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ETD.N - Q4 2025 Ethan Allen Interiors Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Brad Thomas *KeyBanc Capital Markets Inc - Analyst*

Cristina Fernandez *Telsey Advisory Group LLC - Analyst*

PRESENTATION

Operator

Good afternoon and welcome to the Ethan Allen fiscal 2025 fourth 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.

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

Thank you, operator. Good afternoon and thank you for joining us today to discuss Ethan Allen's fiscal 2025 full-year and fourth-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 up for your questions.

Before we begin, I'd like to remind the audience that this call is being webcast live under the news and events tab on our investor relations website. A replay and transcript of today's call will also be made available on our investor relations website. There you'll find a copy of today's press release, which contains reconciliations of non-GAAP financial measures referred to on this call and in the press release.

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 most recent annual report on Form 10-K. Please refer to our SEC filing 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.

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

Thank you, Matt. We are gratified at the hard work of our team and our unique vertically integrated structure, which continues to enable us to have strong results and position us for growth.

After Matt provides a brief overview of our fourth-quarter and fiscal 2025 financial results, I will discuss our initiatives to continue to position us for growth and strong financials. Matt.

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

Thank you, Mr. Kathwari. Our financial performance during fiscal 2025 was highlighted by strong margins, positive operating cash flow and a robust balance sheet. Despite operating in a challenging environment, our operations produced positive financial results, which I will now discuss.

Our fiscal 2025 consolidated net sales for \$614.6 million, which included fourth quarter sales of \$160.4 million. Our sales reflect higher average ticket prices and fewer returns offset by lower delivered unit volume, reduced backlog, less traffic, and fewer contract sales.

As noted in our earnings release, the home furnishings industry has been challenged. However, overall demand patterns began to show signs of improvement during the just completed fourth quarter as retail written orders rose by 1.6%, driven by the strength of new product introductions, promotional levels, elevated clearance, and the pause of additional tariffs.

Wholesale orders decreased by 6.8% during the quarter, as the segment was impacted by our contract business. We ended the fiscal year with wholesale backlog of \$48.9 million, reflecting historical norms. A lower volume of contract orders combined with improved customer lead times helped to reduce our backlog.

For the full year, our consolidated gross margin was 60.5%, comparable to 60.8% last year. In the just completed fourth quarter our consolidated gross margin was 59.9%, which was impacted by fewer delivered orders, higher clearance sales, increased promotional activity, and lower manufacturing production, partially offset by a change in sales mix, lower raw material input costs, reduced headcount, and a higher average ticket price.

Our head count totaled 3,211 at fiscal year-end, a decrease of 5.7% from a year ago, as we continue to identify operational efficiencies and streamline workflows.

For the full year, our adjusted operating margin was 10.2%, while the fourth quarter operating margin was 9.7%. These strong operating margins reflect our ability to tightly manage expenses while increasing advertising. Compared to our pre-pandemic 2019 fourth quarter, adjusted operating margin has improved 110 basis points. On a full-year basis, adjusted EPS was \$2.04. Our fourth quarter adjusted EPS was \$0.49. Our effective tax rate was 25.2% for the full year and 26.4% for the quarter, which varies from the 21% federal statutory rate due to state taxes and recording of a valuation allowance on retail deferred tax assets.

Now, turning to our liquidity. We ended the year with a robust balance sheet, including cash and investments of \$196.2 million and no outstanding debt. We generated \$24.8 million in operating cash flow during the quarter, which brought our full year total to \$61.7 million. We also reduced our inventory levels as clearance sales helped to offset new product introductions.

Capital expenditures were \$11.3 million, including \$1.9 million during the just completed fourth quarter, as we invested capital into manufacturing, retail, and technology. We are confident in the investments we are making for the future, but recognize the need to remain cognizant of the uncertain economic environment. We continued our practice of paying quarterly cash dividends. In May, our Board declared a regular quarterly cash dividend of \$0.39 per share, which was subsequently paid and brought our total annual dividends paid to \$50.1 million.

Also, as announced earlier today, our Board declared a special cash dividend of \$0.25 per share, in addition to a regular quarterly cash dividend of \$0.39 per share, both of which will be paid in August. This recent action marked the fifth consecutive year we have paid a special cash dividend.

In summary, our vertically integrated business delivered positive fiscal 2025 results. We are confident in the strength of our business model, as Ethan Allen has successfully navigated challenging times to serve our clients and deliver value to our shareholders throughout its 93-year history.

Looking ahead, we remain focused on executing our strategic initiatives in the face of ongoing macro uncertainty. Our robust balance sheet and financial stability provide a solid foundation and positions us well as we head into fiscal 2026.

With that, I will now turn the call back over to Mr. Kathwari.

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

Well, thank you, Matt. As we have conveyed, the focus of our enterprise continues to strengthen the five key areas of talent, marketing, service, technology, and social responsibility.

We are gratified to have strong talent in our vertically integrated enterprise. We continue to make about 75% of our furniture in our North American workshops located in Vermont, North Carolina, Central Mexico, and Honduras. Keep in mind, about 20 years back, we had 18 manufacturing locations. Also, our unique logistics operations deliver, what we call, white-glove delivery at one cost to our clients in North America. This is unique.

In national logistics, we have replaced 10 national locations to two locations. And in retail, replaced about 100 warehouses to about 20. In our retail network, 25% of our about 160 retail leaders have been either relocated, I mean retail locations, have either been relocated or made smaller due to the impact of technology, customization, and especially, a strong interior design professional network.

Technology continues to play a central role in all our operations, from manufacturing, logistics, and especially marketing. For example, about 15 years back, we spent major dollars in national television. And today has been replaced mostly by digital and print magazines, including forwarding about 10 million 36-page digital magazines every two weeks. We have also continued to strengthen our product programs and introducing new products on a planned basis.

And financially, we have maintained strong results. As Matt mentioned, we have maintained margins, gross margins of 59.9% for the quarter and 60.5% for the year. Our operating margins are 9.7% for the quarter and 10.2% [for the year] (added by the company after the call). This is despite lots of turmoil in the industry and in the economy.

We've also been able to maintain strong cash. We ended with cash of \$196 million and no debt. And as Matt said, we continue to also give out very strong cash dividends.

With this, I'm very happy to open up for any questions or comments.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brad Thomas, KeyBanc Capital Markets Inc.

Brad Thomas - *KeyBanc Capital Markets Inc - Analyst*

Yeah. Hello Farooq.

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

Good afternoon to you.

Brad Thomas - *KeyBanc Capital Markets Inc - Analyst*

Good afternoon, Matt.

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

Good, Brad. And how are you? How are you doing?

Brad Thomas - KeyBanc Capital Markets Inc - Analyst

Good. I'm doing well, thanks. I'm doing well. My first question was just going to be around industry trends and what you were seeing. And I was wondering if you could give us some more color about what you saw through the quarter. It did seem like you had a nice acceleration in your orders from what you had seen in one Q to what you'd in the Q. I was just wondering, if you could talk a little bit more about what you're seeing out there and what you're hearing from your customers?

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

Yeah, I know. As I had mentioned, these are challenging times, all so much uncertainties with what's happening with the economy, international conflicts, tariffs, and everything else, but I think that having said all of those things that Matt had also mentioned we were very pleased that our written orders for the quarter were up 1.6%, despite all these challenges. So I think our people did a good job increasing our written orders in our retail division in a very tough environment.

Brad Thomas - KeyBanc Capital Markets Inc - Analyst

That's great. Now, I was wondering if you could help us think about how tariffs have been affecting your business. I know that you are somewhat insulated as a US manufacturer, but if you could talk about how, if at all, that's affecting your business directly? And how you think it maybe is affecting the competitive landscape in terms of price increases that you may maybe have seen from the competition?

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

Yeah. This has been a really, really interesting environment to operate. Fortunately, Brad, close to 70% of our furniture or more is made in our North American operations, in Vermont, in Carolinas, in Mexico, Honduras. Obviously, there are no tariffs in the United States. And also because of the North America Trade Treaty, we are not impacted with tariffs in Mexico.

There are smaller tariffs in Honduras. So then, about 30% of the products in furniture is coming from overseas, in places like Indonesia, mostly in terms of furniture; some from Vietnam; and I think between the two countries, that's most likely some impact there. Our accessory products do come from all over the world, and there of course we have been impacted.

But overall, because of the nature of our operations, our impact of this whole issue of tariffs has been very limited on us.

Brad Thomas - KeyBanc Capital Markets Inc - Analyst

That's great. And then, you all have done a lot to control costs in this difficult environment, Farooq, I was wondering if you could help us think about the operating costs of the business? And are there incremental areas where you think there's particular efficiencies and costs to go after? Or do you feel like this is a good level to hold at, as we cross our fingers that we get a recovery on the horizon here?

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

No. I think that is a very, very important issue is a question about, as I mentioned in that technology. And of course, our vertical integration has been very, very important in managing our costs. Think of the first thing is, we have, as I said, from 2019, we have reduced about 35% of our headcount.

We reduced our headcount in the last fiscal year by about 5% or 6%. And this is all due to the fact retaining very strong talent and technology making it happen. So from that point of view, we have today -- think of this. It's almost impossible to think that we have close to 30% to 35% less headcount today than we had in 2019. And lot of this is due to the technology.

Now, this also has an implication in our marketing. Think of this. Brad, we used to spend close to \$30 million in distributing our magazines, print magazines. Today, all of it is done digitally, and we do most of our advertising again through digital media, no print mediums.

It's amazing what has been done in terms of our expenditures, while we've been able to maintain our margins, especially because of our unique structure of manufacturing in North America, and then strong partners overseas as well. We have been able to continue to reduce our operating expenses. And that has helped us maintain stronger gross margins and operating margins, and especially good cash flow.

Brad Thomas - *KeyBanc Capital Markets Inc - Analyst*

That's very helpful. Thanks so much, Farooq. I appreciate it. Thanks very much.

Operator

Cristina Fernandez, Telsey Advisory Group.

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

Hello, Cristina. How are you?

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

Good. Good afternoon. Hi, Matt. I had a follow-up question on the trends, and also related to gross margin. On the prepared remarks, you talked about some clearance activity and promotions in the quarter. Can you expand on how you're using promotions to drive sales? Were they incremental year over year? And what's your approach for the remainder of the year?

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

Yes. As I said, fortunately, we did not have much excess inventory to settle. With that and because of that, we've been able to maintain. Think of this. Our gross margins [are around] (corrected by the company after the call) 60%, and there was 60.8% in the previous year. So we were able to maintain strong gross margins. So our clearance and everything has been relatively small. Because of the fact, close 80% of our products are custom.

Keep in mind, only 15 years back, 80% of our products was sold from stock. The customization is tremendously important. That also has the implication of our national distribution.

When I mentioned we had many, many 8 or 10 major national distribution centers, as against one major one now, it is because going from about 70%, 80% stock inventories to 80% custom has also resulted in the reduction of, not only inventory, but all the space that we required to stock it and to ship it.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

And then my second question is regarding price increases. You took some earlier in the year. Are you seeing any impact on unit sales? And with the tariffs increasing for some countries like Vietnam, do you plan to have -- to make more price increases over the next 6 to 12 months?

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

Yeah, we are watching it carefully. We have been able to maintain pricing very small increase, not much. Again, because of the fact that close to 80% is made right here in North America. That was not the case. Where some of our products are made in the countries like Indonesia. Now, we are watching the issue of tariffs as you know, yesterday the tariffs. And so we'll watch that to see the impact of it.

Our partners have also helped. When these kind of things happen, they also contribute to a reduction of the costs, or the impact of the tariffs is less. But overall, now, I can consider the fact that even though our volume was down, we were able to maintain strong margins, again, because of the efficiency of our operations.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

And my last question, following up on Brad's question about trends through the quarter, when you look at the increase in retail orders, the 1.6%, what do you attribute that with that better customer traffic as the quarter progresses, the new introductions, more details there will be helpful. Thanks.

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

Yeah. It was a combination of factors. One was the fact that as the quarter progressed, we saw more consumer positive attitudes. I think that helped. I think we have very, very strong network of associates. They also maintain a very strong relationship with our clients. That also helped. And I think that we've gone through, as you know, it's been somewhat of a challenging environment for our industry and for most companies.

The reason we have been able to do well is because of our structure, our vertical integration, and the fact, which has been tremendously important, is combining great personal service and technology. In fact, we slightly increased our marketing expenses. Matt, we went from what, to 3.2% or what is it?

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

3.4%.

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

3.4% from?

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

From a year ago, 2.8%.

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

We went from 2.8%. And we still are relatively small and a lot of it is we did it to increase our communications, and especially our digital mediums. So it's not a big, huge amount. Look here, we used to spend 5%, 6%, 7% of our sales on advertising. Now we went to 3.4%. And what it did was, interestingly, it helped us bring in traffic and sales.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

Thank you.

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

All right. Thanks very much. Any other questions or comments?

Operator

It appears we may have reached the end of the question-and-answer session. So therefore, I'll turn it back over to you, Farooq, for closing.

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

Thank you very much. You know, again, I want to thank all of our team members for doing a really amazing job in tough conditions. It also, fortunately, our positioning is such that it gives us our vertical integration, maintaining 80% manufacturing, and having our design centers.

Keep in mind also, we relocated many of our design centers. We repositioned our design centers, reduced our size by 30% or so or more in the last two, three years. So our design centers have been renovated. They have been relocated wherever we need it to be.

And we also opened up a few. We opened up -- where did we open up? We opened up four or five new locations just last year. And we have few more coming up. Many of them are relocations and we will continue to do that.

And again, thanks for everybody and thanks to the support of our team and the work that they do and look forward to continuing our progress. And thanks again.

Operator

Thank you. This concludes today's conference. 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. Thank you.

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