Operator
Hello, and welcome to the Ethan Allen Fiscal 2020 Fourth Quarter Analyst Conference call. At this time, all participants are in a listen only mode. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. It’s now my pleasure to turn the call over to Matt McNulty, Vice President of Finance. Please go ahead, sir.

Matthew McNulty
Thank you, Kevin. Good afternoon, and welcome to Ethan Allen’s conference call for our fiscal fourth quarter ended June 30, 2020. This conference call is being recorded and webcast live on ethanallen.com, where you will find a copy of our press release, which contains reconciliations of non-GAAP financial information referred to in the release and on this call. A replay of today's call will also be made available via phone and on our website. After our prepared remarks, we will open the call to questions. As a reminder, our comments today will include forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. 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. Joining me on the call today is our Chairman and CEO, Farooq Kathwari, and our Chief Financial Officer, Corey Whitley. I am pleased to now turn the call over to Farooq Kathwari.

Farooq Kathwari
Thank you, Matt. And thank you all for participating in our fourth quarter and fiscal year ending June 30, 2020 call. As we all know, the last few months have been very challenging. The COVID-19, according to a recent economic study, has wiped out last five years of economic growth. We are pleased and gratified that we have been able to generate business despite major closure of our retail network for most part of the fourth quarter. We have been able to maintain business due to a number of factors, including a strong talent in our vertically integrated structure, the
trust in our brand, great quality, value and service, combining personal service of our interior designers, and combined with technology. Adding technology for client interaction was a major focus in the last few years, maintaining strong marketing initiatives during the quarter; and fifth, emphasizing safety and social responsibility.

Due to many initiatives, we were able to generate a positive 14 million cash during the fourth quarter. We also decided to pay back 50 million of the $100 million we had drawn from our line of credit for precautionary purposes. We are especially pleased that our written orders for the three months ending June were strong when, for most of the time period, most of our design centers were closed. Our wholesale orders as compared to previous year were for April, 35%, May, 70%, June, 117%, and July, 103%. These numbers also reflect doubling of sales online during the quarter ended June 30th from previous year quarter. We are pleased, today the Board reinstated the quarterly dividend of $0.21 per share. And after Corey provides a financial overview, I'll be happy to give more detail, some more information, and then we'll be able to open for any comments and questions. So, Corey?

Corey Whitely
Thank you, Farooq. The COVID-19 crisis challenged our operations during the fourth quarter. As Farooq mentioned, our teams did well in preserving through these challenges. Our primary focus was operating in a safe manner for our associates and our clients. As our design centers began to reopen, we implemented the CDC guidelines for operating businesses safely. We established logistics for the supply of hand sanitizer and related dispensers, disinfectant cleaning supplies, masks, and nitro gloves, and we increased the cleaning frequency of our design centers and other facilities. For the safety of our associates and our design centers, we require all associates and clients to wear masks. So far, we have been fortunate with very few cases of COVID-19 throughout our enterprise.

As we previously announced on March 19th, we temporarily closed all our company-operated design centers in the U.S. and Canada due to COVID-19 and the various governmental stay-at-home orders. Each of our North American manufacturing operations were also impacted with governmental orders requiring temporary shutdowns for various periods during April, May, and June. Our logistics operations, while continuing to operate throughout the quarter, were operating in a limited fashion, especially with restrictions on our in-home white glove deliveries. As a result, our consolidated net sales for the quarter of 91.6 million were about half of the prior year net sales of 183.9 million for the quarter. Wholesale segment net sales were 51.6 million compared with 107.5 million in the prior year quarter, primarily due to lower sales to our North American retail network and shutdowns at manufacturing related to the COVID-19 crisis. Retail segment net sales were 70.7 million compared with 147.2 million in the prior period. There were 144 company-operated North American design centers in both the current and prior year periods.

COVID-19-related manufacturing shutdowns and logistics disruption negatively impacted the net sales and the consolidated adjusted gross margin, which decreased to 53.3%. For the full
fiscal year, gross margin on an adjusted basis was 55.7% compared to 55.1% in the prior year. As we announced on April 1st, we took many steps under our COVID-19 action plan, including the furlough of approximately 70% of our global workforce. The decision by our CEO to forgo his salary through June 30, 2020 and the salary reduction of up to 40% for all senior management and up to 20% for other salaried employees through June 30th. Our Board of Directors reduced their cash compensation by 50% through June 30th. And then we eliminated all our nonessential operating expenses. We negotiated with our landlords to receive rent deferrals or abatements for our lease design centers. We delayed nonessential capital expenditures and took other steps to reduce cash disbursements.

With these expense controls, our adjusted operating expenses for the fourth quarter, which included 5.3 million of advertising costs, decreased 38.2% from the prior year to 53.7 million. We incurred some incremental costs associated with the additional supplies and cleaning regimes based on the CDC safe business protocols. These costs, which were less than 1 million, are reflected within our fourth quarter SG&A expenses. Impacted primarily by lower net sales and a decline in wholesale gross margin, the adjusted operating loss for the fourth quarter was 5 million. For the full year, adjusted operating income was 17.1 million. Adjustments to GAAP operating income for the quarter totaled 7.5 million and primarily represented restructuring and asset impairment charges during the quarter, of which 4.7 million were noncash charges.

Adjusted EPS for the quarter was a loss of $0.15, compared with adjusted earnings of $0.46 in the prior year fourth quarter. For the full fiscal year, adjusted EPS was $0.52 compared with $1.56 last year. A key element of our COVID-19 action plan was to reduce expenses and conserve cash. We were pleased to have generated cash from operating activities of 14 million during the quarter and 53 million for the full fiscal year. For precautionary purposes, we’re due (sp) 100 million from our credit facility in March, and by June 30th, we paid 50 million, while still ending the quarter with total cash of 72.3 million. We carefully managed our inventories and ended the fiscal 2020 year with 126.1 million of inventory compared with 162.4 million a year ago. We believe the fundamentals of the company remain strong, with orders improving sequentially each month. And as our businesses started to rebound, we are pleased to have called back 56% of our furloughed workers as of June 30th. With that, I will turn the call back over to Farooq.

Farooq Kathwari
Thank you, Corey. While many external challenges, we were pleased with the results of the quarter. And now again, many unknowns, we still believe that we are positioned well to grow. The main areas of focus—I stated some of them earlier. One is maintaining a strong talent in our vertically integrated structure. Our teams really have done a great job in the quarter in the amount of changes we had to make and the way they did it while still maintaining business, in fact, increasing business in June and July from the previous year. Today, combining technology with personal service will help us increase productivity as we saw in the fourth quarter.
Our ability to service our clients is critical. With 75% of our products made in our North American workshops, we have the ability to service our clients well and increase efficiency in our manufacturing and logistics. Now, like others, we have—we have had to get back into manufacturing. We have had to make sure that we are also able to get some supplies of raw materials on a timely basis, but our production is increasing. And with increased backlogs, we have an opportunity in the next few months to service this backlog.

Now initiatives to strengthen, expand our design center network is extremely important. Currently, we have 200 design centers in North America and over 100 internationally. We are also planning to launch a campaign to attract retail entrepreneurs to join our network in many markets that we are not currently present. Our government and contract business remains promising, and we look forward to continued growth. Enhancing our marketing and product development programs is critical. Our focus remains on three important attitudes in our product program that we define as classics with a modern perspective, country coastal, and modern. Our recent introduction of custom bedroom made in our North American facilities and this month, introducing a program called the farmhouse inspired products is extremely well received by clients. We have maintained strong marketing in various mediums, including national and regional television, direct mail, digital mediums, and grassroots (sp) at the retail level. Finally, focus always remains on managing our business with safety and social responsibility. And that is a focus all across our enterprise. With this, I'd like to open for any questions or comments.

Operator
Thank you. We will now be conducting a question-and-answer session. If you’d like to be placed in the question queue, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you’d like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing star one. One moment, please, while we pull for questions. Our question today is coming from Bobby Griffin from Raymond James. Your line is now live.

Bobby Griffin
I hope you’re staying safe. Thank you for taking my questions. The first thing I want to ask about (sp), Farooq, is the cost base. A lot of cuts during the quarter to conserve cash. As you've seen demand return here in June and July, what's coming back in terms of cost? Is it all coming back? Or is there some that are going to be kind of permanent cost reductions?

Farooq Kathwari
It's a good question, Bobby, because crisis does create an opportunity to rethink our enterprise, rethink how we can operate, and we have been able to operate in during the last—the three months of this last quarter, with approximately—at the retail level with approximately less people while doing more business. Now, this is—some of it perhaps is some pent-up demand, but I think most of it is due to the fact that we brought in the best of our best people. And the
clients that came in were motivated. They were interested in buying, so the best of our design centers interacted with them, some in person, as well as online. So, I think going forward, in the retail network, we believe that we can do substantially same business or much more business with approximately 30% less associates. Now in manufacturing, we have brought back most of the people, because of the fact there is much more focus on products made in North America, which is good news. So, our operations in North America, in Mexico, Honduras, Vermont is almost close to what we had previously. In other areas, I think, again, we are learning how technology is going to help us. I think we're going to operate with approximately 20% to 30% less associates and be able to do more business.

**Bobby Griffin**
Okay. That's very helpful. And I guess, secondly for me, I know this time of the year is usually an important time of the year for the state department contract as the fiscal year ends for the government. Can you maybe talk about what you're seeing from that side of the business as things have returned a little bit more towards normal?

**Farooq Kathwari**
Yes. It's—as you said, August and September is our two important months. The government fiscal year-end September 30th. So, we expect strong business the next two months. And that's what has been indicated, and we believe that will take place.

**Bobby Griffin**
Okay. Thank you. I appreciate you answering my questions. Best of luck in the next quarter.

**Farooq Kathwari**
Thank you, Bobby.

**Operator**
Thank you. Our next question today is coming from Brad Thomas from KeyBanc Capital Markets. Your line is now live.

**Brad Thomas**
(Inaudible).

**Farooq Kathwari**
We are all well and good, and I hope you are, too, Brad.

**Brad Thomas**
(Inaudible). My first question was going(sp) to be around recent trends. The press release talks about wholesale orders versus prior year. And you indicated that it was up (inaudible) gone up year-over-year. I was hoping you could talk a little bit about the retail side of things, and you've (sp) been seeing in recent months on the retail side.
Farooq Kathwari
Brad, the retail represents a very, very vast majority. In fact, almost the significant majority of our business. So, these numbers that you see are a direct result of what is happening at retail.

Brad Thomas
Got you. So, directionally, Farooq, would it be fair (sp) to say that the retail numbers have sort of tracked that pattern that you outlined in the press about the trends in wholesale?

Farooq Kathwari
Yes. Almost. Not 100%, but pretty close, because the retail business is the most—at this stage, between close to what, Matt—and, Corey, correct me (sp), close to the 85%, 90% of our total business.

Corey Whitely
Yeah, yeah. So, directionally, they are almost step in step.

Brad Thomas
Yeah. Okay, great. And as you've reopened the business, could you talk about where the backlog is today? What the timing is to fulfill orders (sp) and any nuances that we should keep in mind as we think about modeling sales in this current quarter as the demand starts to come back here?

Farooq Kathwari
Well, Brad, we've already done—we've been surprising to many, including some of us, the amount of business we were able to generate in this last quarter, even in July. And last July was a strong July. That our teams did exceedingly well to do more business this July than last July. Now, having said this, as I also said, part of it perhaps is pent-up demand. Part of it is due to the fact that we also gave pretty good decent savings to our clients. I would say that we are—I would say, as I'm using the terminology, we are cautiously optimistic that we'll continue to maintain this. Now, having said this, we also have to keep in mind all the external factors, especially COVID. In the last—even though our business held up in many of the states where the COVID has gone up, like, say, Florida and Texas and Georgia and in Carolinas, we have to just be cautious about that other—those are external factors, but we were able to do well despite all of that in—specially in some of even in New England.

Manhattan has still been slow, and I think that we're just about getting it started. But other than that, we have had some challenges in Seattle, where people have been very careful. But the rest of the country—in many parts of the country, I think we have been very fortunate that our designers have done well. Our clients have trusted us. They have let them come into their homes, also, to do house calls. But now going to your other question, we do have a backlog. We are now in the process of increasing our capacities. Some of that is impacted with some raw material challenges and issues, which is out of our control. But overall, I think we'll be able to
meet this expand in the business that we have received this quarter and some in the following quarter.

Brad Thomas
That's very helpful, Farooq. If I can squeeze one last one in. Clearly, the backdrop from COVID has accelerated exported (sp) market share on the B2C side of the business in the world. Can you talk a little bit about what opportunities you're seeing to enhance B2C presence in Ethan's (sp) website, and how (inaudible)?

Farooq Kathwari
Brad, I was not completely able to understand. Maybe, Corey, if you heard it completely because, Brad, where I am in New Rochelle (sp), we had a big huge storm. Our Internet is out, electricity was out, and a big huge 100-year old tree fell right in front, fortunately, on the other side of our house. So, I'm a little bit impacted by that. It all happened this afternoon. But, Corey, if you heard that question, could you please respond?

Corey Whitely
Yeah. I think, Brad, you did break up a little bit, but I think you were really kind of questioning just our online presence, and how we're going to focus and continue to grow that more so even than what it has been. As Farooq mentioned, we more than doubled the business online. Even in July, it was over 100% of what it was the prior year. So, we are seeing a strong growth there, but at the same time, is doing even more in driving business into our design centers. In the—right when the crisis started, and we had to shut down many of our design centers due to these government regulations, we added a make an appointment feature to our website. It's on the home page, it's on every designer's portfolio page, on our find a store page. And the make an appointment really took off exponentially throughout the quarter. People could do two things. They could make a virtual appointment with one of our design consultants, or they could make a private in-store appointment with one of our design consultants in those areas where we could do that safely. And that really was a great feature. People really like it, and we're continuing to see a great use of that tool even today where people do have the ability to go out and shop much more freely.

And then, of course, the live chat is also a great generator of sales. And then, of course, as we've said before, is, when they work with the design on live chat, then the designer usually works those sales through their local design center and processes it through the design center's point-of-sales system, and they don't really reflect as web sales. So, the website does very well at driving business, presenting the brand, and, yes, we did more than double the sales online, and we'll continue to see that grow, because there is a great opportunity for that as we go forward. But it does need to conduct the personal service of our designers with the customers.

Farooq Kathwari
Yeah. Brad, I'll also mention that, fortunately in the last few years, we focused a lot in adding technology to the personal service of our interior designers and help them, train, get
knowledgeable about it. And it's amazing how much a business they've been able to do by utilizing technology and doing working off-line, not in the design centers, in completing projects. And I think that has really been very beneficial. And as we move forward, it is going to add—again, answering Bobby's question, it also brings about efficiencies, because we have to become more efficient. We've also added a lot of technology in our manufacturing (sp), and that has also helped us as we move forward in making our products not only better, but also do it more efficiently.

Brad Thomas
Very helpful. Thank you so much, Farooq. Thank you, Corey. And I'm sorry. That's me with the bad connection.

Operator
Thank you. Our next question today is coming from Cristina Fernandez from Telsey Advisory Group. Your line is now live.

Cristina Fernandez
Good afternoon. Hi. I wanted to follow-up on Brad's question about the backlog. Can you help us understand how much of the May and June orders were already delivered in the quarter? Just want to get a better sense of how that's going to flow through. And what is the time delay today between when the time an order is placed versus when it's delivered to the customer, and how has that changed compared to like prior to when COVID hit, let's say, early this year?

Farooq Kathwari
Yeah. I would—what I would mention is this that we've got two elements to it. The retail backlog is—has increased by about over 30% in this last quarter, which has been good, but we need to now make this product. And that—while the retail has increased 30%, I think that you will also take a look at it, that our total—I'm sorry, our wholesale backlog increased by 37% over 30% (sp). Very important, and that is something that we're going to be delivering in the next—this quarter and some in the following quarter.

Cristina Fernandez
And can you talk about the time to delivery, like how long it's taking the deliveries to be made from when the customer places an order?

Farooq Kathwari
Yeah. Well, it varies, because of the fact that we have—for instance, if it's custom products. Like, for instance, all our upholstery today is—has always been custom. It is now taking anywhere from, I would say, close to 8 to 10 weeks. We have a quick ship part of upholstery, which is now coming out a little bit earlier. We used to deliver it within 30 days. Now it's about 45 days. As far as our wood products are concerned, many of the ones that are in stock, they are being delivered, obviously, right away. The ones that are being made custom in our wood manufacturing is approximately taking also about 6 to 8 weeks.
Cristina Fernandez
Okay, that's helpful. And then any color you can share about traffic and ticket trends and any shift or changes you're seeing, the types of products customers are buying over the last couple of months that you've seen demand pick up?

Farooq Kathwari
Yes. I would say that our traffic is most likely—I'm talking about the whole nationally, is down about 30%, while our business is higher than last year. It's much more qualified traffic. That's very important. And I think that that qualified traffic is critical. And people who are coming in are more knowledgeable, more motivated. They've done their work. And what—I'm sorry, next question was?

Cristina Fernandez
The products—any change in the mix of what consumers—.

Farooq Kathwari
Yeah. It's interesting that, obviously, a lot of companies are selling a lot of mattresses. We are doing some, but we are not in a major mattress business, although we are increasing that. What we are seeing is that people are living (sp) today. They want, especially from us for products that is great design, classic, but livable. So, our country design, our coastal design are doing well, but so is our, what we call the classics, because our classics has also been modified to be more livable. So, I think that's what our whole product line is. In addition to that, as you know, we introduced Lucy (sp), which was more of a part of our modern perspective. We have three attitudes: classics, country and coastal, and third is modern. The modern, Lucy has done extremely well, too. So, now, there has also been a demand on our mattresses have doubled, but although still a smaller portion of our business, which is going to increase our home office. We have not been extremely strong in that. We are developing more products, but that also been strong overall.

Cristina Fernandez
That's helpful. And one last question. On the amount of employees, you brought back the 56%. It seems a little bit low relative to all the stores being open and manufacturing being back up. Is that a function of operating the stores with less employees, as you said, you can operate them with 30% less associates? Or are you having some trouble bringing some of those employees back?

Farooq Kathwari
Well, there are some people are—have decided to stay home, but, no, the majority of the people want to come back. We have not had any major issues. It is just a question of our retail teams are making the determination of how many people there should be. Because what's happening is this—because the more qualified people are doing more business. And we're going to watch very carefully how many people we bring in. We have also modified our hours.
I've given a fair amount of lever (sp) to some degree to our retail leaders around the country to determine whether they're going to be open on Sundays. Whether they should be open on Mondays. What hours should they be working on. How much of their time should be spending on appointments. And that's what they're doing. They're working less hours, spending time with appointments, and that—and it's working very well. We're watching it very carefully. And as we go forward, we'll make adjustments. But the model is that—which is what I really wanted all the time. We call them design centers. We're professionals. Today, they are much more really (sp) a design center as they'll ever been. And our designers are working with clients. They're working with online. They're working in their homes. They come. They make appointments. So, we are going to have less people continue to do a lot more business. And that will be our new model.

Cristina Fernandez
Thank you. And best of luck this quarter.

Farooq Kathwari
Thank you, Cristina.

Operator
Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments to Farooq (sp).

Farooq Kathwari
All right. Well, thank you very much, and thank you for all being on the call. These are challenging times, but we are pleased with the results that we have had. What our people have done has been really somewhat amazing. We'll continue to—we have reduced—we have good positive cash. We'll watch it very carefully. Our inventories will reduce substantially. We are going to make sure that we focus on marketing, because we did. We maintained a strong marketing presence of about 5% of sales during this period and this last quarter. And we're going to—and our plans are to continue to be aggressive in marketing. So, again, thanks very much. Any further questions, please contact (inaudible) you can talk to Matt or Corey. Thanks very much.

Operator
Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.