

Crown Crafts

Investor Conference Call

Wednesday, August 11, 2021, 2:00 PM
Eastern

CORPORATE PARTICIPANTS

Randall Chestnut - *Chairman, Chief Executive Officer*

Olivia Elliott - *President, Chief Operating Officer*

Craig Demarest - *Vice President, Chief Financial Officer*

PRESENTATION

Operator

Hello, ladies and gentlemen, and welcome to the Crown Crafts Incorporated investor conference call. Your host for today's call is Mr. Randall Chestnut, chairman and chief executive officer. Joining Mr. Chestnut on the call will be Ms. Olivia Elliott, president and chief operating officer, and Mr. Craig Demarest, vice president and chief financial officer.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. Any reproduction of this call in whole or in part is not permitted without prior written authorization from Crown Crafts Inc., and as a reminder, this conference is being recorded today, August 11th, 2021. At this time, I would now like to turn the call over to Mr. Craig Demarest who will begin the call. Please go ahead.

Craig Demarest

Thank you. Welcome to the Crown Crafts investor conference call for the first quarter of Fiscal Year 2022. With me today are Randall Chestnut, the company's chief executive officer, and Olivia Elliott, the company's president and chief operating officer. A telephone replay of this call will be available one hour after the end of the call through 4:00 PM Central Time on November 11. Also, a web replay of this call will be available for 90 days and can be accessed by visiting our website at www.crowncrafts.com.

Before we begin, I'd like to remind listeners of the cautionary language regarding forward-looking statements contained in the press release. That same language applies to comments made in today's conference call. I will now turn the call over to Randall.

Randall Chestnut

Craig, thank you very much and good afternoon to everyone. Thanks for joining us on our first quarter Fiscal Year 2022 conference call. We're very happy with the results of the quarter.

One disappointment in May of this year, we announced we had made the difficult decision to close Carousel Designs, effective May 21, 2021. The financial impact of Carousel and the forgiveness of the Paycheck Protection loan during the quarter has caused the comparisons between this year and last year to be a little difficult, but when you separate the impacts from the results of the continued operations which are NoJo Baby & Kids and Sassy Baby, these subsidiaries had a great quarter.

Now I give it to Olivia and Craig to discuss the quarter in more detail and will be back at the end to take any questions. Thank you.

Olivia Elliott

Thank you, Randall. I'm just going to touch on the first quarter highlights at a very high level, and then I'm going to turn the call over to Craig and he'll go into more detail.

First quarter net sales were \$18.7 million compared with \$16.2 million last year, which was an increase of 15.5%. If you exclude Carousel from both quarters, the increase in net sales for our continuing operations of NoJo and Sassy was 22.9%. While we've seen a shift in sales from consumers starting to shop in brick-and-mortar locations again, if you exclude Carousel's direct to consumer sales, internet-based sales still represent approximately 30% of our sales. During the quarter, we were also happy to have a slight increase in international sales which were hard hit during the height of the pandemic.

First quarter net income was \$2.7 million compared with \$1.2 million last year. As Randall mentioned, there were quite a few gains and losses associated with Carousel and the Paycheck Protection loan forgiveness. When you exclude the impact of both of these, net income would have been \$1.5 million in the current year compared with \$1.2 million last year, an increase of 19.5%. We continue to feel the impact of rising crate costs, which impacted our gross margin this quarter. Craig will address this in a little more detail later on in the call.

On the balance sheet side, we finished the quarter with \$4.7 million in cash and no debt. The company's board of directors declared at \$0.08 per share cash dividend on the company's common stock that will be paid on October 1, 2021, to stockholders of record at the close of business on September 10, 2021. This represents a 4.3% yield based on yesterday's closing price per share. We're very pleased that our financial strength allows us to pay this dividend. Overall, this was a very good quarter for us.

I'll now turn it over to Craig.

Craig Demarest

Thanks, Olivia. I'll give the financial highlights or a more detailed analysis. Please refer to the company's form 10-Q filed with the SEC this morning.

As Olivia mentioned, net sales were \$18.7 million for the first quarter of Fiscal Year 2022 compared with \$16.2 million of the first quarter of the prior year, for an increase of \$2.5 million or 15.5%. The increase in sales is primarily due to the higher sales of bibs, toys and disposables, offset by lower sales of bedding and blankets. The decline in sales of bedding and blankets is primarily the result of an \$863,000 decrease in sales in Carousel Designs, which ceased operations during the current report. Overall, sales have been higher at brick-and-mortar retailers and lower at online retailers as consumers have begun to return to stores that previously had been impacted by the COVID-19 pandemic. Gross profit decreased by \$367,000 and decreased from 31% of net sales in the prior year quarter to 24.9% of net sales in the current year quarter. The gross profit dollars in the current year quarter decreased as compared to that of the same quarter in the prior year because of the gross loss of \$647,000 experienced by Carousel in the current year quarter was only partially offset by increased gross profit by higher net sales over the same comparable periods.

The loss from Carousel in the current year quarter is the result of the sale of inventory below cost and the recognition of charges of \$344,000 associated with the settlement of a supplier with a commitment to purchase fabric, and \$265,000 associated with the liquidation of Carousel's remaining inventory upon the closure of the business.

The current quarter gross profit dollars and gross profit percentage are also adversely impacted by continuing increases in the cost of ocean-going trade. Marketing and administrative expenses were flat at \$3.4 million for both the current and prior year quarters but decreased from 20.9% in the prior year quarter to 18% of net sales in the current year quarter. As compared with the prior year quarter, the company incurred in the current year quarter higher overall compensation costs of \$154,000 and higher costs for outside services of \$47,000 which were offset by lower cost for Carousel, including lower advertising costs of \$149,000 and the elimination of \$64,000 in amortization costs.

Other items in the quarter include a \$1.985 million gain from the forgiveness of the PPP loan that Olivia mentioned earlier. The current quarter provision for income taxes is based upon an

estimated annual effective tax rate from continuing operations of 19.2% compared to 25.1% in the prior year quarter. The current year quarter estimated annual effective tax rate includes no tax expense from the gain on extinguishment of debt, which will be permitted to be excluded from taxable income, the effect which is expected to lower the effective tax rate for Fiscal Year 2022 by approximately 4 percentage points. During both the current and prior year quarters, the company recorded discrete tax benefits and/or credits to adjust reserves for unrecognized tax liabilities and the aggregate effect of excess tax benefits arriving from divesting of non-vested stock and the exercise of stock options. The effective tax rate from continuing operations combined with the effect of the discrete income tax items resulted in an overall provision for income taxes of 18.6% for the current year quarter and 25.9% in the prior year quarter. Net income for the first quarter of Fiscal Year 2022 was \$2.7 million or \$0.27 per diluted share, compared to net income of \$1.2 million or \$0.12 per diluted share for the prior year quarter.

With that, I'll return the call back to Randall.

Randall Chestnut

Craig, thank you very much. Carrie, I'll call you back up and you can open it up to any questions that anyone may have.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press star then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then 2. At this time, we will pause momentarily to assemble our roster.

The first question is from Linda Bolton-Weiser of D.A. Davidson. Please go ahead.

Linda Bolton-Weiser

Hello, how are you doing?

Randall Chestnut

Good, Linda. You?

Linda Bolton-Weiser

Good, good. Yes, congratulations on the good sales in the quarter. I'm just trying to figure out on the gross margin, could I ask you to repeat it? It sounds like there were two special items that maybe I'd want to exclude, \$344,000 and \$265,000. Is that correct, since those were kind of special items?

Randall Chestnut

Yes, the Carousel gross loss was \$647,000 in the current year quarter and it included the two items you're referring to, the \$344,000 and the \$265,000.

Linda Bolton-Weiser

Okay, so then if I exclude those items from gross margin, I would get to some kind of normalized level. Do you happen to know that off the top of your head or I guess I could do the calculation? I'm just trying to figure out how much the gross margin was down excluding those items.

Randall Chestnut

I don't have that handy.

Olivia Elliott

If you look at the press release, we closed the sales--if you excluded Carousel from both quarters as well as the PPP loans, we included what net sales, gross margin and net income would have been. The quarter would have had \$18.1 million in net sales, 29.3% of a gross margin and \$1.5 million as your net income, if you exclude both of the gross one-time events.

Linda Bolton-Weiser

Okay, so I guess that would make the gross margin down about 200 basis points or so? Not quite. So, I mean maybe a 29% gross margin. I know you don't want to give guidance, but maybe that's a decent level going forward if one were to assume the freight inflation pressures were to continue?

Randall Chestnut

You've got to figure that out, I'm sorry.

Olivia Elliott

I think we've said all we can.

Randall Chestnut

We're not going to help you with that, you know that.

Linda Bolton-Weiser

All right. You had talked about I believe some price increases on the last call. What's the status of taking some price increases?

Randall Chestnut

Linda, we are where we can. We analyze our business very carefully and where the items are price sensitive. We think a price increase is going to knock it out of the market or make it too high, we have avoided those other places, we have been fairly consistent on price increases. So, we have had some success. One thing, before you ask the question, that we have not been able to cover with price increases is the freight cost because the freight cost keeps changing faster than we can increase prices. It almost changes every day. It's a rollercoaster.

Linda Bolton-Weiser

So, in terms of Carousel, I think you said that the bedding and blankets segment was down \$863,000 because of Carousel closing down but Carousel was in there for about two months of the quarter. I'm just trying to figure out the \$863,000 of sales lost is just for one month of the quarter. It seems very large.

Olivia Elliott

Hold on. The \$863,000 is the difference between this year and last year.

Craig Demarest

Right, including the month in the June quarter this year where Carousel was selling.

Olivia Elliott

So, there were some sales in last year that we also did that math in the press release, where we took the impact of Carousel out of last year and compared it to this year. As Randall said earlier

in the call, it's definitely a tough quarter to be able to compare, so we tried to do what we could in the press release to make it a little bit clearer.

Linda Bolton-Weiser

Can you just remind me the full year amount of Carousel sales and profit or something in 2020? I mean, FY '21.

Olivia Elliott

Keep asking your questions and we'll refresh ourselves on that number while you're asking.

Randall Chestnut

We've also disclosed the profit. We'll give you that in a minute.

Linda Bolton-Weiser

I think it was somewhere in the area of \$4 to 5 million is what I think I have here.

Olivia Elliott

That's closed. I'm just going to get the exact amount.

Linda Bolton-Weiser

So, in other words, your sales increased even with the discontinuation of Carousel through part of the quarter, so it's very strong. To what do you attribute the strength of the sales performance, just generally people going back to stores?

Randall Chestnut

Well, yes. Linda, even through the pandemic we stayed fairly strong because we had changed our business model where we could service dropship and shipments direct to the retailers, the internet retailers. Then as the pandemic came to an end, people wanted to get out of the house and go back to shopping, so we've seen a heavy resurgence in brick-and-mortar sales. That has helped us, okay? That's through not just one retailer but through several of the retailers. Obviously, that doesn't affect Amazon because they don't have a brick-and-mortar, but it does affect our other retailers. That has been a strength that we've been able to regain a lot of that through people getting out and going back into the brick-and-mortars.

I mean, if you exclude--and don't get me wrong, excluding the Payroll Protection Program is just to clarify numbers. We're happy we got forgiveness on that, very pleased. But if you exclude Carousel, and then you have to exclude the Payroll Protection gained, as I said in the opening remarks, the strength of NoJo Baby & Kids and Sassy Baby is very strong. I mean, it was good. It was very good. I might add, we've said it many times before, that's with void one particular retailer that is a specialty retailer that Sassy sells placemats too that had zero in the quarter. That's even overcoming that.

Linda Bolton-Weiser

Right, when is that retailer going to come back to purchasing, do you think?

Randall Chestnut

Well, it's starting to come back a little bit. When I say a little bit, a very little bit. It wasn't in the quarter we just reported. It would be in the front quarter that we're in now. I think we've gotten a few orders but it's just starting to dribble back in.

Olivia Elliott

Linda, just to follow up on the question about Carousel sales, we actually never had reported the Fiscal Year 2021 sales but in Fiscal Year 2020, the sales were \$4.8 million. It's safe to say it wasn't far off from that number in 2021, maybe a little higher.

Randall Chestnut

Also, we've never reported the net income but it's also safe to assume that if it were profitable, we wouldn't have cancelled or closed the operation. You've got to assume it was not profitable.

Linda Bolton-Weiser

Okay, I think that's all the questions from me right now. Thank you very much and take care.

Randall Chestnut

Thank you, Linda. Take care and have a good day.

Operator

Again, if you have a question, you can press star then 1. Seeing no further questions, I'll turn the call back over to Mr. Chestnut for any closing remarks.

CONCLUSION**Randall Chestnut**

Carrie, thank you very much. Again, I'd like to say thanks to all who participated in today's call. We repeat, we're very happy with the results of the quarter and we want to thank everyone for their continued support and interest in the company. We'd like to thank all of our employees, suppliers and customers. We'll talk to you again in mid-November when we release our second quarter results.

Thank you very much, this concludes our conference for today. Have a good day.

Operator

Thank you. The conference is now concluded. Thank you all for attending today's presentation. You may now disconnect your lines. Have a great day.