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ETD.N - Q1 2025 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, Inc. - Analyst*

**Cristina Fernández** *Telsey Advisory Group - Analyst*

## PRESENTATION

### Operator

Good afternoon and welcome to the Ethan Allen fiscal 2025 first quarter analyst conference call. (Operator Instructions) Please note 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, Shamali. Good afternoon and thank you for joining us today to discuss Ethan Allen's fiscal 2025 first 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 the call for questions.

Before we begin, I'd like to remind the audience that this call is being transcribed live under the news and events tab on the investor relations page of our website. A replay of today's call will also be made available on our investor relations website. There you will find a copy of our press release which contains reconciliations of non-GAAP financial measures referred to on this call and in the press release. We believe the non-GAAP presentation better reflects underlying operating trends and performance of the business.

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 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*

Thank you, Matt, as stated in our press release, we are pleased with our first quarter fiscal 2025 financial results. We had sales of \$154.3 million, continued the strong gross margin of 60.8%, operating income of \$17.6 million with a margin of 11.4%. We also continued strong cash generation and ended the quarter with \$186.4 million in cash and investments.

We paid \$20.2 million in cash dividends during the quarter and the board approved a regular cash dividend of \$0.39 per share payable on November 27, 2024. After Matt provides a brief overview of our financial results, I will review our continued focus to strengthen the five key areas of talent, marketing, service, technology, and social responsibility. Matt?

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

Thank you, Mr. Kathwari. Our financial results in the just completed first quarter were highlighted by strong margins and operating cash flow amid a challenging economic environment. Our consolidated net sales were \$154.3 million, down 5.8% compared with last year, primarily due to lower contract sales and the decline in delivered unit volume. From a demand perspective our retail segment orders were down 6.8%, while wholesale segment orders decreased 4.8%.

Lower incoming orders reflect a soft home furnishings market, a housing market that has not yet rebounded and less contract business. On a positive note, we saw an increase in average ticket price, higher designer home calls, more qualified traffic and a strong month of September for incoming contract orders.

We ended the quarter with wholesale backlog of \$63.9 million, down 15.2% from a year ago, but up \$10.4 million since June 30, due to the timing of the incoming contract orders. Strong consolidated gross margin of 60.8% was driven by a change in the sales mix, reduced head count, selective price increases and lower raw material input costs. Adjusted operating margin was 11.5% compared with 12.1% a year ago.

Our double-digit operating margin reflects our ability to maintain a disciplined approach to controlling operating expenses. Compared to our pre-pandemic first quarter ended September 2019, our adjusted operating margin has improved 450 basis points due to streamlining our vertically integrated enterprise. Now, I'd like to provide an update on our distribution center located in Old Fort, North Carolina which was impacted by Hurricane Helene in late September. The distribution center suffered a loss of \$0.3 million related to damaged inventory and remediation costs as well as a temporary work stoppage and disruption in shipments. We are thankful to report that our associates have returned to work and the distribution center has resumed normal operations. The combined impact of Hurricane Helene and import disruptions in advance of the temporary east coast port strike lowered our first quarter net sales by approximately \$2 million which we expect to catch up on during our second quarter. Adjusted diluted EPS was \$0.58. For historical context adjusted diluted EPS for the three months ended September 2019 was \$0.35. Our effective tax rate was 25.3% for the quarter which varies from the 21% federal statutory rate primarily due to state taxes. Now turning to liquidity, we ended the quarter with a robust balance sheet including cash and investments of \$186.4 million and no outstanding debt. We generated \$15.1 million of cash from operating activities and reduced inventory levels by 4.3%.

Capital expenditures were \$3.6 million and included expansion of our manufacturing operations in Mexico, additional investments in technology, retail design center relocations and improvements and remodeling costs associated with our hotel.

We also continued our practice of returning capital to shareholders in the form of cash dividends. In July, our board declared a special cash dividend of \$0.40 per share in addition to a regular quarterly cash dividend of \$0.39 per share both of which were paid on August 29. We have paid a special cash dividend in each of the past four years. Also as just announced in our earnings release, our board declared a regular quarterly cash dividend of \$0.39 per share which will be paid in November.

In summary, our vertically integrated business produced a double-digit operating margin during a period marked by industry wide headwinds. We achieved these positive results and generated \$15.1 million in operating cash flow while protecting our margins through disciplined investments and solid execution. We ended the quarter with a robust balance sheet and look forward to continuing our progress.

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*

Thank you, Matt. I will briefly discuss our continued focus on the five areas.

The first is talent. We continue to develop strong teams in our vertically integrated enterprise which includes our retail network, manufacturing, logistics, products, marketing and technology. In marketing and merchandising we have accelerated the introduction of new products under the umbrella of classic design with a modern perspective.

During the last 18 months, we have completed the redesign of our design centers under the umbrella of an interior design destination with strong interior design and strong technology. This has enabled great productivity with less headcount. The redesigned design centers reflect about 25% less floor display space making it much more efficient. Strong interior design associates coupled with technology is, as I have said, a game changer.

Next, we have continued to refine our North American manufacturing which makes about 75% of our furniture and custom made on receipt of orders. This is a great differentiator and has provided more design options to our interior designers and clients and also increased productivity and lowered inventory. We have also made improvements to our national and retail logistics enabling us to deliver our products at one price to our clients in North America. Our marketing also benefits from technology with our advertising costs of about 2.3% of sales as compared to about 6% of sales about seven to eight years back.

We are pleased to continue to maintain strong cash while providing good cash dividends. Quarter ended September 30, we gave cash dividends of \$20.2 million and ending with cash of \$186.4 million compared to \$163.2 million at September 30, 2023.

As we move forward, we are in a good position and remain cautiously optimistic. We are at this stage going through some uncertain political times, both domestically and internationally. And I think that after these elections are over, the chances are we would get some more stability.

With that, I'm pleased to open for any questions or comments.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Taylor Zick, KeyBanc Capital Market.

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

Hi there. How are you?

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**Taylor Zick** - *KeyBanc Capital Markets, Inc. - Analyst*

Hey, Farooq. I'm doing well. It's Taylor on for Brad Thomas. I just wanted to start maybe if we can talk about the cadence of written orders during the quarter, trends were a bit softer than fiscal 4Q. So maybe can you talk a little bit more about what you saw? You know what Labor Day trends were like? And then I guess if you have any thoughts on how October is trending so far.

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

Yeah, I think that as relatively speaking, our written orders held up and there was not a major change from month to month. I think that when we take a look at our retail sales more or less, I would say they were in terms of the somewhat lower throughout the quarter. It sort of remained without much changes.

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**Taylor Zick** - *KeyBanc Capital Markets, Inc. - Analyst*

Great. And then maybe just to talk about the upcoming election. Farooq you kind of mentioned, I think we all kind of want that behind us, but as we look at a potential outcome here and the potential that there may be tariffs, given 75% of your product is manufactured in North America. I

would assume you'd be relatively insulated from any potential tariffs and that could also be a tail end for you if your competitors are impacted. So I guess as you think about that, what are some of the puts and takes as you think about any tariffs?

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

Yeah, I mean, there's a lot of talk, we just have to see what happens at this stage. We are, of course, 75% of our products are made in North America, which includes the United States, which includes Mexico and Honduras. That's where we the North American treaty. So we are watching everything. It's a good question. We are watching with all the politics going on. They are of course, talking mostly about tariffs coming internationally from overseas.

So we don't hear much about changing the North American treaty, but we're watching it carefully. And we also somewhat even though we do pay higher freight for the 25% of the product that we don't make here. But if you were making 75% or 90% of our products overseas, tremendous uncertainty. When you take a look at what's happening with the freight rates coming from overseas, with the war going on with the impact of the Suez Canal, we fortunately are impacted but not only by 25% and 75% we have the benefit here. So we're watching it very carefully. But at this stage, as you mentioned, we do have an advantage.

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**Taylor Zick** - *KeyBanc Capital Markets, Inc. - Analyst*

Understood and then maybe if I can squeeze one last one in. Your view, maybe on a potential recovery for the industry in Ethan Allen more broadly, the fed is obviously begin to cut during September. And in general, it looks like those, there's going to be more rates down the road. And I'm curious what your thoughts are on the lag effect between rate cut and then and the impact on your business.

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

Yeah, also keep in mind that we are now over the backlogs that were created during the COVID period that benefited us and everybody else. But now this quarter to a great degree that the past quarter reflected more normal times. So there is a very small decline in our sales, which is pretty good considering the fact that we had already used up the backlogs. So we did pretty good.

And I think going forward, I think that we are cautiously optimistic. I think we are positioned very, very well in terms of our marketing, we have a very strong network, we have reduced our head count everywhere because as I mentioned in my comments, combining technology and good personal service is key to our vertically integrated enterprise. It's helping our manufacturing and most importantly, it's helping our retail with our interior designers.

Keep in mind we have 30% less interior designers than we just had a few years back. Doing more business, combining good interior design and technology is critical. So I think we are cautiously optimistic that with this election and all that crazy stuff going out, we should have an opportunity of consumers focusing more on their homes again.

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**Taylor Zick** - *KeyBanc Capital Markets, Inc. - Analyst*

Got it. Thank you very much. I'll leave it there.

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

All right, thanks. Yeah.

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**Operator**

Cristina Fernández, 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?

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**Cristina Fernández** - *Telsey Advisory Group - Analyst*

Good. Thank you. Hi, Farooq and hi, Matt. I have a couple of questions. I wanted to follow up on the demand trends that you're seeing or that you saw during the quarter. Can you talk about any regional trends and, I guess specific to the states that were impacted by the storms? How, I guess how are those recovering? Are you seeing a lagging effect here as you start as in October, from the storms?

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

Yeah, that's a good question because we were impacted. First of all -- first, we had tremendous floods in Texas, so especially Houston and all that area was impacted. Now, good news is they're getting more or less back to normal. Then we got impacted with the storms in Florida and that also impacted our retail to a great degree. But good news is we've watched very carefully.

They're all more or less back to operating at a normal level. We did have impact and that also to some degree impacted our written business in the end of September. We did, we are getting it to some degree somewhat. It also impacted October, but now we are starting to catch up. Then we got impacted from this major storm in Asheville.

We have a couple of very major operations, distribution centers which Matt just referred to, which was closed for some time, tremendous impact to our people. But good news is they're back. The next impact was the dock strikes. It fortunately didn't last too long, but for a few days it did, it stopped a lot of business both in terms of products coming in. Then exports, especially our state department business was impacted, but good news is more or less they're getting back to normal.

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**Cristina Fernández** - *Telsey Advisory Group - Analyst*

Thank you for the color. And then my second question was on the reduction in head count that you've done over the last year, the 8%-9% you call out on the press release, what areas have been most impacted? But where is that head count coming out from?

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

It is coming in two major areas. One is our retail and the other is our manufacturing and both of those have been impacted to a great degree with a combination of, I mean, again, we have very little turnover but it did have an impact of reducing our staff both at retail and at our manufacturing. And that really has been a tremendous benefit of utilizing technology.

And also the other benefit has been with these uncertainties in the workplace and everything else. We have also been able to acquire strong talent that's very important. We have been able to acquire stronger talent in our retail also in our manufacturing, but especially at retail.

So this whole trend of what is taking place has given us an opportunity even though while we have lowered our head count. But we've also added people overall, we have less headcount but I have -- but we have stronger people because we've been able to attract stronger people who are attracted to us because of our programs, because of stability and some issues, challenges with competition. So those are two areas. Christina.

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**Cristina Fernández** - *Telsey Advisory Group - Analyst*

Thanks. And then another question I had was on the new product introductions that you've been talking about for fiscal year '25. Are those products already in your design centers? How are they being received as a percent of the total? How much is it new? Any color you can give, there would be helpful.

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

On one hand, we have reduced the size of our design centers. Two, three years back, we went from an average of 15,000 to 18,000 square feet to under 10,000 feet. So we've got a major reduction in space. They're more productive, which means we have less floor space. But having said this, our products that we have introduced have been more in terms of options, some products that go into the floor of our design centers, but most of them are options that our designers can use with their work with their clients.

And keep in mind our designers today, almost all of them, maybe 80%, 90% when they work with a client, they're using technology, combining personal service or interior designers and technology has been a great help. And that has also helped us in our inventory management in these new products. In the olden days, we had to have that new product in our design center. But today with the technology, our designers can use that product even though it is not in the design centers.

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**Cristina Fernández** - *Telsey Advisory Group - Analyst*

And the last question I had was on the trends you're seeing on the cost side of the business. You mentioned supply chain. But what are the trends in raw materials product costs? Are those stable? Are they going up, going down?

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

Yeah, they are more or less stable, haven't gone up or down a little bit on the lower side because there is a lower demand of raw materials, especially from our competitors. So with that in mind, keep in mind that our products are many, our case good products are made in Vermont. They're made in Honduras, but we supply them with all the raw materials and all the wood is supplied from our sawmills from the United States to Honduras today.

The client cannot tell the difference whether that item is made in Honduras or in Vermont. Same thing in our upholstery. They are made in North Carolina or Mexico. Combining this talent that we have in. Obviously, the cost of operating in Honduras and Mexico is lower than in the United States. But we believe combining the two is a great advantage for us. Gives us an opportunity of stability and service.

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**Cristina Fernández** - *Telsey Advisory Group - Analyst*

Thank you and best of luck this quarter.

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

Take care. Thanks.

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**Operator**

Thank you. And there are no further questions at this time. I would like to turn the floor back to Farooq Kathwari for closing remarks.

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

All right, thank you. And you know, I'm looking forward to more stability in terms of the political environment and the international environment and all kinds of problems. Good news is we are positioned well, we also made lots of progress in terms of all areas.

As I said, first talent, we have a really strong talent.

Secondly, we have increased our marketing. Marketing has given us an opportunity to reach much more people.

Third, our technology in all areas is critical and whether it's in retail.

And fourth ability to provide great service, which we do.

And fifth is social responsibility, we strongly believe in those things. So we believe we're going to continue to do that and we look forward to continuing our focus on these five important areas and continue to grow our business and have strong financial results.

**Operator**

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.

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

Thanks very much.

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