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Art Van said to explore sale, possible bankruptcy; founding family may be in negotiations

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Art Van Furniture Inc.

Art Van Furniture Inc. has been on an aggresive expansion plan in recent years.

Art Van Furniture's private-equity owner is exploring options that could include a sale and potential Chapter 11 bankruptcy for the retailer as it struggles with disruption in the furniture business, two people familiar with the negotiations told Crain's.

Thomas H. Lee Partners LP, which acquired the Warren-based retailer in 2017 for an estimated $550 million, is working with advisers and creditors to find a buyer, which could include the family of its late founder, Art Van Elslander, one source close to the negotiations who requested anonymity told Crain's.

Art Van confirmed it is in negotiations with creditors about its future.

"We are actively exploring a variety of options with our creditors, investors and landlords to ensure Art Van can continue serving our guests and our communities," Diane Charles, vice president of communications for Art Van, said in a statement to Crain's. "It is premature at this time to comment further as no final decisions have been made. In the meantime, our stores are open and it's as business usual."

The Van Elslander family, led by Art Van Furniture Chairman Gary Van Elslander, has prepared an offer for the firm to be the stalking-horse bidder in a Chapter 11 reorganization plan, a source familiar with the negotiations said. It is unclear whether other potential buyers are in discussions. A decision on Art Van's future could happen as early as next week.

"The Van Elslander family has not been involved with operational decisions of the Art Van Furniture since shortly after Mr. Van Elslander sold it in early 2017, and they are not looking for financing to repurchase the company," Diane Wells, COO of the Van Elslander family office, told Crain's in an email.

Wells did not respond to a follow-up asking whether the family is involved in a self-funded bid or may have already secured financing.

Representatives from Thomas H. Lee declined to comment.

The possible bankruptcy filing comes just three years after the 61-year-old company was **acquired** by Thomas H. Lee.

The firm set forth an aggressive growth strategy for Art Van after it completed the deal.

Under longtime CEO Kim Yost, the 190-store company set forth a plan in 2018 to open 200 more stores and double revenue to $2 billion by 2022, **the Detroit Free Press reported**.

But the largest furniture and mattress company in the Midwest has faced tremendous disruption from changing furniture shopping habits in recent years.

Online companies such as Wayfair in furniture and Casper, Leesa and Tuft & Needle in bedding have gobbled up market share away from legacy traditional retailers like Art Van and competitor Gardner White. Online retail giant Amazon is also cutting into its bottom line.

The 25 largest furniture and bedding retailers in the U.S. combined for a 7.5 percent increase in sales to $45.7 billion in 2018, according to a report in Furniture World. However, it was Amazon and Wayfair that dominated that increases. The pair combined for an estimated 35.8 percent increase in estimated furniture and bedding sales in 2018.

Nearly 20 percent of all U.S. furniture sales are now online, according to IBISWorld data. Traditional brick-and-mortar outlets continue to lose market share even as total sales increase, with the exception of manufacturer-branded companies such as Monroe-based La-Z-Boy Furniture, according to Furniture Today.

Despite all the evidence of decline, in 2018, there were more mattress stores in the U.S. than McDonald's, the USA Today reported. The number of mattress stores in the U.S. increased by 32 percent between 2009 and 2017 to 15,255, according to IBISWorld. McDonald's, by contrast, has only 13,826 locations in the U.S.

An Art Van competitor, Houston-based Mattress Firm Holdings, entered Chapter 11 bankruptcy after an acquisition binge that grew its footprint to 3,230 storefronts and 10,000 employees. The mattress retailer ballooned revenue to $3.4 billion in 2018 from just $432.3 million in 2009, but was bleeding money for years. It reported a $54 million net loss in 2018.

Upon exiting bankruptcy in November 2018, Mattress Firm closed as many as 900 underperforming stores.

Thomas H. Lee followed the same formula with Art Van with several bolt-on acquisitions. In 2017, Art Van acquired Levin Furniture in Pittsburgh and Wolf Furniture Co. in Altoona, Pa., in separate deals Crain's estimated at a total of $260 million.

The acquisitions boosted Art Van's workforce by 1,900 to 5,500 employees and added roughly 200 stores. Art Van reported to Crain's revenue of $850 million in 2018, up from $650 million in 2015.

"The furniture industry has been impacted by the same disruption that has plagued other retailers; more furniture is now purchased online than ever before and this trendline continues to point upwards," said Alex Calderone, managing director of Birmingham-based financial and distressed advisory firm Calderone Advisory Group LLC. "Real estate drives fixed costs which inflate break-even points. In this business, when performance plummets, rent expense stays the same. It's very hard to break a lease for an underperforming location without having to file for bankruptcy ..."

Another compounding factor for the already struggling furniture and mattress retail market is the ongoing trade war between the U.S. and China.

China was the top furniture exporter to the U.S. in 2018, sending $34 billion in tables, chairs, couches and other home furnishings to our shores. Those imports were hit with a 10 percent tariff in September 2018, but then jumped to 25 percent in May 2018 after the U.S. and China trade talks stalled. Though some categories are exempt from the tariffs, such as certain fabrics.

The tariffs would add $4.6 billion a year to what consumers will spend on imported furniture such as recliners, couches and upholstered living-room items, according to a June study from the National Retail Federation.

Calderone said the tariffs have lowered margins significantly for major furnishing retailers.

"Fabric, leather, and other materials that go into these products became considerably more expensive as a result of the president's trade war with China," Calderone said. "Some of the furniture retailers our firm has come across simply couldn't pass these costs on to consumers. In some instances, deals can be cut with the Chinese vendors to split the incremental costs of tariffs. That being said, these types of arrangements aren't typically an option for smaller businesses like Art Van that lack the type of negotiating leverage other industry players like IKEA, Target or Walmart may have."

The pressure has been boiling over in the Art Van's C-suite since Thomas H. Lee took over.

Yost retired from the company in February 2018, shortly after company founder Art Van Elslander died. Ronald Boire, a former Barnes & Noble Inc. CEO and longtime retail executive, replaced Yost in April 2018, but left the company last July. Gary Fazio took over the top executive role in September. Fazio retired in 2015 as the CEO of the Serta-Simmons Bedding Co., the world largest bedding manufacturer and supplier to Art Van.

Gail Galea, Art Van's executive vice president and chief merchandising officer, also departed last year. He had served on the board of directors since 2017.

Art Van Elslander, the son of a Belgian immigrant, grew up in Detroit, peddling papers and working in his father's bar as a young boy. At age 14, he discovered his love of fashion when he took a job working at a local haberdashery, Square Menswear.

After graduating from Denby High School in 1948 and serving in the U.S. Army, Van Elslander married, started a family and took a job at Gruenwald Furniture. He opened his first Art Van store in 1959 and grew it to more than 100 stores across five states, more than 3,500 employees before selling to Thomas H. Lee.

Founded in 1974, Thomas H. Lee has a history of investing in growth-oriented businesses and in consumer and retail brands such as 1-800 Contacts, Bargain Hunt Superstores, Dunkin' Brands, Fogo de Chao and Party City. It manages $22 billion of equity capital.

Crain's Senior Reporter Sherri Welch contributed to this report.

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