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EDITED TRANSCRIPT

ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

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OVERVIEW:

Co. reported 2Q20 consolidated net sales of \$174.6m, adjusted operating income of \$9.5m, and adjusted EPS of \$0.27.



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

CORPORATE PARTICIPANTS

Corey Whitely *Ethan Allen Interiors Inc. - Executive VP of Administration, CFO & Treasurer*

M. Farooq Kathwari *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

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Cristina Fernández *Telsey Advisory Group LLC - Director & Senior Research Analyst*

John Allen Baugh *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Robert Kenneth Griffin *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Sanjay Bhatt

PRESENTATION

Operator

Good afternoon, and welcome to the Ethan Allen Fiscal 2020 Second Quarter Analyst Conference Call. (Operator Instructions)

It is now my pleasure to introduce your host, Corey Whitely, Executive Vice President, Administration and Chief Financial Officer. Thank you. You may begin.

Corey Whitely - *Ethan Allen Interiors Inc. - Executive VP of Administration, CFO & Treasurer*

Thank you, Jeff.

Good afternoon, and welcome to Ethan Allen's conference call for our fiscal second quarter ended December 31, 2019.

This conference call is being recorded and webcast live on ethanallen.com, where you will find a copy of our press release, which contains supporting details, including reconciliations of non-GAAP information referred to in the release and on this call.

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 is our Chairman and CEO Farooq Kathwari; and Matt McNulty, who we have recently promoted to Vice President, Finance. Matt had been serving as our Vice President of Corporate Controller and in his new role, Matt will also be involved in Investor Relations, together with me. After our Chairman and CEO, Farooq Kathwari provides his opening remarks, I will follow with some details on the financial results. Farooq will then provide some closing comments before opening up the telephone lines for questions.

With that, here is Farooq Kathwari.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Thank you, Corey, and thank you all for participating in this conference call.



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

As Corey mentioned, I'm also pleased that Matt McNulty is making good contributions and taking on more responsibility, and he says he's going to keep on working very hard.

As we mentioned in our press release, we continue to strengthen our marketing, including the introduction of the Member Program and continued enhancing of this program. Our sales and profitability were impacted in our second quarter due to the introduction of this program. We will see continued impact in our third quarter, primarily due to lower backlogs at the end of the second quarter. We expect stronger order growth in our third and fourth quarter, positively impacting fourth quarter sales and profitability.

We are pleased that our unique vertical structure continues to provide strong operating leverage to allow us to return value to shareholders through quarterly dividends, periodic cash dividend and share repurchases. During the second quarter, we paid \$5.6 million in cash dividends. We repurchased 546,000 shares, representing 2.1% of our outstanding shares. After this purchase, the Board authorized further repurchases up to 3 million shares.

Just for information, since our taking the company public, we have generated strong cash flow, repurchasing \$611 million of our stock, paying \$472 million in cash dividends and investing \$819 million in capital expenditures.

After Corey provides a brief financial overview, I will discuss our initiatives to grow sales and profits. Corey?

Corey Whitely - *Ethan Allen Interiors Inc. - Executive VP of Administration, CFO & Treasurer*

Thank you, Farooq.

During the second quarter of fiscal 2020, our consolidated net sales were \$174.6 million compared with \$197.2 million in the prior year quarter. Net sales were negatively impacted due to the transition to the Ethan Allen Member Program, along with the decrease in consolidated international net sales, which was primarily related to lower sales to China and in Canada due to the economic uncertainty surrounding international trade disputes and a challenging global economy. Net sales to China decreased 45.1%, and we expect continued headwinds there, with the emerging concerns around the coronavirus.

As we had previously stated, the implementation of the Ethan Allen Member Program was expected to negatively impact our sales and profitability during the initial year as we transition to the membership model. Our second quarter results reflected this and we expect a similar impact in net sales and profitability for the third quarter ending March 31, 2020.

Wholesale segment net sales were \$91.9 million compared with \$107.7 million in the prior year quarter. There were 180 North American design centers this year compared to 188 in the prior year period as we continue to reposition our retail footprint, opening new design centers and closing or relocating older legacy locations.

The company has experienced continued growth in contract sales, which grew 66.9%, primarily due to higher sales from the GSA contract and hospitality sales. Our total wholesale orders decreased 21.8% in the second quarter compared with the same quarter last fiscal year. International wholesale orders declined 53.6%. Retail segment net sales were \$139.1 million compared with \$158.5 million in the prior year quarter. There were 144 company-operated design centers at the end of the second quarter compared to 146 in the prior year period.

Our consolidated adjusted gross margin, which excludes \$0.4 million in restructuring activities, was 56.1%, reflecting improvement from our optimization initiatives.

Retail sales as a percentage of total consolidated net sales was 79.7% compared with 80.4% in the prior year second quarter.

Adjusted operating income, which excludes \$0.3 million in restructuring, was \$9.5 million with an adjusted operating margin of 5.4% compared to 8.3% in the prior year. Our adjusted EPS of \$0.27 compared with \$0.46 a year ago. The effective income tax rate was 23.5% for the quarter compared to 25.1% in the prior year.



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

Turning to the balance sheet, we ended the quarter with inventory of \$139 million compared to \$159.2 million in the prior year, cash of \$28.3 million and no debt.

As Farooq mentioned, during the quarter, we paid regular quarterly dividends of \$5.6 million; repurchased 545,727 shares, representing 2.1% of the company's outstanding shares. Also, as we announced on January 13, the Board of Directors increased the share repurchase authorization to 3 million shares.

With that, I'll turn the call back over to you, Farooq.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Thank you, Corey.

We continue to strengthen our vertically integrated structure of our retail network, manufacturing and logistics by strengthening our product offerings, projection in our design centers, enhanced marketing and continued investments in technology.

Our key areas of focus include: strengthening talent. Developing strong entrepreneurial leaders in retail continues a major focus, and we have made good progress. In corporate, Rodney Hutton, joined as Chief Marketing Officer on January 1, after a 3-month consultancy arrangement; Matt McNulty, as you heard, with a strong financial and accounting background, was promoted to Vice President, Finance, and he'll be reporting to Corey Whitely.

The second area is our marketing. This month, we have enhanced the marketing program. In October, the membership program was launched, and for all practical purposes, customers had to become a member to purchase our products, which did impact our traffic and sales. As of now, we have made a change. We have expanded our program so that nonmembers can also purchase products at special savings in effect at that time. The members will continue to secure enhanced benefits, including 20% savings on all our products from our everyday best price, free in-home delivery and 24-month financing. We have also expanded our marketing and advertising to include radio, television and increasing presence in digital mediums.

On our service. Our manufacturing in North America and our unique logistics network is in excellent position to service our growth. We completed the consolidating initiatives in manufacturing and logistics started last year. About 75% of our products are made in our North American facilities.

The next focus has always been on technology, and this is a major focus to implement new technologies in all areas of our enterprise. And finally, social responsibility continues to be a major focus to maintain our leadership in this very important area.

With this, we are ready for any comments or questions.

Corey Whitely - *Ethan Allen Interiors Inc. - Executive VP of Administration, CFO & Treasurer*

Jeff, you can go ahead and give the instructions for people to ask questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have one question from Bobby Griffin.

FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

My first question, I just wanted to see if we can -- can you help us understand a little bit more what happened during the quarter? How the consumers react to the membership program? How much of the sales decline would you attribute to just a little bit of the learnings of the new program versus the overall environment? And then what are you seeing kind of as the progression of the business? Are you starting to see sales get better as more people get used to the program? Anything like that to help us frame up what exactly took place during the quarter.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Bobby, it's a good question. This is something that we are constantly working on. We introduced the program where -- we decided that because of the structure that we have with about 1,500 interior designers, that it makes sense for them to work and provide their service to their clients without having to, you might say, have to worry about cost and sales. So we decided that the Member Program will give certain benefits, the benefits of special savings from our everyday best price, special financing, complementary interior design service, complementary in-home delivery, all great things. And our interior designers love it. Our clients love it.

However, the issue there was that it did not create urgency. Whereby we used to have end-of-month sales, and that did create a urgency. That's number one. The second thing was that the way we introduced the Member Program was that in all practical purposes, everybody had to become a member to take advantage of the benefits.

As of February, we made some changes. We just now have implemented a program that nonmembers can also purchase based upon whatever the special savings are at that time. Because right now, we're running a special savings on our living room products. Now what that will do is that will enhance people coming in. And because the way we started it, it did impact our traffic, and traffic impact sales. So I think that the -- in addition to the learning curve, in addition to not having the sense of urgency, all those factors contributed to lower sales. So we have now taken some steps.

First is people are learning. They love -- our designers love it. Our customers love it because they want to do -- to have great homes. They don't want to have to wait until new sales come in. But in the real world, people do wait for sales. There are customers that are not members. So we have, Bobby, taken steps to improve it. And I believe that we're going to start seeing benefits of that while maintaining the Membership Program.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. I guess, 2 follow-ups real quickly on that. When you took the steps to add some benefits for the nonmembers, have you seen anything in the traffic results yet? Or is it still too early to tell?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

It is too early because it just started this month. And I think that it also reflects the way we are marketing. So we are marketing, and our second quarter basically was to get members. Now our marketing reflects, you get members but also expand it to all others to come in. So we have made some changes. Hindsight is always 2020.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. And then does the way the program still work now, though the members would still get the absolute lowest price? That price is even better than the special savings going on at the time?



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Yes, they will get because for them, it is a special savings. In addition to that, they will get complementary in-home delivery. And because those are 2 important benefits that will continue to get. They'll get the best price, plus complementary in-home delivery.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. And then I guess, lastly...

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Plus financing, financing and our complementary interior design service. Everybody else will also get complementary design service, but everybody will not get the free in-home delivery.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. And then I guess, lastly, are you -- can you disclose whether or not kind of what you're seeing in terms of total members? Are you seeking a number? Or you continue to see them grow month-over-month? Anything to help us get a sense of how the program is going from an adoption standpoint?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Bobby, all our business now is members. So we have a great increase in members but now with what we have just done, it will also expand it to nonmembers, and the fact remains that nonmembers, most of them will become members but they're going to come in first. The reason is this, that for \$100, they become a member and get a benefit of our free delivery. It costs about \$190 for them for delivery if they are buying furniture.

Operator

Next question from the line of Sanjay Bhatt of Stony Point Capital.

Sanjay Bhatt

Just to drill in on the membership model again, can you help us understand how much of the retail business specifically was impacted by the shift of membership model in the quarter, since I think you called out both the membership model transition and some cautious consumer headwinds? So I guess one, if you could help us bifurcate the 2, that would be great.

And maybe asked another way, I think on the last call, you guys previously suggested a 3% to 4% net revenue headwind for the full year from the membership program, but clearly, you're making some changes to the savings offered around the members and nonmembers, et cetera. So is that 3% to 4% number still your belief? Or how should we kind of think about that mathematically?

Corey Whitely - *Ethan Allen Interiors Inc. - Executive VP of Administration, CFO & Treasurer*

Yes. On the 3% to 4%, just to clarify that, that was on the piece of the deferred revenue for the membership fee.



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Yes, Corey, I want to explain that. Sanjay, it is -- Corey will go discuss that because it was not 3% to 4% on total sales.

Your question is a good one, which is the impact on sales due to the membership and also due to perhaps the issues in the economy and everything else. I would say that 90% of our decline was due to the membership program. There were some external factors in terms of what's taking place in the world, what's taking place in -- for instance, unfortunately in China. That impacted of course, our international business. It had some impact in the United States because we do have a lot of Chinese customers in the United States, especially on the West Coast. But I would say that at least 90%-plus was due to the fact we implemented the membership program, which is great. As I said, our designers love it.

And just to give you a perspective, Sanjay, that before the Great Recession, we used to have everyday best price, no sales. It was like a membership program without people become being members. But then, with the Great Recession, we first started with a 10% savings, then 15% savings, then 20% savings, then on and on.

So going -- so I believe that the impact of the membership, because people have to get used to it, and secondly, was the fact of while we're giving great savings but we did not have the end-of-the-month urgency for people to close. And quarter-end is generally very, very important. So it's a learning process. All of our team members believe -- they tell me again and again, they love it, the clients love it, but again, for practical reasons we also have to make sure we create urgency and bring people in. And that's why we have made the changes we have.

Sanjay Bhatt

Right. That's helpful. And I remember the deferred revenue impact. That makes sense.

Operator

Next question from the line of John Baugh of Stifel.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Yes. I just wanted a point of clarification on the change for the nonmembers versus the members. So you're still -- are you running sort of, give or take, depending on the time, 20%, 30% of your product at a like 20%, 25% off-type sale? And they're going to get access to that? Or that's different because heretofore, had they not been a member, they wouldn't have gotten that? Or is there a savings across the board of some 20%, 25% for all the members?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

All right. John, I understand. Let me just go back a little bit before the membership program. Before the membership program, we had some savings every month, every quarter, and those savings ranged anywhere from, say, 15%, 20%, even 25%. So those savings, we gave to everybody. And once in a while, we will also give free delivery.

So when the membership program started, we said the members are going to get 20% savings from our retail prices. We call them our everyday best prices. The members would also get a 24-month financing, and they will also get complementary interior design service and delivery. That was the plan. And now, what we have done is we have added a savings which would also not only be for our members but will also be utilized by nonmembers.

Like for instance, in December, we did have a special savings, which was only really meant for our members. But now starting in February, we have just announced, if you see our marketing, you will see we have a special 25% savings on all living rooms. That product -- those savings are -- can be utilized by our members because the members will get 20% savings on everything. Nonmembers will get 25% -- I'm sorry, the members will



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

get 20% savings on everything, and they will now also get 25% savings on the living room, while nonmembers will get savings of 25%. Members also get a benefit of free delivery.

So those -- that's the change we have made. What it does is it expands our reach to more people. What we found was, John, that people felt that they had to become a member to come in. And that sort of restricted people coming in. It had an impact on traffic.

We have now changed it, and I believe it has been very well received by our teams, and our marketing is taking care of it. So we're going to increase traffic, both on our website and to our design centers. And as I said, most of these folks are going to come in, the chances are they'll become members. but they've got to come in first, and that's what this program does.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. So the members were getting 20% off of everything, and now, when you decided to run a, say 25% savings on living room, they're getting 25% additional savings, and of course, the nonmembers had nothing percent off. And now, when you run a special, in this case, 25% on living rooms, they're getting that. Is that correct?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

No. What -- the members will not get additional 25%, they will get 25% on the living rooms, and anything else, they'll get 20%. They're not going to get additional 25%.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay, 20% on everything else.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Yes.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And the nonmember is taking full price on everything except the special?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

That's right, yes.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. As it relates to China and sourcing, could you update us again on your rough percentage of product you're bringing in from there, and/or maybe Asia in general and whether or not you fear supply disruptions from what's going on there?



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

John, 75% of our furniture is made in our North American facilities. And other -- vast majority of our furniture, they now come to Accents because what Accents represents at this stage is approximately 20% of our business. Now the other 5% or 10% of our furniture is coming from countries such as Indonesia, and we had already moved most of our production. We didn't have much business in China, anyway. As you know, we sell to China. So from a perspective of our sourcing, we are in a very, very good shape.

Now there are some products that come from China. They're like lighting and accessories. And there, so far, we've not seen a problem but it's possible that there might be some disruptions depending upon how they handle this issue of the unfortunate situation that's taking place in China.

So our main issue in China has been the fact that we've been shipping -- we sell and ship more products than we buy. So we were first impacted by the tariffs of 25%, and now, we are impacted by the fact that most of the locations -- our partner, there is 100 locations. Most of them are closed now. So our business is already down, I think, close to 60%. So it's going to go down further but we are already down 60%. due to the tariffs, and to some degree, softening of the economy in China.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

That was going to be my follow-up question on that is it's been down for a while now so the magnitude of what's remaining must be pretty, pretty small?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Yes, it still is somewhat -- well, it is smaller. It's not -- in fact, this quarter, I think, was more or less pretty close to what -- it was down from the previous quarter. The good news is, as Corey said, we have made good -- very good inroads in the business we do with the GSA, the government, and also some contracts. So that has been good for us.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then you used the word enhanced marketing programs. What would be the dollars, either in gross dollars or percentage of revenue? And I'm thinking maybe more calendar '20, what should we expect from Ethan Allen in terms of either gross dollars of marketing or ad spend year-over-year or as a percent of sales? Flat, down, up?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Well, John, if you take a look at just second quarter, we spent \$8.5 million, which represented 4.8% of our sales. In the last year in the same quarter, we spent \$7.6 million which represented 3.8% of sales. Now in the next quarter that we are looking at that is our third quarter that we are in now, last year, we spent \$7.4 million which represented about 4.1%. I think we're going to spend anywhere between \$7.5 million to \$8 million in our third quarter. And again, the percentage, of course, is impacted with overall sales. So percentage has gone up because of lower sales. So I would say, John, that approximately utilizing around 4.5% would be a good number.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then sort of -- and that's very helpful. But as we go sort of June through December quarters, and just stick to dollars since we don't know exactly what sales are going to do, although you indicated you would hope June quarter will be better, does the kind of gross dollars you spend on marketing when you add up the 4 quarters in calendar '20 match or exceed likely what you did in '19? Or you just don't know?



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Well, I think, we will probably spent close to \$30 million last year and we'll most probably spend close to that this year.

Operator

Next question from the line of Cristina Fernández of Telsey Advisory Group.

Cristina Fernández - *Telsey Advisory Group LLC - Director & Senior Research Analyst*

I also wanted to follow-up on the member program and understand the impact it's having on the SG&A line items. So of the, I guess, 300 and -- 800 basis point deleverage this quarter, it seems from your comments on the last call that about 100 of it was marketing. How much of the rest was due to the member program? And I assume it's mostly the impact of the free delivery to the members.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Corey?

Corey Whitely - *Ethan Allen Interiors Inc. - Executive VP of Administration, CFO & Treasurer*

Yes. Most of that was really the reduction in sales and the deleveraging. That's -- being a vertically structured company, we really benefit when sales increase. But when sales go down, we do get the reverse of that. The advertising was about \$1 million more than where we were last year, so that was probably the biggest impact on the SG&A side. Otherwise -- it was relative to sales, it was fairly well controlled.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Here, Cristina, I'll give you -- I mean, if you take a look at our total sales, which, of course, you will see that in the quarter, we had \$175 million versus \$197 million. And last year, our -- again, it's a question of our -- if you compare our selling which is last year we had \$52 million and this year, we have \$51 million. But were -- overall, our expenses this quarter were \$88 million versus \$93 million last year. So we did reduce our expenses as a total, while obviously, as a percentage of total sales, our expenses were higher because of lower sales. Our total dollars went from \$93 million to \$88 million. As a percentage, it was 50.6% versus 47% last year, again, because of sales.

Cristina Fernández - *Telsey Advisory Group LLC - Director & Senior Research Analyst*

Okay. Understood. And then I wanted to I guess, follow-up on Corey, your commentary about this next quarter, the third quarter being an impact similar to what we just saw in the December quarter. Wouldn't some of the changes that you're making, like the additional discounts, be able to drive a little bit better sales? Or I guess, what are you contemplating in that outlook?

Corey Whitely - *Ethan Allen Interiors Inc. - Executive VP of Administration, CFO & Treasurer*

Well, we do have an opportunity to see a stronger order growth as a result of our enhanced marketing plans that we have in place. However, there's a little bit of a lag time between ordering it and then delivering it out. Therefore, we expect to see our sales benefit beginning in the fourth quarter from the stronger orders this third and fourth quarter.



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Yes. I think, as Corey said, we are entering our third quarter with lower backlogs because of lower sales in the second quarter. This -- now, as we become very efficient, we don't have a lot of backlogs. We do deliver fast.

So this quarter, third quarter, we expect that -- we expect, with all the changes we have made and all the marketing we are doing, to have improvements in our orders which will reflect then more in the deliveries in the fourth quarter. So on the order side, we see positive, but the delivery side, obviously, shipments this quarter is going to be lower because of the lower backlogs entering the quarter.

Cristina Fernández - *Telsey Advisory Group LLC - Director & Senior Research Analyst*

Okay, that's helpful. And then lastly, a different topic, can you remind us of any new products that you have coming up in the next couple of quarters as we gear towards the bigger spring/summer selling season?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Yes, it's a very important initiative that we are going right now. In fact, Corey's probably going to talk to all of you. We're going -- we'd like to have an investor meeting in May in Manhattan. Then we will be a little bit early -- I mean, earlier, we can do it, but I think in Manhattan most -- more people will come. We are in the process of also making more improvements in the projection of our design centers and the products. As you know, we have a very strong product categories or you might say classic products with a modern perspective, we are strengthening it. And we're going to be marketing that because those products to some customers want that product back. There's been too much focus on casual contemporary, including us, to some degree.

The second important category for us is what we call country, but again, with a modern perspective. So you're going to see products introduced in that. You'll also see products introduced in the first category that's classics. In the old and days, we called them formal. But today, they are more classics and livable with a warm perspective.

And the third is our version of the model, which is you're going to be pleasantly surprised with the new products, including what we have called Lucy, which is a great program in upholstery. In fact, it's going to be in our design centers starting next month, and we'll be starting marketing it. So these 3 categories, classics with a modern perspective, country with a modern perspective, and our modern is products that we're going to be doing a lot of marketing starting some this quarter and then some -- and also in the next quarter.

Operator

(Operator Instructions) Next question from the line of Bradley Thomas of KeyBanc Capital Markets.

Andrew Kenneth Efimoff - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Andrew on for Brad. I just had a question on the contract side of the business. I wonder if you could tell us how the state department contract performed during the quarter and how you are thinking about the contract side of the business going forward.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Yes, as Corey said, we had a substantial increase of 50%, Corey, right? About 50% of business in the state department during the quarter and also with better margins. Then we've also gotten business -- I think we discussed it. We have had a good partnership with the Margaritaville Group, where we've been furnishing a number of hotels. We furnished 1 in Orlando. We're doing 1 in Houston. We are doing -- in a few other places. We also continue to do some more business with the Disney program in contract. So that is growing. Those -- that's a bright spot.



FEBRUARY 04, 2020 / 10:00PM, ETH - Q2 2020 Ethan Allen Interiors Inc Earnings Call

Andrew Kenneth Efimoff - *KeyBanc Capital Markets Inc., Research Division - Associate*

Great, understood. And then I wanted to follow-up on the promotions you are doing in addition to the membership model. Could you give us a sense for how often you plan to run these additional promotions going forward?

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

We're going to see how it works. But certainly, at this time, we would be plan to have in addition to the savings from our members, we will continue to have some special savings, which the nonmembers can use -- come in -- and I believe that most of them will become members. And I believe those programs will most likely have monthly.

Operator

(Operator Instructions) There are no further questions at this time. Please continue.

M. Farooq Kathwari - *Ethan Allen Interiors Inc. - Chairman of the Board, President & CEO*

Well, thank you very much. If any questions, comments, please let us know. And Corey and Matt team are going to be ready to talk to you. So take care.

Operator

That concludes today's conference. Thank you, everyone, for participating. You may now disconnect.

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