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ETD.N - Q1 2026 Ethan Allen Interiors Inc Earnings Call

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CONFERENCE CALL PARTICIPANTS

Taylor Zick *KeyBanc Capital Markets Inc - Analyst*

Cristina Fernandez *Telsey Advisory Group LLC - Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to the Ethan Allen fiscal 2026 first quarter analyst conference call. (Operator Instructions) Please note this conference is being recorded.

It is now my pleasure to introduce your host, Matt McNulty, Senior Vice President, Chief Financial Officer, and Treasurer.

Thank you. You may begin.

Matthew McNulty - *Ethan Allen Interiors Inc - Chief Financial Officer, Senior Vice President, Treasurer*

Thank you, operator. Good afternoon and thank you for joining us today to discuss Ethan Allen's fiscal 2026 first quarter results. With me today is Farooq Kathwari, our Chairman, President and CEO. Mr. Kathwari will open and close our prepared remarks while I will speak to our financial performance midway through. After our prepared remarks, we will then open the call up for your questions.

Before I begin, I'd like to remind the audience that this call is being webcast live under the news and events tab within our investor relations website. A replay and transcript of today's call will also be made available on our investor relations website.

There you will find a copy of today's press release which contains reconciliations of the non-GAAP financial measures referred to on this call and in the press release. Our comments today may include forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially.

The most significant risk factors that could affect our future results are described in our most recent quarterly report on Form 10-Q. Please refer to our SEC filings for a complete review of those risks. The company assumes no obligation to update or revise any forward-looking matters discussed during this call.

With that, I am pleased to now turn the call over to Mr. Kathwari.

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Matt. We are pleased to have you all on this call. Considering the many challenges, we are very pleased that our unique vertically integrated enterprise and our focus and investments over the years are providing strong results.

Our interior design focus, investments in technology and many years of developing a strong retail network, our North American manufacturing and logistics have positioned us well. Our written sales in the first quarter increased by 5.2% despite the question of tariffs.

We continued our history of returning capital to shareholders by paying \$16.4 million in cash dividends and ended the quarter with \$193.7 million in cash and no debt. Our US government sales were impacted by delays in advance of the government shutdown. I will discuss a lot of this in more detail after Matt provides a brief financial overview of the quarter and we will also discuss our initiatives to continue to strengthen our enterprise and provide an opportunity to grow our sales and earnings and cash.

Matt?

Matthew McNulty - *Ethan Allen Interiors Inc - Chief Financial Officer, Senior Vice President, Treasurer*

Thank you, Mr. Kathwari. Our financial performance in the just completed first quarter was highlighted by retail written order growth, strong growth margin, positive operating cash flow, and a robust balance sheet. Despite macroeconomic challenges, our operations produced positive financial results, which I will now discuss. Our consolidated net sales were \$147 million as higher average ticket prices, and designer floor sample sales were offset by lower delivered unit volumes, reduced traffic, and fewer contract sales.

Retail written orders grew for the second consecutive quarter as demand patterns continued to improve. Retail written order growth at 5.2% was driven by improved order conversion, increased promotional activities, the strength of our brand, the loyalty of our clients, new product introductions, and additional marketing efforts. Wholesale orders decreased by 7.1% during the quarter as the segment was impacted by lower contract business, including reductions in government spending.

We ended the quarter with wholesale backlog of \$53.5 million. A lower volume of contract orders combined with improved customer lead times helped reduce our backlog from a year ago. However, in the last three months, our wholesale backlog rose by \$4.7 million due to the timing of incoming contract orders.

Strong consolidated gross margin of 61.4% was driven by a change in sales mix, lower raw material input costs, selective price increases, lower headcount, and a higher average retail ticket price, partially offset by increased promotional activities, elevated designer floor sales, and higher inbound freight, including incremental tariffs.

Our adjusted operating margin was 7.2%. For historical context, our pre-pandemic fiscal 2020 first quarter operating margin was 20 basis points lower. Our current year operating margin was impacted by fixed cost deleveraging from lower delivered sales combined with increased promotional activity, additional marketing, higher occupancy costs from new design centers, and sales of floor inventory to make room for new products, partially offset by a disciplined approach to controlling operating expenses, including reduced headcount. Our headcount totaled 3,189 at quarter end, a decrease of 4.7% from a year ago as we continue to identify operational efficiencies and streamline workflows. Adjusted diluted EPS was \$0.43. Our effective tax rate was 25.4%, which varies from the 21% federal statutory rate primarily due to state taxes.

Now turning to liquidity. We ended the quarter with a robust balance sheet, including total cash and investments of \$193.7 million with no debt. We generated \$16.8 million in operating cash flow during the quarter through lower inventory levels and higher customer deposits. Capital expenditures of \$2.4 million were primarily for retail design center buildouts and investments in technology.

We continued our practice of paying cash dividends. In July, our board declared a special cash dividend of \$0.25 per share, in addition to our regular quarterly cash dividend of \$0.39 per share, both of which were paid in August. We have paid a special cash dividend in each of the past six fiscal years and a cash dividend every year since 1996. Also, as just announced in our earnings release, our board declared a regular quarterly cash dividend of \$0.39 per share, which will be paid in November.

In summary, we are pleased to deliver positive first quarter results with the resilient client base, a debt-free balance sheet, and a vertically integrated business. We are navigating the current environment focused on what we control, which is talent, service, marketing, technology, and social responsibility.

Looking ahead, we remain focused on our strategic initiatives in the face of ongoing economic uncertainty. We are confident in the strength of our business model, including our North American manufacturing base and vertical integration, which allows us to provide clients with custom furniture and complimentary design services.

With that, I will now turn the call back over to Mr. Kathwari.

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

All right, Matt, thanks very much.

Now, as we have mentioned, considering the many challenges, we are pleased with our results. Our written sales increased by 5.2% despite lower traffic. This is due to Number 1, we have continued to position Ethan Allen as a desirable brand.

Number 2, We had more qualified customers who visit our design centers. Less customers but more qualified. We continue to focus on key areas in strengthening the following: Talent. We have strong dedicated team members in our vertically integrated structure. In marketing during the quarter we increased our national marketing with many initiatives. Our marketing costs at the national level increased 44%. Going from 2.4% of net sales last year to 3.4% in the current period. We believe that we should continue to see the benefits of this increase as we move forward. In technology, continued utilization of technology in our vertical enterprise is a game changer. This time included technology in our manufacturing. This has included technology in our manufacturing, retail, marketing, and logistics. Our focus continues. Reinvention has positively impacted many areas included. Interior Design network. We have relocated about 75% of our design centers in the last 20-years, while reducing the design center footprint, that's the size of a design center, by 25%.

Have stronger interior design talent. We have 50% less designers today than 10-years back. But generating 75% more business for retail associates, again, combining good talent, technology, products, and all the other things we do has made it possible.

We invested in our manufacturing, including new technology. Opening new retail locations while closing other locations has been important. New design centers that were opened in Colorado Springs, Greater Toronto, and Greater Houston.

We have 173 retail design centers in North America, including 143 company operated and 30 independently owned and operated. About 75% of our furniture is made in our North American manufacturing and almost all custom on receipt of custom orders. This is very different than what happened 20 years back when about 80% of our case goods were made for stock.

We deliver our products at one price to our clients in North America with our white glove delivery service. This is very important, not easy to do to deliver the products whether you are in Seattle or you are in Miami or New York at one delivered price to the customer with white glove service. It is unique but very important for us.

We have consolidated our national distribution into one major distribution center while reducing the number of company operated retail centers location by 35% in the last 10-years. Keep in mind we had about 10 national distribution centers. Now one major distribution center with two smaller locations is what makes it work.

On social responsibility, our teams continue to focus operating a socially responsible enterprise and treating our associates and our clients with respect. In addition, we focus on operating in an environmentally responsible manner.

We recently had our annual convention about two weeks back, which was attended both physically and vertically by our entire enterprise. Under the theme of always moving forward, we reviewed our many initiatives including the launch of new products that will be presented to our clients in the spring of 2026 in our design centers.

The new products have been important. We've launched new products in the last one year, which is, which of course resulted in our selling of floor samples, but we also have included new products which we introduced in Danbury two weeks back and will be in our design centers by spring of next year.

As I stated earlier, both the domestic and international economies are going through major changes. We remain focused on providing great service to our clients to our vertically integrated structure. We remain cautiously optimistic.

With at this time we're open for any questions or comments.

QUESTIONS AND ANSWERS

Operator

We'll now be conducting a question-and-answer session. (Operator Instructions)

Taylor Zick, Key Bank Capital Markets.

Taylor Zick - KeyBanc Capital Markets Inc - Analyst

Hey, good afternoon. I'm doing well. How are you, Farooq?

First off, congrats on, the strong comp here in this fiscal first quarter. I just wanted to ask more specifically about the cadence of retail written order trends during the quarter, maybe what you saw during the Labor Day sales period and outside of that as well.

Farooq Kathwari - Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, that's a good question because, first quarter we were looking at all these, the challenges of government shutdowns and everything else. What we saw was much lower traffic. Interestingly, but more qualified people and the ones who came in were buying.

And what we saw was that mostly, most of the quarter we maintained more or less similar increases. We did not see any major highs or lows during the quarter. What we saw was people coming in, working with our designers, and buying. Now if the environment was different and we didn't have about a 30%, 30%-plus lower traffic into our design centers. Because of the fact, with the economy and what is taking place, but the people who came in were interested, qualified, they worked with our designers, thereby helping us increase our business.

Taylor Zick - KeyBanc Capital Markets Inc - Analyst

Yeah, that's great. Maybe just to follow-up here on, promotional activity. Obviously we've seen the industry become more promotional over the past few quarters. You noted it, this quarter here for Ethan Allen. Can you talk a little bit more about what you're seeing and maybe what your expectations are for, the balance of the year or, 2026 if you don't want to comment on that?

Farooq Kathwari - Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, I mean we are watching what is happening in the industry. We have more or less maintained our promotional activities across the board. We have not gone into any major promotions, but we have, we do give special savings, every quarter, and we have maintained that, and we felt we do also provide financing, but also the level that we've been doing in the past, small changes, but not much, so we maintain our that's because of that, you see our margins have been maintained. If that was not the case, we would not have the gross margins that we have today.

Taylor Zick - KeyBanc Capital Markets Inc - Analyst

And then I guess just one last question for me before I turn it over, tariffs continue to impact the industry pretty broadly, what are you seeing in terms of, pricing across the industry and then maybe if you've taken any pricing yourself?

Farooq Kathwari - Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, that's an important issue, and of course it's changing constantly so we do not know where we're going to end. We do make about close to 80% of our products or 75% to 80% of our furniture in North America.

In Vermont, North Carolina, then we have in Central Mexico and in Honduras. Now there has first there was no hardly any tariffs in Mexico, then there were tariffs and now they are thinking of not having the level of tariffs that they had last two weeks. It's ever changing.

So fortunately for us, while on the furniture side, we are less impacted by tariffs, we are able to manage it because of the fact of our North American presence. Our other products, which is our non-furniture products, a lot of that does come from overseas and that has been impacted by my tariffs.

Now we have taken, and again, that changes, so everyone has to be careful that you don't act too fast. But we have made some changes and we have taken some price increases anywhere from depending on the country, the region, anywhere from 5% to 10%.

Some of our partners overseas have worked with us to manage the cost, so overall, I think that we have been much less impacted the margins by this question of tariffs. But most of it has been on non-furniture products. We do have one major plant that we have in Southeast Asia, which has been impacted, but again, we have to watch that every month the tariff.

Tariffs change. So overall, I think we're managing it well because of our strong presence in North America and our own manufacturing.

Operator

Christina Fernandez, Telsey Advisory Group.

Cristina Fernandez - Telsey Advisory Group LLC - Analyst

Hi, good afternoon.

Farooq Kathwari - Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer

Hello, Christina. How are you?

Cristina Fernandez - Telsey Advisory Group LLC - Analyst

I'm doing good, thank you. Hi Farooq. Hi Matt. I had a couple of questions. Want us to start with the retail segment. It's been two quarters where the written demand has been positive, but sales for this quarter for that segment were still down 3%. So at what point will we see that demand translated into growth for that segment?

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

Well, if you take a look at our retail. We had on the, interestingly, our delivered retail was about 3.3% or 3.2% lower than last year. Or we were able to maintain our relative cost structure. I think that at this stage, our objective is to work towards, and we are seeing that there are challenges that objective is to can come close to what we did last year. That's what our objective is.

We'll see what happens in November and December. October is just ending, but, people, as I said, have been challenged. Our traffic has been down considerably, fortunately, because of the fact of qualified people coming in and especially our talented interior designers. If we didn't have that, the chances are we would be severely impacted with lower sales. So I think that at this stage, Cristina, our objective is to still watch but to come close to what we did last year.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

Okay. And then on the contract side, can you talk more about what's happening with the State Department? It seems like this was a pretty challenging quarter for that particular contract. So do you think it can normalize here in the near term over the next quarter or two or should we expect this lower trend to be a new steady state?

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

Well, it's a good question. It depends upon the opening of the government, where what we have seen is this and what we hear is that we would get orders if the government was open because the fact that government is not open, new orders are not coming in.

So it all depends upon where, what happens with the government and it also had to some extent impact on our sales, not completely, we were able to ship some products, but it's mostly on the new orders coming in. The government is closed, so we hope that the government opens up and what we hear is that there is some higher pending orders that they will forward to us when they open. And if that happens again, let's assume that it happens in the next, this quarter, then the impact of that would be toward the middle or end of the of the following quarter, you got to make that product.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

And then my last question was on the increased marketing spend year-over-year. Can you share where the spending is going? Is it reaching more customers? Is it a different type of I guess advertising that you're doing compared to last year and where are you seeing the benefit of that advertisement in traffic or conversion or where do you think you're seeing the return?

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, it's a good question and where we did was where we increased is on a national level, we increased it in additional direct mail and paid search and paid social campaigns.

We didn't have much in paid search and paid social campaigns in the past, so we accelerated. That's where most of the increase at the national level took place, close to 50% increase. Now we don't see the benefit of it right away. I would say that we should see some benefit as we go forward in this current quarter and as we move forward, because this is a longer-term investment, but we believed it made sense.

We also made sense that we had also, this past quarter, an additional direct mail that we didn't have in the previous year. So going forward we'll continue with our direct mail as we have in the past, but to answer your question, most of the money, new money, new advertising was on paid search and paid social campaigns.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

Thank you.

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

All right.

Any other questions?

Operator

There are no further questions at this time. I'd like to hand the floor back over to Farooq Kathwari for any closing comments.

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

Well thank you very much. We are fortunate that we have a very strong team, as I always talk about five things. So we have very strong talent, even though we have been able to reduce. The number of associates but the team members that we have are very motivated, knowledgeable. And it is also due to the tremendous increase in technology that is helping us in our work.

We reduce the size of our design centers. We have refreshed our design centers. We are opening new design centers and we continue to do that. Many of them are relocations. We also have, we believe very strongly that the new products are going to continue to position as well. So with strong talent, strong product programs, vertical integration.

Our focus on technology, we believe we are well positioned and in somewhat challenging conditions because we do not know the overall international and the domestic situation, but despite all of that, we've done well in this first quarter and we believe that we'll do relatively well going forward.

Thank you very much for participating and I'm sure if you have any other questions, please let us know.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

Farooq Kathwari - *Ethan Allen Interiors Inc - Chairman of the Board, President, Chief Executive Officer*

Okay, thank you.

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