

Crown Crafts, Inc.

Third Quarter Fiscal Year 2024 Conference Call

Wednesday, February 14, 2024, 9:00 AM ET

CORPORATE PARTICIPANTS

John Beisler – *Three Part Advisors*

Olivia Elliott – *President and CEO*

Craig Demarest - *CFO*

PRESENTATION

Operator

Good morning, and welcome to the Crown Crafts, Incorporated Third Quarter Fiscal Year 2024 Conference Call.

All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key, followed by "0". After today's presentation, there will be an opportunity to ask questions.

Please note, this event is being recorded.

I would now like to turn the conference over to John Beisler with Three Part Advisors. Please go ahead.

John Beisler

Thank you, operator, and good morning, everyone. We appreciate you joining us for the Crown Crafts third quarter fiscal 2024 conference call.

Joining me today are Crown Crafts' President and CEO, Olivia Elliott, and the company's CFO, Craig Demarest. Earlier this morning, Crown Crafts filed its 10-Q and issued a press release regarding their third quarter fiscal 2024 results. A copy of this release is available on the company's website, crowncrafts.com.

During today's call, the company will make certain forward-looking statements, and actual results may differ, materially, from those expressed or implied. These statements are subject to risks and uncertainties that may be beyond Crown Crafts' control, and the company is under no obligation to update these statements.

For more information about the company's risk factors and other uncertainties, please refer to the company's filings with the Securities and Exchange Commission.

Finally, I would like to remind you today's call is being recorded, and a replay will be available through the company's Investor Relations page.

Now I would like to turn the call over to the President and CEO, Olivia Elliott.

Olivia Elliott

Thank you, John, and good morning, everyone. Our third quarter results reflect meaningful top and bottom-line improvements. We saw our gross margin return to more historical levels, and we continue to see a nice contribution from Manhattan Toy, which contributed \$6 million in net sales, during the quarter.

As we continue to monitor the macroenvironment, we are encouraged to see that recent economic reports indicate a more favorable outlook, as the year progresses. However, the overall impact from the higher inflationary environment that has transpired over the past couple of years continues to be a prolonged strain on our consumers, as reflected yesterday in yesterday's CPI report.

This is particularly evident at the lower end of the income scale where those consumers have experienced a longer-term effect to their discretionary income due to higher interest rates for mortgages and credit cards, as well as the resumption of student loan repayments.

Another encouraging update is the reopening of 11 buybuy Baby stores, which started during the quarter. Although we did ship products to these locations, we expect this to be a more gradual benefit, as they slowly roll out the opening of more stores.

buybuy Baby's goal to open 100 additional stores over the next few years would equal the number of stores that were closed as part of last year's bankruptcy. These openings would be a great benefit, giving us additional physical locations for consumers to get a first-hand look and feel for our products, particularly, our higher-end infant bedding offerings. We also continue to work with other specialty retailers to add our products to their shelves.

We've made good controls on our inventory throughout the year as major retailers continue to carry lower levels of goods within their systems. At the end of the quarter, total inventory was \$34.9 million, compared to \$34.2 million at the end of fiscal '23. Compared to the same period last year, NoJo and Sassy inventory levels have declined from \$25.8 million last year to \$22.7 million, this year.

With that, I'd like to turn the call over to Craig to cover the financials in more detail.

Craig Demarest

Thank you, Olivia, and good morning, everyone. Net sales for the third quarter of fiscal '24 increased approximately 25% to \$23.8 million, compared to \$19 million in the prior year quarter. The increase is attributable to the addition of Manhattan Toy, which added \$6 million in net sales to the current year quarter. Net sales of bedding, blankets and accessories were essentially flat as consumers face the economic pressures that Olivia mentioned.

Gross profit for the quarter was 27%, compared to 23.7% in the third quarter of fiscal '23, as margins have returned to historical levels and consistent with year-to-date margins.

Marketing and administrative expenses were \$4.1 million in the current year quarter versus \$2.7 million in the prior year quarter. This increase is primarily related to expenses associated with Manhattan Toy.

Net income for the quarter was \$1.7 million, or \$0.17 per diluted share, compared to net income of \$1.3 million, or \$0.13 per diluted share in the prior year quarter.

Turning now to our balance sheet. Cash and cash equivalents at the end of the third quarter were \$683,000, compared to \$1.7 million at the end of fiscal '23.

Borrowings on our revolver at the end of the quarter were \$10 million, compared to \$12.7 million at the end of fiscal '23.

And finally, we paid our regular quarterly dividend of \$0.08 per share and declared our next dividend, which will be paid in April. On an annualized basis, our shares currently offer just over 6% yield, based on yesterday's closing price.

And now, I will turn the call back over to Olivia for additional comments.

Olivia Elliott

Thank you, Craig. As we approach the end of fiscal 2024, we continue to implement our long-term strategic plan, which was approved by our Board in fiscal 2023. As a reminder, this plan includes continuing growth in our Toy category through market share expansion within both Sassy and Manhattan Toy. Toys are projected to represent nearly half of our overall sales for fiscal 2024, compared to just 17% at the end of fiscal 2023.

We also have plans to enter into new and adjacent product categories through a combination of organic growth and strategic acquisitions. We are working on product development to bring select items from the Manhattan Toy lineup into Walmart if the price points make sense, and we continue to look at additional acquisition opportunities that expand or complement our existing portfolio.

Selling direct to consumers has remained challenging, given the significant upfront spending to build out the website, followed by advertising of the brands. Manhattan Toy had a website in place at the time of the acquisition, which we are using to sell some of the Sassy brands, and our NoJo brand is ready to launch its own website.

The remainder of the plan is centered on implementing operating cost efficiencies and investing in technology and our organizational structure. Our company has a long track record of holding expenses in line, and we will continue to run the business with this at the forefront.

Overall, we continue to manage our business through the ongoing macroeconomic challenges, while positioning our brands to capitalize when the overall economy improves. We believe the long-term prospects of the company remain favorable, as evidenced by our long-standing track record and dividends and look forward to delivering long-term value to our shareholders.

With that, I'd like to open up the line for questions. Danielle.

QUESTION AND ANSWER**Operator**

We will now begin the question-and-answer session. To ask a question, you may press “*”, then “1” on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press “*”, then “2”.

The first question comes from Doug Ruth of Lenox Financial Services. Please go ahead.

Douglas Ruth

Olivia, and Craig, congratulations, a very good report.

Olivia Elliott

Thank you.

Douglas Ruth

A couple of questions for you. Can you talk about--are you having any success lowering the Manhattan Toy manufacturing cost?

Olivia Elliott

Yes. Actually, we are. So, I mean, we kind of went into this with a look at everything from the first cost to freight pretty much everything across the whole manufacturing channel, we've managed to get some decreases.

Douglas Ruth

Is there more to come, do you think?

Olivia Elliott

We are always trying. So, I mean, we're pushing on certain things. I mean, as you know, the inventory that was already in the warehouse was at some higher cost. And so, as we run through that, I'm hopeful that we can see more decreases.

Douglas Ruth

Okay. And my understanding is that you are considering the possibility of combining warehouses. Could you maybe explain to us what's happening with that?

Olivia Elliott

We're in the early stages of that. So yes, we're starting to look at other locations for warehouses, possibly even outside of California. And so, to do that, it's a pretty big commitment and it takes some time because when we do make a move, it will be for at least, hopefully, 10 years or more, so we want to make sure we get it right. So, we're looking at that on the front end right now. And hopefully, we'll have a solution within the next 18 months or so.

Douglas Ruth

Okay. Very good. And then my final question, can you give us a little bit more color on the relationship with Walmart? And is it possible that maybe Manhattan Toy might be able to get into Walmart, maybe in fiscal 2025? Anything you could share is appreciated.

Olivia Elliott

So yes, we've got a very good relationship with Walmart. Sassy and NoJo have both been selling to them for many, many years, longer than I've been at the company. And so, we are talking to Walmart. We do have some opportunities in a very minimal amount of stores in fiscal 2025. But hopefully, if the sales go well with that, then we'll have an opportunity to expand more.

Douglas Ruth

Okay. Thank you for answering my questions. And congratulations, it's really a tremendous earnings report.

Olivia Elliott

Thank you, Doug.

CONCLUSION**Operator**

As a reminder, if you have a question, please press "*", "1".

Seeing that there are no further questions, I would like to turn the call back over to Olivia Elliott for closing remarks.

Olivia Elliott

Thank you for your continued interest in our company. We look forward to speaking with you again when we report our fourth quarter and fiscal year 2024 results in June. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.