.1%	26.3%	27.7%	26.3%	24.5%	22.8%	21.2%
Valuation Metrics											
Stock Price (High)	\$ 31.22	\$ 28.38	\$ 29.34	\$ 32.90	\$ 34.25	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90
Stock Price (Low)	\$ 17.48	\$ 19.03	\$ 19.56	\$ 22.09	\$ 23.15	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90
Stock Price (Average)	\$ 24.35	\$ 23.71	\$ 24.45	\$ 27.50	\$ 28.70	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90	\$ 35.90
Diluted Shares Outstanding (Average)	53.8	52.3	50.8	49.5	48.1	47.2	47.1	47.1	47.1	47.1	47.1
Market Capitalization (Average)	1,310.7	1,240.9	1,241.2	1,360.2	1,381.5	1,692.7	1,690.6	1,690.6	1,690.6	1,690.6	1,690.6
Enterprise Value (Average)	1,410.5	1,393.0	1,381.7	1,517.3	1,527.7	1,996.1	1,943.8	1,908.8	1,874.9	1,839.0	1,795.7
P/E	23.2 x	17.2 x	15.3 x	15.6 x	16.9 x	17.1 x	13.4 x	12.4 x	11.8 x	11.3 x	10.9 x
EV/EBITDA	12.5 x	11.1 x	9.1 x	9.3 x	9.5 x	10.8 x	10.0 x	9.2 x	8.5 x	8.0 x	7.4 x
FCF Yield to Market Capitalization	3.6%	2.7%	6.7%	5.5%	6.9%	9.7%	13.3%	11.2%	12.1%	12.6%	13.4%
FCF Yield to Enterprise Value	3.4%	2.4%	6.0%	4.9%	6.2%	8.2%	11.5%	9.9%	10.9%	11.6%	12.6%
Free Cash Flow											
EBIT	89.3	103.2	125.3	133.3	129.4	130.8	160.0	172.0	181.4	188.8	196.2
Tax Expense	(35.2)	(33.7)	(44.1)	(43.8)	(47.3)	-	-	-	-	-	-
D&A	23.2	22.3	26.5	29.1	31.8	54.8	35.3	36.3	39.2	42.5	47.0
Capital Expenditures	(33.7)	(70.3)	(24.7)	(20.3)	(36.3)	(42.8)	(28.0)	(28.0)	(28.0)	(28.0)	(28.0)
Changes in NWC	4.1	12.0	0.3	(23.9)	17.5	21.6	57.0	9.2	12.0	10.4	11.6
Unlevered Free Cash Flow	47.7	33.4	83.4	74.5	95.0	164.5	224.3	189.4	204.6	213.7	226.7

Exhibit 2: Discounted Cash Flow

	Apr-14	Apr-15	Apr-16	Apr-17	Apr-18	Jul-18	Oct-18	Jan-19	Apr-19	Apr-19	Apr-20	Apr-21	Apr-22	Apr-23	Apr-24
(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
WACC Calculations															
Cost of Equity															
Risk-free rate	2.5%														
Expected market return	11.6%														
Market Risk Premium	9.1%														
Beta	1.02														
Cost of Equity	11.8%														
Cost of Debt															
Pre-tax cost of debt	3.0%														
Effective tax rate	21.0%														
Cost of Debt	2.4%														
WACC															
Market value of equity	1,693.1														
Market value of debt	35.3														
Total Capitalization	1,728.4														
Cost of equity	11.8%														
Cost of debt	2.4%														
WACC	11.6%														
Free Cash Flow															
EBIT	89.3	103.2	125.3	133.3	129.4	23.2	28.5	40.8	38.3	130.8	160.0	172.0	181.4	188.8	196.2
Less: Tax expense	(35.2)	(33.7)	(44.1)	(43.8)	(47.3)	(5.6)	(6.0)	(10.7)	-	-	-	-	-	-	-
Add: Depreciation and amortization	23.2	22.3	26.5	29.1	31.8	7.5	15.5	23.2	8.6	54.8	35.3	36.3	39.2	42.5	47.0
Less: Capital expenditures	(33.7)	(70.3)	(24.7)	(20.3)	(36.3)	(15.9)	(11.1)	(8.8)	(7.0)	(42.8)	(28.0)	(28.0)	(28.0)	(28.0)	(28.0)
Less: Change in net working capital	4.1	12.0	0.3	(23.9)	17.5	(3.5)	12.8	(4.8)	17.2	21.6	57.0	9.2	12.0	10.4	11.6
Unlevered Free Cash Flow	47.7	33.4	83.4	74.5	95.0	5.7	39.7	39.6	57.1	164.5	224.3	189.4	204.6	213.7	226.7
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						-	-	-	55.53	55.5	205.5	148.0	143.3	134.1	127.5
Discounted Cash Flow Valuations															

Perpetuity Growth Method		Exit Multiple Method		WACC						
Perpetuity Growth Rate	1.0%	Terminal EV/EBITDA Multiple	9.9 x		12.66%	12.16%	11.66%	11.16%	10.66%	
PV sum of unlevered FCF	812.4	PV sum of unlevered FCF	812.4	Perpetuity Growth Rate	0.00%	\$ 39.55	\$ 41.08	\$ 42.76	\$ 44.58	\$ 46.58
Terminal value	1202.87	Terminal value	1348.7		0.50%	\$ 40.49	\$ 42.13	\$ 43.91	\$ 45.87	\$ 48.02
Enterprise Value	2,015.3	Enterprise Value	2,161.1		1.00%	\$ 41.51	\$ 43.26	\$ 45.18	\$ 47.28	\$ 49.61
Add: Cash	134.2	Add: Cash	134.2		1.50%	\$ 42.62	\$ 44.50	\$ 46.57	\$ 48.85	\$ 51.38
Less: Debt	20.3	Less: Debt	20.3		2.00%	\$ 43.84	\$ 45.86	\$ 48.10	\$ 50.58	\$ 53.35
Less: Other EV adjustments		Less: Other EV adjustments	-							
Equity Value	2,129.3	Equity Value	2,275.1		WACC					
Shares outstanding	47.2	Shares outstanding	47.2		12.66%	12.16%	11.66%	11.16%	10.66%	
Implied Share Price	\$ 45.15	Implied Share Price	\$ 48.24	Terminal EV/EBITDA Multiple	7.9 x	\$ 41.02	\$ 41.74	\$ 42.47	\$ 43.23	\$ 44.01
Current Price	\$ 34.59	Current Price	\$ 34.59		8.9 x	\$ 43.78	\$ 44.56	\$ 45.36	\$ 46.19	\$ 47.04
Implied Price	\$ 45.15	Implied Price	\$ 48.24		9.9 x	\$ 46.53	\$ 47.38	\$ 48.25	\$ 49.15	\$ 50.07
Total Return	30.5%	Total Return	39.5%		10.9 x	\$ 49.29	\$ 50.21	\$ 51.14	\$ 52.11	\$ 53.10
					11.9 x	\$ 52.05	\$ 53.03	\$ 54.03	\$ 55.07	\$ 56.12

Exhibit 3: Comparable Companies Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				2016A EV/EBITDA	2017A EV/EBITDA	2018A EV/EBITDA	2016A P/E	2017E P/E	2018E P/E
Hooker Furniture Corporation	NASDAQ: HOF1	374.8	383.1	14.5 x	8.1 x	7.4 x	21.3 x	14.6 x	13.1 x
Ethan Allen Interiors Inc.	NYSE: ETH	518.7	481.2	4.4 x	6.2 x	7.0 x	9.8 x	15.1 x	14.8 x
Basset Furniture Industries	NASDAQ: BSET	198.0	142.2	6.3 x	3.8 x	3.7 x	21.7 x	10.0 x	12.9 x
Haverty Furniture Companies Inc.	NYSE: HVT	478.8	458.1	6.4 x	6.3 x	6.3 x	19.0 x	17.8 x	23.6 x
Herman Miller, Inc	NYSE: MLHR	2,161.6	2,325.1	8.8 x	8.9 x	9.3 x	16.2 x	17.9 x	17.3 x
LZB	NYSE: LZB	1,631.3	1,517.3	10.0 x	9.3 x	9.4 x	21.7 x	19.7 x	20.4 x
Median		478.8 x	458.1 x	6.4 x	6.3 x	7.0 x	19.0 x	15.1 x	14.8 x
Mean		746.4 x	757.9 x	8.1 x	6.6 x	6.7 x	17.6 x	15.1 x	16.3 x
High		2,161.6 x	2,325.1 x	14.5 x	8.9 x	9.3 x	21.7 x	17.9 x	23.6 x
Low		198.0 x	142.2 x	4.4 x	3.8 x	3.7 x	9.8 x	10.0 x	12.9 x
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$	24.04	\$	26.58	\$	25.04
Mean				\$	25.32	\$	26.52	\$	27.71
High				\$	32.97	\$	31.48	\$	40.01
Low				\$	15.55	\$	17.64	\$	21.90

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