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ETD.N - Q3 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 (Principal Financial and Accounting Officer)*

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

## CONFERENCE CALL PARTICIPANTS

**Bradley Thomas** *KeyBanc Capital Markets - Analyst*

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

## PRESENTATION

### Operator

Good afternoon and welcome to the Ethan Allen fiscal 2025 third-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 (Principal Financial and Accounting Officer)*

Thank you, operator. Good afternoon and thank you for joining us today to discuss Ethan Allen's fiscal 2025 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 the call for your questions.

Before I 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 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'm pleased to 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. Pleased to have this earnings call during very interesting and challenging times.

As mentioned in our press release, we are pleased with our results in the third quarter, which produced strong margins and cash flow in a challenging economic environment. First, I'd like to begin by providing perspective on our current position, including a very brief overview of our history.

Ethan Allen was founded 93 years ago in the Green Mountains of Vermont. The company went private in 1989 with significant debt and in 1993, went public on the New York Stock Exchange. During that time, we have paid cash dividends that is just going public in 1989. We have paid cash dividends totaling \$711.3 million and repurchased \$625.1 million of our common stock.

We have improved our cash position up to currently \$183 million compared with \$26 million in March 2019 that's a COVID era.

Our focus on reinvention, including utilization of technology, has helped reduce our headcounts by 36% since 2019. Our unique vertical enterprise with constant reinvention has been key. We continue to make about 75% of our furniture in our North American manufacturing and operate 189 design centers globally staffed with over 500 professional interior designers. Technology has played a key role in developing efficient operations in manufacturing, retail, logistics, marketing, merchandizing, and other key areas.

After Matt provides a brief financial overview, I will discuss in greater detail our initiatives to meet the many current challenges.

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**Matthew McNulty** - *Ethan Allen Interiors Inc - Chief Financial Officer, Senior Vice President, Treasurer (Principal Financial and Accounting Officer)*

Thank you, Mr. Kathwari.

Our financial results in the just-completed third quarter were highlighted by a strong gross margin, managing expenses, generating positive operating cash flow, and maintaining a robust balance sheet with no outstanding debt. Despite operating in a challenging environment, our operations produced positive financial results, which I will now discuss.

Our consolidated net sales were \$142.7 million, reflecting lower delivered unit volume, partially offset by higher average ticket price, improved contract sales, and lower returns. Our wholesale segment sales were elevated due to a higher level of inter-company sales to retail, which also increased wholesale operating income. These sales are eliminated in consolidation as they reflect the transfer of new products to our retail segment.

Current demand levels reflect an industry faced with tariffs, uncertainty in the economy, elevated interest rates, and a challenging housing market. Retail segment written orders were down 13.2% while wholesale orders decreased by 11.2%. The month of January and February were more challenging due to weather, tariff uncertainty, and reduced traffic.

March saw modest demand growth, which helped improve our backlog. Wholesale backlog of \$54.6 million at March 31 represents a decline in the last three months as we improve customer lead times, including a reduction in the number of weeks of undelivered backlog.

Our strong consolidated gross margin of 61.2% was driven by lower raw material input costs, reduced headcount, a higher average ticket price, and leveraging investments in technology. Our headcount totaled 3,294 at March 31, 2025, a decrease of 4.5% from a year ago as we continued to identify operational efficiencies and streamlined workflows.

Adjusted operating margin was 8% compared with 10% a year ago. Our positive operating margin reflects our ability to tightly manage expenses. Compared to pre-pandemic quarter ended March 2019, our adjusted operating margin has improved 180 basis points. Our effective tax rate of 23.4% during the quarter was down 170 basis points from a year ago due to taxes from recent audit settlements. Adjusted diluted EPS was \$0.38 compared with \$0.48 a year ago. For historical context, our adjusted diluted EPS in the just-completed third quarter was 23% higher than in 2019.

Now turning to liquidity, our prudent capital management underscores our dedication and commitment to delivering value to our shareholders. We generated \$10.2 million of cash from operating activities during the just-completed third quarter and ended with total cash and investments of \$183 million and no outstanding debt. Higher levels of inventory reflect the introduction of new products and the opening of new design centers.

Capital expenditures were \$2.0 million and included the buildout of new retail design centers and investment in manufacturing equipment and technology. New state-of-the-art design centers in Middleton, Wisconsin and Toronto, Canada were opened in the last three months that combined our interior design services with technology.

We also continued our practice of paying quarterly cash dividends. In January, our Board declared a regular quarterly cash dividend of \$0.39 which was paid in February. Also, as announced earlier today, our Board declared a regular quarterly cash dividend of \$0.39 per share, which will be paid in May. Our current yield of 5.4% is one of the highest in the industry.

In summary, we are pleased with our performance during the just-completed third quarter as our associates remain disciplined in managing expenses and executing on our strategies amidst the challenging environment. Our robust balance sheet and financial stability provide a solid foundation, positioning us well.

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*

Yeah, thanks, Matt.

As I mentioned, continual reinvention has been key to operating our enterprise for 93 years. The reinvention includes many areas. I will start with a brief overview of the current hot topic of tariffs.

The good news is we are a vertically integrated enterprise that makes about 75% of our furniture in our North American workshops, including approximately 40% in the United States, 25% in Mexico, and 10% in Honduras. Our imports from Mexico currently qualify for tax exemption under the USMCA. Our primary tariff exposures are concentrated on imported accents and select upholstery fabrics from East Asia. Our overall exposure to China is less than 5% of total cost of goods.

While we acknowledge that tariffs exist, the good news is that they have a relatively smaller impact on us. However, we have taken steps to help reduce the impact from tariffs, including cost sharing with our suppliers, placing temporary production and shipping holds on products leaving China, identifying new sourcing opportunities, and evaluating raw material options and replacements.

To date, many of our supplier partners have been willing to work with us to help absorb some of the incremental tariff costs, and we thank them for their partnership. These steps, as well as our strong North American presence, have helped keep our exposure from tariffs relatively low. To emphasize, our exposure overseas is limited as much of our production is in North America.

And now on to other key areas of focus. First is relevant offerings. Our focus on classic design with modern perspective and modern design with classic perspective have been key in defining and continuing our relevancy. We are planning to introduce new products throughout the next 12 months.

Marketing is key. Leveraging technology, we are able to develop strong marketing programs and reach a large base of current and new clients in a very efficient manner. Manufacturing, combining the skills of our teams in various plants within North America has been key to attaining and retaining strong talent.

25 years back, we operated in 20 locations in the United States and currently operate in 4 locations in North America with strong manufacturing. Combining talent and technology is key. National and retail logistics provide opportunity of excellence in service, delivering our products at one cost to consumers and managing our costs.

And finally, our retail network of interior design centers staffed with talented interior designers is key. Providing state-of-the-art technology has been key to service and managing costs. While we face many challenges due to domestic and international changes, we are well positioned to maintain our leadership position.

And now, we are ready to take your questions. Operator, please.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Brad Thomas, KeyBanc Capital Markets.

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### Bradley Thomas - KeyBanc Capital Markets - Analyst

Good afternoon. I wanted to first ask about tariffs and sort of how it affects Ethan Allen's relative positioning in the industry. Obviously, a lot has changed since you all last reported earnings in January. And what's interesting is it does feel like the rest of the furniture industry has much more exposure to countries likely to see incremental tariffs.

And so I'm wondering how you think, Farooq, about Ethan Allen's relative positioning. Are you seeing price increases from competitors? What do you expect in terms of price increases from competitors and how much you react to that?

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

Yes, it's a very important issue. We are, as I mentioned, less impacted due to these tariffs because of the fact that most of our manufacturing, especially in furniture, is made in North America. In the United States, Mexico, Honduras, where of course not -- no tariffs in the United States, but in Mexico and Honduras, very little. So our impacts of tariffs for about 75% of our furniture is relatively small.

Now, we do have some impact due to some products like accessories and in fact, in some fabrics also that we get from overseas. But exposure, as I mentioned, from China, is relatively small because that's where a lot of the tariffs are. Our products coming from overseas are mostly concentrated in Indonesia, India, Vietnam, where the tariffs are somewhat limited. So I think that overall our exposure is limited and also the good news is that our partners overseas are also working very closely with us to minimize the impact.

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### Bradley Thomas - KeyBanc Capital Markets - Analyst

And for you all, will you need to raise prices because of what you are seeing right now from a cost standpoint?

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

Yeah, so far we haven't, and I think that we will take a look at it in the regular course of doing business to see if there are need to increase prices and perhaps small adjustments in some of the imported products which, as I said, is relatively small compared with our total product line.

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### Bradley Thomas - KeyBanc Capital Markets - Analyst

Absolutely. And of course, many of your competitors probably need to raise price more so than you, so that will be interesting to watch.

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

That's right, yeah, because a lot of them, of course, have tremendous amount of dependency on products, offshore products, imported products, and we don't.

**Bradley Thomas** - KeyBanc Capital Markets - Analyst

Right. I wanted to just follow up on recent trends because this is something that seems to be changing very quickly. Curious if you could comment a bit more about how April and early May, to the extent you can comment on it, have trended relative to a bit of softness that you saw in your March quarter?

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

Yes, what we saw in April there was we continued to -- most of April, we did continue with the softness. Toward the end of April things turned where they became somewhat less of an impact. In May, so far, we have seen somewhat more of a positive trend. So we'll see, obviously, people were very concerned. They held back.

And our traffic was down because people are not coming in, but the interesting thing is that the people who did come in, they made some good purchases. So I think that at this stage, we are of course, very much cautious. But in May, we're so far seeing somewhat more of a positive trend.

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**Bradley Thomas** - KeyBanc Capital Markets - Analyst

That's very helpful. I appreciate it, Farooq. Thank you.

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**Operator**

Cristina Fernández, Telsey Advisory Group.

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

Hello, Farooq and Matt. Nice to speak to you. I have a follow-up question on the demand trend.

I wanted to see -- last quarter you ran a little bit more of a promotion to drive traffic. You didn't do it this past quarter, even the traffic was a little bit softer. Can you talk about how you're thinking about using that as a lever in this environment to drive better order intake?

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

Yes, I think it's a good question because we felt that with all the concerns that the consumers have with what was taking place, that just increasing discounts are not going to do it. What we felt was things have to become a little bit better in terms of an environment, and then people will come.

Because what we saw was that I mentioned earlier that people who came in were buying and if people did come in, it didn't matter. So for us, to increase more discounts for folks who are going to come and buy anyway, we didn't feel it was necessary. So we're going to maintain our offerings and special, you might say, promotions that we do without doing anything very special.

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

And then on the State Department contract, which has been, I think, relatively consistent for you over the past couple of years, there's a lot of changes I'm seeing happening there in that department. Do you feel like that could affect your contract or your ability to get orders under that specific part of the business?

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

Yeah, that's a good question. So far, interestingly until March or so, we didn't see much. People are buying. I mean, the State Department was doing -- they're buying. Recently, we do see that they are being more cautious. I mean, we still have the contract, but I think that with all the changes taking place in the State Department, I think their attention is in a lot of other areas.

So in the last few weeks, we have seen some cautious, but they're still buying. We will see how it happens, what the conditions are, and how it works out in the next few weeks and months. But so far, the contract is still there, somewhat lesser amount of business coming in at this stage.

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

And then the last question I have was on SG&A. It was up 1%. Last quarter you also talked about investing more in marketing, more brand marketing. So wanted to get your thoughts about the increased SG&A and as far as the marketing plans, to invest more. Would you wait for a better sort of macro environment and better traffic to do that, or how are you thinking about it -- I guess, SG&A broadly?

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

Yeah, it's a good question. When you take a look at it, our advertising expenses for the quarter was about 3.4% of sales as compared to 4.4% in the previous year quarter. Now the important thing is this, that we are able to be much more efficient with less money than we were able to do because of the impact of technology.

For instance, we are now sending out close to 18 million copies of our magazine, digital magazines and some print magazines every month. Come to think of that even five years back, it was impossible. We were able to develop a 36-page digital magazine in less than 2 weeks now. It used to take us four months to do, so the quality, the quantity, and the value and the price of the cost has come down.

So our advertising, marketing is reaching more people with less cost. So I think we're going to continue to that and at this stage, I don't think we're going to increase the dollar cost, but I think we'll continue to increase the efficiency of our marketing.

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

Thank you.

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

All right. Well, thanks very much and any other questions?

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**Operator**

No, there are no further questions.

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

All right, well, thanks very much, and I'm sure that if you have any other further questions and all of that, Matt will be there to be able to answer them. And if you need me, I'll be happy to. Take care. Thanks very much.

**Operator**

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

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

All right, thanks very much.

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