

Crown Crafts, Inc.

Third Quarter 2023 Earnings

November 15, 2023, at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

John Beisler – *Investor Relations, Three Part Advisors*

Olivia Elliott – *President and Chief Executive Officer*

Craig Demarest – *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator

Hello and welcome to the Crown Crafts, Inc. Second Quarter Fiscal Year 2024 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star than one on your telephone keypad. To withdraw your question, please press star than two. Please note, this event is being recorded.

I would now like to turn the conference over to John Beisler, Three Part Advisors. Please go ahead.

John Beisler

Thank you, MJ and good morning, everyone. We appreciate you joining us for the Crown Crafts' Second Quarter Fiscal 2024 Conference call. Joining me on the call today are Crown Crafts' President and CEO, Olivia Elliott and the company's CFO, Craig Demarest.

Earlier this morning, Crown Crafts filed its 10-Q and issued a press release regarding their second quarter fiscal 2024 results. A copy of this release is available on the company's website at crown-crafts.com.

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 Crafts control and the company is under no obligation to update these 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 Relations page.

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

Olivia Elliott

Thank you, John and good morning, everyone. Our second quarter results reflect the continued progress at Manhattan Toy and year-over-year sales growth within our two legacy categories. While encouraging, cost pressures facing consumers continue to constrain spending, even though overall inflation has trended lower in recent months.

The reopening of 11 buybuy Baby stores is a welcome addition to the marketplace, but this represents only a fraction of the brick-and-mortar stores that were closed as part of its bankruptcy earlier this year. Having a physical location to experience the difference between our products and others is a key differentiator and we believe specialty retailers represent an opportunity going forward. We continue to work with our existing customers to maintain our strong relationships and look for additional cost reduction opportunities across the company.

We are effectively managing our inventory. At the end of the quarter, inventory for our Sassy and NoJo brands was \$21 million compared to almost \$28 million a year ago.

With that, I would like to turn the call over to Craig to cover some financial information.

Craig Demarest

Thank you, Olivia and good morning, everyone. Net sales for the second quarter of fiscal '24 increased 28.9% to \$24.1 million compared to \$18.7 million in the prior year quarter or an increase of \$5.4 million.

The increase is primarily attributable to the addition of Manhattan Toy, which added \$4.8 million in net sales to the current year quarter and due to slight increases in our NoJo and Sassy businesses.

Gross profit for the second quarter was 27.3% compared to 29.1% in the second quarter of fiscal '23. The profit decrease was primarily attributable to higher lease costs for our warehouse in California.

Our second quarter marketing and administrative expenses were \$4 million, up \$1.3 million from \$2.7 million in the prior year quarter and increased from 14.6% of net sales for the prior year quarter to 16.7% of net sales currently. The increase is primarily driven by expenses of Manhattan Toy.

Net income for the quarter was \$1.8 million or \$0.18 per diluted share compared to net income of \$2 million or \$0.20 per diluted share in the prior year quarter.

Now turning to our balance sheet, cash and cash equivalents at the end of the quarter were \$1.9 million compared to \$1.7 million at the end of fiscal '23. Borrowings on our revolver at the end of the quarter were \$9.8 million compared to \$12.7 million at the end of fiscal '23.

Finally, we paid our regular quarterly dividend of \$0.08 per share and declared our next dividend which will be paid in January. On an annualized basis, our shares currently offer a 7.6% yield based on yesterday's closing price.

Now, I'll turn the call back over to Olivia for additional comments.

Olivia Elliott

Thank you, Craig. Since we acquired Manhattan Toy in March, its sales have followed their historical trend with the September quarter outpacing June. We expect the upcoming holiday quarter to be their largest sales quarter, representing between 35% to 40% of its annual sales. We continue to find ways to reduce costs, which should lead to better margins for Manhattan Toy.

We're encouraged by the favorable response we received at last month's New York Toy Fair, where we introduce new toy designs. We will continue to proactively manage our business in the current challenging economic environment so that we remain in a position to capitalize on growth opportunity. We continue to be optimistic about the long-term prospects of the company and look forward to updating you on our progress next quarter.

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

QUESTIONS AND ANSWERS

Operator

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

CONCLUSION

Operator

This concludes our question and answer session. I would now like to hand the call back to Olivia Elliott for closing remarks.

Olivia Elliott

Thank you for your continued interest in our company. We will be participating in the Three Part Advisors IDEAS Conference in Dallas, tomorrow, November 16th. We look forward to speaking with you again when we report our third quarter results in February.

Thank you.

Operator

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