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ETD.N - Q3 2026 Ethan Allen Interiors Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Taylor Zick** *KeyBanc Capital Markets - Analyst*

**Cristina Fernandez** *Telsey Advisory Group LLC - Analyst*

## PRESENTATION

### Operator

Good afternoon, and welcome to the Ethan Allen fiscal 2026 third quarter analyst conference call. (Operator Instructions) Please note that 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.

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**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 third 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 up the call for your questions.

Before we begin, I'd like to remind the audience that this call is being webcast live under the News & 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 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.

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

Thanks, Matt. And thank you all for participating in our third quarter financial results call.

As we reported, despite many challenges, we performed reasonably well. We were mainly impacted by reduction of business from our State Department contract, primarily due to government shutdown, lower international sales and to some extent, sluggish demand for home furnishings.

Our written sales in North America were flat compared to last year, while our wholesale orders declined 7.6% from reduced, as I mentioned, US government sales and slowdown in our international business.

Tariffs also impacted our earnings, especially the unexpected tariffs on our Mexico manufacturing products. The increased tariffs during the quarter of about \$4 million were mainly -- were the main reason of our reduced earnings.

Matt will now provide more information, and after Matt, I will review our initiatives. Matt?

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

Thank you, Mr. Kathwari.

Our third quarter financial performance was highlighted by strong operating cash flow and a robust balance sheet despite operating in a challenging macroeconomic environment. Our consolidated net sales of \$136 million benefited from a higher average ticket price, increased clearance sales, and fewer returns. These increases were offset by lower contract sales, a decline in delivered unit volume, and inclement weather.

Retail segment written orders were flat versus last year, while our wholesale segment declined 7.6% due to macroeconomic challenges, reduced government activity, and a slowdown in our international business.

Demand levels were choppy and the pace of written orders declined slightly throughout the quarter. Our retail written trends were strongest in [January] (corrected by company after the call) despite adverse weather, which slowed traffic late in the month and continued into February.

There was a pullback in demand during March following the Iran conflict, but we are excited for the introduction of several new products this spring and believe they will complement the current home furnishings Ethan Allen has to offer.

We ended the quarter with wholesale backlog of \$42 million, down 23% from a year ago. Lower US State Department and international business combined with improved customer lead times helped reduce our wholesale backlog.

Our consolidated gross margin of 59.4% was impacted by incremental tariffs, delivering out orders with increased promotional activity and higher clearance sales, partially offset by a change in sales mix, lower inbound freight, reduced headcount, and a higher average ticket.

Our adjusted operating income was \$6.8 million with an operating margin of 5%. Lower operating margin was driven by higher tariffs, incremental digital and technology spend, fewer US government sales, and delivering out orders with higher promotions. Disciplined spending, cost control initiatives, and lower headcount helped to drive SG&A expenses down 3% and offset additional investments we are making in our business.

At quarter end, we had 3,105 total associates, a decrease of 6% from a year ago, with decreases noted in both wholesale and retail.

Adjusted diluted EPS was \$0.24. Our effective tax rate was 24.2%, which varies from the 21% federal statutory rate, primarily due to state taxes.

As noted earlier, our business has been impacted by the current tariff environment, which remains dynamic and uncertain. Since the beginning of 2025, the US government has announced several different measures regarding tariffs. More recently, in February, the US Supreme Court invalidated certain IEEPA tariffs introduced last year.

Shortly thereafter, a new 10% global import tariff under Section 122 was made effective and lasts until mid-July of this year. Our current exposure is concentrated on the 25% tariff that took effect in October 2025 under Section 232, which is on upholstered wood products produced and exported out of our Mexican manufacturing facilities.

Our remaining exposure is under the aforementioned Section 122 tariff, which applies a 10% tariff on furniture manufactured and exported out of our Honduras facility, as well as on imported wood furniture from Indonesia, select fabrics from Asia, and imported home access.

In total, we estimate our current tariff exposure to be in the range of \$15 million to \$20 million annually.

In the past month, the US Customs and Border Protection Agency released guidance regarding IEEPA tariff refunds, including last week's April 20 launch of software that will process IEEPA refund claims at scale. We are currently working through recoverability of previously paid IEEPA tariffs and expect refunds to take up to 80 days to receive.

Now turning to our liquidity. We remain debt-free with substantial liquidity to support long-term growth. We maintained a robust balance sheet and ended the quarter with \$181 million in total cash and investments. During the just-completed third quarter, we generated \$15 million in operating cash flow, up from \$10 million a year ago due to improved working capital.

Through the first nine months of fiscal 2026, we have generated \$22 million in free cash flow. In February, we paid a regular quarterly dividend of \$10 million or \$0.39 per share. Also, as just announced in our earnings release, our Board declared a regular quarterly cash dividend of \$0.39, which will be paid this May. We continue to view our dividend as an attractive use of cash and a positive return to shareholders.

As I conclude my prepared remarks, we are pleased that our business model helped deliver another quarter of profitable growth. Our efforts to identify ways to leverage operating expenses are constant. We seek to properly balance investing in future growth while managing ongoing costs. Ethan Allen's vertical integration and focus on one brand are core differentiators that will help us navigate through these current industry headwinds.

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

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

Thanks, Matt.

As I mentioned, we have continued to take steps to strengthen our unique vertically integrated structure, including strengthening our product offerings.

During the last six months, focus has been to introduce new relevant product programs, strengthening our retail network. We have continued to reposition our retail network in North America. Design centers numbering 172 locations with smaller footprint with major introduction of technology to help our talented interior design associates.

Continued strengthening our North American manufacturing, which produces about 75% of our furniture, almost all made custom on receipt of orders.

Continued strengthening our North American national and retail logistics, which enables us to deliver our products with what we call white glove delivery at one delivered price to our clients in North America.

And importantly, combining personal service of our interior designers and our manufacturing associates with technology has been a game changer. This has helped us provide great services while reducing costs.

And with this brief overview, happy to open for comments and questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Taylor Zick, KeyBanc Capital Markets.

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### Taylor Zick - KeyBanc Capital Markets - Analyst

Well, I just wanted to first ask kind of about the retail written orders. You gave some good color here, starting to slow a little bit in February, and then you saw a pullback in March, I assume, related to the geopolitical situation.

Any sense of how retail written orders are trending here so far in April? I assume there's some Liberation Day noise in there as well, but maybe you can kind of touch on that.

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

Yeah, it's a good -- it's an important question. The first is that in this quarter, despite all these challenges we have had in the economy, our retail -- I mean, our written retail held up. In fact, our retail division basically written orders were about the same as last year, which is tremendously important.

As Matt also mentioned, the decline was mostly due to the international issues and the State Department issues. So our business has held up. And now in April, it's actually been positive. There has been positive news, so that we will continue the progress that we saw despite all these challenges last quarter. We maintained our retail, and I think in April so far, it has been positive.

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### Taylor Zick - KeyBanc Capital Markets - Analyst

And then maybe if I can ask, maybe on the tariff side and maybe I can wrap two questions into one here. You also gave some great color on the tariffs and where you're exposed. You called out, I think, \$15 million to \$20 million of exposure on an annual basis. Can you kind of just talk a little bit about how you plan to mitigate some of those tariff expenses?

And then related to that, maybe if you can touch on the gross margin as well? Because we also have rising diesel costs and increasing foam prices as well. So if you don't mind touching on that.

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

I'll say a few words and Matt can also join. Our tariffs are -- the impact of tariffs are on our products coming, of course, from imported products, which is mostly Asia. And then recently, last year, there were tariffs imposed in our North American operations, both in Mexico and in Honduras. And interestingly, Mexico has been close to 25% and Honduras is 10%.

So they were -- and that really is interesting, especially in Mexico, the advantage we have, of course, in Mexico to some degree is mitigated because we operate and own the manufacturing operations. And according to Mexican law, we can ship the products from Mexico to the United States at a relatively small margin. I think, what, about 5% or so? 5%. So 5%, if that was not the case, we had to buy all those products, then nobody would be able to operate 5%.

Even with the 5% margin that we have, we still were impacted substantially with the impact of Mexico, to some degree, Honduras. And then of course, our products have come from Asia. There, the margin -- I mean, the tariffs have gone very high, but now in the last six months, tariffs have been reduced from Indonesia, from India and other places, even in China.

So I think that we do hope that there is some resolution to what is taking place with the United States and Mexico. It's nothing to do with business. There's a lot of politics that has resulted in those high tariffs.

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

Yeah, that's a great answer and I'd just like to add a little bit more on to that for you, Taylor.

Your first part of your question was what steps have we taken? And I think in my prepared remarks, I said the tariff situation is dynamic and ongoing, meaning that the rules and the regulations continue to change. The Section 122, the 10% global tariff rate was 150-day set tariff rate, which is set to expire in July. So the rules may again change in July.

But we've got to play with what the rules are as of today. So we took certain steps and we continue to take certain steps to mitigate the tariffs. Those include partner sharing or sharing of costs with vendors, sourcing diversification, identifying alternative sources for products, if possible.

Third is absorb some of the costs. We know we can't pass along all of them or have our vendors absorb all of them, so we do absorb some ourselves. And last is price increase. We mentioned on the previous call last quarter that we took about an average 5% price increase in October and November of 2025. So those have helped mitigate some of that incremental tariff exposure that I quantified of \$15 million to \$20 million.

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

But those tariffs really impacted our operating margins. I mean, when you -- if you look at our operating margins coming down, it's mostly because of those tariffs. Our retail business in the United States held up.

All right. Next, any other questions?

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**Taylor Zick** - *KeyBanc Capital Markets - Analyst*

No, I think we covered it here. I'll pass it along. Thanks so much, guys.

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

Thanks very much.

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**Operator**

(Operator Instructions) Cristina Fernandez, Telsey Advisory Group.

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

Hello, Cristina. How are you?

**Cristina Fernandez** - *Telsey Advisory Group LLC - Analyst*

I'm doing good. Good afternoon, Farooq and Matt. I had a couple of questions. The first one is on the State Department contract and just the wholesale contract side of the business. It's been a pressure point now for at least a year. What is your outlook from here on that part of the business? Do you think it's near reaching stabilization or should we expect weakness for the rest of 2026?

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

Cristina, a number of factors. First is that we have had a fairly long-term contract with the State Department. And recently, just in the last few months, the contract has been up for renewal, so we had to bid and I'm sure others have bid on it, too. So the bidding has taken place, and the State Department is right now reviewing all those bids, and we do expect to hear from the State Department.

And depending on what happens, we do have an opportunity, which we have done: increased some of our prices based on these issues of tariffs. But I think in the next few -- I think hopefully in the next couple of months, we will know about the new contract. Right now, we do have the current contract where we are getting business, not at the level we did last year, but the business is coming in under the current contract.

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**Cristina Fernandez** - *Telsey Advisory Group LLC - Analyst*

Then the second question I had was on the impact of promotions you mentioned during the quarter. Is that mostly related to the increased promotional activity back in the second quarter and those deliveries being made now? Or did you offer incremental promotions to consumers during this current quarter versus a year ago?

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

There are two factors. First is we decided to increase our marketing spend, both in our -- especially in our digital mediums. And so we increased that and that's when you look at our advertising, a lot of it was done because of the fact we increased it now, which is the right thing to do because our digital mediums are tremendously important.

So that is what -- you look at it not because of the -- not only because of our existing promotions, but we expanded in a very strong manner in our digital mediums. And that has helped us and will continue to help us, and we do have the flexibility as we go forward in determining how much we spend. But last quarter, we spent more relative to the sales, that's why our percentage of marketing was higher.

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**Cristina Fernandez** - *Telsey Advisory Group LLC - Analyst*

And then the last question I had was on the real estate plans. On the press release, you noted a couple of new locations planned for this year. Do you still see opportunity, and I guess mostly in the US, to enter newer markets that you're not in or are most of these store openings relocations or updates to existing stores?

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

It's both. In the last couple of years, or three years, we have spent a great deal of effort, resources to reposition our existing network. At that existing network, the repositioning has involved. First, investing in our existing design centers to make sure they project well and also reducing their size.

We have been able to overall reduce the size of our design centers by at least 25% to 30% because of the technology that we are able today to utilize in helping our designers work with clients. So that's tremendously important.

The second is we do have a number of locations that we actually currently are working on, about five new locations in the United States. And we also have opened up one or two locations in Canada. So we'll continue to open up new locations, but also relocate the current ones. And as I said, we have had a major impact of taking out the current locations, repositioning them in both size and also in new products.

So one of the factors we've got to keep in mind is that our -- and that affected to some degree our margin, is the fact that bringing in lots of new products meant we had to sell what we have. That had somewhat of an impact on our margins because those products, we had to sell and we're still selling them.

All right, Cristina, any other questions or comments?

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**Operator**

Sir, there appears to be no additional questions at this time, so I'll hand the floor back over to Mr. Kathwari for closing remarks.

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

Well, thank you very much. And as I said, on one hand, we are going through challenging times, but the good news is we have continued to position ourselves well. We have every week. I focus on five important things.

First is talent. We are blessed with very strong talent in our vertically integrated enterprise from our manufacturing, to our logistics, to our merchandising, to marketing, logistics.

The second thing is, as we look at after talent, it's technology. Technology has played a tremendously important role in everything we do today.

Third is marketing. Marketing is important at national level, at the retail level.

And fourth is our whole focus on making sure that we provide great service.

And fifth is tremendously important is social responsibility.

Those five things are critical, and I think has helped us maintain a strong presence in all our operations.

Thank you very much for participating and look forward to our continued -- making sure we continue to focus on our business and to grow our business.

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**Operator**

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

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