

Crown Crafts, Inc.

Fourth Quarter FY 2023

June 22, 2023 at 11:00 a.m. Eastern

CORPORATE PARTICIPANTS

John Beisler – *Investor Relations*

Olivia Elliott – *President and Chief Executive Officer*

Craig Demarest – *Chief Financial Officer*

PRESENTATION

Operator

Good morning and welcome to the Crown Crafts Financial Results Fourth Quarter and Full Year Fiscal 2023. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing star then zero on your telephone keypad. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to John Beisler, Investor Relations. Please go ahead.

John Beisler

Thank you, operator and good morning, everyone. We appreciate you joining us for the Crown Crafts Fourth Quarter and Fiscal 2023 Conference call. Joining me on the call today are Crown Craft's President and CEO, Olivia Elliott and the company's CFO Craig Demarest.

Earlier this morning, Crown Crafts issued a press release regarding their fourth quarter and fiscal 2023 results. A copy of this release is available on the company's website, crowncrafts.com. The company's Form 10-K is expected to be filed within the next few days.

During today's call, the company will make certain forward-looking statements and actual results may differ materially from those expressed or implied. These statements are subject to risks and uncertainties that may be beyond Crown Craft's control, and the company is under no obligation to update the statements. For more information about the company's risk factors and other uncertainties, please refer to the company's filings with the Securities and Exchange Commission.

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

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

Olivia Elliott

Thank you, John. And good morning, everyone.

Fiscal 2023 presented a number of challenges across the business. The start of the year was impacted by the fallout of the port delays that occurred in the winter and spring of fiscal 2022, causing retailers to acquire excess inventories. Consumer spending slowed into the summer, thanks in part to the highest inflation the country has experienced in 40 years, which caused retailers to adjust their inventory positions, subsequently reducing their reorder levels in the second half of the fiscal year. We experienced this particularly within our toddler bedding category, which historically has represented almost half of Nojo's business. Although recent headlines indicate inflation may have peaked in the near term, consumers are still experiencing higher prices for coordinates such as food and housing, which limit their discretionary income.

Despite these multiple challenges, we focused on strengthening our relationships with our customers and maintained our overall shelf space for the year. The obvious exception being Buybuy Baby, as its parent company's financial problems impacted sales throughout the year before they filed for bankruptcy in April. We also implemented cost savings across the business. On a full year basis, our marketing and administrative expenses decreased compared to fiscal 2022, even when including certain one-time items that Craig will speak to shortly.

In March 2023, we purchased Manhattan Group including Manhattan Toy and Manhattan Toy Europe. We believe this acquisition provides many opportunities in fiscal 2024 and beyond, which I'll detail later in the call. Most importantly, we remained profitable and maintained our quarterly dividend payments in a time when many companies within the consumer and retail sector were forced to either reduce or completely suspend their dividends. Overall, we weathered the multiple headwinds throughout fiscal 2023 and remain well positioned entering fiscal 2024.

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

Craig Demarest

Thank you, Olivia, and good morning, everyone.

Before I begin the discussion of our results, please note that the fourth quarter of fiscal '22 was a 14-week period versus 13-weeks this year, and fiscal year '22 was a 53-week year versus 52-weeks this year.

Net sales for the fourth quarter of 2023 were \$21.6 million compared to \$25.7 million in the prior year quarter. The decline was primarily driven by reduced orders from our customers as a result of consumers' response to the current macroeconomic conditions and adjusted inventory levels, as well as the reduction in sales to Buybuy Baby and the impact of the extra week in the fourth quarter of the prior fiscal year. The prior year fourth quarter also included unusually high sales as a result of retailers overstocking inventory following supply chain delays in late calendar 2021.

Gross margin for the quarter was 21.9% compared to 25% in the fourth quarter of fiscal '22. The margin decrease reflected higher inventory reserves in the current year quarter related to Buybuy Baby private label inventory and the impact of a rent increase at our warehouse in California.

Marketing and administrative expenses were \$3.8 million versus \$3.4 million in the prior year quarter. The increase here is primarily driven by expenses related to the Manhattan Group acquisition.

Net income for the quarter was \$828,000, or \$0.08 per diluted share compared to net income of \$2.4 million or \$0.24 per diluted share in the prior year quarter.

Net sales for fiscal 2023 were \$75 million compared to \$87.4 million in the prior year. The decline was primarily driven by the factors mentioned earlier.

Gross margin for the year was 26.4%, compared to 26.7% in fiscal '22. We've seen a benefit in the current year from some stabilization in many of our input costs, and increases in the selling price of certain products. Gross margin in fiscal '23 was negatively impacted by the February rent increase at our warehouse in California.

Marketing and administrative expenses were \$12.7 million versus \$13 million in the prior year. The decrease was primarily driven by the closure of our Carousel Design subsidiary in the first quarter of fiscal '22 and lower compensation costs in the current year, which were partially offset by expenses related to Buybuy Baby bed debt reserve and the Manhattan Group acquisition expenses.

Other income in fiscal '23 was \$258,000, compared to \$2 million in the prior year, the primary driver being last year's gain on the extinguishment of debt.

Net income for the year was \$5.6 million or \$0.56 per diluted share, compared to net income of \$9.9 million or \$0.98 per diluted share in the prior year.

Turning now to the balance sheet, as Olivia mentioned earlier, we acquired Manhattan Group on March 17. The purchase price was \$17 million and was funded through our revolver and cash on hand. Our year end financials reflect the acquisition of Manhattan Group.

Cash and cash equivalents at the end of fiscal '23 totaled \$1.7 million compared to \$1.6 million at the end of the prior year. Inventories at the end of fiscal 2030 were \$34.2 million, compared to \$25.8 million at the end of the third quarter and \$20.7 million at the end of fiscal '22. The increase in inventories is primarily related to the acquisition of Manhattan Group, as Sassy and Nojo inventories were in line with historical fiscal year end levels.

In conjunction with the Manhattan Group purchase, we increased our line of credit from \$26 million to \$35 million and extended the agreement by three years through July 2028. Our long term debt at the end of fiscal '23 was \$12.7 million with an interest rate of 6.4%.

Finally, we paid \$0.32 per share in cash dividends to shareholders in fiscal '23. We believe the dividend, which currently provides a 6.1% yield based on yesterday's closing price, is a key component to offering long term returns to our shareholders.

Now I will turn the call back over to Olivia for additional comments.

Olivia Elliott

Thank you, Craig. This is the first opportunity we've had to discuss our acquisition of Manhattan Group, so let me take a few minutes to discuss how they fit into our company and the opportunities they provide. Manhattan Toys product offerings of plush, dolls and wooden toys are highly complementary to Crown Crafts existing line of Sassy toys. The product range age-grades higher and targets a higher income consumer. There's currently very little overlap in distribution channels. Manhattan Toy is sold into Amazon, Target and specialty stores as well as Lego Land and they have no penetration in Walmart, so there are opportunities to expand our sales channels on both sides.

We also have an opportunity on the international front through Manhattan Toy Europe. Roughly 14% of Manhattan sales are international. We also believe there are meaningful cost savings opportunities available from sourcing and importation. As we mentioned in the March release, we expect this acquisition will add approximately \$24 million to the company's net sales in fiscal 2024 and be accretive to earnings by the end of the fiscal year.

It should be noted that approximately 35% to 40% of Manhattan sales are in our third fiscal quarter, which is from October through December. The toy category will become our largest product category across the business representing approximately 40% of consolidated net sales.

Overall, we believe we are well positioned entering fiscal 2024, which would be further helped by an improvement in the macroeconomic picture. We're excited about the opportunities that the addition of Manhattan Toy brings to us and look forward to reporting on our progress in the coming quarters.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the

keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster. Again, if you have a question, please press star then one.

The first question comes from John Deysher with Pinnacle. Please go ahead.

John Deysher

Hi, good morning. Just a couple of quick questions. Regarding the reserve for the Buybuy Baby bankruptcy, how much was that exactly?

Craig Demarest

60 something on the receivables. 263. That sounds right. Yep.

John Deysher

\$263,000?

Olivia Elliott

Right.

John Deysher

Okay. Okay. There's no additional exposure going forward with that client?

Craig Demarest

No. We've got some private label inventory that we also took reserves on in the quarter for about \$300,000. And from a go forward standpoint, no, we don't believe we've got any exposure out there.

John Deysher

Okay. So \$300,000 for the private label and \$263,000 for Buybuy Baby.

Craig Demarest

For the receivables, yes.

John Deysher

Okay. Good. And regarding the acquisition, what were the non-recurring acquisition related costs in the fourth quarter?

Olivia Elliott

So that was primarily just the due diligence costs, a little bit of travel to do the due diligence and make the announcements, some accounting fees, and that type of thing. So it's truly acquisition due diligence type costs.

John Deysher

Okay, and what would those be in total?

Olivia Elliott

They were—

Craig Demarest

\$370,000, roughly.

John Deysher

Okay. So it looks like you had about \$900,000 of non-recurring costs in the fourth quarter in total?

Olivia Elliott

That's fair. Yes.

John Deysher

And going forward, when you get Manhattan Toy to where you want it to be, can you give us a feel for kind of what the cost savings might be on a go forward basis?

Olivia Elliott

That's not something we've really given publicly. I don't think we're really ready yet to discuss that.

John Deysher

Okay. When do you think you'll have a better handle on that?

Olivia Elliott

I think probably maybe mid-year, maybe six months into this year. We'd like to get through at least a few months of sales. We're already realizing some cost savings. I mean, it's easy to realize the cost savings in freight when their last calendar year included the highest of all time, but we're also getting a lot of help just in negotiating better prices with suppliers, etc. So it'd be nice to have a few months behind our belt before we really put that out in the world.

John Deysher

Okay, so another six months or so?

Olivia Elliott

Yes, that would be good.

John Deysher

All right. Thanks very much, and good luck.

Olivia Elliott

Thanks.

CONCLUSION

Operator

This concludes our question and answer session. At this time, I would like to turn the conference back over to Olivia Elliott for any closing remarks.

Olivia Elliott

Thank you, Drew. Thank you for your continued interest in the company. We look forward to speaking with you again when we report our first quarter results in August

Operator

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